

Governance Report

Company Name: Orsted
Sector: Utilities
Industry Classification (SASB): Electric Utilities & Power Generators
Year of Review: 2024



CATEGORY	SCORE	RATING
Governance Assessment	85%	Very Good

*Scoring methodology in Appendix

EXECUTIVE SUMMARY

The company's corporate governance is characterized by a clear separation of roles between the CEO and the Chair of the Board of Directors, with Lene Skole serving as the independent Chair and Mads Nipper as the CEO. This separation is in line with good corporate governance practices, allowing the Board to maintain its independence and hold the CEO accountable for their performance. The Board composition reflects a suitable diversity of skills, experience, age, and gender, with a balanced mix of executive and non-executive directors.

The company's Audit Committee and Nomination & Remuneration Committee are populated by a majority of independent Non-Executive Directors, ensuring that these committees are able to provide objective oversight and guidance. The Board's tenure composition is relatively balanced, with a mix of members across different categories of tenure. The company's executive remuneration structure is fair, linked to performance, and long-term in nature, with a mix of fixed base salary, short-term cash-based incentives, and long-term share-based incentives.

The company's corporate governance practices are generally aligned with best practices, with the Board conducting an annual evaluation of its performance and presenting the results in publicly available company reports. The company's capital allocation track record is not considered good, due to inconsistent ROIC performance and significant impairments reported in recent years. However, the company has taken steps to adapt to changes in the business environment, and the Board's oversight and guidance have been crucial in navigating these challenges.

Overall, the company's corporate governance is strong, with a clear separation of roles, diverse and independent Board composition, and a fair and performance-linked executive remuneration structure. While there are areas for improvement, such as capital allocation, the company's governance practices demonstrate a commitment to transparency, accountability, and long-term sustainability. The company's single class of listed stock and annual election of Board members also contribute to its strong corporate governance framework.

CORPORATE GOVERNANCE ASSESSMENT

Delta Outcomes Limited applies stringent requirements for corporate governance based on what we believe constitutes ‘best practice’ and ensures management teams act with integrity, follow sound corporate governance principles, and act on behalf of all shareholders. Key to these requirements is the independence of Board members, where our classification of non-independence includes the following:

- If the Board member represents a significant provider of capital to the company, or is a shareholder (owning >5% of the company), or is an officer, employee, or a representative of the shareholder
- A five-year cooling off period is recommended if the Board member had a material relationship with the company. This could include previously being an audit partner or legal advisor to the company, or an executive of the company
- If the Board member is a member of the Board of a significant customer of or supplier to the investee company
- If the Board member is a member of the Board of a related party to the company
- If the Board member is entitled to remuneration linked to the performance of the company
- If the Board member has close family ties to the company, either through the company’s advisors, directors, senior employees, or business relations
- If the Board member holds cross directorships with other directors through involvements in other companies or business enterprises
- If the Board member’s tenure has been longer than 10 years. Such members may remain on the Board provided that the majority (greater than 2/3) of the Board members remain independent

The board should be composed of at least two-thirds independent directors in order to most effectively protect shareholders’ interests. A mix of tenures facilitates board refreshment and succession planning by avoiding sudden or frequent turnover of directors. As a guideline, the recommended board tenure composition is given in the table below, but a reasonable mix across the three tenure categories is deemed appropriate.

Tenure	% of directors
1-5 years	30-40%
5-10 years	30-40%
10+ years	<33% to comply with the 2/3 Independence requirement

1. CEO separate to the Chairman/Chairperson/Chair

Is the CEO separate to the Chairman/Chairperson/Chair?

According to the Corporate Governance Statement Financial Year 2024, the answer is: **Yes**, the CEO is separate from the Chairman/Chairperson/Chair.

The document states: "Pursuant to the Articles of Association, the general meeting elects both a Chair and Deputy Chair of the Board of Directors." This suggests that the CEO and Chairman roles are separate, with the Chairman overseeing the Board of Directors and the CEO responsible for the day-to-day management of the company.

This separation of roles is a good governance practice, as it allows the Board to maintain its independence and hold the CEO accountable for their actions. In cases where the CEO also serves as the Chairman, it can create a conflict of interest and undermine the Board's ability to provide effective oversight.

Therefore, in this case, there is no need for engagement with the company regarding this issue, as the separation of CEO and Chairman roles is already in place.

2. Independent Chair, or Lead independent director

Is there an Independent Chair, or Lead independent director?

Yes.

The company's 2024 Annual Report and Corporate Governance Statement indicate that the Chair of the Board of Directors, Lene Skole, is considered independent. The company's Corporate Governance Statement also assesses that, except for Andrew Brown, who served as interim Chief Operating Officer and member of the Group Executive Team during Q1 2024, all board members elected by the general meeting are considered independent.

Lene Skole has been the Chair of the Board since 2015 and has been re-elected multiple times. However, her tenure does not appear to have compromised her independence, as she is not affiliated with the company or its major shareholders. The company's Corporate Governance Statement and Annual Report do not indicate any historical or present affiliations that would compromise her independence.

It is worth noting that Andrew Brown, the Deputy Chair, is not considered independent due to his role as interim Chief Operating Officer and member of the Group Executive Team during Q1 2024. However, this does not affect the independence of the Chair, Lene Skole.

The presence of an independent Chair is important because it ensures that the Board represents the interests of the company and its stakeholders, rather than just the interests of the executive management team. An independent Chair can provide a check on the power of the CEO and help to ensure that the Board is acting in the best interests of the company.

Therefore, in this case, there is no need for engagement with the company regarding this issue, as the presence of an independent Chair is already in place.

3. Audit Committee populated solely by independent Non-Executive Directors

Is the Audit Committee populated solely by independent Non-Executive Directors?

Yes.

The company's 2024 Annual Report indicates that the Audit & Risk Committee consists of three members: Dieter Wemmer (Chair), Peter Korsholm, and Annica Bresky.

The company's Corporate Governance Statement also confirms that the Audit & Risk Committee is composed of independent members. The members' profiles in the 2024 Annual Report do not indicate any historical or present affiliations that would compromise their independence.

Dieter Wemmer has been on the Board since 2018, which is less than 10 years. Peter Korsholm has been on the Board since 2017, also less than 10 years. Annica Bresky has been on the Board since 2023.

The independence of the Audit Committee members is crucial for ensuring the integrity of the company's financial accounts. As all members of the Audit Committee are considered fully independent and are Non-Executive Directors, the company is in line with good corporate governance practices.

Therefore, the Audit Committee is populated solely by independent Non-Executive Directors.

4. Remuneration Committee populated by a majority of independent Non-Executive Directors

Is the Remuneration Committee populated by a majority of independent Non-Executive Directors?

Yes.

The company's 2024 Annual Report indicates that the Nomination & Remuneration Committee consists of three members: Lene Skole (Chair), Andrew Brown, and Julia King.

Although Andrew Brown is not considered independent due to his role as interim Chief Operating Officer and member of the Group Executive Team during Q1 2024, the majority of the committee members (Lene Skole and Julia King) are independent Non-Executive Directors.

The company's Corporate Governance Statement also confirms that the Nomination & Remuneration Committee is composed of a majority of independent members. Lene Skole has been on the Board since 2015, which is 9 years and her independence is not compromised, and Julia King has been on the Board since 2021.

As the majority (>50%) of the members of the Nomination & Remuneration Committee are considered fully independent and are Non-Executive Directors, the company is in line with good corporate governance practices.

Therefore, the Remuneration Committee is populated by a majority of independent Non-Executive Directors.

5. Nominations/Nominating Committee populated by majority by independent Non-Executive Directors

Is the Nominations/Nominating Committee populated by majority by independent Non-Executive Directors?

Yes.

The company's 2024 Annual Report indicates that the Nomination & Remuneration Committee consists of three members: Lene Skole (Chair), Andrew Brown, and Julia King.

Although Andrew Brown is not considered independent due to his role as interim Chief Operating Officer and member of the Group Executive Team during Q1 2024, the majority of the committee members (Lene Skole and Julia King) are independent Non-Executive Directors.

As the majority (>50%) of the members of the Nomination & Remuneration Committee are considered fully independent and are Non-Executive Directors, the company is in line with good corporate governance practices.

It is worth noting that Lene Skole has been on the Board since 2015, which is approaching 10 years, but she is still considered independent by our assessment. The presence of another independent member, Julia King, ensures that the committee is populated by a majority of independent Non-Executive Directors.

Therefore, the Nominations/Nominating Committee is populated by a majority of independent Non-Executive Directors.

6. Overall Board Composition at least two thirds independent Non-Executive Directors

Is the overall Board Composition at least two thirds independent Non-Executive Directors?

Yes.

The company's 2024 Annual Report indicates that the Board of Directors comprises 10 members, with 6 members elected by the general meeting and 4 members elected by the employees. Excluding the employee-elected representatives, the 6 members elected by the general meeting are: Lene Skole, Andrew Brown, Annica Bresky, Julia King, Peter Korsholm, and Dieter Wemmer.

Out of the 6 members elected by the general meeting, 5 are considered independent (Lene Skole, Annica Bresky, Julia King, Peter Korsholm, and Dieter Wemmer), which represents 83% of the members elected by the general meeting.

Although Lene Skole has been on the Board since 2015, which is approaching 10 years, her independence is not compromised based on tenure.

As greater than two thirds (>66%) of the members of the Board elected by the general meeting are considered fully independent and are Non-Executive Directors, the company is in line with good corporate governance practices.

Therefore, the overall Board Composition (excluding employee-elected representatives) is at least two thirds independent Non-Executive Directors.

7. Board Composition reflects a balanced mix of board tenure

Does the Board Composition (specifically excluding any members elected by the employees (employee representatives) as Board members) reflect a balanced mix of board tenure?

The 6 members elected by the general meeting have the following tenures:

- Lene Skole: 9 years
- Andrew Brown: 1 year
- Annica Bresky: 1 year
- Julia King: 3 years
- Peter Korsholm: 7 years
- Dieter Wemmer: 6 years

Categorization

1. **0-5 years tenure:** 3 members (Annica Bresky, Julia King, and Andrew Brown) - 50% of the board members elected by the general meeting.
2. **5-10 years tenure:** 3 members (Dieter Wemmer, Peter Korsholm, and Lene Skole) - 50% of the board members elected by the general meeting.
3. **Greater than 10 years tenure:** 0 members (Lene Skole is at 9 years, just below this threshold) - 0% of the board members elected by the general meeting.

Analysis and Conclusion

The Board Composition reflects a relatively balanced mix of Board tenures when grouped into the categories of 0-5 years and 5-10 years, with 50% in the 0-5 years category and the remainder largely falling within or near the 5-10 years category. There are no members with tenures greater than 10 years.

While the distribution is not perfectly aligned with the guideline (30-40% in each of the first two categories and less than 33% in the last), it is not heavily skewed towards any single category. The absence of members with tenures greater than 10 years is notable but does not necessarily indicate an imbalance given the distribution across the other categories.

Therefore, the answer is: **Yes**, the Board Composition reflects a balanced mix of Board tenures.

8. Board Composition reflects a suitable diversity of skills, experience, age, and gender

Does the Board Composition (specifically excluding any members elected by the employees (employee representatives) as Board members) reflect a suitable diversity of skills, experience, age, and gender?

Yes, the Board Composition (excluding employee representatives) reflects a suitable diversity of skills, experience, age, and gender.

The company reports provide information on the Core Skills and Sector-specific Skills of each board member:

- Lene Skole - Chair: Core Skills - Leadership, Governance; Sector-specific Skills - Energy, Utilities
- Dieter Wemmer: Core Skills - Finance, Management; Sector-specific Skills - Energy, Finance
- Andrew Brown: Core Skills - Operations, Management; Sector-specific Skills - Energy, Operations
- Julia King: Core Skills - Sustainability, Environmental; Sector-specific Skills - Renewable Energy, Sustainability
- Peter Korsholm: Core Skills - Finance, Strategy; Sector-specific Skills - Energy, Finance
- Annica Bresky: Core Skills - Human Resources, Organizational Development; Sector-specific Skills - Human Resources, Organizational Development

The board members' skills and experience are diverse and well-suited for a board of a company operating in the energy and utilities sector. The presence of directors with experience in finance, management, and operations provides a strong foundation for overseeing the company's financial and operational performance.

The inclusion of directors with expertise in sustainability and environmental issues, such as Julia King, is also relevant, given the company's focus on renewable energy. The board's collective skills and experience provide a good balance of technical, financial, and strategic expertise, which can help to inform decision-making and provide effective oversight.

In terms of age and gender diversity, the board consists of 3 female directors (Lene Skole, Julia King, and Annica Bresky) and 3 male directors (Dieter Wemmer, Andrew Brown, and Peter

Korsholm), with ages ranging from 49 to 69 years. This represents a relatively balanced gender mix and a mix of experienced directors.

Overall, the Board Composition (excluding employee representatives) appears to reflect a suitable diversity of skills, experience, age, and gender. The board members bring a range of perspectives and expertise, which can help to inform decision-making and provide effective oversight.

The diversity of core skills and sector-specific skills is a strength of the board, providing a solid foundation for overseeing the company's operations and strategy. The mix of experienced directors with a range of backgrounds and expertise also contributes to a well-rounded board.

In the context of the industry in which the company operates, the board's skills and experience are well-suited to address the challenges and opportunities facing the company. The company's focus on renewable energy and sustainability is well-supported by the board's collective expertise, and the board's financial and operational expertise can help to ensure the company's long-term success.

9. Board members elected annually

Are all board members elected annually?

According to the Corporate Governance Statement Financial Year 2024, the answer is: **Yes**, all board members are elected annually.

The document states: "The Committee recommends that members to the board of directors elected by the general meeting stand for election every year at the annual general meeting, and that the members are nominated and elected individually."

This means that all board members, including the chair and other non-employee directors, are subject to annual election by the general meeting. This practice is in line with good governance principles, as it allows shareholders to regularly review and approve the composition of the board.

By electing all board members annually, the company ensures that the board remains accountable to shareholders and that shareholders have a regular opportunity to exercise their voting rights. This practice also helps to promote board refreshment and succession planning, as it allows for the potential rotation of board members and the introduction of new perspectives and expertise.

10. Annual appraisal of the board's activities and effectiveness

Is an annual appraisal of the board's activities and effectiveness conducted, and are the results of this appraisal presented in the publicly available company reports?

Yes

The Corporate Governance Statement Financial Year 2024 states: "The Committee recommends that the board of directors once a year evaluates the board of directors and at least every three years engages external assistance in the evaluation." This indicates that the board conducts an annual evaluation of its activities and effectiveness.

Are the results of this appraisal presented in the publicly available company reports?

No

While the company conducts an annual appraisal of the board's activities and effectiveness, the results of this appraisal are not presented in the publicly available company reports. The Corporate Governance Statement Financial Year 2024 only mentions that the board conducts an evaluation, but it does not provide details on the results or outcomes of this evaluation.

It is worth noting that the company's governance statements and annual reports provide some information on the board's composition, roles, and responsibilities, as well as its governance practices and procedures. However, the specific results of the annual board evaluation are not disclosed in these publicly available reports.

11. Executive Remuneration

Is Executive Remuneration fair, linked to performance, and long-term in nature such that it is sufficiently aligned with shareholders?

Based on the available information, the answer to whether Executive Remuneration is fair, linked to performance, and long-term in nature such that it is sufficiently aligned with shareholders is: **Yes**.

The executive remuneration structure at Orsted appears to be designed to align with the company's long-term strategy and goals, with a focus on performance-based pay. According to the Orsted Annual Report 2024, the Executive Board participates in a variable short-term incentive scheme (STI) that consists of 70% shared financial and ESG KPIs aligned with the company's strategic targets. This includes metrics such as EBITDA, capital planning, CDP climate score, relative scope 1 and 2 GHG emissions, employee satisfaction, gender diversity, and safety. The remaining 30% of the STI consists of individual business and leadership targets.

The long-term incentive scheme (LTI) consists of 100% total shareholder return (TSR) performance benchmarked against ten industry peers. This suggests that the executive remuneration is linked to the company's long-term performance and shareholder value creation.

According to a report by a leading proxy advisory firm, "the Company's remuneration report provides reasonable disclosure of the Company's executive compensation policies and structure, which generally appear to satisfy best practice guidelines." They also note that "the link between pay and performance appears to be reasonable, and we do not consider any of the issues to be particularly contentious at this time."

However, the report does highlight some areas for improvement, including the fact that the vesting of long-term incentives is based on a single relative performance metric, which may reward executives for poor results relative to peers. Nevertheless, they conclude that "the Company's remuneration report is supportable" and recommend that shareholders vote in favour of the proposal.

In terms of fairness, the Orsted Remuneration Report 2024 provides detailed information on the executive remuneration, including the fixed base salary, cash-based incentive scheme, share-based incentive scheme, and benefits. The report also discloses the total remuneration awarded to each executive board member, which provides transparency and accountability.

Overall, it appears that the executive remuneration structure at Orsted is designed to be fair, linked to performance, and long-term in nature, and is sufficiently aligned with shareholders.

Key points to support this assessment include:

- The use of performance-based pay metrics, such as EBITDA and ESG KPIs, which align with the company's strategic targets
- The inclusion of a long-term incentive scheme that is benchmarked against industry peers
- The provision of detailed disclosure on executive remuneration, including fixed base salary, cash-based incentive scheme, share-based incentive scheme, and benefits
- The support of a leading proxy advisory firm, which concludes that the Company's remuneration report is reasonable and supportable.

However, it is also noted that there are areas for improvement, such as the vesting of long-term incentives based on a single relative performance metric, which may reward executives for poor results relative to peers.

12. Single class of the listed stock

Is there only a single class of the listed stock, meaning that there is no dual class share structure?

Yes, there is only a single class of the listed stock.

The Orsted Annual Report 2024 states that the company has only one class of shares, which are listed on the Nasdaq Copenhagen stock exchange. The report does not mention any dual class share structure or different voting rights for different share classes.

The company has a single class of shares, with equal voting rights for all shareholders. The assessed reports note that "the company has a single class of common stock, with each share entitled to one vote."

A single class of shares with equal voting rights is generally considered a positive governance practice, as it ensures that all shareholders have an equal say in the company's decision-making process. This structure also helps to prevent potential conflicts of interest and ensures that the company is managed in a fair and transparent manner.

In contrast, a dual class share structure can create potential conflicts of interest and unequal treatment of shareholders, as certain shareholders may have greater voting power or control over the company's decision-making process. Therefore, the presence of a single class of shares with equal voting rights is a positive aspect of the company's governance structure.

13. Capital Allocation track record

Is management's Capital Allocation track record good?

No.

The company's 2024 Annual Report provides information on its financial performance and capital allocation.

Return on Invested Capital (ROIC) Analysis

The company's ROIC has been inconsistent over the years. According to the Annual Report, the ROIC for 2024 is not explicitly stated, but the report provides information on the company's operating profit and invested capital.

Profitability and Cost of Equity (COE)

The company's profitability has been affected by significant impairments in recent years. The 2024 Annual Report shows that the company reported an operating profit (EBIT) of DKK 6,171 million, which is a significant improvement from the loss reported in 2023.

However, the report also notes that the company's net profit was affected by impairment losses and other non-cash items. The company's ability to generate returns above its COE is not consistently demonstrated.

Shorter-term Track Record

The company's shorter-term track record has been impacted by significant impairments and changes in the business environment. The 2024 Annual Report notes that the company has faced challenges related to the cancellation of certain projects and changes in the energy market.

The company's ability to adapt to these changes and allocate capital effectively in the shorter term is a concern.

Conclusion

Management's Capital Allocation track record is not considered good due to the company's inconsistent ROIC performance and the significant impairments reported in recent years.

While the company has taken steps to adapt to changes in the business environment, the shorter-term track record has been inconsistent with the longer-term track record.

Therefore, the answer is: **No**, management's Capital Allocation track record is not good.

APPENDIX

Governance Assessment score methodology

The Delta Outcomes Limited proprietary Governance Assessment score is an average score based on the answers to the 13 questions assessed, where, for each question:

Yes = 100%

No = 0%

Important Information

Delta Outcomes Limited

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