



Corporate Governance Report

2019





Corporate Governance

Corporate Governance Report for 2019

This Corporate Governance Report ("Report") covers the financial year that ended on 2019. The Report includes both the statutory statement on corporate governance as well as comments and information on Össur's compliance (or deviations, as applicable) with each item in the Danish Recommendations on Corporate Governance, see Appendix. This Report has been approved by Össur's Board of Directors.

Statutory Statement on Corporate Governance

This statutory statement on corporate governance is made in accordance with Article 66 (c) of the Icelandic Financial Statements Act No. 3/2006, as amended ("Statement"). The Statement has been approved by the Board of Directors and is published on the Company's website. The Statement covers the financial year that ended on 31 December 2019.

The Statement includes information on the following items:

- A reference to the corporate governance recommendations the Company follows and how the Company addresses the recommendations, including any deviations and explanations thereto.
- A description of the main aspects of the Company's internal controls and risk management systems in connection with preparation of financial statements.
- A description of the Company's organizational structure and the role of each function.
- A description of the Company's diversity policy relating to the Board and the CEO, the aim of the policy and execution.

1. CORPORATE GOVERNANCE

The Company applies the Danish Recommendations on Corporate Governance ("Recommendations") as the Company's shares are solely traded on Nasdaq Copenhagen and the Company is not subject to a corporate governance code in Iceland. The Recommendations were issued by the Corporate Governance Committee in November 2017 (see Version 4 updated August 2019) and are available on the Committee's website: www.corporategovernance.dk.

The Recommendations are the best practice guidelines for companies admitted to trading on a regulated market in Denmark. For further information see clause 2.5 and explanations to clause 4.1 in Nasdaq Copenhagen's rules for issuers of shares.

The Company complies with the vast majority of the Recommendations. The few deviations are explained below:

- The Company's Articles of Association do not include a provision on a fixed retirement age for members of the Board of Directors. In the Board's opinion, age is irrelevant as long as the contribution of the respective member of the Board is considered valuable.
- The majority of the Board of Directors (3 of 5) is considered dependent. Two of the members of the Board represent the interest of the Company's controlling shareholder. One member has been on the Board for 20 years. The two other members of the Board are considered independent. In the Board's opinion it is normal and understandable

that two out of five members of the Board represent the controlling shareholder. It is also the Board's opinion that its longest serving member is in fact acting independently of special interest and his skills and experience, including his medical expertise and knowledge of the US healthcare system, are valuable to the Board and ensures diversity within it.

- No nomination committee has been established and a remuneration committee was abolished in 2010 and the Company has not had such a committee since then. In the Board of Directors' opinion such committees are not necessary considering the size of the Board and the balanced and relevant expertise and experience of the current members of the Board. The Board has the role and responsibilities such committees would otherwise have.
- The Board of Directors has not established a whistleblower scheme. However, the Board has approved a whistleblowing policy, which states that the Company: (i) shall provide employees with ways of reporting conduct that they reasonably believe violates applicable laws, regulations or the Company's policies; (ii) shall treat all reports as confidential; and (iii) is strictly prohibited from taking any retaliatory action against a person reporting actual or potential compliance issues in good faith, whether or not the report ultimately proves to be well founded. The Board has instructed management to examine a formal whistleblowing scheme further.

Explanations, comments and information on the Company's compliance (or deviations, as applicable) to each item in the Recommendations can be found in the Appendix.

2. MAIN ASPECTS OF INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS REGARDING PREPARATION OF FINANCIAL STATEMENTS

Internal controls

The Board of Directors has an ongoing dialogue with the CEO on the identification, description and handling of the business risks to which the Company may be exposed. Material risks and risk management are described in the Annual Report.

The Company's risk management and internal controls, in relation to financial processes, are designed to control the risk of material misstatements. The Company designs its processes to ensure there are no material weaknesses with internal controls that could lead to a material misstatement in its financial reporting. The external Auditor's evaluation of these processes is included in the Auditor's Report.

The Company goes through a detailed strategic and forecast process each year and a strategy and forecast report is prepared. The Board approves the Company's strategy, forecasts and targets each year. Performances against targets are monitored on a monthly basis. This includes a year over year comparison where main reasons for changes are explained. A twelve-month forecast is available at all times and forecasts are updated quarterly and reasons for changes explained.



The basis of the internal control of the Company's financial reporting comprises the control environment, including the organization, decision paths, lines of authority and responsibilities documented and communicated in various control documents, such as policies and Group-wide guidelines and manuals.

To ensure high quality in the Company's financial reporting systems, the following policies, procedures and guidelines for financial reporting and internal controls have been adopted, to which the subsidiaries and reporting units must adhere:

- Continuous analysis of year over year comparison.
- Continuous follow-up on results achieved compared to assumptions in forecasts.
- Policies regarding anti-corruption, anti-bribery and Code of Conduct.
- Policies for IT use, insurance, cash management, procurement etc.
- Reporting instructions as well as reporting and finance manuals.
- Internal Control Governance Policy.

The Board of Directors is ultimately accountable for maintaining risk assessment, risk management and internal control system. The CEO together with the Executive Management set the ground of the internal control environment by providing leadership and direction to senior managers and reviewing the way they are controlling the business. They are accountable for the selection, development and evaluation of the system of internal control with oversight by the Board of Directors.

The Company does not have an internal audit function but has an established internal control function and uses internal control systems that are monitored by the Audit Committee and assessed by the external Auditor.

External Auditor

An auditing firm is elected at the Annual General Meeting for a term of one year. The external Auditor is not allowed to own shares in the Company. The external Auditor shall examine the Company's annual consolidated financial statements

in accordance with international standards on auditing, and shall, for this purpose, inspect accounting records and other material relating to the operation and financial position of the Company. The external Auditor shall always have access to all the Company's books and documents. The external Auditor reports via the Audit Committee to the Board of Directors on any significant findings regarding accounting matters and any significant internal control deficiencies.

3. ORGANIZATIONAL STRUCTURE AND THE ROLE OF EACH FUNCTION

According to the Company's Articles of Association the Company is managed by:

- Shareholders' Meetings
- The Board of Directors
- The Chief Executive Officer

Shareholders' Meetings

The supreme authority in the Company's affairs is in the hands of lawful Shareholders' Meetings, within the limits established by the Company's Articles of Association and law.

At each Annual General Meeting the shareholders confirm the Company's consolidated financial statements, approve the Company's remuneration policy and decide on remuneration for the Board of Directors. The Board and an Auditor are also elected at the Annual General Meeting, for a term of one year. Other resolutions are made on an ad-hoc basis, such as amendments to the Company's articles of association (including capital reductions or authorizations for the Board to increase share capital) as well as authorizations to the Board (including to purchase own shares, initiate share buyback programs, or initiate share incentive programs).

THE BOARD OF DIRECTORS' ANNUAL SCHEDULE

Quarter 1

February Meeting

- Full -year results
- Corporate Governance Statement
- Capital Structure and Dividend Policy
- Agenda for the Annual General Meeting

March Meeting

- Election of Chairman and Vice Chairman
- Appointment of Audit Committee
- Review of Internal Rules

Annual General Meeting

Quarter 2

April Meeting

- Quarterly results

Quarter 3

July Meeting

- Half-year results

September Meeting

- Strategy

Quarter 4

October Meeting

- Quarterly results

December Meeting

- Strategy and forecast
- Performance evaluation
- Diversity discussions

Resolutions at Shareholders' Meetings generally require a simple majority. However, resolutions to amend the Company's Articles of Association usually require two-thirds of the votes cast and capital represented.

The Company's controlling shareholder, William Demant Invest A/S, held 51.6% of the shares and 52.0% of the voting rights at year-end 2019.

The Board of Directors

The Board of Directors is the supreme authority in the Company's affairs between Shareholders' Meetings.

The Board shall operate in accordance with the Company's Articles of Association and the Board's Rules of Procedure.

The principal duties of the Board are the following:

- Appoint a CEO to manage the Company's daily operations, decide on the salary and terms of employment, establish terms of reference and supervise the CEO's work.
- Supervise the Company's activities and ensure that the Company's organization and operations are in good and proper order.
- Establish goals for the Company in accordance with the Company's objectives pursuant to the Articles of Association, and formulate the policy and strategy required to achieve these goals.
- Ensure adequate surveillance of the accounting and financial management of the Company.
- Evaluate the Company's capital structure each year.
- Evaluate the Board's and the CEO's performance each year.

| Board member | Responsibilities | Independent | Nationality | Residence | Board tenure |
|-----------------------------|---------------------------------|-------------|-------------|-----------|--------------|
| Niels Jacobsen | Chairman of the Board | No | Danish | Denmark | 2005 |
| Kristján Tómas Ragnarsson | Vice Chairman of the Board | No | Icelandic | USA | 1999 |
| Arne Boye Nielsen | Chairman of the Audit Committee | No | Danish | Denmark | 2009 |
| Guðbjörg Edda Eggertsdóttir | Member of the Audit Committee | Yes | Icelandic | Iceland | 2013 |
| Svafa Grönfeldt | Member of the Audit Committee | Yes | Icelandic | USA | 2008 |

The Board is composed of five individuals, all elected by the shareholders at the Annual General Meeting for a term of one year. The Board shall be represented by at least 40% of each gender, and currently there are three men and two women on the Board. The Board members have all served for several years, which ensures consistency and good insights into the Company's business and markets.

The Chairman and the Vice Chairman of the Board are elected each year following the Company's Annual General Meeting. The Chairman's main responsibility is to ensure that the Board performs its duties in an orderly and efficient manner. In the absence of the Chairman, the Vice Chairman performs his duties. Niels Jacobsen has served as the Chairman since 2006 and Kristján Tómas Ragnarsson as the Vice Chairman since 2012.

The Board conducts a performance evaluation each year, which includes evaluation of individual contribution, co-operation within the Board and with the CEO, the Chairman's leadership and setup of meetings, quality of board material, committee structure, etc. The Board also evaluates its composition each year to ensure that the members of the Board have between them the relevant knowledge, professional experience, expertise and skills required to perform the Board's tasks in the best interest of the Company. The Chairman oversees the evaluation process and proposes the actions to be taken, if any. The Chairman shall seek external assistance at least every three years.

| Board member | Board Meetings attended |
|-----------------------------|-------------------------|
| Niels Jacobsen | ● ● ● ● ● ● ● ● |
| Kristján Tómas Ragnarsson | ● ● ● ● ● ● ● ● |
| Arne Boye Nielsen | ● ● ● ● ● ● ● ● |
| Guðbjörg Edda Eggertsdóttir | ● ● ● ● ● ● ● ● |
| Svafa Grönfeldt | ● ● ● ● ● ● ● ● |

| Board member | Audit Committee Meetings attended |
|-----------------------------|-----------------------------------|
| Niels Jacobsen* | ● ● ● ● ● |
| Kristján Tómas Ragnarsson* | ● ● ● ● ● |
| Arne Boye Nielsen | ● ● ● ● ● |
| Guðbjörg Edda Eggertsdóttir | ● ● ● ● ● |
| Svafa Grönfeldt | ● ● ● ● ● |

*Attends the meeting in his capacity as Chairman or Vice Chairman of the Board.

The Audit Committee

The Audit Committee shall operate in accordance with its Rules of Procedure. The Audit Committee acts as an advisor to the Board of Directors but has no authority to take any decision on behalf of the Board. The principal duty of the Audit Committee is to ensure the quality of the Company's Consolidated Financial Statements and other financial information, and the independence of the Company's Auditor.

The Audit Committee is composed of three Board Members. The majority of the Audit Committee shall be independent of the Company, the CEO and the Auditor. The Members of the Audit Committee shall possess the knowledge and expertise needed to perform the tasks of the Audit Committee. At least one Member of the Audit Committee shall have solid knowledge and experience in the field of financial statements or auditing. Arne Boye Nielsen has served as the Chairman of the Audit Committee since 2012.

The Chief Executive Officer

According to the Company's Articles of Association the Board of Directors appoints a CEO to manage the Company's daily operations. Therefore, all references to the Executive Board in the Recommendations only apply to the CEO.

The principal duties of the CEO are the following:

- The CEO is responsible for daily operations and is obliged to follow the Board's policy and directions, within the limits provided for by the Articles of Association and law. The daily operations do not include measures that are unusual or extraordinary. The CEO may only take such measures if specially authorized by the Board, unless it is impossible to wait for the Board's decision without substantial disadvantage to the Company's operations. In such an event the CEO shall inform the Board of his measures, without delay. If the Board has granted the CEO an authority to sign on behalf of the Company and/or granted him with powers of procuration, the foregoing does not limit such authorizations.
- The CEO shall decide on directorship in the Company's subsidiaries and associates on behalf of the Company.
- The CEO is responsible for the work and results of the Executive Management.
- The CEO shall ensure that the Company's consolidated financial statements are prepared in accordance with law and accepted practices and the Company's assets are handled in a secure manner.

The Company also has a wider executive committee consisting of the CEO, the CFO and Executive Vice Presidents ("Executive Management"). The Executive Management generally meets every week and collectively prepares and implements the Company's strategic plans.

Further information on the Board of Directors, the Audit Committee, the CEO and the Executive Management can be found in the Annual Report and on the Company's website.

4. DIVERSITY POLICY

As concerns the Board and the CEO, the Company follows the provisions on gender equality set out in the Icelandic Companies Act No. 2/1995, as amended. The Board is composed of 3 men and 2 women. When nominating candidates to the Board, the Board shall, in accordance with the Board's Rules of Procedure, take into consideration the legal requirements as well as the composition of the Board and what kind of experience, knowledge, expertise and other qualities the candidate should possess. The Board applies similar criteria for the CEO.

The Company has also implemented an Equal Opportunities Policy approved by the Board ("Policy"). The purpose of the Policy is to ensure equal opportunities and equality of women and men within the Company. The goal is to utilize the skills, strengths and knowledge of employees in full, without gender-based discrimination. With this plan, the management and employees are at the same time reminded of the importance of everyone being able to reach their full potential regardless of sex, religion, opinion, nationality, race, sexual orientation, age or position, and to utilize equally the wealth inherent in the education, experience and attitudes of women and men.

The Policy is prepared in accordance with Icelandic Act No. 10/2008 on the Equal Position and Equal Rights of Women and Men. Reporting on the progress and objectives of the Policy is made in the Company's Corporate Social Responsibility report that is published on the Company's website.



Appendix

Comments and information on compliance with the Danish recommendations on Corporate Governance



The Company complies



The Company complies partially



The Company does not comply

1. Communication and interaction by the company with its investors and other stakeholders

1.1. Dialogue between company, shareholders and other stakeholders

1.1.1. The Committee **recommends** that the board of directors ensure ongoing dialogue between the company and its shareholders, so that the shareholders gain relevant insight into the company and in order for the board of directors to be aware of the shareholders' views, interests and opinions in relation to the company.

The Company has an Investor Relations policy in place that addresses dissemination of information, communication with stakeholders, comments on quiet periods, comments on sensitive business activities as well as authorized spokespersons. The Company communicates with its shareholders in English and publishes all press releases and announcements through recognized distribution vehicle. The releases and announcements are accessible on the Company's website and the website of Nasdaq Copenhagen. Additionally, the Company distributes its releases and announcements to its investor mailing list (which investors can sign up to through the Company's website). The Company uses a distribution system that allows it to publish releases simultaneously to the Company's website, the website of Nasdaq Copenhagen, and to the Össur investor mailing list. The system also allows Össur to distribute its releases to international wires such as Reuters and Bloomberg. The Company publishes detailed information on its financial results and operations on quarterly basis in addition to other key events in line with the disclosure requirements of Nasdaq Copenhagen. The Company meets with shareholders and other investors on a regular basis. Quarterly the CEO and CFO host conference calls to discuss the financial results and investors and other relevant stakeholders can call in and ask questions. In addition, the Company communicates with both institutional investors as well as private investors through physical meetings. The Company also hosts a Capital Markets Day every other year. The CEO gives the Chairman updates on investor activities on regular basis. The shareholders also have the opportunity to meet with the Board of Directors and the CEO at Shareholders' Meetings, see 1.2.1.

1.1.2. The Committee **recommends** that the board of directors adopt policies on the company's relationship with its stakeholders, including shareholders, and that the board of directors ensure that the interests of the stakeholders are respected in accordance with company policies.

The Company's communications to its various stakeholders are in accordance with the relevant policies such as the Investor Relations policy and the Company's communication strategy. See also 1.1.1.

1.1.3. The Committee **recommends** that the company publish quarterly reports.

The Company publishes quarterly financial reports through recognized publication vehicles.

1.2. General meeting

1.2.1. The Committee **recommends** that in organising the company's general meeting, the board of directors plans the meeting to support active ownership.

The planning of Shareholders' Meetings supports active ownership and ensures that shareholders have the opportunity to participate and voice their opinions. The Company's Articles of Association allow the Board of Directors to decide to hold Shareholders' Meetings electronically, either partly or fully, but to date the Board of Directors has resolved to hold Shareholders' Meetings in person. That gives the shareholders an opportunity to meet the members of the Board and the CEO and express their views, interests and opinions on the Company, see recommendation 1.1.1. On the Company's website all shareholders can obtain the convocation, the agenda, the documents submitted to the Shareholders' Meeting, as well as proposals and remarks on each item of the agenda. The shareholders also have an opportunity to influence Shareholders' Meetings by having a specific item of business included on the agenda, and they can also submit questions and requests or comment in person on any item on the Agenda at the meeting. Furthermore, the shareholders have the opportunity to cast votes on items on the agenda in writing or electronically or grant proxies if they are unable to attend. With all the above in mind, the shareholders are truly provided with opportunities to influence and guide on developments both short term and long term.

1.2.2. The Committee **recommends** that proxies or votes by post for the general meeting allow shareholders to consider each individual item on the agenda.

Both the Company's proxy form and votes, electronically through the shareholder portal, allow shareholders to consider each individual item on the agenda. The Company doesn't offer votes by post.

1.3. Takeover bids

1.3.1. The Committee **recommends** that the company set up contingency procedures in the event of takeover bids, from the time that the board of directors has reason to believe that a takeover bid will be made. The contingency procedures should establish that the board of directors should not without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which, in reality, prevent the shareholders from deciding on the takeover bid themselves.

The Board of Directors' Rules of Procedure are in line with the recommendations.

2. Tasks and responsibilities of the board of directors

2.1. Overall tasks and responsibilities

2.1.1. The Committee **recommends** that at least once annually the board of directors consider the matters that should be included in the board's performance of its work.

At a Board Meeting immediately following the Annual General Meeting in March each year, the Board approves an annual plan and reviews the Board of Directors' Rules of Procedure, the Audit Committee's Rules of Procedure and the the Company's Insider Rules. Then the Board shall at least once a year evaluate the work, results, size and composition of the Board, as well as the work and results of individual Board Members and the Board's Committees in line with the Board of Directors' Rules of Procedure. The Board shall discuss the results of the evaluation and decide which actions are to be taken, if any. This is on the agenda for a Board Meeting in December each year.

2.1.2. The Committee **recommends** that at least once annually the board of directors consider the overall strategy of the company with a view to ensuring value creation in the company.

In line with the Board of Directors' Rules of Procedure, the Board yearly discusses the Company's strategy at a Board Meeting in September. The Company's strategy and financials are approved at a Board Meeting in December each year, all with the view of ensuring value creation in the Company.

2.1.3. The Committee **recommends** that the board of directors ensure that the company has a capital and share structure which supports that the strategy and long-term value creation of the company are in the best interest of the shareholders and the company, and that the board of directors explain this in the management commentary and/or on the company's website.

In accordance with the Board of Directors' Rules of Procedure, the Board makes an assessment each year whether the Company's capital and share structures continue to be in the best interest of the shareholders and the Company. The Company's Capital Structure and Dividend Policy is published on the Company's website.

2.1.4. The Committee **recommends** that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board's reporting to the board of directors.

The role and duties of the CEO are defined in the Board of Directors' Rules of Procedure, including requirements for timely, accurate and adequate reporting to the Board and other communication. The Board's Rules are reviewed at least once a year.

2.1.5. The Committee **recommends** that at least once annually, the board of directors discuss the composition, developments, risks and succession plans of the executive board.

According to the Company's Articles of Association the Executive Board is composed of the CEO alone. According to the Board of Directors' Rules of Procedure the Board shall evaluate the work and results of the CEO according to previously established criteria, including whether the CEO has prepared and carried out a business strategy which is consistent with the established goals. The Board shall discuss the results of the assessment and decide which actions are to be taken, if any. This is done at a Board Meeting in December.

2.2. Corporate social responsibility

2.2.1. The Committee **recommends** that the board of directors adopt policies on corporate social responsibility.

The Board has approved the Company's policy on corporate social responsibility (CSR) as well as the Company's code of conduct. Since 2008 the Company has been monitoring various aspects of CSR in connection with its operations and in 2011 the Company confirmed the UN Global Compact principles. The Company discloses a CSR progress report on yearly basis, which is available on the Company's website. In addition, key highlights of the CSR activities and measurements are included in the Annual Report.

2.3. Chairman and vice chairman of the board of directors

2.3.1. The Committee **recommends** appointing a vice chairman of the board of directors, who will assume the responsibilities of the chairman in the event of the chairman's absence, and who will also act as effective sparring partner for the chairman.

In accordance with the Board of Directors' Rules of Procedure a Chairman and a Vice Chairman are elected by the Board of Directors at a Board Meeting immediately following the Annual General Meeting. The tasks, duties and responsibilities of the Chairman are set out in the Board's Rules. The Vice Chairman assumes the Chairman's tasks, duties and responsibilities in the Chairman's absence.

2.3.2. The Committee **recommends** that, if the board of directors, in exceptional cases, asks the chairman of the board of directors or other board members to perform special activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect should be passed to ensure that the board of directors maintains its independent, general management and control function. Resolutions on the chairman's or other board members' participation in day-to-day management and the expected duration hereof should be publicly announced.

The Board of Directors' Rules of Procedure stipulate the roles and responsibilities of the Chairman, the Vice Chairman and other Board Members. The Chairman, Vice Chairman and other Board Members do not take on other work unless it is considered a normal part of their role and responsibilities and, therefore, they do not participate in day-to-day management.

3. Composition and organisation of the board of directors

3.1. Composition

3.1.1. The Committee **recommends** that the board of directors annually evaluate and in the management commentary account for

- the competencies that it must have to best perform its tasks,
- the composition of the board of directors, and
- the special competencies of each member.

The Board of Directors evaluates and accounts for its composition each year to ensure the members of the Board have between them the relevant knowledge, professional experience, expertise and skills required to perform the Board's tasks in the best interest of the Company. Information on the composition of the Board and the special competencies of each member of the Board can be found in the Annual Report and on the Company's website.

3.1.2. The Committee **recommends** that the board of directors annually discuss the company's activities to ensure relevant diversity at management levels and prepare and adopt a policy on diversity. The policy should be published on the company's website.

The Board of Directors annually discusses the Company's activities to ensure diversity at management levels. The Board has approved an equal opportunity policy that is published on the Company's website.

3.1.3. The Committee **recommends** that the selection and nomination of candidates for the board of directors be carried out through a careful and transparent process approved by the board of directors. When assessing its composition and nominating new candidates, the board of directors should, in addition to the need for competencies and qualifications, take into consideration the need for integration of new talent and diversity.

The Board of Directors has the role and responsibilities a nomination committee would otherwise have. When nominating candidates to the Board, the Board shall, in accordance with the Board's Rules of Procedure, take into consideration the legal requirements as well as the composition of the Board and what kind of experience, knowledge, expertise and other qualities the candidate should possess.

3.1.4. The Committee **recommends** that the notice convening a general meeting where the agenda includes the election of members to the board of directors, include (in addition to the statutory requirements) a description of the qualifications of nominated candidates, including information about the candidates'

- other executive functions, including positions on executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign enterprises, and
- demanding organisational tasks.

Furthermore, it should be indicated if the candidates to the board of directors are considered independent.

The recommended information on candidates nominated by the Board of Directors accompanies the convocation to the Annual General Meeting. However, it should be noted that candidates to Board have until five days before the Annual General Meeting to notify of their candidature and provide the Board with the necessary information according to the Icelandic Act No. 2/1995 on Limited Liability Companies, as amended, which applies to the Company because it is legally domiciled in Iceland. The information shall be published no later than two days before the Annual General Meeting.

3.1.5. The Committee **recommends** that members of the company's executive board be not members of the board of directors and that a resigning chief executive officer be not directly elected as chairman or vice chairman for the same company.

The CEO is not a member of the Board of Directors and none of the Company's previous CEOs' are on the Board.

3.1.6. The Committee **recommends** that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.

All members of the Board of Directors are elected for a term of one year in accordance with the Company's Articles of Association.

3.2. Independence of the board of directors

3.2.1. The Committee **recommends** that at least half of the members of the board of directors elected by the general meeting be independent persons, in order for the board of directors to be able to act independently of special interests. To be considered independent, this person may not:

- be or within the past five years have been a member of the executive board, or senior staff member in the company, a subsidiary or an associated company,
- within the last five years, have received significant remuneration from the company/group, a subsidiary or an associated company in a different capacity than as member of the board of directors,
- represent or be associated with a controlling shareholder,
- within the past year, have had significant business relations (e.g. personally or indirectly as partner or employee, shareholder, customer, supplier or member of management in companies with corresponding connection) with the company, a subsidiary or an associated company.
- be or within the past three years have been employed or been a partner in the same company as the auditor elected by the general meeting,
- be part of the executive management in a company with cross-management representation in the company,
- have been a member of the board of directors for more than 12 years, or
- be a close relative with persons who are not considered independent.

Even if a member of the board of directors is not covered by the above criteria, certain conditions may exist that will lead the board of directors to decide that one or more members cannot be regarded as independent.

The majority of the Board of Directors (3 of 5) is considered dependent. Two of the members of the Board represent the interest of the Company's controlling shareholder. One member has been on the Board for 21 years. The two other members are considered independent. In the Board's opinion it is normal and understandable that two out of five members of the Board represent the controlling shareholder. It is also the Board's opinion that its longest serving member is in fact acting independently of special interest and his skills and experience, including his medical expertise and knowledge of the US healthcare system, are valuable to the Board and ensure diversity within it.

3.3. Members of the board of directors and the number of other management functions

3.3.1. The Committee **recommends** that each member of the board of directors assess the expected time commitment for each function so that the member does not take on more functions than he/she can complete at a satisfactory level for the company.

All members of the Board of Directors have to assess their expected time commitment and ensure they do not take on more tasks than they can manage in a satisfactory way for the Company.

3.3.2. The Committee **recommends** that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the board of directors:

- the position of the relevant person,
- the age and gender of the person in question,
- the person's competencies and qualifications that are relevant to the company,
- whether the member is considered independent,
- the member's date of appointment to the board of directors,
- expiry of the current election term,
- the member's participation in the meetings on the board of directors and committee meetings,
- other management functions, including memberships in executive boards, boards of directors, and supervisory boards, including board committees in Danish and foreign enterprises and demanding organisational tasks, and
- the number of shares, options, warrants and similar owned by the member in the company and other group companies, as well as changes to the member's portfolio of the mentioned securities which have occurred during the financial year.

A profile of each member of the Board of Directors is published in the Annual Report and on the Company's website which addresses all of the recommended points.

3.3.3. The Committee **recommends** that the annual evaluation procedure, cf. section 3.5, include an evaluation of what is regarded as a reasonable level for the number of other management functions, where the number, level and complexity of the other individual management functions are taken into account.

The contribution of members of the Board of Directors is one of the discussion points in the Board's performance evaluation, see 3.5. No concerns have been raised with the number, level and complexity of other individual management functions for any member of the Board.

3.4. Board committees

3.4.1. The Committee **recommends** that the company publish the following on the company's website:

- the terms of reference of the board committees,
- the most important activities of the committees during the year and the number of meetings held by each committee, and
- the names of the members of each committee, including the chairmen of the committees, as well as information regarding which members are independent members and which members have special competencies.

Currently the Company only has one Board committee, i.e. the Audit Committee. The Audit Committee's Rules of Procedure, which include provisions on its role and duties and thus its activities during the year, are published on the Company's website, as well as the number of meetings each year. The relevant information on members of the Audit Committee is also published on the Company's website.

3.4.2. The Committee **recommends** that a majority of the members of a board committee be independent.

The majority of the members of the Audit Committee are independent. The Audit Committee is the only Board committee, see 3.4.1.

3.4.3. The Committee **recommends** that the members of the board of directors set up among its members an audit committee and that a chairman is appointed who is not the chairman of the board of directors.

The Audit Committee is composed of three members of the Board of Directors. The Chairman of the Board does not sit on the Audit Committee and is thus not the Chairman of the Audit Committee.

3.4.4. The Committee **recommends** that, prior to the approval of the annual report and other financial reports, the audit committee monitor and report to the board of directors about:

- significant accounting policies,
- significant accounting estimates,
- related party transactions, and
- uncertainties and risks, including in relation to the outlook for the current year.

The Audit Committee monitors and reports on the recommended points to the Board.

3.4.5. The Committee **recommends** that the audit committee:

- annually assesses the need for an internal audit function and, in such a case, presents mandates and recommendations on selecting, appointing and removing the head of any internal audit function and on the budget of the internal audit function,
- ensure that if an internal audit has been established, a description of its functions and approved by the board of directors,
- ensure that if an internal audit has been established, adequate resources and competencies are allocated to carry out the work, and
- monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.

The Company has no internal audit function but has an established internal control function and uses internal control systems that are monitored by the Audit Committee and assessed by the external Auditor. The Audit Committee at least once a year assesses the need for an internal audit function. The Audit Committee currently doesn't see the need for an internal audit function.

3.4.6. The Committee **recommends** that the board of directors establish a nomination committee, which is at least, responsible for the following preparatory tasks:

- describing the qualifications required by the board of directors and the executive board and for a given position, indicating the time expected to be spent carrying out a specific position, as well as assessing the competencies, knowledge and experience found in the two governing bodies,
- annually assessing the structure, size, composition and results of the board of directors and the executive board and recommend any changes to the board of directors,
- annually assessing the competencies, knowledge, experience and succession of the individual members of management and report to the board of directors in this respect,
- recommending candidates for the board of directors and the executive board, and
- proposing an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes.

No nomination committee has been established, see 3.4.1. In the Board of Directors' opinion such a nomination committee is not necessary considering the size of the Board and the balanced and relevant expertise and experience of the current members of the Board. The Board has the role and responsibilities a nomination committee would otherwise have.

3.4.7. The Committee **recommends** that the board of directors establish a remuneration committee, which is at least, responsible for the following preparatory tasks:

- recommending the remuneration policy (including the "General Guidelines for incentive-based Remuneration") to the board of directors and the executive board for approval by the board of directors prior to approval by the general meeting,
- making proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensuring that the remuneration is in compliance with the company's remuneration policy and the assessment of the performance of the persons concerned. The committee should have information on the total remuneration that members of the board of directors and the executive board receive from other companies in the group,
- recommending a remuneration policy applicable for the company in general and
- assisting with the preparation of the annual remuneration report.

A remuneration committee was abolished in 2010 and the Company currently has no remuneration committee, see 3.4.1. In the Board of Directors' opinion such a remuneration committee is not necessary taking into account the size of the Board and the balanced and relevant expertise and experience of the current members of the Board. The Board has the role and responsibilities a remuneration committee would otherwise have.

3.4.8. The Committee **recommends** that the remuneration committee do not consult with the same external advisers as the executive board of the company.

The Board of Directors has not consulted external advisers when performing the role and responsibilities of a remuneration committee.

3.5. Evaluation of the performance of the board of directors and the executive board

3.5.1. The Committee **recommends** that the board of directors establish an evaluation procedure for an annual evaluation of the board of directors and the individual members. External assistance should be obtained at least every third year. The evaluation should inter alia include:

- contribution and results,
- cooperation with the executive board,
- the chairman's leadership of the board of directors,
- the composition of the board of directors (including competencies, diversity and the number of members),
- the work in the committees and the committee structure, and
- the organisation and quality of the material that is submitted to the board of directors.

The evaluation procedure and the general conclusions should be described in the management commentary and on the company's website. The chairman should account for the evaluation of the board of directors, including the process and general conclusions on the general meeting prior to the election of the board of directors.

According to the Board of Directors' Rules of Procedure the Board shall at least once a year evaluate the performance of the Board and the individual Members of the Board. The performance evaluation addresses all of the recommended points. The Chairman of the Board oversees the process and proposes the actions to be taken, if any. The Chairman shall seek external assistance at least every three years. Information on all significant changes deriving from the evaluation shall be published in accordance with the Company's investor relations' policy. The general conclusion from the 2019 evaluation was the following: As before, there was consensus that the Board Members worked very well together and there wasn't a need to add more Board committees to the structure. The Chairman's leadership was considered extremely valuable as well as his good relationship with the CEO. The Board Members agreed that the size of the Board was suitable for the Company and the composition of the Board ensured diversity and the right competencies to fulfill all relevant requirements. The Board Members were also happy with the quality of the Board material.

3.5.2. The Committee **recommends** that at least once annually, the board of directors evaluate the work and performance of the executive board in accordance with pre-defined criteria. Furthermore, the board of directors should evaluate the need for changes to the structure and composition of the executive board, in light of the company's strategy.

According to the Board of Directors' Rules of Procedure the Board shall at least once a year evaluate the performance of the CEO according to pre-defined criteria, including the CEO's collaboration with the Board and whether he/she has prepared and carried out a business strategy which is consistent with the established goals. The Board then evaluates the need for changes to the structure and composition of the Executive Board.

3.5.3. The Committee **recommends** that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalised dialogue between the chairman of the board of directors and the chief executive officer, and that the outcome of the evaluation be presented to the board of directors.

In accordance with the Board of Directors' Rules of Procedure the Chairman and the CEO have a meeting at least once a year to discuss the results of the Board's assessment of the CEO's performance and the proposed actions to be taken, if any, see 3.5.2. The Chairman shall inform the Board of the discussions with the CEO as he/she deems necessary and appropriate.

4. Remuneration of management

4.1. Form and content of the remuneration policy

4.1.1. The Committee **recommends** that the board of directors prepare a remuneration policy for the board of directors and the executive board, which includes

- a detailed description of the components of the remuneration for members of the board of directors and the executive board,
- the reasons for choosing the individual components of the remuneration,
- a description of the criteria that form the basis for the balance between the individual components of the remuneration, and
- an explanation for the correlation between the remuneration policy and the company's long-term value creation and relevant related goals.
- The remuneration policy should be approved by the general meeting at least every fourth year and upon any material amendments and it should be published on the company's website.

The Board of Directors proposes to the Annual General Meeting to approve a Remuneration Policy that applies to the Board of Directors and the Executive Management. The Remuneration Policy is prepared in accordance with the Icelandic Act No. 2/1995 on Limited Liability Companies, as amended, which applies to the Company because it is legally domiciled in Iceland. The Remuneration Policy is approved at the Annual General Meeting each year and is disclosed in the Annual Report and published on the Company's website.

4.1.2. The Committee **recommends** that if the remuneration policy includes variable components,

- limits be set on the variable components of the total remuneration package,
- a reasonable and balanced composition be ensured between remuneration for members of management and the value creation for shareholders in the short and long term,
- clarity be established about performance criteria and measurability for the award of variable components,
- it is ensured that variable remuneration not only consists of short-term remuneration components, and that long-term remuneration components must have a vesting or maturity period of at least three years, and
- it be ensured that the company has the ability to reclaim, in full or in part, variable components of remuneration that were paid on the basis of information, which subsequently are found to be incorrect.

As regards the Executive Management, the Remuneration Policy includes both bonuses for short-term performance, which can be up to 67% of the basic salary, and share-based incentives for long-term performance. The Remuneration Policy is designed and implemented to ensure, to the extent possible, the alignment of interest of the Executive Management with the Company's performance long-term and value creation for shareholders. In determining bonuses, special attention shall be given to the Company's overall results, actual growth, long-term profitability and value creation for shareholders. The key terms of share-based incentive programs are submitted to a Shareholders' Meeting for approval, see 4.1.4. The Remuneration Policy states that if bonus payments have clearly been based on false, misleading or insufficient data, such payments shall be repaid to the extent correct data shows that no or lower bonus would have been paid.

4.1.3. The Committee **recommends** that remuneration of members of the board of directors does not include share options or warrants.

Remuneration to members of the Board of Directors is fully paid out in cash and does not include share options.

4.1.5. The Committee **recommends** that the total value of the remuneration relating to the notice period, including severance pay, do not exceed two years of remuneration, including all components of the remuneration.

The Company's Remuneration Policy states that no special retirement agreements shall be made, but instead shall mutual termination clauses in employment agreements apply. Termination clauses shall not exceed twenty-four (24) months.

4.2. Disclosure of remuneration

4.2.1. The Committee **recommends** that the company's remuneration policy and compliance with this policy be explained and justified annually in the chairman's statement at the company's general meeting.

At the Annual General Meeting each year, the Chairman gives a statement on the Company's Remuneration Policy and compliance with it. The Chairman also reports on the Board of Directors' and the CEO's remuneration and other benefits in accordance with the Icelandic Act No. 2/1995 on Limited Liability Companies, as amended, which applies to the Company because it is legally domiciled in Iceland.

4.2.2. The Committee **recommends** that shareholders at the general meeting consider proposals for approval of remuneration for the board of directors for the current financial year.

The remuneration for the Board of Directors for the current financial year is approved by the shareholders at the Annual General Meeting each year.

4.2.3. The Committee **recommends** that the company prepares a remuneration report that includes information on the total remuneration received by each member of the board of directors and the executive board from the company and other companies in the group and associated companies for the last three years, including information on the most important content of retention and resignation arrangements and that the correlation between the remuneration and company strategy and relevant related goals be explained.

The remuneration report should be published on the company's website.

The Company publishes a Remuneration Report on its website that includes information on all the recommended points.

5. Financial reporting, risk management and audits

5.1. Identification of risks and transparency about other relevant information

5.1.1. The Committee **recommends** that the board of directors consider and in the management commentary account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.

According to the Board of Directors' Rules of Procedure, the CEO is responsible for identifying the greatest business risks involved in achieving the Board's decision on the Company's strategy and goals. Potential risks and the Company's procedures and processes to mitigate these risks are updated annually and are available in the Annual Report. A description of the Company's internal controls and risk management systems within the financial reporting process is included in the Annual Report.

5.2. Whistleblower scheme

5.2.1. The Committee **recommends** that the board of directors establish a whistleblower scheme for expedient and confidential notification of serious wrongdoing or suspicions thereof.

The Board has approved a whistleblowing policy. According to the policy the Company shall provide employees with ways of reporting conduct that they reasonably believe violates applicable laws, regulations or the Company's policies. The Company shall treat all reports as confidential. The Company is strictly prohibited from taking any retaliatory action against a person reporting actual or potential compliance issues in good faith, whether or not the report ultimately proves to be well founded. A formal whistleblowing scheme has, however, not been established but the Board has instructed management to examine it further.

5.3. Contact to auditor

5.3.1. The Committee **recommends** that the board of directors ensure regular dialogue and exchange of information between the auditor elected by the general meeting and the board of directors, including that the board of directors and the audit committee meet with the auditor elected by the general meeting at least once annually without the executive board present. This also applies to the internal auditor, if any.

The Board of Directors maintains a regular dialogue and exchange of information with the external Auditor. The Board and the Audit Committee meet the external Auditor at least once a year without the CEO being present. In addition, the Chairman of the Board has a separate conversation with the external Auditor without the CEO being present.

5.3.2. The Committee **recommends** that the audit agreement and auditor's fee be agreed by the board of directors and the auditor elected by the general meeting based on a recommendation from the audit committee.

The audit agreement and the external Auditor's fee are approved by the Board of Directors based on recommendations from the Audit Committee.



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