ÖSSUR HF.
STATUTORY STATEMENT
ON CORPORATE GOVERNANCE
FOR THE FINANCIAL YEAR 2016

FEBRUARY 2017

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. This statement has been approved by the Board of Directors and is published in the Annual Report and on the Company's website. This statement covers the financial year that ended on 31 December 2016.

This 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 of Directors and the CEO, the aim of the policy and execution.

1. Corporate Governance

The Company has chosen to follow the Danish Recommendations on Corporate Governance because the Company's shares are traded on Nasdaq Copenhagen and it is recommended in the explanations to clause 4.1 of Nasdaq Copenhagen's rules for issuers of shares to apply the Danish Recommendations if foreign companies are not subject to other rules. Applying the Danish Recommendations will also make it easier for investors on the Danish market to assess the Company's corporate governance practices.

The latest Danish Recommendations on Corporate Governance, issued by the Corporate Governance Committee in May 2013 and updated in November 2014, are available on the Committee's website: www.corporategovernance.dk.

The Company complies with the vast majority of the Danish Recommendations. The few deviations are explained below. A complete report on the Company's compliance with each recommendation is available on the Company's website.

- The CEO is responsible for the execution of the Company's equal opportunities plan. The plan is not discussed annually within the Board of Directors.
- 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 18 years. The two other members of the Board are considered independent. In the Board's opinion it is normal and understandable that the controlling shareholder is represented by two out of five members of the Board. 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 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 such committees would otherwise have.

- The Remuneration Policy does not include criteria that ensures that vesting period for variable components of remuneration agreements are longer than one calendar year. Bonuses for short-term performance may be paid quarterly, semi-annually or annually. The Company believes it is important to have certain flexibility to pay out such bonuses. However, 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.

2. Main aspects of internal controls and risk management systems in connection with 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 discussed 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 Auditors' 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.

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 for IT use, insurance, cash management, procurement etc.
- Reporting instructions as well as reporting and finance manuals.

The responsibility for maintaining sufficient and effective internal controls and risk management in connection with financial reporting lies with the CEO.

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

External Auditors

An auditing firm is elected at the Annual General Meeting for a term of one year. The external Auditors are not allowed to own shares in the Company. The external Auditors 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 Auditors shall have access to all of the Company's books and documents at all times. The external Auditors report 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 all affairs of the Company, within the limits established by the Company's Articles of Association and statutory law, is in the hands of lawful Shareholders' Meetings.

The Company's controlling shareholder, William Demant Invest A/S, holds 42.4% of the shares and voting rights.

The Board of Directors

According to the Company's Articles of Association the Board of Directors is responsible for the affairs of the Company 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 as follows:

- 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.

The Audit Committee

The Audit Committee shall operate in accordance with its Rules of Procedure. 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 Auditors.

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.

The principal duties of the CEO are as follows:

- 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, such authorizations are not limited by the foregoing.
- 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.

References to the executive board in the corporate governance recommendations only apply to the CEO.

Further information on the Board of Directors, the Audit Committee and the CEO 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.

Össur also has Equal Opportunities Plan in place. The purpose of Össur’s Equal Opportunities Plan 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 equal opportunities plan 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 Equal Opportunities Plan is done in Össur’s Corporate Social Responsibility report that is published on the Company’s website.