



Corporate *Governance*

Guidelines

7TH EDITION

Guidelines on Corporate Governance

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Foreword

Good corporate governance is an important foundation for trust, accountability and sound corporate decision-making. A clear division of responsibilities, transparency and active managerial accountability strengthen companies' foundations and contribute to a healthy and competitive business environment.

The Guidelines on Corporate Governance are now issued for the seventh time by the Iceland Chamber of Commerce, SA – Business Iceland and Nasdaq Iceland. Since the first edition was published in 2004, the Guidelines have evolved in line with changes in Icelandic business, the legal environment and international standards of good corporate governance. As before, the objective is to provide company boards and managers with practical standards for discharging their roles diligently and responsibly, thereby promoting trust among shareholders and other stakeholders.

The Guidelines continue to be based on the "comply or explain" approach. This provides important flexibility, as companies differ in size, activities, ownership and organisation, and the same arrangements will not necessarily suit them all. A reasoned explanation of a deviation that gives stakeholders a clear picture of the considerations underlying it may be as consistent with good corporate governance as compliance with an individual recommendation.

From the outset, the preparation of the seventh edition focused on continuing to develop the Guidelines without unnecessarily increasing their scope or the requirements imposed on companies. Before the review, the views of member companies of the Iceland Chamber of Commerce and SA – Business Iceland, companies listed on Nasdaq Iceland and other stakeholders were sought regarding their experience of the Guidelines and the need for amendments. The consultation indicated general satisfaction with the principal substance of the Guidelines, with calls for simplification and clearer presentation rather than extensive substantive changes.

That conclusion shaped the work on this edition. The text has been reviewed and simplified, the number of footnotes reduced, terminology harmonised and definitions consolidated in one place. The general wording of the recommendations has also been changed from using terms such as "shall" or "must" to "should" to better reflect their nature as guiding standards. The use of "shall", "must" and "should" in individual recommendations should not, in itself, be understood as giving them different weight. A company that states that it complies with the Guidelines must continue

either to comply with each recommendation or clearly explain any deviation. The discussion of Director independence has also been clarified by distinguishing independence from the Company and its Day-to-day Management, on the one hand, and independence from Major Shareholders, on the other. This edition also places greater emphasis on the role of internal controls and the Audit Committee in promoting reliable disclosure to stakeholders.

The review also took account of changes in the legal environment since the previous edition and developments in international corporate governance standards. Once a draft of the seventh edition had been prepared, it was circulated to key stakeholders for comment, and numerous useful observations were received and taken into account in finalising the Guidelines.

Further details on the substantive comments received, the publishers' position on those comments, and the amendments made are set out in a supplementary report on the review of the seventh edition.

The publishers hope that the seventh edition of the Guidelines will continue to serve as a practical tool for boards and executives and support companies in developing their corporate governance practices in the manner best suited to their operations. Good corporate governance is not a static framework of rules, but an ongoing endeavour founded on accountability, transparency, and regular assessment of how companies can best be governed.

Acknowledgements

The working group on corporate governance was made up of representatives of the publishers of the Guidelines and experts from both the business community and academia.

The members of the group were the following:

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- Þröstur Olaf Sigurjónsson, Professor at the University of Iceland
- The Project Manager was Lísbet Sigurðardóttir, Legal Counsel at the Iceland Chamber of Commerce.

The publishers, the working group and the Project Manager for the seventh edition wish to express their gratitude for the assistance and comments of the many parties who participated in the review. These included representatives of member companies of the Iceland Chamber of Commerce and SA – Business Iceland, representatives of educational and regulatory bodies, various corporate governance experts and numerous Directors of Icelandic companies. Their contribution has been invaluable and is reflected in the positive amendments now made to the Guidelines on Corporate Governance.



Introduction

Definitions

Shareholders' Meeting	The Annual General Meeting (AGM) and any other shareholders' meeting of the Company.
Major Shareholder	Any individual or legal entity that controls at least 10% of the total share capital or voting rights in the Company, alone or in cooperation with associated parties.
Associated Parties	Individuals or legal entities connected with a person in such a way that their interests may be considered aligned or connected.
Closely Related Company	A company in which the Company controls, directly or indirectly, at least 10% of the total share capital or voting rights. If the Company controls 50% or more of the total share capital or voting rights in another company, it is considered to have indirect control over that company's holdings in other companies.
Chief Executive Officer (CEO)	The person responsible, under the authority of the Board, for the day-to-day operations of the Company. The CEO forms part of the Day-to-day Management under these Guidelines.
Day-to-day Management	The CEO and those persons who participate in the senior management of the Company and are responsible for its Day-to-day Management and operations. The term generally includes the executive management team or an equivalent management group, as applicable.
Sub-committees	Committees appointed by the Board to address defined tasks under its authority, such as the Audit Committee and Remuneration Committee. The Board remains responsible for the work and decisions of its Sub-committees.
Stakeholders	Parties with direct or indirect interests in the Company's activities, including shareholders, investors, employees, customers, creditors and society as a whole.

Guidelines on Corporate Governance

The main objective of the Guidelines is to contribute to good corporate governance by clarifying the roles and responsibilities of the Board and Day-to-day Management and enabling them to perform their duties, while safeguarding the interests of shareholders and other stakeholders. The Guidelines contain recommendations in addition to laws and regulations, while the “comply or explain” principle provides greater flexibility than such rules, as it is difficult to establish standards suited to companies of all types and sizes.

One must bear in mind that the Act on Public Limited Companies stipulates that authority and responsibility within a company shall be divided between three principal elements: the Shareholders’ Meeting, the Board of Directors and the Chief Executive Officer (CEO). In this edition of the Guidelines, greater emphasis has been placed on the significance of these boundaries of authority and the importance of maintaining them.

The layout of the Guidelines is the same as in the previous version. The Guidelines which it is recommended that companies comply with or explain deviations from are in a numbered sequence. A short introduction in a shaded text box can be found at the beginning of most chapters of the Guidelines. This introductory text is meant to clarify the Guidelines contained in each chapter, and companies are not required to report non-compliance with such remarks. Many provisions have additional commentary that is marked specifically as such. Companies are not required to report non-compliance with such commentary.

This version of the Guidelines enters into force as of 1st of January 2027.¹

Which companies are to apply the Corporate Governance Guidelines?

The Guidelines on Corporate Governance are primarily directed at companies that qualify as public-interest entities. The concept is based on Act No. 94/2019 on Auditing and Auditors and Act No. 3/2006 on Annual Accounts and covers entities generally considered important to the national economy. These include, among others, companies whose securities have been admitted to trading on a regulated market, pension funds, credit institutions, insurance companies and other large companies and groups of significant economic and societal importance.

1. For the purposes of entry into force, this edition applies to decisions concerning corporate governance arrangements made after that date. In certain cases, it may be more appropriate for existing arrangements or statements to remain in effect until a specified point in time, for example until the end of the financial year or the next annual general meeting.

Attention is drawn to the increased obligations imposed on larger companies and parent companies of large groups pursuant to the Annual Accounts Act, including in relation to disclosure and the responsibilities of the Board. Financial undertakings and insurance companies are furthermore legally required to comply with recognised Guidelines on Corporate Governance.

The Guidelines can, however, benefit all companies, irrespective of size and activities. The "comply or explain" approach allows companies to adapt their governance to their own circumstances and thereby supports the focused and efficient implementation of good corporate governance.

The "comply or explain" principle

The Guidelines on Corporate Governance are based on the "comply or explain" principle. The principle allows company boards the flexibility to decide the extent to which certain aspects of the Guidelines apply to their companies. As such, a company can be considered to adhere to the Guidelines even if it deviates from some of its standards. The "comply or explain" principle does however place on boards the burden of providing a detailed explanation for all deviations from the Guidelines in the Company's corporate governance statement.

The substance of the Guidelines require that the boards of companies critically examine the organisation of the aspects to which the Guidelines apply in the Company in question and that they independently evaluate whether the arrangement is reasonable or justifiable. In addition, it is an important aspect of the Guidelines to increase transparency and information disclosure to shareholders and other stakeholders, ensuring that they gain a clear picture of the manner in which the work and framework of the Board is arranged. Explanations of deviations are intended to increase transparency. Well-reasoned deviations can, therefore, be considered good governance.

The "comply or explain" principle offers flexibility for companies to appropriately tailor the Guidelines on Corporate Governance to their size, structure and sector. This also encourages boards and managers to contemplate and evaluate their own corporate governance conduct regularly.

If a company decides to deviate from the Guidelines on Corporate Governance, it will increase transparency to explain the following aspects:

- the way in which the Guidelines have been deviated from;
- why the Guidelines have been deviated from;
- whether there is a reason to take action to mitigate deviations.

- if the deviation is temporary, such temporary deviation should be mentioned specifically.

These explanations should be clearly set forth in the Company's corporate governance statement, so that shareholders, investors and other stakeholders can easily familiarise themselves with their content. The characteristics and special circumstances of the relevant company – such as size, organisation and ownership of the Company – should be outlined.

It should be noted that numerous aspects in the Guidelines on Corporate Governance are based on established laws and regulations. Companies may not deviate from these aspects of the Guidelines unless laws or regulations permit such deviations.

1

Shareholders and Shareholders' Meeting

Shareholders hold the decision-making powers in the affairs of the Company at Shareholders' Meetings. Shareholders' Meetings are the supreme authority in the Company's affairs. The meetings should be organised and run so as to enable shareholders to exercise their decision-making powers in an effective and informed manner.

1.1 Separation of powers and responsibilities

- 1.1.1** Power and responsibilities within the Company shall be clearly divided between the Shareholders' Meeting, the Board and the CEO, and that separation of roles shall be respected in practice. Shareholders' powers and influence are limited to Shareholders' Meetings. The Board derives its authority from the Shareholders' Meeting and directs the affairs of the Company between Shareholders' Meetings. The Board is responsible for appointing the CEO and holding the CEO accountable for the Company's operations. The CEO is responsible for the day-to-day operations and shall follow the policies and instructions of the Board.

COMMENT

Good corporate governance depends in particular on the division of powers and responsibilities envisaged by the three-tier structure of the limited company form, clear boundaries between each party's authority and responsibility, and ensuring that no party intervenes in matters reserved to another.

1.2 Annual general meeting (AGM) and Shareholders' Meetings

- 1.2.1** When organising the AGM, the Board should do so in a manner that allows shareholders to exercise their decision-making powers and express their opinions. Unless otherwise provided for in the Articles of Association of a company, the Board can make it possible for shareholders to participate in a shareholder's meeting by electronic means, partially or fully, including the possibility to vote without being physically present.

COMMENT

When preparing the AGM, it is important to ensure the participation of shareholders and ensure they have an opportunity to present their views. In this way, shareholders can be involved in the direction and development of the Company in the short and long term.

- 1.2.2** When the time and date for the AGM have been decided, no later than the end of the Company's financial year, this information should be posted on the Company's website, together with the deadline for shareholders to submit motions and/or proposals to be discussed at the meeting.
- 1.2.3** The meeting notice and other documents relevant to the AGM should be available to shareholders in sufficient time and in such a form as to give shareholders sufficient opportunity to form a well-founded opinion on the issues to be raised at the meeting.
- 1.2.4** The meeting notice should specify the language to be used at the meeting and the language of the documents for the meeting. If the meeting is conducted or if the documents are in a language other than Icelandic, the main points of the meeting should also be available in an Icelandic-language summary. In addition, the notice should specify if interpretation of the introductory talks and translations of the documents will be made available to the shareholders.

COMMENT

It is preferable for meeting documents/materials to be made available in English if foreign ownership is significant.

1.2.5 The proposals of the Nomination Committee, if such a committee has been established, and other candidacies for the Board, if available, should accompany the meeting notice.²

1.2.6 The Board should post the following information on the candidates to the Board on the Company's website as early as possible, and no later than two days before the Annual General Meeting.

- Age, education, chief occupation and professional experience.
- Date of first appointment to the Company's Board.
- Other commissions of trust, e.g. membership on boards of other companies.
- Shares in the Company, both direct ownership and through associated parties.
- Interest links to the Company's main clients and competitors and Major Shareholders in the Company.
- Any other links with the Company as described in Sections 2.3 and 2.4 and the assessment of the Board or the Nomination Committee as to whether the Board member is deemed independent from the Company and its Day-to-day Management and Major Shareholders.

COMMENT

If the Shareholders' Meeting appoints a Nomination Committee, the Company should make appropriate information on candidates for that Committee available on its website in the same manner as information on candidates for the Board.

1.3 Management attendance at Shareholders' Meetings

1.3.1 The Chairman of the Board and the required majority³ of the Directors should be present at Shareholders' Meetings, as should the Chief Executive Officer (CEO).

1.3.2 The Auditor of the Company and at least one member of all of the Board's Sub-committees should be present at the AGM.

2. See section 1.5 on Nomination Committees.

3. This refers to the number of Board members required for the Board to constitute a quorum. The Board constitutes a quorum when a majority of its members are present at a meeting, unless otherwise provided in the company's Articles of Association.

- 1.3.3** If the Company has a Nomination Committee, at least one Committee member should be present at the AGM.
- 1.3.4** A person nominated or standing for election to the Board should be present at the Company's AGM.
- 1.3.5** If circumstances prevent the aforementioned representatives of the Company from attending a Shareholders' Meeting, their participation should be ensured by other means e.g. electronically.

1.4 Share Registry

- 1.4.1** The Board should ensure that there is an effective system for updating the share registry so it contains correct information at all times. Information on shareholders' voting rights should be entered into the registry. The registry should also state any associations the Company has with corporate groups.
- 1.4.2** The Company's share registry should be readily available to shareholders at the Shareholders' Meeting, either in print or in electronic form.

1.5 Nomination Committee and the Preparation of Board Elections

The role of the Nomination Committee is to nominate individuals or a group for election to the Board. The purpose of the Nomination Committee is:

- To create a formal channel through which Board candidacies may be presented.
- To assess the eligibility of individual candidates to fulfil the role of Directors on the Board.
- To promote a candidate pool for Board election that has sufficient breadth knowledge, experience and background based on the policies, needs and operation of the company.
- To ensure that the nominated group consists of a sufficient number of persons of both genders.

In its work, the Committee should promote the interests of all shareholders and actively engage with shareholders during the nomination process. The Committee should also inform shareholders how they may propose candidates for Board membership.

COMMENT

The Nomination Committee, if such a committee has been established, has an advisory role in the selection of Directors and proposes candidates to the AGM or another Shareholders' Meeting at which Directors are elected, where practicable. Directors, however, are elected by the AGM or Shareholders' Meeting, in accordance with the relevant legislation. By establishing a Nomination Committee, clear arrangements are made for the preparations of Board Elections at the Company's AGM or Shareholders' Meeting. This, among other things, lays the foundation for informed decision-making by shareholders. The purpose of this process is to increase the likelihood that the Company's Board will possess diversity and breadth in capabilities, experience and knowledge. This is because the Committee is expected to take these aspects into account when preparing nominations of Directors.

The Nomination Committee may nominate a greater number of nominees than the number of Board seats to be voted on. In order to ensure that it is possible to take into account views on diverse composition, the Nomination Committee may set forth proposals for two or more groups of Directors of the Board. Companies that do not establish a Nomination Committee should, in the Corporate Governance Statement, provide information on the manner in which the nomination procedure is to be carried out.

Appointment of committee members

- 1.5.1** The Shareholders' Meeting should appoint members to the Nomination Committee or decide how they should be appointed. The manner in which the appointment is made should be indicated in the Company's corporate governance statement.

COMMENT

The Shareholders' Meeting can, for instance, decide that the Board should appoint the members of the Nomination Committee.

- 1.5.2** The Nomination Committee should consist of at least three members, the majority of whom should be independent of the Company and its Day-to-day Management. The same criteria should apply to the assessment of committee members as to the assessment of the independence of Board members.⁴ The Committee may consist of two members, but in this case both members should be independent of the Company. At least one Committee member should be independent of Major Shareholders.
- 1.5.3** Members of the Board of Directors may be members of the Nomination Committee but should not constitute a majority of the Committee.

COMMENT

The Nomination Committee should preferably possess knowledge and experience of business operations and management and have a comprehensive view of the work of the Company's Board and an understanding of the tasks and challenges facing the Board. Membership of a Board member on the Nomination Committee could be a good option to ensure a comprehensive view and understanding, but this goal may also be achieved by defining clear channels of communications and ensuring communication venues between the Nomination Committee and the Board and Shareholders. However, it may be undesirable for a Director to serve as Chair of the Nomination Committee.

- 1.5.4** Neither the Company's Day-to-Day Managers nor its employees should be members of the Nomination Committee.
- 1.5.5** The Company should announce the names of members of the Nomination Committee on its website no later than six months before the AGM.

COMMENT

This time requirement should especially be kept in mind if the AGM has delegated to the Board or another party the task of appointing the Nomination Committee.

Role and procedures of the Nomination Committee

- 1.5.6** Shareholders' Meetings should determine the role of the Nomination Committee and the manner in which its operation shall be carried out. The needs of the Company should be taken into account when determining this role.

4. See Sections 2.3 and 2.4 on director independence.

COMMENT

In its determination of the operation of the Committee, shareholders may establish rules of procedure for the Committee or e.g. decide to delegate this task to the Board. Shareholders should preferably take a position on the arrangement of payments to the Committee and its authorisations, e.g. involving consultants in the execution of its duties. Provided that the Committee has authorisations to do so, it should ensure the independence of such consultants. The same criteria should apply to the assessment of the independence of consultants as to the assessment of the independence of Board members.

1.5.7 The Nomination Committee should, where practicable, nominate candidates for membership of the Company's Board before its AGM or another Shareholders' Meeting at which Directors are elected.

1.5.8 The role of the Committee should include:

- assessing candidates for the Board based on qualifications, experience and knowledge. When making its assessment, it should take into consideration the criteria laid down in Section 2.2 (Size and composition of the Board). It should also consider the findings of the Board's performance assessment regarding the composition and competence of the Board's members.⁵
- evaluating the independence of potential Board members, in accordance with Sections 2.3 and 2.4;
- addressing gender ratios on the Company's Board;
- preparing and submitting well-reasoned proposals, based on this assessment, for candidates for every Board seat to be filled.

1.5.9 In the execution of its duties, the Committee should take into consideration the collective interests of all shareholders. The role and main duties of the Committee should be specified in the Committee's rules of procedure and should reflect the needs of the Company. The rules of procedure should be posted on the Company's website.

COMMENT

In the execution of its duties, the Committee should approach the current Board and the Board's Sub-committees to gather relevant information.

5. See Section 2.8 on performance assessments.

- 1.5.10** The Committee should call for candidates for election to the Board of Directors and candidate proposals from shareholders as soon as possible before the Company's AGM or a Shareholders' Meeting in which elections to the Board take place.

COMMENT

It is appropriate for the Nomination Committee to request candidacies and proposals from shareholders in good time so that it has sufficient time to assess expressions of interest in candidacy and proposals. Where a Shareholders' Meeting at which Directors are to be elected is convened at the request of shareholders, the Nomination Committee may be tasked with assessing the suitability of candidates for election to the Board of Directors. In such cases, the Nomination Committee may first call for candidates only once it becomes clear when the meeting is held.

- 1.5.11** The Company's website should give information on how shareholders can submit proposals for Board proposals to the Committee and how other individuals can submit their candidacy.
- 1.5.12** The Nomination Committee's proposals, and, if relevant, other candidacies, should be presented alongside the notice of the AGM or Shareholders' Meeting in which elections to the Board take place. They should also be accessible to shareholders on the website of the Company as soon as possible, .

COMMENT

Shareholders should preferably be given sufficient time to familiarise themselves with the proposals of the Committee and other candidates for the Board so they can make an assessment thereof and respond appropriately. Accordingly, the Nomination Committee's recommendations should generally be presented before the expiry of the nomination period for board elections. A candidate who was not nominated by the Committee may request that the Committee include information about his or her candidacy in its report.

- 1.5.13** At the Company's AGM, or Shareholders' Meeting in which elections of the Board take place, the Committee should inform the meeting of the manner in which it has arranged its work and explain its proposals. The Committee's reasoning should also be available on the Company's website.

2

The Board

2.1 Main role and duties of the Board

The Board of Directors holds supreme authority between Shareholders' Meetings. It ensures that the Company's organisation and operations are in a good state, promotes the development and long-term performance of the Company and supervises its day-to-day operations.

2.1.1 The main roles of the Board are as follows:

- To hold supreme authority between Shareholders' Meetings, promote the development of the Company and supervise its day-to-day operations.
- To regularly assess the performance of the Company's Day-to-day Management and how the Company's strategy is implemented.
- To take the initiative, together with the CEO, in formulating strategies and risk parameters for the Company, both in the short and long term.
- To establish an active system of internal controls. This means, among other things, that the arrangement of the internal controls system should be formalised, documented and its functionality verified regularly.
- To safeguard the interests of all shareholders at all times, to treat all shareholders in the same share class equally and to maintain equality among them.
- To ensure that the Company's operations are in conformity with existing laws and regulations.
- To administer the recruitment and dismissal of the Company's CEO.

2.2 Size and composition of the Board

The Board should be of a size and composition that enables it to execute its duties efficiently and with integrity.

- 2.2.1** The composition of the Board should be aligned with the Company's operations and strategy, its stage of development and other relevant factors in its operations and environment. The Board should reflect diversity and breadth in qualifications, experience and knowledge and gender ratios should be as equal as possible.

COMMENT

Company boards are meant to challenge and encourage Day-to-day Management, to ensure that the organisation and operations of the Company are in a good state. It is important for the Board to consist of individuals with the necessary knowledge and experience to execute their duties diligently. It is just as important to make efforts to achieve reasonable breadth of education, professional background, age, gender, knowledge and experience and ensure that important components are not lacking.

An important role fulfilled by Boards of Directors is to ask critical questions and speculate on different views for the purpose of raising the quality of decision-making. A suitable breadth provides the option of increasing the depth of discussions, and this, in turn, will ensure the greatest possible benefit of a multi-member board. The Board should preferably assess, on a yearly basis, what competencies Board members should have to address the Company's affairs, as well as the composition of the Board as a whole.

- 2.2.2** No more than one⁶ Board member should be a part of the Day-to-day Management of the Company, or its subsidiaries'.

COMMENT

The Act on Public Limited Companies allows for company's Day-to-Day management to serve on the Board as long as they do not constitute a majority of the Board. The Guidelines therefore recommend stricter limits on the number of Day-to-day Management on the Board than the relevant legislation does. This is because one of the most important duties of the Board is to monitor the operations

6. Based on a board consisting of five members.

of the Company and the Company's Day-to-day Management. If Day-to-day Management makes up 40% of the Board, e.g. if two out of five Board members are part of the Day-to-day Management of the Company, this reduces its capacity to carry out its supervisory duties. In larger Boards, a deviation from this standard may be justified, provided that Day-to-day Management does not comprise more than one fifth of the Directors and the Board's supervisory role is safeguarded. Any such deviation should be disclosed in the Corporate Governance Statement.

2.3 Directors independent of the Company

To help the Board work in the interests of the Company and all of its shareholders, Directors should be independent from Day-to-day Management. The independence of the majority of the Board of Directors with respect to the Company is important in order to be able to conduct an independent and objective assessment of the work of Day-to-day Management.

2.3.1 The majority of Directors should be independent of the Company and its Day-to-day Management.

COMMENT

One of the most important duties of the Board is to monitor those who are responsible for the Company's day-to-day operations. If a Director is connected with the Company in any manner that may give cause to question whether their own interests could affect their decision-making towards the Company and its Day-to-day Management, this reduces their ability to carry out their supervisory role over Day-to-day Management.

2.3.2 A Director is not independent of the Company and its Day-to-day Management:

1. if he/she is or has been an employee of the Company, or a company closely related to the Company in the three years prior to the commencement of Board membership;
2. if he/she receives or has received significant payments from the Company, a company closely related to the Company or its Day-to-day Management, apart from a Director's fee, e.g. as a consultant or contractor, in the three years prior to commencement of Board membership.
3. if he/she is in, or has in the past year been in, significant business with the Company or closely related companies, e.g. as a customer, supplier or

partner, or if he/she has other significant business interests in the Company, whether personally or through another company;

4. if he/she is part of the Day-to-day Management of another company, one of whose board members is a member of the Company's Day-to-day Management;
5. if he/she is or has been, in the past three years prior to taking a seat on the Board, a partner of the external auditor of the Company or a closely related company or an employee who has taken part in the external audit of the Company;
6. if he/she has close family ties with any of the Company's Day-to-day Management or any other persons mentioned above, and that person is in direct or indirect business with the Company to such an extent that the Director could not be considered independent.

COMMENT

The ways described above in which a Director may be considered not independent are not exhaustive. It remains up to the Board to assess other factors where the interests of specific Directors and the Company itself might collide, whether in fact actually or in appearance. The above-mentioned criteria for independence should not be interpreted in such a manner as to hinder necessary diversity and breadth amongst Board members. If a particular Director does not meet the listed conditions, the reason for the lack of independence shall be stated in the Company's corporate governance statement as well as how the Board intends to minimise the risk of conflicts of interest that may arise in his work as a Board member and prevent them from affecting decision-making. It should be noted that Board members who cannot be regarded as independent of the Company may well be competent to be Board members; the main issue is that Board members that are dependent on the Company should not have a majority on the Board and that circumstances are clearly stated in the Corporate Governance Statement.

2.4 Directors independent of Major Shareholders

To help the Board work in the interests of the Company and all of its shareholders, Directors should be independent from Major Shareholders. The independence of the Board in relation to Major Shareholders supports the principles of active ownership and the protection of minority shareholder interests.

- 2.4.1** At least two⁷ of the Directors that are independent of the Company and its Day-to-day Management should also be independent of the Company's Major Shareholders.

COMMENT

The recommendation that that two Board members should be independent from Major Shareholders aims to support the Board in operating for the benefit of the Company and all of its shareholders. The recommendation is not intended to preclude the majority of the Board members from having ties to Major Shareholders in one way or another. The recommendation therefore simultaneously supports active ownership and the protection of minority shareholders.

- 2.4.2** When determining whether a Director is independent of the Company's Major Shareholders, a general assessment should be made of all direct and indirect ties to the relevant shareholder. A Director is not independent of the Company's Major Shareholders in the following circumstances:

- 1.** If he/she has direct or indirect control of the Company or is a board member of a company that has control of the Company.
- 2.** If he/she owns a major share in the Company or is a board member or an employee of a company that owns a major share in the Company.
- 3.** If any of the provisions of Item 2.3.2 apply to the ties between a Board member and a Major Shareholder (in such cases where the shareholder is a company).

COMMENT

As for independence towards the Company, these recommendations on independence towards Major Shareholders are not meant to prevent the best possible composition of the Board in respect of the operations of the Company. If there are instances where a certain Director does not fulfil the aforementioned requirements but is perceived as very competent for the job based on their experience, education or other factors, the Company's corporate governance statement should indicate how the Board intends to minimise the risk of conflicts of interests that may arise in their work as Director and prevent them from affecting decision-making.

7. Based on a board consisting of five members.

2.5 Assessment of the independence of Board members

2.5.1 The Board evaluates whether its members are at any given time independent of the Company and its Major Shareholders. If a Nomination Committee has not been appointed, the Board should also evaluate the independence of Board candidates before the Company's AGM or Shareholders' Meeting in which Board members are elected, and its conclusions should be made available to shareholders.

2.5.2 Directors of the Board should provide all relevant information to facilitate the assessment of their independence and give notification of any changes to their circumstances which might affect whether they could be considered independent. Board candidates should provide the Nomination Committee with the same information. They should provide at least the following information:

- Age, education, chief occupation and professional experience.
- Date of first election to the Board.
- Other commissions of trust, e.g. membership on boards of other companies.
- Shares in the Company, whether direct ownership or through associated parties.
- Information on work carried out for the Company.
- Connections with the Company's main clients and competitors and Major Shareholders in the Company.
- Other connections with the Company as described above, if applicable, as well as the evaluations of the Board and the Nomination Committee on whether the Director is considered independent.

2.6 Cooperation, communications and setting goals

The Board should seek to engage in regular discussions on how it intends to operate, the areas on which it will focus, what communication and rules of procedure will be upheld and what the main goals of the Board are.

2.6.1 The Board should annually define its significant assignments, goals and strategic direction of the Company and make a plan for the execution of its duties.

- 2.6.2** The Board's work should in general take place at Board meetings. In the event of communication between Board members and/or between Board members and the Company's Day-to-day Management regarding decisions taken by the Board or the grounds for board decision making, this should be disclosed at the beginning of the next Board meeting.

COMMENT

It is important for Board members to all possess the same information so that a critical discussion can take place in Board meetings. This is especially important when a new board is assembled or when a new Board member takes a seat on the Board.

- 2.6.3** All information necessary for Board members to form an informed opinion on matters should be delivered to them in a timely manner before Board meetings.
- 2.6.4** The Board should convene regularly enough for it to be able to discharge its duties in an efficient manner.

COMMENT

The Directors should preferably agree on the number of meetings estimated for the year. This improves organisation of the Board's work and implies that Directors also agree that they are able to execute their duties satisfactorily during that time.

2.7 The Board's Rules of Procedure

The Board's rules of procedure deal with the allocation of tasks among Directors and the interaction between the Board, the Chairman of the Board and the CEO. The rules make it easier for shareholders to assess the working practices of the Board.

- 2.7.1** The Board should establish its own written rules of procedure further addressing the role and execution of the work of the Board.
- 2.7.2** The Board should review and revise its rules of procedure annually.

2.7.3 The Board's rules of procedure should at least cover the following:

- Allocation of tasks among Directors.
- Job description of the Board and the Chairman of the Board.
- The division of responsibilities between the Board and the CEO, e.g. delegation of power to the CEO, i.e. what decisions should be considered to be unusual or major of significance and therefore under the sole authority of the Board.
- The convening of Board meetings, their frequency, participants and the arrangement of meetings.
- Communications between Directors, between Directors and Day-to-day Management outside Board meetings, between the Board and shareholders and between the Board and the Company's auditors.
- Decision-making powers and voting among Directors.
- Documents for Board meetings, Directors' access to documents before and after Board meetings and handling of meeting documents.
- Minutes of Board meetings.
- Board Sub-committees, their duties and decision-making powers.
- Procedures for accepting new Board members, concerning information and guidance in the workings of the Board and the Company.
- Procedures for annual performance assessments.
- Gathering and disclosing information from the CEO, the Sub-committees and independent experts.
- Professional secrecy and confidentiality.
- Disqualification due to conflicts of interest
- Links to other rules within the Company, such as guidelines on good corporate governance and other rules as applicable, e.g. from the Central Bank and Nasdaq Iceland.

2.8 Performance assessment

It is important that the Board regularly evaluates the performance of the Company. For that purpose, the Board shall evaluate its own work and the work of the CEO and the Company's operations.

- 2.8.1** The Board should annually review and evaluate the development of the Company and whether this is consistent with its goals.
- 2.8.2** The Board should, under pre-determined arrangements, conduct an annual assessment of its work, size, composition and procedures. The Board should seek ways to improve its workings in accordance with the findings of these assessments. The results of the assessment are to be available to the Company's Nomination Committee, if one has been appointed. The assessment should also include an evaluation of the work of the Board's Sub-committees and of the Chief Executive Officer's contribution to the work of the Board.

COMMENT

The assessment should include whether or not the Board has operated in accordance with its own rules of procedure. It should be taken into account whether or not important company matters are adequately prepared and if sufficient time is provided for discussion. Additionally, the contribution of individual Board members should be considered, as regards attending and participating in meetings. Evaluations of individual Board members should preferably be carried out in an anonymous manner. Such assessments could, for instance, be carried out by means of anonymous electronic survey administered by a third party. Open discussions within the Board on the manner in which to work on continuous improvements is, moreover, an important part of the self-assessment of the Board.

- 2.8.3** The Board evaluates the work of the Company's CEO and the Company's operations in general on an annual basis. Any Board member who is also part of the Company's Day-to-day Management should not be present for the evaluation of the performance of the CEO. The Chairman of the Board presents the results of the assessment to the CEO and discusses with the CEO how to address weaknesses and/or further improve strengths.

2.9 Remuneration policy

The Company's remuneration policy should state the fundamental basis for the remuneration of the Company's Directors and its Day-to-day Management and the Company's policy regarding contracts with Day-to-day Management and Directors. The policy should also state if and under what circumstances and to what extent it is permitted to remunerate Day-to-Day Management and Directors in addition to their fixed salaries.

- 2.9.1** If the Company has appointed a Remuneration Committee, the Committee should submit a remuneration policy proposal for the Company in accordance with Section 5.4. Otherwise it is the responsibility of the Board.
- 2.9.2** The Board should publish the Company's remuneration policy proposal in connection with its AGM on its website, and the remuneration policy should be presented for approval at the AGM, with or without amendments. At the AGM, the terms pertaining to individual members of Day-to-day Management and Directors of the Company should be made known, including wages, earned pension payments, other payments and benefits, as well as any changes to terms between years.
- 2.9.3** All documents forming the basis for the remuneration policy should be made accessible to shareholders no later than two weeks before the AGM. The documents should be prepared in such a way that shareholders find it easy to form an opinion on the remuneration policy and its effects.
- 2.9.4** At the AGM, special focus should be placed on the total expenditure of the Company in respect of its remuneration policy and the meeting should be informed about any authorisation to issue stock options that may dilute shareholders' holdings. The AGM should be informed of the estimated cost of option plans and of the execution of the previously approved remuneration policy. This should be done to enable shareholders to fully understand the structure of the employment terms of Board Directors, the CEO and other members of Day-to-day Management.
- 2.9.5** If the Company's Board of Directors deviates from the remuneration policy, such deviation should be substantiated in each individual instance in the minutes of the meetings of the Board of Directors.
- 2.9.6** If it is planned to give Day-to-day Management and other employees stock option rights, or any other form of remuneration based on stock price development, the main provisions of such contracts and/or plans should be submitted to a Shareholders' Meeting for approval. Such main provisions include: the total number of shares in the plan, the maximum length of option agreements, the period in which employees can exercise such rights, criteria for the determining the purchase price and terms, in the event of a loan.

- 2.9.7** The Company's remuneration policy should contribute to the interests of the Directors and Day-to-day Management being genuinely aligned with the long-term results of the Company. It should also prevent the remuneration terms for Day-to-day Management from being such as to encourage excessive risk-taking.

COMMENT

That may include the following:⁸

- Variable wages should be a reasonable proportion of overall wages. The remuneration policy should provide for maximum variable wages.
- Variable wages should be linked to pre-determined and properly defined goals that reflect the Company's actual growth and actual financial benefits in the long term for the Company and its shareholders.
- Directors' remuneration, including remuneration for service on Sub-committees, should reflect their responsibilities, expertise, experience and the time required to perform their duties.
- Directors should not receive shares, call or put options, priority-buy options or any other type of remuneration linked to shares in the Company or the development of share prices.

2.10 Risk management and internal controls

Satisfactory risk management and internal controls are essential for the Board to execute its statutory duties. Satisfactory risk management and internal controls increase the likelihood that a company's activities and operations are in an acceptable state, that legislation and regulations are being followed, that the annual accounts and decisions of the Board are based on correct and sufficient data.

- 2.10.1** The Board should define, at least once a year, the risk factors that the Company has to address, including their nature and extent. It should also define responses to the risks in question.

COMMENT

Risk management is a process of analysing and measuring the risk factors which could prevent the Company from achieving set goals. It also includes remedial ac-

tion is taken to minimise the anticipated effects of such risk factors. To this end, the Board should assess on an annual basis aspects such as the Company's finance, liquidity and equity and perform stress tests if appropriate.

2.10.2 The Board should ensure the existence of a satisfactory system of internal controls that is formal and documented. Internal controls should provide reasonable certainty that the Company can attain its goals as regards:

- success and efficiency in operations;
- providing dependable and proper financial information to external parties;
- complying with laws and regulations that apply to the business.

COMMENT

Active internal control is a process made by the Board and Day-to-day Management. Internal control is inter-linked with the Company's operations and intended to facilitate the Board's and day-to-day manager's task of supervising its operations. The internal control system also formalises the manner in which the Company works towards its goals, distributes responsibility in its internal activities and explains the responsibility of the Board in such work. Internal controls and risk management should also support the reliability of the information on which the Board bases its decisions and which it confirms in the Company's disclosures.

2.10.3 The Board should regularly verify the effectiveness of internal controls and risk management. The Board may delegate the implementation of certain aspects of internal controls to parties within the Company. However, it should be done in such a manner that the Board is always informed of its progress. When responsibility for the implementation of control activities is delegated to particular sub-units or Day-to-day Management within the Company, this should be done formally so that there is no uncertainty as to where responsibility lies and how to respond to deviations.

2.11 Sustainability, diversity and ethics

By setting a policy of sustainability, the Company contributes to a healthier business environment and improved relations with stakeholders. In this way, it also reinforces its operating basis with an increased risk awareness, reduced

8. It should be noted that different legal requirements apply to remuneration policies depending on the type of company concerned.

waste, higher employee satisfaction and improved competitiveness. By establishing a policy of diversity, the Company increases the likelihood of gaining a wide range of knowledge, experience and insight which is essential for the successful future development of the Company. Clear ethical standards can also strengthen the company's culture, mitigate the risk of reputational damage, and promote sound business practices.

2.11.1 The Board should establish a sustainability policy for the Company.

COMMENT

A focus on sustainability addresses the Company's responsibility for the effects of its operations on people, society and the environment. The Company should establish a sustainability policy and a policy for stakeholder engagement, together with procedures to ensure follow-up. Such a policy should address issues such as employee rights, human rights, regulatory compliance, environmental and climate issues, health and safety, social involvement and anti-corruption measures.

The Board should ensure that sustainability matters considered material to the Company's activities are taken into account in its strategy, risk management, internal controls and the Company's disclosures.

2.11.2 The Board should establish the Company's policy on diversity in connection with the Board and Day-to-day Management.

COMMENT

The policy on diversity should take account of issues that strengthen the abilities necessary for management within the Company and which support its future development. Attention should be paid to the composition of the Board and Day-to-day Management as regards education and professional background, gender, knowledge, experience and capability.

2.11.3 The Board should establish written ethical standards for the Board, Day-to-day Management and employees.

COMMENT

The Board determines, in consultation with employees and, where appropriate, other stakeholders, the ethical standards on which the company's operations are based.

- 2.11.4** The Board should ensure that the policies and standards under this section are implemented in the Company's activities, followed up formally and reviewed periodically to ensure that they remain appropriate. Policies and standards may be separate documents or form part of other comprehensive Company policies or rules.

2.12 Shareholder relations

The Board's relations with shareholders should be based on honesty and be unambiguous and coordinated.

- 2.12.1** All shareholders should have the same access to information on the Company's affairs. Dissemination of information to shareholders should therefore be limited to Shareholders' Meetings or the dissemination of uniform information to all shareholders simultaneously.
- 2.12.2** The Board should establish an effective and accessible arrangement for communications between shareholders and the Board so that shareholders have an equal opportunity to express their opinions to the Board. Shareholders should thereby have the opportunity to explain their views on the Company's operations to the Board and to ask the Board questions.
- 2.12.3** The Board should be notified of all proposals or questions from shareholders and it should supervise the Company's response.

2.13 Minutes of Board meetings

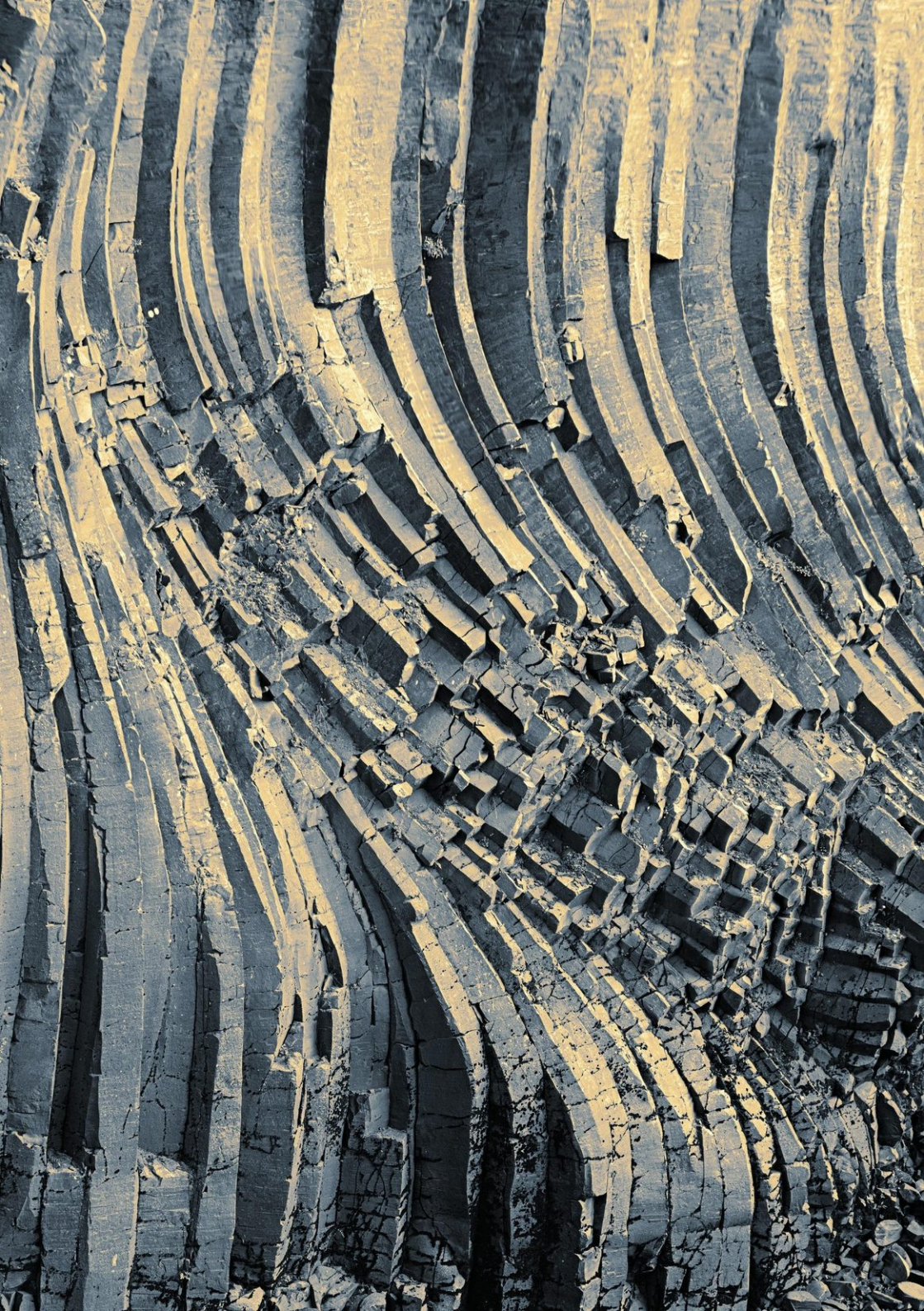
Board meeting minutes should give a comprehensive overview of meeting discussions, the documents presented for each agenda item and the substance of decisions made by the Board.

- 2.13.1** Directors should confirm the minutes with their signature.

2.13.2 The following information should be present in the minutes of the Board:

- Name and national identification number of the Company.
- Meeting place, date and time.
- Number of the board meeting.
- Attendance at the meeting.
- If and when third parties attend, e.g. the Company's auditor, and when they exit the meeting.
- Name of the Chair and Secretary of the meeting.
- Agenda of the meeting, including whether individual items were designated for information or decision.
- Documents made available to Board members before the meeting or handed out or presented at the meeting. A copy should be kept with the minutes.
- Conclusion of each agenda item of the meeting, e.g. decisions made, items postponed, inquiries made during the meeting.
- Whether and why a board member, the CEO or another person left the meeting during a discussion or decision-making of an agenda item and whether the relevant party had access to documentation related to the discussion or decision-making.

2.13.3 Minutes of Board meetings should be made accessible to all Board members as soon as possible.



3

Directors of the Board

3.1 Chairman of the Board

The Chairman of the Board is responsible for the Board fulfilling its role in an effective and organised manner.

3.1.1 The Board's rules of procedure should contain provisions describing the duties and responsibilities of the Chairman of the Board. This job description should contain provisions stipulating that the Chairman of the Board should:

- help ensure that the procedures of the Board are in conformity with legislation, regulations and good corporate governance and that the Board is provided with the best possible working conditions;
- keep all Directors informed of issues concerning the Company and encourage the activity of the Board in all discussions and decision-making;
- ensure that new Directors receive necessary information and guidance in the procedures of the Board and the Company's affairs, including the Company's policies, its objectives, risk parameters and operations;
- ensure that the Board regularly updates its knowledge of the Company and its operations, in addition to ensuring that the Board generally receives, in the course of its work, detailed and explicit information and data in order to be able to perform its work;
- ensure that Directors get proper guidance regarding the main issues involving corporate governance, e.g. regarding their statutory duties and responsibilities, or ensure that Directors attend courses of that type;
- take responsibility for relations between the Board and shareholders;

- take the initiative in the preparation and revision of the Board's rules of procedure;
- organise the agenda for the meetings of the Board, together with the Company's CEO, and is responsible for their convening and chairing. The Chairman of the Board should ensure that Board meetings allow ample time for discussions and decision-making, in particular for larger and more complicated issues;
- follow progress in the execution of Board decisions within the Company and confirm their implementation to the Board;
- ensure that the Board makes an annual assessment of their work and that of the Sub-committees.

COMMENT

Irrespective of these main responsibilities, it should be borne in mind that the position of Chairman of the Board does not, by law, come with any special rights or decision-making or implementation powers other than those of the Board as a whole. The Board may, however, mandate the Chairman to work on specific tasks on its behalf.

3.1.2 The Chairman of the Board should not take on any work or tasks for the Company other than those considered a normal part of his/her duties as Chairman of the Board, with the exception of specific tasks that the Board has entrusted to them.

3.2 Directors

Anybody elected as Director should perform his/her duties with integrity and be able to devote the time required by such duties.

3.2.1 Directors should:

- make independent decisions in each specific instance and not favour the interests of the parties who supported them to the Board;
- understand the role of the Board, their own role and responsibilities, as well as have knowledge of the laws and regulations that apply to the running of a business and the activities of the Company;

- understand the objectives and activities of the Company and have an understanding of how they should organise their Board-membership responsibilities in order to contribute to the achievement of these objectives;
- call for and study all documents and data that they deem necessary in order to have a full understanding of the operations of the Company and to be able to make informed decisions;
- ensure that internal controls are in place and that the decisions of the Board are complied with;
- verify that laws, rules and regulations are adhered to at all times in the Company's operations;
- foster a good atmosphere within the Board;
- prevent their affairs, whether personal or business-related, from leading to a direct or indirect conflict of interests between themselves and the Company;
- have sufficient time to execute their duties with integrity.

COMMENT

If a Director serves on multiple boards at the same time, it is possible that the individual in question is unable to effectively fulfil his/her duties. The extent of a Director's duties varies between different boards and therefore it is not considered necessary to limit the number of boards that an individual can serve on. The risk of serving on multiple Boards simultaneously should however be borne in mind, especially as regards the possibility of conflicts of interests between companies. It should also be noted that legislation may provide for a limit to the number of boards an individual can serve on, for example in the case of Board members of regulated entities.

- 3.2.2** Directors should ensure that their views in connection with individual issues are entered in the minutes if they are not content with the decision-making of the majority of the Board.
- 3.2.3** If a dispute causes a Director to resign, the Director in question should indicate this in a written statement to the Board.
- 3.2.4** Board members should have access to independent expert consultants at the expense of the Company, if they consider it necessary to make independent and informed decisions.

- 3.2.5** If the decisions of the Board pertain to the affairs of an individual Director, e.g. negotiations between the Company and the Director in question, such decisions should be taken by independent Directors of the Company. In addition, the Director in question should leave the meeting while the Board addresses such issues. A Director should disclose issues of this type as soon as they arise, as well as if he/she becomes aware that he/she cannot be considered independent.



4

Chief Executive Officer

The CEO should carry out the day-to-day operations of the Company and shall, in this respect, follow the policies and instructions established by the Board. The CEO must at all times conduct his work with integrity and take account of the Company's interests.

4.1 Information on the CEO

4.1.1 The CEO should provide personal information to ensure that shareholders are informed of main points relating to them. The following information on the CEO should be published in the Company's corporate governance statement:

- Age, education, chief occupation and professional experience.
- Date of appointment.
- Other commissions of trust, e.g. membership on boards of other companies.
- Shares in the Company, whether direct ownership or through associated parties.
- Share-option agreements with the Company.
- Connections with principal clients and competitors of the Company and Major Shareholders in the Company.

4.2 The role of the CEO

4.2.1 The CEO should carry out the day-to-day operations of the Company in accordance with the policies and instructions laid down by the Board.

- 4.2.2** The CEO should ensure that Directors of the Board are regularly provided with accurate information on the Company's finances, development and operations to enable them to perform their duties. The information should be in the form and of the quality determined by the Board. Information and data should be available to Directors in good time for Board meetings, and between such meetings. All Directors should receive the same information. Moreover, the information should be available when needed and as up-to-date and accurate as possible.
- 4.2.3** The CEO should submit any other activities undertaken by him/her, which are unrelated to the Company, to the Board for discussion.

5

Sub-committees of the Board

Sub-committees are appointed to address, in greater detail, specific matters falling within the Board's role and responsibilities. They prepare matters for the Board, serve in an advisory capacity and support the Board in its oversight of the Company's operations. The appointment of Sub-committees may also contribute to more focused and effective Board work.

COMMENT

The establishment of Sub-committees can increase efficiency and improve procedure of Boards, especially in larger companies where the purview of the Board is extensive. Such arrangements make it possible to devote more time and dig deeper into issues concerning financial supervision, risk factors and remuneration. When one or more Board members are not independent of the Company or if employees of the Company serve on the Board, they are less suitable to address matters of financial supervision, risk assessment and (own) remuneration, in which case the appointment of an Audit Committee or Remuneration Committee may be appropriate.

As with other provisions of these Guidelines, the Company's Board may reach the conclusion that the appointment of Sub-committees may not necessarily be of such as nature as to increase the quality of the Board's work and explain such conclusion in the Corporate Governance Statement (cf. the "comply or explain" principle).

5.1 Establishment and operations of Sub-committees

- 5.1.1** The Board is responsible for the appointment and activities of Sub-committees and they operate under its authority. The establishment of a Sub-committee does not reduce the responsibilities of the Board or relieve it of any liability. All Board members should have an overview of the matters delegated to Sub-committees and be aware of the fact that decision-making powers remain with the entire Board.
- 5.1.2** The role and main tasks of Sub-committees should be stipulated in their rules of procedure, which should be posted to the Company's website. The rules of procedure should state that new committee members should receive instruction and information on the work and procedures of the committee.
- 5.1.3** Sub-committees should annually evaluate their own work and that of individual committee members under a pre-determined arrangement.

5.2 Information obligation of Sub-committees

- 5.2.1** Sub-committees should ensure that Directors regularly receive accurate information on the main activities of the committee.
- 5.2.2** Sub-committees should at least annually submit to the Board a report on their activities.
- 5.2.3** Information and documents from the Sub-committees should be available to Board members well in advance to Board meetings, as well as between meetings, and all Board members should receive the same information. Moreover, information should be available when needed and as accurate as possible.
- 5.2.4** The Board should decide upon a procedure for information provision from the Sub-committees in its rules of procedure, e.g. whether the Board should have access to the minutes of Sub-committees' meetings.

5.3 Audit Committee

- 5.3.1** Public-interest entities must, according to law, operate an Audit Committee. For other companies, the appointment of an Audit Committee is recommended if the scope of the company is such that it is considered important for oversight and financial reporting to receive further discussion and analysis in smaller groups than the entire Board. In addition, there may be a greater need for the appointment of an Audit Committee if one or more Board members cannot be regarded as independent of the Company.
- 5.3.2** For the execution of its work, the Audit Committee should have extensive access to data from Day-to-day Management and internal and external auditors. The Committee may request reports and commentaries from such parties as relate to the Committee's work.

Appointment of Committee Members

- 5.3.3** The Audit Committee should be established no later than one month after the AGM and should consist of at least three members. In companies other than public-interest entities, the committee may be composed of two members, but in that case both of them need to be independent of the Company.
- 5.3.4** Committee members should be independent from the auditor(s) of the Company. A majority of members should be independent of the Company and its Day-to-day Management. Furthermore, one member, who is independent of the Day-to-day Management and the Company, should also be independent of Major Shareholders. The CEO and other Day-to-day Management should not be members of the Committee.

COMMENT

It is not necessary to appoint members from outside the Board to the Audit Committee, unless it is lacking sufficient expertise.

- 5.3.5** Committee members should have qualifications and experience in accordance with the activities of the Committee, and at least one member should have strong knowledge and experience in the field of financial reporting and auditing.

COMMENT

When assessing whether or not a Committee member has such knowledge, the following criteria may be used:

- Knowledge of generally accepted accounting principles.
- Experience in the preparation and analysis of financial statements and auditing
- Knowledge of internal controls over financial reporting.

Role of the Audit Committee

- 5.3.6** The Audit Committee reviews financial information and the arrangements for disclosure by Day-to-day Management, internal audit and external auditors. The Committee should also assess whether disclosure to the Board and stakeholders is reliable and appropriate and gives the clearest possible view of the Company's operations, financial position and prospects.
- 5.3.7** The Audit Committee should annually take the initiative in convening a joint meeting of the Board, the Committee and the external auditors, where the Day-to-day Management of the Company is not present.
- 5.3.8** The role and main tasks of the Committee should be set out in its rules of procedure. The Audit Committee should, among other things, have the following roles irrespective of the responsibility of the Board, Day-to-day Management or others in this field:
- Monitoring working processes in the preparation of financial statements.
 - Monitoring the organisation and effectiveness of the Company's internal controls, internal auditing, if applicable, and risk management.
 - Monitoring and checking the auditing of the Company's annual accounts and consolidated accounts.
 - Assessing the independence of external auditors or auditing firm and monitoring any other work performed by the external auditors or auditing firm. The Committee should in its assessment take into consideration the items specified in Sections 2.3 and 2.4.
 - Presenting proposals to the Board regarding the selection of external auditors or auditing firm.

COMMENT

Other tasks undertaken by the Committee may be as follows, if appropriate:

- Assessing financial statements and management reports on the Company's finances.
- Monitoring risk management and responses to risks.
- Following up on remedies to shortcomings identified in internal controls.
- Assessing the need for and handling the recruitment of an internal auditor.
- Handling communication and monitoring in respect of internal auditing and external auditors.
- Assessing the work of both internal and external auditors of the Company.

- 5.3.9** Detailed provisions on the execution of the roles of the Audit Committee should be included in its rules of procedure.

5.4 Remuneration Committee

- 5.4.1** The Board should appoint a Remuneration Committee to prepare a draft remuneration policy for the Company, in accordance with that set out in Section 2.9, and to negotiate with the CEO and other employees, if they are Board members, on wages and other employment terms.

COMMENT

The establishment of a Remuneration Committee is particularly recommended if the CEO is also a Director, other Directors are also employees of the Company, one or more Board members cannot be said to be independent or if the CEO is not independent of Major Shareholders in the Company.

Appointment of Committee Members

- 5.4.2** The Remuneration Committee should consist of at least three members, the majority of whom should be independent of the Company and its Day-to-day Management. However, the Committee may consist of two members, in which case both members should be independent of the Company.⁹

9. See Section 2.3 on directors independent of the Company.

- 5.4.3** Owing to the nature of the activities of the Remuneration Committee, neither the CEO nor other employees should be members of the Committee. If the Board finds it more suitable to undertake the role of the Remuneration Committee itself, the Directors of the Board who are also employees of the Company should not be involved in such work.

Role of the Remuneration Committee

- 5.4.4** The role and main tasks of the Remuneration Committee should be stated in its rules of procedure and should take account of the needs of the Company.
- 5.4.5** The role of the Committee should include:
- preparing the Company's remuneration policy and monitoring compliance with it;
 - ensuring that wages and other employment terms are in accordance with laws, regulations and best practices as current at any given time;
 - preparing the decisions of the Board concerning the wages and other employment terms of Day-to-day Management and employees who also are Board members;
 - taking an independent stance on the effect of wages on the Company's risk-taking and risk management, in cooperation with the Company's Audit Committee.
- 5.4.6** The Remuneration Committee may seek the involvement of expert consultants in the execution of its duties. Such consultants should be independent of the Company and its Day-to-day Management. The Committee is responsible for verifying that such consultants are independent.

6

Disclosure

Publishing information on corporate governance increases transparency of governance towards shareholders and other stakeholders. Publishing such information therefore strengthens market discipline and enhances corporate credibility. For the purpose of encouraging improvements and increasing transparency, it is exemplary to provide information on the effects of the Company on the community and environment. Certain companies are under obligation, by law, to publish non-financial information in their Annual Accounts.

6.1 Corporate governance statement

- 6.1.1** A statement on the Company's governance for the preceding year should be published annually in a separate chapter in its annual accounts or annual report. The corporate governance statement should be accessible on the Company's website.

6.1.2 The statement should contain the following items:

1. References to the rules on corporate governance that the Company follows, or is required by law to follow, and where such rules can be accessed by the public.
2. Whether the Company deviates from any part of these Guidelines and if so, which ones. The reasons for departure should be indicated and whether there is reason to take action to mitigate deviations. If the deviation is temporary, such temporary deviation should be mentioned specifically.¹⁰
3. References to any other rules or guidelines on corporate governance that have been followed and specifically apply to the type of business the Company is involved in.
4. A description of the main aspects of internal control and the Company's risk management.
5. Description of the composition and activities of the Board, management and Sub-committees of the Board.
6. Arrangements for the appointment of Nomination Committee members.
7. Arrangements for the appointment of Sub-committee members.
8. Information on the number of Board meetings and Sub-committee meetings.
9. Where written rules of procedure for the Board and its Sub-committees may be accessed.
10. Information on Directors of the Board (see Section 2.5.2).
11. Information on which Directors are independent of the company and Day-to Day management (see Section 2.3) and which Directors are independent of Major Shareholders (see Section 2.4).
12. Principal aspects of the Board's performance assessment.
13. Information on the Company's CEO (see Section 4.1.1) and a description of his/her main duties.
14. Information on infringements of laws and regulations that the appropriate supervisory or ruling body has determined during the preceding operating year.
15. Arrangements for communications between shareholders and the Board.

6.1.3 The above should apply equally to the consolidated financial statements.

10. See further on the "comply or explain" principle in the introduction.

- 6.1.4** The Board should review the Company’s corporate governance statement and the Company’s auditor should ensure that it is included in the annual accounts/annual report and that its description of the main features of internal controls and risk management is in accordance with the Company’s financial statements.

6.2 Non-financial disclosure

COMMENT

Information on the effects of companies on communities and the environment (also referred to as „non-financial information“) plays an ever more important role as regards credibility toward shareholders, customers, employees and other stakeholders. As a result, it sets a good example to examine and publish information on such aspects, and certain companies are under obligation to do so according to law.

- 6.2.1** Every year, companies should publish, in a statement accompanying the Board of Directors’ report and on their website, the non-financial information necessary to make an assessment on the development, scope, position and effect on the Company. The discussion should address the Company’s sustainability policy, cf. Section 2.11.1, and should at least cover the following matters:

- Environmental matters
- Social matters
- Employee matters
- Human rights matters
- Corruption and bribery matters

COMMENT

Where the Company publishes non-financial information in its annual report, sustainability report or other public documents, the statement accompanying the Board of Directors’ report may refer to that information, provided the presentation is clear and shareholders, investors and other stakeholders can readily identify where the relevant information is located. This applies only to the extent that laws or regulations do not require the information to be presented specifically in the Board of Directors’ report.

6.2.2 The discussion on the above-mentioned company policies should address:

- The main risk factors in the operation of the Company which are likely to have a detrimental impact and the manner in which the Company intends to address such risks.
- The goals of the Company as relates to these policies, the achievement of the Company in connection with such goals and the due diligence process in such achievement.

6.2.3 Companies should also publish, in the overview, information on non-financial criteria other than those relating to the above issues if such information is considered important based on the operation of the Company.

6.3 The Company's website

6.3.1 The Company should reserve a section of its website for good corporate governance and should publish its corporate governance statement there along with all the main information on the activities of the Company.

6.3.2 The Company's website should include the following information:

1. The Company's corporate governance statement.
2. Non-financial information.
3. The Company's remuneration policy.
4. Summarised information on the Company's Board of Directors, CEO, auditors and members of Sub-committees.
5. Information on the Company's Shareholders' Meetings, including time and location, information on candidates to the Board, and the agenda of the meeting, together with the date of issue of the annual accounts and interim financial statements.
6. Meeting notices, minutes of Shareholders' Meetings and documents presented at the meeting. It is not necessary to publish a list of the shareholders and proxies that have attended meetings.
7. Information on the arrangements for the appointment of the Nomination Committee, the rules of procedure of the Committee and information on the Committee members. Information on Committee members should be published at least six months before the Annual General Meeting.
8. The Nomination Committee's justification for its proposal of candidates.

- 9.** Information on how the Board candidate proposals will be submitted, and how shareholders may propose candidates to the Nomination Committee.
 - 10.** The Company's Articles of Association.
 - 11.** The Board's rules of procedure.
 - 12.** The Company's annual accounts and the report of the Board of Directors.
- 6.3.3** The above-mentioned information should be updated within seven days from the time that the Directors and/or the Day-to-day Management become aware that the information has changed.



