

Description Compliance Management System at the Ottobock Group

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Description of Ottobock's compliance management system:

The objectives of Ottobock's Compliance Management System [hereafter: CMS] are to achieve compliant behaviour through a systematic framework and to minimise compliance risks. The scope of the CMS comprises all measures that are relevant for compliance. Measures are derived on the basis of risk. They are based centrally in the Compliance department as well as locally in the various departments of Ottobock SE & Co. KGaA and its subsidiaries.

The CMS provides a uniform framework for organising procedures and structuring all compliance focus topics that harbour significant compliance risks (such as fraud and corruption prevention, competition and antitrust law).

The reporting office established at Ottobock is an essential element of Ottobock's compliance culture. It enables both employees and third parties (customers, business partners) to report (potential) violations of laws or our relevant internal regulations confidentially and anonymously, in particular with regard to fraud, corruption, theft, discrimination, sexual harassment, extortion, breaches of secrecy, export control, accounting irregularities, environmental protection, occupational health and safety as well as child and forced labour.

Elements of the compliance management system

The design of Ottobock's CMS is based on the CMS audit standard "IDW PS 980" published by the IDW (Institute of Public Auditors in Germany).

In line with this standard, Ottobock's CMS is broken down into seven elements. These elements form the foundation for the company-specific structure and implementation of the CMS:

- Compliance culture
- Compliance objectives
- Compliance organisational structure
- Compliance risks
- Compliance programme
- Compliance communication
- Compliance monitoring and improvement

Compliance objectives

The primary objectives of the CMS are:

- To establish structures which support compliant behaviour
- To promote and foster the compliance culture, and contribute to good corporate governance
- To actively and efficiently control compliance risks by establishing methodical approaches
- To design an organisational framework for compliance focus topics
- To contribute to the success of the company

The objectives of the CMS will be reviewed at regular intervals and adapted to the maturity of the CMS by Ottobock.

These objectives complement and promote Ottobock's business objectives.

Compliance organisational structure:

Overall responsibility for compliance rests with the respective Managing Directors of a legal entity in its entirety. Compliance is relevant for the company as a whole. Ottobock SE & Co. KGaA, as the parent company of the Ottobock Group, and (indirect) shareholder of the subsidiaries, lays down an organisational framework and standards that are implemented and monitored by the subsidiaries under their own responsibility.

An adequate governance structure in the company is an essential prerequisite for establishing and maintaining an effective compliance framework. In this respect, Ottobock bases its approach on the three lines (of defence) model. In this model, each of the organisational units is assigned to one of the three lines (of defence). Each line performs different tasks: The manager and the employees of each operational department are responsible for identifying the relevant compliance risks in their department and managing them in an adequate and effective manner (first line (of defence)). The Compliance department is the second line (of defence) and sets minimum standards for adequate and effective compliance risk management. It manages and monitors compliance risks. Furthermore, the Compliance department ensures that control structures are adequate and effective. The first and second lines (of defence) therefore form the internal control system (ICS). Internal Auditing forms the subsequent third line (of defence) as an independent auditing body. It reviews the overall structure of the ICS and therefore the first and second lines (of defence).

At Ottobock SE & Co. KGaA, the Compliance department is assigned to and reports directly to the CEO. The CEO and Compliance department are assisted by the Global Compliance Standard Setters from selected departments. Furthermore, a Compliance Committee has been set up that meets every two months (and on an ad hoc basis), in which the General Management present makes compliance-related decisions.

The Compliance department is part of Legal & Compliance at Ottobock SE & Co. KGaA. It consists of the Head of Compliance and the Compliance Officers. The Compliance department organises the compliance tasks for Ottobock SE & Co. KGaA. This also includes the coordination of global compliance activities. Subsidiaries with a special risk profile have set up their own compliance departments.

Compliance focus areas

These are topics that may be associated with significant compliance risks, so the adequate and effective management of compliance risks will play a very important role. The compliance focus areas are taken into account in the compliance programme and included in the compliance risk analysis. The CMS provides a methodological and organisational framework for these compliance focus areas, incorporating, for example, a central training plan that applies to each compliance focus area. This enables the company to exploit interfaces and increase synergies.

Compliance risks

Like every company, Ottobock is exposed to various compliance risks. Compliance risks are risks that may arise from violations of the legal provisions and requirements by which Ottobock is bound, or from violations of the specific internal Ottobock rules and policies which support these legal provisions. The first essential step towards minimising compliance risks is to identify and evaluate the relevant legal provisions and requirements. To this end, Ottobock carries out systematic legal monitoring on all compliance focus areas.

The basis for the derivation of the compliance activities is formed by the compliance risk analysis, which encompasses all compliance focus areas (such as fraud and corruption prevention, competition and antitrust law). It enables the compliance standard setters and the Compliance department to assess the risk situation in respect of Ottobock's individual compliance focus areas and the overall compliance risk situation, and to inform the General Management accordingly. The objective is to determine the specific compliance risk situation and derive and manage measures to minimise it accordingly. The risk analysis is carried out regularly. Additionally, it may be helpful or essential to repeat the analysis during the year in certain cases.

Consequence management

In consequence management, a fundamental distinction is drawn between dealing with unintentional misconduct and deliberate or intentional violations of the rules.

Learning from mistakes, and particularly from unintentional misconduct, is an indispensable ingredient for Ottobock's success. Hence the "error culture" is an integral element of the compliance culture. Otto Bock's principle applies for unintentional compliance violations:

“Encourage others to correct errors, be proactive and make decisions.”

[Otto Bock, 1944]

On the other hand, a zero-tolerance principle applies for intentional misconduct and deliberate compliance violations. Resolute action and sanctions are essential in these cases to reinforce and maintain our compliance culture at Ottobock.

Compliance monitoring and improvement

The Ottobock CMS is subject to ongoing development and optimisation so that we can continuously adapt to current circumstances (such as entering new markets) and learn from identified weaknesses to avoid them going forward. In order to identify potential weaknesses, the CMS is continuously monitored and reviewed (at least annually).

Based on the three-line model, compliance monitoring is an integral element of Ottobock's internal control system. The operational departments have implemented first line controls for compliance focus areas, such as approval processes for gifts and invitations to third parties and Ottobock employees (anti-corruption), the implemented principle of dual control (anti-fraud management) and the obligation to consult the Legal department for particularly sensitive cases, such as planned exclusivity agreements, and submit the result of the review to the signatory (competition and antitrust law).

The objective of compliance monitoring in the second line is to evaluate the adequacy and effectiveness of the CMS as a whole and in the compliance focus areas (such as fraud and corruption prevention, competition and antitrust law) for processes and controls. One goal is to determine whether the measures implemented are suitable for achieving the purpose, i.e. minimising compliance risks; another goal is to determine whether the measures are also effectively put into practice. Another aspect which needs to be monitored is whether the existing measures are sufficient, or whether specific risk-reduction measures are needed. In addition to identifying areas that require improvements in the course of compliance monitoring, any compliance violations that are noted also serve as grounds for reviewing the CMS. This can help, for example, to determine whether systematic mistakes can be counteracted through specific measures within the CMS. When a compliance

violation is uncovered, the Compliance department initiates a follow-up process. In this process, the affected departments analyse the causes of the violation, establish corrective actions and submit a report on implementation to the Compliance department.

Furthermore, an audit is carried out by a body that is independent of the process, such as the internal audit (3rd line) or external investigators.

The review is carried out at regular intervals. If the review indicates that the measures implemented within the scope of the CMS are not or are only partially adequate or effective, or that further measures are needed, it is necessary to formulate a corresponding course of corrective action; this must be implemented as part of a follow-up process.

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