

# Audit Committee Charter

Orphazyme A/S

# Audit Committee Charter

## **1 Establishment and purpose**

- 1.1 Pursuant to the Rules of Procedure of the Board of Directors of Orphazyme A/S, CVR no. 32 26 63 55 (the “Company” and together with the Company’s subsidiary undertakings the “Group”) and applicable laws and regulations, the Board of Directors has resolved to establish an audit committee (the “Audit Committee”).
- 1.2 The Audit Committee shall review accounting and audit matters that require, by decision of the Board of Directors or the Audit Committee, a more thorough evaluation, and shall assess the internal controls and risk management systems of the Company.

## **2 Members**

- 2.1 The Audit Committee shall consist of no less than three members. The members of the Audit Committee shall be appointed by and among the Board of Directors.
- 2.2 A member of the Audit Committee shall be designated by the Board of Directors as Chairman of the Audit Committee. The Chairman of the Board of Directors cannot be the Chairman of the Audit Committee.
- 2.3 All the members of the Audit Committee, including the Chairman, shall be independent under the rules of Nasdaq pertaining to audit committees, and at least one member shall meet the standards for financial expertise under the applicable rules of Nasdaq, cf. section 2.4 below. Each member of the Audit Committee shall be able to read and understand financial statements, including the Company’s balance sheet, income statement, and cash flow statement in satisfaction of the financial literacy requirements imposed by the U.S. Securities and Exchange Commission and Nasdaq. As a whole, the members shall have competences relevant to the sector in which the Company is operating. None of the members of the Audit Committee members shall have participated in the preparation of the financial statements of the Company at any time during the past three years.
- 2.4 A person meeting the standards for financial expertise under the applicable rules of Nasdaq, as referenced in section 2.3 above, is a person, as provided under Nasdaq Rule 5605(c)(2)(A), who has “past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities”. In addition, a director who qualifies as an audit committee financial expert under Item 407(d)(5)(ii) and (iii) of Regulation S-K is presumed to qualify as a financially sophisticated audit committee member under Rule 5605(c)(2)(A).
- 2.5 The members of the Audit Committee shall be appointed for a one-year term. The Board of Directors can at any time and without notice decide to change the composition of the Audit Committee.

## **3 Assignments**

- 3.1 Supervision of the Company’s financial reporting
- 3.1.1 The overall assignments of the Audit Committee in respect of the supervision of the Company’s financial reporting are to:
- a. Evaluate the information contained in the external financial reporting;
  - b. Review the annual and quarterly financial statements of the Company prior to publication and/or filing (or submission, as the case may be) with the SEC.

- c. Inform the Board of Directors of the result of the statutory audit, including the financial reporting process;
- d. Monitor the financial reporting process and submit recommendations or proposals to ensure its integrity;
- e. Evaluate the “going-concern” principle, including any special assumptions, qualifications and/or uncertainties related thereto;
- f. Evaluate the main accounting policies and principles applied including to make recommendations to the Board of Directors regarding whether these should be amended;
- g. Evaluate significant accounting estimates and judgments made and changes hereto;
- h. Review and evaluate transactions with related parties as well as material transactions with related parties that are entered into outside the ordinary course of business including, but not limited to, (i) transactions with a fair value of 10% or more of the total assets of the Group, (ii) transactions with a fair value of 25% or more of the Group’s operating profit as disclosed in the most recent annual report and (iii) several transactions within a financial year with the same related party that in total exceed the threshold in (i) or (ii) and make a recommendation to the Board of Directors regarding the approval and announcement of such transactions. “Related party” shall in a Danish context have the same meaning as the definition used in the International Accounting Standards 24 and for U.S. purposes be defined as set out below in section 3.1.1(h)(i). In addition, the Audit Committee shall observe the specific rules and regulations imposed by U.S. law on the Company for related party transactions as set out in the Company’s Related Party Transactions Policy;
- i. For U.S. purposes, “Related Party” shall be defined as (a) enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the company that gives them significant influence over the company, and close members of any such individual’s family; (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the company, including directors and senior management of companies and close members of such individuals’ families; and (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the company and enterprises that have a member of key management in common with the company. Close members of an individual’s family are those that may be expected to influence, or be influenced by, that person in their dealings with the company. An associate is an unconsolidated enterprise in which the company has a significant influence or which has significant influence over the company. Significant influence over an enterprise is the power to participate in the financial and operating policy decisions of the enterprise but is less than control over those policies. Shareholders beneficially owning a 10% interest in the voting power of the company are presumed to have a significant influence on the company.
- i. Establish internal procedures for the quarterly assessment of which transactions are deemed as transactions entered into in the ordinary course of business;
- j. Evaluate relevant risks and uncertainties for the relevant year, e.g. in relation to the outlook in the financial reporting;
- k. Evaluate the overall presentation of the financial reporting in order to ensure that it provides a true and fair view of the financial position as well as the development and performance of the Company; and

- I. Evaluate the Company's compliance with relevant audit and accounting related laws and regulations.

### 3.2 Supervision of the Company's external auditors

- 3.2.1 The overall assignments of the Audit Committee in respect of the supervision of the Company's external audit, taking the result of the last quality assurance of the external auditor into regard, are to:
  - a. Recommend to the Board of Directors the statutory external auditors to be proposed by the Board of Directors and elected by the annual general meeting, including, in case where an external audit engagement is not renewed, recommend at least two choices for the audit engagement and express a duly justified preference for one of them. The recommendation shall state, that the recommendation has not been influenced by third parties nor has it been subject to any contractual obligation restricting the general meeting's choice of the external auditor;
  - b. Oversee statutory external auditor rotation, including rotation period, transition period and tender process;
  - c. Establish appropriate policies to ensure compliance with applicable rotation requirements for audit firms and individual auditors;
  - d. Provide the Board of Directors with advice regarding the proposed external auditors from time to time as well as evaluate the quality of work being performed by the external auditors;
  - e. Review the strategy, plan, scope and approach of the external auditors' annual audit;
  - f. Review and make recommendations to the Board of Directors regarding (i) the terms of engagement and (ii) the fees of the external auditors;
  - g. Review the external auditors' reports to the Executive Management and the Board of Directors, including management letters and long-form reports and discuss any reports with the Executive Management and the external auditors;
  - h. Review and inform the Board of Directors about any material issues which the audit may give rise to including gathering answers/explanations to any significant uncorrected and/or corrected adjustments in the accounts;
  - i. Resolve any disagreement between the Executive Management and the external auditors regarding financial reporting, accounting policies and estimates;
  - j. Review the Executive Management's representation letters to the external auditors prior to the Executive Management's signing thereof;
  - k. Review the compensation of the external auditors and recommend such compensation to the Board of Directors for approval;
  - l. Evaluate the overall cooperation with the external auditors;
  - m. Ensure that appropriate policies with regard to hiring employees from the external auditors are in place;
  - n. Review and monitor the independence and quality work being performed by the external auditors, especially the appropriateness of the provision of non-audit services to the Company;

- o. Discuss any threats and applicable safeguards to the independence of the external auditor with the appointed external auditor;
- p. Ensure that appropriate procedures exist to ensure compliance of the external auditor's independence on an annual basis;
- q. Monitor cap on non-audit services as determined by the Board of Directors and any established guidelines for provision of non-audit services, including tax and valuation services<sup>1</sup>;
- r. Pre-approve all non-audit services to be provided by any external auditors exceeding a cap determined by the Board of Directors; and
- s. Establish appropriate policies to ensure compliance with applicable requirements for non-audit services.

### 3.3 Supervision of the Company's internal audit:

#### 3.3.1 The overall assignments of the Audit Committee in respect of the supervision of the Company's internal audit are to:

- a. At least once a year, consider whether there is a need for an internal audit function where no such function exists
- b. If a need exists, the committee shall: review the internal audit program and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company; ensure that the internal auditor has direct access to the Chairman of the Audit Committee; receive a report on the results of the internal auditors' work on a periodic basis; review and monitor management's responsiveness to the internal Auditors' findings and recommendations; monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system; and appoint or dismiss the head of internal audit.

### 3.4 Supervision of the Company's internal control and risk procedures:

#### 3.4.1 The overall assignments of the Audit Committee in respect of the supervision of the Company's internal control and risk procedures are to:

- c. At least once a year, discuss the internal control procedures with the external auditor as well as present the Board of Directors with potential areas of improvement;
- d. Ensure that internal control, internal audit and risk procedures are effective as regards to the financial reporting process of the Company;
- e. Oversee the Company's compliance with domestic and international anti-bribery laws, including the Foreign Corrupt Practices Act, anti-money laundering law and export and import controls, and shall have the authority to engage personnel and/or outside service providers to ensure the Company's compliance therewith;
- f. Assess and make recommendations to the Board of Directors regarding the Company's finance (including accounting, budgeting and risk functions) and IT organisation;

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<sup>1</sup> Please note that from the financial year 2020, the cap on the total fee for the external auditor's provision of non-audit services shall not exceed 70 % of the average of the fees paid by the Company in the last three consecutive financial years. As the rule is applicable from the financial year 2020, the first consecutive period will be the financial years 2017, 2018 and 2019.

- g. Review and recommend approval of risk reports, internal risk management plans and guidelines for internal and external risk reporting submitted to the Board of Directors;
- h. Review the procedures and guidelines for prevention and detection of fraud as well as evaluate the Executive Management possibilities of deviating from the internal control procedures and influencing the accounting;
- i. Evaluate the procedures for risk management including any violations hereof;
- j. Review and evaluate credit risk limits and recommend approval by the Board of Directors of credit risks above a certain pre-defined limit;
- k. Oversee that the Executive Management has identified and assessed all the significant risks that the organisation faces and has established a risk management infrastructure capable of addressing those risks and oversee, in conjunction with the full Board of Directors, risks, such as business, strategic, scientific, financial, operational and other risks;
- l. Account for the components in the remuneration policy for the Board of Directors according to section 4.1. and 4.2 of the Danish Recommendations on Corporate Governance issued by the committee on Corporate Governance (as amended from time to time);
- m. Establish a whistleblower scheme which will provide procedures for (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters, and review any complaints or concerns received pursuant to such procedures; and
- n. Review and discuss with management the Company's data privacy and security practices, and consider any recommendations for improvement of such practices.

3.5 In order to further specify the duties of the Audit Committee, an annual work schedule shall be prepared by the Chairman of the Audit Committee and approved by the Board of Directors.

#### **4 Meetings**

4.1 Meetings shall be held when deemed necessary by the Chairman of the Audit Committee, subject to a minimum of three meetings a year. Further, the Audit Committee shall meet upon request of a member of the Audit Committee, the CEO, the CFO, or an external auditor.

4.2 As a minimum the meetings shall be held prior to the publication of the Company's half-yearly interim report and annual report.

4.3 The Chairman of the Audit Committee shall convene the meetings with not less than eight calendar days' notice and determine the agenda which shall be sent to the members in advance of each meeting.

4.4 Minutes of the meetings of the Audit Committee shall be prepared for each meeting, and section 3.8 of the Rules of Procedure of the Board of Directors shall apply equally to such minutes. When the minutes have been approved, copies of the minutes shall be forwarded to the members of the Board of Directors for review at the following board meeting in the Company and to the Company's external auditors.

4.5 The work of the Audit Committee is subject to the same confidentiality as the work of the Board of Directors.

4.6 Members of the Board of Directors and the Executive Management, relevant employees and external parties (e.g. advisers) may participate in the meetings of the Audit Committee upon invitation.

4.7 The Executive Management and the Company's external auditors shall attend the meetings of the Audit Committee if requested.

4.8 The Company's external auditors shall attend at least one meeting of the Audit Committee per year at which meeting (or relevant part thereof) the Executive Management shall not be present.

## **5 Resolutions at the Audit Committee**

5.1 Resolutions are passed by simple majority. In the event of equal votes, the Chairman of the Audit Committee shall have a casting vote.

## **6 Funding**

6.1 The Audit Committee shall determine appropriate compensation for any registered public accounting firm engaged to prepare or issue an audit report or perform other related services as well as for any advisors it shall decide to employ. The Audit Committee shall also determine required funding in order to pay administrative expenses necessary to carrying out its duties.

## **7 Authorisation**

7.1 The Audit Committee shall report and make recommendations to the Board of Directors.

7.2 The Audit Committee is authorised to examine all matters within the scope of its charter and has unlimited access to obtain (i) the necessary information and assistance from employees and officers of the Company, who are obliged to cooperate with the Audit Committee and provide any information and answer all questions from the Audit Committee, and (ii) independent advice and assistance from external advisers when deemed necessary for performing the duties of the Audit Committee. The fees of advisers shall be paid by the Company.

## **8 Review of Charter**

8.1 The Audit Committee shall review this Audit Committee Charter once every year. Amendments shall be approved by the Board of Directors.