

CORPORATE GOVERNANCE REPORT 2021

Statutory Corporate Governance Statement pursuant to section 107b of the Danish Financial Statements Act for the financial year 2021

INTRODUCTION

This corporate governance report for Napatech A/S has been prepared in connection with the Annual Report for the financial year 2021.

Napatech is committed to following the Danish Recommendations on Corporate Governance of 2 December 2020, issued by the Danish Committee on Corporate Governance.

Accordingly, the Board of Directors continuously considers the recommendations to determine which are relevant for Napatech, considering the size, ownership structure, nature of the Company, and the Company's business model.

This report includes a description of the company's management structure, a review of how the company considers the Danish Recommendations on Corporate Governance issued by the Committee on Corporate Governance on December 2nd, 2020, as well as a description of the main elements of the internal control and risk management systems in connection with the company's financial reporting.

The report is not covered by the auditor's remarks about the management's report.

MANAGEMENT

As is the current practice amongst Danish companies, Napatech has a two-tier management structure consisting of a Board of Directors and an Executive Management Board. The two bodies are independent, and powers and responsibilities are distributed between the Board of Directors and the Executive Management Board. No person serves as a member of both corporate bodies.

Board of Directors

The Board of Directors supervises the work of the Executive Management Board and is responsible for the overall management and strategic direction, while the Executive Management Board handles the day-to-day management. The Board of Directors also evaluates management performance and management remuneration. Furthermore, the Board of Directors has the overall responsibility for ensuring that adequate internal and external controls are in place, and for identifying and addressing any relevant risks. This responsibility is defined in the Danish Companies Act and stipulated in the rules of procedures for the Board of Directors.

The Board of Directors currently consists of four members elected by the general meeting. The members of the Board of Directors comprise a group of profession-

ally skilled business people also representing diversity and international experience. The members of the Board of Directors are elected for a term of one year. Re-election of board members may take place.

At the Annual General Meeting on 16 April 2021, the following were elected to the Napatech Board of Directors:

- Lars Boilesen (Chairman of the Board)
- Henry Wasik (Deputy Chairman of the Board)
- Howard Bubb (Member of the Board)
- Christian Jebsen (Member of the Board)

For more details about the members of the Board of Directors and the members of the Audit Committee, please see "Board and Management Presentation" in the Annual Report 2021.

Executive Management Board

The Board of Directors appoints Napatech's Executive Management Board and determines the terms of employment. The Executive Management Board is responsible for the day-to-day management and compliance with the procedures, instructions, guidelines, and recommendations issued by the Board of Directors.

The Executive Management Board's responsibilities include the organization of the company as well as the allocation of resources, determination, and implementation of strategies and policies and ensuring timely reporting to the Board of Directors. The Executive Management Board also presents and recommends proposals on the overall strategy and objectives to the Board of Directors.

The Board of Directors has adopted Instructions for the Executive Management Board, which describes the overall tasks and responsibilities of the Executive Management Board, reporting to the Board of Directors and authorities of the Executive Management Board.

The Executive Management Board consists of the following two members:

- Ray Smets (CEO)
- Heine Thorsgaard (CFO)

INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors and Executive Management Board set out general requirements for business processes and internal controls in connection with Napatech's financial reporting. The Board of Directors has the overall responsibility for Napatech's internal controls and has appointed the Audit Committee to assist the Board of Directors with supervising the financial reporting process and monitoring the effectiveness of the internal controls and risk management system.

The responsibility for maintaining sufficient and effective internal control and risk management system concerning financial reporting is anchored with the Executive

Management Board. Executive Management Board ensures the design and implementation of controls considered necessary to mitigate risks identified with the financial reporting process.

The Audit Committee appointed by the Board of Directors monitors on an ongoing basis the management of risk and the design and operating effectiveness of the implemented internal controls in connection with the financial reporting process. The Audit Committee and Executive Management Board perform assessments of the risk exposure of Napatech, including the impact on the financial reporting and the financial reporting process.

The need for an internal audit is considered annually by the Audit Committee. However, due to the size of the Company and the established control activities, the Audit Committee so far considers it unnecessary to establish an independent internal executive audit board.

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This Corporate Governance Report has been approved by the Board of Directors on February 17th, 2022.

The report concerns the financial year **1 January 2020 to 31 December 2021**

Recommendation	The company <u>complies</u>	The company <u>explains</u>	
		<i>Why not?</i>	<i>Approach chosen instead</i>
1. Interaction with the company's shareholders, investors and other stakeholders			
1.1. Communication with the company's shareholders, investors and other stakeholders			
1.1.1. The Committee recommends that the management through ongoing dialogue and interaction ensures that shareholders, investors and other stakeholders gain the relevant insight into the company's affairs, and that the board of directors obtains the possibility of hearing and including their views in its work.	✓		
1.1.2. The Committee recommends that the company adopts policies on the company's relationships with its shareholders, investors and if relevant other stakeholders in order to ensure that the various interests are included in the company's considerations and that such policies are made available on the company's website.	✓		
1.1.3. The Committee recommends that the company publishes quarterly reports.		It is the Board of Directors' opinion that the content of interim management statements is sufficient for shareholders, analysts, and other stakeholders to be able to evaluate the commercial and financial position of the Company.	The Company has chosen to publish Interim Management Statements instead of quarterly reports prepared in accordance with IAS 34.
1.2. The general meeting			
1.2.1. The Committee recommends that the board of directors organises the company's general meeting in a manner that allows shareholders, who are unable to attend the meeting in person or are represented by proxy at the general meeting, to		The company is in the process of preparing the structure that	

Recommendation	The company <u>complies</u>	The company <u>explains</u>	
		<i>Why not?</i>	<i>Approach chosen instead</i>
vote and raise questions to the management prior to or at the general meeting. The Committee recommends that the board of directors ensures that shareholders can observe the general meeting via webcast or other digital transmission.		will allow future general meetings to be broadcasted as webcasts, and expect this to be operational from 2023.	
1.2.2. The Committee recommends that proxies and postal votes to be used at the general meeting enable the shareholders to consider each individual item on the agenda.	✓		
1.3. Takeover bids			
1.3.1. The Committee recommends that the company has a procedure in place in the event of takeover bids, containing a “road map” covering matters for the board of directors to consider in the event of a takeover bid, or if the board of directors obtains reasonable grounds to suspect that a takeover bid may be submitted. In addition, it is recommended that it appears from the procedure that the board of directors abstains from countering any takeover bids by taking actions that seek to prevent the shareholders from deciding on the takeover bid, without the approval of the general meeting.		If a third-party takeover bid is made public the Board of Directors will respond to this in accordance with legislation and the shareholders will be involved through the general meeting.	Presently, the Company does not have a contingency procedure for takeover bids.
1.4. Corporate Social Responsibility			
1.4.1. The Committee recommends that the board of directors adopts a policy for the company’s corporate social responsibility, including social responsibility and sustainability, and that the policy is available in the management commentary and/or on the company’s website. The Committee recommends that the board of directors ensures compliance with the policy.	✓		
1.4.2. The Committee recommends that the board of directors adopts a tax policy to be made available on the company’s website.		Due to the size of the Company, The Board of Directors has not found it necessary to adopt a specific tax policy.	A specific tax policy has not been adopted.

Recommendation	The company <u>complies</u>	The company <u>explains</u>	
		<i>Why not?</i>	<i>Approach chosen instead</i>
2. The duties and responsibilities of the board of directors			
2.1. Overall tasks and responsibilities			
2.1.1. The Committee recommends that the board of directors in support of the company's statutory objects according to its articles of association and the long-term value creation considers the company's purpose and ensures and promotes a good culture and sound values in the company. The company should provide an account thereof in the management commentary and/or on the company's website.		Due to the size of the Company, The Board of Directors has not found it necessary to produce an separate account of the relationship between the Company's purpose and it culture and values.	The Company has adopted a Corporate Social Responsibility Policy and a Data Ethics Policy.
2.1.2. The Committee recommends that the board of directors at least once a year discusses and on a regular basis follows up on the company's overall strategic targets in order to ensure the value creation in the company.	✓		
2.1.3. The Committee recommends that the board of directors on a continuously basis takes steps to examine whether the company's share and capital structure supports the strategy and the long-term value creation in the interest of the company as well as the shareholders. The Committee recommends that the company gives an account thereof in the management commentary.	✓		
2.1.4. The Committee recommends that the board of directors prepares and on an annual basis reviews guidelines for the executive management, including requirements in respect of the reporting to the board of directors.	✓		
2.2. Members of the board of directors			
2.2.1. The Committee recommends that the board of directors, in addition to a chairperson, appoints a vice chairperson, who can step in if the chairperson is absent and who can generally act as the chairperson's close sparring partner.	✓		

Recommendation	The company <u>complies</u>	The company <u>explains</u>	
		<i>Why not?</i>	<i>Approach chosen instead</i>
<p>2.2.2. The Committee recommends that the chairperson in cooperation with the individual members of the board of directors ensures that the members up-date and supplement their knowledge of relevant matters, and that the members' special knowledge and qualifications are applied in the best possible manner.</p>	✓		
<p>2.2.3. The Committee recommends that if the board of directors, in exceptional cases, requests a member of the board of directors to take on special duties for the company, for instance, for a short period to take part in the daily management of the company, the board of directors should approve this in order to ensure that the board of directors maintains its independent overall management and control function. It is recommended that the company publishes any decision on allowing a member of the board of directors to take part in the daily management, including the expected duration thereof.</p>	✓		
<p>3. The composition, organisation and evaluation of the board of directors</p>			
<p>3.1. Composition</p>			
<p>3.1.1. The Committee recommends that the board of directors on an annual basis reviews and in the management commentary and/or on the company's website states</p> <ul style="list-style-type: none"> • which qualifications the board of directors should possess, collectively and individually, in order to perform its duties in the best possible manner, and • the composition of and diversity on the board of directors. 		<p>The Board of Directors has not found it necessary to prepare an annual written specification of the skills it must have to best perform its tasks.</p>	<p>The Company's directors are selected with the purpose of creating a group best suited at performing its tasks in the interest of the Company's stakeholders and in the light of the Company's size and complexity.</p>

Recommendation	The company complies	The company explains	
		Why not?	Approach chosen instead
<p>3.1.2. The Committee recommends that the board of directors on an annual basis discusses the company’s activities in order to ensure relevant diversity at the different management levels of the company and adopts a diversity policy, which is included in the management commentary and/or available on the company’s website.</p>		Given its size, the Company has not published a specific policy for diversity at the management level.	The Company welcomes diversity throughout the company functions. Being a small multinational Company, it is inherently diverse in many aspects.
<p>3.1.3. The committee recommends that candidates for the board of directors are recruited based on a thorough process approved by the board of directors. The Committee recommends that in assessing candidates for the board of directors – in addition to individual competencies and qualifications – the need for continuity, renewal and diversity is also considered.</p>	✓		
<p>3.1.4. The Committee recommends that the notice convening general meetings, where election of members to the board of directors is on the agenda - in addition to the statutory items - also includes a description of the proposed candidates’</p> <ul style="list-style-type: none"> • qualifications, • other managerial duties in commercial undertakings, including board committees, • demanding organisational assignments and • independence. 	✓		
<p>3.1.5. The Committee recommends that members to the board of directors elected by the general meeting stand for election every year at the annual general meeting, and that the members are nominated and elected individually.</p>	✓		
3.2. The board of director’s independence			
<p>3.2.1. The Committee recommends that at least half of the members of the board of directors elected in general meeting are independent in order for the board of directors to be able to act independently avoiding conflicts of interests.</p>	✓		

Recommendation	The company <u>complies</u>	The company <u>explains</u>	
		<i>Why not?</i>	<i>Approach chosen instead</i>
<p>In order to be independent, the member in question may not:</p> <ul style="list-style-type: none"> • be or within the past five years have been a member of the executive management or an executive employee in the company, a subsidiary or a group company, • within the past five years have received large emoluments from the company/group, a subsidiary or a group company in another capacity than as member of the board of directors, • represent or be associated with a controlling shareholder, • within the past year have had a business relationship (e.g. personally or indirectly as a partner or an employee, shareholder, customer, supplier or member of a governing body in companies with similar relations) with the company, a subsidiary or a group company, which is significant for the company and/or the business relationship, • be or within the past three years have been employed with or a partner in the same company as the company's auditor elected in general meeting, • be a CEO in a company with cross-memberships in the company's management, • have been a member of the board of directors for more than twelve years, or • be closely related to persons, who are not independent, cf. the above-stated criteria. <p>Even if a member of the board of directors does not fall within the above-stated criteria, the board of directors may for other reasons decide that the member in question is not independent.</p>			
<p>3.2.2. The Committee recommends that members of the executive management are not members of the board of directors and that members retiring from the executive management does not join the board of directors immediately thereafter.</p>	✓		
<p>3.3. Members of the board of directors and the number of other managerial duties</p>			

Recommendation	The company <u>complies</u>	The company <u>explains</u>	
		Why not?	Approach chosen instead
<p>3.3.1. The Committee recommends that the board of directors and each of the members on the board of directors, in connection with the annual evaluation, cf. recommendation 3.5.1., assesses how much time is required to perform the board duties. The aim is for the individual member of the board of directors not to take on more managerial duties than the board member in question is able to perform in a satisfactory manner.</p>	✓		
<p>3.3.2. The Committee recommends that the management commentary, in addition to the statutory requirements, contains the following information on the individual members of the board of directors:</p> <ul style="list-style-type: none"> • position, age and gender, • competencies and qualifications relevant to the company, • independence, • year of joining the board of directors, • year of expiry of the current election period, • participation in meetings of the board of directors and committee meetings, • managerial duties in other commercial undertakings, including board committees, and demanding organisational assignments, and • the number of shares, options, warrants, etc. that the member holds in the company and its group companies and any changes in such holdings during the financial year. 	✓		
3.4. Board committees			
<p>3.4.1. The Committee recommends that the management describes in the management commentary:</p> <ul style="list-style-type: none"> • the board committees’ most significant activities and number of meetings in the past year, and • the members on the individual board committees, including the chairperson and the independence of the members of the committee in question. 		The Company does not publish the Board Committee, rules of procedure, and annual activities. Given the size and complexity of the Company, the Board of Directors has not deemed it efficient to disclose this in detail.	An account of the information on committee members is provided in the management commentary.

Recommendation	The company <u>complies</u>	The company <u>explains</u>	
		<i>Why not?</i>	<i>Approach chosen instead</i>
In addition, it is recommended that the board committees' terms of reference are published on the company's website.			
3.4.2. The Committee recommends that board committees solely consist of members of the board of directors and that the majority of the members of the board committees are independent.	✓		
<p>3.4.3. The Committee recommends that the board of directors establishes an audit committee and appoints a chairperson of the audit committee, who is not the chairperson of the board of directors. The Committee recommends that the audit committee, in addition to its statutory duties, assists the board of directors in:</p> <ul style="list-style-type: none"> • supervising the correctness of the published financial information, including accounting practices in significant areas, significant accounting estimates and related party transactions, • reviewing internal control and risk areas in order to ensure management of significant risks, including in relation to the announced financial outlook, • assessing the need for internal audit, • performing the evaluation of the auditor elected by the general meeting, • reviewing the auditor fee for the auditor elected by the general meeting, • supervising the scope of the non-audit services performed by the auditor elected by the general meeting, and • ensuring regular interaction between the auditor elected by the general meeting and the board of directors, for instance, that the board of directors and the audit committee at least once a year meet with the auditor without the executive management being present. <p>If the board of directors, based on a recommendation from the audit committee, decides to set up an internal audit function, the audit committee must:</p> <ul style="list-style-type: none"> • prepare terms of reference and recommendations on the nomination, employment and dismissal of the head of the internal audit function and on the budget for the department, 	✓		

Recommendation	The company <u>complies</u>	The company <u>explains</u>	
		<i>Why not?</i>	<i>Approach chosen instead</i>
<ul style="list-style-type: none"> ensure that the internal audit function has sufficient resources and competencies to perform its role, and supervise the executive management’s follow-up on the conclusions and recommendations of the internal audit function. 			
<p>3.4.4. The Committee recommends that the board of directors establishes a nomination committee to perform at least the following preparatory tasks:</p> <ul style="list-style-type: none"> describing the required qualifications for a given member of the board of directors and the executive management, the estimated time required for performing the duties of this member of the board of directors and the competencies, knowledge and experience that is or should be represented in the two management bodies, on an annual basis evaluating the board of directors and the executive management’s structure, size, composition and results and preparing recommendations for the board of directors for any changes, in cooperation with the chairperson handling the annual evaluation of the board of directors and assessing the individual management members’ competencies, knowledge, experience and succession as well as reporting on it to the board of directors, handling the recruitment of new members to the board of directors and the executive management and nominating candidates for the board of directors' approval, ensuring that a succession plan for the executive management is in place, supervising executive managements’ policy for the engagement of executive employees, and supervising the preparation of a diversity policy for the board of directors’ approval. 		<p>Due to the size of the Company, The Board of Directors has found it appropriate not to assign some of the listed tasks to the Nomination Committee.</p>	<p>A Nomination Committee is established. Instructions to the Nomination Committee was approved by the General Meeting on April 28, 2015.</p>
<p>3.4.5. The Committee recommends that the board of directors establishes a remuneration committee to perform at least the following preparatory tasks:</p>	✓		

Recommendation	The company <u>complies</u>	The company <u>explains</u>	
		<i>Why not?</i>	<i>Approach chosen instead</i>
<ul style="list-style-type: none"> • preparing a draft remuneration policy for the board of directors' approval prior to the presentation at the general meeting, • providing a proposal to the board of directors on the remuneration of the members of the executive management, • providing a proposal to the board of directors on the remuneration of the board of directors prior to the presentation at the general meeting, • ensuring that the management's actual remuneration complies with the company's remuneration policy and the evaluation of the individual member's performance, and • assisting in the preparation of the annual remuneration report for the board of directors' approval prior to the presentation for the general meeting's advisory vote. 			
3.5. Evaluation of the board of directors and the executive management			
<p>3.5.1. The Committee recommends that the board of directors once a year evaluates the board of directors and at least every three years engages external assistance in the evaluation. The Committee recommends that the evaluation focuses on the recommendations on the board of directors' work, efficiency, composition and organisation, cf. recommendations 3.1.-3.4. above, and that the evaluation as a minimum always includes the following topics:</p> <ul style="list-style-type: none"> • the composition of the board of directors with focus on competencies and diversity • the board of directors and the individual member's contribution and results, • the cooperation on the board of directors and between the board of directors and the executive management, • the chairperson's leadership of the board of directors, • the committee structure and the work in the committees, • the organisation of the work of the board of directors and the quality of the material provided to the board of directors, and 		<p>Due to the size of the Company, The Board of Directors has not found it necessary to engage external assistance in the evaluation every three years.</p>	<p>The Board of Directors evaluates itself yearly.</p>

Recommendation	The company <u>complies</u>	The company <u>explains</u>	
		<i>Why not?</i>	<i>Approach chosen instead</i>
<ul style="list-style-type: none"> the board members' preparation for and active participation in the meetings of the board of directors. 			
<p>3.5.2. The Committee recommends that the entire board of directors discusses the result of the evaluation of the board of directors and that the procedure for the evaluation and the general conclusions of the evaluation are described in the management commentary, on the company's website and at the company's general meeting.</p>		Given the size and complexity of the Company, the Board of Directors has not deemed it efficient to disclose this in detail.	The Board of Directors has established an evaluation procedure but has deemed it not efficient to publish this in the management commentary or on the Company website.
<p>3.5.3. The Committee recommends that the board of directors at least once a year evaluates the work and results of the executive management according to pre-established criteria, and that the chairperson reviews the evaluation together with the executive management. In addition, the board of directors should on a continuous basis assess the need for changes in the structure and composition of the executive management, including in respect of diversity, succession planning and risks, in light of the company's strategy.</p>	✓		
<p>4. Remuneration of management</p>			
<p>4.1. Remuneration of the board of directors and the executive management</p>			
<p>4.1.1. The Committee recommends that the remuneration for the board of directors and the executive management and the other terms of employment/service is considered competitive and consistent with the company's long-term shareholder interests.</p>	✓		
<p>4.1.2. The Committee recommends that share-based incentive schemes are revolving, i.e. that they are periodically granted, and that they primarily consist of long-term schemes with a vesting or maturity period of at least three years.</p>	✓		

Recommendation	The company <u>complies</u>	The company <u>explains</u>	
		<i>Why not?</i>	<i>Approach chosen instead</i>
4.1.3. The Committee recommends that the variable part of the remuneration has a cap at the time of grant, and that there is transparency in respect of the potential value at the time of exercise under pessimistic, expected and optimistic scenarios.	✓		
4.1.4. The Committee recommends that the overall value of the remuneration for the notice period, including severance payment, in connection with a member of the executive management's departure, does not exceed two years' remuneration including all remuneration elements.	✓		
4.1.5. The Committee recommends that members of the board of directors are not remunerated with share options and warrants.	✓		
4.1.6. The Committee recommends that the company has the option to reclaim, in whole or in part, variable remuneration from the board of directors and the executive management if the remuneration granted, earned or paid was based on information, which subsequently proves to be incorrect, or if the recipient acted in bad faith in respect of other matters, which implied payment of a too large variable remuneration.	✓		
5. Risk management			
5.1. Identification of risks and openness in respect of additional information			
5.1.1. The Committee recommends that the board of directors based on the company's strategy and business model considers, for instance, the most significant strategic, business, accounting and liquidity risks. The company should in the management commentary give an account of these risks and the company's risk management.	✓		
5.1.2. The Committee recommends that the board of directors establishes a whistleblower scheme, giving the employees and other stakeholders the opportunity to		Given the size of the Company and its administrative	

Recommendation	The company <u>complies</u>	The company <u>explains</u>	
		<i>Why not?</i>	<i>Approach chosen instead</i>
report serious violations or suspicion thereof in an expedient and confidential manner, and that a procedure is in place for handling such whistleblower cases.		structure, the Company does not have a whistleblower scheme as of the date of this report.	