

## **CORPORATE GOVERNANCE REPORT 2019**

*Statutory Corporate Governance Statement pursuant to section 107b of the Danish Financial Statements Act for the financial year 2019*

### INTRODUCTION

This corporate governance report for Napatech A/S has been prepared in connection with the Annual Report for the financial year 2019.

Napatech is committed to following the Danish Recommendations on Corporate Governance of 23 November 2017, issued by the Danish Committee on Corporate Governance.

Accordingly, the Board of Directors continuously considers the recommendations in order 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 November 23, 2017, 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 five 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 25 April 2019, the following were elected to the Napatech Board of Directors:

- Lars Boilesen (Chairman of the Board)
- Bjørn Erik Reinseth (Deputy Chairman of the Board)
- Henry Wasik (Member 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" on page 8 in the Annual Report 2019.

#### *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.

As of 2019, 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 in relation to 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 in relation to 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 24<sup>th</sup>, 2020.

The report concerns the financial year **1 January 2019 to 31 December 2019**

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
<b>1. Communication and interaction by the company with its investors and other stakeholders</b>				
<i>1.1. Dialogue between company, shareholders and other stakeholders</i>				
1.1.1. The Committee <b>recommends</b> that the board of directors ensure ongoing dialogue between the company and its shareholders, so that the shareholders gain relevant insight into the company and in order for the board of directors to be aware of the shareholders' views, interests and opinions in relation to the company.	✓			
1.1.2. The Committee <b>recommends</b> that the board of directors adopt policies on the company's relationship with its stakeholders, including shareholders, and that the board of directors ensure that the interests of the stakeholders are respected in accordance with company policies.	✓			
1.1.3. The Committee <b>recommends</b> that the company publish quarterly reports			✓	The Company has chosen to publish Interim Management Statements instead of quarterly reports prepared in accordance with IAS 34. It is the Board of Directors' opinion that the content of the interim management statements is sufficient for shareholders, analysts, and other stakeholders to be able to

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				evaluate the commercial and financial position of the Company.
<i>1.2. General meeting</i>				
1.2.1. The Committee <b>recommends</b> that in organising the company's general meeting, the board of directors plans the meeting to support active ownership.	✓			
1.2.2. The Committee <b>recommends</b> that proxies or votes by post for the general meeting allow shareholders to consider each individual item on the agenda.	✓			
<i>1.3. Takeover bids</i>				
1.3.1. The Committee <b>recommends</b> that the company set up contingency procedures in the event of takeover bids, from the time that the board of directors has reason to believe that a takeover bid will be made. The contingency procedures should establish that the board of directors should not without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which, in reality, prevent the shareholders from deciding on the takeover bid themselves.			✓	Presently, the Company does not have a contingency procedure for takeover bids. 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.
<b>2. Tasks and responsibilities of the board of directors</b>				
<i>2.1. Overall tasks and responsibilities</i>				

Recommendation	The company complies	The company complies partially	The company does not comply	The explanation for complying partially/not complying with the recommendation
2.1.1. The Committee <b>recommends</b> that at least once annually the board of directors consider the matters that should be included in the board's performance of its work.	✓			
2.1.2. The Committee <b>recommends</b> that at least once annually the board of directors consider the overall strategy of the company with a view to ensuring value creation in the company.	✓			
2.1.3. The Committee <b>recommends</b> that the board of directors ensure that the company has a capital and share structure which supports that the strategy and long-term value creation of the company are in the best interest of the shareholders and the company, and that the board of directors explain this in the management commentary and/or on the company's website.	✓			
2.1.4. The Committee <b>recommends</b> that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board's reporting to the board of directors.	✓			
2.1.5. The Committee <b>recommends</b> that at least once annually, the board of directors discuss the composition, developments, risks and succession plans of the executive board.	✓			
<i>2.2. Corporate social responsibility</i>				
2.2.1. The Committee <b>recommends</b> that the board of directors adopt policies on corporate social responsibility.	✓			
<i>2.3. Chairman and vice-chairman of the board of directors</i>				

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2.3.1. The Committee <b>recommends</b> appointing a vice chairman of the board of directors, who will assume the responsibilities of the chairman in the event of the chairman’s absence, and who will also act as effective sparring partner for the chairman.	✓			
2.3.2. The Committee <b>recommends</b> that, if the board of directors, in exceptional cases, asks the chairman of the board of directors or other board members to perform special activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect should be passed to ensure that the board of directors maintains its independent, general management and control function. Resolutions on the chairman’s or other board members’ participation in day-to-day management and the expected duration hereof should be publicly announced.	✓			
<b>3. Composition and organisation of the board of directors</b>				
<i>3.1. Composition</i>				
3.1.1. The Committee <b>recommends</b> that the board of directors annually evaluate and in the management commentary account for <ul style="list-style-type: none"> <li>• the competencies that it must have to best perform its tasks,</li> <li>• the composition of the board of directors, and</li> <li>• the special competencies of each member.</li> </ul>			✓	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. 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

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				the light of the Company's size and complexity.
<p>3.1.2. The Committee <b>recommends</b> that the board of directors annually discuss the company's activities to ensure relevant diversity at management levels and prepare and adopt a policy on diversity. The policy should be published on the company's website.</p>		✓		The Company welcomes diversity throughout the company functions. Being a small multinational Company, it is inherently diverse in many aspects. Given its size, the Company has not published a specific policy for diversity at the management level.
<p>3.1.3. The Committee <b>recommends</b> that the selection and nomination of candidates for the board of directors be carried out through a careful and transparent process approved by the board of directors. When assessing its composition and nominating new candidates, the board of directors should, in addition to the need for competencies and qualifications, take into consideration the need for integration of new talent and diversity.</p>	✓			
<p>3.1.4. The Committee <b>recommends</b> that the notice convening a general meeting where the agenda includes the election of members to the board of directors, include (in addition to the statutory requirements) a description of the qualifications of nominated candidates, including information about the candidates'</p> <ul style="list-style-type: none"> <li>• other executive functions, including positions on executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign enterprises, and</li> <li>• demanding organisational tasks.</li> </ul>	✓			



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Furthermore, it should be indicated if the candidates to the board of directors are considered independent.				
3.1.5. The Committee <b>recommends</b> that members of the company’s executive board be not members of the board of directors and that a resigning chief executive officer be not directly elected as chairman or vice chairman for the same company.	✓			
3.1.6. The Committee <b>recommends</b> that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.	✓			
<i>3.2. Independence of the board of directors</i>				
<p>3.2.1. The Committee <b>recommends</b> that at least half of the members of the board of directors elected by the general meeting be independent persons, in order for the board of directors to be able to act independently of special interests.</p> <p>To be considered independent, this person may not:</p> <ul style="list-style-type: none"> <li>• be or within the past five years have been a member of the executive board, or senior staff member in the company, a subsidiary or an associated company,</li> <li>• within the last five years, have received significant remuneration from the company/group, a subsidiary or an associated company in a different capacity than as member of the board of directors,</li> <li>• represent or be associated with a controlling shareholder,</li> <li>• within the past year, have had significant business relations (e.g. personally or indirectly as partner or employee, shareholder, customer,</li> </ul>	✓			

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<p>supplier or member of management in companies with corresponding connection) with the company, a subsidiary or an associated company.</p> <ul style="list-style-type: none"> <li>• be or within the past three years have been employed or been a partner in the same company as the auditor elected by the general meeting,</li> <li>• be part of the executive management in a company with cross-management representation in the company,</li> <li>• have been a member of the board of directors for more than 12 years, or</li> <li>• be a close relative with persons who are not considered independent.</li> </ul> <p>Even if a member of the board of directors is not covered by the above criteria, certain conditions may exist that will lead the board of directors to decide that one or more members cannot be regarded as independent.</p>				
<p><i>3.3. Members of the board of directors and the number of other management functions</i></p>				
<p>3.3.1. The Committee <b>recommends</b> that each member of the board of directors assess the expected time commitment for each function so that the member does not take on more functions than he/she can complete at a satisfactory level for the company.</p>	✓			
<p>3.3.2. The Committee <b>recommends</b> that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the board of directors:</p> <ul style="list-style-type: none"> <li>• the position of the relevant person,</li> <li>• the age and gender of the person in question,</li> <li>• the person's competencies and qualifications that are relevant to the company</li> <li>• whether the member is considered independent,</li> <li>• the member's date of appointment to the board of directors,</li> </ul>	✓			

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<ul style="list-style-type: none"> <li>• expiry of the current election term,</li> <li>• the member's participation in the meetings on the board of directors and committee meetings,</li> <li>• other management functions, including memberships in executive boards, boards of directors, and supervisory boards, including board committees in Danish and foreign enterprises and demanding organisational tasks, and</li> <li>• the number of shares, options, warrants and similar owned by the member in the company and other group companies, as well as changes to the member's portfolio of the mentioned securities which have occurred during the financial year.</li> </ul>				
<p>3.3.3. The Committee <b>recommends</b> that the annual evaluation procedure, cf. section 3.5, include an evaluation of what is regarded as a reasonable level for the number of other management functions, where the number, level and complexity of the other individual management functions are taken into account.</p>	✓			
<p><i>3.4. Board committees</i></p>				
<p>3.4.1. The Committee <b>recommends</b> that the company publish the following on the company's website:</p> <ul style="list-style-type: none"> <li>• the terms of reference of the board committees,</li> <li>• the most important activities of the committees during the year and the number of meetings held by each committee, and</li> <li>• the names of the members of each committee, including the chairmen of the committees, as well as information regarding which members are independent members and which members have special competencies.</li> </ul>			✓	<p>The Company does not publish the Board Committee, rules of procedure, information on committee members 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.</p>

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3.4.2. The Committee <b>recommends</b> that a majority of the members of a board committee be independent.	✓			
3.4.3. The Committee <b>recommends</b> that the members of the board of directors set up among its members an <u>audit committee</u> and that a chairman is appointed who is not the chairman of the board of directors.	✓			
3.4.4. The Committee <b>recommends</b> that, prior to the approval of the annual report and other financial reports, the audit committee monitor and report to the board of directors about: <ul style="list-style-type: none"> <li>• significant accounting policies,</li> <li>• significant accounting estimates,</li> <li>• related party transactions, and</li> <li>• uncertainties and risks, including in relation to the outlook for the current year.</li> </ul>	✓			
3.4.5. The Committee <b>recommends</b> that the audit committee: <ul style="list-style-type: none"> <li>• annually assesses the need for an internal audit function and, in such a case, presents mandates and recommendations on selecting, appointing and removing the head of any internal audit function and on the budget of the internal audit function,</li> <li>• ensure that if an internal audit has been established, a description of its functions and approved by the board of directors,</li> <li>• ensure that if an internal audit has been established, adequate resources and competencies are allocated to carry out the work, and</li> <li>• monitor the executive board’s follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>	✓			

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<p>3.4.6. The Committee <b>recommends</b> that the board of directors establish a <u>nomination committee</u>, which is at least, responsible for the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• describing the qualifications required by the board of directors and the executive board and for a given position, indicating the time expected to be spent carrying out a specific position, as well as assessing the competencies, knowledge and experience found in the two governing bodies,</li> <li>• annually assessing the structure, size, composition and results of the board of directors and the executive board and recommend any changes to the board of directors,</li> <li>• annually assessing the competencies, knowledge, experience and succession of the individual members of management and report to the board of directors in this respect,</li> <li>• recommending candidates for the board of directors and the executive board, and</li> <li>• proposing an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes.</li> </ul>		✓		<p>A Nomination Committee is established. But 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>3.4.7. The Committee <b>recommends</b> that the board of directors establish a <u>remuneration committee</u>, which is at least, responsible for the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• recommending the remuneration policy (including the “General Guidelines for incentive-based Remuneration”) to the board of directors and the executive board for approval by the board of directors prior to approval by the general meeting,</li> <li>• making proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as en-</li> </ul>	✓			

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<p>ensuring that the remuneration is in compliance with the company’s remuneration policy and the assessment of the performance of the persons concerned. The committee should have information on the total remuneration that members of the board of directors and the executive board receive from other companies in the group,</p> <ul style="list-style-type: none"> <li>recommending a remuneration policy applicable for the company in general and</li> <li>assisting with the preparation of the annual remuneration report.</li> </ul>				
<p>3.4.8. The Committee <b>recommends</b> that the remuneration committee do not consult with the same external advisers as the executive board of the company.</p>	✓			
<b>3.5. Evaluation of the performance of the board of directors and the executive board</b>				
<p>3.5.1. The Committee <b>recommends</b> that the board of directors establish an evaluation procedure for an annual evaluation of the board of directors and the individual members. External assistance should be obtained at least every third year. The evaluation should inter alia include:</p> <ul style="list-style-type: none"> <li>contribution and results,</li> <li>cooperation with the executive board,</li> <li>the chairman’s leadership of the board of directors,</li> <li>the composition of the board of directors (including competencies, diversity and the number of members),</li> <li>the work in the committees and the committee structure, and</li> <li>the organisation and quality of the material that is submitted to the board of directors.</li> </ul> <p>The evaluation procedure and the general conclusions should be described in the management commentary and on the company’s website. The</p>		✓		<p>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>

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chairman should account for the evaluation of the board of directors, including the process and general conclusions on the general meeting prior to the election of the board of directors.				
3.5.2. The Committee <b>recommends</b> that at least once annually, the board of directors evaluate the work and performance of the executive board in accordance with pre-defined criteria. Furthermore, the board of directors should evaluate the need for changes to the structure and composition of the executive board, in light of the company's strategy.	✓			
3.5.3. The Committee <b>recommends</b> that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalised dialogue between the chairman of the board of directors and the chief executive officer, and that the outcome of the evaluation be presented to the board of directors.	✓			
<b>4. Remuneration of management</b>				
<i>4.1. Form and content of the remuneration policy</i>				
4.1.1. The Committee <b>recommends</b> that the board of directors prepare a remuneration policy for the board of directors and the executive board, which includes <ul style="list-style-type: none"> <li>• a detailed description of the components of the remuneration for members of the board of directors and the executive board,</li> <li>• the reasons for choosing the individual components of the remuneration,</li> <li>• a description of the criteria that form the basis for the balance between the individual components of the remuneration, and</li> </ul>	✓			

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<ul style="list-style-type: none"> <li>an explanation for the correlation between the remuneration policy and the company's long-term value creation and relevant related goals.</li> </ul> <p>The remuneration policy should be approved by the general meeting at least every fourth year and upon any material amendments and it should be published on the company's website.</p>				
<p>4.1.2. The Committee <b>recommends</b> that if the remuneration policy includes variable components,</p> <ul style="list-style-type: none"> <li>limits be set on the variable components of the total remuneration package,</li> <li>a reasonable and balanced composition be ensured between remuneration for members of management and the value creation for shareholders in the short and long term,</li> <li>clarity be established about performance criteria and measurability for the award of variable components,</li> <li>it is ensured that variable remuneration not only consists of short-term remuneration components, and that long-term remuneration components must have a vesting or maturity period of at least three years, and</li> <li>it be ensured that the company has the ability to reclaim, in full or in part, variable components of remuneration that were paid on the basis of information, which subsequently are found to be incorrect.</li> </ul>	✓			
<p>4.1.3. The Committee <b>recommends</b> that remuneration of members of the board of directors does not include share options or warrants.</p>	✓			
<p>4.1.4. The Committee <b>recommends</b> that if, in relation to long-term incentive programmes, a share-based remuneration is used, the programmes should have a vesting or maturity period of at least three years</p>	✓			



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after being allocated and should be roll-over programmes, i.e. the options should be granted periodically.				
4.1.5. The Committee <b>recommends</b> that the total value of the remuneration relating to the notice period, including severance pay, do not exceed two years of remuneration, including all components of the remuneration.	✓			
<i>4.2. Disclosure of remuneration</i>				
4.2.1. The Committee <b>recommends</b> that the company's remuneration policy and compliance with this policy be explained and justified annually in the chairman's statement at the company's general meeting.	✓			
4.2.2. The Committee <b>recommends</b> that shareholders at the general meeting consider proposals for approval of remuneration for the board of directors for the current financial year.	✓			
4.2.3. The Committee <b>recommends</b> that the company prepares a remuneration report that includes information on the total remuneration received by each member of the board of directors and the executive board from the company and other companies in the group and associated companies for the last three years, including information on the most important content of retention and resignation arrangements and that the correlation between the remuneration and company strategy and relevant related goals be explained.  The remuneration report should be published on the company's website.			✓	In accordance with section 139 (b) of the Danish Financial Statements Act, the Company will begin publishing remuneration reports starting with the fiscal year 2020.
<b>5. Financial reporting, risk management and audits</b>				
<i>5.1. Identification of risks and transparency about other relevant information</i>				

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5.1.1. The Committee <b>recommends</b> that the board of directors consider and in the management commentary account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.	✓			
<i>5.2. Whistleblower scheme</i>				
5.2.1. The Committee <b>recommends</b> that the board of directors establish a whistleblower scheme for expedient and confidential notification of serious wrongdoing or suspicions thereof.			✓	Given the size of the Company and its administrative structure, the Company does not have a whistleblower scheme as of the date of this report.
<i>5.3. Contact to auditor</i>				
5.3.1. The Committee <b>recommends</b> that the board of directors ensure regular dialogue and exchange of information between the auditor elected by the general meeting and the board of directors, including that the board of directors and the audit committee meet with the auditor elected by the general meeting at least once annually without the executive board present. This also applies to the internal auditor, if any.	✓			
5.3.2. The Committee <b>recommends</b> that the audit agreement and auditor's fee be agreed by the board of directors and the auditor elected by the general meeting based on a recommendation from the audit committee.	✓			