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# CORPORATE GOVERNANCE REPORT

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This chapter describes Hiddn Solutions ASA's ("Hiddn" or "the Company") compliance with the Norwegian code of practice for corporate governance. The Company's Board of Directors embraces the principles for good corporate governance and is vigilant about the Company's adherence to these principles.

This report includes the information required to comply with §3-3b in the Norwegian Accounting Act. The Norwegian Accounting Act is available on [www.lovdata.no](http://www.lovdata.no).

## Corporate governance

As a security provider, understanding and adhering to rules and regulations is of the utmost importance to Hiddn. Good corporate governance benefits the Company's reputation and thus value, and vice versa.

The Company adheres to the following set of principles with regards to corporate governance:

**Transparency:** The communication between the Company and its stakeholders shall be based on transparency about matters that are relevant to evaluate the operations of the Company.

**Independence:** The Board of Directors shall act independently of the Company's executive management, to secure that decisions are made on fair and neutral grounds.

**Equality:** All shareholders shall be treated equally.

**Control and governance:** Good internal control and governance principles shall contribute to predictability and risk mitigation for owners and other stakeholders.

## 1. Corporate Governance at Hiddn Solutions ASA

At all times, the Company seeks to comply with the most recent applicable legal framework for companies listed on the Norwegian stock exchange. The Company endorses the "Norwegian code of practice for Corporate Governance" ("NUES") in its most recent revision (October 2014), which is available on [www.nues.no](http://www.nues.no). The Company conducts annual corporate governance reviews to ensure continued compliance.

Taking into account the size and maturity of the Company, there may be deviations from the code. Hiddn will adhere

to the principle "declare or explain" regarding any non-compliance with respect to the code. The Company's policies, instructions and internal processes are continuously developed.

## 2. Core corporate values

The Company has formulated core values that underpin the business goals of the Company. These are as follows:

- Respect
- Integrity
- Innovation

The "ethical and corporate social responsibility guideline" has been set out in accordance with these values.

## 3. Ethics and corporate social responsibility

The Company has implemented ethical and corporate social responsibility guidelines in accordance with its basic corporate values. The guidelines are published on Hiddn's website, [www.hiddnsolutions.com](http://www.hiddnsolutions.com). A Corporate Social Responsibility Report is found in this annual report.

## 4. Operations

Hiddn's business consists of research and development and commercialization of hardware-based encryption products designed to safeguard data at rest, as well as key management systems supporting these products. Furthermore, the Company provides secure physical filing and storage systems.

The Company's Articles of Association, stating that the business of the Company is "research, development and commercialization of security products, participation and investments in companies with similar business, as well as any other business naturally related thereto", cover all the Company's operations.

The business goals and key strategies of the Company are stated in the business plan.

## 5. Share capital and dividend

### Equity

The Company strives to maintain a healthy relation between the Company's equity and other forms of financing, given the Company's strategy and risk profile. The Board of Directors takes immediate and appropriate action should the equity or liquidity situation of the Company prove to be poorer than acceptable.

Per 31 December 2017, the Company's consolidated equity was NOK 16.5 million. In April 2018 the Company completed a rights issue yielding gross proceeds of NOK 30 million.

### Dividend policy

The Company seeks to provide its shareholders with a capital appreciation and dividend at a level that is at least equal to alternative investment possibilities with an equal risk profile.

As the Company is still in a growth phase, it has not yet adopted a dividend policy. The Company will establish a dividend policy in alignment with the aforementioned objective in due course.

There has not been given, nor proposed to give, a mandate to the Board of Directors to approve a distribution of dividends.

### Board authorizations

Authorizations to the Board of Directors to approve share capital increases shall be confined to defined purposes and should not be given for longer periods of time than until the next Ordinary General Meeting. If an authorization encompasses several purposes, each purpose should be treated as a separate issue at the General Meeting. This also applies to authorizations permitting the repurchase of shares.

The Ordinary General Meeting held 22 June 2017 gave the Board of Directors authorization to increase the Company's Share Capital by up to NOK 6,884,141.52. The authorization was used in a private placement completed 16 November 2017. The same Ordinary General Meeting also granted the Board of Directors an authorization to increase the Company's Share Capital for the option program by up to NOK 2,281,379.60. The share option program was approved by the Board of Directors 16

November 2017. The Ordinary General Meeting also granted the Board of Directors authorization to acquire the Company's own shares up to a nominal amount of NOK 2,281,380.00. All authorizations granted was set to expire at the date of the Ordinary General Meeting in 2018, and 30 June 2018 at the latest.

On 13 February 2018, the Company's Extraordinary General Meeting granted the Board of Directors with an authorization to increase the share capital by up to NOK 7,609,140.50. The authorization was used in a rights issue completed 6 April 2018 when 17,142,857 shares were issued.

## 6. Equal treatment of shareholders and transaction with related parties

### Class of shares

The Company has one class of shares, without any form of voting restriction imposed. Each share represents one vote at the Company's General Meeting. The par value per share is NOK 0.34.

### Pre-emption rights of existing shareholders

The Company's existing shareholders have pre-emption rights to subscribe for shares in the event of share capital increase, unless special circumstances necessitate a deviation from this principle. Any decision to deviate from the pre-emption rights of existing shareholders shall be justified and in accordance with the authorization given to the Board of Directors from the General Meeting. The justification shall be publicly disclosed in a stock exchange announcement issued in connection with the increase in share capital.

### Transactions with related parties

The Company's board members, management and significant shareholders are considered related parties. Any transactions with related parties are carried out on an arm's length basis. If the value of such a transaction is significant, the Board of Directors is responsible for assigning an independent third party to perform a valuation. Alternatively, the transaction in question can be treated as an issue at the General Meeting, in accordance with the Norwegian Public Limited Liability Companies Act.

## 7. Freely negotiable shares

The shares in the Company are freely transferable, and there are no constraints in the Articles of Association preventing or contradicting this.

## 8. General meetings

The General Meeting is the main governing body of the Company. The Board shall ensure that as many shareholders as possible may exercise their voting rights in the Company's General Meetings, and that the General Meetings are an effective forum for the views of shareholders and the Board of Directors.

### Notification

No later than 21 days prior to the Ordinary General Meeting ("OGM"), an invitation will be made available on the Company's website, [www.hiddnsolutions.com](http://www.hiddnsolutions.com). This will include supporting information on resolutions to be considered, as well as the recommendations of the Nomination Committee. The Board of Directors seeks to ensure that all shareholders are provided with sufficient information to form qualified views on the matters discussed at the General Meeting.

The Company's Articles of Association provides that the Company does not have to send documents relating to matters to be considered by the General Meeting by mail to shareholders when these documents are made available on the Company's website. Any such documents shall, however, be sent free of charge upon request from individual shareholders. Further, the right to participate and vote at the Company's General Meeting can only be exercised for shares when the purchase of shares is listed in the shareholder register no later than five workdays prior to the General Meeting. Other than aforementioned, there are no provisions in the Articles of Association regarding General Meetings in the Company that deviates from the provisions of the Norwegian Public Limited Companies Act.

The OGM will be held no later than 30 June each year. The OGM will be held in Oslo, unless otherwise is clearly specified.

### Participation by shareholders in absentia

Shareholders that are unable to attend the General Meeting in person, are encouraged to vote by proxy. In connection with any General Meeting, the Company provides information on proxy voting, designate a person who will be available to vote on behalf of the shareholders in question, and prepare a form for the appointment of a proxy.

## Attendance, agenda and execution

Board members, the Nomination Committee and the auditor are encouraged to attend the General Meeting in person. The Company will make arrangements to ensure that an independent chairman for the General Meeting can be elected.

## 9. Nomination Committee

Requirements for the Company's Nomination Committee are outlined in the Articles of Association, §6.

According to the Company's Articles of Association section 6, the Company shall have a Nomination Committee consisting of 2-5 members by the further decision of the General Meeting. Pursuant to the guidelines for the Nomination Committee, the Nomination Committee shall, inter alia, assess the need for change in the Board of Directors, propose candidates for election to the Board of Directors and propose remuneration to be paid to such members. The current members of the Nomination Committee were elected at the Company's Extraordinary General Meeting in February 2018 and are Øystein Tvenge (chairman), Line S. Bakkevig and Henning Astrup.

Øystein Tvenge is also the chairman of the Board of Directors. This is in breach of the NUES recommendations, however, the resigning Nomination Committee considered Mr. Tvenge as a suitable candidate and recommended him as new chairman of the Nomination Committee, which was approved by the Company's General Meeting on 13 February 2018.

The Nomination Committee is responsible for assessing the need for change in the Board of Directors, proposing, in consultation with relevant shareholders, candidates for election to the Board of Directors, and proposing the remuneration to be paid to such members.

## 10. The Board of Directors – composition and independence

According to the Articles of Association, the Board of Directors should consist of three to seven members, chosen by the General Meeting. The Chairman of the Board is elected by the General Meeting.

The composition of the Board shall ensure that the Board can attend to the common interests of all shareholders

and meet the Company's need for expertise, capacity and diversity. It is of great importance to the Company that the board members have the relevant competencies to independently evaluate the cases presented to them by the executive management, as well as to monitor the daily operations of the Company.

As per 31 December 2017, the Board of Directors consisted of five members: Øystein Tvenge (chair), Cecilie Grue, Svein Willassen, Jeanette Dyhre Kvisvik and Jan Opsahl. Following the Extraordinary General Meeting in February 2018, Siw Ødegaard replaced Cecilie Grue as board member. A presentation of the Board of Directors can be found at the Company's website, [www.hiddnsolutions.com](http://www.hiddnsolutions.com).

The term of office for members of the Board of Directors shall not be longer than two years at the time. Members of the Board of Directors may be re-elected. The Company's Board of Directors shall normally not include members of the executive management team.

The Company strives to apply NUES' criteria to evaluate whether a director can be considered independent. The Board should have a composition that enables it to attend to the common interests of all shareholders and operate independently of special interests. Any deviation from the independency principle will be properly explained by the Company. Any director experiencing a change in his or her ability to act independently is obligated to notify the Chairman of the Board.

At least two of the shareholder-elected board members shall be independent of the Company's main shareholders. Board members Svein Willassen, Jeanette Dyhre Kvisvik and Siw Ødegaard are independent of the Company's main shareholders. No Board members are members of the Company's executive management team.

### **11. The Board of Directors – work and instructions**

The formal responsibilities of the Board of Directors are mandated by Norwegian law.

The fundamental responsibility of the directors is to oversee day-to-day management and evaluate strategy, to exercise their business judgment acting in what they reasonably believe to be the best interests of the Company and its shareholders. The Board of Directors is also to

oversee such matters as are required by statutory law, the Company's Articles of Association, policies, instructions and procedures as well as resolutions or the resolutions of the General Meeting.

It is the duty of the Board of Directors to monitor management's performance to ensure that the Company operates in an effective and ethical manner, focused on creating value for the Company's shareholders. The Board of Directors also evaluates the Company's overall strategy and evaluates performance against the management's operating plan.

The Board of Directors is responsible for supervising strategic, financial and execution risks, as well as exposures associated with the Company's business strategy, product innovation and sales road map, policy matters, significant litigation and regulatory exposures, and other current matters that may present material risk to the Company's financial performance, operations, infrastructure, plans, prospects or reputation, acquisitions and divestitures. Furthermore, the Board of Directors shall control the ongoing activities of the Company in a satisfactory manner.

#### **Instructions for the Board of Directors**

The Board of Directors shall produce an annual plan for its work with particular emphasis on objectives, strategy and implementation. The Board of Directors shall issue instructions for its own work as well as for the executive personnel with particular emphasis on clear internal allocation of responsibilities and duties. In order to ensure a more independent consideration of matters of a material character in which the Chairman of the Board is, or has been, personally involved, the Board's consideration of such matters shall be chaired by some other members of the Board.

#### **Instructions for the CEO**

Executive management and Board of Directors' responsibilities are clearly segregated.

The CEO shall follow the guidelines and instructions issued by the Board of Directors. The CEO is responsible for day-to-day management of the Company pursuant to section 6-14 of the Norwegian Public Limited Companies Act. The CEO represents the Company externally in matters that form part of the day-to-day management. The day to

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and meet the Company's need for expertise, capacity and diversity. It is of great importance to the Company that the board members have the relevant competencies to independently evaluate the cases presented to them by the executive management, as well as to monitor the daily operations of the Company.

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The Company strives to apply NUES' criteria to evaluate whether a director can be considered independent. The Board should have a composition that enables it to attend to the common interests of all shareholders and operate independently of special interests. Any deviation from the independency principle will be properly explained by the Company. Any director experiencing a change in his or her ability to act independently is obligated to notify the Chairman of the Board.

At least two of the shareholder-elected board members shall be independent of the Company's main shareholders. Board members Svein Willassen, Jeanette Dyhre Kvisvik and Siw Ødegaard are independent of the Company's main shareholders. No Board members are members of the Company's executive management team.

### **11. The Board of Directors – work and instructions**

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oversee such matters as are required by statutory law, the Company's Articles of Association, policies, instructions and procedures as well as resolutions or the resolutions of the General Meeting.

It is the duty of the Board of Directors to monitor management's performance to ensure that the Company operates in an effective and ethical manner, focused on creating value for the Company's shareholders. The Board of Directors also evaluates the Company's overall strategy and evaluates performance against the management's operating plan.

The Board of Directors is responsible for supervising strategic, financial and execution risks, as well as exposures associated with the Company's business strategy, product innovation and sales road map, policy matters, significant litigation and regulatory exposures, and other current matters that may present material risk to the Company's financial performance, operations, infrastructure, plans, prospects or reputation, acquisitions and divestitures. Furthermore, the Board of Directors shall control the ongoing activities of the Company in a satisfactory manner.

#### **Instructions for the Board of Directors**

The Board of Directors shall produce an annual plan for its work with particular emphasis on objectives, strategy and implementation. The Board of Directors shall issue instructions for its own work as well as for the executive personnel with particular emphasis on clear internal allocation of responsibilities and duties. In order to ensure a more independent consideration of matters of a material character in which the Chairman of the Board is, or has been, personally involved, the Board's consideration of such matters shall be chaired by some other members of the Board.

#### **Instructions for the CEO**

Executive management and Board of Directors' responsibilities are clearly segregated.

The CEO shall follow the guidelines and instructions issued by the Board of Directors. The CEO is responsible for day-to-day management of the Company pursuant to section 6-14 of the Norwegian Public Limited Companies Act. The CEO represents the Company externally in matters that form part of the day-to-day management. The day to

day management does not cover matters of extraordinary nature or of major importance. However, the CEO is authorized to decide on matters of extraordinary nature or of major importance in cases, where the decisions of the Board of Directors cannot be awaited without serious detriment for the Company. The Board of Directors shall be notified of the decision as soon as possible.

### **Financial reporting**

The Board of Directors is responsible for ensuring the integrity of financial information. The Board evaluates the integrity of the Company's accounting and financial reporting systems, including the audit of the Company's annual financial statements by the independent auditor, and that there are appropriate systems of internal control in place.

The main purpose of risk management and internal control is to provide reasonable assurance that the group will achieve:

- Compliance with legislation and regulations, as well as internal guidelines
- Quality and efficiency within internal operations
- Reliable internal and external reporting

Quarterly and annual financial reports are reviewed and approved at board meetings and form the basis for external financial reporting. Upon the presentation of year-end financial statements, the CEO and the CFO declare that the accounts have been prepared in accordance with generally accepted accounting principles, and that to the best of their knowledge, all information is accurate and no material information has been omitted.

The Company uses BDO AS as its external accountant and has also appointed BDO as the accountant for all its Group companies.

### **Disqualification**

The CEO or a member of the board may not participate in the discussion on Board issues that are of special financial or personal interest to the individual in question.

### **Committees**

The Hiddn Solutions ASA Group is a small company with less than 25 employees. Currently, the Board considers it premature to establish audit and remuneration committees. However, the Board will evaluate the need

for such committees as the complexity and size of the operations increase.

### **12. Risk management and internal control**

The Board of Directors performs an annual audit of the main risks and internal control routines of the Company. The audit shall encompass the issues that have been brought to the Board of Directors' attention throughout the year. The routines for internal control shall encompass the Company's adherence to its values, and its guidelines on ethics and corporate social responsibility.

### **13. Remuneration of the Board of Directors**

The Ordinary General Meeting approves the remuneration paid to the Board of Directors. The Nomination Committee is responsible for issuing a proposal on the remuneration terms to the OGM.

The Company has granted share options to two of its board members, which is not in compliance with the recommendations set out in NUES. The arrangement gives a right for the board members to use their board remuneration as consideration for the shares issued pursuant to exercise of the options. The background for the arrangement is to allow board members to use their board remuneration as contribution for shares in the Company.

### **14. Remuneration of executive management**

In accordance with the Norwegian Public Limited Liability Companies Act, the Board of Directors establishes guidelines for the remuneration of the executive management team. These guidelines are presented to the General Meeting through a statement on remuneration for executive management. The statement is presented for an advisory vote, save for any share-based remuneration, which is subject to the General Meeting's approval. The Company's general principle for management remuneration is to offer competitive terms, in order to attract and retain the competence it needs.

In June 2017, the Ordinary General Meeting authorized the issuance of up to 6,709,940 options to employees and others providing similar services. In November 2017, the Group granted 4,440,000 options to employees and two members of the Board of Directors. The options have an exercise price of NOK 2.0 per share and vests over a period from 7.5 months to 31.5 months. The options to the employees expire on 1 July 2022.

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For details on the remuneration of the Company's executive management, see note 5 to the consolidated financial statement.

### 15. Information and communication

Regular information to the Company's shareholders and the market is provided through the annual report, quarterly reports and open presentations.

All reports and notices are issued and distributed according to the rules and regulations of the Oslo Stock Exchange. Insider information is treated in accordance with Norwegian law. Shareholder information, including the financial calendar, is available on [www.hiddnsolutions.com/investor](http://www.hiddnsolutions.com/investor). The Company's CEO is responsible for all investor relations.

The Company has established procedures for discussions with shareholders other than Ordinary General Meetings. All information distributed to the Company's shareholders is published on the Company's website at the same time as it is sent to shareholders.

### 16. Take-overs

There are no defense mechanisms against take-over bids in the Company's Articles of Association or in any underlying steering document. In corporate take-overs or restructuring situations, the Board shall exercise due and proper care so that all shareholder values and interests are preserved. The Board of Directors will ensure that the shareholders are given sufficient information and time to form a view of the offer in a bid situation.

The Board of Directors will handle take-over bids in accordance with Norwegian laws and regulations. Furthermore, the Board of Directors will seek to comply with the recommendations set out in the NUES, including arranging for a valuation from an independent expert and making a recommendation as to whether or not the shareholders should accept the bid.

Other than the guidelines described above, the Board of Directors has not found it appropriate to establish any other written explicit principles for how it will act in the event of a take-over bid.

### 17. Auditor

The external auditor is elected by the General Meeting. The auditor is fully independent of the Company. Ernst & Young is the Company's auditor. The Company represents a small share of the auditor's total business. The Board of Directors is satisfied with its communications with the auditor.

Each year the auditor presents the Board of Directors with a plan for the implementation of the audit, and a written confirmation that the auditor satisfies established requirements pertaining to independence and objectivity. Upon request, the auditor participates in board meetings. The auditor provides the Board with its perspectives on the annual statement and informs of any disagreements between the auditor and the executive management. The Board of Directors also has contact with the auditor when required outside the situations mentioned above.

At least once a year, the auditor attends a meeting with the Board of Directors in which no representatives from the Company's executive management will be present. During 2017, the auditor attended 2 board meetings.

The auditor is present at the General Meeting, where the Board of Directors also informs about the compensation for the auditory work required by law and remuneration associated with other assignments. Information of the fees paid to the auditor in 2017, including breakdown between statutory auditing and other assistance/service is presented in note 7 to the consolidated financial statements.

In connection with the auditor's presentation to the Board of Directors of the annual work plan, the Board of Directors considers if the auditor to a satisfactory degree also carries out a control function.