napa:tech;
RECONFIGURABLE COMPUTING

2021 Annual Report

ADOPTED ON THE ANNUAL GENERAL MEETING 2022 ON 26 APRIL 2022

J. Hansen

JØRGEN BEK WEISS HANSEN
CHAIRMAN OF THE MEETING

NAPATECH A/S, Tobaksvejen 23 A, 1., DK-2860 Soeborg • CVR no. 10109124

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DEAR READER

On the Edge of Possible

The highly acclaimed Danish architect, Jørn Oberg Utzon (1918-2008) was quoted about his famous design of the Sydney Opera House "I like to be on the edge of possible." When he designed this masterpiece that still stands the test of time, he pushed the limits of structural design. As architects do, even when pushing the possible, they must still build a solid foundation. It is the combination of these architectural principles, pushing the limits of possibility on a strong foundation when the results both stun the world while standing the test of time.

Napatech's ambitions mirror this philosophy quite well. We are pushing the limits of our possibilities while the foundation of our business remains strong.

As CEO, my mission has always been to build stability by investing in our position of strength and pushing the limits of possibility driving R&D in new areas where we believe we could win. Our foundation is our technical leadership in world-class FPGA-based SmartNICs to accelerate networking and cybersecurity applications in the data center. The limits of possibility we are pushing are adding features that bring our solution into new markets where we solve emerging real-world problems. We have navigated Napatech into the most compelling position ever, and we are poised to make significant progress in achieving this mission.

We hold ourselves highly accountable setting high aspirations for revenue growth but also hold ourselves firmly to our core value around our position of strength and our solid foundation from which we will grow. So far – so good.

Our results in 2021 are notable. We delivered our best earnings results ever despite the challenges we faced. We set high goals to build new partnerships to earn access to a broader market. We maintained a transparent posture for our investors to know exactly where we stood, knowing the risks and the rewards to unlock higher revenue growth. While we delivered our 13th quarter in a row of YoY revenue growth, we wanted to do more, and we will do better in the coming years as our partnerships mature.

According to the Industry Analysts, the total overall NIC market will approach $2.8B USD this year growing to $5.6B by 2025. The SmartNIC segment of this market, where Napatech is focused, will grow to $3.6B and is the fastest-growing segment of the overall NIC market. This growth is being driven by deployments by hyperscalers, cloud operators, telecom, and enterprises. Combined with the evolution of the SmartNIC into new Data Processing Units (DPUs) and Infra-structure Processing Units (IPUs) to offload the entire virtual network stack, one can surmise that the SmartNIC market is more lucrative and compelling than ever.

We are navigating Napatech to be a key player in this market evolution by doing what we do best, accelerating applications and virtual network functions on FPGA-based SmartNICs.

As we enter 2022, Napatech's solutions are needed even more than ever to improve network visibility, application performance with better security. We believe Napatech has never been in a more compelling position to take advantage of this opportunity. We remain focused on R&D, enhancing our existing products while building new solutions that are delivering new and future growth. We carefully manage sales and marketing to efficiently get to the right opportunities. We are driving our operating cost structure and product costs, all while delivering record-breaking earnings.

We are investing in our world-class expertise building high-performance SmartNIC software on FPGA's to improve the way networks work. Our technology plays a relevant role in a market where the application is finding itself at the center of this highly-virtualized world that needs Napatech's solutions to improve everything about it. ***Faster. Smarter. More secure.***

We are confident that we have entered a new phase of possibility for Napatech. We will keep *pushing the possible* while *maintaining a strong foundation* from which to grow.

Humbly committed and focused,

Ray Smets
Chief Executive Office

THE NAPATECH OPPORTUNITY

Modern Datacenters Supercharged by Programmable SmartNICs

A TIDAL WAVE OF DATA HAS ARRIVED

We have entered an era of massive, distributed, digital, data that has changed nearly every aspect of communications and decision making. At the forefront of this surge is an enormous set of newly connected devices, that includes hundreds of millions of personal computers, billions of smartphones and mobile devices, and trillions of new connected devices such as home automation, autonomous vehicles, smart cities, factory automation and so much more.

Along with these connected devices comes an even larger explosion in applications, services, and use-cases for these items.

These devices, applications, and services combined to create an estimated 75 zettabytes of data in 2021. The increase from those items is forecasted to more than double to 175 zettabytes in 2025, and exceed 600 zettabytes by 2030.

To begin to comprehend the enormity of this scale, one zettabyte has twenty-one zeros after the one. A single zettabyte contains enough high-definition video to play continuously for 36,000 years. To realize how fast things are moving, more than 90 percent of the world's digital data has been created in the past two years alone. The information created from sources such as video, audio, sensors, and other sources, will be compounded further as the raw data is further processed and analyzed with emerging machine learning and artificial intelligence algorithms.

LEGACY DATACENTERS ARE IN DECLINE

Consequently, we are generating more information, from more sources, than the existing IT resources can create, process, deliver, secure, analyze and store in the timeframes needed. When faced with shifts in scale in the past, organizations defaulted to methods such as cyclical server CPU and network infrastructure upgrades. Today several factors have conspired to diminish the impact provided by those actions. Most significant is the rapid decline of Moore's Law, which has reduced the performance and cost benefits that are realized in each upgrade cycle. Further, the workloads required of those CPUs are increasing exponentially, due to additional algorithms being applied actively in-flight across the network including analytics powered by machine learning and artificial intelligence; signature and pattern matching in response to a constantly evolving threat landscape with sophisticated actors changing their posture frequently, and network infrastructure I/O increasing to keep pace – all faster than the networks and the hardware that underpins them can evolve or be upgraded.

MODERN ARCHITECTURES HAVE EMERGED

To overcome these challenges a new network architecture for modern datacenters has emerged. The networks are transitioning away from expensive, large, proprietary, monolithic, vertically integrated systems. A new method of software-defined networking exists where network functions are being disaggregated from the hardware, virtualized, and delivered as software instances on open, standard, low-cost computing platforms – servers. This results in a world where best-in-breed solutions can interchangeably come together across servers, processors, accelerators, applications, and operating systems, in a low-cost manner.

The new datacenter is cloud-native, enabling increased levels of flexibility and scalability. It is more intelligent, powered by machine learning and artificial intelligence. It has advanced security by distributing microservices into every network element and location that needs them. Cloud, edge, mobile, and enterprise multi-cloud networks work in harmony to create, process, transport, analyze, secure, store, archive, and share a massive amount of data.

SMARTNICS PLAY A CENTRAL ROLE

A central part of the modern datacenter architecture is the design principle of heterogeneous computing. Legacy architectures viewed the central processing unit (CPU) as the primary device in datacenter computing. Now it is just one of many processing elements that make up the modern datacenter, which includes devices that are purpose-built for the specific workloads they are optimized to handle. This results in a new view that is no longer accelerating the CPU, but a model of coprocessors spread throughout the network.

It is here where the programmable SmartNIC plays a central role in the datacenter. These programmable, data processing units (DPUs) or infrastructure processing units (IPUs) now become the fabric or spine of the network, distributing workloads across virtual machines, containers, network slices, storage elements, machine learning, artificial intelligence engines, and applications and services running on CPUs. This architecture allows the CPUs to deliver the applications and services they were intended to, and leave the networking, storage, security, and analytics to devices better suited for those tasks.

DEPLOYED IN NETWORKS OF EVERY TYPE

This approach to datacenter design originated in the hyperscale cloud network operators and proved to deliver enormous benefits in terms of cost, power, performance, utilization, and sustainability. Although in its infancy today, these same designs are in high demand by network builders everywhere. Engineers that build appliances and servers for original equipment manufacturers (OEMs) are using programmable SmartNICs to power their next generations designs. End users who build their own systems are following suit. Tier-2 cloud operators are following in the footprints of their larger tier-1 peers to host applications and centrally store data. Communications service providers (CSPs) in mobile, telco, and cable networks are providing secure, high-bandwidth access to millions of simultaneous users. Enterprises are now able to define the optimal balance of on- and off-premise data and workloads through hybrid- and multi-cloud designs. And new edge computing datacenters are providing localized, real-time, high-throughput, and low-latency access for everything in between. All of these networks are now based on programmable SmartNICs for the DPU and IPU requirements.

With Napatech programmable SmartNIC hardware and software, IT network operators of every size can mimic the architectures and designs of the largest hyperscale cloud operators who invented the technologies, while achieving all the benefits of cost and performance with a simple and easy-to-use out-of-box experience.

BENEFITS TO AN ARRAY OF APPLICATIONS

Programmable SmartNICs are envisioned to power so many servers in as many networks because of the wide range of profitable applications and services they enable. Programmable SmartNICs are used today in Cybersecurity applications such as next-generation firewalls, data loss prevention, intrusion prevention, and many others. They are used to improve 5G mobile applications for infrastructure virtualization, signaling gateways, subscriber authentication, and service delivery. They are used in cloud and edge computing for network and server virtualization, and tenant isolation. They are regularly found in financial services for high-frequency trading and trading algorithm simulation. They also have a long and proven track record of success in numerous network monitoring, recording, and testing applications.

LEVERAGING OUR LEADERSHIP POSITION

Napatech is a pioneer in the design, development, and deployment of programmable SmartNICs. With more than 200 satisfied customers and over 200,000 SmartNIC ports shipped, Napatech has established itself as a leader as the number one global vendor for FPGA-based programmable SmartNICs. Our early leadership in the emerging market provides an envious position to grow and evolve with our customers as their networks and services expand to address more use-cases.

INVESTING IN THE FUTURE

The industry trends play to Napatech's strengths. Our recent investments have given the company an opportunity to succeed with our programmable SmartNICs, and the early results provide validation of our product and technology strategy. Our strategy for programmable SmartNICs is shaped by three key aspects:

Application Driven: our solutions are driven by the needs of software applications, which means that all capabilities and performance are designed with the needs of specific software applications in mind. We ensure that our solutions target the largest and fastest-growing applications.

Software Focused: The value of Napatech solutions shine through in our software. We deliver production-grade, high quality, high performance, and feature-rich SmartNIC software that brings life to FPGA-based programmable SmartNICs.

Hardware Independent: Napatech designs and develops its own family of FPGA-based SmartNIC hardware, and partners with other leading vendors. Napatech ensures that our software designs deliver the same stunning features and performance across a wide range of FPGAs from industry-leading suppliers. We believe that anywhere an FPGA is deployed inside of a datacenter to improve performance, that is a home for Napatech's software.

Combined, the tenets of our product strategy allow us to address the market that is envisioned to exceed $5.6B USD in 2025.

TECHNOLOGY DIFFERENTIATION

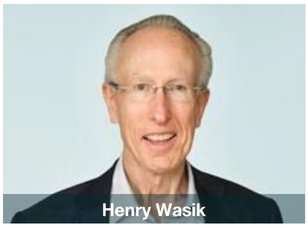
The benefits provided by Napatech programmable SmartNICs starts with focus and ends with making the best technology decisions. Napatech is singularly focused on programmable SmartNICs for infrastructure IPU) and data processing (DPU) in modern datacenters. Our success in these areas comes from our commitment to field-programmable gate arrays (FPGAs) as the best processing technology over lesser-suited alternatives that include CPUs, ARM SOCs, NPUs, and ASICs. Unlike any other alternative, only FPGAs provide the networking performance, and programmability to deliver hardware performance at the speed of software innovation. FPGAs make up more than 70% of the programmable SmartNICs deployed globally today. Napatech is a proud partner of the top FPGA manufacturers, and our solutions include support for the best products in their portfolios.

OUR PEOPLE

The solutions Napatech provides are made possible by a highly skilled team that is a part of an organization that has built unique skills, and patented methods, for sophisticated software and hardware development of FPGAs in datacenter designs. We are committed to serving our customers through the development of innovative market-leading solutions in open and standard products as well as customer-centric integrations and co-development.

BOARD AND MANAGEMENT PRESENTATION

BOARD OF DIRECTORS



MANAGEMENT TEAM

BOARD OF DIRECTORS

Lars Boilesen, Chairman of the Board. Born in 1967. Member of the Board since 2017, re-elected in 2021, term expires 2022.
Holds a bachelor's degree in Business Economics from Aarhus School of Business and a postgraduate diploma from Kolding Business School.
Fulfills the Committee of Corporate Governance definition of independence.
Other directorships: Chairman of the Board for Cobuilder AS
Special competencies: Lars Boilesen has extensive experience in the international software and technology industry. He currently serves as Chief Executive Officer for the Norwegian-listed software company Opera Software ASA (Opera), where he has overseen the sale of the company's browser, privacy and performance apps to a Chinese consortium. He has also been involved in a number of acquisitions, including that of AdColony in 2014. Prior to becoming the CEO of Opera in 2010, Boilesen served as the company's Executive Vice President of Sales & Distribution from 2000 to 2005 and was on the Board of Directors from 2007 to 2009. Boilesen spent several years at Tandberg as head of the Northern Europe and Asian-Pacific markets and as Vice President of Worldwide Sales and Sales Director. He also served as CEO for the Nordic and Baltic Region at Alcatel-Lucent and as Marketing Manager for Eastern Europe in LEGO Group.

Christian Jebsen, Board member. Born in 1967. Member of the Board since 2019, re-elected in 2021, term expires 2022.
Holds a B.S. degree in economics and B.A. from Copenhagen Business School
Does not fulfill the Committee of Corporate Governance definition of independence as he represents the largest shareholder controlling 27.2% of the shares in Napatech A/S.
Other directorships: Board member of Kitron ASA. Jebsen has also multiple board positions in portfolio companies of Verdane Capital
Special competencies: Christian Jebsen is a partner at Verdane Capital. Prior to Verdane, Jebsen has had a number of executive management positions in listed and unlisted companies including CEO of Kebony AS, CEO of Vmetro ASA, CFO/COO of Opera Software ASA, and CEO of Stavdal ASA. Jebsen's professional background also includes seven years of investment banking experience with Nomura International in London and Enskilda Securities (SEB) in Stockholm and Oslo.

Howard Bubb, Board member. Born in 1954. Member of the Board since 2016, re-elected in 2021, term expires 2022.
Holds a Bachelor of Science degree, from California Institute of Technology
Fulfills the Committee of Corporate Governance definition of independency
Other directorships: No other directorships or executive functions
Special competencies: Howard Bubb has served as a public company CEO, board member, Fortune 50 executive, venture-backed entrepreneur, professional mentor, and management consultant. Bubb has been consulting since 2009 working with corporate leaders to accelerate new strategies for growth and transformation while developing leadership. A strong leader of people, he blends strategy and execution skills with a keen ability to engage talent.

Henry Wasik, Board member. Born in 1955. Member of the Board since 2017, re-elected in 2021, term expires 2022.
Holds a Bachelor of Science degree in Electrical and Electronic Engineering from the University of Bridgeport, and an MBA from the Georgia Institute of Technology
Fulfills the Committee of Corporate Governance definition of independence.
Other directorships: No other directorships or executive functions
Special competencies: Henry Wasik brings a significant depth of experience and insight to high technology businesses with a distinguished thirty-year pedigree at the highest levels of the global technology sector. His experience ranges from early-stage startups to running multi-billion dollar global businesses. His industry background spans multiple markets including semiconductors (Mostek), Enterprise PBXs (Intecom), large-scale global carrier network systems (Alcatel/DSC), web-scale data centers (Force10 Networks), and technologically cutting-edge cloud services and software (Joyent).

EXECUTIVE MANAGEMENT BOARD

Ray Smets, CEO. Born in 1963. Joined Napatech in July 2018
Heine Thorsgaard, CFO. Born in 1972. Joined Napatech in November 2018

SHARES AND WARRANTS

	Number of shares 31 December 2020	Change in fiscal year, shares	Number of shares 31 December 2021	Total number of warrants 1 January 2021	Number of warrants exercised in 2021	Number of warrants granted in 2021	Total number of warrants 31 December 2021
Board of Directors							
Lars Boilesen	320,000	-	320,000	-	-	-	-
Howard Bubb	70,000	-	70,000	-	-	-	-
Henry Wasik	200,000	-	200,000	-	-	-	-
Christian Jebsen	-	-	-	-	-	-	-
Executive Board							
Ray Smets	380,000	-	380,000	1,967,244	-	-	1,967,244
Heine Thorsgaard	-	-	-	255,000	-	100,000	355,000

GROUP KEY FIGURES AND RATIOS

KEY FIGURES (DKK '000)	**2021**	**2020**	**2019**	**2018**	**2017**
Revenue	195,471	194,233	170,607	106,153	206,046
Gross profit	140,358	138,968	127,186	49,093	139,435
EBITDA	52,915	35,361	15,273	(74,972)	13,885
EBIT	30,662	10,085	(10,082)	(182,530)	(23,870)
Net finance income / (expense)	6,336	(5,004)	(4,170)	(9,576)	(5,956)
Profit / (loss) before tax	36,998	5,081	(14,252)	(192,106)	(29,826)
Profit / (loss) for the year	40,228	9,595	(13,601)	(179,298)	(24,431)
Investments in intangible assets	28,503	15,041	15,152	35,411	48,402
Investments in tangible assets	7,111	1,204	510	461	4,864
Net working capital	44,526	3,419	17,427	28,241	51,486
Total assets	176,726	152,855	162,690	127,133	266,176
Equity	133,472	89,768	78,452	34,719	183,167
Net cash flows from operating activities	14,950	47,642	26,448	(47,899)	15,081
Free cash flow	(16,003)	33,619	12,591	(81,542)	(38,214)
Cash at the end of year	39,449	62,698	64,306	17,159	39,967
Average number of employees	81	78	81	107	114
FINANCIAL REPORTING RATIOS (%)					
Gross profit margin	71.8%	71.5%	74.5%	46.2%	67.7%
EBITDA margin	27.1%	18.2%	9.0%	-70.6%	6.7%
Current ratio	313.3%	201.3%	162.8%	100.3%	181.8%
Return on equity	36.0%	11.4%	-24.0%	-164.6%	-12.6%
SHARE RELATED RATIOS (DKK)					
Basic EPS	0.48	0.12	(0.20)	(6.55)	(1.03)
Diluted EPS	0.47	0.11	(0.19)	(6.54)	(1.00)
Operating cash flow per share	0.17	0.56	0.38	(1.75)	0.62
Free cash flow per share	(0.19)	0.39	0.18	(2.98)	(1.57)

Comparatives for 2017 are not restated following the implementation of IFRS 9 and 15 and comparatives for 2017 - 2018 are not restated following the implementation of IFRS 16.

KEY FIGURE AND RATIO EXPLANATIONS AND DEFINITIONS

The financial highlights and ratios are defined and calculated as following:

Ratio	Calculation formula	Explanation
Gross profit margin	$\frac{\text{Gross profit}}{\text{Revenue}} \times 100$	The ratio represents the percentage of the revenue less cost of goods sold to cover staff costs, other external costs, depreciation and amortization, and finance costs.
EBITDA margin	$\frac{\text{Earnings Before Interest, Taxes, Depreciation and Amortization}}{\text{Revenue}} \times 100$	The ratio represents an operating profitability measure.
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}} \times 100$	The ratio represents the percentage of the Group's resources to meet its liabilities over the next 12 months.
Return on equity	$\frac{\text{Profit for the year}}{\text{Average equity}} \times 100$	The ratio represents the Group's ability to generate a return to shareholders taking into account its own capital base.
Operating cash flow per share	$\frac{\text{Cash flows from operating activities}}{\text{Average number of diluted shares}} \times 100$	The ratio represents the Group's ability to generate cash flow from operating activities per the average number of diluted shares.
Free cash flow per share	$\frac{\text{Free cash flow}}{\text{Average number of diluted shares}} \times 100$	The ratio represents the Group's ability to generate cash flow from operating and investing activities per the average number of diluted shares.

Net working capital represents the value of inventories, trade receivables, and other current operating assets less trade payables, and other current operating liabilities. Cash and cash equivalents and income tax receivable or payable are not part of the net working capital.

Cash flows from operating activities are profit or loss before tax added or deducted changes in the net working capital, added or deducted changes in provisions, and added the yearly depreciation and amortization.

Free cash flow is net cash flow from operating activities added or deducted investing activities.

The Group's basic and diluted earnings per share (EPS) is calculated in accordance with IAS 33 and specified in Note 14 to the consolidated financial statements.

BOARD OF DIRECTORS' REPORT 2021

2021 resulted in significant earnings growth, and increased investments in new product development.

SUMMARY

The foundation of Napatech is its technical leadership designing world class FPGA-based SmartNIC solutions to accelerate networking and cybersecurity applications in the modern data center. The limits of possibility we are pushing are adding features that bring our solution into new market areas where we solve emerging real-world problems. We have navigated Napatech into one of our most compelling positions ever, and we are poised to make significant progress achieving this mission. We remained focused on R&D enhancing our existing products while building new solutions that are delivering new and future growth. We carefully managed sales and marketing to efficiently get to the right opportunities. We drove our operating cost-structure and product costs, all while delivering record-breaking earnings

Despite a very challenging supply chain situation during all of 2021, we managed to grow revenue while keeping product margins high and improving our internal cost structure. At the same time, we increased our research and development activities on building products for future growth. The revenue growth and operating improvements resulted for the third year in a row in a significant improvement to the operating result in 2021.

The aspiration of Napatech is to be perceived as a global leader in the market of programmable network interface cards focusing on delivering the solutions, technologies, and expertise necessary to enable larger organizations, that rely on IT for their business, to reap the benefits of reconfigurable computing.

THE MARKET

Napatech's opportunity is in the fastest-growing segments of information technology (IT), datacenters. Napatech's programmable SmartNICs are used as Infrastructure Processing units (IPUs) and Data Processing Units (DPUs) that create the new fabric of modern datacenters. Napatech is the leading supplier of programmable FPGA-based SmartNIC solutions used in telecom, cloud, enterprise, cybersecurity, and financial applications worldwide. Through commercial-grade software suites integrated with robust, high-performance hardware, Napatech accelerates telecom, networking, and security workloads to deliver best-in-class system-level performance while maximizing the availability of server compute resources for running applications and services.

Our strategy is to design, develop and deliver solutions that leverage our unique expertise and experience with FPGA-based network interface cards that are easy for our customers to implement and use.

Over the last decade, cloud service providers have led innovation in new networking, storage, and compute paradigms centered around programmable network interface cards as well as software automation of data center operations. This investment has been necessary to support the exponential growth these companies have experienced during this time and which no commercially available offerings could support. It has allowed them to reduce costs and dramatically increase the speed at which they can release new products, services, and capabilities. The innovations and technological solutions to the increased demand for higher computing capacity implemented by the hyperscale cloud service providers are being copied by large corporations and are expected to drive impressive growth in the programmable NIC market for years to come.

As ethernet adapters will offload more CPU tasks and move to higher speeds, new use cases for programmable NICs like Napatech's are emerging, creating new market opportunities for Napatech. This will enable us to address a much larger part of the market. Napatech has been a leading vendor of FPGA-based network interface cards since 2003. The company is headquartered in Copenhagen, Denmark, and has an office in the United States.

GROUP ENTITIES

The United States subsidiary has an office in Portsmouth, NH.

FINANCIAL DEVELOPMENT (2020 FIGURES IN BRACKETS)

In 2021 Napatech generated total revenue of DKK 195.5 million (DKK 194.2 million) representing revenue growth of 1%. The growth is related to increased sales in North America. Revenue in North America grew 5% in 2021 compared to 2020 and revenue decreased 11% in the Rest of the World.

The gross margin in 2021 was 71.8% compared to 71.5% in 2020. The change in gross margin of 0.3%-points is related to a small change in product mix.

Operating expenses before staff costs transferred to capitalized development costs in 2021 amounted to DKK 111.7 million, compared to DKK 117.1 million in 2020. The change from 2020 is primarily due to lower variable pay being paid out in 2021.

Staff costs transferred to development costs in 2021 amounted to DKK 23.6 million compared to DKK 13.5 million in 2020. The increase is due to activities related to the new virtualization products.

EBITDA in 2021 was positive DKK 52.9 million compared to positive DKK 35.4 million in 2020. Depreciation, amortization, and impairment in 2021 were DKK 22.3 million compared to DKK 25.3 million in 2020.

The result for the year was positive DKK 40.2 million (positive DKK 9.6 million).

Napatech had total assets of DKK 176.7 million on December 31, 2021, compared with DKK 152.9 million on December 31, 2020. The increase of DKK 23.9 million is primarily related to an increase in non-current assets of DKK 18.6 million, largely related to development projects, and an increase in current assets of DKK 5.2 million, related to trade receivables and inventory.

Napatech's total liabilities were DKK 43.3 million on December 31, 2021, compared with DKK 63.1 million on December 31, 2020. The decrease in total liabilities is primarily driven by a decrease in Other payables and interest-bearing loans and borrowings.

The group's equity at the end of the year was DKK 133.5 million (DKK 89.8 million).

The group has in-house development resources, developing new products and new functionality. The group also engages external consultants for specific development projects. Development costs are capitalized in compliance with IFRS. DKK 28.5 million was capitalized in 2021 (DKK 15.0 million).

The group had a negative net change in cash of DKK 24.3 million (negative DKK 0.1 million). The net change in cash was affected by a negative free cash flow of DKK 16.0 million, and negative net cash flows from financing activities of DKK 8.3 million of which the net impact from repayment of borrowing was negative DKK 4.8 million.

Napatech issued its original guidance for 2021 on February 25, 2021, and its latest updated outlook on January 3, 2022:

Guidance in DKK million	Original	Latest	Actuals
Revenue	210-230	192-196	195.5
Gross margin	70-72%	70-72%	71.8%
Staff costs & Other external costs	125-135	125-135	111.7
Staff costs transferred to capitalized development costs	20-25	20-25	23.6
Depreciation and amortization	20-25	20-25	22.3

Compared to the latest issued guidance reported revenue is in the upper part of the guided range, and gross margin is in the upper end of the guided range. Staff costs and other external costs ended in 2021 DKK 13.3 million below the original and the updated guidance for the year mainly due to lower variable pay. Depreciation and amortization in 2021 ended within the guided range.

FINANCIAL DEVELOPMENT IN THE PARENT COMPANY

Net revenues for the parent company in 2021 came in at DKK 164.4 million (DKK 157.3 million) representing an increase 5%. The EBITDA in the parent company for 2021 was positive DKK 51.8 million (positive DKK 34.8 million), and the result before tax was DKK 36.0 million (DKK 4.2 million).

DEVELOPMENT ACTIVITIES AND KNOWLEDGE

Historically, the company has had a high focus on the development of new SmartNIC-based products and solutions, both for new and existing markets. This work continued throughout 2021 and the company used significant resources on research and development within cybersecurity and Virtualized Network Functions.

Napatech underlines its technology leadership by providing new and innovative products and functionality for our entire portfolio of 1, 10, 25, 40, 50, 100, and 200-gigabit products. In 2021, we continued the journey of disaggregating our products and increasing our focus on becoming more software-centric, making our offerings more widely deployable by a broader set of customers in more networks.

Napatech spent a significant part of its research and development activity during the year developing virtualized switching solutions and solutions for the growing mobile market within cybersecurity and network management. Significant strategic partnerships have been established around these products, and Napatech is expecting significant revenue related to these products in the coming years. The Napatech development team is organized into smaller cross-functional teams to secure optimal information sharing and agile product development. In addition, there is extensive use of IT tools that support the sharing of knowledge. All development activities are done in the parent company, in Denmark, which ensures a high degree of collaboration, focus, and operational excellence.

DIVIDEND

So far, the company has not distributed any dividends and does not expect to do so in the near future.

CORPORATE GOVERNANCE

The company's Board of Directors recognizes the importance of good Corporate Governance. This is ensured through interaction between shareholders, the Board of Directors, and the administration. Napatech's goal is that all interested parties are confident that the group's activities are carried out acceptably and that the governing body has sufficient insight and influence to undertake their functions.

The communication between the company and shareholders primarily takes place at the annual general meeting, quarterly reporting, and via company announcements. The company shareholders are encouraged to subscribe to our newsletter service to receive company news via email.

Guidelines on Corporate Governance are approved annually by the Board of Directors or when deemed necessary.

Napatech A/S is subject to Danish law but is listed on Nasdaq Oslo. Napatech follows the Danish recommendations for good

Corporate Governance. The Company follows the majority of the Danish recommendations for good Corporate Governance except for a few areas where Napatech has chosen a different approach compared to the recommendations. The statutory report on Corporate Governance is available at www.napatech.com/corporate-governance/report2021.

The Board of Directors has established two committees within the Board; the Remuneration Committee and the Audit Committee, which both are sub-committees of the Board (the Board committees report to the Board of Directors) and operate according to the established internal procedures for each committee decided by the Board of Directors.

The Remuneration Committee is composed of three members of the Board of Directors. Lars Boilesen is the Chairman of the Remuneration Committee and Howard Bubb and Henry Wasik are members.

The Remuneration Committee handles the company's remuneration policy and program and presents recommendations to the Board of Directors for decision according to its meeting protocols and underlying material prepared. The committee annually evaluates the CEO's remuneration and presents recommendations to the Board of Directors for a decision. When the company's remuneration policy proposes a change, it is subject to approval in the annual general meeting. The committee has prepared a separate Remuneration Report to be presented at the annual general meeting. The remuneration report provides an overview of the total remuneration received by each member of the board of directors and the executive management board of Napatech. The report is available on www.napatech.com/remuneration/report2021.

The Audit Committee is composed of three members of the Board of Directors. Christian Jebsen is the Chairman of the committee, and Howard Bubb, and Henry Wasik are members. This committee supports the Board of Directors in fulfilling its responsibilities, concerning financial reporting, auditing matters, internal control, and risk matters. The Audit Committee has 2 meetings per year with the company auditors.

The company's Board of Directors shall have a diverse composition and competence tailored to meet the company's needs. The Board of Directors' work complies with the company's internal instructions, guidelines, and procedures for the Board members. The Board normally also carries out a self-assessment of its activities and competence.

The Board of Directors held 13 board meetings in 2021, out of which 4 were for the approval of the quarterly reporting and presentations.

The company's corporate governance guidelines, including the annual Corporate Governance status, can be found in the investor relations section www.napatech.com/investor-relations.

RISKS

The group is, due to its normal course of business, exposed to many risk factors. The group operates in a technology market that could change the need for the solutions that Napatech provides. The customers are mainly large tier-one customers, with normal credit terms. The group is not significantly exposed to credit risks, but as some customers are large, the outstanding amounts can potentially be substantial.
The group is exposed to operational risks due to the dependence on suppliers to deliver both components and the finished products necessary to recognize revenue. The group's growth partly depends on the delivery and adoption of new products and functionalities by the market.
As the group has all revenue in USD, as well as some assets in USD, there is a risk that fluctuations in the USD exchange rate will affect our financial performance.

RISK MANAGEMENT AND INTERNAL CONTROL

Managing risk related to the group's financial performance is controlled by our CFO. The Board of Directors receives monthly financial reports from the finance department, including key financial and operational performance indicators. The company presents interim management statements for Q1, Q3, and Q4, and half-year report per IAS 34 to the market.

CORPORATE SOCIAL RESPONSIBILITY

Napatech is keen to comply with the Responsible Business Alliance (RBA), formerly the Electronic Industry Citizenship Coalition (EICC), Code of Conduct that establishes standards to ensure that working conditions in the electronics industry or industries in which electronics is a key component and its supply chains are safe, that workers are treated with respect and dignity, and that business operations are environmentally responsible and conducted ethically. Napatech RBA (EICC) conformance statement is available on request through the company website.

Companies in the group do not generate higher levels of direct pollution or emissions than those that are normal for a company in the industry. The working environment is considered to be good, and the general well-being in the workplace is high.

At Napatech, we assign resources to ensure compliance with the constantly changing legislation. We make sure that working conditions are safe and that our employees are treated with fairness, respect, and dignity.

Any form of corruption, extortion, or embezzlement is strictly prohibited. No bribes or improper advantages are offered or accepted. Compliance with RBA's Code of Conduct is a matter of course. We have never received a single fine or penalty regarding a corporate, employee, or environmental issue.

We are committed to conducting business operations in an environmentally responsible and ethical manner and have established a Conflict Mineral policy intending to only use tin, tantalum, tungsten, and gold (3TG) as well as cobalt that originates from conflict-free sources. All components are screened towards the Responsible Minerals Initiative (RMI) smelter database, the actual screening is outsourced to GreenSoft Technology. Since 2017, our 1-gigabit and 10-gigabit products have been 100% conflict-free. And since 2018 this also applies to our products for 40G and 100G making all our products 100% conflict-free. We are proud to have maintained this position throughout 2021. Our commitment to achieving 100% conflict-free products is supported by our membership in RMI.

Napatech's Corporate Social Responsibility policy regarding Section 99a and b of the Danish Financial Statements Act, on corporate social responsibility and reporting on the gender composition of management is available on www.napatech.com/investor-relations/corporate-governance and our CSR report for 2021 is available on www.napatech.com/csr/report2021.

DATA ETHICS POLICY

In compliance with the requirements under section 99(d) of the Danish Financial Statements Act Napatech has implemented a data ethics policy. Napatech complies with both Danish and EU laws on data and privacy protection, and we recognize that thoughtful and responsible decision-making guided by internal policies can be needed as laws and regulations sometimes do not necessarily provide clear ethical guidance.

Napatech wants to be perceived as a respected, competent, and proper business partner who complies with current legislation and follows developments in good data ethics. We aspire to treat all the data we produce as part of our daily operations ethically and responsibly, and our approach to the handling of data is based on three key principles: trust, integrity, and security.

Napatech uses and processes data both nonpersonal data and personal data. We collect data regarding Napatech employees for administrative purposes, and contact details on customers and their employees to be able to deliver our consultancy services. We also collect data from our webpage mainly for marketing purposes, and data directly from our customers when we create customer accounts in our systems.

To earn the trust of our customers, employees, and shareholders we process all data with the utmost respect for the sensitivity of the data and any privacy rights. We do not buy or sell customer data to third parties, and we do not use artificial intelligence and machine learning in the analysis of any data. Making sure that our processing activities and security measures match the requirements for the data we are handling, we always apply our standards for data ethics to the way we work, whether we process personal data or other types of data.

OUR PRODUCTS

Our products are assembled by contract manufacturers that share our ambitions for social responsibility. We investigate each component regularly, as declared in our conformance declaration with the EU RoHS directive and the REACH regulation. Our products comply with EU directives and carry the CE- mark, as declared in our EU declaration of conformity. They carry the UL mark for recognized components, and they are manufactured under UL's inspection and follow-up service, ensuring that safety-critical components are authenticated and handled according to UL's procedures.

OUR EMPLOYEES

Napatech's 84 full-time employees, as of 31 December 2021, include 9 women (9 in 2020). The group primarily employs engineers, and as women are underrepresented among engineers, it is considered a natural consequence that women are underrepresented in Napatech. As of 31 December 2021, there were no women in management. It is the group's policy to increase the presence of women in the management team. In recruiting processes, the company's aim is for at least one out of three candidates to be female, however, the best candidate for a specific position will be chosen. The Board of Directors currently consists of only men. The long-term goal is to have at least 20% female representation on the Board.

The Nomination Committee has been instructed to actively look for suitable female candidates for additions to the Board. The Board is expecting to achieve the long-term goal before 2023. In general, Napatech wants to increase the presence of women throughout the organization. To attract more female applicants, efforts are focused on improving work-life balance. It is, however, always the candidate who is deemed best suited for a position that will be offered the position.

The group has a diversification strategy and has, in the Danish headquarters, employed 12 different nationalities. Salaries, positions, and duties are determined based on qualifications and experience.

OUR ENVIRONMENT

The group's main impact on the environment is through the consumption of electricity and the usage of the group's petrol-driven cars. Almost all emissions are Scope 2 emissions, except for the emissions from the company fleet. The only greenhouse gas emission that Napatech has and accounts for is carbon dioxide.

Napatech has its internal environmental policies, which oblige the group to take reasonable steps to reduce the environmental impact.

LEGAL MATTERS

There are currently no legal proceedings involving any company in the Napatech group.

EVENTS AFTER YEAR-END

No material events have occurred after December 31, 2021, that have consequences for the Annual Report for 2021.

OUTLOOK

2022 guidance for the company is the following:

Target in DKK million	Guidance
Revenue	235-260
Gross margin	69-71%
Staff costs & Other external costs	155-165
Staff costs transferred to capitalized development costs	28-33
Depreciation and amortization	23-28

With performance in the middle of the guided ranges, EBITDAC would be positive DKK 13.3m, and EBIT would be positive DKK 18.3m.

The company is exposed to risks that might affect our ability to reach our goals such as currency fluctuations, general market uncertainty, and material changes in our large OEMs' needs for Napatech's products.

SHAREHOLDER INFORMATION

The group has a policy of continuously keeping shareholders, employees, and other stakeholders updated on the group's operations.

At the end of the year, the Company had a total of 83,095,218 shares outstanding of a nominal value of DKK 0.25. The company owned 7,267 treasury shares at year-end. The company had 1,401 shareholders and 62% of the shares were registered outside Norway. Total outstanding warrants at the end of the year were 4,378,820 warrants with an average exercise price of DKK 4.39. Napatech has one class of shares and no restriction on the trading of the Company's shares.

The group has a policy of continuously keeping shareholders, employees, and other stakeholders updated on the group's operations. This is achieved via open quarterly presentations, meetings with stakeholders and continuously updating the investor relations page on www.napatech.com.

Napatech is a Danish company registered in the Danish Central Business Register under 10109124. The ISIN number is DK0060520450, and the Company trades on the Oslo Stock Exchange under the Ticker: NAPA.

During 2021 several releases have been announced on the Oslo Stock market under the ticker: NAPA. For a complete overview, please see www.newsweb.no

The Company's financial calendar for the remainder of 2022 is:

Date	Activity
April 26	Annual General Meeting
May 3	Q1 2022 Interim Management Statement
August 18	Half-yearly Report
November 3	Q3 2022 Interim Management Statement

NAPATECH HAD BY 1ST MARCH 2022 THE FOLLOWING TOP 20 SHAREHOLDERS

Investor	Number of shares	% of total	Country
VERDANE CAPITAL VIII K/S	22,613,618	27.21%	DK
SUNDT AS	8,444,587	10.16%	NO
LUDVIG LORENTZEN AS	6,000,000	7.22%	NO
SKANDINAVISKA ENSKILDA BANKEN AB	4,726,564	5.69%	SE
ARBEJDSMARKEDETS TILLAEGSPENSION	4,000,000	4.81%	DK
SKANDINAVISKA ENSKILDA BANKEN AB	2,845,793	3.42%	DK
BROWNSKE BEVEGELSER AS	2,700,000	3.25%	NO
MP PENSJON PK	2,100,984	2.53%	NO
SKANDINAVISKA ENSKILDA BANKEN AB	2,056,209	2.47%	LUX
PRIVATE INVESTOR	1,690,764	2.03%	NO
DANSKE BANK A/S	1,627,248	1.96%	DK
NORDNET BANK AB	1,490,348	1.79%	SE
THE BANK OF NEW YORK MELLON SA/NV	1,459,728	1.76%	BE
sBNP PARIBAS SECURITIES SERVICES	1,141,526	1.37%	IT
DANSKE BANK A/S	1,002,003	1.21%	DK
THE BANK OF NEW YORK MELLON SA/NV	932,433	1.12%	DK
INRO HOLDING AS	915,000	1.10%	NO
MARSTAL AS	904,806	1.09%	NO
EXTELLUS AS	876,157	1.05%	NO
NORDEA BANK ABP	772,978	0.93%	DK
Total number owned by top 20	68,300,746	82.18%	
Total 1384 other shareholders	14,794,472	17.82%	
Total Number of shares	83,095,218	100%	

NAPATECH SHARE PRICE DEVELOPMENT 2021 (in NOK)

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

Note	In DKK'000	2021	2020
4	Revenue	195,471	194,233
4	Cost of goods sold	(55,113)	(55,265)
	Gross profit	**140,358**	**138,968**
5	Other operating income	625	5
6, 7, 8	Staff costs	(88,749)	(96,208)
7	Transferred to capitalized development costs	23,608	13,479
7, 9	Other external costs	(22,927)	(20,883)
	Operating profit before depreciation, amortisation and impairment (EBITDA)	**52,915**	**35,361**
10	Depreciation, amortisation and impairment	(22,253)	(25,276)
	Operating result (EBIT)	**30,662**	**10,085**
11	Finance income	6,972	1,835
12	Finance costs	(636)	(6,839)
	Result before tax	**36,998**	**5,081**
13	Income tax	3,230	4,514
	Result for the year	**40,228**	**9,595**
14	**Earnings per share:**		
	Basic, DKK	0.48	0.12
	Diluted, DKK	0.47	0.11

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

Note	DKK'000	2021	2020
	Result for the year	**40,228**	**9,595**
	Other comprehensive income that may be reclassified to profit and loss in subsequent periods:		
	Exchange differences on translation of foreign operations	553	(633)
	Net other income / (loss) that may be reclassified to profit or loss in subsequent periods	**553**	**(633)**
	Total comprehensive income for the year, net of tax	**40,781**	**8,962**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2021

ASSETS

Note	In DKK'000	2021	2020
	Development projects, completed	26,685	23,328
	Development projects, in progress	15,589	7,760
	Patents	3,016	3,697
15	**Intangible assets**	**45,290**	**34,785**
16	Plant and equipment	6,605	1,228
17	Right-of-use assets	6,995	9,412
16	Leasehold improvements	727	301
	Tangible assets	**14,327**	**10,941**
18	Deferred tax asset	9,715	4,932
24	Leasehold deposits	1,357	1,407
	Other non-current assets	**11,072**	**6,339**
	Non-current assets	**70,689**	**52,065**
19	Inventories	24,123	19,074
20, 24	Trade receivables	37,514	15,802
21	Right-of-return asset	36	112
20, 24	Other receivables	4,915	3,057
22	Income tax receivable	-	47
24	Cash and cash equivalents	39,449	62,698
	Current assets	**106,037**	**100,790**
	Total assets	**176,726**	**152,855**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2021

EQUITY AND LIABILITIES

Note	In DKK'000	2021	2020
23	Share capital	20,774	20,767
23	Share premium	290,435	290,330
	Foreign currency translation reserve	270	(283)
23	Other capital reserves	8,242	6,744
	Retained earnings	(186,249)	(227,790)
	Equity	**133,472**	**89,768**
24, 27	Other financial liabilities	4,860	6,181
17, 24, 27	Lease liabilities	4,545	6,827
	Non-current liabilities	**9,405**	**13,008**
24, 27	Interest-bearing loans and borrowings	9,061	12,500
17, 27	Lease liabilities	2,726	2,953
24	Trade payables	10,990	11,014
	Other payables	7,947	21,667
25	Contract liabilities	2,681	-
26	Provisions	297	1,529
21	Refund liability	147	416
	Current liabilities	**33,849**	**50,079**
	Total liabilities	**43,254**	**63,087**
	Total equity and liabilities	**176,726**	**152,855**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021

Note	In DKK'000	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Retained earnings	Total equity
	At 1 January 2020	**20,767**	**290,329**	**350**	**4,492**	**(237,486)**	**78,452**
	Result for the year	-	-	-	-	9,595	9,595
	Exchange differences on translation of foreign operations	-	-	(633)	-	-	(633)
	Total comprehensive income	**-**	**-**	**(633)**	**-**	**9,595**	**8,962**
	Reversal, exercised and lapsed share options	-	1	-	(102)	101	-
8	Share-based payments	-	-	-	2,354	-	2,354
	Total transactions with shareholders	**-**	**1**	**-**	**2,252**	**101**	**2,354**
	At 31 December 2020	**20,767**	**290,330**	**(283)**	**6,744**	**(227,790)**	**89,768**
	Result for the year	-	-	-	-	40,228	40,228
	Exchange differences on translation of foreign operations	-	-	553	-	-	553
	Total comprehensive income	**-**	**-**	**553**	**-**	**40,228**	**40,781**
	Issue of shares	7	46	-	-	-	53
	Share buyback	-	-	-	-	(273)	(273)
	Reversal, exercised and lapsed share options	-	59	-	(1,609)	1,586	36
8	Share-based payments	-	-	-	3,107	-	3,107
	Total transactions with shareholders	**7**	**105**	**-**	**1,498**	**1,313**	**2,923**
	At 31 December 2021	**20,774**	**290,435**	**270**	**8,242**	**(186,249)**	**133,472**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2021

Note	In DKK'000	2021	2020
	Operating activities		
	Result before tax	36,998	5,081
	Adjustments to reconcile profit before tax to net cash flows:		
	Finance income	(6,972)	(1,835)
	Finance costs	636	6,839
	Depreciation, amortisation and impairment	22,253	25,276
	Gain/loss on the sale of non-current assets	(625)	(5)
	Share-based payment expense	3,107	2,354
	Working capital adjustments:		
	Change in inventories	(5,049)	(9,542)
	Change in trade and other receivables and right-of-return asset	(21,126)	4,142
	Change in trade and other payables, provisions, refund liability and contract liabilities	(12,424)	12,252
	Interest received	19	1,213
	Interest paid	(377)	(626)
	Income tax received, net	(1,490)	2,493
	Net cash flows from operating activities	**14,950**	**47,642**
	Investing activities		
	Proceeds from sale of tangible assets	625	3
	Purchase of tangible assets	(7,111)	(1,204)
	Proceeds from sale of intangible assets	3,986	1,268
	Investments in intangible assets	(28,503)	(15,041)
	Investments in leasehold deposits	50	951
	Net cash from investing activities	**(30,953)**	**(14,023)**
	Free cash flow	**(16,003)**	**33,619**
	Financing activities		
	Capital increase	53	-
	Share buyback	(273)	-
	Repayment of financial lease liabilities	(3,328)	(4,150)
	Proceeds from borrowings	-	4,155
	Repayment of borrowings	(4,760)	(33,685)
	Net cash flows from financing activities	**(8,308)**	**(33,680)**
	Net change in cash and cash equivalents	**(24,311)**	**(61)**
	Net foreign exchange difference	1,062	(1,547)
	Cash and cash equivalents at 1 January	62,698	64,306
	Cash and cash equivalents at 31 December	**39,449**	**62,698**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 CORPORATE INFORMATION

The consolidated financial statements of Napatech A/S and its subsidiaries (collectively, the Group) for the year ended were authorized for issue in accordance with the resolution of the management on 24 March 2022.

ESEF data

Name of reporting entity or other means of identification	Napatech A/S
Domicile of entity	Denmark
Description of nature of entity's operations and principal activities	Tech company
Country of incorporation	Denmark
Principal place of business	Global
Legal form of entity	A/S
Address of entity's registered office	Tobaksvejen 23A, 2860 Soeborg

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

General

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and additional requirements in the Danish Financial Statement Act.

The consolidated financial statements are prepared on a historical cost basis.

The consolidated financial statements are presented in thousand Danish kroner (DKK'000).

New and amended standards and interpretations that have become operative

In its Annual Report for 2021, the Group has implemented all new IFRS standards, amendments to existing standards, and IFRIC interpretations that have been adopted by the EU and are operative for financial statements covering periods beginning on or after 1 January 2021.

The following standards, amendments to existing standards, and interpretations have been implemented in the Annual Report for 2021:

- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16.

None of the above-mentioned standards, amendments to existing standards, and interpretations have had any effect on recognition and measurement in the annual report for the Group.

New financial reporting standards not yet adopted

Certain new accounting standards and interpretations have been published that are not yet in effect or endorsed by the EU and therefore not relevant for the preparation of 2021 consolidated financial statements. The Group expects to implement these standards as they take effect. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

iXBRL reporting

Napatech A/S has filed the Annual Report for 2021 in the new European Single Electronic Format (ESEF), XHTML format that can be displayed in a standard browser. The primary statements in the consolidated financial statements are tagged using eXtensible Business Reporting Language (iXBRL), which comply with the ESEF taxonomy included in the ESEF Regulation.

The consolidated financial statements

The consolidated financial statements comprise the parent company, Napatech A/S, and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition and/or incorporation, being the date on which the parent company obtains control, until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company financial statements, using consistent accounting policies. The consolidated financial statements are prepared as a consolidation of the parent company's and the subsidiaries' financial statements, eliminating all intragroup balances, transactions, unrealized gains and losses, and dividends.

Currency translation

Determination of functional currency and recognition of transactions denominated in foreign currencies
For each group entity, a functional currency is determined, and items recognised in the financial statements of the individual entities are measured using that functional currency. The functional currency is the currency used as the primary currency for the activities of the reporting entity. Transactions denominated in currencies other than the functional currency are considered transactions denominated in foreign currencies.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On initial recognition, transactions denominated in foreign currencies are translated into the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates at the reporting date. Any exchange difference arising from the translation is recognised in the income statement as financial income or financial expenses.
Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transaction.

Translation of group entities

On recognition in the consolidated financial statements of foreign entities with a functional currency different from the parent company's presentation currency (DKK), the income statement and the statement of cash flows are translated at the exchange rates at the transaction date, while the statement of financial position items is translated at the exchange rates at the reporting date. Any foreign exchange differences arising from the translation are recognised as other comprehensive income in a separate reserve. On full or partial disposal of a foreign entity, the share of the currency reserve relating to that particular foreign entity is recognised in the income statement.

Revenue

The Group manufactures and sells network adapters to end-users and through third-party channel partners. The Group's sales contracts do not include installation services or significant customization etc., and each sales transaction only relates to a single performance obligation. The Revenue from contracts with customers is recognised in the income statement at the point in time when control of the goods is transferred to the customer, usually on delivery of the goods, and at an amount that reflects the consideration to which the group expects to be entitled in exchange for these goods. Revenue is measured at the fair value of the consideration received, excluding rebates and VAT. If a payment is received or due (whichever is earlier) from a customer before the Group transfers the related goods or services the revenue is deferred and recognised as a contract liability until the Group performs under the contract.

A refund liability and a right-of-return asset are recognised for the products expected to be returned estimated based on historic experience and expectations.

Cost of goods sold

Cost of goods sold is incurred to generate the period's revenue. Cost of goods sold comprises costs relating to purchases of products that are to be resold.

Other operating income

Other operating income comprises income of secondary nature in relation to the activities of the Group, including gain on sale of tangible and intangible assets.

Staff costs

Staff costs include salaries, bonuses, pensions and social costs, share-based payments, vacation pay, and other benefits. Staff costs are recognized in the year in which the associated services are rendered by the employees.

Other external costs

Other external costs include costs incurred from the distribution of goods sold during the year and cost of sales including the cost for sales campaigns, advertising, exhibitions, etc. Other external costs also include administrative costs including office-related expenses. In addition, write-downs on trade receivables are included.

Finance income and cost

Finance income and costs comprise realized interest income and expenses, unrealized exchange gains and losses on financial assets and liabilities in foreign currencies, and realized exchange gains and losses on foreign currency transactions.

For all financial instruments measured at amortized cost, interest income and expenses are recognised using the effective interest rate method.

Income tax for the year

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, including changes arising from changes in the tax rate, is recognised in the income statement as regards the portion that relates to the profit or loss for the year and in other comprehensive income as regards the portion that relates to entries in other comprehensive income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Share-based payments

The Group's employees and management receive consideration in the form of share-based payments. The share-based consideration is an equity-settled program under which employees and management deliver services in return for share options. The share options are measured at fair value at the time of granting. The fair value of share options is determined using the Black-Scholes option-pricing model.

Costs relating to equity-settled share-based payments are recognised in the income statement under staff costs and in equity over the vesting period. The total expense recognised for equity-settled share-based payments at the reporting date reflects the share of the vesting period that has lapsed and management's best estimate of the number of equity instruments that will ultimately vest.

If the terms for equity-settled programs change, the minimum expense is the expense that would have been recognised had the terms not been changed, provided that the employee's or management's right had vested. In addition, an expense is recognised corresponding to the increase in the fair value of the share-based payment at the time at which the terms are changed.

Intangible assets

Intangible assets are initially recognised in the statement of financial position at cost. Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses.

Intangible assets comprise development projects, patents, and other intangible assets with finite useful lives.

Intangible assets with finite useful lives are amortized over their economic lives and tested for impairment whenever there is an indication that an asset might be impaired. Useful lives are reassessed on an annual basis. Changes in expected useful lives are accounted for as changes in accounting estimates. Amortization and impairment losses are recognised in the income statement.

Gains and losses on the disposal of intangible assets are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognised in the income statement.

Development projects

Research costs are recognised in the income statement as incurred. Development costs incurred for individual projects are recognised as an intangible asset when the Group can demonstrate the following:

- The technical feasibility of completing the development project so that it will be available for use or sale;
- The intention to complete the development project and the group's ability to use or sell it;
- The probability that the development project will generate future economic benefits;
- The availability of adequate technical, financial, and other resources to complete the development project and to use or sell it;
- The ability to measure the costs reliably.

Subsequent to the initial recognition of the development costs as an intangible asset, the development project is recognised at cost less any accumulated amortization and impairment losses. Amortization of the intangible asset begins when the development of the asset has been completed and the asset is used as planned. Depreciation is provided on a straight-line basis over the expected useful lives of the assets.

The expected useful life of development projects is 3 - 5 years.

Patents

Patents are recognised as intangible assets at the time of acquisition. Patents are amortized over their useful lives, starting at the time when the patent takes effect. Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The useful life of patents is estimated at 10 years.

Tangible assets

Tangible assets include plant and equipment and leasehold improvements. Items of tangible assets are measured at cost less accumulated depreciation and impairment losses, the cost being the acquisition price and costs directly related to the acquisition until such time when the asset is ready for use.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets, as follows:

Plant and equipment	2-4 years
Leasehold improvements	5 years

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gains and losses on the disposal of tangible assets are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognised in the income statement.
Residual values and useful lives are reassessed on an annual basis. Changes in useful lives or residual values are accounted for as changes in accounting estimates.

Leases

The Group assesses at contract inception whether a contract is or contains a lease. That is if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The Group also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

A right-of-use asset and a lease liability are recognised in the balance sheet when the specifically identifiable asset is made available under the lease agreement during the lease term, and when the Group gains the right to virtually all the economic benefits from the use of the identified asset and the right to control the use of the identified asset.

The Group applies the practical expedient to recognise payments related to service components in leasing contracts for plant and equipment as part of the right-of-use asset and a lease liability.

Lease liabilities
Lease liabilities are initially measured at the present value of future lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, unless the Group is very unlikely to exercise the option to terminate.

In assessing the expected lease term for property leases, the Group estimates for strategic reasons that the expected rental period is between 3-5 years.

In calculating the present value of lease payments, the Group uses its alternative borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. The alternative borrowing rate is the cost of raising external financing for a corresponding asset with a financing period corresponding to the term of the lease in the currency in which the lease payments are settled.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Right-of-use assets
Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Properties	3-5 years
Plant and equipment	3-6 years

Impairment of non-financial assets

In-progress development projects are tested for impairment once a year. Other long-term assets with finite useful lives are reviewed for impairment at each reporting date. Where indications of impairment are identified for in-progress development projects or other long-term assets with finite useful lives, the Group estimates the recoverable amount of the asset. The recoverable amount is determined for the individual asset or a group of assets constituting an integrated cash-generating unit. The recoverable amount is the higher of the asset or the cash-generating unit's fair value less costs to sell and its value in use. When the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the asset is considered impaired and the carrying amount is reduced to the recoverable amount. The impairment loss is recognised in the income statement.

The value in use is calculated as the present value of expected future cash flows from the asset or the cash-generating unit of which the asset is a part.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories
Inventories are measured at the lower of cost and net realizable value. The cost is determined using the first-in/first-out (FIFO) method.

The cost of goods for resale, raw materials, and consumables comprises the purchase price plus delivery costs. The Group uses sub-suppliers for the primary production of goods for resale.

The net realizable value of inventories is determined as the selling price less costs of completion and costs incurred to generate the revenue, taking into account marketability, obsolescence, and developments in the expected selling price.

Receivables
Receivables are measured at amortized cost less write-downs. Write-downs on receivables are based on the simplified expected credit loss model. Credit loss allowances on individual receivables are provided for when objective indications of credit losses occur such as customer bankruptcy and uncertainty about the customers' ability and/or willingness to pay, etc.

Write-downs on receivables are recognised in the income statement under other external costs.

Right-of-return asset
Right-of-return represent the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods.

The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Cash and cash equivalents
Cash and cash equivalents comprise cash at banks.

Equity
Share premium
Share premium is the value in excess of the nominal value of the shares that are contributed to the company upon formation or a capital increase. The share premium is part of the distributable reserves.

Share-based payment reserve
The value of share options granted is recognised in equity under share-based payment reserve over the vesting period as the employees deliver the relevant services. The reserve reflects the total value of share options granted based on the share of the vesting period that has lapsed and the group's best estimate of the number of equity instruments that will ultimately vest. The reserve is part of the distributable reserves.

Foreign currency translation reserve
The foreign currency translation reserve comprises exchange differences arising upon translation of the financial statements of foreign operations from their functional currency to the parent company's presentation currency (DKK).

Upon full or partial realization of the investment in the foreign operation, foreign exchange adjustments are recognised in the income statement in the same item as the gain/loss from the sale. The reserve is part of the distributable reserves.

Financial liabilities
Amounts owed to banks etc. are recognised at the date of borrowing at the amount of proceeds received net of transaction costs paid. In subsequent periods, the financial liabilities are measured at amortized cost using the effective interest method. Accordingly, the difference between the proceeds and the nominal value is recognised in financial expenses over the term of the loan.

Non-financial liabilities are measured at net realizable value.

Provisions
Provisions include warranty commitments and are recognised when the group has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are discounted to net present value where this has a significant effect on the measurement of the liability.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer.

Income tax and deferred tax

Current tax liabilities and current tax receivable are recognised in the statement of financial position as the estimated tax charge for the period, adjusted for tax on previous years' taxable income, and tax paid on account.

Deferred tax is measured, using the "balance sheet liability" method, of all temporary differences at the reporting date between the tax base and the carrying amount of assets and liabilities.

Deferred tax is recognised for all taxable temporary differences, except for taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and all unutilized tax loss carry forward to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the unutilized tax loss carryforward can be used.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognised deferred tax assets are reviewed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will be available against which the deferred tax asset can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities relating to items recognised outside profit or loss are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Statement of cash flows

The statement of cash flows shows the Group's cash flows for the year, broken down into operating, investing, and financing activities, the period's changes in cash and cash equivalents, and the Group's cash and cash equivalents at the beginning and the end of the period. Cash flows from operating activities are presented using the indirect method and are stated as the profit or loss for the year before tax, adjusted for non-cash operating items, changes in working capital, paid and/or received interests, and paid and/or received income taxes.

Cash flows from investing activities comprise payments related to purchases and/or proceeds of/from non-current assets.

Cash flows from financing activities comprise dividends distributed to shareholders, capital increases and/ or reductions, repayments and/or proceeds of/from interest-bearing debt, and payments regarding lease agreements including interests and installments.

Segment information

The segment information is provided on geographical markets as the Group has only one business segment. The segmentation is based on the Group's internal financial reporting and has been prepared in accordance with the Group's accounting policies.

Income/expenses in the segments comprise the items directly attributable to the individual segments as well as the items that may be allocated to the individual segments on a reliable basis. As a measure of segment profit or loss, the Group uses gross profit.

NOTE 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

The preparation of the consolidated financial statements requires the management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities. Below are presented significant accounting judgments, estimates, and assumptions.

Accounting estimates and uncertainty of estimates

The valuation of certain assets and liabilities requires the management to make estimates and assumptions related to future events. The estimates and assumptions are based on historical experience and other factors that, according to the management's assessment, are reasonable, but also inherently subject to uncertainty and unpredictability. The assumptions may be incomplete and inaccurate, and unexpected events and/or circumstances may arise.

Furthermore, the Group is subject to risks and uncertainties that may cause the actual results to differ from these estimates, both positively and negatively. The Group's specific risks are discussed in the relevant sections of the management's review and in the notes to the consolidated financial statements.

The major assumptions concerning future events and other sources of estimation of uncertainties at the reporting date, which involve a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are presented below.

Recovery of deferred tax assets

Deferred tax assets are recognised for all unutilized tax losses, to the extent that it is considered probable that taxable profits will be realized within a foreseeable number of years, in which the losses can be set off. Determining the amount that can be recognised for deferred tax assets is based on estimates of the probable timing and size of future taxable losses.

At 31 December 2021, Napatech estimated that tax losses with a tax value of DKK 9,715 thousand could be realized in the foreseeable future. When assessing future profits historical profits has been taken into account.

Development projects

There is an ongoing assessment of whether the development costs meet the criteria for capitalization as set out in the summary of accounting policies, Note 2, whether the development projects will generate future economic benefits.

Development projects in progress are annually tested for impairment. Completed development projects are reviewed for impairment indicators. If there is evidence of impairment, an impairment test is carried out for the project concerned. The impairment test is prepared on the basis of factors such as the future use of the project, the present value of expected future income, interest, and risk. The carrying amount of completed development projects is DKK 26,685 thousand on 31 December 2021 (31 December 2020: DKK 23,328 thousand). The accounting judgments, estimates, and assumptions that the management makes for development projects are consistent with previous years.

NOTE 4 OPERATING SEGMENTS

The following tables present revenue and gross profit information about the Group's operating segments for the years ended 31 December 2021 and 2020, respectively:

Year ended 31 December 2021:

DKK'000	AMERICAS	ROW	CONSOLIDATED
Revenue			
Total revenue	146,189	49,282	195,471
Cost of goods sold	(44,828)	(10,285)	(55,113)
Segment gross profit	**101,361**	**38,997**	**140,358**

NOTE 4 OPERATING SEGMENTS (CONTINUED)

Year ended 31 December 2020:

DKK'000	AMERICAS	ROW	CONSOLIDATED
Revenue			
Total revenue	138,831	55,402	194,233
Cost of goods sold	(43,029)	(12,236)	(55,265)
Segment gross profit	**95,802**	**43,166**	**138,968**

Explanation abbreviations
AMERICAS = North & South America ROW = Rest of the World

The Group's revenue relates to a single product category (SmartNIC products) why management has assessed that no further firm-wide disclosures according to IFRS 15 are necessary.

Adjustments and eliminations

Research and development costs, selling and distribution expenses, administrative expenses, finance income, and costs are not allocated to individual segments as they are managed on a group basis. Non-current assets, current taxes and deferred taxes are not allocated to individual segments as they are also managed on a group basis.

Transactions with major customers

Revenue from the first significant customer amounted to DKK 53,352 thousand (2020: DKK 50,480 thousand) corresponding to 27% (2020: 26%) of the Group revenue. Revenue from this customer is arising from the sales in the AMERICAS segment. Revenue from the second significant customer amounted to DKK 16,153 thousand (2020: DKK 13,073 thousand) corresponding to 8% (2020: 7%) of the Group revenue. Revenue from this customer is arising from the sales in the AMERICAS segment. Revenue from the third significant customer amounted to DKK 14,913 thousand (2020: DKK 11,397 thousand) corresponding to 8% (2020: 6%) of the Group revenue. Revenue from this customer also arises from sales in the AMERICAS segment.

NOTE 5 OTHER OPERATING INCOME

Other operating income comprises gain on sale of tangible assets. Other operating income amounted to DKK 625 thousand (2020: DKK 5 thousand).

NOTE 6 STAFF COSTS

Employee benefits expense is reported as follows:

DKK'000	2021	2020
Wages and salaries	78,651	86,490
Defined contribution schemes	3,413	3,933
Share-based payment expense (Note 8)	3,107	2,354
Social security costs	3,578	3,431
Total employee benefits expense	**88,749**	**96,208**
Average number of employees	**81**	**78**

NOTE 6 STAFF COSTS (CONTINUED)

Compensation of key management personnel of the Group is as follows:

Enployee benefits expense is reported as follows:	2021			2020		
	Executive management	Other management	Board of Directors	Executive management	Other management	Board of Directors
Short-term staff benefits	4,718	6,404	813	6,934	7,997	706
Defined contribution schemes	140	186	-	137	586	-
Share-based payment expense	1,026	946	-	1,027	573	-
Total compensation of key management personnel	**5,884**	**7,536**	**813**	**8,098**	**9,156**	**706**

The executive management consists of the CEO and the CFO while other management consists of the COO, CMO, and CR DO. See pages 6-7 for more information about the management team.

NOTE 7 RESEARCH AND DEVELOPMENT COSTS

Research and development costs including annual amortization and impairment on completed development projects and development projects in progress recognised in the consolidated income statement are DKK 34,349 thousand (2020: DKK 47,543 thousand). All research and development costs are incurred by the parent company. The total amount of research and development costs recognised in the balance sheet are DKK 42,274 thousand (2020: DKK 31,088 thousand).

NOTE 8 SHARE-BASED PAYMENTS

Employees and members of the management in both the parent company and the US-based subsidiary are eligible for share option schemes. They are granted a certain number of share options in the parent company in return for the services they provide to the Group. Share options under these schemes are granted at fixed exercise prices. The right to share options can only be vested as long as the holder is an employee of the Group.

In February 2013, after the share options of the Group’s employees and management had vested but prior to the exercise date, the management made modifications to some of the share-based payment agreements concluded with employees and management.

The management treats the change of terms as modifications to the existing share-based payment arrangements. Accordingly, the fair value determined at the original grant date has been charged to the income statement over the original vesting period. In addition, an expense is recognised over the new vesting period, corresponding to the increase in the fair value of the share-based payment as a result of the change of terms. All granted share options are equity-based.

The share-based payment expense is measured at fair value at the grant date using the Black-Scholes model. The expense is recognised in the income statement with the counter item in the other reserves under the equity, and it is recognised over (a) the period during share option holder has met the vesting conditions, or (b) the period in which an exercising event is likely to occur if this period is shorter.

In December 2013 the initial public offering (IPO) on the Oslo Stock Exchange (OSE) resulted in an exercising event in relation to all share option programs. Therefore, the remaining vesting period of the share options has been accelerated.

The general terms for share options are summarized as follows:

Earliest exercise date	1 year from the grant date
Latest exercise date	9 - 10 years from the grant date

In February 2016 the Board of Directors decided to issue share options to key employees in the Group. A total of 23,000 share options have been issued for the subscription of 23,000 shares of a nominal value of DKK 1 at an exercise price of NOK 63.50 (DKK 53.10 on 22 February 2016). The share options’ lifetime is 5 years. The first 2 years from the date of issue is a lock-up period during which the share options may not be exercised. The exercise of these share options may take place in the 3rd, 4th, and 5th year and they vest with 1/3 in each of these 3 years.

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

In accordance with the decision made at the Annual General Meeting held on 20 April 2016, Napatech conducted a split of shares in the ratio of 1:4. This means that the nominal value of each share has been reduced from DKK 1.00 to DKK 0.25, whereby each shareholder previously holding one share with the nominal value of DKK 1.00 received four new shares with the nominal value of DKK 0.25.

The 1:4 share split has no direct impact on the value of share options and share option programs. When share options are exercised, the share capital will be increased by the same nominal amount at the same exercise price per share of DKK 1.00 nominal (multiples of four shares at nominally DKK 0.25). Consequently, the number and value of share options increase/decrease with the same ratio of 1:4. The principles of the 1:4 share split have been applied to comparative figures in order to enable comparison and consistency with previous periods.

Based on the decision made on General Assembly in April 2016 to issue 400,000 share options, the Board of Directors issued respectively 145,000 share options in August 2016 with the nominal value of DKK 0.25 at an exercise price of NOK 22.00 (DKK 18.04), 150,000 share options in May 2017 with the nominal value of DKK 0.25 at an exercise price of NOK 24.50 (DKK 19.41) and the remaining share options in November 2017 with the nominal value of DKK 0.25 at an exercise price of NOK 19.00 (DKK 14.90). The share options' lifetime is 5 years, where the share options holders are subject to a lock-up period in the first 2 years of the share options' lifetime. The share options vest with 1/3 in each of the remaining 3 years of the share options' lifetime.

The general terms for all issues based on the 2016 share options program are summarized as follows:

Earliest exercise date	2 years from the grant date
Latest exercise date	5 years from the grant date

Based on the decision made by General Assembly in April 2017 to issue 460,000 share options, the Board of Directors issued 460,000 share options in September 2018 with the nominal value of DKK 0.25 at an exercise price of NOK 5.00 (DKK 3.88). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first 2 years of the share options' lifetime. The share options vest with 1/6 in each of the remaining 6 years of the share options' lifetime.

Based on the decision made by General Assembly in April 2018 to issue 480,000 share options, the Board of Directors issued 319,600 share options in September 2018 with the nominal value of DKK 0.25 at an exercise price of NOK 5.00 (DKK 3.88). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first 2 years of the share options' lifetime. The share options vest with 1/6 in each of the remaining 6 years of the share options' lifetime.

Based on the same decision made by General Assembly in April 2018 to issue 480,000 share options, the Board of Directors issued 55,000 share options in December 2018 with the nominal value of DKK 0.25 at an exercise price of NOK 3.20 (DKK 2.45). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first 2 years of the share options' lifetime. The share options vest with 1/6 in each of the remaining 6 years of the share options' lifetime.

The general terms for all issues based on the 2017 and 2018 share options program are summarized as follows:

Earliest exercise date	2 years from the grant date
Latest exercise date	8 years from the grant date

Based on the decision made by the General Assembly in April 2019 to issue 2,076,704 share options, the Board of Directors issued 1,736,800 share options in July 2019 with the nominal value of DKK 0.25 at an exercise price of NOK 1.50 (DKK 1.16). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first year of the share options' lifetime. The share options vest with 1/4 in each of the following 4 years.

Based on the same decision made on General Assembly in April 2019 to issue 2,076,704 share options, the Board of Directors issued 20,000 share options in February 2020 with the nominal value of DKK 0.25 at an exercise price of NOK 4.50 (DKK 3.32). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first year of the share options' lifetime. The share options vest with 1/4 in each of the following 4 years

The general terms for all issues based on the 2019 share options program are summarized as follows:

Earliest exercise date	1 year from the grant date
Latest exercise date	8 years from the grant date

Based on the same decision made on General Assembly in April 2019 to issue 2,076,704 share options, the Board of Directors issued 133,756 share options in July 2019 with the nominal value of DKK 0.25 at an exercise price of NOK 5.00 (DKK 3.88). The share options' lifetime is 8 years. The share options vest with 1/3 at the grant date, 1/3 after 12 months, and 1/3 after 24 months from the date of issue.

Based on the same decision made on General Assembly in April 2019 to issue 2,076,704 share options, the Board of Directors issued 133,488 share options in July 2019 with the nominal value of DKK 0.25 at an exercise price of NOK 1.89 (DKK 1.46). The share options' lifetime is 8 years. The share options vest with 1/3 at the grant date, 1/3 after 12 months, and 1/3 after 24 months from the date of issue.

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

The general terms for all issues based on the 2019 share options program are summarized as follows:
Earliest exercise date immediate from the grant date
Latest exercise date 8 years from the grant date

Based on the decision made by General Assembly in April 2020 to issue 1,000,000 share options, the Board of Directors issued 995,000 share options in May 2020 with the nominal value of DKK 0.25 at an exercise price of NOK 4.18 (DKK 2.89). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first year of the share options' lifetime. The share options vest with 1/4 in each of the following 4 years.

Based on the same decision made by General Assembly in April 2020 to issue 1,000,000 share options, the Board of Directors issued 5,000 share options in December 2020 with the nominal value of DKK 0.25 at an exercise price of NOK 12.18 (DKK 8.62). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first year of the share options' lifetime. The share options vest with 1/4 in each of the following 4 years

Based on the same decision made by General Assembly in April 2020 to issue 1,000,000 share options, the Board of Directors issued 10,000 share options in November 2021 (as some share options have reverted to the pool) with the nominal value of DKK 0.25 at an exercise price of NOK 17,48 (DKK 14,63). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first year of the share options' lifetime. The share options vest with 1/4 in each of the following 4 years

Based on the decision made by General Assembly in April 2021 to issue 460,000 share options, the Board of Directors issued 407,000 share options in May 2021 with the nominal value of DKK 0.25 at an exercise price of NOK 19,70 (DKK 13,36). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first year of the share options' lifetime. The share options vest with 1/4 in each of the following 4 years

The general terms for all issues based on the 2020 and 2021 share options program are summarized as follows:
Earliest exercise date 1 year from the grant date
Latest exercise date 8 years from the grant date

2021

	Management		Other Employees		Total	
Share options	**Number**	**Avg. ex. price**	**Number**	**Avg. ex. price**	**Number**	**Avg. ex. price**
At 1 January 2021	3,374,144	3.34	1,010,000	5.49	4,384,144	3.84
Granted during the year	250,000	14.63	167,000	14.55	417,000	14.60
Excercised/expired during the year	(40,000)	1.84	(382,324)	9.54	(422,324)	8.81
At 31 December 2021	**3,584,144**	**4.15**	**794,676**	**5.45**	**4,378,820**	**4.39**
Exercisable at 31 December 2021	**1,350,809**	**4.32**	**281,534**	**4.06**	**1,632,343**	**4.27**

2020

	Management		Other Employees		Total	
Share options	**Number**	**Avg. ex. price**	**Number**	**Avg. ex. price**	**Number**	**Avg. ex. price**
At 1 January 2020	2,629,244	3.48	767,000	6.27	3,396,244	4.11
Granted during the year	750,000	2.89	270,000	3.03	1,020,000	2.93
Excercised/expired during the year	(5,100)	8.00	(27,000)	2.86	(32,100)	3.68
At 31 December 2020	**3,374,144**	**3.34**	**1,010,000**	**5.49**	**4,384,144**	**3.84**
Exercisable at 31 December 2020	**945,896**	**5.20**	**384,150**	**10.17**	**1,330,046**	**6.63**

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

In 2021, 47,906 options were exercised and 374,418 lapsed (2020: 500 exercised and 31,600 lapsed). The following shows the exercise price of the outstanding share options and warrants:

Number of share options at 31 December	2021	2020
Exercise price DKK 8.00	306,000	306,000
Exercise price DKK 12.53	-	92,000
Exercise price DKK 18.04	-	102,000
Exercise price DKK 19.41	150,000	150,000
Exercise price DKK 3.88	628,101	693,100
Exercise price DKK 2.45	55,000	55,000
Exercise price DKK 3.88	133,756	133,756
Exercise price DKK 1.46	133,488	133,488
Exercise price DKK 1.16	1,609,975	1,708,800
Exercise price DKK 3.32	20,000	20,000
Exercise price DKK 2.89	935,500	985,000
Exercise price DKK 8.62	5,000	5,000
Exercise price DKK 14.63	392,000	-
Exercise price DKK 13.36	10,000	-
Total number of outstanding share options	**4,378,820**	**4,384,144**

The weighted average of the remaining contractual period of the outstanding share options from the 2016 share options program at 31 December 2021 is 3 months (at 31 December 2020: 1 year and 3 months). The weighted average of the remaining contractual period of the outstanding share options from the 2017 share options program on 31 December 2021 is 4 years and 9 months (at 31 December 2020: 5 years and 9 months). The weighted average of the remaining contractual period of the outstanding share options from the 2018 share options program on 31 December 2021 is 4 years and 9 months (at 31 December 2020: 5 years and 9 months). The weighted average of the remaining contractual period of the outstanding share options from the 2019 share options program on 31 December 2021 is 5 years and 6 months (at 31 December 2020: 6 years and 6 months). The weighted average of the remaining contractual period of the outstanding share options from the 2020 share options program on 31 December 2021 is 6 years and 5 months (at 31 December 2020: 7 years and 5 months). The weighted average of the remaining contractual period of the outstanding share options from the 2021 share options program on 31 December 2021 is 7 years and 5 months.

Assumptions for the calculation of the fair value of share options and warrants

The fair value of share options and warrants granted during 2013, 2016, 2017, 2018, 2019, 2020 and 2021 was estimated on the date of grant using the following assumptions:

	December 2013	February 2016	August 2016	May 2017
Volatility	47.92%	49.00%	49.00%	50.50%
Risk-free interest rate	1.65%	0.50% - 0.60%	0.53% - 0.64%	0.80% - 1.10%
Exercise price (DKK)	8.00	12.53	18.04	19.41
Exercise period (years)	2.27	3.00 - 5.00	3.00 - 5.00	3.00 - 5.00
Number of options	520,700	92,000	145,000	150,000
Grant date fair value for each option (DKK)	20.10	4.84	6.66	3.88

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

	September 2018	December 2018	July 2019	July 2019	July 2019
Volatility	56.00%	67.71%	68.25%	68.25%	68.25%
Risk-free interest rate	1.80%	1.76%	1.40%	1.40%	1.40%
Exercise price (DKK)	3.88	2.45	3.88	1.46	1.16
Exercise period (years)	3.00 - 8.00	3.00 - 8.00	1.00 - 8.00	1.00 - 8.00	2.00 - 8.00
Number of options	779,600	55,000	133,756	133,488	1,736,800
Grant date fair value for each option (DKK)	2.04	1.50	0.54	0.75	0.78

	February 2020	May 2020	December 2020	May 2021	November 2021
Volatility	79.86%	81.73%	81.38%	80.60%	80.54%
Risk-free interest rate	1.35%	0.61%	0.95%	1.47%	1.69%
Exercise price (DKK)	3.32	2.89	8.62	14.63	13.36
Exercise period (years)	2.00 - 8.00	2.00 - 8.00	2.00 - 8.00	2.00 - 8.00	2.00 - 8.00
Number of options	20,000	995,000	5,000	407,000	10,000
Grant date fair value for each option (DKK)	2.69	2.16	6.55	11.07	10.18

The volatility is calculated based on a peer group of 5 similar companies listed on the Nasdaq Stock Exchange in the USA. The fair value of the share options is determined using the Black-Scholes option-pricing model. For 2021, the Group has recognised a share-based payment expense of DKK 3,107 thousand in the income statement (2020: DKK 2,354 thousand). DKK 1,972 thousand was recognised in relation to Management (2020: DKK 1,600 thousand) and DKK 1,135 thousand in relation to others (2020: DKK 754 thousand).

NOTE 9 AUDITORS' FEE

DKK'000	2021	2020
Fees to the Company's auditor appointed by the general meeting:		
Statutory audit fee	521	420
Assurance engagements	60	38
Fees for other services	13	19
Total auditors' fees	**594**	**477**

Fee in relation to non-audit services from EY Godkendt Revisionspartnerselskab, DKK 13 thousand consists of general accounting advice.

NOTE 10 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

DKK'000	2021	2020
Depreciation, amortisation and impairment are reported as follows:		
Depreciation of plant and equipment	985	620
Depreciation of leasehold improvements	329	248
Depreciation of right-of-use assets	2,941	2,991
Total depreciation of tangible assets	**4,255**	**3,859**
Amortisation of patents	690	685
Impairment of patents	-	155
Amortisation of completed development projects	17,308	19,087
Impairment of completed development projects	-	1,490
Total amortisation and impairment of intangible assets	**17,998**	**21,417**
Total depreciation, amortisation and impairment	**22,253**	**25,276**

NOTE 11 FINANCE INCOME

DKK'000	2021	2020
Interest receivable from banks	19	119
Foreign exchange gains	4,594	-
Other finance income	2,359	1,716
Total finance income	**6,972**	**1,835**
Finance income at amortized costs	**2,378**	**1,084**

NOTE 12 FINANCE COSTS

DKK'000	2021	2020
Interest payable to banks	197	376
Foreign exchange losses	-	5,544
Interest payable under leases	259	355
Other finance costs	180	564
Total finance costs	**636**	**6,839**
Finance costs at amortized costs	**636**	**731**

NOTE 13 INCOME TAX

DKK'000	2021	2020
Current tax recognised in the consolidated income statement:		
Current income tax	1,281	514
Current income tax carry back refund	-	(47)
Change in deferred tax	(4,783)	(4,932)
Adjustment prior years taxes	272	(49)
Total income tax	**(3,230)**	**(4,514)**

A reconciliation between tax expense and profit before tax multiplied by the applicable income tax rate for the Group for 2021 and 2020 is as follows:

DKK'000	2021	2020
Profit before tax	36,998	5,081
At the applicable Danish income tax rate for the Group, 22.0% (2020: 22.0%)	8,140	1,118
Tax effect of:		
Tax-deductable expenses	(2,236)	(1,756)
Non-deductible expenses	447	170
Accounting estimate for not recognised deferred tax assets	(10,891)	(4,311)
Adjustment prior year taxes	272	(49)
Other deviations in foreign subsidiaries including other tax rates	1,038	314
At the effective income tax rate of -9% (2020: -89%)	**(3,230)**	**(4,514)**

NOTE 14 EARNINGS PER SHARE

DKK'000	2021	2020
Net profit attributable to equity holders of the parent company for basic earnings and the effect of dilution	40,228	9,595

	2021	2020
	Thousands	*Thousands*
Weighted average number of shares for basic earnings per share	83,084	83,068
Effect of dilution:		
Share options	3,040	2,363
Weighted average number of shares adjusted for the effect of dilution	**86,124**	**85,431**

NOTE 15 INTANGIBLE ASSETS

	Development projects, completed		Development projects, in progress		Patents		Other intangible assets		Total	
DKK'000	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Cost at 1 January	256,197	240,938	32,978	33,307	10,426	10,315	2,139	2,139	301,740	286,699
Additions in the year	-	-	28,494	14,930	9	111	-	-	28,503	15,041
Transfers in the year	20,665	15,259	(20,665)	(15,259)	-	-	-	-	-	-
Cost at 31 December	**276,862**	**256,197**	**40,807**	**32,978**	**10,435**	**10,426**	**2,139**	**2,139**	**330,243**	**301,740**
Accumulated impairment and amortisation at 1 January	232,869	212,292	25,218	25,218	6,729	5,889	2,139	2,139	266,955	245,538
Amortisation for the year	17,308	19,087	-	-	690	685	-	-	17,998	19,772
Impairment for the year	-	1,490	-	-	-	155	-	-	-	1,645
Accumulated amortisation and impairment at 31 December	**250,177**	**232,869**	**25,218**	**25,218**	**7,419**	**6,729**	**2,139**	**2,139**	**284,953**	**266,955**
Carrying amount at 31 December	**26,685**	**23,328**	**15,589**	**7,760**	**3,016**	**3,697**	**-**	**-**	**45,290**	**34,785**

Within the completed development projects there are two material development projects with a carrying amount of DKK 7,207 thousand and DKK 3,663 thousand on 31 December 2021 respectively (31 December 2020 these projects were both in progress with a carrying amount of DKK 2.538 thousand and DKK 2.337 thousand respectively). The first project is Napatechs virtual switching solution aimed to develop a full virtualization dataplane offload solution. The second aimed to port our Link Capture software on the new NT100A01, and to implement Capture/Replay feature set, and Capture Flow Management feature set as part of the solution. The remaining amortization periods of these two projects are 2 years and 6 months and 2 year and 4 months respectively.

Within the in-progress development projects, there are two material development projects with a carrying amount of DKK 7,474 thousand and 4,315 thousand. The aim of the first project is to enhance the feature set on Napatechs virtual switching solution implementing new features as RSS, HW QoS, and OpenStack RDO. The aim of the second is to develop our NT400D13 HW platform capable of delivering full throughput for 2x100G.

The Group recognised DKK 0 thousand as an impairment in 2021 (2020: DKK 1,645 thousand) in respect of the Group's development projects and patents.

At year-end 2021 the Group performed its annual impairment test, based on the value in use, for both Completed and In Progress Development Projects. The Group considers the relationship between its market capitalization and its accounting value, among other factors, when reviewing for indicators of impairment.

In relation to the annual impairment test, the following key assumptions were applied:

- The recoverable amount has been determined based on a value in use calculation using cash flow projections from financial budgets for 2022, and cash flow projections for a three-year period. The three-year cash flow projections are based on a five-year strategic plan and investment budget, which are approved by the board of directors. Due to uncertainty on projections the impairment test is therefore based on a finite life span of 3 years and does not include any terminal period beyond year 3.
- Discount rates representing the current market assessment of the risks specific to the development project was applied to cash flow projections, but due to the fact that the impairment test is based on a finite life span of 3 years and without any terminal period, the applied discount rate did only have a marginal impact on the impairment test.

NOTE 16 TANGIBLE ASSETS

DKK'000	Plant and equipment 2021	Plant and equipment 2020	Leasehold improvements 2021	Leasehold improvements 2020	Total 2021	Total 2020
Cost at 1 January	34,354	33,234	5,198	5,238	39,552	38,472
Additions	6,356	1,204	755	-	7,111	1,204
Disposals in the period	(1,771)	-	-	(13)	(1,771)	(13)
Currency adjustment	57	(84)	22	(27)	79	(111)
Cost at 31 December	**38,996**	**34,354**	**5,975**	**5,198**	**44,971**	**39,552**
Accumulated depreciation at 1 January	33,126	32,589	4,897	4,689	38,023	37,278
Depreciation for the year	985	620	329	248	1,314	868
Disposals in the period	(1,771)	-	-	(13)	(1,771)	(13)
Currency adjustment	51	(83)	22	(27)	73	(110)
Accumulated depreciation at 31 December	**32,391**	**33,126**	**5,248**	**4,897**	**37,639**	**38,023**
Carrying amount at 31 December	**6,605**	**1,228**	**727**	**301**	**7,332**	**1,529**

In 2021, the Group assessed the tangible assets for impairment. In relation to this, the Group recognised DKK 0 thousand as an impairment in the reporting period (2020: DKK 0 thousand).

NOTE 17 LEASING

Right-Of-Use Assets

DKK'000	Properties 2021	Properties 2020	Plant and equipment 2021	Plant and equipment 2020	Total 2021	Total 2020
Balance at 1 January	9,154	11,787	258	628	9,412	12,415
Currency adjustment	95	(252)	-	-	95	(252)
Additions	-	-	522	-	522	-
Depreciation for the year	(2,618)	(2,621)	(324)	(370)	(2,941)	(2,991)
Currency adjustment	(93)	240	-	-	(93)	240
Carrying amount at 31 December	**6,538**	**9,154**	**457**	**258**	**6,995**	**9,412**

Lease Liabilities

DKK'000	2021	2020
Maturity of lease liabilities:		
Falling due within one year	2,726	2,953
Falling due between one and three years	4,459	6,827
Falling due between four and five years	86	-
Total lease liabilities	**7,271**	**9,780**

See Note 2 for a description of the extent of the Group's leases; Exposure to potential cash flows; The process of determining the discount rate.

NOTE 17 LEASING (CONTINUED)

Amounts recognised in the consolidated income statement

DKK'000	2021	2020
Depreciation	2,941	2,991
Finance costs	259	355
Expense relating to low-value assets (included in other external costs)	3	-
Expense relating to short-term leases (included in other external costs)	-	-
Total lease costs recognised in the consolidated income statement	**3,203**	**3,346**

For 2021, the Group has recognised DKK 3,328 thousand (2020: DKK 4,150 thousand) as minimum payments regarding lease agreements, of which interest costs related to lease liabilities amount to DKK 259 thousand (2020: DKK 355 thousand) and repayments on lease liabilities are DKK 3,069 (2020: DKK 3,795 thousand). The capitalized right-of-use assets do not have any effect on investing activities in the cash flow statement.

NOTE 18 DEFERRED TAX

	Consolidated statement of financial position		Consolidated income statement	
DKK'000	2021	2020	2021	2020
Tax losses carry-forwards	(18,251)	(9,544)	(8,707)	(4,397)
Intangible assets	9,717	7,075	2,642	(1,106)
Tangible assets	448	420	28	(40)
Lease liabilities	(1,600)	(2,106)	506	615
Provision for expected credit loss	(15)	(7)	(8)	28
Other receivables	-	(706)	706	1
Right-of-return asset and refund liability	(14)	(64)	50	(33)
Deferred tax liability / (asset) and expense / (income)	**(9,715)**	**(4,932)**	**(4,783)**	**(4,932)**

DKK'000	2021	2020
Reconciliation of deferred tax liability / (asset) is as follows:		
Opening balance at 1 January	(4,932)	-
Recognised in consolidated income statement	(4,783)	(4,932)
Closing balance at 31 December	**(9,715)**	**(4,932)**

The Group has tax losses of DKK 150,382 thousand (2020: DKK 159,260 thousand) that are available indefinitely for offsetting against future taxable profit. In 2021 the deferred tax assets have not been fully recognised in respect of these losses due to uncertainty in timing to offset future taxable profit. If the Group were able to recognise all unrecognised deferred tax assets the value would be DKK 24,548 thousand (2020: DKK 30,425 thousand). Deferred tax assets are expected to be utilized in future profits for the coming 3-5 years. See note 3 for a description of the assumptions used for recognizing the deferred tax asset.

NOTE 19 INVENTORIES

DKK'000	2021	2020
Consumables and components	9,330	3,177
Finished goods and goods for resale	14,793	15,897
Total inventories	**24,123**	**19,074**
Carrying value of inventories recognised at fair value	**-**	**-**

The cost of goods sold for the year is DKK 55,113 thousand (2020: DKK 55,265 thousand) which also includes movements in inventory write-down for the year. Movements in inventory writedown are as follows:

DKK'000	2021	2020
Inventory writedown at 1 January	16,995	15,883
Inventory writedown for the year	135	1,811
Reversal of inventory wirtedown	(799)	(699)
Inventory writedown at 31 December	**16,331**	**16,995**

In 2021 DKK 135 thousand (2020: 1.811 DKK) was recognised as an impairment expense. The impairment expense was partly related to decisions to end of life of certain products for inventories, carried at net realizable value. Reversal of inventory write-down relates mainly to products that have now been scrapped.

NOTE 20 TRADE AND OTHER RECEIVABLES

DKK'000	2021	2020
Receivables recognised in the consolidated statement of financial position:		
Trade receivables	37,514	15,802
Other receivables	4,915	3,057
Total current receivables	**42,429**	**18,859**

Movements in the provision for bad debts on trade receivables are as follows:

DKK'000	2021	2020
At 1 January	536	706
Written off in the year	-	(138)
Provision in the year	406	(32)
At 31 December	**942**	**536**

NOTE 20 TRADE AND OTHER RECEIVABLES (CONTINUED)

Aging analysis of past due but not impaired trade receivables is as follows:

DKK'000	2021	2020
Not past due	31,031	13,932
Past due for less than 30 days	4,296	1,620
Past due between 30 and 60 days	1,332	250
Past due between 60 and 90 days	821	-
Past due after 90 days	34	-
Total maximum credit risk	**37,514**	**15,802**

See Note 30 for a description of the credit risk.

NOTE 21 RIGHT-OF-RETURN ASSET AND REFUND LIABILITY

The Group's customers do not have any contractual right of return apart from ordinary warranty conditions, but the Group has a customary practice for acceptance in special cases.

DKK'000	2021	2020
Right-of-return asset	36	112
Refund liability	147	416

The right-of-return asset represents the Group’s right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liability represents the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will accept to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

NOTE 22 INCOME TAX RECEIVABLES

DKK'000	2021	2020
At 1 January	47	2,961
Income tax carry back refund	-	47
Income tax carry back refund received during the year	(47)	(2,961)
At 31 December	**-**	**47**

NOTE 23 ISSUED CAPITAL AND RESERVES

In accordance with the decision made at the Annual General Meeting held on 20 April 2016, Napatech conducted a split of shares in the ratio of 1:4. The nominal value of each share has been reduced from DKK 1.00 to DKK 0.25, whereby each shareholder holding one share with the nominal value of DKK 1.00 received four new shares with the nominal value of DKK 0.25.

	2021	2020
Authorised shares	*thousands*	*thousands*
Ordinary shares of DKK 0.25 each at 1 january	83,068	83,068
Increase in ordinary shares DKK 0.25 each	27	0
Ordinary shares of DKK 0.25 each at 31 December	**83,095**	**83,068**

Ordinary shares and fully paid	**Thousands**	**DKK'000**
At 1 January 2021	83,068	20,767
Exercise of share options for cash during the year	27	7
At 31 December 2021	**83,095**	**20,774**

DKK'000	**2021**	**2020**
Share premium		
At 1 January	290,330	290,329
Issue of shares for cash in excess of the cost of ordinary shares during the year	46	-
Reversals regarding exercised share options	59	1
At 31 December	**290,435**	**290,330**

Share-based payment reserve

Share-based payment reserve is issued to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 8 for further details on this plan.

Movements in share-based payment reserve are as follows:

DKK'000	**2021**	**2020**
At 1 January	6,744	4,492
Share-based payment expense (Note 8)	3,107	2,354
Reversals regarding exercised and lapsed share options	(1,609)	(102)
At 31 December	**8,242**	**6,744**

NOTE 24 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK'000	2021	2020
Financial assets measured at amortised cost:		
Leasehold deposits	1,357	1,407
Trade receivables	37,514	15,802
Other receivables	936	3,057
Cash and cash equivalents	39,449	62,698
Total financial assets	**79,256**	**82,964**
Financial liabilities measured at amortised cost:		
Other financial liabilities	4,860	6,181
Interest-bearing loans and borrowings	9,061	12,500
Lease liabilities	7,271	9,780
Trade payables	10,990	11,014
Total financial liabilities	**32,182**	**39,475**

Carrying amounts of financial assets and financial liabilities approximate their fair value. The main part of the financial liabilities is current/short-termed. Loans and overdraft facilities are subject to variable interest rates. External loans are fair valued at the end of the reporting period. Thus, the fair value of the financial assets and liabilities is considered equal to the booked value. There are no forward contracts as of 31 December 2021 and no new forward contracts have been concluded during 2021.

NOTE 25 CONTRACT LIABILITIES

Contract liabilities relate to prepayment from customers regarding support service and development contracts.
The movements in contract liabilities are as follows:

DKK'000	2021	2020
At 1 January	-	-
Deferred during the year	2,681	-
Recognised as revenue during the year	-	-
At 31 December	**2,681**	**-**

The contract liabilities are expected to be recognised as revenue within one year and are therefore classified as current liabilities.

NOTE 26 PROVISIONS

Provisions cover warranty obligations associated with the sale of network adapters. The movements in provisions are as follows:

DKK'000	2021	2020
At 1 January	1,529	531
Utilised during the year	(5)	-
Reversal in the year	(1,529)	(531)
Additions in the year	302	1,529
At 31 December	**297**	**1,529**

The provisions for warranty obligations are expected to be utilized within one year and are therefore classified as current liabilities.

NOTE 27 LIABILITIES FROM FINANCING ACTIVITIES

	2021				
DKK'000	**At 1 January**	**Currency adjustment**	**Non-cash**	**Cash flows**	**At 31 December**
Interest bearing loans and borrowings	12,500	-	-	(3,439)	9,061
Other financial liabilities	6,181	-	-	(1,321)	4,860
Lease liabilities	9,780	32	787	(3,328)	7,271
Total liabilities from financing activities	**28,461**	**32**	**787**	**(8,088)**	**21,192**

	2020				
DKK'000	**At 1 January**	**Currency adjustment**	**Non-cash**	**Cash flows**	**At 31 December**
Interest bearing loans and borrowings	32,878	-	-	(20,378)	12,500
Other financial liabilities	15,939	-	-	(9,758)	6,181
Lease liabilities	13,612	(37)	355	(4,150)	9,780
Total liabilities from financing activities	**62,429**	**(37)**	**355**	**(34,286)**	**28,461**

NOTE 28 COMMITMENTS AND CONTINGENCIES

Collaterals

The Group has issued a floating charge in the amount of DKK 30 million (2020: DKK 30 million) secured on receivables, inventories, and patents with a carrying amount of DKK 33,447 thousand (2020: DKK 25,701 thousand) as collateral for bank debt.

NOTE 29 RELATED PARTY DISCLOSURES

Terms and conditions of related party transactions

Sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest- free and settlement occurs in cash. This assessment is undertaken each financial year by examining the financial position of the related party.

Controlling influence

The Group has no shareholders with controlling influence, as the shareholders include one large venture capital company with significant influence and many small private and corporate shareholders.

Entity with significant influence over the Group

Entity with significant influence over the Group includes the venture capital company Verdane Capital VIII. As of 31 December 2021, Verdane Capital VIII owns 27.22% (2020: 27.22%).

Related parties also include the shareholders' portfolio companies as they are subject to the same significant influence as the Group. The Group had no transactions with either the shareholders or their portfolio companies in 2021 and 2020.

Transactions with key management personnel

Remunerations, salaries, and share-based payments to the Board of Directors and the Executive Management are reflected in Note 6. There were no other transactions with the Board of Directors and the Executive Management in 2021 and 2020.

NOTE 30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables, and guarantees for the sale of network adapters. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group has trade and other receivables, cash, and long-term leasehold deposits that derive directly from its operations. The Group does not hold any available-for-sale investments.

The Group is exposed to credit risk, liquidity risk, interest rate risk, and foreign currency risk. The Group's senior management provides assurance that financial risks are identified, measured, and managed in accordance with the Group's policies and risk objectives. It is the Group's policy not to undertake any trading in derivatives for speculative purposes. The Board of Directors reviews and agrees on policies for managing each of these risks, which are summarized below.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a customer contract, leading to financial loss. The Group is exposed to credit risk from its operating activities, receivables, and deposits with banks.

Trade receivables

Customer credit risk is managed at the group level. The credit quality of a customer is assessed based on a review of available financial information. The Group's customers have 30 - 90 days as a standard payment term and historically the Group has not had material impairment for bad debts.

In 2021, the Group had 3 customers (2020: 3 customers) that owed the Group more than 10% of all trade receivables. The credit risk associated with these customers has been assessed as low as they historically meet the Group standard payment terms of 30 - 90 days.

The assessment of the need for impairment of financial assets measured at amortized cost including trade receivables, is made according to the simplified expected credit loss model. The model implies that the expected loss over the lifespan of the asset is recognised immediately in the income statement and is continuously monitored in accordance with the Group's risk management until realization.

Impairment is calculated on the basis of expected loss percentages, which are calculated individually distributed per geographical location. Loss percentages are calculated on the basis of historical data based on expected losses over the total maturity of the receivable, adjusted for estimates of the effect of expected changes in relevant parameters, such as the economic development, political risks, etc. in the given market.

	2021			
DKK'000	**Loss percentage**	**Receivable**	**Expected loss**	**Total**
Not past due	0.9%	31,327	296	31,031
Past due for less than 30 days	2.3%	4,398	102	4,296
Past due between 30 and 60 days	4.7%	1,398	66	1,332
Past due between 60 and 90 days	9.7%	909	88	821
Past due after 90 days	92.0%	424	390	34
Total maximum credit risk		**38,456**	**942**	**37,514**

	2020			
DKK'000	**Loss percentage**	**Receivable**	**Expected loss**	**Total**
Not past due	1.0%	14,077	145	13,932
Past due for less than 30 days	2.3%	1,659	39	1,620
Past due between 30 and 60 days	4.7%	262	12	250
Past due between 60 and 90 days	9.7%	-	-	-
Past due after 90 days	100.0%	340	340	-
Total maximum credit risk		**16,338**	**536**	**15,802**

NOTE 30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The maximum exposure to credit risk at the reporting date is the carrying value disclosed in Note 20. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and operate independently. The customer credit risk related to geographical segments in which the Group operates is similar and does not differ significantly.

Other receivables
Other receivables at 31 December primarily relate to VAT receivables from the Danish tax authorities. The receivable regarding the divestment of Pandion is finally paid in 2021 with a gain of DKK 2,359 thousand compared to the impaired receivable on 31 December 2020. The gain is recognised as finance income.

Cash deposits
Credit risk from balances with banks is managed by the senior management in accordance with the Group's policy. Investments of surplus funds are mainly made to finance development projects. Development projects are reviewed by the senior management on a quarterly basis.

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2021 and 2020 is the carrying amounts as illustrated in Note 24.

Liquidity risk

Liquidity risk is the risk that the Group is unable to repay its financial liabilities as they fall due.

The Group monitors cash flows on a monthly basis and a maximum of one year in advance. The aim is to ensure sufficient cash from the operating activities to fund project development and daily operations.

31 December 2021 the Group had drawn down its full credit facilities (unused credit facilities 31 December 2020: DKK 6,058 thousand).

In March 2022 the Group has established a new overdraft facility of DKK 30 million in Denmark in addition to the facility in the US of USD 1 million. The overdraft facility in Denmark is up for renewal in May 2023, and the facility in the US is up for renewal in April 2022. In addition to the new overdraft facility, the Group has established a loan of DKK 10 million to be repaid in six years with a grace period until January 1, 2024.

The cash available and unused credit facilities are assessed to be sufficient to cover the Group's obligations and planned investments as they fall due for a period of at least 12 months from 31 December 2021.

The Group's manufacturing policy is order production to ensure minimal amounts of cash are being tied up in inventories. Furthermore, the suppliers' terms of payment are between 30 and 60 days, and the Group's customers' standard terms of payment are between 30 and 90 days.

In line with previous reporting periods, the Group's policy for liquidity management is to ensure timely payments from customers and to balance suppliers' credit terms with the terms of payment offered to the customers.

The Group's cash inflows arising from the financial assets and outflows arising from the financial liabilities recognised in the consolidated statement of financial position are due as follows:

	2021			
DKK'000	**Jan - Mar**	**Apr - Dec**	**over 1 year**	**Total**
Leasehold deposits	-	-	1,357	1,357
Trade receivables	37,514	-	-	37,514
Other receivables	936	-	-	936
Cash and cash equivalents	39,449	-	-	39,449
Total financial assets	**77,899**	**-**	**1,357**	**79,256**

NOTE 30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	2021			
DKK'000	**Jan - Mar**	**Apr - Dec**	**over 1 year**	**Total**
Lease liabilities	749	2,158	4,665	7,572
Interest-bearing loans and borrowings	2,500	-	6,561	9,061
Other financial liabilities	-	280	4,860	5,140
Trade payables	10,990	-	-	10,990
Total financial liabilities	**14,239**	**2,438**	**16,086**	**32,763**

	2020			
DKK'000	**Jan - Mar**	**Apr - Dec**	**over 1 year**	**Total**
Leasehold deposits	-	-	1,407	1,407
Trade receivables	15,802	-	-	15,802
Other receivables	1,634	1,423	-	3,057
Cash and cash equivalents	62,698	-	-	62,698
Total financial assets	**80,134**	**1,423**	**1,407**	**82,964**

	2020			
DKK'000	**Jan - Mar**	**Apr - Dec**	**over 1 year**	**Total**
Lease liabilities	941	2,305	7,102	10,348
Interest-bearing loans and borrowings	2,500	7,500	2,500	12,500
Other financial liabilities	-	-	6,181	6,181
Trade payables	11,014	-	-	11,014
Total financial liabilities	**14,455**	**9,805**	**15,783**	**40,043**

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates mainly to the Group's interest-bearing loans in the amount of DKK 9,061 thousand (2020 DKK 12,500 thousand). These loans yields interest rates in the range of 4.25% - 5.00 %. The Group's policy is to keep sufficient cash in place to mitigate adverse impacts caused by fluctuation in market interest rates. The interest rates used to determine lease obligations are fixed. The Group's interest rate risk is immaterial.

Foreign currency risk

The parent company's functional currency is DKK. The Group's revenues and cost of goods sold are mainly denominated in USD. However, the majority of all other transactions are denominated in DKK and USD. The Group's main currency risk is thus associated with fluctuations in USD against DKK. The Group has negligible transactions in other currencies.

Sensitivity analysis of presentation currency

The following demonstrates the sensitivity to a reasonably likely change in the DKK exchange rate, with all other variables held constant. The effect on the Group's profit before tax and equity is due to changes in the fair value of monetary assets and liabilities.

NOTE 30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	Effect on profit before tax		Effect on equity	
DKK'000	2021	2020	2021	2020
Change in USD by +/÷ 5%	+/÷ 2,954	+/÷ 2,590	+/÷ 2,304	+/÷ 2,020
Change in USD by +/÷ 10%	+/÷ 5,908	+/÷ 5,181	+/÷ 4,608	+/÷ 4,041

Capital management

Capital includes shares attributable to the equity holders of the parent company.

The primary objective of the Group's capital management, in the short term, is to ensure the sufficient capital needed to fund the development of new products and new markets and thereby create a healthy business platform to ensure returns to the shareholders in the long term.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group has not distributed any dividends, and it does not expect to do so in the near future.

NOTE 31 EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after 31 December 2021 that might affect the consolidated financial statements.

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT

For the year ended 31 December 2021

Note	DKK'000	2021	2020
	Revenue	164,409	157,301
	Cost of goods sold	(55,113)	(55,265)
	Gross profit	**109,296**	**102,036**
2	Other operating income	625	5
3, 6	Staff costs	(60,886)	(62,196)
4	Transferred to capitalized development costs	23,608	13,479
4, 5	Other external costs	(20,876)	(18,505)
	Operating profit before depreciation, amortisation and impairment (EBITDA)	**51,767**	**34,819**
7	Depreciation, amortisation and impairment	(22,146)	(25,132)
	Operating result (EBIT)	**29,621**	**9,687**
8	Finance income	6,953	972
9	Finance costs	(605)	(6,493)
	Result before tax	**35,969**	**4,166**
10	Income tax	4,771	5,075
	Result for the year	**40,740**	**9,241**

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

Note	DKK'000	2021	2020
	Result for the year	**40,740**	**9,241**
	Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	-	-
	Total comprehensive income for the year, net of tax	**40,740**	**9,241**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2021

ASSETS

Note	DKK'000	2021	2020
	Development projects, completed	26,685	23,328
	Development projects, in progress	15,589	7,760
	Patents	3,016	3,697
11	**Intangible assets**	**45,290**	**34,785**
12	Plant and equipment	6,492	1,222
13	Right-of-use assets	6,995	9,327
12	Leasehold improvements	727	301
	Tangible assets	**14,214**	**10,850**
14	Investments in subsidiaries	6,590	5,504
15	Deferred tax asset	9,715	4,932
21	Leasehold deposits	1,349	1,310
	Other non-current assets	**17,654**	**11,746**
	Non-current assets	**77,158**	**57,381**
16	Inventories	24,123	18,723
17, 21	Trade receivables	6,308	3,281
17, 21	Receivables from group entities	47,853	31,381
18	Right-of-return asset	17	112
17, 21	Other receivables	4,822	2,936
19	Income tax receivable	-	47
21	Cash and cash equivalents	7,002	30,429
	Current assets	**90,125**	**86,909**
	Total assets	**167,283**	**144,290**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION
at 31 December 2021

EQUITY AND LIABILITIES

Note	DKK'000	2021	2020
20	Issued capital	20,774	20,767
20	Share premium	290,435	290,330
20	Reserve for development project costs	32,973	24,249
20	Other capital reserves	8,242	6,744
	Retained earnings	(219,969)	(253,300)
	Equity	**132,455**	**88,790**
21, 24	Other financial liabilities	4,860	6,181
13, 21, 24	Lease liabilities	4,545	6,827
	Non-current liabilities	**9,405**	**13,008**
21, 24	Interest-bearing loans and borrowings	2,500	12,500
13, 21, 24	Lease liabilities	2,726	2,747
21	Trade payables	10,990	11,014
	Other payables	6,171	14,298
22	Contract liabilities	2,659	-
23	Provisions	297	1,529
18	Refund liability	80	404
	Current liabilities	**25,423**	**42,492**
	Total liabilities	**34,828**	**55,500**
	Total equity and liabilities	**167,283**	**144,290**

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021

Note	In DKK'000	Share capital	Share premium	Share based payment reserve	Reserve for develop-ment project costs	Retained earnings	Total equity
	At 1 January 2020	**20,767**	**290,329**	**4,492**	**28,653**	**(267,046)**	**77,195**
	Result for the year	-	-	-	(4,404)	13,645	9,241
	Total comprehensive income	**-**	**-**	**-**	**(4,404)**	**13,645**	**9,241**
	Reversal, exercised and lapsed share options	-	1	(102)	-	101	-
6	Share-based payments	-	-	2,354	-	-	2,354
	Total transactions with shareholders	**-**	**1**	**2,252**	**-**	**101**	**2,354**
	At 31 December 2020	**20,767**	**290,330**	**6,744**	**24,249**	**(253,300)**	**88,790**
	Result for the year	-	-	-	8,724	32,016	40,740
	Total comprehensive income	**-**	**-**	**-**	**8,724**	**32,016**	**40,740**
	Issue of shares	7	46	-	-	-	53
	Share buyback	-	-	-	-	(273)	(273)
	Reversal, exercised and lapsed share options	-	59	(1,609)	-	1,588	38
6	Share-based payments	-	-	3,107	-	-	3,107
	Total transactions with shareholders	**7**	**105**	**1,498**	**-**	**1,315**	**2,925**
	At 31 December 2021	**20,774**	**290,435**	**8,242**	**32,973**	**(219,969)**	**132,455**

PARENT COMPANY STATEMENT OF CASH FLOWS
for the year ended 31 December 2021

Note	DKK'000	2021	2020
	Operating activities		
	Result before tax	35,969	4,166
	Adjustments to reconcile profit before tax to net cash flows:		
	Finance income	(6,953)	(972)
	Finance costs	605	6,493
	Depreciation, amortisation and impairment	22,146	25,132
	Gain/loss on the sale of non-current assets	(625)	(5)
	Share-based payment expense	2,023	772
	Working capital adjustments:		
	Change in inventories	(5,400)	(9,191)
	Change in trade and other receivables, right-of-return asset and intercompany receivables	(18,915)	(19,108)
	Change in trade and other payables, provisions, refund liability and contract liabilities	(6,892)	9,271
	Interest received	-	1,098
	Interest paid	(348)	(617)
	Income tax received, net	51	3,055
	Net cash flows from operating activities	**21,661**	**20,094**
	Investing activities		
	Proceeds from sale of tangible assets	625	3
	Purchase of tangible assets	(6,989)	(1,204)
	Proceeds from sale of intangible assets	3,986	1,268
	Investments in intangible assets	(28,503)	(15,041)
	Investments in leasehold deposits	(39)	941
	Net cash from investing activities	**(30,920)**	**(14,033)**
	Free cash flow	**(9,259)**	**6,061**
	Financing activities		
	Capital increase	53	-
	Share buyback	(273)	-
	Repayment of lease liabilities	(3,088)	(3,128)
	Proceeds from borrowings	-	4,155
	Repayment of borrowings	(11,321)	(13,702)
	Net cash flows from financing activities	**(14,629)**	**(12,675)**
	Net change in cash and cash equivalents	**(23,888)**	**(6,614)**
	Net foreign exchange difference	461	(1,100)
	Cash and cash equivalents at 1 January	30,429	38,143
	Cash and cash equivalents at 31 December	**7,002**	**30,429**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

General

The financial statements for Napatech A/S (the parent company) have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and additional requirements in the Danish Financial Statements Act. The accounting policies for the Parent company are the same as for the Group as set out in Note 2 to the consolidated financial statements, except for the items listed below.

Dividends

Dividends from the investment in subsidiaries are recognised as income in the parent company's income statement in the year in which the dividend is declared. Dividends are presented in the cash flow statement as investing activities.

Investments in subsidiaries

Investments in subsidiaries are measured at cost. If there is evidence of impairment, an impairment test is performed. If the cost exceeds the recoverable amount, a write-down is made to such lower value.

Share-based payments to employees in subsidiaries

The value of share options to the employees in the US-based subsidiary Napatech Inc. is recognised as an increase in the investment in subsidiaries as the employees' services rendered in exchange for the share options are received in subsidiaries.

Equity reserve for development project costs

The reserve for development project costs comprises recognised development costs. The reserve cannot be used to distribute dividends or cover losses. The reserve will be reduced or dissolved with amortization, impairment or disposed if the recognised development costs are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

NOTE 2 OTHER OPERATING INCOME

Other operating income for the parent company and the Group are the same. Details of other operating income are disclosed in Note 5 to the consolidated financial statements.

NOTE 3 STAFF COSTS

DKK'000	2021	2020
Employee benefits expense is reported as follows:		
Wages and salaries	55,246	57,428
Defined contribution schemes	3,075	3,545
Share-based payment expense	2,023	771
Social security costs	542	452
Total employee benefits expense	**60,886**	**62,196**
Average number of employees	**64**	**62**

Compensation of key management personnel is set out in Note 6 to the consolidated financial statements of the Group.

NOTE 4 RESEARCH AND DEVELOPMENT COSTS

Research and development costs for the parent company and the Group are the same. Details of research and development costs are disclosed in Note 7 to the consolidated financial statements.

NOTE 5 AUDITORS' FEES

DKK'000	2021	2020
Fees to the Company's auditor appointed by the general meeting:		
Statutory audit fee	521	420
Assurance engagements	60	38
Fees for other services	13	19
Total auditors' fees	**594**	**477**

Fee in relation to non-audit services from EY Godkendt Revisionspartnerselskab, DKK 13 thousand consists of general accounting advice.

NOTE 6 SHARE-BASED PAYMENT EXPENSE

The share options described in Note 8 to the consolidated financial statements are issued by the parent company. The value of share options granted to employees in the fully owned US-based subsidiary is recognised as cost of the investment in the subsidiary. Out of the Group's total share-based payment expense of DKK 3,107 thousand (2020: DKK 2,354 thousand), DKK 1,086 thousand (2020: DKK 1,581 thousand) has been recognised as an additional cost of the investment in the subsidiary see Note 14.

NOTE 7 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

DKK'000	2021	2020
Depreciation, amortisation and impairment are reported as follows:		
Depreciation plant and property	964	567
Depreciation of leasehold improvements	329	248
Depreciation of right-of-use assets	2,855	2,901
Total depreciation of tangible assets	**4,148**	**3,715**
Amortisation of patents	690	685
Impairment of patents	-	155
Amortisation of completed development projects	17,308	19,087
Impairment of completed development projects	-	1,490
Total amortisation and impairment of intangible assets	**17,998**	**21,417**
Total depreciation, amortisation and impairment	**22,146**	**25,132**

NOTE 8 FINANCE INCOME

DKK'000	2021	2020
Interest receivable from banks	-	7
Foreign exchange gains	4,594	-
Other finance income	2,359	965
Total finance income	**6,953**	**972**
Finance income at amortized costs	**2,359**	**972**

NOTE 9 FINANCE COSTS

DKK'000	2021	2020
Interest payable to banks	191	367
Foreign exchange losses	-	5,544
Interest payable under leases	257	332
Other finance costs	157	250
Total finance costs	**605**	**6,493**
Finance costs at amortized costs	**605**	**699**

NOTE 10 INCOME TAX

DKK'000	2021	2020
Current tax recognised in the parent company income statement:		
Current income tax	16	-
Current income tax carry back refund	-	(47)
Change in deferred tax	(4,783)	(4,932)
Adjustment prior years taxes	(4)	(96)
Total income tax	**(4,771)**	**(5,075)**

A reconciliation between tax expense and profit before tax multiplied by the applicable income tax rate for the parent company for 2021 and 2020 is as follows:

DKK'000	2021	2020
Profit before tax	35,969	4,166
At the applicable Danish income tax rate for the parent company, 22% (2020: 22%)	7,913	917
Tax effect of:		
Tax deductable expenses	(2,236)	(1,756)
Non-deductible expenses	447	171
Accounting estimate for not recognised deferred tax assets	(10,891)	(4,311)
Adjustment prior years taxes	(4)	(96)
At the effective income tax rate of -13% (2020: -122%)	**(4,771)**	**(5,075)**

NOTE 11 INTANGIBLE ASSETS

Intangible assets comprise patents and development projects which are the same for the parent company and the Group. An overview of these assets is disclosed in Note 15 to the consolidated financial statements.

NOTE 12 TANGIBLE ASSETS

	Plant and equipment		Leasehold improvements		Total	
DKK'000	2021	2020	2021	2020	2021	2020
Cost at 1 January	33,563	32,359	4,946	4,946	38,509	37,305
Additions	6,234	1,204	755	-	6,989	1,204
Disposals in the period	(1,383)	-	-	-	(1,383)	-
Cost at 31 December	**38,414**	**33,563**	**5,701**	**4,946**	**44,115**	**38,509**
Accumulated depreciation at 1 January	32,341	31,774	4,645	4,397	36,986	36,171
Depreciation for the year	964	567	329	248	1,293	815
Disposals in the period	(1,383)	-	-	-	(1,383)	-
Accumulated depreciation at 31 December	**31,922**	**32,341**	**4,974**	**4,645**	**36,896**	**36,986**
Carrying amount at 31 December	**6,492**	**1,222**	**727**	**301**	**7,219**	**1,523**

In 2021, the parent company tested the tangible assets for impairment. In relation to this, the parent company recognised DKK nil as an impairment in the reporting period (2020: DKK nil).

NOTE 13 LEASING

Right-Of-Use Assets

	Properties		Plant and equipment		Total	
DKK'000	2021	2020	2021	2020	2021	2020
Cost at 1 January	9,069	11,600	259	628	9,327	12,228
Additions	-	-	523	-	523	-
Depreciation for the year	(2,531)	(2,531)	(324)	(370)	(2,855)	(2,901)
Carrying amount at 31 December	**6,538**	**9,069**	**458**	**259**	**6,995**	**9,327**

Lease Liabilities

DKK'000	2021	2020
Maturity of lease liabilities:		
Falling due within one year	2,726	2,747
Falling due between one and three years	4,459	5,243
Falling due between four and five years	86	1,584
Total lease liabilities	**7,271**	**9,574**

See Note 2 to the consolidated financial statement for a description of The extent of the Group's leases; Exposure to potential cash flows; The process of determining the discount rate.

NOTE 13 LEASING (CONTINUED)

Amounts recognised in the parent company income statement

DKK'000	2021	2020
Depreciation	2,855	2,901
Finance costs	257	332
Expense relating to low-value assets (included in other external costs)	3	-
Total lease costs recognised in the parent company income statement	**3,115**	**3,233**

For 2021, the parent company has recognised DKK 3,088 thousand (2020: DKK 3,128 thousand) as minimum payments regarding lease agreements, of which interest costs related to lease liabilities amount to DKK 257 thousand (2020: DKK 332 thousand) and repayments on lease liabilities are DKK 2,831 thousand (2020: DKK 2,796 thousand). The capitalized right-of-use assets do not have any effect on investing activities in the cash flow statement.

NOTE 14 INVESTMENTS IN SUBSIDIARIES

DKK'000	2021	2020
Cost at 1 January	10,254	8,673
Value of share-based payment to employees in subsidiaries	1,086	1,581
Cost at 31 December	**11,340**	**10,254**
Accumulated impairment at 1 January	4,750	4,750
Accumulated impairment at 31 December	**4,750**	**4,750**
Carrying amount at 31 December	**6,590**	**5,504**

The parent company's investments in subsidiaries at 31 December 2021 and 2020 consist of the following:

		Ownership in %		Proportion of voting rights in %		
Name	**Country**	**2021**	**2020**	**2021**	**2020**	**Business activity**
Napatech Inc.	USA	100	100	100	100	Sale and distribution of the Group's products

DKK'000	Result for the year		Equity	
Name	**2021**	**2020**	**2021**	**2020**
Napatech Inc.	573	1,935	7,607	6,482

NOTE 15 DEFERRED TAX

DKK'000	Statement of financial position 2021	Statement of financial position 2020	Income statement 2021	Income statement 2020
Tax losses carry-forwards	(18,251)	(9,544)	(8,707)	(4,397)
Intangible assets	9,717	7,075	2,642	(1,106)
Tangible assets	448	420	28	(40)
Lease liabilities	(1,600)	(2,106)	506	615
Provision for expected credit loss	(15)	(7)	(8)	28
Other receivables	-	(706)	706	1
Right-of-return asset and refund liability	(14)	(64)	50	(33)
Deferred tax liability and expense	**(9,715)**	**(4,932)**	**(4,783)**	**(4,932)**

DKK'000	2021	2020
Reconciliation of deferred tax liability / (asset) is as follows:		
Opening balance at 1 January	(4,932)	-
Recognised in parent company income statement	(4,783)	(4,932)
Closing balance at 31 December	**(9,715)**	**(4,932)**

The parent company has tax losses of DKK 150,382 thousand (2020 DKK 159,260 thousand) that are available indefinitely for offsetting against future taxable profit. In 2021 the deferred tax assets have not been fully recognised in respect of these losses due to uncertainty in timing to offset future taxable profit.

If the parent company was able to recognise all unrecognised deferred tax assets the value would be DKK 24,548 thousand (2020: DKK 30,425 thousand). Deferred tax assets are expected to be utilized in future profits for the coming 3-5 years. See note 3 for a description of the assumptions used for recognizing the deferred tax asset.

NOTE 16 INVENTORIES

DKK'000	2021	2020
Consumables and components	9,330	3,177
Finished goods and goods for resale	14,793	15,546
Total inventories	**24,123**	**18,723**
Carrying value of inventories recognised at fair value	**-**	**-**

The cost of goods sold for the year is DKK 55,113 thousand (2020: DKK 55,265 thousand) which also include movements in inventory writedown for the year. Movements in inventory writedown are as follows:

DKK'000	2021	2020
Inventory writedown at 1 January	16,995	15,883
Inventory writedown for the year	135	1,811
Reversal of inventory wirtedown	(799)	(699)
Inventory writedown at 31 December	**16,331**	**16,995**

NOTE 16 INVENTORIES (CONTINUED)

During 2021 DKK 135 thousand (2020: 1.811 DKK) was recognised as an impairment expense. The impairment expense was partly related to decisions to end life of certain products for inventories, carried at net realizable value. Reversal of inventory writedown relate mainly to products which have now been scrapped.

NOTE 17 TRADE AND OTHER RECEIVABLES

DKK'000	2021	2020
Receivables recognised in the parent company statement of financial position:		
Trade receivables	6,308	3,281
Receivables from group entities	47,853	31,381
Other receivables	4,822	2,936
Total current receivables	**58,983**	**37,598**

Movements in the provision for bad debts on trade receivables are as follows:

DKK'000	2021	2020
At 1 January	32	159
Written off in the year	-	(47)
Change in the year	34	(80)
At 31 December	**66**	**32**

Aging analysis of past due but not impaired trade receivables is as follows:

DKK'000	2021	2020
Not past due	6,024	3,211
Past due for less than 30 days	202	70
Past due between 30 and 60 days	82	-
Total maximum credit risk	**6,308**	**3,281**

See Note 27 for a description the credit risk.

NOTE 18 RIGHT-OF-RETURN ASSET AND REFUND LIABILITY

The Company's customers do not have any contractual right of return apart from ordinary warranty conditions, but the Company has a customary practice for acceptance in special cases.

DKK'000	2021	2020
Right-of-return asset	17	112
Refund liability	80	404

NOTE 18 RIGHT-OF-RETURN ASSET AND REFUND LIABILITY (CONTINUED)

Right-of-return asset represent the Company's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Company updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liability represent the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Company ultimately expects it will accept to return to the customer. The Company updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

NOTE 19 INCOME TAX RECEIVABLES

Income tax receivable relates to income tax carryback refund based on the previous year's tax losses as a result of investments in development projects. The movement in the income tax receivable is disclosed in Note 22 to the consolidated financial statements.

NOTE 20 ISSUED CAPITAL AND RESERVES

Information in relation to issued capital and reserves is disclosed in Note 23 to the consolidated financial statements.

NOTE 21 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK'000	2021	2020
Financial assets measured at amortised cost:		
Leasehold deposits	1,349	1,310
Trade receivables	6,308	3,281
Receivables from group entities	47,853	31,381
Other receivables	936	2,936
Cash and cash equivalents	7,002	30,429
Total financial assets	**63,448**	**69,337**
Financial liabilities measured at amortised cost:		
Lease liabilities	7,271	9,574
Interest-bearing loans and borrowings	2,500	12,500
Trade payables	10,990	11,014
Other non current financial liabilities	4,860	6,181
Total financial liabilities	**25,621**	**39,269**

Carrying amounts of financial assets and financial liabilities approximate their fair value as the financial liabilities are current/short termed. Loans and overdraft facility are subject to a variable interest rate. Intercompany and other external loans are fair valued at the end of the reporting period. Thus, the fair value of the financial assets and liabilities is considered equal to the booked value.

NOTE 22 CONTRACT LIABILITIES

Contract liabilities relate to prepayment from customers regarding support service and development contracts.
The movements in contract liabilities are as follows:

DKK'000	2021	2020
At 1 January	-	-
Deferred during the year	2,659	-
At 31 December	**2,659**	**-**

The contract liabilities are expected to be recognised as revenue within one year and are therefore classified as current liabilities.

NOTE 23 PROVISIONS

Provisions cover warranty obligations associated with the sale of network adapters. These provisions are incurred by the parent company and are disclosed in Note 26 to the consolidated financial statements.

NOTE 24 LIABILITIES FROM FINANCING ACTIVITIES

	2021			
DKK'000	At 1 January	Non-cash	Cash flows	At 31 December
Interest bearing loans and borrowings	12,500	-	(10,000)	2,500
Other financial liabilities	6,181	-	(1,321)	4,860
Lease liabilities	9,574	785	(3,088)	7,271
Total liabilities from financing activities	**28,255**	**785**	**(14,409)**	**14,631**

	2020			
DKK'000	At 1 January	Non-cash	Cash flows	At 31 December
Interest bearing loans and borrowings	26,202	-	(13,702)	12,500
Other financial liabilities	2,026	-	4,155	6,181
Lease liabilities	12,370	332	(3,128)	9,574
Total liabilities from financing activities	**40,598**	**332**	**(12,675)**	**28,255**

NOTE 25 COMMITMENTS AND CONTINGENCIES

Collaterals

The parent company (as the whole Group) has issued a floating charge in the amount of DKK 30 million (2020: DKK 30 million) secured on receivables, inventories, and patents with a carrying amount of DKK 33,447 thousand (2020: DKK 25,701 thousand) as collateral for bank debt.

NOTE 26 RELATED PARTY TRANSACTIONS

The parent company's related parties are the same as the Group's. Additional information is set out in Note 29 to the consolidated financial statements.

Related parties in which the parent company has a controlling influence include the company's subsidiaries as disclosed in Note 14 to the parent company financial statements.

The following provides the total amount of transactions that have been entered into with subsidiaries for the relevant financial year:

	Napatech Inc, USA	
DKK'000	**2021**	**2020**
Income statement:		
Sales to subsidiaries	109,804	93,865
Statement of financial position:		
Receivables from subsidiaries	47,853	31,381

NOTE 27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The parent company incurs external financial liabilities and settles its transactions in currencies other than the functional currency. The Groups' financial risks are therefore primarily related to the parent company. Relevant additional information is set out in Note 30 to the consolidated financial statements.

Overview of expected loss on trade receivables in the parent company:

	2021			
DKK'000	**Loss percentage**	**Receivable**	**Expected loss**	**Total**
Not past due	0.9%	6,081	57	6,024
Past due for less than 30 days	2.3%	207	5	202
Past due between 30 and 60 days	4.7%	86	4	82
Total maximum credit risk		**6,374**	**66**	**6,308**

	2020			
DKK'000	**Loss percentage**	**Receivable**	**Expected loss**	**Total**
Not past due	0.9%	3,241	30	3,211
Past due for less than 30 days	2.3%	72	2	70
Total maximum credit risk		**3,313**	**32**	**3,281**

As for the receivables from group entities, the assessment is based on the fact that the parent company has not historically realised any significant losses on group receivables and the fact that the group entities in all material aspects are able to settle the receivable as they fall due. As such, as in previous years, no impairment provision has been recognised as of 31 December 2021.

NOTE 28 EVENTS AFTER THE REPORTING PERIOD

Information in relation to events after the reporting period is disclosed in Note 31 to the consolidated financial statements.

STATEMENT BY THE EXECUTIVE MANAGEMENT AND THE BOARD OF DIRECTORS ON THE ANNUAL REPORT

The Board of Directors and the Executive Board have today discussed and approved the annual report of Napatech A/S for 2021.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2021 and of the results of their operations and cash flows for the financial year 1 January – 31 December 2021.

Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the Parent Company's activities and financial matters, results for the year, cash flows and financial position as well as a description of material risks and uncertainties that the Group and the Parent Company face.

In our opinion, the Annual Report of Napatech A/S for the financial year 1 January to 31 December 2021 with the file name Napatech-2021-12-31-en.zip has been prepared, in all material respects, in compliance with the ESEF Regulation.

We recommend that the annual report be approved at the annual general meeting.

Søborg, 24 March 2022

Executive Management

Ray Smets, Chief Executive Officer

Heine Thorsgaard, Chief Financial Officer

Board of Directors

Lars Boilesen, Chairman

Christian Jebsen

Howard Bubb

Henry Wasik

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NAPATECH A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Napatech A/S for the financial year 1 January – 31 December 2021, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2021 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2021 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

Appointment of auditor

Subsequent to Napatech A/S being listed on the Oslo Stock Exchange, we were initially appointed as auditors of Napatech A/S on 29 April 2014. We have been reappointed annually by resolution of the general meeting for a total consecutive period of eight years up until the financial year 2021.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2021. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Accordingly, our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Recognition and valuation of capitalized development costs

Development costs mainly comprise hardware and software development. The Group capitalizes eligible development costs upon meeting the criteria as described in IAS 38.

Recognition and valuation of capitalized development costs is significant to our audit due to the carrying values as well as the management judgement involved in the assessment of the carrying values, basis for capitalization of development costs and judgements involved in impairment testing of the capitalized development costs.
Refer to note 15 in the consolidated financial statements and to note 11 in the financial statements for the parent company.

How our audit addressed the above key audit matters:

- Assessment of the eligibility of the development costs for capitalization as intangible asset under applicable accounting standards.
- Evaluation of the design of the controls implemented by Management in respect of capitalization of development costs and substantive test of details on a sample basis to underlying evidence, including hour registration.
- Consideration of the valuation methodology applied by Management as well as key assumptions and input based on our knowledge of the business and industry together with available supporting evidence such as available budgets and externally observable market data related to interest rates, etc.
- Assessment of the adequacy of the disclosures provided by management in the financial statements compared to applicable accounting standards.

Statement on the Management’s review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Management’s responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on compliance with the ESEF Regulation

As part of our audit of the financial statements of Napatech A/S we performed procedures to express an opinion on whether the annual report for the financial year 1 January – 31 December 2021 with the file name Napatech-2021-12-31-en.zip is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the Consolidated Financial Statements.

Management is responsible for preparing an annual report that complies with the ESEF Regulation. This responsibility includes:

- The preparing of the annual report in XHTML format;
- The selection and application of appropriate iXBRL tags, including extensions to the ESEF taxonomy and the anchoring thereof to elements in the taxonomy, for financial information required to be tagged using judgement where necessary;
- Ensuring consistency between iXBRL tagged data and the Consolidated Financial Statements presented in human readable format; and
- For such internal control as Management determines necessary to enable the preparation of an annual report that is compliant with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation, whether due to fraud or error. The procedures include:

- Testing whether the annual report is prepared in XHTML format;
- Obtaining an understanding of the company's iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the Consolidated Financial Statements;
- Evaluating the appropriateness of the company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and
- Reconciling the iXBRL tagged data with the audited Consolidated Financial Statements.

In our opinion, the annual report for the financial year 1 January – 31 December 2021 with the file name Napatech-2021-12-31-en.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

Copenhagen, 24 March 2022
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jan C. Olsen
State Authorised
Public Accountant
mne33717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RECONFIGURABLE COMPUTING

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