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RECONFIGURABLE COMPUTING

2019 ANNUAL REPORT

Approved by the Annual General Meeting of shareholders on 16 April 2020

Chairman: Jørgen Bæk Weiss Hansen

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

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CONTENTS

DEAR READER

Reaching Higher with Realistic Expectations

History has many examples of companies that have set out to achieve the impossible and have failed dramatically, while others have delivered amazing success. However, beating impossible objectives is like rolling the dice hoping for success. Having the right set of *achievable goals* is the basis for solid execution.

My philosophy at Napatech and throughout my career is built on *Optimistic Realism*. In short, it is important to have a grasp of reality, seeking to understand and address real obstacles, but you must also have a plan to overcome them. On the other hand, it is never wise to be idealistic about your goals that can only be achieved if luck falls your way. And consequently. pessimism is the death of any potential to succeed. There is no such thing as a no-win situation. There is always a way. It is in this delicate balance where optimism is born. *Realism* is fact-based. *Optimism* is emotional but with a grasp of the facts. *Optimistic Realism* was the right recipe for Napatech in 2019.

Napatech's journey in 2019 was a superb example of the benefits of *Optimistic Realism*. Early in 2019 as Napatech evaluated its situation, it identified a realistic set of hurdles and challenges that it needed to overcome. These challenges ranged from stabilizing the business after a few years that were challenged due to several market-situational factors. But the foundation of this business was and continues to be, sound. The 2019 turn-around was built on what we knew best; driving innovation with a technology core-competency meeting the application acceleration and cybersecurity needs of existing and new customers. We double-downed on our market-leading packet-capture solutions and expertise, executing on a three-prong product strategy that intended to deliver short-term benefits and aim for potential long-term growth, driving a "right-sized" operating cost-structure in human capital, operating expenses and product cost, all while delivering record-breaking positive free cash flow and gross margins. The underpinning of our strategy is that our technology plays a relevant role in a market that needs Napatech to succeed. We are *optimistic realists* about our future, with knowledge of what could go right, and what could go wrong. Our crystal ball is not always perfect, so we have to consider market volatility, the fickle nature of our technology domain, growing competition, and innovation cycles that could expand our market or crush it. Despite these concerns, we see a bright future.

Napatech came out on top. The outcome was solid execution beating every goal established by the company. *What you will read in our annual report is a summary of setting and beating objectives and righting the direction of a company worthy of your investment.*

During 2019, revenues grew 61% year-over-year, and significantly improved product margins to 74.5%. At the same time, we continued to improve our operating cost structure, driving costs down significantly, focusing our research and development towards building products for future growth, carefully managing sales and marketing costs to efficiently get to the right opportunities, and right-sizing our business operations. Revenue growth and expense improvements resulted in positive free cash flow and earnings in 2019, way ahead of expectations.

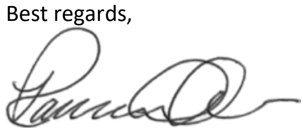
Our growth in 2019 was built on our ability to find the opportunities to win during a time of change. We continued to invest in our unique world-class expertise in packet capture by leveraging the high-performance abilities of the FPGA to improve the way networks are managed. We rode the wave of change as the IT industry is changing from hardware-centric to software-only, from premise-based architectures to the cloud, from fast to ever-faster networking and hyperscale, where the application is finding itself at the center of this technology revolution.

It is in these changes that I see the growing opportunity for Napatech to create new revenues in 2020 and beyond by inserting our solutions where our world-class FPGA software expertise can be engaged to accelerate applications and virtualized network functions in rapidly growing next generation networks.

We had to accomplish all of this *while* rebuilding our credibility with our investors and shareholders. This is part of the journey we will continue to strive to improve. We plan to be transparent, pragmatic, aggressive, yet humble, and we will be appropriately *optimistic* and *realistic* to build clarity around our investors' potential for success. Our finish in 2019 was a good indication that we can do what we said we could do. And we will execute towards the opportunity that lies ahead with a clearer picture of what we can do, how we can perform and how we will position Napatech for the coming year of growth.

We approach 2020 with a sense of *Optimistic Realism*. We are a global tech company with unique expertise and determination to win. This will to win gives me confidence that 2020 will be a continuation of our new era of growth. And it is with this in mind that I am committed to making it happen.

Best regards,



Ray Smets
Chief Executive Office

NAPATECH'S UNIVERSE

The Time Is Now for SmartNICs

FASTER, SMARTER, GREENER & MORE SECURE

We live in an era where we work, live and play anywhere anytime. And we usually do this with our smartphone in our hand or our tablet under our arm. Always on the go. Anywhere in the world. And we expect everything, services, information, and knowledge, to be right at our fingertips all of the time. We demand our applications to be highly available, very secure, and reliable. The demands of our world to meet these ever-increasing needs keep moving the bar higher on how networks are designed, deployed and operated. And these networks must be ever greener, and more efficient. In order to achieve these kinds of results, many types of technology are used in highly innovative ways to design new and evolving networks.

SURVIVAL OF THE FITTEST

Failure is not an option. Enterprises, governments, and service providers are all evolving their businesses and networks to meet and exceed the needs of their most important customers. Their business's life depends on it. But this is not an easy task. Not only do applications need to be highly reliable and available providing the information and service needed, but they also need to operate faster, perform more complex operations, and be iron-clad secure. Hesitation can be the difference between success or failure. So, the successful business has new the challenge of deploying their solutions to grow their businesses' using technologies that are available today but grow with an increased appetite for speed.

NAPATECH's PLACE IN THIS UNIVERSE

If you envision all of the clouds and networks around the globe as a universe of technology working together to connect people, places and things, then Napatech's solution is the stardust scattered throughout this universe. Our FPGA-based SmartNIC hardware and software solutions are deployed from the core to the edge of this universe serving the needs of our customers to meet the ever-increasing demands of their end-user customers. We leverage the power of the FPGA through our innovative software to accelerate applications, providing better security solutions to harden these applications, and we provide all of this power on a smaller denser form factor that allows companies to reduce their technology footprint. The competence, technology, and solutions that Napatech has developed over the last 15 years have culminated in the most widely deployed solution for moving, capturing and analyzing traffic as it moved through the cloud, into the applications and right to the customer.

WHERE THE MAGIC HAPPENS

Networks and clouds are all built on standard server platforms. Applications require these servers to work faster and more securely beyond the potential of the CPU's within these servers. This is where Napatech comes in. The SmartNIC, built with an embedded FPGA running Napatech's software, plugs into any standard server to evolve the network to a new level of performance. Napatech's SmartNIC solution efficiently accelerate those mission-critical CPU-hungry applications. The applications that need the most CPU power are the focus of Napatech. These applications focus on Cyber Security, 5G Mobile Network, Cloud and Edge computing, Financial Trading, and Network and Application Performance Monitoring.

AT THE CROSSROADS OF TWO MAJOR MARKET TRENDS

Napatech sits at the crossroads of two major market forces; the ubiquitous deployment of standard server platforms for every conceivable application and the growing intelligence and complexity of the software applications on which we all rely. Both trends are the source of tremendous growth in their own right, but the growing disparity between the performance and capabilities that software applications require and the ability of standard servers to meet those requirements is leading to an emerging and large opportunity in providing reconfigurable computing solutions that can bridge this performance gap.

GROWING INTELLIGENCE AND COMPLEXITY OF SOFTWARE APPLICATIONS

The intelligence and complexity of software applications are growing. For example, cybersecurity is a major concern for all organizations, which is driving a tremendous amount of innovation in new types of security threat detection and prevention solutions and more sophisticated cybersecurity software applications. Machine learning and artificial intelligence are more widely used today for cybersecurity and for many more applications, and their usage is expected to grow over the coming years. Even on a more practical level, smartphones and tablet devices generate more data that needs to be processed. Virtual and augmented reality, as well as the expected deployment of billions of IoT devices, will exacerbate these challenges.

CLOUD SERVICE PROVIDER INNOVATION OPENS OPPORTUNITIES

Cloud service providers have led the way in exploiting the superior scalability and economics of standard servers as well as innovating new software-defined approaches for managing and operating datacenters at hyper-scale.

The majority of hyper-scale cloud service providers have the capability and resources to develop these solutions internally but have also shared many of their learnings, techniques and even designs through open-source communities. This is enabling other companies and industries to benefit from the innovations that cloud service providers have developed.

This opens opportunities for companies like Napatech to develop solutions inspired by cloud service provider innovation.

These solutions can enable other end-users to reap the same benefits as cloud service providers.

ADDRESSING THE PERFORMANCE GAP WITH FPGAS

As software applications have become more sophisticated and the amount of data to be processed in datacenters has increased, the traditional model of "just adding more servers" has struggled to keep up with demands. The data processing power of standard servers is continuously improving, but not fast enough to meet demands. The expectation now is that the processing power of standard servers will no longer double every 18 months, as has been the norm in the past. As data processing requirements continue to grow at double-digit rates, the only answer is to add more servers, but there is a limit to how many can be added as more servers can exceed the available electrical power, space and cooling capabilities of a given datacenter.

To mitigate these issues, cloud service providers have investigated alternative data processing technologies that could be added to standard servers. The idea is to offload some of the data processing tasks from the standard server to other technologies that are more suited to these particular tasks. Many different technologies have been investigated, and continue to be investigated, but a clear trend is developing around the use of reconfigurable computing technology and in particular the use of FPGAs. Microsoft Azure has led the way and Microsoft has actively promoted their use of FPGA SmartNICs throughout their datacenters with impressive performance improvements.

Other cloud service providers have also adopted FPGA technology including Amazon Web Services, Alibaba, Tencent, and Baidu. It is this interest in using FPGA technology and reconfigurable computing that prompted Intel to make one of its largest acquisitions to date in December 2015, namely the purchase of Altera, one of the two major FPGA chip vendors, for $16.7 billion.

The reconfigurable computing opportunity is not just confined to hyper-scale datacenters. Hyper-scale datacenters are often at the forefront of technology development and a beacon for other technology companies and service providers to follow. For example, telecommunication service providers were inspired by cloud service providers' hyper-scale datacenter solutions and in particular, their use of standard servers, virtualization and automated, software-defined management and control. This led to the establishment of SDN and NFV, which are currently being implemented by the telecommunication industry and form the backbone for planned 5th Generation (5G) mobile infrastructure deployments in the coming years.

In the same manner, the adoption of FPGA technology by cloud service providers is driving interest in other technology industries in investigating the power and versatility of reconfigurable computing solutions based on FPGA technology. This drives a significant opportunity for Napatech as more and more standard servers are enhanced to become reconfigurable computing platforms in support of ever more sophisticated and demanding software applications.

FROM HARDWARE-CENTRIC TO SOFTWARE-CENTRIC

The adoption of software-defined approaches pioneered by cloud service providers has led to a major transition in the industry from hardware-centric to software-centric solutions.

Previously, hardware-centric solutions, where there was a tight integration between the hardware platform and the application software running on that platform, were necessary to assure performance and reliability. This is still the case, but the benefits of enabling software-defined automation, and the flexibility that this brings in addressing the ever-increasing sophistication of modern networks and the services they support, far outweigh the benefits that hardware-centric solutions currently provide.

The transition from hardware-centric to more software-centric solutions and software-defined approaches has not progressed as quickly as the industry expected. This is partly because of the inability of standard compute platforms to keep up with demand. Now, hardware acceleration using solutions like FPGA-based SmartNICs is becoming widely accepted as the path forward, as the telecommunication industry realizes that standard compute platforms alone cannot deliver the required performance.

NAPATECH RECONFIGURABLE COMPUTING PLATFORM™

Napatech Reconfigurable Computing Platform is the framework for Napatech solutions and consists of the following:

- A broad portfolio of FPGA-based SmartNICs that can be installed in any standard server.
- FPGA configuration software that defines the tasks to be performed on the FPGA. This software can be used to configure Napatech FPGA-based SmartNICs, but also FPGAs on 3rd-party SmartNICs or other hardware.
- Integration software with application programming interfaces designed to support the application software to be accelerated.
- Professional services to support solution development, integration, deployment, and maintenance.

APPLICATION DRIVEN

The reconfigurable computing solutions provided by Napatech are driven by the needs of software applications, which means that all capabilities, performance, and capacity are designed with the needs of specific software applications in mind.

SOFTWARE-CENTRIC

The value of the reconfigurable computing solution lies in the FPGA configuration software and the tasks that the FPGA needs to perform. The FPGA itself is available from major vendors like Xilinx and Intel. However these FPGA vendors tend to focus on the silicon development of the FPGAs, the tools to program them, and a limited set of sample or reference software blocks. Napatech takes things further, delivering completed, production-ready hardware solutions in a SmartNIC formfactor, and highly-qualified and tested software in complete solutions optimized for specific applications. This is the expertise and value that Napatech provides.

HARDWARE INDEPENDENT

Napatech is, and will continue to be, a provider of FPGA-based SmartNICs. As the adoption of reconfigurable computing solutions grows, we expect FPGA-based SmartNICs to be available from a wider range of vendors, many of which will not provide the solution software to configure the FPGA. It is also possible that FPGA technology will be embedded in standard servers and not require SmartNICs. In both cases, it is important that Napatech FPGA configuration software and other supporting software is hardware-independent and capable of supporting these alternative options.

SOLUTION FOCUSED

Napatech provides a range of reconfigurable computing solutions addressing specific market needs, such as network performance and cybersecurity applications.

Nevertheless, Napatech does provide services for custom development of reconfigurable computing solutions to address specific software application needs. In many cases, these custom developments lead to new market opportunities as the needs identified by the lead customer are often shared by their competitors or similar companies.

THE NAPATECH ADVANTAGE

FPGA configuration software forms the core of Napatech reconfigurable computing solutions and Napatech is unique in providing FPGA configuration software for networking and cybersecurity applications.

READY FOR THE FUTURE

Napatech has taken the necessary steps over the last few years to prepare for the software-centric future. We have invested in the necessary technologies to position Napatech at the heart of future developments. We have established the necessary strategic relationships to exploit opportunities when they arise, and we have re-architected our solutions to support the software-centric transition.

Now, Napatech FPGA configuration software can be deployed on third party hardware. A recent example is our partnership with Intel where Napatech Link™ Capture Software is now available for the Intel® Programmable Acceleration Card with Intel Arria® 10 GX FPGA.

The transition to a software-centric future is proving to be turbulent, but at Napatech, we have made the necessary changes and investments to succeed and have the experience, expertise and capabilities to become the leading provider of reconfigurable computing solutions.

Napatech has the ability to provide a complete reconfigurable computing solution that combines unmatched expertise in FPGA configuration software, FPGA-based SmartNICs and acceleration of software applications on standard server platforms. This leverages 15+ years of experience in delivering reconfigurable computing solutions that we believe is difficult for competitors to match.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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 2019, term expires 2020. 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 independency.
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, term expires 2020.
Holds a B.S. degree in economics and B.A. from Copenhagen Business School
Does not fulfil the Committee of Corporate Governance definition of independency 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 2019, term expires 2020.
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. No other directorships or executive functions.
Member of the Board since 2017, re-elected in 2019, term expires 2020.
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 independency.
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).

Bjørn Erik Reinseth, Board member. Born in 1965. Member of the Board since 2006, re-elected in 2019, term expires 2020.
Holds a B.Sc. Hons in Engineering from the University of Surrey, UK, and additional management courses from BI Norwegian School of Management and Stanford University Graduate School of Business
Does not fulfil the Committee of Corporate Governance definition of independency as he has been a member of the board of directors for more than 12 years.
Other directorships: Member of the Board for Vuu AS
Special competencies: Bjørn Erik Reinseth is currently running his own management consultancy firm Reinseth Consulting. From 2013 to 2020 he was the CEO of the investment company Foinco. From 2005 to 2013 he served as Partner in Ferd Capital/Ferd Venture successfully doing venture and buy-out investments. He has experience from listed and public companies as CEO of Sense Communications International ASA (OSX), a mobile telecom operator, and as CMO/EVP Products & Strategy of NetCom ASA (OSX), the number two mobile operator in Norway. He also served as Managing Director of the Norwegian broadband communication company Bredbåndsfabrikken AS and has a broad experience in the telecom/ICT industry. He has also worked as a Research Fellow at the European Laboratory for Particle Physics (CERN) in Geneva.

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 2019	Change in fiscal year, shares	Total number of warrants 1 January 2019	Number of warrants exercised in 2019	Number of warrants granted in 2019	Total number of warrants 31 December 2019
Board of Directors						
Lars Boilesen	320,000	250,000	-	-	-	-
Howard Bubb	70,000	40,000	-	-	-	-
Henry Wasik	200,000	200,000	-	-	-	-
Bjørn Erik Reinseth	430,000	250,000	-	-	-	-
Executive Board						
Ray Smets	380,000	280,000	400,000	-	1,067,244	1,467,244
Heine Thorsgaard	-	-	55,000	-	100,000	155,000

GROUP KEY FIGURES AND RATIOS

KEY FIGURES (DKK '000)	**2019**	**2018**	**2017**	**2016**	**2015**
Revenue	170,607	106,153	206,046	234,737	216,677
Gross profit	127,186	49,093	139,435	163,608	154,701
EBITDA	15,273	(74,972)	13,885	43,459	34,232
EBIT	(10,082)	(182,530)	(23,870)	6,001	5,465
Net finance income / (expense)	(4,170)	(9,576)	(5,956)	(60)	5,534
Profit / (loss) before tax	(14,252)	(192,106)	(29,826)	5,941	10,999
Profit / (loss) for the year	(13,601)	(179,298)	(24,431)	3,723	7,713
Investments in intangible assets	15,152	35,411	48,402	45,792	42,915
Investments in tangible assets	510	461	4,864	3,178	4,125
Net working capital	17,427	28,241	51,486	55,075	27,348
Total assets	162,690	127,133	266,176	261,399	247,552
Equity	78,452	34,719	183,167	204,409	197,002
Net cash flows from operating activities	26,448	(47,899)	15,081	15,040	33,226
Free cash flow	12,591	(81,542)	(38,214)	(34,018)	(14,272)
Cash at the end of year	64,306	17,159	39,967	46,951	75,921
Average number of employees	81	107	114	107	108
FINANCIAL REPORTING RATIOS (%)					
Gross profit margin	74.55%	46.25%	67.67%	69.70%	71.40%
EBITDA margin	8.95%	-70.63%	6.74%	18.51%	15.80%
Current ratio	162.85%	100.29%	181.82%	339.01%	360.31%
Return on equity	-24.04%	-164.58%	-12.61%	1.85%	3.99%
SHARE RELATED RATIOS (DKK)					
Basic EPS *	(0.20)	(6.55)	(1.03)	0.16	0.33
Diluted EPS *	(0.19)	(6.54)	(1.00)	0.15	0.33
Operating cash flow per share *	0.38	(1.75)	0.62	0.62	1.43
Free cash flow per share *	0.18	(2.98)	(1.57)	(1.41)	(0.61)

*In accordance with the decision made on 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. This principle has been applied on comparative figures in order to enable comparison and consistency of share-related ratios with previous periods.

Comparatives for 2015 - 2017 are not restated following the implementation of IFRS 9 and 15 and comparatives for 2015 - 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 in accordance with the online guidance from the Danish Finance Society regarding the calculation of financial highlights and ratios: ”Recommendations & Financial Ratios”.

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 return to shareholders taking into account 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 of 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 2019

2019 was a positive turn around year with significant revenue growth and an improved internal cost structure.

SUMMARY

2019 was a positive turn around year for Napatech after a challenging 2018 where our revenue was impacted by turbulence in the industry created by the transition from hardware-centric to software-centric solutions.

During 2019 we managed to grow revenue significantly and improve product margins. At the same time, we continued to improve our internal cost structure while focusing our research and development activities towards building products for future growth. The revenue growth and operating improvements resulted in a significant improvement to the operating result and free cash flow in 2019 compared to 2018.

To finance further growth of the Company and for general corporate purposes, Napatech completed a private placement in April 2019 and a subsequent offering to existing shareholders in May 2019. The total net amount raised through the transactions amounted to DKK 55.6 million and comprised issuance of 51,145,000 new shares.

The aspiration of Napatech is still 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

The market opportunity for Napatech is in providing programmable network interface cards that will allow all IT organizations to reap the same benefits of reconfigurable computing that cloud service providers today enjoy, without the need to become experts in FPGA technology.

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 is the next couple of years.

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 provider of FPGA-based network interface cards since 2003. The company is headquartered in Copenhagen, Denmark and has two offices in the United States.

GROUP ENTITIES

The United States subsidiary has offices in Portsmouth, NH, and Los Altos, CA.

FINANCIAL DEVELOPMENT (2018 FIGURES IN BRACKETS)

In 2019 Napatech generated total revenue of DKK 170.6 million (DKK 106.2 million) representing revenue growth of 61%. The growth is related to increased sales to our North American OEM customers. Revenue in the Rest of the World decreased by 4% in 2019 compared to 2018.

The gross margin in 2019 was 74.5 % compared to 46.2 % in 2018. Improvement in gross margin is related to a change in product mix and as well as inventory write-downs impacting 2018.

Operating expenses before the transferal of costs to capitalized development costs in 2019 amounted to DKK 125.8 million, compared to DKK 158.5 million in 2018. The change from 2018 is due to cost savings initiatives implemented since summer 2018. Implementation of IFRS 16 impacts Other external costs in 2019 with a reduction of DKK 5.7 million. 2018 figures are not adjusted for IFRS 16.

Costs transferred to development costs in 2019 amounted to DKK 13.9 million compared to DKK 33.9 million in 2018.

EBITDA in 2019 was positive DKK 15.3 million compared to negative DKK 75.0 million in 2018. Depreciation, amortization, and impairment in 2019 were DKK 25.4 million compared to DKK 107.6 million in 2018.

Implementation of IFRS 16 has resulted in DKK 6.6 million recognized as depreciation and DKK 474 thousand recognized as finance costs in 2019.

The result for the year was negative DKK 13.6 million (negative DKK 179.3 million).

Napatech had total assets of DKK 162.7 million on December 31, 2019, compared with DKK 127.1 million on December 31, 2018. The increase of DKK 35.6 million is primarily related to the recognition of a right-of-use asset of DKK 12.4 million and an increase in current assets of DKK 27.3 million mainly driven by an increase in cash and cash equivalents.

Napatech's total liabilities were DKK 84.2 million on December 31, 2019, compared with DKK 92.4 million on December 31, 2018. A lease liability of DKK 12.4 million is recognized due to the adoption of IFRS 16. The decrease in total liabilities is primarily driven by a decrease in interest-bearing loans and borrowings, trade payables and other financial liabilities.

The group's equity at the end of the year was DKK 78.5 million (DKK 34.7 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 15.2 million was capitalized in 2019 (DKK 35.4 million).

The group had a positive net change in cash of DKK 47.1 million (negative DKK 22.7 million). The net change in cash was positively affected by positive free cash flow of DKK 12.6 million, and net cash flows from financing activities affecting by DKK 34.5 million of which the net impact from issues of shares was DKK 55.6 million.

Napatech issued its original guidance for 2019 on 28 February 2019 and its latest updated outlook on 5 November 2019:

Guidance in DKK million	Original	Latest	Actuals
Revenue	150-180	150-180	170.6
Gross margin	app. 68%	71-73%	74.5%
Operating expenses*	115-125	110-115	111.9
Investments in development projects	20-25	13-17	13.9
Depreciation and amortization	20-25	20-25	25.4

*Operating expenses include costs on research and development, sales and distribution, as well as administrative expenses.

Compared to the issued guidance reported revenue is in the upper half of the guided range, and gross margin is 1.5 %-points above the guided range. Operating expenses, Investments in development projects ended within the guided ranges and Depreciation and amortization DKK 0.3 million above the guided range due to one-off costs related to the relocation of office space in the US.

FINANCIAL DEVELOPMENT IN THE PARENT COMPANY

Net revenues for the parent company in 2019 came in at DKK 131.1 million (DKK 63.9 million) representing a revenue growth of 105%. The EBITDA in the parent company for 2019 was negative DKK 12.1 million (negative DKK 77.2 million), and the result before tax was negative DKK 14.0 million (negative DKK 193.9 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 2019 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. During 2019, 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 spends a significant part of its development activity during the year targeting solutions for the growing mobile market and solutions within cybersecurity. The Napatech development team is organized in 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 in an acceptable way 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 in connection with the approval of the financial statements 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 with the exception of 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/report2019.

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 and the CEO of the company. Chairman Lars Boilesen is the Chairman of the Remuneration Committee and Howard Bubb and Bjørn Erik Reinseth are members.

The Remuneration Committee handles the company's remuneration policy and programs, including bonus programs and share-based schemes, 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 Audit Committee is composed of three members of the Board of Directors. Bjørn Erik Reinseth is the Chairman of the committee, and Lars Boilesen and Henry Wasik are members. This committee supports the Board of Directors in fulfilling its responsibilities, with respect to 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 own activities and competence.

The Board of Directors held 19 board meetings in 2019, 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 a number of 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 reports in accordance with 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 corporate, employee, or environmental issues.

We are committed to conducting business operations in an environmentally responsible and ethical manner and have established a Conflict Mineral policy with the objective of only use tin, tantalum, tungsten, and gold (3TG) that originate from conflict-free sources. In 2019 we have added cobalt to the policy. 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 2019. Our commitment to achieving 100% conflict-free products is supported by our membership in RMI.

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 81 fulltime employees, as of 31 December 2019, include 9 women, 13 in 2018. The group primarily employs engineers, and as women are underrepresented among engineers, it is considered a natural consequence that women are underrepresented in Napatech. There is one woman in management, holding the position as HR responsible. 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.

During the latest process for additions to the Board, there were no suitable female candidates, which is why the Board has extended the timescale for goal completion with an additional 3 years, until 2022. In general, Napatech wants to increase the presence of women throughout the organization. In order 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 11 different nationalities. Salaries, positions, and duties are determined on the basis of 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, with the exception of the emissions from the company fleet. The only greenhouse gas emissions that Napatech has and accounts for is carbon dioxide.

Napatech has its own internal environmental policies, which oblige the group to take reasonable steps in order to reduce the environmental impact. Our goal is to complete measurements covering at least 85% of the employees in 2020.

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 2019 is available on www.napatech.com/csr/report2019.

LEGAL MATTERS

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

EVENTS AFTER YEAR-END

Since late February, COVID-19 has spread extensively around the world and the facts and situation around COVID-19 continue to evolve. Napatech has carefully considered the accounting implications of this situation and has concluded that the measurement of the company's assets and liabilities at 31 December 2019 is not significantly impacted by the subsequent development of the virus – reference is made to note 30 for more detailed information.

No other material events have occurred after December 31, 2019, that have consequences for the Annual Report for 2019.

OUTLOOK

2020 guidance for the company is the following:

Target in DKK million	Guidance
Revenue	185-205
Gross margin	68-72%
Staff costs & Other external costs	125-135
Transferred to capitalized development costs	15-20
Depreciation and amortization	20-25

With performance in the middle of the guided ranges, EBIT would be DKK 1.5 million.

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.

As the current COVID-19 situation is unprecedented it causes expected uncertainty in customer demand and adds uncertainty to Napatech's supply chain primarily in the second half of 2020. Due to the nature of the development of the Covid-19 situation, the Covid-19 situation can potentially have a negative impact on the outlook for 2020.

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 83,068,220 shares outstanding of a nominal value of DKK 0.25. The company owned 10,800 treasury shares at year end. The company had 1,039 shareholders and 42% of the shares were registered outside Norway. Total outstanding warrants at the end of the year were 3,396,224 warrants with an average exercise price of DKK 4.11. Napatech has one class of shares, and no restriction on the trading in 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 Oslo Stock Exchange under the Ticker: NAPA.

During 2019 a number of releases have been announced on 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 2020 is:

Date	Activity
April 16	Annual General Meeting
May 7	Q1 2020 Interim Management Statement
August 27	Half-yearly Report
November 5	Q3 2020 Interim Management Statement

NAPATECH HAD BY 1ST MARCH 2020 THE FOLLOWING TOP 20 SHAREHOLDERS

Investor	Number of shares	% of total	Country
VERDANE CAPITAL VIII K/S	22,613,618	27.22%	DK
SUNDT AS	12,095,587	14.56%	NO
LUDVIG LORENTZEN AS	5,928,745	7.14%	NO
MP PENSJON PK	2,859,372	3.44%	NO
SILVERCOIN INDUSTRIES AS	2,614,625	3.15%	NO
TIGERSTADEN AS	2,500,000	3.01%	NO
VERDIPAPIRFONDET STOREBRAND	2,383,673	2.87%	NO
BROWNSKE BEVEGELSER AS	2,371,498	2.85%	NO
SALINA HOLDING AS	1,707,998	2.06%	NO
NORDNET BANK AB	1,588,069	1.91%	SE
DANSKE BANK A/S	1,469,219	1.77%	DK
PRIVATE INVESTOR	1,237,124	1.49%	NO
AREPO AS	1,037,530	1.25%	NO
ALTITUDE CAPITAL AS	1,000,000	1.20%	NO
NORDEA BANK ABP	894,929	1.08%	DK
PRIVATE INVESTOR	888,988	1.07%	NO
MARSTAL AS	886,314	1.07%	NO
INRO HOLDING AS	806,450	0.97%	NO
UBS SWITZERLAND AG	763,348	0.92%	CH
THE BANK OF NEW YORK MELLON	750,000	0.90%	UK
Total number owned by top 20	**66,397,087**	**79.92%**	
Total 979 other shareholders	**16,671,133**	**20.08%**	
Total Number of shares	**83,068,220**	**100%**	

NAPATECH SHARE PRICE DEVELOPMENT 2019 (in NOK)

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

Note	In DKK'000	2019	2018
4	Revenue	170,607	106,153
4	Cost of goods sold	(43,421)	(57,060)
	Gross profit	**127,186**	**49,093**
5	Other operating income	19	599
6, 7, 8	Staff costs	(98,991)	(112,561)
7	Transferred to capitalized development costs	13,856	33,854
7, 9	Other external costs	(26,797)	(45,957)
	Operating profit before depreciation, amortisation and impairment (EBITDA)	**15,273**	**(74,972)**
10	Depreciation, amortisation and impairment	(25,355)	(107,558)
	Operating result (EBIT)	**(10,082)**	**(182,530)**
11	Finance income	443	-
12	Finance costs	(4,613)	(9,576)
	Result before tax	**(14,252)**	**(192,106)**
13	Income tax	651	12,808
	Result for the year	**(13,601)**	**(179,298)**
14	**Earnings per share:**		
	Basic, DKK	(0.20)	(6.55)
	Diluted, DKK	(0.19)	(6.54)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

Note	DKK'000	2019	2018
	Result for the year	**(13,601)**	**(179,298)**
	Other comprehensive income to be reclassified to profit and loss in subsequent periods:		
	Exchange differences on translation of foreign operations	135	224
	Value adjustments on hedging instruments:		
	- Net gain / (loss) on cash cash flow hedges	-	(7,453)
	- Net (gain) / loss on cash cash flow hedges reclassified to finance costs	-	7,453
	Net other income / (loss) to be reclassified to profit or loss in subsequent periods	**135**	**224**
	Total comprehensive income for the year, net of tax	**(13,466)**	**(179,074)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2019

ASSETS

Note	In DKK'000	2019	2018
	Development projects, completed	28,646	29,773
	Development projects, in progress	8,089	8,194
	Patents	4,426	4,972
15	**Intangible assets**	**41,161**	**42,939**
16	Plant and equipment	645	1,932
17	Right-of-use assets	12,415	-
16	Leasehold improvements	549	605
	Tangible assets	**13,609**	**2,537**
24	Leasehold deposits	1,417	2,407
	Other non-current assets	**1,417**	**2,407**
	Non-current assets	**56,187**	**47,883**
19	Inventories	9,532	16,971
20, 24	Trade receivables	23,523	25,305
21	Contract assets	31	514
20, 24	Other receivables	6,150	13,814
22	Income tax receivable	2,961	5,487
24	Cash and cash equivalents	64,306	17,159
	Current assets	**106,503**	**79,250**
	Total assets	**162,690**	**127,133**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2019

EQUITY AND LIABILITIES

Note	In DKK'000	2019	2018
23	Share capital	20,767	7,981
23	Share premium	290,329	247,552
	Foreign currency translation reserve	350	215
23	Other capital reserves	4,492	4,971
	Retained earnings	(237,486)	(226,000)
	Equity	**78,452**	**34,719**
24, 26	Other financial liabilities	9,016	13,391
17, 24, 26	Lease liabilities	9,821	-
	Non-current liabilities	**18,837**	**13,391**
24, 26	Interest-bearing loans and borrowings	32,878	44,701
24, 26	Other financial liabilities	6,923	5,959
17, 26	Lease liabilities	3,791	-
24	Trade payables	2,932	11,099
	Other payables	18,015	13,720
25	Provisions	531	69
21	Contract liabilities	331	3,475
	Current liabilities	**65,401**	**79,023**
	Total liabilities	**84,238**	**92,414**
	Total equity and liabilities	**162,690**	**127,133**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

Note	In DKK'000	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Cash flow hedge reserve	Retained earnings	Total equity
	At 1 January 2018	**5,969**	**219,729**	**(9)**	**6,361**	**-**	**(48,883)**	**183,167**
	Result for the year	-	-	-	-	-	(179,298)	(179,298)
	Exchange differences on translation of foreign operations	-	-	224	-	-	-	224
	Value adjustments on hedging instruments:							
	- Net gain / (loss) on cash cash flow hedges	-	-	-	-	(7,453)	-	(7,453)
	- Net (gain) / loss on cash cash flow hedges reclassified to finance costs	-	-	-	-	7,453	-	7,453
	Total comprehensive income	**-**	**-**	**224**	**-**	**-**	**(179,298)**	**(179,074)**
	Issue of shares	2,012	29,493	-	-	-	-	31,505
	Transaction costs	-	(1,980)	-	-	-	-	(1,980)
	Reversal, exercised and lapsed share options	-	310	-	(2,491)	-	2,181	-
8	Share-based payments	-	-	-	1,101	-	-	1,101
	Total transactions with shareholders	**2,012**	**27,823**	**-**	**(1,390)**	**-**	**2,181**	**30,626**
	At 31 December 2018	**7,981**	**247,552**	**215**	**4,971**	**-**	**(226,000)**	**34,719**
	Result for the year	-	-	-	-	-	(13,601)	(13,601)
	Exchange differences on translation of foreign operations	-	-	135	-	-	-	135
	Total comprehensive income	**-**	**-**	**135**	**-**	**-**	**(13,601)**	**(13,466)**
	Issue of shares	12,786	46,077	-	-	-	-	58,863
	Transaction costs	-	(3,300)	-	-	-	-	(3,300)
	Reversal, exercised and lapsed share options	-	-	-	(2,115)	-	2,115	-
8	Share-based payments	-	-	-	1,636	-	-	1,636
	Total transactions with shareholders	**12,786**	**42,777**	**-**	**(479)**	**-**	**2,115**	**57,199**
	At 31 December 2019	**20,767**	**290,329**	**350**	**4,492**	**-**	**(237,486)**	**78,452**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

Note	In DKK'000	2019	2018
	Operating activities		
	Result before tax	(14,252)	(192,106)
	Adjustments to reconcile profit before tax to net cash flows:		
	Finance income	(443)	-
	Finance costs	4,613	9,576
	Depreciation, amortisation and impairment	25,355	107,558
	Gain/loss on the sale of non-current assets	(19)	(599)
	Impairment of inventories	-	21,323
	Share-based payment expense	1,636	1,101
	Working capital adjustments:		
	Change in inventories	7,439	(2,170)
	Change in trade and other receivables and contract assets	5,834	22,849
	Change in trade and other payables, provisions and contract liabilities	(6,209)	(11,808)
	Cash flow hedges in financial items	-	(7,454)
	Interest received	157	-
	Interest paid, net	(854)	(1,552)
	Income tax received, net	3,191	5,383
	Net cash flows from operating activities	**26,448**	**(47,899)**
	Investing activities		
	Proceeds from sale of tangible assets	24	126
	Purchase of tangible assets	(510)	(461)
	Proceeds from sale of intangible assets	1,732	1,979
	Investments in intangible assets	(15,152)	(35,411)
	Investments in leasehold deposits	49	124
	Net cash from investing activities	**(13,857)**	**(33,643)**
	Free cash flow	**12,591**	**(81,542)**
	Financing activities		
	Capital increase	58,863	31,505
	Transaction costs on capital increase	(3,300)	(1,606)
	Repayment of financial lease liabilities	(5,815)	-
	Proceeds from borrowings	5,690	28,942
	Repayment of borrowings	(20,924)	-
	Net cash flows from financing activities	**34,514**	**58,841**
	Net change in cash and cash equivalents	**47,105**	**(22,701)**
	Net foreign exchange difference	42	(107)
	Cash and cash equivalents at 1 January	17,159	39,967
	Cash and cash equivalents at 31 December	**64,306**	**17,159**

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 2020.

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, except for derivative financial instruments, which are measured at fair value.

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

The Group has in 2019 changed its presentation of the consolidated income statement from a mixed approach to a consolidated income statement by nature, in line with IAS 1. The consolidated income statement by nature is viewed as the best reflection of the group's activities and is the basis of the internal management reports. Comparative figures have been adjusted and the change has no effect on the result for the year.

Effect of implementation of new and revised standards

In its Annual Report for 2019, 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 2019.

The following standards, amendments to existing standards and interpretations have been implemented in the Group’s Annual Report for 2019:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over income tax treatments
- Annual Improvements to IFRSs 2015-2017 Cycle
- Amendments to IFRS 9 Prepayment Features with negative compensation

Of the above-mentioned standards, amendments to existing standards and interpretations only IFRS 16 Leases have had a significant effect on recognition and measurement in the annual report for the Group and parent company:

IFRS 16 was effective for financial years commencing on or after 1 January 2019.

IFRS 16 has resulted in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases have been removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized.

The Group adopted the new standard of 1 January 2019 using the modified retrospective method, which means that the cumulative impact of the adoption was recognized in retained earnings as of 1 January 2019 and that comparative figures are not restated.

In accordance with the transitional provisions in IFRS 16, the Group has chosen to implement the following:

- Not to include leases with a maturity of fewer than 12 months or with a low value.
- Not to reassess whether a contract is or contains a lease.
- To set a discounting rate on a portfolio of leases with similar characteristics.

In assessing future lease payments, the Group has reviewed its operating leases and identified the lease payments related to a leasing component, which are fixed or variable, but changes in line with fluctuations in an index or an interest rate. The Group has chosen not to recognize payments related to service components as part of the lease obligation.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In assessing the expected lease period, the Group has identified the non-cancellable lease term in the agreement plus periods covered by an extension option that management reasonably expects to exercise and added periods covered by a termination option that management reasonably does not expect to exercise.

The Group has, for lease agreements for plant and equipment, assessed that the expected lease period constitutes the non-cancellable lease period in the agreements, as the Group has no history of exercising extension options in similar agreements.

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.

When discounting the lease payments at present value, the Group has used its alternative loan rate, which 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. The Group has documented the alternative loan rate. for each portfolio of leases that have similar characteristics.

In assessing the Group's alternative interest rates, the Group has calculated its alternative interest rates based on an interest rate from a mortgage bond. The portion for which a mortgage cannot be used is estimated based on a reference rate plus a credit margin, derived from the Group's existing credit facilities.

Impact of implementation of IFRS 16

In implementing IFRS 16, the Group has recognized a right of use asset of DKK 17,670 thousand. and a lease liability of DKK 17,670 thousand as of 1 January. The equity effect is thus DKK 0 thousand. The parent company has recognized a right of use asset of DKK 14,264 thousand and a lease liability of DKK 14,264 thousand as of 1 January. The equity effect is at the date of implementation 1 January 2019 thus DKK 0 thousand.

The right of use assets are depreciated on a straight-line basis over the expected lease period, which is:

Properties	3-5 years
Plant and equipment	2-4 years

In measuring the lease commitment, the Group has used an average alternative borrowing rate to discount future lease payments of 3.0% for operating equipment and 3.0% for sales and administration properties.

DKK'000	1. January 2019
Operating lease commitment 31. December 2018 (IAS 17)	6,424
Discounted with alternative borrowing rate on 1 January 2019	6,357
Adjusted for expected lease term	11,313
Discounted with alternative borrowing rate recognized on 1 January 2019 (IFRS 16)	**17,670**

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 subsidiary 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 recognized 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 at the date of payment are recognized 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 on the translation is recognized 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 on the translation are recognized 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 recognized in the income statement.

Revenue

The Groups manufactures and sells network adapters to end-users and through third party channel partners. The Groups Sales contracts does 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 recognized 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. A refund liability and right-of-return asset is recognized for the products expected to be returned, as contract assets and contract liabilities, and are estimated based on historic experience and expectations.

Other operating income

Other operating income comprises income of secondary nature in relation to the activities of the Company, including the sale of scrap and gain on sale of fixed assets.

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 external costs

Other external costs include costs incurred to distribution of goods sold during the year and cost of sales including 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.

Staff costs

Staff costs include salaries for all employees. Share-based payment expenses are also recognized.

Finance income and cost

Finance income and costs comprise realized interest income and expenses, unrealized gains and losses on financial assets and liabilities in foreign currencies and realized gains and losses on fair value adjustments of derivative financial instruments.

For all financial instruments measured at amortized cost, interest income and expenses are recognized using the effective interest rate method. Financial income and expenses also comprise realized and unrealized exchange gains and losses on foreign currency transactions.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 recognized 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.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subjects 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 recognized in the income statement under administrative expenses and in equity over the vesting period. The total expense recognized 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.

Where the terms for equity-settled programs change, the minimum expense is the expense that would have been recognized had the terms not been changed, provided that the employee's or management's right had vested. In addition, an expense is recognized 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 recognized 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 recognized in the income statement.

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

Development projects

Research costs are recognized in the income statement as incurred. Development costs incurred for individual projects are recognized 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; and
- The ability to measure the costs reliably.

Subsequent to initial recognition of the development costs as an intangible asset, the development project is recognized 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.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patents
Patents are recognized 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

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 recognized 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 valid from 1 January 2019
A right-of-use asset and a lease obligation are recognized 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.

Lease liabilities are initially measured at the present value of future lease payments discounted at an alternative loan rate. The following lease payments are recognized as part of the lease obligation:

- Fixed payments;
- Variable payments that change as a change in an index or interest rate, based on that index or interest rate;
- Payments owed under a residual value guarantee:
- The exercise price for call options that management expects to utilize in a high probability;
- Payments covered by an extension option that the Group is likely to utilize;
- Penalties related to a termination option, unless the Group is very likely not to exercise the option

The lease liability is measured at amortized cost using the effective interest rate method. The lease liability is recalculated when there are changes in the underlying contractual cash flows from the changes in an index or interest rate if there are changes in the Group's estimate of a residual value guarantee, or If the Group changes the assessment of whether a purchase, extension or termination option with reasonable probability is expected to be exploited.

On initial recognition, the lease asset is measured at cost, which corresponds to the value of the lease liability adjusted for prepaid lease payments plus direct related costs and estimated costs for demolition, refurbishment or similar and less any rebates or other types of incentive payments received from the lessor.

Subsequently, the asset is measured at cost less accumulated amortization and impairment losses. The lease asset is depreciated over the shortest of the lease term and the useful life of the lease asset. Depreciation is recognized on a straight-line basis in the income statement.

The right-of-use asset is adjusted for changes in the lease liability as a result of changes in the terms of the lease or changes in the cash flows of the contract in line with changes in an index or interest rate.

Leasing assets are amortized on a straight-line basis over the expected lease period, which is:

Properties	3-5 years
Plant and equipment	2-4 years

The Group presents the right-of-use asset and the lease liability separately in the balance sheet.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group has chosen not to recognize payments related to service-components of lease agreements as part of the lease obligation in the balance sheet.

Leases valid before 1 January 2019

Leases are divided into finance leases and operating leases. A finance lease is a lease that in all essential respects transfers the risk and benefits associated with owning the leased asset to the lessee. Other leases are designated as operating leases.
Assets held under finance leases are measured at the lower of the fair value of the assets and the net present value of future minimum lease payments. For purposes of calculating the net present value, the internal rate of return is used as discount factor or an approximate value thereof. Financial liabilities include the capitalized residual obligation on finance leases, measured at amortized cost.

Lease payments concerning operating leases are recognized on a straight-line basis over the term of the lease.

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. Where 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 recognized 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. For purposes of determining the fair value less costs to sell, an appropriate valuation model is used.

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 recognized in the income statement under other external costs.

Contract assets

Contract assets 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.

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.

Equity

Share premium

Share premium is the value in excess of the nominal value of the shares that is 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 recognized 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.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 recognized 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 recognized 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 recognized 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 recognized when the group has a present obligation (legal or constructive) as a result of a past event, 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.

Contract 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 recognized 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 recognized 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 recognized 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.

Unrecognized deferred tax assets are reviewed at each reporting date and are recognized 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 recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities 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.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 dividend 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 instalments.

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 significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are presented below.

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 28,646 thousand at 31 December 2019 (31 December 2018: DKK 29,773 thousand).

The accounting judgments, estimates, and assumptions that the management makes for development projects are consistent with previous years.

Judgments in relation to significant accounting policies

In applying the Group's accounting policies, the management makes judgments that may have a material impact on the values recognized in the consolidated financial statements.

When defining the Group's significant accounting policies, the management made the following judgments that have a significant impact on the values recognized in the consolidated financial statements:

NOTE 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS (CONTINUED)

Share-based payments

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 option agreements concluded with employees and management. The management treats the change of terms as modifications to the existing share option agreements. 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 recognized over the new vesting period, corresponding to the increase in the fair value of the share-based payments as a result of a change of terms.

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 2019 and 2018, respectively:

Year ended 31 December 2019:

DKK'000	AMERICAS	ROW	OTHER ITEMS	CONSOLIDATED
Revenue				
Total revenue	120,599	50,008	-	170,607
Cost of goods sold	(32,369)	(11,052)	-	(43,421)
Segment gross profit	**88,230**	**38,956**	**-**	**127,186**

Year ended 31 December 2018:

DKK'000	AMERICAS	ROW	OTHER ITEMS	CONSOLIDATED
Revenue				
Total revenue	54,081	52,072	-	106,153
Cost of goods sold	(22,036)	(13,701)	(21,323)	(57,060)
Segment gross profit	**32,044**	**38,372**	**(21,323)**	**49,093**

Non-current assets DKK 56,187 thousand (2018: DKK 47,883 thousand) can be related with DKK 55,833 thousand (2018: DKK 47,563 thousand) to the ROW segment and DKK 2,354 thousand (2018: DKK 320 thousand) to the AMERICAS segment.

Explanation abbreviations

AMERICAS = North & South America ROW = Rest of the World OTHER ITEMS = Impairment of inventory

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. 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 first significant customer amounted to DKK 50,732 thousand (2018: DKK 20,388 thousand) corresponding to 30% (2018: 19%) of the Group revenue. Revenue from this customer is arising from the sales in the AMERICAS segment. Revenue from second significant customer amounted to DKK 26,124 thousand (2018: DKK 10,138 thousand) corresponding to 15% (2018: 10%) of the Group revenue. Revenue from this customer is arising from the sales in the AMERICAS segment. Revenue from third significant customer amounted to DKK 11,009 thousand (2018: DKK 4,753 thousand) corresponding to 6% (2018: 4%) of the Group revenue. Revenue from this customer also arises from sales in the ROW segment.

NOTE 5 OTHER OPERATING INCOME

Other operating income comprises the sale of scrap and gain on sale of tangible and intangible assets. Other operating income amounted to DKK 19 thousand (2018: DKK 599 thousand).

NOTE 6 STAFF COSTS

Employee benefits expense is reported as follows:

DKK'000	2019	2018
Wages and salaries	89,926	102,817
Defined contribution schemes	3,923	4,644
Share-based payment expense (Note 8)	1,635	1,101
Social security costs	3,507	3,999
Total employee benefits expense	**98,991**	**112,561**
Average number of employees	**81**	**107**

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

Enployee benefits expense is reported as follows:	2019		2018	
	Management	Board of Directors	Management	Board of Directors
Short-term staff benefits	15.551	977	13.557	1.219
Defined contribution schemes	750	-	844	-
Share-based payment expense	929	-	591	-
Total compensation of key management personnel	**17.230**	**977**	**14.992**	**1.219**

Of the total compensation to the Management, the Executive Management Board received DKK 7.6 million (2018: DKK 4.3 million).

NOTE 7 RESEARCH AND DEVELOPMENT COSTS

Research and development costs including annual amortization and impairment on completed development projects and development projects in progress recognized in the consolidated income statement are DKK 39,899 thousand (2018: DKK 121,045 thousand). All research and development costs are incurred by the parent company.

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.

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

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 recognized 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 recognized in the income statement with the counter item in the other reserves under the equity, and it is recognized 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 May 2014 the Board of Directors decided to issue share options to key employees in the Group. A total of 101,000 share options have been issued for the subscription of 101,000 shares of a nominal value of DKK 1 at an exercise price of NOK 48.70 (DKK 43.00 at 1 July 2014). 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.

The general terms for the 2014 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

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 at 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.

In accordance with the decision made on 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 increases/decreases with the same ratio of 1:4. The principals of the 1:4 share split have been applied on 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 on 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.

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

Based on the decision made on 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 on 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 on 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.

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 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 grant date, 1/3 after 12 months and 1/3 after 24 months from the date of issue.

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

	2019					
	Executive Management		Other Employees		Total	
Share options	**Number**	**Avg. ex. price**	**Number**	**Avg. ex. price**	**Number**	**Avg. ex. price**
At 1 January 2019	1,074,100	7.67	800,568	9.37	1,874,668	8.40
Granted during the year	1,697,244	1.40	306,800	1.16	2,004,044	1.36
Excercised/expired during the year	(142,100)	10.24	(340,368)	8.98	(482,468)	9.35
At 31 December 2019	**2,629,244**	**3.48**	**767,000**	**6.27**	**3,396,244**	**4.11**
Exercisable at 31 December 2019	**361,081**	**8.26**	**222,433**	**12.32**	**583,515**	**9.81**

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

	2018					
	Executive Management		Other Employees		Total	
Share options	Number	Avg. ex. price	Number	Avg. ex. price	Number	Avg. ex. price
At 1 January 2018	793,200	11.77	664,568	11.54	1,457,768	11.66
Granted during the year	605,000	3.75	229,600	3.88	834,600	3.79
Transfer	(36,000)	10.75	36,000	10.75	-	-
Excercised/expired during the year	(288,100)	10.33	(129,600)	11.13	(417,700)	10.58
At 31 December 2018	**1,074,100**	**7.67**	**800,568**	**9.37**	**1,874,668**	**8.40**
Exercisable at 31 December 2018	**364,100**	**8.88**	**441,635**	**10.46**	**805,735**	**9.75**

In 2019, nil share options were exercised and 482,468 lapsed (2018: 45,548 exercised and 372,152 lapsed). The following shows the exercise price of the outstanding share options and warrants:

Number of share options at 31 December	2019	2018
Exercise price DKK 8.00	315,100	404,400
Exercise price DKK 10.75	-	336,668
Exercise price DKK 12.53	92,000	92,000
Exercise price DKK 18.04	102,000	102,000
Exercise price DKK 19.41	150,000	150,000
Exercise price DKK 14.90	-	-
Exercise price DKK 3.88	693,600	734,600
Exercise price DKK 2.45	55,000	55,000
Exercise price DKK 3.88	133,756	-
Exercise price DKK 1.46	133,488	-
Exercise price DKK 1.16	1,721,300	-
Total number of outstanding share options	**3,396,244**	**1,874,668**

The weighted average of the remaining contractual period of the outstanding share options from the 2014 share options program on 31 December 2019 is expired (at 31 December 2018: 9 months). The weighted average of the remaining contractual period of the outstanding share options from the 2016 share options program at 31 December 2019 is 2 years and 3 months (at 31 December 2018: 3 years 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 2019 is 6 years and 9 months (at 31 December 2018: 7 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 2019 is 6 years and 9 months (at 31 December 2018: 6 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 2019 is 7 years and 6 months

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

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

The fair value of share options and warrants granted during 2013, 2014, 2016, 2017, 2018 and 2019 was estimated on the date of grant using the following assumptions:

	December 2013	May 2014	February 2016	August 2016
Volatility	47.92%	43.53% - 44.94%	49.00%	49.00%
Risk-free interest rate	1.65%	1.70% - 2.00%	0.50% - 0.60%	0.53% - 0.64%
Exercise price (DKK)	8.00	10.75	12.53	18.04
Exercise period (years)	2.27	3.00 - 5.00	3.00 - 5.00	3.00 - 5.00
Number of options	520,700	404,000	92,000	145,000
Grant date fair value for each option (DKK)	20.10	4.00	4.84	6.66

	May 2017	November 2017	September 2018	December 2018
Volatility	50.50%	47.30% - 48.40%	56.00%	67.71%
Risk-free interest rate	0.80% - 1.10%	0.70% - 1.00%	1.80%	1.76%
Exercise price (DKK)	19.41	14.90	3.88	2.45
Exercise period (years)	3.00 - 5.00	3.00 - 5.00	3.00 - 8.00	3.00 - 8.00
Number of options	150,000	105,000	779,600	55,000
Grant date fair value for each option (DKK)	3.88	5.54	2.04	1.50

	July 2019	July 2019	July 2019
Volatility	68.25%	68.25%	68.25%
Risk-free interest rate	1.40%	1.40%	1.40%
Exercise price (DKK)	3.88	1.46	1.16
Exercise period (years)	1.00 - 8.00	1.00 - 8.00	2.00 - 8.00
Number of options	133,756	133,488	1,736,800
Grant date fair value for each option (DKK)	0.54	0.75	0.78

The volatility is calculated based on a peer group of 5 similar companies listed on Nasdaq Stock Exchange in the USA. The fair value of the share options is determined using the Black-Scholes option-pricing model. For 2019, the Group has recognized DKK 1,636 thousand of share-based payment expense in the income statement (2018: DKK 1,101 thousand). DKK 929 thousand was recognized in relation to Executive Management (2018: DKK 591 thousand) and DKK 707 thousand in relation to others (2018: DKK 510).

NOTE 9 AUDITORS' FEE

DKK'000	**2019**	**2018**
Ernst & Young:		
Statutory audit fee	672	444
Assurance engagements	54	63
Tax advisory fee	66	21
Fees for other services	70	501
Total auditors' fees	**862**	**1,029**

Fee in relation to non-audit services from Ernst & Young P/S, DKK 190 thousand consists of general accounting advice and related matters in connection with regulatory inspection and tax advices related to transfer pricing.

NOTE 10 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

DKK'000	2019	2018
Depreciation, amortisation and impairment are reported as follows:		
Depreciation of plant and equipment	1,594	2,837
Impairment of plant and equipment	-	847
Depreciation of leasehold improvements	260	468
Depreciation of right-of-use assets	6,571	-
Total depreciation of tangible assets	**8,425**	**4,152**
Amortisation of patents	691	654
Impairment of patents	48	117
Amortisation of completed development projects	16,191	36,959
Impairment of completed development projects	-	35,441
Impairment of development projects in progress	-	30,185
Amortisation of other intangible assets	-	50
Total amortisation and impairment of intangible assets	**16,930**	**103,406**
Total depreciation, amortisation and impairment	**25,355**	**107,558**

NOTE 11 FINANCE INCOME

DKK'000	2019	2018
Interest receivable from banks	157	-
Foreign exchange gains	286	-
Other finance income	-	-
Total finance income	**443**	**-**
Finance income at amortized costs	**157**	**-**

NOTE 12 FINANCE COSTS

DKK'000	2019	2018
Interest payable to banks	742	1,773
Foreign exchange losses including losses on hedging	-	7,770
Interest payable under leases	473	-
Other finance costs	3,398	33
Total finance costs	**4,613**	**9,576**
Finance costs at amortized costs	**1,215**	**1,773**

NOTE 13 INCOME TAX

DKK'000	2019	2018
Current tax recognised in the consolidated income statement:		
Current income tax	967	117
Current income tax carry back refund	(2,960)	(5,500)
Change in deferred tax	-	(7,425)
Adjustment prior years taxes	1,342	-
Total income tax	**(651)**	**(12,808)**

A reconciliation between tax expense and profit before tax multiplied by the applicable income tax rate for the Group for 2019 and 2018 is as follows:

DKK'000	2019	2018
Profit before tax	(14,252)	(192,106)
At the applicable Danish income tax rate for the Group, 22.0% (2018: 22.0%)	(3,135)	(42,263)
Tax effect of:		
Tax-deductable expenses	(49)	(116)
Non-deductible expenses	25	132
Effect of higher tax rates in the US	-	-
Accounting estimate for not recognised deferred tax assets	1,117	29,698
Adjustment prior year taxes	1,342	-
Other	49	(259)
At the effective income tax rate of 5% (2018: 7%)	**(651)**	**(12,808)**

NOTE 14 EARNINGS PER SHARE

DKK'000	2019	2018
Net profit attributable to equity holders of the parent company for basic earnings and the effect of dilution	(13,601)	(179,298)

	2019	2018
	Thousands	*Thousands*
Weighted average number of shares for basic earnings per share	69,161	27,380
Effect of dilution:		
Share options	826	18
Weighted average number of shares adjusted for the effect of dilution	**69,987**	**27,398**

NOTE 15 INTANGIBLE ASSETS

	Development projects, completed		Development projects, in progress		Patents		Other intangible assets		Total	
DKK'000	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Cost at 1 January	225,874	229,165	33,412	46,342	10,122	9,791	2,139	2,139	271,547	287,437
Additions in the year	-	-	14,959	35,080	193	331	-	-	15,152	35,411
Transfers in the year	15,064	40,866	(15,064)	(40,866)	-	-	-	-	-	-
Disposals	-	(44,157)	-	(7,144)	-	-	-	-	-	(51,301)
Cost at 31 December	**240,938**	**225,874**	**33,307**	**33,412**	**10,315**	**10,122**	**2,139**	**2,139**	**286,699**	**271,547**
Accumulated impairment and amortisation at 1 January	196,101	160,749	25,218	-	5,150	4,379	2,139	2,089	228,608	167,217
Amortisation for the year	16,191	36,959	-	-	691	654	-	50	16,882	37,663
Impairment for the year	-	35,441	-	30,185	48	117	-	-	48	65,743
Disposals	-	(37,048)	-	(4,967)	-	-	-	-	-	(42,015)
impairment at 31 December	**212,292**	**196,101**	**25,218**	**25,218**	**5,889**	**5,150**	**2,139**	**2,139**	**245,538**	**228,608**
Carrying amount at 31 December	**28,646**	**29,773**	**8,089**	**8,194**	**4,426**	**4,972**	**-**	**-**	**41,161**	**42,939**

Within the completed development projects there are two material development projects with carrying amount of DKK 5,068 thousand and DKK 4,756 thousand on 31 December 2019 respectively (31 December 2018: 4,046 and DKK 540 thousand respectively). The first project aimed to develop software with flow matching capability for inline applications and the second project aimed to develop software to support port speed: 8x10G / 2x100G /2x40G. The remaining amortization periods of these two projects are 2 years and 9 months and 2 years and 10 months respectively.

Within the in progress development projects there are one material development projects with carrying amount of DKK 5,463 thousand. The aim of the project is to develop software with stateful flow management for up to 100G total traffic load to the application for packet capture. The project is not yet completed and therefore have not been amortized.

The Group recognized DKK 0 thousand as an impairment in 2019 (2018: DKK 65,743) in respect of the Group's development projects and other intangible assets. During 2018, the Group divested the Pandion product line and prepared an impairment test based on fair value less costs, leading to an DKK 21,165 thousand impairment. Also in 2018, the annual impairment test led to an impairment of impairment of DKK 43,039 thousand on completed development projects and development projects in progress due to commercial obsoleteness and uncertainty. At year-end 2019 the Group performed its annual impairment test, based on 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 2020, and cash flow projections for a five-year period. The five-year cash flow projections are based on managements a five-year strategic plan and investments budget, that are approved by the board of directors. Due to uncertainty on projections the impairment test is therefore based on a finitive life span of 6 years, and do not include any terminal period beyond year 6.
- 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 finitive life span of 6 years and without any terminal period, the applied discount rate did only have marginal impact on the impairment test.

NOTE 16 TANGIBLE ASSETS

	Plant and equipment		Leasehold improvements		Total	
DKK'000	2019	2018	2019	2018	2019	2018
Cost at 1 January	33,055	33,400	5,097	5,105	38,152	38,505
Additions	306	461	204	-	510	461
Disposals in the period	(149)	(845)	(71)	(19)	(220)	(864)
Currency adjustment	22	39	8	11	30	50
Cost at 31 December	**33,234**	**33,055**	**5,238**	**5,097**	**38,472**	**38,152**
Accumulated depreciation at 1 January	31,123	28,234	4,492	4,026	35,615	32,260
Depreciation for the year	1,594	2,837	260	468	1,854	3,305
Disposals in the period	(143)	(826)	(71)	(19)	(214)	(845)
Impairment	-	847	-	-	-	847
Currency adjustment	15	31	8	17	23	48
Accumulated depreciation at 31 December	**32,589**	**31,123**	**4,689**	**4,492**	**37,278**	**35,615**
Carrying amount at 31 December	**645**	**1,932**	**549**	**605**	**1,194**	**2,537**

During 2019, the Group assessed the tangible assets for impairment. In relation to this, the Group recognized DKK 0 thousand as an impairment in the reporting period (DKK 847 thousand).

NOTE 17 LEASING

Right-Of-Use Assets

	Properties		Plant and equipment		Total	
DKK'000	2019	2018	2019	2018	2019	2018
Balance at 1 January	-	-	-	-	-	-
Effect of transition 1 January	16,618	-	1,051	-	17,669	-
Adjusted balance 1 January	16,618	-	1,051	-	17,669	-
Currency adjustment	82	-	-	-	82	-
Additions	-	-	-	-	-	-
Reassessment of lease liabilities	1,232	-	-	-	1,232	-
Currency adjustment	-	-	-	-	-	-
Depreciation for the year	(6,148)	-	(423)	-	(6,571)	-
Currency adjustment	3	-	-	-	3	-
Carrying amount at 31 December	**11,787**	**-**	**628**	**-**	**12,415**	**-**

NOTE 17 LEASING (CONTINUED)

Right-Of-Use Liabilities

DKK'000	2019	2018
Maturity of lease liabilities:		
Falling due within one year	3,791	-
Falling due between one and three years	5,585	-
Falling due between four and five years	4,236	-
Total lease liabilities	**13,612**	**-**

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.

Amounts recognized in the consolidated income statement

DKK'000	2019	2018
Depreciation	6,571	-
Finance costs	473	-
Total Right-Of-Use costs recognized in the consolidated income statement	**7,044**	**-**

The group does not have any short term -or low-value leases recognised in the income statement. For 2019, the Group has recognized DKK 5,815 thousand as minimum payments regarding lease agreements, of which interest costs related to lease liabilities amount to DKK 473 thousand and repayments on lease liabilities are DKK 5,342. The capitalized right-of-use assets does 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	2019	2018	2019	2018
Tax losses carry-forwards	(5,147)	(5,295)	148	10,712
Intangible assets	8,181	8,290	(109)	(17,075)
Tangible assets	460	(2,646)	3,106	(920)
Lease liabilities	(2,721)	-	(2,721)	-
Provision for expected credit loss	(35)	(97)	62	110
Other receivables	(707)	-	(707)	-
Contract assets and liabilities	(31)	(252)	221	(252)
Deferred tax liability / (asset) and expense / (income)	**-**	**-**	**-**	**(7,425)**

NOTE 18 DEFERRED TAX (CONTINUED)

DKK'000	2019	2018
Reconciliation of deferred tax liability / (asset) is as follows:		
Opening balance at 1 January	-	7,425
Recognised in consolidated income statement	-	(7,425)
Recognised in consolidated statement of comprehensive income	-	-
Closing balance at 31 December	**-**	**-**

The Group has tax losses of DKK 159,260 thousand (2018: DKK 159,060 thousand) that are available indefinitely for offsetting against future taxable profit. In 2019 the deferred tax assets have not been fully recognized in respect of these losses due to uncertainty in timing to offset future taxable profit. If the Group were able to recognize all unrecognized deferred tax assets the value would be DKK 29,890 thousand (2018: DKK 29,698 thousand).

NOTE 19 INVENTORIES

DKK'000	2019	2018
Consumables and components	2,154	3,830
Finished goods and goods for resale	7,378	13,141
Total inventories	**9,532**	**16,971**
Carrying value of inventories recognised at fair value	**-**	**-**

The cost of goods sold for the year is DKK 43,421 thousand (2018: DKK 57,060 thousand). During 2019 DKK nil (2018; DKK 21,323 thousand) was recognized as an impairment expense partly related to decisions to end of life certain products for inventories, carried at net realizable value. The amount in 2018 was recognized in cost of sales.

DKK'000	2019	2018
Inventory writedown at 1 January	21,323	1,037
Inventory writedown for the year	-	20,286
Reversal of inventory wirtedown	(5,440)	-
Inventory writedown at 31 December	**15,883**	**21,323**

Reversals of inventory write down relates to individual sales and is considered as no-recurring sale of goods.

NOTE 20 TRADE AND OTHER RECEIVABLES

DKK'000	2019	2018
Receivables recognised in the consolidated statement of financial position:		
Trade receivables	23,523	25,305
Other receivables	6,150	13,814
Total current receivables	**29,673**	**39,119**

NOTE 20 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

DKK'000	2019	2018
At 1 January	1,002	1,360
Reversed in the year	-	(279)
Written off in the year	(150)	(752)
Provision in the year	(146)	673
At 31 December	**706**	**1,002**

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

DKK'000	2019	2018
Not past due	17,446	22,158
Past due for less than 30 days	5,627	2,562
Past due between 30 and 60 days	450	335
Past due between 60 and 90 days	-	29
Past due after 90 days	-	221
Total maximum credit risk	**23,523**	**25,305**

NOTE 21 CONTRACT BALANCES

The Group's customers do not have any contractual rights of return. In 2018 the Group established a customary practice for acceptance of return requests in special cases and adjusted the accounting principles for contracts with customers accordingly.

DKK'000	2019	2018
Contract assets	31	514
Contract liabilities	331	3,475

Contract assets 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.

Contract liabilities 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	2019	2018
At 1 January	5,487	5,500
Income tax carry back refund	2,961	5,487
Income tax carry back refund received during the year	(5,487)	(5,500)
At 31 December	**2,961**	**5,487**

NOTE 23 ISSUED CAPITAL AND RESERVES

In accordance with the decision made on 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.

	2019	2018
Authorised shares	*thousands*	*thousands*
Ordinary shares of DKK 0.25 each at 1 january	31,923	23,877
Increase in ordinary shares DKK 0.25 each	51,145	8,046
Ordinary shares of DKK 0.25 each at 31 December	**83,068**	**31,923**

Ordinary shares and fully paid	**Thousands**	**DKK'000**
At 1 January 2019	31,923	7,981
Exercise of share options for cash during the year	-	-
Capital increase	51,145	12,786
At 31 December 2019	**83,068**	**7,981**

DKK'000	**2019**	**2018**
Share premium		
At 1 January	247,552	219,729
Issue of shares for cash in excess of the cost of ordinary shares during the year	46,077	29,493
Transaction costs	(3,300)	(1,980)
Reversals regarding exercised share options	-	310
At 31 December	**290,329**	**247,552**

Share-based payment reserve

Share-based payment reserve is issued to recognize 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	**2019**	**2018**
At 1 January	4,971	6,361
Share-based payment expense (Note 8)	1,636	1,101
Reversals regarding exercised and lapsed share options	(2,115)	(2,491)
At 31 December	**4,492**	**4,971**

NOTE 24 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK'000	2019	2018
Financial assets measured at amortised cost:		
Leasehold deposits	1,417	2,407
Trade receivables	23,523	25,305
Other receivables	6,150	13,814
Cash and cash equivalents	64,306	17,159
Total financial assets	**95,396**	**58,685**
Financial liabilities measured at amortised cost:		
Other financial liabilities	15,939	19,350
Interest-bearing loans and borrowings	32,878	44,701
Lease liabilities	13,612	-
Trade payables	2,932	11,099
Total financial liabilities	**65,361**	**75,150**

Carrying amounts of financial assets and financial liabilities approximate their fair value. There are no forward contracts as of 31 December 2019 and no new forward contracts have been concluded during 2019.

NOTE 25 PROVISIONS

Provisions relate to guarantees associated with the sale of network adapters. The movement in provisions is as follows:

DKK'000	2019	2018
At 1 January	69	490
Utilised during the year	(69)	(490)
Additions in the year	531	69
At 31 December	**531**	**69**

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

NOTE 26 LIABILITIES FROM FINANCING ACTIVITIES

	2019				
DKK'000	At 1 January	Currency adjustment	Non-cash	Cash flows	At 31 December
Interest bearing loans and borrowings	44,701	157	-	(11,980)	32,878
Other financial liabilities	19,350	46	(203)	(3,254)	15,939
Lease liabilities	17,669	82	1,676	(5,815)	13,612
Total liabilities from financing activities	**81,720**	**285**	**1,473**	**(21,049)**	**62,429**

NOTE 26 LIABILITIES FROM FINANCING ACTIVITIES (CONTINUED)

	2018		
DKK'000	At 1 January	Cash flows	At 31 December
Interest bearing loans and borrowings	35,109	9,592	44,701
Other financial liabilities	-	19,350	19,350
Total liabilities from financing activities	**35,109**	**28,942**	**64,051**

NOTE 27 COMMITMENTS AND CONTINGENCIES

Collaterals

The Group has issued a floating charge in the amount of DKK 30 million (2018: DKK 30 million) secured on receivables, inventories, and patents with carrying amount of DKK 23,462 thousand (2018: DKK 29,371 thousand) as collateral for bank debt.

NOTE 28 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 through 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 include the venture capital company Verdane Capital VIII. As of 31 December 2019 Verdane Capital VIII owns 27.22% (2018: 21.6%).

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 neither the shareholders nor their portfolio companies in 2018 or 2019.

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. In 2019 two board members received in total DKK 205thousand as part of consultancy contracts. In 2018 two board members received DKK a combined amount of 362 thousand as part of consultancy contracts. There were no other transactions with the Board of Directors in 2019 and 2018.

NOTE 29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables and guarantees for 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 policies for managing each of these risks, which are summarized below.

NOTE 29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 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 2019, the Group had 1 customer (2018: 1 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.

Assessment of the need for impairment of financial assets are measured at amortized cost including trade receivables, according to the simplified expected credit loss model. The model implies that the expected loss over the lifespan of the asset is recognized 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.

		2019		
DKK'000	Loss percentage	Receivable	Expected loss	Total
Not past due	1,0%	17.622	176	17.446
Past due for less than 30 days	2,3%	5.761	134	5.627
Past due between 30 and 60 days	4,7%	472	22	450
Past due between 60 and 90 days	9,7%	-	-	-
Past due after 90 days	100,0%	374	374	-
Total maximum credit risk		**24.229**	**706**	**23.523**

		2018		
DKK'000	Loss percentage	Receivable	Expected loss	Total
Not past due	0.9%	22,374	210	22,164
Past due for less than 30 days	2.3%	2,623	61	2,562
Past due between 30 and 60 days	4.7%	352	17	335
Past due between 60 and 90 days	9.7%	32	3	29
Past due after 90 days	76.7%	927	711	215
Total maximum credit risk		**26,308**	**1,002**	**25,305**

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 do not differ significantly.

Other receivables

Other receivables relates to the divestment of Pandion in 2018, and final payments are due in Q2 2020. The credit risk related to the receivable was evaluated as low risk at initial recognition. But end of 2019 the credit risk was evaluated as medium to high risk. This revaluation of the risk has led to a write down of the receivable of DKK 3,211 thousand in 2019.

NOTE 29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 2019 and 2018 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 maximum one year in advance. The aim is to ensure sufficient cash from the operating activities to fund project development and daily operations.

31 December 2019 the Group had access to unused credit facilities in the amount of DKK 8 thousand (2018: DKK 3,079 thousand) in a case of a need for cash to finance its activities.

The Groups interest-bearing loans and borrowings are not loans with fixed repayment terms but consists of overdraft facilities renewed on a yearly basis and a accounts receivables financing contract. 31 December 2019 the overdraft facility in Denmark was DKK 22.5 million with a planned reduction bring the facility down to DKK 15 million as of 30 September 2020. The facility in Denmark is up for renewal in May 2020. The facility in the US of DKK 6.6 million is up for renewal in April 2020. An accounts receivables financing contract was setup in Denmark in 2019. 31 December 2019 debt related to the accounts receivables financing contract was DKK 3,364 thousand. It is the assessment of management that the overdraft facilities in Denmark and in the US will be renewed in line with previous years, as management has no indications of otherwise.

The cash available and unused credit facilities It is 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 2019.

The Group's manufacturing policy is order production in order to ensure minimal amounts of cash 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 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 outflows arising from the financial liabilities recognized in the consolidated statement of financial position are due as follows:

	2019			
DKK'000	**Jan - Mar**	**Apr - Dec**	**over 1 year**	**Total**
Lease liabilities	1,056	3,115	11,143	15,314
Interest-bearing loans and borrowings	6,164	5,000	21,714	32,878
Other financial liabilities	-	6,923	9,333	16,256
Trade payables	2,932	-	-	2,932
Total financial liabilities	**10,152**	**15,038**	**42,190**	**67,380**

	2018			
DKK'000	**Jan - Mar**	**Apr - Dec**	**over 1 year**	**Total**
Interest-bearing loans and borrowings	13,400	8,801	22,500	44,701
Other financial liabilities	63	5,896	13,391	19,350
Trade payables	11,099	-	-	11,099
Total financial liabilities	**24,562**	**14,697**	**35,891**	**75,150**

NOTE 29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 loan in the amount of DKK 32,878 thousand (2018 DKK 44,701 thousand). This loan yields an interest rate of 4.32%. 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, all the majority of all other transactions 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.

	Effect on profit before tax		Effect on equity	
DKK'000	**2019**	**2018**	**2019**	**2018**
Change in USD by +/- 5%	+/- 1.849	+/- 754	+/- 1.442	+/- 588
Change in USD by +/- 10%	+/- 3.698	+/- 1.507	+/- 2.884	+/- 1.175

Capital management

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

The primary objective of the Group's capital management is to ensure, in the short term, 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.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus debt. The Group's policy is to keep the gearing ratio below 10%.

NOTE 30 EVENTS AFTER THE REPORTING PERIOD

Since late February, COVID-19 has spread extensively around the world and the facts and situation around COVID-19 continue to evolve. Napatech has carefully considered the accounting implications of this situation on the measurement of the company's assets and liabilities at 31 December 2019. The valuation of intangible assets and inventories is not impacted by the estimated impact of the current situation on sales and order inflow. The Group's revenue is not overly exposed to areas of the market that are most immediately disrupted by COVID-19, as the business has a small to insignificant exposure to the following markets: transportation, shipping, tourism, consumer electronics. Valuation of trade receivables is not impacted by the COVID-19 situation as the Groups customers are primarily large IT companies with a high degree of solidity. And the group's credit facilities are not expected to be negatively impacted by the COVID-19 either.

There have been no other significant events after 31 December 2019 that might affect the consolidated financial statements.

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT

For the year ended 31 December 2019

Note	DKK'000	2019	2018
	Revenue	131.092	63.949
	Cost of goods sold	(43.421)	(57.060)
	Gross profit	**87.671**	**6.889**
2	Other operating income	19	599
3, 6	Staff costs	(66.374)	(81.364)
4	Transferred to capitalized development costs	13.856	33.854
4, 5	Other external costs	(23.114)	(37.129)
	Operating profit before depreciation, amortisation and impairment (EBITDA)	**12.058**	**(77.151)**
7	Depreciation, amortisation and impairment	(22.747)	(107.451)
	Operating result (EBIT)	**(10.689)**	**(184.602)**
	Income from subsidiary	462	-
8	Finance income	370	-
9	Finance costs	(4.166)	(9.321)
	Result before tax	**(14.023)**	**(193.923)**
10	Income tax	2.959	12.925
	Result for the year	**(11.064)**	**(180.998)**

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

Note	DKK'000	2019	2018
	Result for the year	**(11,064)**	**(180,998)**
	Value adjustments on hedging instruments:		
	- Net gain / (loss) on cash cash flow hedges	-	(7,453)
	- Net (gain) / loss on cash cash flow hedges reclassified to revenue	-	-
	- Net (gain) / loss on cash cash flow hedges reclassified to finance costs	-	7,453
	Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	-	-
	Total comprehensive income for the year, net of tax	**(11,064)**	**(180,998)**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2019

ASSETS

Note	DKK'000	2019	2018
	Development projects, completed	28,646	29,773
	Development projects, in progress	8,089	8,194
	Patents	4,426	4,972
11	**Intangible assets**	**41,161**	**42,939**
12	Plant and equipment	585	1,834
13	Right-of-use assets	12,228	-
12	Leasehold improvements	549	592
	Tangible assets	**13,362**	**2,426**
14	Investments in subsidiaries	3,923	2,907
21	Leasehold deposits	1,310	2,198
	Other non-current assets	**5,233**	**5,105**
	Non-current assets	**59,756**	**50,470**
16	Inventories	9,532	16,971
17, 21	Trade receivables	9,504	6,914
17, 21	Receivables from group entities	9,325	-
18	Contract assets	31	514
17, 21	Other receivables	5,950	13,381
19	Income tax receivable	2,961	5,500
21	Cash and cash equivalents	38,143	3,400
	Current assets	**75,446**	**46,680**
	Total assets	**135,202**	**97,150**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2019

EQUITY AND LIABILITIES

Note	DKK'000	2019	2018
20	Issued capital	20,767	7,981
20	Share premium	290,329	247,552
20	Reserve for development project costs	28,653	-
20	Other capital reserves	4,492	34,396
	Retained earnings	(267,046)	(258,869)
	Equity	**77,195**	**31,060**
21, 23	Other financial liabilities	2,026	-
13, 21, 23	Lease liabilities	9,574	-
	Non-current liabilities	**11,600**	**-**
21, 23	Interest-bearing loans and borrowings	26,202	38,182
21, 23	Lease liabilities	2,796	-
21	Trade payables	2,932	11,099
21	Payables to group entities		3,865
13	Other payables	13,774	11,218
22	Provisions	531	69
18	Contract liabilities	172	1,657
	Current liabilities	**46,407**	**66,090**
	Total liabilities	**58,007**	**66,090**
	Total equity and liabilities	**135,202**	**97,150**

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

Note	In DKK'000	Share capital	Share premium	Share based payment reserve	Cash flow hedge reserve	Reserve for develop-ment project costs	Retained earnings	Total equity
	At 1 January 2018	**5,969**	**219,729**	**6,361**	**-**	**61,553**	**(112,180)**	**181,432**
	Result for the year	-	-	-	-	(32,128)	(148,870)	(180,998)
	Value adjustments on hedging instruments:	-	-	-	-	-	-	-
	- Net gain / (loss) on cash cash flow hedges	-	-	-	(7,453)	-	-	(7,453)
	- Net (gain) / loss on cash cash flow hedges reclassified to finance costs	-	-	-	7,453	-	-	7,453
	Total comprehensive income	**-**	**-**	**-**	**-**	**(32,128)**	**(148,870)**	**(180,998)**
	Issue of shares	2,012	29,493	-	-	-	-	31,505
	Transaction costs	-	(1,980)	-	-	-	-	(1,980)
	Reversal, exercised and lapsed share options	-	310	(2,491)	-	-	2,181	-
6	Share-based payments	-	-	1,101	-	-	-	1,101
	Total transactions with shareholders	**2,012**	**27,823**	**(1,390)**	**-**	**-**	**2,181**	**30,626**
	At 31 December 2018	**7,981**	**247,552**	**4,971**	**-**	**29,425**	**(258,869)**	**31,060**
	Result for the year	-	-	-	-	(772)	(10,292)	(11,064)
	Total comprehensive income	**-**	**-**	**-**	**-**	**(772)**	**(10,292)**	**(11,064)**
	Issue of shares	12,786	46,077	-	-	-	-	58,863
	Transaction costs	-	(3,300)	-	-	-	-	(3,300)
	Reversal, exercised and lapsed share options	-	-	(2,115)	-	-	2,115	-
6	Share-based payments	-	-	1,636	-	-	-	1,636
	Total transactions with shareholders	**12,786**	**42,777**	**(479)**	**-**	**-**	**2,115**	**57,199**
	At 31 December 2019	**20,767**	**290,329**	**4,492**	**-**	**28,653**	**(267,046)**	**77,195**

PARENT COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

Note	DKK'000	2019	2018
	Operating activities		
	Result before tax	(14,023)	(193,923)
	Adjustments to reconcile profit before tax to net cash flows:		
	Finance income	(370)	-
	Finance costs	4,166	9,321
	Depreciation, amortisation and impairment	22,747	107,451
	Income from subsidiaries	(462)	-
	Gain/loss on the sale of non-current assets	(19)	(599)
	Non-cash changes in inventories	-	21,323
	Share-based payment expense	569	573
	Working capital adjustments:		
	Change in inventories	7,439	(2,164)
	Change in trade and other receivables, contract assets and intercompany receivables	(8,094)	50,247
	Change in trade and other payables, contract liabilities, intercompany payables and provisions	(10,155)	(11,191)
	Cash flow hedges in financial items	-	(7,453)
	Interest received	84	-
	Interest paid	(717)	(1,551)
	Income tax received, net	5,500	5,500
	Net cash flows from operating activities	**6,665**	**(22,466)**
	Investing activities		
	Proceeds from sale of tangible assets	24	106
	Purchase of tangible assets	(483)	(335)
	Proceeds from sale of intangible assets	1,732	1,979
	Investments in intangible assets	(15,152)	(35,411)
	Dividends from subsidiaries	569	-
	Investments in leasehold deposits	(53)	(126)
	Net cash from investing activities	**(13,363)**	**(33,787)**
	Free cash flow	**(6,698)**	**(56,253)**
	Financing activities		
	Capital increase	58,863	31,505
	Transaction costs on issue of shares	(3,300)	(1,606)
	Repayment of lease liabilities	(4,272)	-
	Proceeds from borrowings	5,690	3,073
	Repayment in borrowings	(15,644)	-
	Net cash flows from financing activities	**41,337**	**32,972**
	Net change in cash and cash equivalents	**34,639**	**(23,281)**
	Net foreign exchange difference	104	(82)
	Cash and cash equivalents at 1 January	3,400	26,763
	Cash and cash equivalents at 31 December	**38,143**	**3,400**

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 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 recognized 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 recognized 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 recognized development costs. The reserve cannot be used to distribute dividends or cover losses. The reserve will be reduced or dissolved if the recognized 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 is disclosed in the Note 5 to the consolidated financial statements.

NOTE 3 STAFF COSTS

DKK'000	2019	2018
Employee benefits expense is reported as follows:		
Wages and salaries	61,725	75,690
Defined contribution schemes	3,550	4,275
Share-based payment expense (Note 6)	569	574
Social security costs	530	825
Total employee benefits expense	**66,374**	**81,364**
Average number of employees	**65**	**87**

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 including annual amortization and impairment on completed development projects and development projects in progress recognized in the parent company's income statement are DKK 39,899 thousand (2018: DKK 121,045 thousand). All research and development costs are incurred by the parent company.

NOTE 5 AUDITORS' FEES

DKK'000	2019	2018
Ernst & Young:		
Statutory audit fee	672	444
Assurance engagements	54	63
Tax advisory fee	66	21
Fees for other services	70	501
Total auditors' fees	**862**	**1,029**

Fee in relation to non-audit services from Ernst & Young P/S, DKK 190 thousand consists of general accounting advice and related matters in connection with regulatory inspection and tax advices related to transfer pricing.

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 recognized as the cost of the investment in the subsidiary. Out of the Group's total share-based payment expense of DKK 1,636 thousand (2018: DKK 1.101 thousand), DKK 1,067 thousand (2018: DKK 526 thousand) has been recognized as an additional cost of the investment in the subsidiary.

NOTE 7 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

DKK'000	2019	2018
Depreciation, amortisation and impairment are reported as follows:		
Depreciation plant and property	1,522	2,792
Impairment of plant and equipment	-	847
Depreciation of leasehold improvements	247	406
Depreciation of right-of-use assets	4,048	-
Total depreciation of tangible assets	**5,817**	**4,045**
Amortisation of patents	691	654
Impairment of patents	48	117
Amortisation of completed development projects	16,191	36,959
Impairment of completed development projects	-	35,441
Impairment of development projects in progress	-	30,185
Amortisation of other intangible assets	-	50
Total amortisation and impairment of intangible assets	**16,930**	**103,406**
Total depreciation, amortisation and impairment	**22,747**	**107,451**

NOTE 8 FINANCE INCOME

DKK'000	2019	2018
Interest receivable from banks	84	-
Foreign exchange gains	286	-
Total finance income	**370**	**-**
Finance income at amortized costs	**84**	**-**

NOTE 9 FINANCE COSTS

DKK'000	2019	2018
Interest payable to banks	575	1,531
Foreign exchange losses	-	7,770
Interest payable under leases	393	-
Other finance costs	3,198	20
Total finance costs	**4,166**	**9,321**
Finance costs at amortized costs	**968**	**1,531**

NOTE 10 INCOME TAX

DKK'000	2019	2018
Current tax recognised in the parent company income statement:		
Current income tax carry back refund	(2,960)	(5,500)
Change in deferred tax	-	(7,425)
Adjustment prior years taxes	1	-
Total income tax	**(2,959)**	**(12,925)**

A reconciliation between tax expense and profit before tax multiplied by the applicable income tax rate for the parent company for 2019 and 2018 is as follows:

DKK'000	2019	2018
Profit before tax	(14,023)	(193,923)
At the applicable Danish income tax rate for the parent company, 22% (2018: 22%)	(3,085)	(42,663)
Tax effect of:		
Tax deductable expenses	(49)	(116)
Non-deductible expenses	25	132
Accounting estimate for not recognised deferred tax assets	150	29,698
Other	-	24
At the effective income tax rate of 21% (2018: 7%)	**(2,959)**	**(12,925)**

NOTE 11 INTANGIBLE ASSETS

Intangible assets comprise patents and development projects. 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	2019	2018	2019	2018	2019	2018
Cost at 1 January	32,106	32,212	4,742	4,742	36,848	36,954
Additions	279	335	204	-	483	335
Disposals in the period	(26)	(441)	-	-	(26)	(441)
Cost at 31 December	**32,359**	**32,106**	**4,946**	**4,742**	**37,305**	**36,848**
Accumulated depreciation at 1 January	30,272	27,052	4,150	3,744	34,422	30,796
Depreciation for the year	1,522	2,792	247	406	1,769	3,198
Impairment for the year	-	847	-	-	-	847
Disposals in the period	(20)	(419)	-	-	(20)	(419)
Accumulated depreciation at 31 December	**31,774**	**30,272**	**4,397**	**4,150**	**36,171**	**34,422**
Carrying amount at 31 December	**585**	**1,834**	**549**	**592**	**1,134**	**2,426**

During 2019, the parent company tested the tangible assets for impairment. In relation to this, the parent company recognized DKK nil as an impairment in the reporting period (2018: DKK 847 thousand).

NOTE 13 LEASING

Right-Of-Use Assets

	Properties		Plant and equipment		Total	
DKK'000	2019	2018	2019	2018	2019	2018
Cost at 1 January	-	-	-	-	-	-
Effect of transition 1 January	13,213	-	1,051	-	14,264	-
Adjusted balance 1 January	13,213	-	1,051	-	14,264	-
Additions	-	-	-	-	-	-
Reassessment of leasing liabilities	2,010	-	-	-	2,010	-
Currency adjustment	-	-	-	-	-	-
Depreciation for the year	(3,624)	-	(423)	-	(4,047)	-
Currency adjustment	-	-	-	-	-	-
Carrying amount at 31 December	**11,600**	**-**	**628**	**-**	**12,228**	**-**

NOTE 13 LEASING (CONTINUED)

Right-Of-Use Liabilities

DKK'000	2019	2018
Maturity of lease liabilities:		
Falling due within one year	2,796	-
Falling due between one and three years	5,338	-
Falling due between four and five years	4,236	-
Total lease liabilities	**12,370**	**-**

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.

Amounts recognized in the consolidated income statement

DKK'000	2019	2018
Depreciation	4,047	-
Finance costs	393	-
Total Right-Of-Use costs recognized in the consolidated income statement	**4,440**	**-**

The parent company does not have any short term -or low-value leases recognised in the income statement. For 2019, the parent company has recognized DKK 4,272 thousand as minimum payments regarding lease agreements, of which interest costs related to lease liabilities amount to DKK 393 thousand and repayments on lease liabilities are DKK 3,879. The capitalized right-of-use assets does not have any effect on investing activities in the cash flow statement.

NOTE 14 INVESTMENTS IN SUBSIDIARIES

DKK'000	2019	2018
Cost at 1 January	7,657	7,130
Value of share-based payment to employees in subsidiaries	1,067	527
Disposals	(51)	-
Cost at 31 December	**8,673**	**7,657**
Accumulated impairment at 1 January	4,750	4,750
Impairment for the year	-	-
Accumulated impairment at 31 December	**4,750**	**4,750**
Carrying amount at 31 December	**3,923**	**2,907**

NOTE 14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The parent company's investments in subsidiaries at 31 December 2019 and 2018 consist of the following:

		Ownership in %		Proportion of voting rights in %		
Name	Country	2019	2018	2019	2018	Business activity
Napatech Inc.	USA	100	100	100	100	Sale and distribution of the Group's products
Napatech Japan KK	Tokyo, Japan	-	100	-	100	Company liquidated

DKK'000	Result for the year		Equity	
Name	2019	2018	2019	2018
Napatech Inc.	(900)	2,035	5,180	5,952
Napatech Japan KK	(109)	121	-	616

NOTE 15 DEFERRED TAX

	Statement of financial position		Income statement	
DKK'000	2019	2018	2019	2018
Tax losses carry-forwards	(5,147)	(5,295)	148	10,712
Intangible assets	8,181	8,290	(109)	(17,075)
Tangible assets	460	(2,646)	3,106	(920)
Lease liabilities	(2,721)	-	(2,721)	-
Provision for expected credit loss	(35)	(97)	62	110
Other receivables	(707)	-	(707)	-
Contract assets and liabilities	(31)	(252)	221	(252)
Deferred tax liability and expense	**-**	**-**	**-**	**(7,425)**

DKK'000	2019	2018
Reconciliation of deferred tax liability / (asset) is as follows:		
Opening balance at 1 January	-	7,425
Recognised in parent company income statement	-	(7,425)
Recognised in parent company statement of other comprehensive income	-	-
Closing balance at 31 December	**-**	**-**

The parent company has tax losses of DKK 159,260 thousand (2018: DKK 159,060 thousand) that are available indefinitely for offsetting against future taxable profit.

In 2019 the deferred tax assets have not been fully recognized in respect of these losses due to uncertainty in timing to offset future taxable profit.

NOTE 15 DEFERRED TAX (CONTINUED)

If the parent company were able to recognize all unrecognized deferred tax assets the value would be DKK 29,890 thousand (2018: DKK 29,698 thousand).

NOTE 16 INVENTORIES

DKK'000	2019	2018
Consumables and components	2,154	3,830
Finished goods and goods for resale	7,378	13,141
Total inventories	**9,532**	**16,971**
Carrying value of inventories recognised at fair value	**-**	**-**

The cost of goods sold for the year is DKK 43,421 thousand (2018: DKK 57,060 thousand). During 2019 DKK nil (2018; DKK 21,323 thousand) was recognized as an impairment expense partly related to decisions to end of life certain products for inventories, carried at net realizable value. This is recognized in cost of sales.

DKK'000	2019	2018
Inventory writedown at 1 January	21,323	1,037
Inventory writedown for the year	-	20,286
Reversal of inventory wirtedown	(5,440)	-
Inventory writedown at 31 December	**15,883**	**21,323**

Reversals of inventory write down relates to individual sales and is considered as no-recurring sale of goods.

NOTE 17 TRADE AND OTHER RECEIVABLES

DKK'000	2019	2018
Receivables recognised in the parent company statement of financial position:		
Trade receivables	9,504	6,914
Receivables from group entities	9,325	-
Other receivables	5,950	13,381
Total current receivables	**24,779**	**20,295**

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

DKK'000	2019	2018
At 1 January	440	941
Reversed in the year	-	(160)
Written off in the year	(150)	(723)
Change in the year	(131)	382
At 31 December	**159**	**440**

NOTE 17 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

DKK'000	2019	2018
Not past due	5,202	4,044
Past due for less than 30 days	3,860	2,321
Past due between 30 and 60 days	442	335
Past due between 60 and 90 days	-	29
Past due after 90 days	-	185
Total maximum credit risk	**9,504**	**6,914**

NOTE 18 CONTRACT BALANCES

The Company's customers do not have any contractual rights of return. In 2018 the Company has established a customary practice for acceptance of return requests in special cases and adjusted the accounting principles for contracts with customers accordingly.

DKK'000	2019	2018
Contract assets	31	514
Contract liabilities	172	1,657

Contract assets 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.

Contract liabilities represents 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	2019	2018
Financial assets measured at amortised cost:		
Leasehold deposits	1,310	2,198
Trade receivables	9,504	6,914
Receivables from group entities	9,325	-
Other receivables	5,950	13,381
Cash and cash equivalents	38,143	3,400
Total financial assets	**64,232**	**25,893**
Financial liabilities measured at amortised cost:		
Lease liabilities	12,370	-
Interest-bearing loans and borrowings	26,202	38,182
Trade payables	2,932	11,099
Other non current financial liabilities	2,026	-
Payables to group entities	-	3,865
Total financial liabilities	**43,530**	**53,146**

Carrying amounts of financial assets and financial liabilities approximate their fair value.

NOTE 22 PROVISIONS

Provisions relate to guarantees associated with the sale of network adapters. These provisions are incurred by the parent company and are disclosed in Note 25 to the consolidated financial statements.

NOTE 23 LIABILITIES FROM FINANCING ACTIVITIES

	2019			
DKK'000	At 1 January	Non-cash	Cash flows	At 31 December
Interest bearing loans and borrowings	38,182	-	(11,980)	26,202
Other financial liabilities	-	-	2,026	2,026
Lease liabilities	14,264	2,378	(4,272)	12,370
Total liabilities from financing activities	**38,182**	**-**	**(9,954)**	**28,228**

	2018		
DKK'000	At 1 January	Cash flows	At 31 December
Interest bearing loans and borrowings	35,109	3,073	38,182
Total liabilities from financing activities	**35,109**	**3,073**	**38,182**

NOTE 24 COMMITMENTS AND CONTINGENCIES

Collaterals

The parent company (as the whole Group) has issued a floating charge in the amount of DKK 30 million (2018: DKK 30 million) secured on receivables, inventories, and patents with carrying amount of DKK 23,462 thousand (2018: DKK 29,371 thousand) as collateral for bank debt.

NOTE 25 RELATED PARTY TRANSACTIONS

The parent company's related parties are the same as the Group's. Additional information is set out in Note 28 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		Napatech Japan K.K., Japan	
DKK'000	**2019**	**2018**	**2019**	**2018**
Income statement:				
Sales to subsidiaries	75,327	9,824	-	-
Purchases from subsidiaries	-	-	-	2,647
Statement of financial position:				
Receivables from subsidiaries	9,325	-	-	-
Payables to subsidiaries	-	3,510	-	355

NOTE 26 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 29 to the consolidated financial statements.

	2019			
DKK'000	**Loss percentage**	**Receivable**	**Expected loss**	**Total**
Not past due	0.9%	5,248	45	5,202
Past due for less than 30 days	2.3%	3,952	92	3,860
Past due between 30 and 60 days	4.7%	464	22	442
Past due between 60 and 90 days	-	-	-	-
Past due after 90 days	-	-	-	-
Total maximum credit risk		**9,664**	**159**	**9,504**

NOTE 26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	2018			
DKK'000	**Loss percentage**	**Receivable**	**Expected loss**	**Total**
Not past due	0.9%	4,082	38	4,044
Past due for less than 30 days	2.3%	2,376	55	2,321
Past due between 30 and 60 days	4.7%	352	17	335
Past due between 60 and 90 days	9.7%	32	3	29
Past due after 90 days	63.8%	512	327	185
Total maximum credit risk		**7,354**	**440**	**6,914**

NOTE 27 EVENTS AFTER THE REPORTING PERIOD

Information in relation to events after the reporting period is disclosed in Note 30 to the consolidated financial statements.


napa:tech:

STATEMENT BY THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD 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 2019.

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 2019 and of the results of their operations and cash flows for the financial year 1 January – 31 December 2019.

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.

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

Søborg, 24 March 2020

Executive Management Board

Ray Smets, Chief Executive Officer

Heine Thorsgaard, Chief Financial Officer

Board of Directors

Lars Boilesen, Chairman

Christian Jebsen

Howard Bubb

Henry Wasik

Bjørn Erik Reinseth

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 2019, 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 2019 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 2019 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' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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 re-appointed annually by resolution of the general meeting for a total consecutive period of six years up to and including the financial year 2019.

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 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matters is provided in that context.

We have fulfilled the responsibilities described in the "Auditors' responsibilities for the audit of the financial statements" section of our report, including in relation to the key audit matters below. Accordingly, our audit included the design and performance of procedures designed 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 accompanying 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.

Revenue recognition and product returns

The Group manufactures and sells network adapters to end-users and through third party channel partners. The Groups Sales contracts does 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 recognized 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. A refund liability and right-of-return asset is recognized for the products expected to be returned, as contract assets and contract liabilities, and are estimated based on historic experience and expectations.

Revenue recognition was a key audit matter during our audit, due to the inherent risk related to the estimates and assumptions prepared by management in this relation.

How our audit addressed the above key audit matters:

- Consideration of the appropriateness of the Group's revenue recognition accounting policies, including those relating to incentives, returns and rebates and assessing compliance with applicable accounting standards
- Assessment of the key assumptions and methodologies used by management in the estimation of expected product returns, including historical evidence and changes in internal procedures that affect the expectations for future product returns.
- Test of selected sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the year-end date to supporting documentation and assessing whether those transactions were recognized in the correct period and in accordance with the governing sales contracts and the Group's accounting policy.
- Inspection of the terms of significant sales contracts to determine the point of transfer of significant risk and rewards.

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, related safeguards.

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.

Copenhagen, 24 March 2020
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jan C. Olsen
State Authorised
Public Accountant
mne33717


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