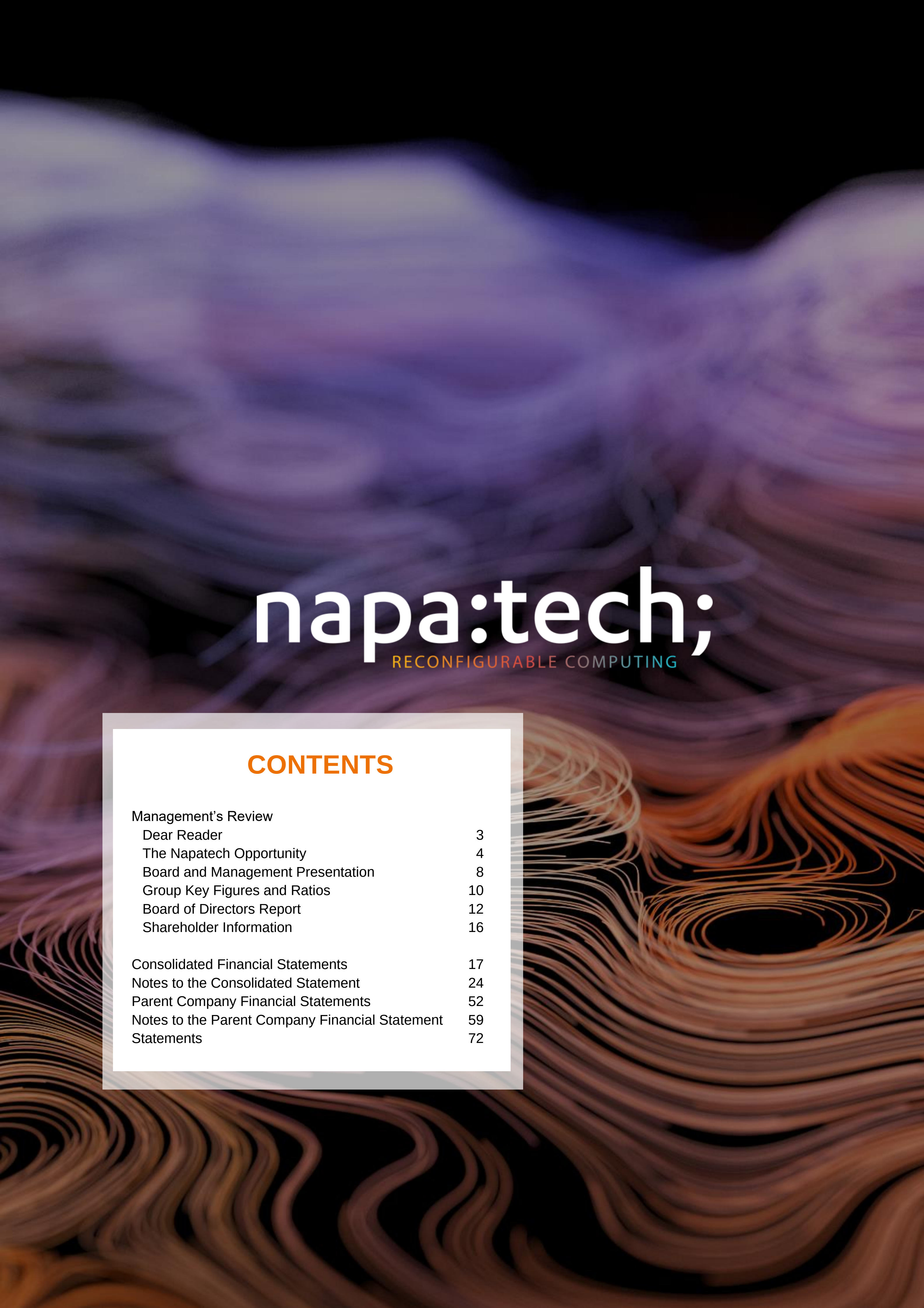
napa:tech;
RECONFIGURABLE COMPUTING

2020 Annual Report

Adopted on the Annual General Meeting 2021
on 16 April 2021

Jørgen Bek Weiss Hansen
Chairman of the meeting

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



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DEAR READER

Earning a Path to the Next Level

"Hope Is not a strategy, luck Is not a factor". This quote by James Cameron, the meticulous moviemaker refers to how major steps in any challenging journey are not based on hope and luck, but on fearless actions that earn the path to success. The essence of this concept holds true for Napatech.

Our results in 2020 are notable because we did what we promised to do. We delivered and exceeded our plan by executing a series of actions to fulfill our goals despite the challenges we all faced in a year of unprecedented surprises. More importantly, we stayed focused on our strategy developing a path to new revenues we will strive to realize over the next 3 years. The major steps we took in 2020 were not based on hope and luck. The result is we have earned a path to greater opportunity in 2021 and beyond.

As we entered 2020, our business plan could not predict the impact of a global pandemic. On the contrary, Napatech's markets were healthy and flourishing as more applications were being deployed as software running on open, standard servers in both the data center and the cloud. Napatech's focus accelerating and securing these applications seemed more needed than ever before in those "normal times". In came COVID-19. With it came a new set of challenges in our customer markets. Network and application demand patterns shifted as the workforce of almost every company globally moved from work-from-work to work-remotely. This caused a dramatic shift of internet traffic from business centers to the suburbs as end-users demanded more from networks and applications for productivity, entertainment, and social networking. Enterprise-based applications needed to work seamlessly, while network security was stretched to the limit. Napatech's solutions are needed in this time even more than ever to improve network visibility, application performance, and availability, with better security.

From a numbers perspective, our results demonstrated solid execution meeting and beating every goal established by the company at the beginning of 2020. During 2020, we grew revenues by 16% year-over-year in USD after a strong 2019 and delivered solid product margins of 71.5%. We delivered a strong profit for the year, and we delivered a record Free Cash Flow of 33.6 MDKK, a 167% improvement over 2019. We exited the year with less debt, a healthy cash position, and a pipeline of opportunities.

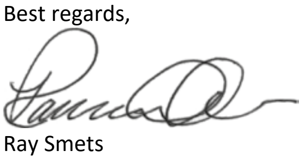
From an execution perspective, we remained focused on research and development enhancing our existing products while building new solutions that are delivering new and future growth. We carefully managed sales and marketing to efficiently get to the right opportunities. We drove our operating cost-structure and product costs, all while delivering record-breaking positive free cash flow and gross margins.

From a product perspective, we invested in our unique world-class expertise building high-performance SmartNIC software on high-performance FPGA microprocessors to improve the way networks are managed. We intensively focused on a three-prong product strategy that is delivering short-term customer benefits while opening path-ways for potential long-term growth. The underpinning of our strategy is that our technology plays a relevant role in a market that needs Napatech to succeed. We rode the wave of change as the IT industry is changing from hardware-centric to soft-ware-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.

As we enter 2021, we feel confident that we have earned the right to grasp our next level of growth. We expect revenues from our new product efforts will earn us access to new partnerships, new paths to the market, gaining momentum with existing customers while earning the business of new customers and opportunities.

We enthusiastically enter 2021 as a global tech company that has earned the path to get to the next level and to win. Our will to succeed gives me confidence that the coming year will be a 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

THE NAPATECH OPPORTUNITY

Positioned To Scale Our Business As Datacenters Scale Their Networks

MEGATRENDS: FROM DRAWING BOARD TO REALITY

"The only thing that is constant is change." That adage is never more easily proven than it is in information technology. Amidst that backdrop, it is especially notable that today we live in perhaps the greatest era of technology change. Several megatrends are occurring simultaneously, which independently could be one of the largest in history. Together they are radically changing how people communicate, and the way networks are built to support them.

5G telecommunications operators are building new datacenters and expanding the number of access points to a massive scale, to unlock unimaginable new services based on greater bandwidth and lower latency.

Cloud and edge computing datacenter operators continue to expand to hyper-scale, delivering more intelligent, localized, and autonomous computing resources for an increasing set of users, and applications.

The Internet-of-things (IoT) scales to new heights, with the invention of devices and sensors spanning personal use, entertainment, and quality of life, to factory automation, safety, connected cities, smart power grids, new applications of machine learning and artificial intelligence, and so much more.

While these megatrends are unique in their own ways, one thing they share is the need for a new class of network for the communications infrastructure that underpins the vision. These solutions have moved from technology planning to real-world implementation. It is that transition that defines the great opportunity that lies in front of Napatech.

DEFINING THE DIGITAL LANDSCAPE

The sum of these new technologies creates a place where there are millions of networked servers, billions of connected people, and trillions of devise, machines, and sensors – all powered by a nearly infinite set of applications and services that revolutionize the way we communicate, work and live. Challenging requirements already existed for mobility and borderless connectivity in support of connecting any device, at any time from any place with security and data integrity. Increased demands for work-from-home have further exaggerated the demands of the new networks as traffic patterns shifted and security perimeters disappeared.

MODERN REQUIREMENTS FOR A CHANGING WORLD

With so much potential, and so much as stake, failure in these network designs was never an option. Datacenter designers and operators have emerged with a clear set of networking requirements that cannot be compromised.

Performance is paramount. Line-rate networking with ultra-low latency that scales from 25 gigabit Ethernet in the servers to 100 gigabit Ethernet and beyond in the network links that connect them.

Agility is tightly coupled with that performance. In a world of software-defined-everything, the network must provide hardware performance at the speed of software innovation. This equates to programmability that allows the hardware to evolve as fast as new networking protocols and standards do, as well as the threat landscape driven by bad actors.

Efficiency demands the most valuable and expensive resources within the datacenter servers, the central processing units (CPUs) spend most of their time supporting the applications, services, and revenue they were intended for, offloading all burdensome workloads such as networking, data, and security processing.

Security is essential. With so many users, devices, and applications able to enter the network in many configurations, a new distributed architecture is required.

Economics at this incredible scale cannot be forgotten. A fundamental requirement for minimal costs shifts the design of networks towards open, standard, and commodity off-the-shelf products.

Orchestration and management of so many elements at this scale require new methods for automation, configuration, and control.

Sustainability is the final component that ensures the network operates as required but in an environmentally friendly size and power configuration.

NEW CHALLENGES TO OLD BELIEFS

While very few things stay the same for very long in high-tech, one item that has remained constant, was the confidence designers had that their systems could double in performance and reduce in cost every few years. At a time when Moore's Law is needed most, there is now uncertainty. The costs of transistors are no longer in decline and are showing signs of increasing. At the same time, networking throughput is increasing exponentially faster than the CPU's capacity to handle it. The costs to build new processors are the highest in history, often making new ventures cost-prohibitive. And there are a rare few number of foundry companies that remain to manufacture devices in the latest processing nodes. This added challenge adds complexity to next-generation network designs.

TECTONIC SHIFTS ALTER DATACENTER NETWORKS

To meet the complete set of these requirements a new network architecture for datacenters has emerged. The networks are transitioning away from expensive, large, proprietary, monolithic, vertically integrated systems. A new method of software-defined networking has emerged. Networking functions are being disaggregated from the hardware, virtualized, and delivered as software instances on open, standard, low-cost computing platforms – servers. To overcome the challenges created by the decline of Moore's Law, a new heterogeneous processing architecture exists where expensive and burdensome workloads are offloaded from the CPUs. This model has proven to be successful in the past, with GPUs offloading video and graphics processing from the CPU. This same model is now being applied for data, network, and security processing. This results in a world where best-in-breed solutions can inter-changeably come together across servers, processors, accelerators, applications, and operating systems, in a low-cost manner.

PROGRAMMABLE SMARTNICS ROLE IN DATACENTERS

Datacenters for 5G telecommunications and cloud service providers and those found in hybrid enterprise networks are one of the largest most contested segments in all of information technology. The servers and the network interface cards (NIC) that provide their connectivity are among the fastest-growing segments therein.

Some of the applications and services that define the megatrends in 5G mobile, cloud, and edge computing, and the IoT stress the capabilities of the new networks being built. Those applications often fail on standard servers with basic NICs, when the nature of the application consumes an inordinate amount of processing on the CPU for network, security, and data processing and starves the CPU resources away from the applications and services they were intended for.

Smart network interface cards, or SmartNICs, are the preferred method to avoid these problems, and help advance datacenter computing as Moore's law ends while other megatrends take flight. A SmartNIC's primary function is to operate as a co-processor inside of the server, offloading the CPU from the burdensome tasks of network and security processing while simultaneously accelerating applications on multiple dimensions. It uniquely meets the network design requirements for *performance, agility, efficiency, security, economics, orchestration, and sustainability*.

DEMANDED BY NETWORK BUILDERS EVERYWHERE

Programmable SmartNICs are in high demand by network builders everywhere. Engineers that build appliances and servers for original equipment manufacturers (OEMs) are using programmable SmartNICs to power their next generations designs. End users who build their own systems are following suit. Modern datacenter servers powered by programmable SmartNICs can be found in networks of all types today, including cloud service providers, 5G mobile telecommunications companies, Fortune 5000 enterprises, and government agencies.

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

With more than 200 satisfied customers and over 100,000 SmartNIC ports shipped, Napatech has established itself as a leader as the number one global vendor for FPGA-based programmable SmartNICs.

Napatech has also earned a pole-position among other NIC vendors vying for a place with this emerging market. Industry analysts predict the NIC market more than doubling to $4.8B by 2024, where one-in-three NIC will be programmable SmartNICs, making up nearly 55% of the revenue (Source: Omdia 2021).

ENABLING NEW APPLICATIONS AND SERVICES

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

ALIGNING WITH TECHNOLOGY LEADERS

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

A FOCUSED PRODUCT STRATEGY

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

Application Driven: our solutions are driven by the needs of software applications, which means that all capabilities and performance are designed with the needs of specific software applications in mind.

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

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

THE INTERSECTION OF MAJOR MARKET TRENDS

When gauging the market opportunity and timing, it is simplest to note that Napatech sits at the intersection of two major market forces: the ubiquitous deployment of standard server platforms and the growth of network and security applications as software instances to be deployed on those servers. Both trends are the source of tremendous growth in their own right and combined they provide the clearest indicators of the increasing demand for SmartNICs within those servers for connectivity. Endpoint servers often called compute nodes, require 1-2 SmartNICs per server most often at 10 or 25 gigabits, and appliances or service nodes can require 4-8 cards at 40 or 100 Gigabit.

THE EARNED OPPORTUNITY

Napatech participates in one of the fastest-growing markets globally. Leveraging more than 15 years of expertise unmatched expertise in FPGAs we have made the investments and fully transitioned our products and solutions to align with modern network architectures and applications. As a result, we have earned the opportunity to win new business from our current customers, and new prospects alike.

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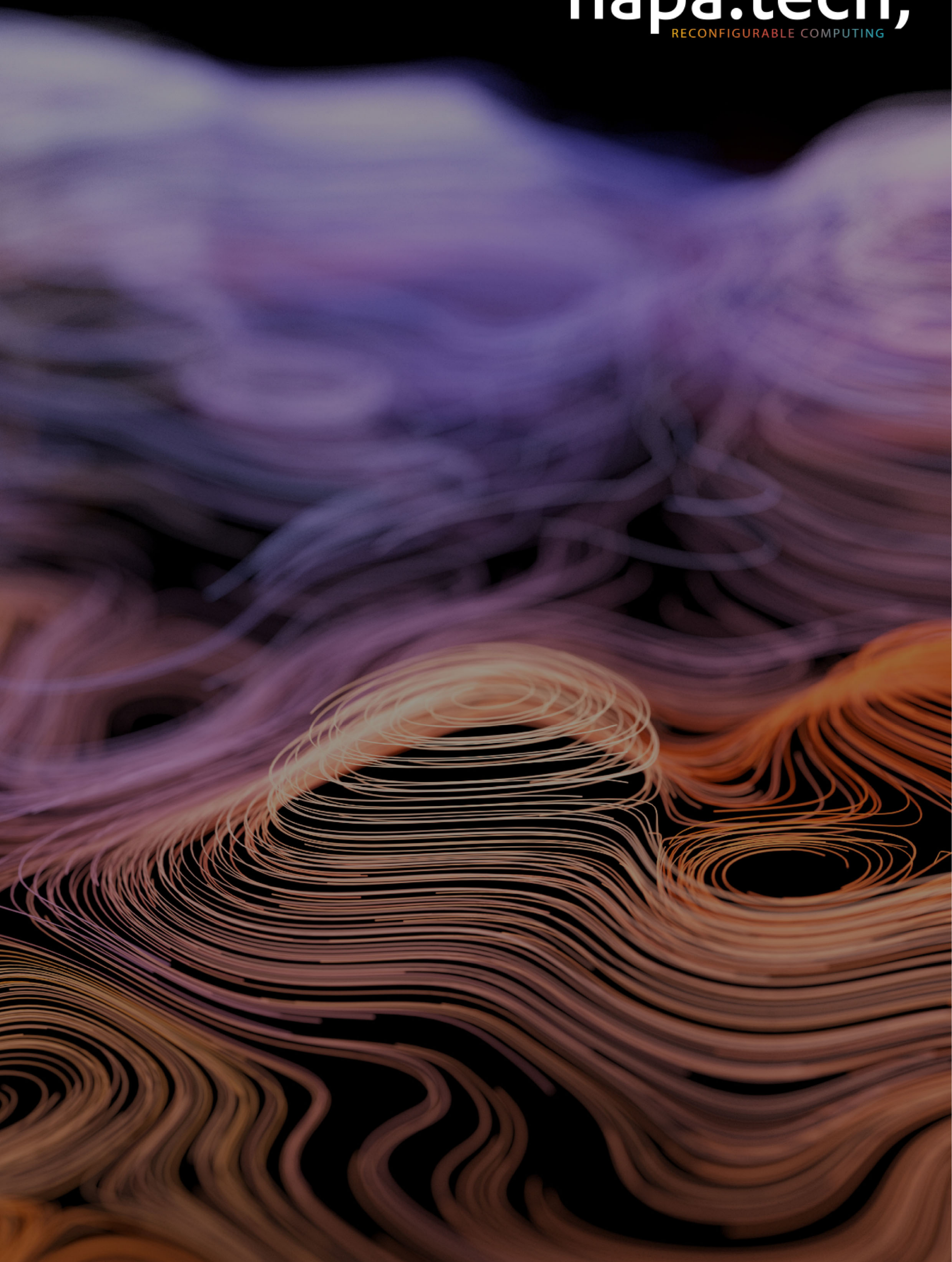

BOARD AND MANAGEMENT PRESENTATION

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 2020, term expires 2021. Holds a bachelor's degree in Business Economics from Aarhus School of Business and a postgraduate diploma from Kolding Business School.
Fulfills the Committee of Corporate Governance definition of independence.
Other directorships: Chairman of the Board for Cobuilder AS
Special competencies: Lars Boilesen has extensive experience in the international software and technology industry. He currently serves as Chief Executive Officer for the Norwegian-listed software company Opera Software ASA (Opera), where he has overseen the sale of the company's browser, privacy and performance apps to a Chinese consortium. He has also been involved in a number of acquisitions, including that of AdColony in 2014. Prior to becoming the CEO of Opera in 2010, Boilesen served as the company's Executive Vice President of Sales & Distribution from 2000 to 2005 and was on the Board of Directors from 2007 to 2009. Boilesen spent several years at Tandberg as head of the Northern Europe and Asian-Pacific markets and as Vice President of Worldwide Sales and Sales Director. He also served as CEO for the Nordic and Baltic Region at Alcatel-Lucent and as Marketing Manager for Eastern Europe in LEGO Group.

Christian Jebsen, Board member. Born in 1967. Member of the Board since 2019, re-elected in 2020, term expires 2021.
Holds a B.S. degree in economics and B.A. from Copenhagen Business School
Does not fulfill the Committee of Corporate Governance definition of independence as he represents the largest shareholder controlling 27.2% of the shares in Napatech A/S.
Other directorships: Board member of Kitron ASA. Jebsen has also multiple board positions in portfolio companies of Verdane Capital
Special competencies: Christian Jebsen is a partner at Verdane Capital. Prior to Verdane, Jebsen has had a number of executive management positions in listed and unlisted companies including CEO of Kebony AS, CEO of Vmetro ASA, CFO/COO of Opera Software ASA, and CEO of Stavdal ASA. Jebsen's professional background also includes seven years of investment banking experience with Nomura International in London and Enskilda Securities (SEB) in Stockholm and Oslo.

Howard Bubb, Board member. Born in 1954. Member of the Board since 2016, re-elected in 2020, term expires 2021.
Holds a Bachelor of Science degree, from California Institute of Technology
Fulfills the Committee of Corporate Governance definition of independency
Other directorships: No other directorships or executive functions
Special competencies: Howard Bubb has served as a public company CEO, board member, Fortune 50 executive, venture-backed entrepreneur, professional mentor, and management consultant. Bubb has been consulting since 2009 working with corporate leaders to accelerate new strategies for growth and transformation while developing leadership. A strong leader of people, he blends strategy and execution skills with a keen ability to engage talent.

Henry Wasik, Board member. Born in 1955. Member of the Board since 2017, re-elected in 2020, term expires 2021.
Holds a Bachelor of Science degree in Electrical and Electronic Engineering from the University of Bridgeport, and an MBA from the Georgia Institute of Technology
Fulfills the Committee of Corporate Governance definition of independence.
Other directorships: No other directorships or executive functions
Special competencies: Henry Wasik brings a significant depth of experience and insight to high technology businesses with a distinguished thirty-year pedigree at the highest levels of the global technology sector. His experience ranges from early-stage startups to running multi-billion dollar global businesses. His industry background spans multiple markets including semiconductors (Mostek), Enterprise PBXs (Intecom), large-scale global carrier network systems (Alcatel/DSC), web-scale data centers (Force10 Networks), and technologically cutting-edge cloud services and software (Joyent).

EXECUTIVE MANAGEMENT BOARD

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

SHARES AND WARRANTS

	Number of shares 31 December 2019	Change in fiscal year, shares	Number of shares 31 December 2020	Total number of warrants 1 January 2020	Number of warrants exercised in 2020	Number of warrants granted in 2020	Total number of warrants 31 December 2020
Board of Directors							
Lars Boilesen	320,000	-	320,000	-	-	-	-
Howard Bubb	70,000	-	70,000	-	-	-	-
Henry Wasik	200,000	-	200,000	-	-	-	-
Christian Jebsen	-	-	-	-	-	-	-
Executive Board							
Ray Smets	380,000	-	380,000	1,467,244	-	500,000	1,967,244
Heine Thorsgaard	-	-	-	155,000	-	100,000	255,000

GROUP KEY FIGURES AND RATIOS

KEY FIGURES (DKK '000)	**2020**	**2019**	**2018**	**2017**	**2016**
Revenue	194,233	170,607	106,153	206,046	234,737
Gross profit	138,968	127,186	49,093	139,435	163,608
EBITDA	35,361	15,273	(74,972)	13,885	43,459
EBIT	10,085	(10,082)	(182,530)	(23,870)	6,001
Net finance income / (expense)	(5,004)	(4,170)	(9,576)	(5,956)	(60)
Profit / (loss) before tax	5,081	(14,252)	(192,106)	(29,826)	5,941
Profit / (loss) for the year	9,595	(13,601)	(179,298)	(24,431)	3,723
Investments in intangible assets	15,041	15,152	35,411	48,402	45,792
Investments in tangible assets	1,204	510	461	4,864	3,178
Net working capital	3,419	17,427	28,241	51,486	55,075
Total assets	152,855	162,690	127,133	266,176	261,399
Equity	89,768	78,452	34,719	183,167	204,409
Net cash flows from operating activities	48,027	26,448	(47,899)	15,081	15,040
Free cash flow	34,004	12,591	(81,542)	(38,214)	(34,018)
Cash at the end of year	62,698	64,306	17,159	39,967	46,951
Average number of employees	78	81	107	114	107
FINANCIAL REPORTING RATIOS (%)					
Gross profit margin	71.55%	74.55%	46.25%	67.67%	69.70%
EBITDA margin	18.21%	8.95%	-70.63%	6.74%	18.51%
Current ratio	201.26%	162.85%	100.29%	181.82%	339.01%
Return on equity	11.41%	-24.04%	-164.58%	-12.61%	1.85%
SHARE RELATED RATIOS (DKK)					
Basic EPS *	0.12	(0.20)	(6.55)	(1.03)	0.16
Diluted EPS *	0.11	(0.19)	(6.54)	(1.00)	0.15
Operating cash flow per share *	0.56	0.38	(1.75)	0.62	0.62
Free cash flow per share *	0.40	0.18	(2.98)	(1.57)	(1.41)

* Following the decision made at the Annual General Meeting held on 20 April 2016, Napatech conducted a split of shares in the ratio of 1:4. The nominal value of each share has been reduced from DKK 1.00 to DKK 0.25, whereby each shareholder holding one share with the nominal value of DKK 1.00 received four new shares with the nominal value of DKK 0.25. This principle has been applied to comparative figures to enable comparison and consistency of share-related ratios with previous periods.

Comparatives for 2016 - 2017 are not restated following the implementation of IFRS 9 and 15 and comparatives for 2016 - 2018 are not restated following the implementation of IFRS 16.

KEY FIGURE AND RATIO EXPLANATIONS AND DEFINITIONS

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

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

Net working capital represents the value of inventories, trade receivables 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 2020

2020 was yet another year of significant revenue growth, improved earnings and growing positive free cash flow.

SUMMARY

After a positive turnaround year in 2019, 2020 was the year for Napatech to reach higher while strengthening our business model and preparing for accelerated future growth.

During 2020 we managed to grow revenue significantly while keeping product margins high and improving our internal cost structure. At the same time, we continued to focus our research and development activities on building products for future growth. The revenue growth and operating improvements resulted for the second year in a row in a significant improvement to the operating result and free cash flow in 2020.

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

THE MARKET

The market opportunity for Napatech is providing programmable, high-performance network interface cards that allow IT organizations to reap the benefits of reconfigurable computing that large cloud service providers today enjoy, without the need of being 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 in 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 vendor of FPGA-based network interface cards since 2003. The company is headquartered in Copenhagen, Denmark, and has an office in the United States.

GROUP ENTITIES

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

FINANCIAL DEVELOPMENT (2019 FIGURES IN BRACKETS)

In 2020 Napatech generated total revenue of DKK 194.2 million (DKK 170.6 million) representing revenue growth of 14%. The growth is related to increased sales both in North American and in the Rest of the World. Revenue in North American grew 15% in 2020 compared to 2019 and 11% in the Rest of the World.

The gross margin in 2020 was 71.5% compared to 74.5% in 2019. The change in gross margin of -3%-points is related to a change in product mix.

Operating expenses before staff costs transferred to capitalized development costs in 2020 amounted to DKK 117.1 million, compared to DKK 125.8 million in 2019. The change from 2019 is due to a small decline in the average number of employees, and savings on other external costs.

Staff costs transferred to development costs in 2020 amounted to DKK 13.5 million compared to DKK 13.9 million in 2019.

EBITDA in 2020 was positive DKK 35.4 million compared to positive DKK 15.3 million in 2019. Depreciation, amortization, and impairment in 2020 were DKK 25.3 million compared to DKK 25.4 million in 2019.

The result for the year was positive DKK 9.6 million (negative DKK 13.6 million).

Napatech had total assets of DKK 152.9 million on December 31, 2020, compared with DKK 162.7 million on December 31, 2019. The decline of DKK 9.8 million is primarily related to a decline in non-current assets of DKK 4.1 million, largely related to development projects, and a decline in current assets of DKK 5.7 million, primarily related to trade receivables.

Napatech's total liabilities were DKK 63.1 million on December 31, 2020, compared with DKK 84.2 million on December 31, 2019. The decrease in total liabilities is primarily driven by a decrease in interest-bearing loans and borrowings.

The group's equity at the end of the year was DKK 89.8 million (DKK 78.5 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 15.0 million was capitalized in 2020 (DKK 15.2 million).

The group had a negative net change in cash of DKK 0.3 million (positive DKK 47.1 million). The net change in cash was affected by a positive free cash flow of DKK 34.0 million, and negative net cash flows from financing activities of DKK 34.3 million of which the net impact from proceeds and repayment of borrowing was negative DKK 30.1 million.

Napatech issued its original guidance for 2020 on February 27, 2020, and its latest updated outlook on August 13, 2020:

Guidance in DKK million	Original	Latest	Actuals
Revenue	185-205	185-205	194.2
Gross margin	68-72%	70-72%	71.5%
Staff costs & Other external costs	125-135	120-125	117.1
Transferred to capitalized development costs	15-20	13-18	13.5
Depreciation and amortization	20-25	20-25	25.3

Compared to the issued guidance reported revenue is in the middle of the guided range, and gross margin is in the upper end of the guided range. Staff costs and other external costs ended in 2020 DKK 7.9 million below the original guidance and DKK 2.9 million below the updated guidance for the year due to the successful implementation of saving initiatives. Depreciation and amortization ended in 2020 DKK 0.3 million above the guided range.

FINANCIAL DEVELOPMENT IN THE PARENT COMPANY

Net revenues for the parent company in 2020 came in at DKK 157.3 million (DKK 131.1 million) representing an increase of 20%. The EBITDA in the parent company for 2020 was positive DKK 34.8 million (positive DKK 12.1 million), and the result before tax was positive DKK 4.2 million (negative DKK 14.0 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 2020 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 2020, we continued the journey of disaggregating our products and increasing our focus on becoming more software-centric, making our offerings more widely deployable by a broader set of customers in more networks.

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

DIVIDEND

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

CORPORATE GOVERNANCE

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

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

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

Napatech A/S is subject to Danish law but is listed on Nasdaq Oslo. Napatech follows the Danish recommendations for good Corporate Governance. The Company follows the majority of the Danish recommendations for good Corporate Governance except for a few areas where Napatech has chosen a different approach compared to the recommendations. The statutory report on Corporate Governance is available at www.napatech.com/corporate-governance/report2020.

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 four members of the Board of Directors. Howard Bubb is the Chairman of the Remuneration Committee and Lars Boilesen, Henry Wasik and Christian Jebsen are members.

The Remuneration Committee handles the company's remuneration policy and program and presents recommendations to the Board of Directors for decision according to its meeting protocols and underlying material prepared. The committee annually evaluates the CEO's remuneration and presents recommendations to the Board of Directors for a decision. When the company's remuneration policy proposes a change, it is subject to approval in the annual general meeting. The committee has prepared a separate Remuneration Report to be presented at the annual general meeting. The remuneration report provides an overview of the total remuneration received by each member of the board of directors and the executive management board of Napatech. The report is available on www.napatech.com/remuneration/report2020.

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

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

The Board of Directors held 15 board meetings in 2020, out of which 4 were for the approval of the quarterly reporting and presentations.

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

RISKS

The group is, due to its normal course of business, exposed to many risk factors. The group operates in a technology market that could change the need for the solutions that Napatech provides. The customers are mainly large tier-one customers, with normal credit terms. The group is not significantly exposed to credit risks, but as some customers are large, the outstanding amounts can potentially be substantial.

The group is exposed to operational risks due to the dependence on suppliers to deliver both components and the finished products necessary to recognize revenue. The group's growth partly depends on the delivery and adoption of new products and functionalities by the market.

As the group has all revenue in USD, as well as some assets in USD, there is a risk that fluctuations in the USD exchange rate will affect our financial performance.

RISK MANAGEMENT AND INTERNAL CONTROL

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

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

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

We are committed to conducting business operations in an environmentally responsible and ethical manner and have established a Conflict Mineral policy with the objective of only use tin, tantalum, tungsten, and gold (3TG) as well as cobalt that originate from conflict-free sources. All components are screened towards the Responsible Minerals Initiative (RMI) smelter database, the actual screening is outsourced to GreenSoft Technology. Since 2017, our 1-gigabit and 10-gigabit products have been 100% conflict-free. And since 2018 this also applies to our products for 40G and 100G making all our products 100% conflict-free. We are proud to have maintained this position throughout 2020. 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 77 full-time employees, as of 31 December 2020, include 9 women, 9 in 2019. The group primarily employs engineers, and as women are underrepresented among engineers, it is considered a natural consequence that women are underrepresented in Napatech. As of 31 December 2020 there was 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.

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

The group has a diversification strategy and has, in the Danish headquarters, employed 11 different nationalities. Salaries, positions, and duties are determined based on qualifications and experience.

OUR ENVIRONMENT

The group’s main impact on the environment is through the consumption of electricity and the usage of the group’s petrol-driven cars. Almost all emissions are Scope 2 emissions, except for the emissions from the company fleet. The only greenhouse gas 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 to reduce the environmental impact.

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 2020 is available on www.napatech.com/csr/report2020.

LEGAL MATTERS

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

EVENTS AFTER YEAR-END

Since February 2020, 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 on 31 December 2020 is not significantly impacted by the development of the virus – reference is made to note 30 for more detailed information.

No other material events have occurred after December 31, 2020, that have consequences for the Annual Report for 2020.

OUTLOOK

2021 guidance for the company is the following:

Target in DKK million	Guidance
Revenue	210-230
Gross margin	70-72%
Staff costs & Other external costs	125-135
Transferred to capitalized development costs	20-25
Depreciation and amortization	20-25

With performance in the middle of the guided ranges, EBIT would be DKK 26.2 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.

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 10,300 treasury shares at year-end. The company had 1,673 shareholders and 54% of the shares were registered outside Norway. Total outstanding warrants at the end of the year were 4,389,144 warrants with an average exercise price of DKK 3.84. Napatech has one class of shares and no restriction on the trading of the Company's shares.

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

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

During 2020 several releases have been announced on the Oslo Stock market under the ticker: NAPA. For a complete overview, please see www.newsweb.no

The Company's financial calendar for the remainder of 2021 is:

Date	Activity
April 16	Annual General Meeting
April 28	Q1 2021 Interim Management Statement
August 18	Half-yearly Report
November 3	Q3 2021 Interim Management Statement

NAPATECH HAD BY 1ST MARCH 2021 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	10,245,587	12.33%	NO
LUDVIG LORENTZEN AS	6,000,000	7.22%	NO
SKANDINAVISKA ENSKILDA BANKEN	3,547,198	4.27%	SE
BROWNSKE BEVEGELSER	2,500,000	3.01%	NO
SKANDINAVISKA ENSKILDA BANKEN	2,162,268	2.60%	DK
MP PENSJON PK	2,155,585	2.59%	NO
NORDNET BANK	1,704,610	2.05%	SE
PRIVATE INVESTOR	1,558,196	1.88%	NO
DANSKE BANK A/S	1,498,979	1.80%	DK
THE BANK OF NEW YORK MELLON	1,459,728	1.76%	BE
EXTELLUS AS	1,376,157	1.66%	NO
SKANDINAVISKA ENSKILDA BANKEN	1,290,025	1.55%	LUX
NORDEA BANK ABP	1,256,412	1.51%	DK
VERDIPAPIRFONDET STOREBRAND VEKST	1,052,772	1.27%	NO
MARSTAL AS	1,001,314	1.21%	NO
PRIVATE INVESTOR	903,670	1.09%	NO
INRO HOLDING AS	881,298	1.06%	NO
HSBC TRINKAUS & BURKHARDT AG	857,000	1.03%	GER
BNP PARIBAS SECURITIES SERVICES	773,823	0.93%	IT
Total number owned by top 20	64,838,240	78.04%	
Total 1598 other shareholders	18,229,980	21.96%	
Total Number of shares	83,068,220	100%	

NAPATECH SHARE PRICE DEVELOPMENT 2020 (in NOK)

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

Note	In DKK'000	2020	2019
4	Revenue	194,233	170,607
4	Cost of goods sold	(55,265)	(43,421)
	Gross profit	**138,968**	**127,186**
5	Other operating income	5	19
6, 7, 8	Staff costs	(96,208)	(98,991)
7	Transferred to capitalized development costs	13,479	13,856
7, 9	Other external costs	(20,883)	(26,797)
	Operating profit before depreciation, amortisation and impairment (EBITDA)	**35,361**	**15,273**
10	Depreciation, amortisation and impairment	(25,276)	(25,355)
	Operating result (EBIT)	**10,085**	**(10,082)**
11	Finance income	1,835	443
12	Finance costs	(6,839)	(4,613)
	Result before tax	**5,081**	**(14,252)**
13	Income tax	4,514	651
	Result for the year	**9,595**	**(13,601)**
14	**Earnings per share:**		
	Basic, DKK	0.12	(0.20)
	Diluted, DKK	0.11	(0.19)

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

Note	DKK'000	2020	2019
	Result for the year	**9,595**	**(13,601)**
	Other comprehensive income to be reclassified to profit and loss in subsequent periods:		
	Exchange differences on translation of foreign operations	(633)	135
	Net other income / (loss) to be reclassified to profit or loss in subsequent periods	**(633)**	**135**
	Total comprehensive income for the year, net of tax	**8,962**	**(13,466)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2020

ASSETS

Note	In DKK'000	2020	2019
	Development projects, completed	23,328	28,646
	Development projects, in progress	7,760	8,089
	Patents	3,697	4,426
15	**Intangible assets**	**34,785**	**41,161**
16	Plant and equipment	1,228	645
17	Right-of-use assets	9,412	12,415
16	Leasehold improvements	301	549
	Tangible assets	**10,941**	**13,609**
18	Deferred tax asset	4,932	-
24	Leasehold deposits	1,407	1,417
	Other non-current assets	**6,339**	**1,417**
	Non-current assets	**52,065**	**56,187**
19	Inventories	19,074	9,532
20, 24	Trade receivables	15,802	23,523
21	Right-of-return asset	112	31
20, 24	Other receivables	3,057	6,150
22	Income tax receivable	47	2,961
24	Cash and cash equivalents	62,698	64,306
	Current assets	**100,790**	**106,503**
	Total assets	**152,855**	**162,690**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2020

EQUITY AND LIABILITIES

Note	In DKK'000	2020	2019
23	Share capital	20,767	20,767
23	Share premium	290,330	290,329
	Foreign currency translation reserve	(283)	350
23	Other capital reserves	6,744	4,492
	Retained earnings	(227,790)	(237,486)
	Equity	**89,768**	**78,452**
24, 26	Other financial liabilities	6,181	9,016
17, 24, 26	Lease liabilities	6,827	9,821
	Non-current liabilities	**13,008**	**18,837**
24, 26	Interest-bearing loans and borrowings	12,500	32,878
24, 26	Other financial liabilities	-	6,923
17, 26	Lease liabilities	2,953	3,791
24	Trade payables	11,014	2,932
	Other payables	21,667	18,015
25	Provisions	1,529	531
21	Refund liability	416	331
	Current liabilities	**50,079**	**65,401**
	Total liabilities	**63,087**	**84,238**
	Total equity and liabilities	**152,855**	**162,690**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

Note	In DKK'000	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Retained earnings	Total equity
	At 1 January 2019	**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**
	Result for the year	-	-	-	-	9,595	9,595
	Exchange differences on translation of foreign operations	-	-	(633)	-	-	(633)
	Total comprehensive income	**-**	**-**	**(633)**	**-**	**9,595**	**8,962**
	Reversal, exercised and lapsed share options	-	1	-	(102)	101	-
8	Share-based payments	-	-	-	2,354	-	2,354
	Total transactions with shareholders	**-**	**1**	**-**	**2,252**	**101**	**2,354**
	At 31 December 2020	**20,767**	**290,330**	**(283)**	**6,744**	**(227,790)**	**89,768**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

Note	In DKK'000	2020	2019
	Operating activities		
	Result before tax	5,081	(14,252)
	Adjustments to reconcile profit before tax to net cash flows:		
	Finance income	(1,835)	(443)
	Finance costs	6,839	4,613
	Depreciation, amortisation and impairment	25,276	25,355
	Gain/loss on the sale of non-current assets	(5)	(19)
	Share-based payment expense	2,354	1,636
	Working capital adjustments:		
	Change in inventories	(9,542)	7,439
	Change in trade and other receivables and right-of-return asset	4,142	5,834
	Change in trade and other payables, provisions and refund liability	12,252	(6,209)
	Interest received	1,213	157
	Interest paid, net	(626)	(854)
	Income tax received, net	2,493	3,191
	Net cash flows from operating activities	**47,642**	**26,448**
	Investing activities		
	Proceeds from sale of tangible assets	3	24
	Purchase of tangible assets	(1,204)	(510)
	Proceeds from sale of intangible assets	1,268	1,732
	Investments in intangible assets	(15,041)	(15,152)
	Investments in leasehold deposits	951	49
	Net cash from investing activities	**(14,023)**	**(13,857)**
	Free cash flow	**33,619**	**12,591**
	Financing activities		
	Capital increase	-	58,863
	Transaction costs on capital increase	-	(3,300)
	Repayment of financial lease liabilities	(4,150)	(5,815)
	Proceeds from borrowings	4,155	5,690
	Repayment of borrowings	(33,685)	(20,924)
	Net cash flows from financing activities	**(33,680)**	**34,514**
	Net change in cash and cash equivalents	**(61)**	**47,105**
	Net foreign exchange difference	(1,547)	42
	Cash and cash equivalents at 1 January	64,306	17,159
	Cash and cash equivalents at 31 December	**62,698**	**64,306**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

nada:tech:

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 25 March 2021.

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).

New and amended standards and interpretations that have become operative

In its Annual Report for 2020, the Company 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 2020.

The following standards, amendments to existing standards and interpretations have been implemented in the Company's Annual Report for 2020:

- Amendments to References to the Conceptual Framwork in IFRS
- Amendments to IFRS 3 Definition of a Business
- Amendments to IAS 1 and IAS 8 Defintion of Material
- Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform
- Amendments to IFRS 16 Covid-19 Related Rent Concessions

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

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.

On initial recognition, transactions denominated in foreign currencies are translated into the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are 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 from 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.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Translation of group entities
On recognition in the consolidated financial statements of foreign entities with a functional currency different from the parent company's presentation currency (DKK), the income statement and the statement of cash flows are translated at the exchange rates at the transaction date, while the statement of financial position items is translated at the exchange rates at the reporting date. Any foreign exchange differences arising from the translation are 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 do not include installation services or significant customization etc., and each sales transaction only relates to a single performance obligation. The Revenue from contracts with customers is 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 a right-of-return asset is recognized for the products expected to be returned, as right-of-return asset and refund liability, 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 from the distribution of goods sold during the year and cost of sales including the cost for sales campaigns, advertising, exhibitions, etc. Other external costs also include administrative costs including office-related expenses. In addition, write-downs on trade receivables are included.

Staff costs
Staff costs include salaries for all employees as well as share-based payment expenses.

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.

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 subject to interpretation and establishes provisions where appropriate.

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Costs relating to equity-settled share-based payments are recognized in the income statement under staff costs 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;
- The ability to measure the costs reliably.

Subsequent to the 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.

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.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

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.

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.

The Group has chosen not to recognize payments related to service components as part of the lease obligation and further not to include leases with a maturity of fewer than 12 months or with a low value.

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.

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.

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.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Right-of-return asset

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

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 are contributed to the company upon formation or a capital increase. The share premium is part of the distributable reserves.

Share-based payment reserve

The value of share options granted is 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.

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.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Cash flows from operating activities are presented using the indirect method and are stated as the profit or loss for the year before tax, adjusted for non-cash operating items, changes in working capital, paid and/or received interests, and paid and/or received income taxes.

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

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

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

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

NOTE 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

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

Accounting estimates and uncertainty of estimates

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

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

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

Recovery of deferred tax assets

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

At 31 December 2020, Napatech estimated that tax losses with a tax value of DKK 4,906 thousand could be realized in the foreseeable future. When assessing future profits historical profits has been taken into account.

Development projects

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

Development projects in progress are annually tested for impairment. Completed development projects are reviewed for impairment indicators. If there is evidence of impairment, an impairment test is carried out for the project concerned. The impairment test is prepared on the basis of factors such as the future use of the project, the present value of expected future income, interest, and risk. The carrying amount of completed development projects is DKK 23,328 thousand on 31 December 2020 (31 December 2019: DKK 28,646 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:

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 2020 and 2019, respectively:

Year ended 31 December 2020:

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

Year ended 31 December 2019:

DKK'000	AMERICAS	ROW	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**

Non-current assets DKK 52,065 thousand (2019: DKK 56,187 thousand) can be related with DKK 51,877 thousand (2019: DKK 55,833 thousand) to the ROW segment and DKK 188 thousand (2019: DKK 354 thousand) to the AMERICAS segment.

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

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

Adjustments and eliminations

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

Transactions with major customers

Revenue from the first significant customer amounted to DKK 50,480 thousand (2019: DKK 50,732 thousand) corresponding to 26% (2019: 30%) of the Group revenue. Revenue from this customer is arising from the sales in the AMERICAS segment. Revenue from the second significant customer amounted to DKK 15,240 thousand (2019: DKK 7,870 thousand) corresponding to 8% (2019: 5%) of the Group revenue. Revenue from this customer is arising from the sales in the ROW segment. Revenue from the third significant customer amounted to DKK 13,073 thousand (2019: DKK 26,124 thousand) corresponding to 7% (2019: 15%) of the Group revenue. Revenue from this customer also arises from sales in the AMERICAS segment.

NOTE 5 OTHER OPERATING INCOME

Other operating income comprises the sale of scrap and gain on the sale of tangible and intangible assets. Other operating income amounted to DKK 5 thousand (2019: DKK 19 thousand).

NOTE 6 STAFF COSTS

Employee benefits expense is reported as follows:

DKK'000	2020	2019
Wages and salaries	86,490	89,926
Defined contribution schemes	3,933	3,923
Share-based payment expense (Note 8)	2,354	1,635
Social security costs	3,431	3,507
Total employee benefits expense	**96,208**	**98,991**
Average number of employees	**78**	**81**

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

Enployee benefits expense is reported as follows:	2020		2019	
	Management	Board of Directors	Management	Board of Directors
Short-term staff benefits	14,931	706	15,551	977
Defined contribution schemes	723	-	750	-
Share-based payment expense	1,600	-	929	-
Total compensation of key management personnel	**17,254**	**706**	**17,230**	**977**

Of the total compensation to the Management, the Executive Management Board received DKK 8.1 million (2019: DKK 7.6 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 47,543 thousand (2019: DKK 39,899 thousand). All research and development costs are incurred by the parent company. The total amount of research and development costs recognized in the balance sheet are DKK 31,088 thousand (2019: DKK 36,735 thousand).

NOTE 8 SHARE-BASED PAYMENTS

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

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

The management treats the change of terms as modifications to the existing share-based payment arrangements. Accordingly, the fair value determined at the original grant date has been charged to the income statement over the original vesting period. In addition, an expense is 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.

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

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 on 22 February 2016). The share options' lifetime is 5 years. The first 2 years from the date of issue is a lock-up period during which the share options may not be exercised. The exercise of these share options may take place in the 3rd, 4th, and 5th year and they vest with 1/3 in each of these 3 years.

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

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

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

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

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

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

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

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

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

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.

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

The general terms for all issues based on the 2019 share options program are summarized as follows:
Earliest exercise date 1 year from the grant date
Latest exercise date 8 years from the grant date

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

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

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

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

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

The general terms for all issues based on the 2020 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

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

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

	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**

In 2020, 500 options were exercised and 31,600 lapsed (2019: nil exercised and 482,468 lapsed). The following shows the exercise price of the outstanding share options and warrants:

Number of share options at 31 December	2020	2019
Exercise price DKK 8.00	306,000	315,100
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 3.88	693,100	693,600
Exercise price DKK 2.45	55,000	55,000
Exercise price DKK 3.88	133,756	133,756
Exercise price DKK 1.46	133,488	133,488
Exercise price DKK 1.16	1,708,800	1,721,300
Exercise price DKK 3.32	20,000	-
Exercise price DKK 2.89	985,000	-
Exercise price DKK 8.62	5,000	-
Total number of outstanding share options	**4,384,144**	**3,396,244**

The weighted average of the remaining contractual period of the outstanding share options from the 2014 share options program on 31 December 2020 is expired (at 31 December 2019: expired). The weighted average of the remaining contractual period of the outstanding share options from the 2016 share options program at 31 December 2020 is 1 year and 3 months (at 31 December 2019: 2 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 2020 is 5 years and 9 months (at 31 December 2019: 6 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 2020 is 5 years and 9 months (at 31 December 2019: 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 2020 is 6 years and 6 months (at 31 December 2019: 7 years and 6 months). The weighted average of the remaining contractual period of the outstanding share options from the 2020 share options program on 31 December 2020 is 7 years and 5 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, 2019, and 2020 was estimated on the date of grant using the following assumptions:

	December 2013	May 2014	February 2016	August 2016	May 2017
Volatility	47.92%	43.53% - 44.94%	49.00%	49.00%	50.50%
Risk-free interest rate	1.65%	1.70% - 2.00%	0.50% - 0.60%	0.53% - 0.64%	0.80% - 1.10%
Exercise price (DKK)	8.00	10.75	12.53	18.04	19.41
Exercise period (years)	2.27	3.00 - 5.00	3.00 - 5.00	3.00 - 5.00	3.00 - 5.00
Number of options	520,700	404,000	92,000	145,000	150,000
Grant date fair value for each option (DKK)	20.10	4.00	4.84	6.66	3.88

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

	February 2020	May 2020	December 2020
Volatility	79.86%	81.73%	81.38%
Risk-free interest rate	1.35%	0.61%	0.95%
Exercise price (DKK)	3.32	2.89	8.62
Exercise period (years)	2.00 - 8.00	2.00 - 8.00	2.00 - 8.00
Number of options	20,000	995,000	5,000
Grant date fair value for each option (DKK)	2.69	2.16	6.55

The volatility is calculated based on a peer group of 5 similar companies listed on the Nasdaq Stock Exchange in the USA. The fair value of the share options is determined using the Black-Scholes option-pricing model. For 2020, the Group has recognized a share-based payment expense of DKK 2,354 thousand in the income statement (2019: DKK 1,636 thousand). DKK 1,600 thousand was recognized in relation to Executive Management (2019: DKK 929 thousand) and DKK 754 thousand in relation to others (2019: DKK 707).

NOTE 9 AUDITORS' FEE

DKK'000	2020	2019
Ernst & Young:		
Statutory audit fee	420	672
Assurance engagements	38	54
Tax advisory fee	-	66
Fees for other services	19	70
Total auditors' fees	**477**	**862**

Fee in relation to non-audit services from EY Godkendt Revisionspartnerselskab, DKK 57 thousand consists of general accounting.

NOTE 10 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

DKK'000	2020	2019
Depreciation, amortisation and impairment are reported as follows:		
Depreciation of plant and equipment	620	1,594
Depreciation of leasehold improvements	248	260
Depreciation of right-of-use assets	2,991	6,571
Total depreciation of tangible assets	**3,859**	**8,425**
Amortisation of patents	685	691
Impairment of patents	155	48
Amortisation of completed development projects	19,087	16,191
Impairment of completed development projects	1,490	-
Total amortisation and impairment of intangible assets	**21,417**	**16,930**
Total depreciation, amortisation and impairment	**25,276**	**25,355**

NOTE 11 FINANCE INCOME

DKK'000	2020	2019
Interest receivable from banks	119	157
Foreign exchange gains	-	286
Other finance income	1,716	-
Total finance income	**1,835**	**443**
Finance income at amortized costs	**1,084**	**157**

NOTE 12 FINANCE COSTS

DKK'000	2020	2019
Interest payable to banks	376	742
Foreign exchange losses	5,544	-
Interest payable under leases	355	473
Other finance costs	564	3,398
Total finance costs	**6,839**	**4,613**
Finance costs at amortized costs	**731**	**1,215**

NOTE 13 INCOME TAX

DKK'000	2020	2019
Current tax recognised in the consolidated income statement:		
Current income tax	514	967
Current income tax carry back refund	(47)	(2,960)
Change in deferred tax	(4,932)	-
Adjustment prior years taxes	(49)	1,342
Total income tax	**(4,514)**	**(651)**

A reconciliation between tax expense and profit before tax multiplied by the applicable income tax rate for the Group for 2020 and 2019 is as follows:

DKK'000	2020	2019
Profit before tax	5,081	(14,252)
At the applicable Danish income tax rate for the Group, 22.0% (2019: 22.0%)	1,118	(3,135)
Tax effect of:		
Tax-deductable expenses	(1,756)	(49)
Non-deductible expenses	170	25
Accounting estimate for not recognised deferred tax assets	(4,311)	1,117
Adjustment prior year taxes	(49)	1,342
Other	314	49
At the effective income tax rate of -89% (2019: 5%)	**(4,514)**	**(651)**

NOTE 14 EARNINGS PER SHARE

DKK'000	2020	2019
Net profit attributable to equity holders of the parent company for basic earnings and the effect of dilution	9,595	(13,601)

	2020	2019
	Thousands	*Thousands*
Weighted average number of shares for basic earnings per share	83,068	69,161
Effect of dilution:		
Share options	2,363	826
Weighted average number of shares adjusted for the effect of dilution	**85,431**	**69,987**

NOTE 15 INTANGIBLE ASSETS

DKK'000	Development projects, completed 2020	Development projects, completed 2019	Development projects, in progress 2020	Development projects, in progress 2019	Patents 2020	Patents 2019	Other intangible assets 2020	Other intangible assets 2019	Total 2020	Total 2019
Cost at 1 January	240,938	225,874	33,307	33,412	10,315	10,122	2,139	2,139	286,699	271,547
Additions in the year	-	-	14,930	14,959	111	193	-	-	15,041	15,152
Transfers in the year	15,259	15,064	(15,259)	(15,064)	-	-	-	-	-	-
Cost at 31 December	**256,197**	**240,938**	**32,978**	**33,307**	**10,426**	**10,315**	**2,139**	**2,139**	**301,740**	**286,699**
Accumulated impairment and amortisation at 1 January	212,292	196,101	25,218	25,218	5,889	5,150	2,139	2,139	245,538	228,608
Amortisation for the year	19,087	16,191	-	-	685	691	-	-	19,772	16,882
Impairment for the year	1,490	-	-	-	155	48	-	-	1,645	48
Accumulated amortisation and impairment at 31 December	**232,869**	**212,292**	**25,218**	**25,218**	**6,729**	**5,889**	**2,139**	**2,139**	**266,955**	**245,538**
Carrying amount at 31 December	**23,328**	**28,646**	**7,760**	**8,089**	**3,697**	**4,426**	**-**	**-**	**34,785**	**41,161**

Within the completed development projects there are two material development projects with a carrying amount of DKK 4,055 thousand and DKK 3,225 thousand on 31 December 2020 respectively (31 December 2019: DKK nil and DKK 5,068 thousand respectively). The first project aimed to introduce stateful flow management for up to 100G total traffic load for packet capture and the second aimed to develop software with flow matching capability for inline applications. The remaining amortization periods of these two projects are 2 years and 5 months and 1 year and 9 months respectively.

Within the in-progress development projects, there is one material development project with a carrying amount of DKK 2,538 thousand. The aim of the project is to implement capture software for the new NT100A01 4xSFP28 SmartNIC and provide an attractive 4x1/10/25G solution.

The Group recognized DKK 1,645 thousand as an impairment in 2020 (2019: DKK 48 thousand) in respect of the Group's development projects and patents as sales related to this specific project hadn't materialized as anticipated. At year-end 2020 the Group performed its annual impairment test, based on the value in use, for both Completed and In Progress Development Projects. The Group considers the relationship between its market capitalization and its accounting value, among other factors, when reviewing for indicators of impairment.

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

- The recoverable amount has been determined based on a value in use calculation using cash flow projections from financial budgets for 2021, and cash flow projections for a three-year period. The three-year cash flow projections are based on management a five-year strategic plan and investment budget, which are approved by the board of directors. Due to uncertainty on projections the impairment test is therefore based on a finite life span of 3 years, and does not include any terminal period beyond year 3.
- Discount rates representing the current market assessment of the risks specific to the development project was applied to cash flow projections, but due to the fact that the impairment test is based on a finite life span of 3 years and without any terminal period, the applied discount rate did only have a marginal impact on the impairment test.

NOTE 16 TANGIBLE ASSETS

	Plant and equipment		Leasehold improvements		Total	
DKK'000	2020	2019	2020	2019	2020	2019
Cost at 1 January	33,234	33,055	5,238	5,097	38,472	38,152
Additions	1,204	306	-	204	1,204	510
Disposals in the period	-	(149)	(13)	(71)	(13)	(220)
Currency adjustment	(84)	22	(27)	8	(111)	30
Cost at 31 December	**34,354**	**33,234**	**5,198**	**5,238**	**39,552**	**38,472**
Accumulated depreciation at 1 January	32,589	31,123	4,689	4,492	37,278	35,615
Depreciation for the year	620	1,594	248	260	868	1,854
Disposals in the period	-	(143)	(13)	(71)	(13)	(214)
Currency adjustment	(83)	15	(27)	8	(110)	23
Accumulated depreciation at 31 December	**33,126**	**32,589**	**4,897**	**4,689**	**38,023**	**37,278**
Carrying amount at 31 December	**1,228**	**645**	**301**	**549**	**1,529**	**1,194**

In 2020, 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 (2019: DKK 0 thousand).

NOTE 17 LEASING

Right-Of-Use Assets

	Properties		Plant and equipment		Total	
DKK'000	2020	2019	2020	2019	2020	2019
Balance at 1 January	11,787	-	628	-	12,415	-
Effect of transition 1 January	-	16,618	-	1,051	-	17,669
Adjusted balance 1 January	11,787	16,618	628	1,051	12,415	17,669
Currency adjustment	(252)	82	-	-	(252)	82
Reassessment of lease liabilities	-	1,232	-	-	-	1,232
Depreciation for the year	(2,621)	(6,148)	(370)	(423)	(2,991)	(6,571)
Currency adjustment	240	3	-	-	240	3
Carrying amount at 31 December	**9,154**	**11,787**	**258**	**628**	**9,412**	**12,415**

Lease Liabilities

DKK'000	2020	2019
Maturity of lease liabilities:		
Falling due within one year	2,953	3,791
Falling due between one and three years	6,827	5,585
Falling due between four and five years	-	4,236
Total lease liabilities	**9,780**	**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.

NOTE 17 LEASING (CONTINUED)

Amounts recognized in the consolidated income statement

DKK'000	2020	2019
Depreciation	2,991	6,571
Finance costs	355	473
Total Right-Of-Use costs recognized in the consolidated income statement	**3,346**	**7,044**

The group does not have any short-term -or low-value leases recognized in the income statement. For 2020, the Group has recognized DKK 4,150 thousand (2019: DKK 5,815 thousand) as minimum payments regarding lease agreements, of which interest costs related to lease liabilities amount to DKK 355 thousand (2019: DKK 473 thousand) and repayments on lease liabilities are DKK 3,795 (2019: DKK 5,342 thousand). The capitalized right-of-use assets do not have any effect on investing activities in the cash flow statement.

NOTE 18 DEFERRED TAX

	Consolidated statement of financial position		Consolidated income statement	
DKK'000	2020	2019	2020	2019
Tax losses carry-forwards	(9,544)	(5,147)	(4,397)	148
Intangible assets	7,075	8,181	(1,106)	(109)
Tangible assets	420	460	(40)	3,106
Lease liabilities	(2,106)	(2,721)	615	(2,721)
Provision for expected credit loss	(7)	(35)	28	62
Other receivables	(706)	(707)	1	(707)
Right-of-return asset and refund liability	(64)	(31)	(33)	221
Deferred tax liability / (asset) and expense / (income)	**(4,932)**	**-**	**(4,932)**	**-**

DKK'000	2020	2019
Reconciliation of deferred tax liability / (asset) is as follows:		
Opening balance at 1 January	-	-
Recognised in consolidated income statement	(4,932)	-
Recognised in consolidated statement of comprehensive income	-	-
Closing balance at 31 December	**(4,932)**	**-**

The Group has tax losses of DKK 159,260 thousand (2019: DKK 159,260 thousand) that are available indefinitely for offsetting against future taxable profit. In 2020 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 30,425 thousand (2019: DKK 29,890 thousand). Deferred tax assets is expected to be utilized in future profits for the coming 3-5 years. See note 3 for description of the assumptions used for recognizing the deferred tax asset.

NOTE 19 INVENTORIES

DKK'000	2020	2019
Consumables and components	3,177	2,154
Finished goods and goods for resale	15,897	7,378
Total inventories	**19,074**	**9,532**
Carrying value of inventories recognised at fair value	**-**	**-**

The cost of goods sold for the year is DKK 55,265 thousand (2019: DKK 43,421 thousand). During 2020 DKK 1.811 thousand (2019: DKK nil) 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 was recognized in the cost of sales.

DKK'000	2020	2019
Inventory writedown at 1 January	15,883	21,323
Inventory writedown for the year	1,811	-
Reversal of inventory wirtedown	(699)	(5,440)
Inventory writedown at 31 December	**16,995**	**15,883**

Reversals of inventory write-down relate to individual sales and are considered as non-recurring sales of goods.

NOTE 20 TRADE AND OTHER RECEIVABLES

DKK'000	2020	2019
Receivables recognised in the consolidated statement of financial position:		
Trade receivables	15,802	23,523
Other receivables	3,057	6,150
Total current receivables	**18,859**	**29,673**

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

DKK'000	2020	2019
At 1 January	706	1,002
Written off in the year	(138)	(150)
Provision in the year	(32)	(146)
At 31 December	**536**	**706**

NOTE 20 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

DKK'000	2020	2019
Not past due	13,932	17,446
Past due for less than 30 days	1,620	5,627
Past due between 30 and 60 days	250	450
Total maximum credit risk	**15,802**	**23,523**

See Note 29 for a description the credit risk.

NOTE 21 RIGHT-OF-RETURN ASSET AND REFUND LIABILITY

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	2020	2019
Right-of-return asset	112	31
Refund liability	416	331

Right-of-return asset 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.

Refund liability represent the obligation to refund some or all of the consideration received (or receivable) from the customer and are 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	2020	2019
At 1 January	2,961	5,487
Income tax carry back refund	47	2,961
Income tax carry back refund received during the year	(2,961)	(5,487)
At 31 December	**47**	**2,961**

NOTE 23 ISSUED CAPITAL AND RESERVES

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

NOTE 23 ISSUED CAPITAL AND RESERVES (CONTINUED)

	2020	2019
Authorised shares	*thousands*	*thousands*
Ordinary shares of DKK 0.25 each at 1 january	83,068	31,923
Increase in ordinary shares DKK 0.25 each	0	51,145
Ordinary shares of DKK 0.25 each at 31 December	**83,068**	**83,068**

Ordinary shares and fully paid	**Thousands**	**DKK'000**
At 1 January 2020	83,068	20,767
Exercise of share options for cash during the year	-	-
Capital increase	-	-
At 31 December 2020	**83,068**	**20,767**

DKK'000	**2020**	**2019**
Share premium		
At 1 January	290,329	247,552
Issue of shares for cash in excess of the cost of ordinary shares during the year	-	46,077
Transaction costs	-	(3,300)
Reversals regarding exercised share options	1	-
At 31 December	**290,330**	**290,329**

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	**2020**	**2019**
At 1 January	4,492	4,971
Share-based payment expense (Note 8)	2,354	1,636
Reversals regarding exercised and lapsed share options	(102)	(2,115)
At 31 December	**6,744**	**4,492**

NOTE 24 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK'000	2020	2019
Financial assets measured at amortised cost:		
Leasehold deposits	1,407	1,417
Trade receivables	15,802	23,523
Other receivables	3,057	6,150
Cash and cash equivalents	62,698	64,306
Total financial assets	**82,964**	**95,396**
Financial liabilities measured at amortised cost:		
Other financial liabilities	6,181	15,939
Interest-bearing loans and borrowings	12,500	32,878
Lease liabilities	9,780	13,612
Trade payables	11,014	2,932
Total financial liabilities	**39,475**	**65,361**

Carrying amounts of financial assets and financial liabilities approximate their fair value. The main part of the financial liabilities are current/short termed. Loans and overdraft facilities are subject to a variable interest rate. External loans are fair valued at the end of the reporting period. Thus, the fair value of the financial assets and liabilities is considered equal to the booked value. There are no forward contracts as of 31 December 2020 and no new forward contracts have been concluded during 2020.

NOTE 25 PROVISIONS

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

DKK'000	2020	2019
At 1 January	531	69
Utilised during the year	(531)	(69)
Additions in the year	1,529	531
At 31 December	**1,529**	**531**

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

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

NOTE 26 LIABILITIES FROM FINANCING ACTIVITIES (CONTINUED)

	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 27 COMMITMENTS AND CONTINGENCIES

Collaterals

The Group has issued a floating charge in the amount of DKK 30 million (2019: DKK 30 million) secured on receivables, inventories, and patents with a carrying amount of DKK 25,701 thousand (2019: DKK 23,462 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 by examining the financial position of the related party.

Controlling influence

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

Entity with significant influence over the Group

Entity with significant influence over the Group includes the venture capital company Verdane Capital VIII. As of 31 December 2020, Verdane Capital VIII owns 27.22% (2019: 27.22%).

Related parties also include the shareholders' portfolio companies as they are subject to the same significant influence as the Group. The Group had no transactions with neither the shareholders nor their portfolio companies in 2019 or 2020.

Transactions with key management personnel

Remunerations, salaries, and share-based payments to the Board of Directors and the Executive Management are reflected in Note 6. In 2019 board members received a combined amount of DKK 205 thousand as part of consultancy contracts. There were no other transactions with the Board of Directors in 2020 and 2019.

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

NOTE 29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

Credit risk

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

Trade receivables

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

In 2020, the Group had 3 customers (2019: 1 customer) that owed the Group more than 10% of all trade receivables. The credit risk associated with these customers has been assessed as low as they historically meet the Group standard payment terms of 30 - 90 days.

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

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

		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**

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

NOTE 29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Other receivables
Other receivables relate to the divestment of Pandion in 2018, and final payments are due in Q4 2021. But at the end of 2019, the credit risk was evaluated as a medium to high risk. This evaluation of the risk led to a write-down of the receivable of DKK 3,211 thousand in 2019. the events of 2020 have not given rise to a change in the evaluation made in 2019.

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 2020 and 2019 is the carrying amounts as illustrated in Note 24.

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

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

31 December 2020 the Group had access to unused credit facilities in the amount of DKK 6,058 thousand (2019: DKK 8 thousand) in a case of a need for cash to finance its activities.

The Group's interest-bearing loans and borrowings are overdraft facilities with fixed repayment terms. The overdraft facilities are renewed on a yearly basis and a accounts receivables financing contract. 31 December 2020 the overdraft facility in Denmark was DKK 12.5 million with a planned reduction to bring the facility down by DKK 2.5 million each quarter in 2021. The facility in Denmark is up for renewal in May 2021. The facility in the US of DKK 6.1 million is up for renewal in April 2021.

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 2020.

The Group's manufacturing policy is order production 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 inflows arising from the financial assets and outflows arising from the financial liabilities recognized in the consolidated statement of financial position are due as follows:

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

NOTE 29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

	2019			
DKK'000	Jan - Mar	Apr - Dec	over 1 year	Total
Leasehold deposits	-	-	1,417	1,417
Trade receivables	23,523	-	-	23,523
Other receivables	2,691	1,916	1,543	6,150
Cash and cash equivalents	64,306	-	-	64,306
Total financial assets	**90,520**	**1,916**	**2,960**	**95,396**

	2019			
DKK'000	Jan - Mar	Apr - Dec	over 1 year	Total
Lease liabilities	932	3,832	8,848	13,612
Interest-bearing loans and borrowings	6,164	5,000	21,714	32,878
Other financial liabilities	-	6,923	9,016	15,939
Trade payables	2,932	-	-	2,932
Total financial liabilities	**10,028**	**15,755**	**39,578**	**65,361**

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 12,500 thousand (2019 DKK 32,878 thousand). This loan yields an interest rate of 4.71%. The Group’s policy is to keep sufficient cash in place to mitigate adverse impacts caused by fluctuation in market interest rates. The interest rates used to determine lease obligations are fixed. The Group’s interest rate risk is immaterial.

Foreign currency risk

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

Sensitivity analysis of presentation currency

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

NOTE 29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	Effect on profit before tax		Effect on equity	
DKK'000	2020	2019	2020	2019
Change in USD by +/- 5%	+/- 2,590	+/- 1,849	+/- 2,020	+/- 1,442
Change in USD by +/- 10%	+/- 5,181	+/- 3,698	+/- 4,041	+/- 2,884

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.

NOTE 30 EVENTS AFTER THE REPORTING PERIOD

Since February 2020, 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 on 31 December 2020. 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 2020 that might affect the consolidated financial statements.

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT

For the year ended 31 December 2020

Note	DKK'000	2020	2019
	Revenue	157,301	131,092
	Cost of goods sold	(55,265)	(43,421)
	Gross profit	**102,036**	**87,671**
2	Other operating income	5	19
3, 6	Staff costs	(62,196)	(66,374)
4	Transferred to capitalized development costs	13,479	13,856
4, 5	Other external costs	(18,505)	(23,114)
	Operating profit before depreciation, amortisation and impairment (EBITDA)	**34,819**	**12,058**
7	Depreciation, amortisation and impairment	(25,132)	(22,747)
	Operating result (EBIT)	**9,687**	**(10,689)**
	Income from subsidiary	-	462
8	Finance income	972	370
9	Finance costs	(6,493)	(4,166)
	Result before tax	**4,166**	**(14,023)**
10	Income tax	5,075	2,959
	Result for the year	**9,241**	**(11,064)**

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

Note	DKK'000	2020	2019
	Result for the year	**9,241**	**(11,064)**
	Value adjustments on hedging instruments:		
	- Net gain / (loss) on cash cash flow hedges	-	-
	- Net (gain) / loss on cash cash flow hedges reclassified to revenue	-	-
	- Net (gain) / loss on cash cash flow hedges reclassified to finance costs	-	-
	Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	-	-
	Total comprehensive income for the year, net of tax	**9,241**	**(11,064)**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2020

ASSETS

Note	DKK'000	2020	2019
	Development projects, completed	23,328	28,646
	Development projects, in progress	7,760	8,089
	Patents	3,697	4,426
11	**Intangible assets**	**34,785**	**41,161**
12	Plant and equipment	1,222	585
13	Right-of-use assets	9,327	12,228
12	Leasehold improvements	301	549
	Tangible assets	**10,850**	**13,362**
14	Investments in subsidiaries	5,504	3,923
15	Deferred tax asset	4,932	-
21	Leasehold deposits	1,310	1,310
	Other non-current assets	**11,746**	**5,233**
	Non-current assets	**57,381**	**59,756**
16	Inventories	18,723	9,532
17, 21	Trade receivables	3,281	9,504
17, 21	Receivables from group entities	31,381	9,325
18	Right-of-return asset	112	31
17, 21	Other receivables	2,936	5,950
19	Income tax receivable	47	2,961
21	Cash and cash equivalents	30,429	38,143
	Current assets	**86,909**	**75,446**
	Total assets	**144,290**	**135,202**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2020

EQUITY AND LIABILITIES

Note	DKK'000	2020	2019
20	Issued capital	20,767	20,767
20	Share premium	290,330	290,329
20	Reserve for development project costs	24,249	28,653
20	Other capital reserves	6,744	4,492
	Retained earnings	(253,300)	(267,046)
	Equity	**88,790**	**77,195**
21, 23	Other financial liabilities	6,181	2,026
13, 21, 23	Lease liabilities	6,827	9,574
	Non-current liabilities	**13,008**	**11,600**
21, 23	Interest-bearing loans and borrowings	12,500	26,202
21, 23	Lease liabilities	2,747	2,796
21	Trade payables	11,014	2,932
13	Other payables	14,298	13,774
22	Provisions	1,529	531
18	Refund liability	404	172
	Current liabilities	**42,492**	**46,407**
	Total liabilities	**55,500**	**58,007**
	Total equity and liabilities	**144,290**	**135,202**

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

Note	In DKK'000	Share capital	Share premium	Share based payment reserve	Reserve for develop-ment project costs	Retained earnings	Total equity
	At 1 January 2019	**7,981**	**247,552**	**4,971**	**29,425**	**(258,869)**	**31,060**
	Result for the year	-	-	-	(772)	(10,292)	(11,064)
	Value adjustments on hedging instruments:	-	-	-	-	-	-
	- Net gain / (loss) on cash cash flow hedges	-	-	-	-	-	-
	- Net (gain) / loss on cash cash flow hedges reclassified to finance costs	-	-	-	-	-	-
	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**
	Result for the year	-	-	-	(4,404)	13,645	9,241
	Total comprehensive income	**-**	**-**	**-**	**(4,404)**	**13,645**	**9,241**
	Issue of shares	-	-	-	-	-	-
	Transaction costs	-	-	-	-	-	-
	Reversal, exercised and lapsed share options	-	1	(102)	-	101	-
6	Share-based payments	-	-	2,354	-	-	2,354
	Total transactions with shareholders	**-**	**1**	**2,252**	**-**	**101**	**2,354**
	At 31 December 2020	**20,767**	**290,330**	**6,744**	**24,249**	**(253,300)**	**88,790**

PARENT COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

Note	DKK'000	2020	2019
	Operating activities		
	Result before tax	4,166	(14,023)
	Adjustments to reconcile profit before tax to net cash flows:		
	Finance income	(972)	(370)
	Finance costs	6,493	4,166
	Depreciation, amortisation and impairment	25,132	22,747
	Income from subsidiaries	-	(462)
	Gain/loss on the sale of non-current assets	(5)	(19)
	Share-based payment expense	772	569
	Working capital adjustments:		
	Change in inventories	(9,191)	7,439
	Change in trade and other receivables, right-of-return asset and intercompany receivables	(19,108)	(8,094)
	Change in trade and other payables, refund liability, intercompany payables and provisions	9,271	(10,155)
	Cash flow hedges in financial items	-	-
	Interest received	1,098	84
	Interest paid	(617)	(717)
	Income tax received, net	3,055	5,500
	Net cash flows from operating activities	**20,094**	**6,665**
	Investing activities		
	Proceeds from sale of tangible assets	3	24
	Purchase of tangible assets	(1,204)	(483)
	Proceeds from sale of intangible assets	1,268	1,732
	Investments in intangible assets	(15,041)	(15,152)
	Dividends from subsidiaries	-	569
	Investments in leasehold deposits	941	(53)
	Net cash from investing activities	**(14,033)**	**(13,363)**
	Free cash flow	**6,061**	**(6,698)**
	Financing activities		
	Capital increase	-	58,863
	Transaction costs on issue of shares	-	(3,300)
	Repayment of lease liabilities	(3,128)	(4,272)
	Proceeds from borrowings	4,155	-
	Repayment in borrowings	(13,702)	(9,954)
	Net cash flows from financing activities	**(12,675)**	**41,337**
	Net change in cash and cash equivalents	**(6,614)**	**34,639**
	Net foreign exchange difference	(1,100)	104
	Cash and cash equivalents at 1 January	38,143	3,400
	Cash and cash equivalents at 31 December	**30,429**	**38,143**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

General

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

Dividends

Dividends from the investment in subsidiaries are 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 with amortization, impairment or disposed 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 are disclosed in Note 5 to the consolidated financial statements.

NOTE 3 STAFF COSTS

DKK'000	2020	2019
Employee benefits expense is reported as follows:		
Wages and salaries	57,428	61,725
Defined contribution schemes	3,545	3,550
Share-based payment expense	771	569
Social security costs	452	530
Total employee benefits expense	**62,196**	**66,374**
Average number of employees	**62**	**65**

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 47,543 thousand (2019: DKK 39,899 thousand). All research and development costs are incurred by the parent company. The total amount of research and development costs recognized in the balance sheet are DKK 31,088 thousand (2019: DKK 36,735 thousand).

NOTE 5 AUDITORS' FEES

DKK'000	2020	2019
Ernst & Young:		
Statutory audit fee	420	672
Assurance engagements	38	54
Tax advisory fee	-	66
Fees for other services	19	70
Total auditors' fees	**477**	**862**

Fee in relation to non-audit services from EY Godkendt Revisionspartnerselskab, DKK 57 thousand consists of general accounting advice.

NOTE 6 SHARE-BASED PAYMENT EXPENSE

The share options described in Note 8 to the consolidated financial statements are issued by the parent company. The value of share options granted to employees in the fully owned US-based subsidiary is recognized as the cost of the investment in the subsidiary. Out of the Group's total share-based payment expense of DKK 2,354 thousand (2019: DKK 1.636 thousand), DKK 1,582 thousand (2019: DKK 1,067 thousand) has been recognized as an additional cost of the investment in the subsidiary.

NOTE 7 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

DKK'000	2020	2019
Depreciation, amortisation and impairment are reported as follows:		
Depreciation plant and property	567	1,522
Depreciation of leasehold improvements	248	247
Depreciation of right-of-use assets	2,901	4,048
Total depreciation of tangible assets	**3,715**	**5,817**
Amortisation of patents	685	691
Impairment of patents	155	48
Amortisation of completed development projects	19,087	16,191
Impairment of completed development projects	1,490	-
Total amortisation and impairment of intangible assets	**21,417**	**16,930**
Total depreciation, amortisation and impairment	**25,132**	**22,747**

NOTE 8 FINANCE INCOME

DKK'000	2020	2019
Interest receivable from banks	7	84
Foreign exchange gains	-	286
Other finance income	965	-
Total finance income	**972**	**370**
Finance income at amortized costs	**972**	**84**

NOTE 9 FINANCE COSTS

DKK'000	2020	2019
Interest payable to banks	367	575
Foreign exchange losses	5,544	-
Interest payable under leases	332	393
Other finance costs	250	3,198
Total finance costs	**6,493**	**4,166**
Finance costs at amortized costs	**699**	**968**

NOTE 10 INCOME TAX

DKK'000	2020	2019
Current tax recognised in the parent company income statement:		
Current income tax carry back refund	(47)	(2,960)
Change in deferred tax	(4,932)	-
Adjustment prior years taxes	(96)	1
Total income tax	**(5,075)**	**(2,959)**

A reconciliation between tax expense and profit before tax multiplied by the applicable income tax rate for the parent company for 2020 and 2019 is as follows:

DKK'000	2020	2019
Profit before tax	4,166	(14,023)
At the applicable Danish income tax rate for the parent company, 22% (2019: 22%)	917	(3,085)
Tax effect of:		
Tax deductable expenses	(1,756)	(49)
Non-deductible expenses	171	25
Accounting estimate for not recognised deferred tax assets	(4,311)	150
Adjustment prior years taxes	(96)	-
At the effective income tax rate of -122% (2019: 21%)	**(5,075)**	**(2,959)**

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	2020	2019	2020	2019	2020	2019
Cost at 1 January	32,359	32,106	4,946	4,742	37,305	36,848
Additions	1,204	279	-	204	1,204	483
Disposals in the period	-	(26)	-	-	-	(26)
Cost at 31 December	**33,563**	**32,359**	**4,946**	**4,946**	**38,509**	**37,305**
Accumulated depreciation at 1 January	31,774	30,272	4,397	4,150	36,171	34,422
Depreciation for the year	567	1,522	248	247	815	1,769
Impairment for the year	-	-	-	-	-	-
Disposals in the period	-	(20)	-	-	-	(20)
Accumulated depreciation at 31 December	**32,341**	**31,774**	**4,645**	**4,397**	**36,986**	**36,171**
Carrying amount at 31 December	**1,222**	**585**	**301**	**549**	**1,523**	**1,134**

In 2020, 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 (2019: DKK nil).

NOTE 13 LEASING

Right-Of-Use Assets

	Properties		Plant and equipment		Total	
DKK'000	2020	2019	2020	2019	2020	2019
Cost at 1 January	11,600	-	628	-	12,228	-
Effect of transition 1 January	-	13,213	-	1,051	-	14,264
Adjusted balance 1 January	11,600	13,213	628	1,051	12,228	14,264
Reassessment of leasing liabilities	-	2,010	-	-	-	2,010
Depreciation for the year	(2,531)	(3,624)	(370)	(423)	(2,901)	(4,047)
Carrying amount at 31 December	**9,069**	**11,600**	**259**	**628**	**9,327**	**12,228**

NOTE 13 LEASING (CONTINUED)

Lease Liabilities

DKK'000	2020	2019
Maturity of lease liabilities:		
Falling due within one year	2,747	2,796
Falling due between one and three years	5,243	5,338
Falling due between four and five years	1,584	4,236
Total lease liabilities	**9,574**	**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	2020	2019
Depreciation	2,901	4,047
Finance costs	332	393
Total Right-Of-Use costs recognized in the parent company income statement	**3,233**	**4,440**

The parent company does not have any short-term -or low-value leases recognized in the income statement. For 2020, the parent company has recognized DKK 3,128 thousand (2019: DKK 4,272 thousand) as minimum payments regarding lease agreements, of which interest costs related to lease liabilities amount to DKK 332 thousand (2019: DKK 393 thousand) and repayments on lease liabilities are DKK 2,796 thousand (2019: DKK 3,879 thousand). The capitalized right-of-use assets do not have any effect on investing activities in the cash flow statement.

NOTE 14 INVESTMENTS IN SUBSIDIARIES

DKK'000	2020	2019
Cost at 1 January	8,673	7,657
Value of share-based payment to employees in subsidiaries	1,581	1,067
Disposals	-	(51)
Cost at 31 December	**10,254**	**8,673**
Accumulated impairment at 1 January	4,750	4,750
Accumulated impairment at 31 December	**4,750**	**4,750**
Carrying amount at 31 December	**5,504**	**3,923**

NOTE 14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The parent company's investments in subsidiaries at 31 December 2020 and 2019 consist of the following:

Name	Country	Ownership in % 2020	Ownership in % 2019	Proportion of voting rights in % 2020	Proportion of voting rights in % 2019	Business activity
Napatech Inc.	USA	100	100	100	100	Sale and distribution of the Group's products
Napatech Japan KK	Tokyo, Japan	-	-	-	-	Company liquidated

DKK'000 Name	Result for the year 2020	Result for the year 2019	Equity 2020	Equity 2019
Napatech Inc.	1,935	(900)	6,482	5,180
Napatech Japan KK	-	(109)	-	-

NOTE 15 DEFERRED TAX

DKK'000	Statement of financial position 2020	Statement of financial position 2019	Income statement 2020	Income statement 2019
Tax losses carry-forwards	(9,544)	(5,147)	(4,397)	148
Intangible assets	7,075	8,181	(1,106)	(109)
Tangible assets	420	460	(40)	3,106
Lease liabilities	(2,106)	(2,721)	615	(2,721)
Provision for expected credit loss	(7)	(35)	28	62
Other receivables	(706)	(707)	1	(707)
Right-of-return asset and refund liability	(64)	(31)	(33)	221
Deferred tax liability and expense	**(4,932)**	**-**	**(4,932)**	**-**

DKK'000	2020	2019
Reconciliation of deferred tax liability / (asset) is as follows:		
Opening balance at 1 January	-	-
Recognised in parent company income statement	(4,932)	-
Closing balance at 31 December	**(4,932)**	**-**

The parent company has tax losses of DKK 159,260 thousand (2019: DKK 159,260 thousand) that are available indefinitely for offsetting against future taxable profit.

NOTE 15 DEFERRED TAX (CONTINUED)

In 2020 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 parent company was able to recognize all unrecognized deferred tax assets the value would be DKK 30,425 thousand (2019: DKK 29,890 thousand). Deferred tax assets are expected to be utilized in future profits for the coming 3-5 years.

See note 3 for a description of the assumptions used for recognizing the deferred tax asset.

NOTE 16 INVENTORIES

DKK'000	2020	2019
Consumables and components	3,177	2,154
Finished goods and goods for resale	15,546	7,378
Total inventories	**18,723**	**9,532**
Carrying value of inventories recognised at fair value	**-**	**-**

The cost of goods sold for the year is DKK 55,265 thousand (2019: DKK 43,421 thousand). During 2020 DKK 1,811 thousand (2019; DKK nil) 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 the cost of sales.

DKK'000	2020	2019
Inventory writedown at 1 January	15,883	21,323
Inventory writedown for the year	1,811	-
Reversal of inventory wirtedown	(699)	(5,440)
Inventory writedown at 31 December	**16,995**	**15,883**

Reversals of inventory write-down relate to individual sales and are considered as non-recurring sales of goods.

NOTE 17 TRADE AND OTHER RECEIVABLES

DKK'000	2020	2019
Receivables recognised in the parent company statement of financial position:		
Trade receivables	3,281	9,504
Receivables from group entities	31,381	9,325
Other receivables	2,936	5,950
Total current receivables	**37,598**	**24,779**

NOTE 17 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

DKK'000	2020	2019
At 1 January	159	440
Reversed in the year	-	-
Written off in the year	(47)	(150)
Change in the year	(80)	(131)
At 31 December	**32**	**159**

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

DKK'000	2020	2019
Not past due	3,211	5,202
Past due for less than 30 days	70	3,860
Past due between 30 and 60 days	-	442
Total maximum credit risk	**3,281**	**9,504**

See Note 26 for a description the credit risk.

NOTE 18 RIGHT-OF-RETURN ASSET AND REFUND LIABILITY

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	2020	2019
Right-of-return asset	112	31
Refund liability	404	172

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

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

NOTE 19 INCOME TAX RECEIVABLES

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

NOTE 20 ISSUED CAPITAL AND RESERVES

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

NOTE 21 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK'000	2020	2019
Financial assets measured at amortised cost:		
Leasehold deposits	1,310	1,310
Trade receivables	3,281	9,504
Receivables from group entities	31,381	9,325
Other receivables	2,936	5,950
Cash and cash equivalents	30,429	38,143
Total financial assets	**69,337**	**64,232**
Financial liabilities measured at amortised cost:		
Lease liabilities	9,574	12,370
Interest-bearing loans and borrowings	12,500	26,202
Trade payables	11,014	2,932
Other non current financial liabilities	6,181	2,026
Total financial liabilities	**39,269**	**43,530**

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

NOTE 22 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

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

	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	**52,446**	**2,378**	**(14,226)**	**40,598**

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 (2019: DKK 30 million) secured on receivables, inventories, and patents with a carrying amount of DKK 25,701 thousand (2019: DKK 23,462 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	**2020**	**2019**	**2020**	**2019**
Income statement:				
Sales to subsidiaries	93,865	75,327	-	-
Statement of financial position:				
Receivables from subsidiaries	31,381	9,325	-	-

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.

	2020			
DKK'000	**Loss percentage**	**Receivable**	**Expected loss**	**Total**
Not past due	0.9%	3,241	30	3,211
Past due for less than 30 days	2.3%	72	2	70
Past due between 30 and 60 days	-	-	-	-
Past due between 60 and 90 days	-	-	-	-
Past due after 90 days	-	-	-	-
Total maximum credit risk		**3,313**	**32**	**3,281**

NOTE 26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	2019			
DKK'000	Loss percentage	Receivable	Expected loss	Total
Not past due	0.9%	5,247	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		**9,663**	**159**	**9,504**

As for the receivables from group entities, the assessment is based on the fact that the Parent Company has not historically realised any significant losses on group receivables and the fact that the Group companies in all material aspects are able to settle the receivable as they fall due. As such, as in previous years, no impairment provision has been recognised as of 31 December 2020.

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.


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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 2020.

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 2020 and of the results of their operations and cash flows for the financial year 1 January – 31 December 2020.

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, 25 March 2021

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

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 2020, 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 2020 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 2020 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 seven years up to and including the financial year 2020.

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 2020. 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 right-of-return asset and refund liability, 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, 25 March 2021
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jan C. Olsen
State Authorised
Public Accountant
mne33717

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