2022 Annual Report

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

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RECONFIGURABLE COMPUTING

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DEAR READER

Change Creates Opportunities

'The only constant is change' is an age-old adage that describes how everything is subject to *transformation*. Adapting is the key to thriving during changing times. This is the perfect undertone for Napatech in 2022. Each quarter of 2022 was challenging and different. At each stage, we saw mixed results. Like others in our market space, we experienced volatility in customer demand, impacts to our revenue, and inflation in our product costs, that in combination caused us to deliver financial results that were below our expectations. At the same time, we focused and persevered. We *adapted* and *transformed* Napatech in fundamental ways that enable us to thrive in 2023 and beyond.

My mission is to drive growth by investing in our position of strength to stay ahead of our competition and win new market share. Our foundation is our technical leadership in world-class network interface cards that improve the performance of applications and services in networks and datacenters. Napatech operates within this rapidly evolving landscape, and we know we cannot win on product strength alone. We must find ways to transform. We need allies and partnerships that can help us move forward beyond our own capabilities. In 2022 we navigated these tricky times and emerged with Napatech in a compelling position.

18 months ago, we set in place a strategy that had two imperatives. First, we had to make the investments in products and technologies to make our solutions relevant to the largest and fastest-growing portions of the market. Second, we had to invest in establishing partnerships that will allow us to scale our business into the growth segments in ways that we could not achieve ourselves.

As we complete 2022, we can measure success on those objects that position Napatech for transformational growth.

- We announced a landmark design win with F5 in 2H'22, an exciting new world-class security solutions provider. We expect they will begin buying our newest Intel-based SmartNIC solution this year and become a significant contributor to our future growth.
- We announced a multi-faceted agreement with Intel to develop an new Infrastructure Processing Unit (IPU) hardware and software solutions, which is a significant validation of our technology vision. The first part of this deal brings $5M in revenue and positions us to win new significant customers.
- We announced an important relationship with AMD to expand our joint sales pipeline in parts of the market where Napatech could not easily go alone. Our existing Xilinx-based SmartNICs anchor this relationship and play a key role in expanding our design wins and pipeline.
- We secured an investment of $7.5M by a new strategic investor with extensive industry expertise with strong market, customer, and product knowhow, ensuring we have the capital in place to fulfil our growth vision in 2023 and beyond.
- We launched several new product and solution initiatives that target the rapidly growing need for SmartNICs, such as user plane functions (UPF) in 5G private and mobile networks.

Despite the many unexpected turns in 2022, our belief and commitment to succeeding haven't changed. In fact, we are more committed and confident that we are building an important proposition for our customers and a valuable position for our investors by doing what we do best; building SmartNIC and IPU solutions that solve real-world problems.

In conclusion, we have shown that we can find opportunities and win even during challenging times. And I am confident that we have entered a new phase of possibility for Napatech. We will keep *executing* while *maintaining a strong foundation* from which to grow.

Fully committed and focused,

Henrik Brill Jensen

Chief Executive Officer

THE NAPATECH OPPORTUNITY

Modern Datacenters Supercharged by Programmable SmartNICs

A TIDAL WAVE OF DATA HAS ARRIVED

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

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

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

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

LEGACY DATACENTERS ARE IN DECLINE

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

MODERN ARCHITECTURES HAVE EMERGED

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

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

SMARTNICS PLAY A CENTRAL ROLE

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

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

DEPLOYED IN NETWORKS OF EVERY TYPE

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

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

BENEFITS TO AN ARRAY OF APPLICATIONS

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

LEVERAGING OUR LEADERSHIP POSITION

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

INVESTING IN THE FUTURE

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

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

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

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

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

TECHNOLOGY DIFFERENTIATION

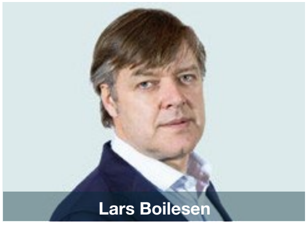
The benefits provided by Napatech programmable SmartNICs starts with focus and ends with making the best technology decisions. Napatech is singularly focused on programmable SmartNICs for infrastructure IPU) and data processing (DPU) in modern datacenters. Our success in these areas comes from our commitment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

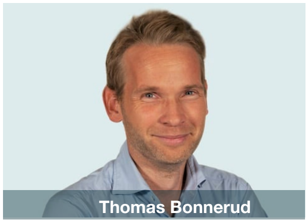
OUR PEOPLE

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

BOARD AND MANAGEMENT PRESENTATION

BOARD OF DIRECTORS





MANAGEMENT TEAM

BOARD OF DIRECTORS

Lars Boilesen, Chairman of the Board. Born in 1967. Member of the Board since 2017, re-elected in 2022, term expires 2023.
Holds a bachelor's degree in Business Economics from the Aarhus School of Business and a postgraduate diploma from Kolding Business School.
Fulfils 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 2022, term expires 2023.
Holds a B.S. degree in economics and B.A. from Copenhagen Business School.
Does not fulfil 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: Jebsen has 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 2022, term expires 2023.
Holds a Bachelor of Science degree from the California Institute of Technology .
Fulfils 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, management consultant, and advisor to AI company, Luminous. 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.

Thomas Bonnerud, Board member. Born in 1977. Member of the Board since 2022, term expires 2023.
Holds an M.Sc. in Electrical Engineering from the Norwegian University of Science and Technology.
Fulfils the Committee of Corporate Governance definition of independence.

Other directorships: Board member of Monil AS.

Special competencies: Thomas Bonnerud is a seasoned technology professional bringing more than 15 years of experience with high-tech products and market strategy, working closely with engineering, sales, and customers. Bonnerud has a profound technical understanding of semiconductors, embedded systems, firmware, software, machine vision, and robotics. He is currently serving as CEO of Zivid AS and previously served for more than 17 years at Nordic Semiconductor, most recently as Director of Strategy and Investor Relations, including the company's overall product and market strategy.

EXECUTIVE MANAGEMENT

Henrik Brill Jensen, CEO. Born in 1963. Joined Napatech in January 2005. CEO since Februar 2023.
Heine Thorsgaard, CFO. Born in 1972. Joined Napatech in November 2018

SHARES AND WARRANTS OF BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

	Number of shares 31 December 2021	Change in fiscal year, shares	Number of shares 31 December 2022	Total number of warrants 1 January 2022	Number of warrants exercised in 2022	Number of warrants granted in 2022	Total number of warrants 31 December 2022
Board of Directors							
Lars Boilesen	320,000	-	320,000	-	-	272,306	272,306
Howard Bubb	70,000	31,093	101,093	-	-	46,594	46,594
Thomas Bonnerud	-	-	-	-	-	46,594	46,594
Christian Jebsen	-	-	-	-	-	-	-
Executive Board							
Henrik Brill Jensen	387,155	-	387,155	316,900	-	-	316,900
Heine Thorsgaard	-	-	-	355,000	-	-	355,000

GROUP KEY FIGURES AND RATIOS

KEY FIGURES (DKK '000)	**2022**	**2021**	**2020**	**2019**	**2018**
Revenue	158,628	195,471	194,233	170,607	106,153
Gross profit	89,697	140,358	138,968	127,186	49,093
Operating profit before depreciation, amortization and impairment (EBITDA)	(20,122)	52,915	35,361	15,273	(74,972)
Operating profit (EBIT)	(46,200)	30,662	10,085	(10,082)	(182,530)
Net finance income / (expense)	2,056	6,336	(5,004)	(4,170)	(9,576)
Profit / (loss) before tax	(44,144)	36,998	5,081	(14,252)	(192,106)
Profit / (loss) for the year	(48,259)	40,228	9,595	(13,601)	(179,298)
Investments in intangible assets	30,296	28,503	15,041	15,152	35,411
Investments in tangible assets	2,402	7,111	1,204	510	461
Net working capital	55,708	44,526	3,419	17,427	28,241
Total assets	193,968	176,726	152,855	162,690	127,133
Equity	88,255	133,472	89,768	78,452	34,719
Net cash flows from operating activities	(23,966)	14,950	47,642	26,448	(47,899)
Free cash flow	(56,704)	(16,003)	33,619	12,591	(81,542)
Cash at the end of year	11,962	39,449	62,698	64,306	17,159
Average number of employees	82	81	78	81	107
FINANCIAL REPORTING RATIOS (%)					
Gross profit margin	56.5%	71.8%	71.5%	74.5%	46.2%
EBITDA margin	-12.7%	27.1%	18.2%	9.0%	-70.6%
Current ratio	147.0%	313.3%	201.3%	162.8%	100.3%
Return on equity	-43.5%	38.0%	11.4%	-24.0%	-164.6%
SHARE RELATED RATIOS (DKK)					
Basic EPS	(0.58)	0.48	0.12	(0.20)	(6.55)
Diluted EPS	(0.56)	0.47	0.11	(0.19)	(6.54)
Operating cash flow per share	(0.28)	0.17	0.56	0.38	(1.75)
Free cash flow per share	(0.66)	(0.19)	0.39	0.18	(2.98)

Comparatives for 2018 are not restated following the implementation of IFRS 16.

KEY FIGURE AND RATIO EXPLANATIONS AND DEFINITIONS

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

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

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

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

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

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

BOARD OF DIRECTORS' REPORT 2022

2022 was marked by challenging market conditions and exciting customer wins.

SUMMARY

The foundation of Napatech is its technical leadership designing world-class FPGA-based SmartNIC solutions to accelerate networking and cybersecurity applications in the modern data center. The limits of possibility we are pushing are adding features that bring our solution into new market areas where we solve emerging real-world problems. With our investments over the last 18 months, we have navigated Napatech into a most compelling position and have created a strong foundation for business in market areas that will deliver growth in the coming years.

Challenging market conditions due to the unfolding of the Ukraine crisis and the worries of a coming recession in the US economy resulted in a difficult and disappointing year revenue-wise. We continued our investment plans in 2022, making significant progress in our product development. And building on our investment momentum Napatech successfully attracted new partners in 2022. We strongly believe that our investments in new technology during 2022 will ensure that Napatech stays competitive and well-positioned for the opportunities of the coming years.

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

THE MARKET

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

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

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

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

GROUP ENTITIES

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

FINANCIAL DEVELOPMENT (2021 FIGURES IN BRACKETS)

In 2022 Napatech generated total revenue of DKK 158.6 million (DKK 195.5 million), representing revenue a decline of 19%. The decline is a result of the very challenging market conditions Napatech faced in 2022. The effects of the Ukraine crisis and the worry of a potential economic recession led many of our customers to postpone planned projects and purchases. As a consequence, revenue in North America declined 19% in 2022 compared to 2021, and revenue in the Rest of the World declined 17% in 2022 compared to 2021.

The gross margin in 2022 was 57% compared to 72% in 2021. The decline in the gross margin of 15%-points is primarily due to increased cost of a few specific components impacted by the extraordinary supply chain situation in 2022.

Operating expenses before staff costs transferred to capitalized development costs in 2022 amounted to DKK 133.1 million, compared to DKK 111.7 million in 2021. The change from 2021 is due to increased costs of subcontractors and personnel driven by our decision to accelerate the development of new product features.

Staff costs transferred to development costs in 2022 amounted to DKK 23.3 million compared to DKK 23.6 million in 2021.

EBITDA in 2022 was negative DKK 20.1 million compared to positive DKK 52.9 million in 2021. Depreciation, amortization, and impairment in 2022 were DKK 26.1 million compared to DKK 22.3 million in 2021.

The result for the year was negative DKK 48.3 million (positive DKK 40.2 million).

Napatech had total assets of DKK 194.0 million on December 31, 2022, compared with DKK 176.7 million on December 31, 2021. The increase of DKK 17.2 million is primarily related to an increase in current assets of DKK 19.8 million, related to trade receivables and inventory.

Napatech's total liabilities were DKK 105.7 million on December 31, 2022, compared with DKK 43.3 million on December 31, 2021. The increase in total liabilities is primarily driven by an increase in contract liabilities and interest-bearing loans and borrowings.

The group's equity at the end of the year was DKK 88.3 million (DKK 133.5 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 30.3 million was capitalized in 2022 (DKK 28.5 million).

The group had a negative net change in cash of DKK 28.1 million (negative DKK 24.3 million). The net change in cash was affected by a negative free cash flow of DKK 56.7 million and positive net cash flows from financing activities of DKK 28.6 million.

Napatech issued its original guidance for 2022 on February 24, 2022, and its latest updated outlook on November 30, 2022:

Guidance in DKK million	Original	Latest	Actuals
Revenue	235-260	170-200	158.6
Gross margin	69-71%	57-61%	57%
Staff costs & Other external costs	155-165	140-150	133.1
Staff costs transferred to capitalized development costs	28-33	25-27	23.3
Depreciation and amortization	23-28	23-28	26.1

Compared to the latest issued guidance, reported revenue is below the guided range, and gross margin is within the guided range. The lower-than-expected revenue is a result of the challenging conditions in the marketplace during 2022 that were worsened further in the second part of 2022 due to worries of a potential recession in the US market. Staff costs and other external costs ended in 2022 at DKK 133.1 million, below both the original and updated guidance for the year. Depreciation and amortization in 2022 ended within the guided range.

FINANCIAL DEVELOPMENT IN THE PARENT COMPANY

Net revenues for the parent company in 2022 came in at DKK 122.5 million (DKK 164.4 million), representing a decline of 25%. The EBITDA in the parent company for 2022 was negative DKK 23.2 million (positive DKK 51.8 million), and the result before tax was negative DKK 47.0 million (DKK 36.0 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 2022, 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 10, 25, 40, 50, 100, 200 and 400-gigabit products. In 2022, we continued our focus on becoming more software-centric, making our offerings more widely deployable by a broader set of customers in more networks.

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

DIVIDEND

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

CORPORATE GOVERNANCE

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

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

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

Napatech A/S is subject to Danish law but is listed on Euronext 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/report2022.

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

The Remuneration Committee is composed of three members of the Board of Directors. Lars Boilesen is the Chairman of the Remuneration Committee, and Howard Bubb and Thomas Bonnerud 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/report2022.

The Audit Committee is composed of three members of the Board of Directors. Christian Jebsen is the Chairman of the committee, and Howard Bubb and Thomas Bonnerud 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 two 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 12 board meetings in 2022, out of which four 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 AND UNCERTAINTIES

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.

With our investments over the last 18 months in our new product development, the group is exposed to a liquidity risk. To mitigate this risk and to to ensure sufficient cash to fund project development and daily operations, Napatech, in February 2023, entered into an agreement for a DKK 52.2 million investment in Napatech through a private placement. With the cash position at the of 2022 and this new investment, Napatech's operations in 2023, are expected to be fully funded. See notes 3 and 28 in the notes to the consolidated financial statements for more information on risks and uncertainties.

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 a half-year report per IAS 34 to the market.

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

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

We are committed to conducting business operations in an environmentally responsible and ethical manner and have established a Conflict Mineral policy intending to only use tin, tantalum, tungsten, and gold (3TG), as well as cobalt, that originates from conflict-free sources. All components are screened towards the Responsible Minerals Initiative (RMI) smelter database, the actual screening is outsourced to GreenSoft Technology. Since 2018 our products have all been 100% conflict-free. We are proud to have maintained this position throughout 2022. Our commitment to achieving 100% conflict-free products is supported by our membership in RMI.

Napatech's Corporate Social Responsibility policy is available at www.napatech.com/investor-relations/corporate-governance, and our CSR report for 2022 regarding Section 99a and 99b of the Danish Financial Statements Act on corporate social responsibility and reporting on the gender composition of management is available on www.napatech.com/csr/report2022.

DATA ETHICS POLICY

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

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

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

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

OUR PRODUCTS

Our products are assembled by contract manufacturers that share our ambitions for social responsibility. We investigate each component regularly, as declared in our conformance declaration with the EU RoHS directive and the REACH regulation.

Our products comply with EU directives and carry the CE- mark, as declared in our EU declaration of conformity. They carry the UL mark for recognized components, and they are manufactured under UL's inspection and follow-up service, ensuring that safety-critical components are authenticated and handled according to UL's procedures.

OUR EMPLOYEES

Napatech's 81 full-time employees, as of December 31st, 2022, include 9 women (11%), compared to 9 (11%) in 2021. The group primarily employs engineers, and as women are underrepresented among engineers, it is considered an obvious consequence that women are underrepresented in Napatech.

December 31, 2022, the management team consisted of five persons, all male. December 31, 2022, other managerial positions (people with employee responsibilities) consisted of ten per-sons, all male. It is the group's policy over time to increase the presence of women in the management teams to at least 20% by 2025. In recruiting processes, the company aims for at least one of the last three candidates to be female. However, it is always the best candidate for a specific position that will be chosen.

The Board of Directors consists of four men. In accordance with section 99b of the Danish Financial Statements Act, the Board of Directors has a long-term goal to have at least 20% of women on the Board. In 2022, one new board member was elected. In 2022 there were no relevant female candidates for the Board of Directors.

The Nomination Committee has been instructed to actively look for suitable female candidates for additions to the Board. In general, Napatech wants to increase the presence of women throughout the organization. In order to attract more female applicants, our 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 13 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. Most emissions are scope 2 and 3 emissions, except for the emissions from the company fleet. The only greenhouse gas emission that Napatech has and accounts for is carbon dioxide.

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

LEGAL MATTERS

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

EVENTS AFTER YEAR-END

On February 17, 2023, Napatech announced an agreement for a DKK 52.2 million investment in Napatech. The investment will be made through a private placement of 6,200,738 shares at NOK 12.34 per share, representing 6.94% of the issued share capital of the Company post-delivery of the new shares. The closing date of the transaction is expected to be around 14 April 2023.

On February 27, 2023, Henrik Brill Jensen replaced Ray Smets as CEO of Napatech.

OUTLOOK

2023 guidance for the Company is the following:

Target in DKK million	Guidance
Revenue	180-200
Gross margin	68-71%
Staff costs & Other external costs	160-170
Staff costs transferred to capitalized development costs	20-25

With performance in the middle of the guided ranges, EBITDA would be negative DKK 10.5m.

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

SHAREHOLDER INFORMATION

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

At the end of the year, the Company had a total of 83,095,218 shares outstanding of a nominal value of DKK 0.25 each. The company owned 259,966 treasury shares at year-end. The company had 1,274 shareholders and 61% of the shares were registered outside Norway. Total outstanding warrants at the end of the year were 5,027,598 warrants with an average exercise price of DKK 4.27. 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 2022 several releases have been announced on the Oslo Stock market under the ticker: NAPA. For a complete overview, please see www.newsweb.oslobors.no.

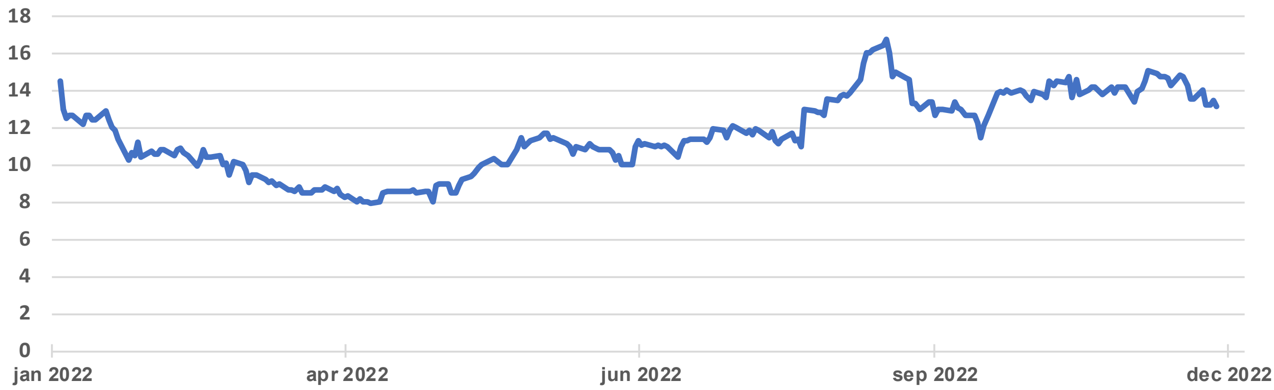
The Company's financial calendar for the remainder of 2023 is:

Date	Activity
April 27	Annual General Meeting
May 3	Q1 2023 Interim Management Statement
August 24	Half-yearly Report
November 2	Q3 2023 Interim Management Statement

NAPATECH HAD BY 1ST MARCH 2023 THE FOLLOWING TOP 20 SHAREHOLDERS

Investor	Number of shares	% of total	Country
VERDANE CAPITAL VIII K/S	22,613,618	27.21%	DK
SUNDT AS	8,622,000	10.37%	NO
LUDVIG LORENTZEN AS	6,000,000	7.22%	NO
SKANDINAVISKA ENSKILDA BANKEN AB	4,497,051	5.41%	SE
ARBEJDSMARKEDETS TILLAEGSPENSION	4,000,000	4.81%	DK
BROWNSKE BEVEGELSER AS	2,741,147	3.30%	NO
SKANDINAVISKA ENSKILDA BANKEN AB	2,152,032	2.59%	DK
MP PENSJON PK	2,012,184	2.42%	NO
SKANDINAVISKA ENSKILDA BANKEN AB	1,994,024	2.40%	LUX
DANSKE BANK A/S	1,889,147	2.27%	DK
PRIVATE INVESTOR	1,838,705	2.21%	NO
NORDNET BANK AB	1,507,144	1.81%	SE
THE BANK OF NEW YORK MELLON SA/NV	1,459,728	1.76%	BE
NORDEA BANK ABP	1,295,640	1.56%	DK
EXTELLUS AS	1,184,136	1.43%	NO
J.P. MORGAN SE	1,136,484	1.37%	LUX
BNP PARIBAS	1,048,658	1.26%	IT
THE BANK OF NEW YORK MELLON SA/NV	1,033,365	1.24%	DK
INRO HOLDING AS	933,200	1.12%	NO
MARSTAL AS	904,806	1.09%	NO
Total number owned by top 20	68,863,069	82.85%	
Total 1,242 other shareholders	14,232,149	17.15%	
Total Number of shares	83,095,218	100%	

NAPATECH SHARE PRICE DEVELOPMENT 2022 (in NOK)



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

Note	In DKK'000	2022	2021
4	Revenue	158,628	195,471
4	Cost of goods sold	(68,931)	(55,113)
	Gross profit	**89,697**	**140,358**
5	Other operating income	-	625
6, 7, 8	Staff costs	(98,911)	(88,749)
7	Transferred to capitalized development costs	23,270	23,608
7, 9	Other external costs	(34,178)	(22,927)
	Operating profit before depreciation, amortization and impairment (EBITDA)	**(20,122)**	**52,915**
10	Depreciation, amortization and impairment	(26,078)	(22,253)
	Operating result (EBIT)	**(46,200)**	**30,662**
11	Finance income	3,596	6,972
12	Finance costs	(1,540)	(636)
	Result before tax	**(44,144)**	**36,998**
13	Income tax	(4,115)	3,230
	Result for the year	**(48,259)**	**40,228**
14	**Earnings per share:**		
	Basic, DKK	(0.58)	0.48
	Diluted, DKK	(0.56)	0.47

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

Note	DKK'000	2022	2021
	Result for the year	**(48,259)**	**40,228**
	Other comprehensive income that may be reclassified to profit and loss in subsequent periods:		
	Exchange differences on translation of foreign operations	(26)	553
	Net other income / (loss) that may be reclassified to profit or loss in subsequent periods	**(26)**	**553**
	Total comprehensive income for the year, net of tax	**(48,285)**	**40,781**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2022

ASSETS

Note	In DKK'000	2022	2021
	Development projects, completed	35,102	26,685
	Development projects, in progress	18,383	15,589
	Patents	2,351	3,016
15	**Intangible assets**	**55,836**	**45,290**
16	Plant and equipment	5,551	6,605
17	Right-of-use assets	4,708	6,995
16	Leasehold improvements	635	727
	Tangible assets	**10,894**	**14,327**
18	Deferred tax asset	-	9,715
23	Leasehold deposits	1,397	1,357
	Other non-current assets	**1,397**	**11,072**
	Non-current assets	**68,127**	**70,689**
19	Inventories	38,854	24,123
20, 23	Trade receivables	59,553	37,514
	Right-of-return asset	-	36
	Prepayments	1,164	-
20, 23	Other receivables	8,808	4,915
21	Income tax receivable	5,500	-
23	Cash and cash equivalents	11,962	39,449
	Current assets	**125,841**	**106,037**
	Total assets	**193,968**	**176,726**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2022

EQUITY AND LIABILITIES

Note	In DKK'000	2022	2021
22	Share capital	20,774	20,774
22	Share premium	290,457	290,435
22	Treasury shares	(2,520)	-
	Foreign currency translation reserve	244	270
22	Share-based payment reserve	13,860	8,242
	Retained earnings	(234,560)	(186,249)
	Equity	**88,255**	**133,472**
23, 25	Interest-bearing loans and borrowings	9,758	-
23, 25	Other financial liabilities	4,568	4,860
17, 23, 25	Lease liabilities	2,017	4,545
24	Contract liabilities	3,744	-
	Non-current liabilities	**20,087**	**9,405**
23, 25	Interest-bearing loans and borrowings	33,770	9,061
17, 25	Lease liabilities	2,929	2,726
23	Trade payables	11,821	10,990
	Other payables	6,538	7,947
24	Contract liabilities	30,568	2,681
	Provisions	-	297
	Refund liability	-	147
	Current liabilities	**85,626**	**33,849**
			-
	Total liabilities	**105,713**	**43,254**
	Total equity and liabilities	**193,968**	**176,726**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2022

Note	In DKK'000	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Share based payment reserve	Retained earnings	Total equity
	At 1 January 2021	**20,767**	**290,330**	**-**	**(283)**	**6,744**	**(227,790)**	**89,768**
	Result for the year	-	-	-	-	-	40,228	40,228
	Total other comprehensive income	-	-	-	553	-	-	553
	Total comprehensive income	**-**	**-**	**-**	**553**	**-**	**40,228**	**40,781**
	Issue of shares	7	46	-	-	-	-	53
	Share buyback	-	-	-	-	-	(273)	(273)
	Reversal, exercised and lapsed share options	-	59	-	-	(1,609)	1,586	36
8	Share-based payments	-	-	-	-	3,107	-	3,107
	Total transactions with shareholders	**7**	**105**	**-**	**-**	**1,498**	**1,313**	**2,923**
	At 31 December 2021	**20,774**	**290,435**	**-**	**270**	**8,242**	**(186,249)**	**133,472**
	Result for the year	-	-	-	-	-	(48,259)	(48,259)
	Total other comprehensive income	-	-	-	(26)	-	-	(26)
	Total comprehensive income	**-**	**-**	**-**	**(26)**	**-**	**(48,259)**	**(48,285)**
	Issue of shares	-	22	-	-	-	-	22
	Share buyback	-	-	(2,634)	-	-	-	(2,634)
	Reversal, exercised and lapsed share options	-	-	114	-	(56)	(52)	6
8	Share-based payments	-	-	-	-	5,674	-	5,674
	Total transactions with shareholders	**-**	**22**	**(2,520)**	**-**	**5,618**	**(52)**	**3,068**
	At 31 December 2022	**20,774**	**290,457**	**(2,520)**	**244**	**13,860**	**(234,560)**	**88,255**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2022

Note	In DKK'000	2022	2021
	Operating activities		
	Result before tax	(44,144)	36,998
	Adjustments to reconcile profit before tax to net cash flows:		
	Finance income	(3,596)	(6,972)
	Finance costs	1,540	636
	Depreciation, amortization and impairment	26,078	22,253
	Gain/loss on the sale of non-current assets	-	(625)
	Share-based payment expense	5,674	3,107
	Working capital adjustments:		
	Change in inventories	(14,731)	(5,049)
	Change in trade and other receivables, right-of-return asset and prepayments	(23,232)	(21,126)
	Change in trade and other payables, provisions, refund liability and contract liabilities	29,709	(12,424)
	Interest received	7	19
	Interest paid	(1,355)	(377)
	Income tax received, net	84	(1,490)
	Net cash flows from operating activities	**(23,966)**	**14,950**
	Investing activities		
	Proceeds from sale of tangible assets	-	625
	Purchase of tangible assets	(2,402)	(7,111)
	Proceeds from sale of intangible assets	-	3,986
	Investments in intangible assets	(30,296)	(28,503)
	Investments in leasehold deposits	(40)	50
	Net cash from investing activities	**(32,738)**	**(30,953)**
	Free cash flow	**(56,704)**	**(16,003)**
	Financing activities		
	Capital increase	22	53
	Share buyback	(2,634)	(273)
	Repayment of financial lease liabilities	(3,002)	(3,328)
	Proceeds from borrowings	36,967	-
	Repayment of borrowings	(2,792)	(4,760)
	Net cash flows from financing activities	**28,561**	**(8,308)**
	Net change in cash and cash equivalents	**(28,143)**	**(24,311)**
	Net foreign exchange difference	656	1,062
	Cash and cash equivalents at 1 January	39,449	62,698
	Cash and cash equivalents at 31 December	**11,962**	**39,449**

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NOTE 1 CORPORATE INFORMATION

The consolidated financial statements of Napatech A/S and its subsidiary (collectively, the Group) for the year ended were authorized for issue in accordance with the resolution of the management on March 23 2023.

ESEF data

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

General

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

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

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

New and amended standards and interpretations that have become operative

All new or amended standards (IFRS) and interpretations (IFRIC) as adopted by the EU and which are effective for the financial year beginning on 1 January 2022 have been adopted. The implementation of these new or amended standards and interpretations had no material impact on the financial statements. The accounting policies have been applied consistently during the financial year and for the comparative figures. For standards implemented prospectively the comparative figures are not restated.

New financial reporting standards not yet adopted

Certain new accounting standards and interpretations have been published that are not yet in effect or endorsed by the EU and, therefore, not relevant for the preparation of 2022 consolidated financial statements. The Group expects to implement these standards as they take effect. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

iXBRL reporting

Napatech A/S has filed the Annual Report for 2022 in the European Single Electronic Format (ESEF), XHTML format, that can be displayed in a standard browser. The primary statements and notes in the consolidated financial statements are tagged using eXtensible Business Reporting Language (iXBRL), which complies with the ESEF taxonomy included in the ESEF Regulation.

The consolidated financial statements

The consolidated financial statements comprise the parent company, Napatech A/S, and its subsidiary. The subsidiary is 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's financial statements, using consistent accounting policies. The consolidated financial statements are prepared as a consolidation of the parent company's and the subsidiary’s financial statements, eliminating all intragroup balances, transactions, unrealized gains and losses, and dividends.

Currency translation

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.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 Group manufactures and sells network adapters including software to end-users and through third-party channel partners. The Group's sales contracts regarding network adapters do not include installation services or significant customization etc., and each sales transaction only relates to a single performance obligation. Extended warranties and technical product support regarding the network adapters are sold separately. The Group also provides specific engineering services according to separate contracts with customers.

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.

If a payment is received or due (whichever is earlier) from a customer before the Group transfers the related goods or services, the revenue is deferred and recognized as a contract liability until the Group performs under the contract. Contract liabilities associated with engineering service are recognized as revenue in the income statement based on the stage of completion (over time), which is determined on the basis of the relationship between the Group’s resources in relation to recent total estimate of resource consumption. The degree of completion is assessed regularly and the projects are closely monitored by management, and further adjustments are made to the stage of completion if deemed necessary. When performing this evaluation, all factors concerning the relevant contract are taken into consideration and assessed appropriately. Contract liabilities associated with extended warranties and technical product support are recognized as revenue in the income statement divided equally over the period stated in the contract, and the costs associated with providing the extended warranties and technical product support are recognized as they are incurred.

The Group applies the practical expedient to recognize incremental costs of obtaining a contract as they are incurred.

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

Cost of goods sold

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

Other operating income

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

Staff costs

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

Share-based payments

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

Costs relating to equity-settled share-based payments are recognized in the income statement under 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.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If 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.

Other external costs

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

Finance income and cost

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

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

Income tax for the year

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, including changes arising from changes in the tax rate, is 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.

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 and patents 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 the 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 and measured at cost less accumulated amortization. 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.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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	3 years
Leasehold improvements	5 years

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

Residual values and useful lives are reassessed on an annual basis. Changes in useful lives or residual values are accounted for as changes in accounting estimates.

Leases

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

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

A right-of-use asset and a lease liability 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.

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

Lease liabilities

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

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

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

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

Right-of-use assets

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

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

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. When the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the asset is considered impaired, and the carrying amount is reduced to the recoverable amount. The impairment loss is 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.

Inventories

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

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

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

Receivables

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks.

Equity

Share premium

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

Share-based payment reserve

The value of share options granted is 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.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in the share premium.

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

Contract liabilities

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

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

Statement of cash flows

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

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

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

Segment information

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

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

NOTE 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

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

Accounting estimates and uncertainty of estimates

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

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

The major assumptions concerning future events and other sources of estimation of uncertainties at the reporting date, which involve 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 profit. When assessing future profits, historical profits have been taken into account.

Due to uncertainty about the amount of tax losses that could be realized in the foreseeable future, the value of the deferred tax assets has been adjusted to DKK 0 thousand on December 31, 2022.

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, and 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 was DKK 35,102 thousand on December 31, 2022 (December 31 2021: DKK 26,685 thousand).

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

NOTE 4 OPERATING SEGMENTS

The following tables present revenue and gross profit information about the Group's operating segments for the years ended December 31, 2022, and 2021, respectively:

Year ended 31 December 2022:

DKK'000	AMERICAS	ROW	CONSOLIDATED
Revenue			
Total revenue	117,886	40,742	158,628
Cost of goods sold	(56,985)	(11,946)	(68,931)
Segment gross profit	**60,901**	**28,796**	**89,697**

NOTE 4 OPERATING SEGMENTS (CONTINUED)

Year ended 31 December 2021:

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

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

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

Adjustments and eliminations

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

Transactions with major customers

In 2022, the Group has 1 customer (2021: 1 customer) with revenue amounting to 10% or more of the total revenue of the Group. Revenue from this significant customer amounted to DKK 61,526 thousand (2021: DKK 53,352 thousand), corresponding to 39% (2021: 27%) of the Group revenue. Revenue from this customer is arising from the sales in the AMERICAS segment.

NOTE 5 OTHER OPERATING INCOME

Other operating income comprises gain on the sale of tangible assets. Other operating income amounted to DKK 0 thousand (2021: DKK 625 thousand).

NOTE 6 STAFF COSTS

Employee benefits expense is reported as follows:

DKK'000	2022	2021
Wages and salaries	85,575	78,651
Defined contribution schemes	3,779	3,413
Share-based payment expense (Note 8)	5,674	3,107
Social security costs	3,883	3,578
Total employee benefits expense	**98,911**	**88,749**
Average number of employees	**82**	**81**

NOTE 6 STAFF COSTS (CONTINUED)

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

Enployee benefits expense is reported as follows:	**2022**			**2021**		
	Executive management	Other management	Board of Directors	Executive management	Other management	Board of Directors
Short-term staff benefits	5,269	6,849	277	4,718	6,404	813
Defined contribution schemes	154	190	-	140	186	-
Share-based payment expense	860	1,298	2,609	1,026	946	-
Total compensation of key management personnel	**6,283**	**8,337**	**2,886**	**5,884**	**7,536**	**813**

The executive management in 2022 consisted of the CEO and the CFO, while other management consisted of the COO, CMO, and CR DO. Until February 2023, the CEO of Napatech was Ray Smets, and Henrik Brill Jensen was the COO. On February 27, 2023, Henrik Brill Jensen replaced Ray Smets as CEO of Napatech.

NOTE 7 RESEARCH AND DEVELOPMENT COSTS

Research and development costs, including annual amortization and impairment of completed development projects and development projects in progress recognized in the consolidated income statement, are DKK 47,082 thousand (2021: DKK 34,349 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 is DKK 53,485 thousand (2021: DKK 42,274 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. Members of the Board of Directors are eligible for share option schemes under corresponding terms as long as the holder is a member of the Board of Directors of the Group.

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

In 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.

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

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

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

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

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

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

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

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

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

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

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

Based on the same decision made by 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 by 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 by 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.

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

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

Based on the same decision made by General Assembly in April 2020 to issue 1,000,000 share options, the Board of Directors issued 10,000 share options in November 2021 (as some share options have reverted to the pool) with the nominal value of DKK 0.25 at an exercise price of NOK 17.48 (DKK 14.63). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first year of the share options' lifetime. The share options vest with 1/4 in each of the following 4 years.

Based on the decision made by General Assembly in April 2021 to issue 460,000 share options, the Board of Directors issued 407,000 share options in May 2021 with the nominal value of DKK 0.25 at an exercise price of NOK 19.70 (DKK 13.36). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first year of the share options' lifetime. The share options vest with 1/4 in each of the following 4 years.

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

Based on the decision made by General Assembly in April 2022 to issue 440,000 share options to members of the Board of Directors, the Board of Directors issued 114,487 share options in June 2022 with the nominal value of DKK 0.25 at an exercise price of DKK 0.25. The share options' lifetime is 2 years and 10 months. All the share options vest at grant date.

Based on the decision made by General Assembly in April 2022 to issue 440,000 share options to members of the Board of Directors, the Board of Directors issued 251,007 share options in June 2022 with the nominal value of DKK 0.25 at an exercise price of DKK 0.25. The share options' lifetime is 2 years and 10 months. The share options vest with 1/10 in each of the following 10 months.

The general terms for all issues based on the 2022 share options program to the Board of Directors are summarized as follows:
Earliest exercise date immediate from the grant date
Latest exercise date 2 years and 10 months from the grant date

Based on the decision made by General Assembly in April 2022 to issue 800,000 share options to key employees, the Board of Directors issued 300,000 share options in June 2022 with the nominal value of DKK 0.25 at an exercise price of NOK 11.00 (DKK 7.92). 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 2022 share options program to key employees are summarized as follows:
Earliest exercise date 1 year from the grant date
Latest exercise date 8 years from the grant date

	2022							
	Board of Directors		Management		Other Employees		Total	
Share options	**Number**	**Avg. ex. price**	**Number**	**Avg. ex. price**	**Number**	**Avg. ex. price**	**Number**	**Avg. ex. price**
At 1 January 2022	-	-	3,584,144	4.15	794,676	5.45	4,378,820	4.39
Granted during the year	365,494	0.25	300,000	7.92	-	-	665,494	3.71
Exercised/expired during the year	-	-	-	-	(16,716)	4.38	(16,716)	4.38
At 31 December 2022	**365,494**	**0.25**	**3,884,144**	**4.44**	**777,960**	**5.47**	**5,027,598**	**4.30**
Exercisable at 31 December 2022	**266,735**	**0.25**	**1,854,977**	**4.67**	**436,085**	**4.50**	**2,557,797**	**4.18**

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

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

In 2022, 11,716 options were exercised, and 5,000 lapsed (2021: 47,906 exercised and 374,418 lapsed). The following shows the exercise price of the outstanding share options and warrants:

Number of share options at 31 December	**2022**	**2021**
Exercise price DKK 8.00	306,000	306,000
Exercise price DKK 19.41	150,000	150,000
Exercise price DKK 3.88	626,935	628,101
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	1,605,925	1,609,975
Exercise price DKK 3.32	15,000	20,000
Exercise price DKK 2.89	934,000	935,500
Exercise price DKK 8.62	-	5,000
Exercise price DKK 14.63	392,000	392,000
Exercise price DKK 13.36	10,000	10,000
Exercise price DKK 0,25	365,494	-
Exercise price DKK 7,92	300,000	-
Total number of outstanding share options	**5,027,598**	**4,378,820**

The weighted average of the remaining contractual period of the outstanding share options from the 2017 share options program on December 31, 2022 is 3 years and 9 months (at December 31 2021: 4 years and 9 months). The weighted average of the remaining contractual period of the outstanding share options from the 2018 share options program on December 31, 2022 is 3 years and 9 months (at December 31 2021: 4 years and 9 months). The weighted average of the remaining contractual period of the outstanding share options from the 2019 share options program on December 31, 2022 is 4 years and 6 months (at December 31 2021: 5 years and 6 months). The weighted average of the remaining contractual period of the outstanding share options from the 2020 share options program on December 31, 2022 is 5 years and 5 months (at December 31 2021: 6 years and 5 months). The weighted average of the remaining contractual period of the outstanding share options from the 2021 share options program on December 31, 2022 is 6 years and 5 months (at December 31 2021: 7 years and 5 months). The weighted average of the remaining contractual period of the outstanding share options from the 2022 share options program on December 31, 2022 is 4 years and 9 months.

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

The fair value of share options and warrants granted during 2013, 2017, 2018, 2019, 2020, 2021 and 2022 was estimated on the date of grant using the following assumptions:

NOTE 8 SHARE-BASED PAYMENTS (CONTINUED)

	December 2013	May 2017	September 2018	December 2018	July 2019
Volatility	47.92%	50.50%	56.00%	67.71%	68.25%
Risk-free interest rate	1.65%	0.80% - 1.10%	1.80%	1.76%	1.40%
Exercise price (DKK)	8.00	19.41	3.88	2.45	3.88
Exercise period (years)	2.27	3.00 - 5.00	3.00 - 8.00	3.00 - 8.00	1.00 - 8.00
Number of options	520,700	150,000	779,600	55,000	133,756
Grant date fair value for each option (DKK)	20.10	3.88	2.04	1.50	0.54

	July 2019	July 2019	February 2020	May 2020	December 2020
Volatility	68.25%	68.25%	79.86%	81.73%	81.38%
Risk-free interest rate	1.40%	1.40%	1.35%	0.61%	0.95%
Exercise price (DKK)	1.46	1.16	3.32	2.89	8.62
Exercise period (years)	1.00 - 8.00	2.00 - 8.00	2.00 - 8.00	2.00 - 8.00	2.00 - 8.00
Number of options	133,488	1,736,800	20,000	995,000	5,000
Grant date fair value for each option (DKK)	0.75	0.78	2.69	2.16	6.55

	May 2021	November 2021	June 2022	June 2022	June 2022
Volatility	80.60%	80.54%	80.54%	80.54%	80.54%
Risk-free interest rate	1.47%	1.69%	3.18%	3.18%	3.18%
Exercise price (DKK)	14.63	13.36	0.25	0.25	7.92
Exercise period (years)	2.00 - 8.00	2.00 - 8.00	0 - 2.75	0.75 - 2.75	2.00 - 8.00
Number of options	407,000	10,000	114,487	251,007	300,000
Grant date fair value for each option (DKK)	11.07	10.18	7.68	7.67	6.12

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 2022, the Group has recognized a share-based payment expense of DKK 5,674 thousand in the income statement (2021: DKK 3,107 thousand). DKK 2,609 thousand was recognized in relation to Board of Directors (2021: DKK 0 thousand), DKK 2,158 thousand was recognized in relation to Management (2021: DKK 1,972 thousand) and DKK 907 thousand in relation to others (2021: DKK 1,135 thousand).

NOTE 9 AUDITORS' FEE

DKK'000	2022	2021
Fees to the Company's auditor appointed by the general meeting:		
Statutory audit fee	594	521
Assurance engagements	-	60
Tax advisory fee	46	-
Fees for other services	26	13
Total auditors' fees	**666**	**594**

The fee in relation to non-audit services from EY Godkendt Revisionspartnerselskab, DKK 72 thousand, consists of tax advice regarding transfer pricing and general accounting advice.

NOTE 10 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

DKK'000	2022	2021
Depreciation, amortization and impairment are reported as follows:		
Depreciation of plant and equipment	3,218	985
Depreciation of leasehold improvements	337	329
Depreciation of right-of-use assets	2,773	2,941
Total depreciation of tangible assets	**6,328**	**4,255**
Amortization of patents	665	690
Amortization of completed development projects	19,085	17,308
Total amortization and impairment of intangible assets	**19,750**	**17,998**
Total depreciation, amortization and impairment	**26,078**	**22,253**

NOTE 11 FINANCE INCOME

DKK'000	2022	2021
Interest receivable from banks	7	19
Foreign exchange gains	3,589	4,594
Other finance income	-	2,359
Total finance income	**3,596**	**6,972**
Finance income at amortized costs	**7**	**2,378**

NOTE 12 FINANCE COSTS

DKK'000	2022	2021
Interest payable to banks	921	197
Interest payable under leases	184	259
Other finance costs	435	180
Total finance costs	**1,540**	**636**
Finance costs at amortized costs	**1,540**	**636**

NOTE 13 INCOME TAX

DKK'000	2022	2021
Current tax recognised in the consolidated income statement:		
Current income tax	7	1,281
Current income tax carry back refund	(5,500)	-
Change in deferred tax	9,715	(4,783)
Adjustment prior years taxes	(107)	272
Total income tax	**4,115**	**(3,230)**

A reconciliation between tax expense and profit before tax multiplied by the applicable income tax rate for the Group for 2022 and 2021 is as follows:

DKK'000	2022	2021
Profit before tax	(44,144)	36,998
At the applicable Danish income tax rate for the Group, 22.0% (2020: 22.0%)	(9,712)	8,140
Tax effect of:		
Tax-deductable expenses	(3,041)	(2,236)
Non-deductible expenses	1,030	447
Accounting estimate for not recognized deferred tax assets	16,569	(10,891)
Adjustment prior year taxes	(107)	272
Other deviations in foreign subsidiaries including other tax rates	(624)	1,038
At the effective income tax rate of -9% (2021: -9%)	**4,115**	**(3,230)**

NOTE 14 EARNINGS PER SHARE

DKK'000	2022	2021
Net profit attributable to equity holders of the parent company for basic earnings and the effect of dilution	(48,259)	40,228

	2022	2021
	Thousands	*Thousands*
Weighted average number of shares for basic earnings per share	83,084	83,084
Effect of dilution:		
Share options	2,933	3,040
Weighted average number of shares adjusted for the effect of dilution	**86,017**	**86,124**

NOTE 15 INTANGIBLE ASSETS

DKK'000	Development projects, completed 2022	Development projects, completed 2021	Development projects, in progress 2022	Development projects, in progress 2021	Patents 2022	Patents 2021	Other intangible assets 2022	Other intangible assets 2021	Total 2022	Total 2021
Cost at 1 January	276,862	256,197	40,807	32,978	10,435	10,426	2,139	2,139	330,243	301,740
Additions in the year	-	-	30,296	28,494	-	9	-	-	30,296	28,503
Transfers in the year	27,502	20,665	(27,502)	(20,665)	-	-	-	-	-	-
Disposals	-	-	(25,218)	-	-	-	(2,139)	-	(27,357)	-
Cost at 31 December	**304,364**	**276,862**	**18,383**	**40,807**	**10,435**	**10,435**	**-**	**2,139**	**333,182**	**330,243**
Accumulated impairment and amortization at 1 January	250,177	232,869	25,218	25,218	7,419	6,729	2,139	2,139	284,953	266,955
Amortization for the year	19,085	17,308	-	-	665	690	-	-	19,750	17,998
Disposals	-	-	(25,218)	-	-	-	(2,139)	-	(27,357)	-
Accumulated amortization and impairment at 31 December	**269,262**	**250,177**	**-**	**25,218**	**8,084**	**7,419**	**-**	**2,139**	**277,346**	**284,953**
Carrying amount at 31 December	**35,102**	**26,685**	**18,383**	**15,589**	**2,351**	**3,016**	**-**	**-**	**55,836**	**45,290**

Within the completed development projects there are 3 material development projects with a carrying amount of DKK 12,798 thousand, DKK 4,324 thousand and DKK 4,134 thousand on December 31, 2022, respectively (December 31 2021, the first project was in progress with a carrying amount of DKK 7,474 thousand, the second project was completed with a carrying amount of DKK 7,207 thousand and the third project was in progress with a carrying amount of DKK 1,586 thousand). The first project is aimed to enhance the feature set on Napatech's virtual switching solution implementing new features such as RSS, HW QoS, and OpenStack RDO. The second project is Napatech's virtual switching solution aimed at developing a full virtualization data plane offload solution. The third project is a native DPDK driver aimed to be integrated into Napatech's virtual switching solution. The remaining amortization periods of these 3 projects are 2 years and 5 months, 1 year and 6 months and 2 years and 10 months, respectively.

Within the in-progress development projects there is 1 material development projects with a carrying amount of DKK 13,353 thousand on December 31, 2022 (December 31 2021, the carrying amount was 4,315 thousand). The aim of the project is to develop Napatech's NT400D13 HW platform capable of delivering full throughput for 2x100G.

The Group recognized DKK 0 thousand as an impairment in 2022 (2021: DKK 0 thousand) in respect of the Group's development projects and patents.

At year-end 2022, 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 assessing 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 2023 and cash flow projections for a three-year period. The three-year cash flow projections are based on a three-year strategic plan and investment budget, which are approved by the board of directors. The assumed CAGR from 2022 to 2025 assumed in the impairment test is 39%. Due to uncertainty on projections, the impairment test is therefore based on a finite life span of 3 years equalling the estimated useful life, and does not include any terminal period.
- Discount rates representing the current market assessment of the risks specific to the development project were 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 only had a marginal impact on the impairment test. A discount rate after tax of 20% is used in the impairment test. A sensitivity analysis has been performed on the impartment test showing a DKK 0.6 million impairment need if a discount rate after tax of 22% is used. Similarly, a sensitivity analysis has been performed on the impartment test showing a DKK 0.3 million impairment need if the CAGR for the period is lowered by 1%.

NOTE 16 TANGIBLE ASSETS

	Plant and equipment		Leasehold improvements		Total	
DKK'000	2022	2021	2022	2021	2022	2021
Cost at 1 January	38,996	34,354	5,975	5,198	44,971	39,552
Additions	2,157	6,356	245	755	2,402	7,111
Disposals in the period	(28,241)	(1,771)	(4,546)	-	(32,787)	(1,771)
Currency adjustment	41	57	22	22	63	79
Cost at 31 December	**12,953**	**38,996**	**1,696**	**5,975**	**14,649**	**44,971**
Accumulated depreciation at 1 January	32,391	33,126	5,248	4,897	37,639	38,023
Depreciation for the year	3,218	985	337	329	3,555	1,314
Disposals in the period	(28,241)	(1,771)	(4,546)	-	(32,787)	(1,771)
Currency adjustment	34	51	22	22	56	73
Accumulated depreciation at 31 December	**7,402**	**32,391**	**1,061**	**5,248**	**8,463**	**37,639**
Carrying amount at 31 December	**5,551**	**6,605**	**635**	**727**	**6,186**	**7,332**

In 2022, 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 (2021: DKK 0 thousand). Disposals in 2022 are due to scrapping.

NOTE 17 LEASING

Right-Of-Use Assets

	Properties		Plant and equipment		Total	
DKK'000	2022	2021	2022	2021	2022	2021
Balance at 1 January	6,538	9,154	457	258	6,995	9,412
Currency adjustment	-	95	-	-	-	95
Additions	-	-	486	522	486	522
Depreciation for the year	(2,531)	(2,618)	(242)	(324)	(2,773)	(2,941)
Currency adjustment	-	(93)	-	-	-	(93)
Carrying amount at 31 December	**4,007**	**6,538**	**701**	**457**	**4,708**	**6,995**

Lease Liabilities

DKK'000	2022	2021
Maturity of lease liabilities:		
Falling due within one year	2,929	2,726
Falling due between one and three years	1,970	4,459
Falling due between four and five years	47	86
Total lease liabilities	**4,946**	**7,271**

See note 2 for a description of the extent of the Group's leases, exposure to potential cash flows and the process of determining the discount rate.

NOTE 17 LEASING (CONTINUED)

Amounts recognized in the consolidated income statement

DKK'000	2022	2021
Depreciation	2,773	2,941
Finance costs	184	259
Expense relating to low-value assets (included in other external costs)	6	3
Expense relating to short-term leases (included in other external costs)	146	-
Total lease costs recognized in the consolidated income statement	**3,109**	**3,203**

For 2022, the Group has recognized DKK 3,002 thousand (2021: DKK 3,328 thousand) as minimum payments regarding lease agreements, of which interest costs related to lease liabilities amount to DKK 184 thousand (2021: DKK 259 thousand) and repayments on lease liabilities amount to DKK 2,818 thousand (2021: DKK 3,069 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	2022	2021	2022	2021
Tax losses carry-forwards	(10,024)	(18,251)	8,227	(8,707)
Intangible assets	12,151	9,717	2,434	2,642
Tangible assets	(825)	448	(1,273)	28
Lease liabilities	(1,088)	(1,600)	512	506
Provision for expected credit loss	(214)	(15)	(199)	(8)
Other receivables	-	-	-	706
Right-of-return asset and refund liability	-	(14)	14	50
Deferred tax liability / (asset) and expense / (income)	**-**	**(9,715)**	**9,715**	**(4,783)**

DKK'000	2022	2021
Reconciliation of deferred tax liability / (asset) is as follows:		
Opening balance at 1 January	(9,715)	(4,932)
Adjustment recognized in consolidated income statement	9,715	(4,783)
Closing balance at 31 December	**-**	**(9,715)**

The Group has tax losses of DKK 188,589 thousand (2021: DKK 150,382 thousand) that are available indefinitely for offsetting against future taxable profit. In 2022 the deferred tax assets were not 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 31,466 thousand (2021: DKK 24,548 thousand). See note 3 for a description of the assumptions used for recognizing deferred tax assets.

NOTE 19 INVENTORIES

DKK'000	2022	2021
Consumables and components	13,646	9,330
Finished goods and goods for resale	25,208	14,793
Total inventories	**38,854**	**24,123**
Carrying value of inventories recognised at fair value	**-**	**-**

The cost of goods sold for the year is DKK 68,931 thousand (2021: DKK 55,113 thousand), which also includes movements in inventory write-down for the year. Movements in inventory write-down are as follows:

DKK'000	2022	2021
Inventory writedown at 1 January	16,331	16,995
Inventory writedown for the year	1,026	135
Reversal of inventory wirtedown	(17,227)	(799)
Inventory writedown at 31 December	**130**	**16,331**

In 2022 DKK 1,026 thousand (2021: 135 DKK) was recognized as an impairment expense. The impairment expense was partly related to decisions to end of life of certain products for inventories, carried at net realizable value. Reversal of inventory write-down relates mainly to products that have now been scrapped.

NOTE 20 TRADE AND OTHER RECEIVABLES

DKK'000	2022	2021
Receivables recognized in the consolidated statement of financial position:		
Trade receivables	59,553	37,514
Other receivables	8,808	4,915
Total current receivables	**68,361**	**42,429**

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

DKK'000	2022	2021
At 1 January	942	536
Provision in the year	651	406
At 31 December	**1,593**	**942**

See note 28 for the ageing analysis of trade receivables and description of the credit risk.

NOTE 21 INCOME TAX RECEIVABLES

DKK'000	2022	2021
At 1 January	-	47
Income tax carry back refund	5,500	-
Income tax carry back refund received during the year	-	(47)
At 31 December	**5,500**	**-**

NOTE 22 ISSUED CAPITAL AND RESERVES

	2022	2021
Authorised shares	*thousands*	*thousands*
Ordinary shares of DKK 0.25 each at 1 january	83,095	83,068
Increase in ordinary shares DKK 0.25 each	-	27
Ordinary shares of DKK 0.25 each at 31 December	**83,095**	**83,095**

Ordinary shares and fully paid	Thousands	DKK'000
At 1 January 2022	83,095	20,774
Exercise of share options for cash during the year	-	-
At 31 December 2022	**83,095**	**20,774**

DKK'000	2022	2021
Share premium		
At 1 January	290,435	290,330
Issue of shares for cash in excess of the cost of ordinary shares during the year	22	46
Reversals regarding exercised share options	-	59
At 31 December	**290,457**	**290,435**

Treasury shares

Treasury shares have been acquired with the purpose to settle share options in the Group's share option program.
The reduction in the treasury share equity component is equal to the cost incurred to acquire the shares, on a weighted average basis. Any excess of the cash received from employees over the reduction in treasury shares is recorded in share premium and any deficit of cash received is recorded in retained earnings.

NOTE 22 ISSUED CAPITAL AND RESERVES (CONTINUED)

Movements in treasury shares are as follows:

DKK'000	2022	Number of shares of DKK 0.25	Percentage of share capital
		thousands	
At 1 January	-	-	-
Share buyback	(2,634)	(272)	-0.3%
Issued for cash on exercise of share options	114	12	0.0%
At 31 December	**(2,520)**	**(260)**	**-0.3%**

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, and the Board of Directors 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	2022	2021
At 1 January	8,242	6,744
Share-based payment expense (Note 8)	5,674	3,107
Reversals regarding exercised and lapsed share options	(56)	(1,609)
At 31 December	**13,860**	**8,242**

NOTE 23 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK'000	2022	2021
Financial assets measured at amortized cost:		
Leasehold deposits	1,397	1,357
Trade receivables	59,553	37,514
Other receivables	8,808	936
Cash and cash equivalents	11,962	39,449
Total financial assets	**81,720**	**79,256**
Financial liabilities measured at amortized cost:		
Other financial liabilities	4,568	4,860
Interest-bearing loans and borrowings	43,528	9,061
Trade payables	11,821	10,990
Total financial liabilities	**59,917**	**24,911**

Carrying amounts of financial assets and financial liabilities approximate their fair value. The main part of the financial liabilities is current/short-termed. Loans and overdraft facilities are subject to variable interest rates.

NOTE 24 CONTRACT LIABILITIES

Contract liabilities relate to prepayment from customers regarding engineering services, extended warranties and technical product support. The movements in contract liabilities are as follows:

DKK'000	2022	2021
At 1 January	2,681	-
Deferred during the year	34,312	2,681
Recognized as revenue during the year	(2,681)	-
At 31 December	**34,312**	**2,681**

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) on 31 December are expected to be recognized as revenue in the income statement as follows:

DKK'000	2022	2021
Within one year	30,568	2,659
More than one year	3,744	-
	34,312	**2,659**

The remaining performance obligation expected to be recognized as revenue in more than one year primarily relates to extended warranties.

NOTE 25 LIABILITIES FROM FINANCING ACTIVITIES

2022					
DKK'000	At 1 January	Currency adjustment	Non-cash	Cash flows	At 31 December
Interest bearing loans and borrowings	9,061	-	-	34,467	43,528
Other financial liabilities	4,860	-	-	(292)	4,568
Lease liabilities	7,271	-	677	(3,002)	4,946
Total liabilities from financing activities	**21,192**	**-**	**677**	**31,173**	**53,042**

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

NOTE 26 COMMITMENTS AND CONTINGENCIES

Collaterals

The Group has issued a floating charge in the amount of DKK 40 million (2021: DKK 30 million) secured on receivables, inventories, patents and plant and equipment with a carrying amount of DKK 85,812 thousand (2021: DKK 33,447 thousand) as collateral for loans.

NOTE 27 RELATED PARTY DISCLOSURES

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 December 31, 2022, Verdane Capital VIII owns 27.21% (2021: 27.22%).

Related parties also include the shareholders' portfolio companies, as they are subject to the same significant influence as the Group. The Group had no transactions with either the shareholders or their portfolio companies in 2022 and 2021.

Transactions with key management personnel

Remunerations, salaries, and share-based payments to the Board of Directors and the Executive Management are reflected in note 6. There were no other transactions with the Board of Directors and the Executive Management in 2022 and 2021.

NOTE 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise interest-bearing loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has trade and other receivables, cash, and long-term leasehold deposits that derive directly from its operations.

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 2022, the Group has 2 customers (2021: 3 customers) that owed the Group more than 10% of all trade receivables. The credit risk associated with these 2 customers has been assessed as low and the amounts receivable on 31 December 2022 at DKK 27,889 thousand and DKK 8,494 thousand respectively have been fully paid in January 2023.

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 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 economic development, political risks, etc., in the given market.

NOTE 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	2022			
DKK'000	Loss percentage	Receivable	Expected loss	Total
Not past due	0.9%	27,024	256	26,768
Past due for less than 30 days	2.3%	29,910	694	29,216
Past due between 30 and 60 days	4.7%	3,678	174	3,504
Past due between 60 and 90 days	8.0%	25	2	23
Past due after 90 days	91.7%	509	467	42
Total maximum credit risk		**61,146**	**1,593**	**59,553**

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

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

Other receivables
Other receivables on December 31, 2022 primarily consist of inventory support payment to the manufacturing company used by the Group and will be repaid as the inventory need regarding the Group declines. The Group consider the credit risk regarding this receivable to be low based on many years experience of close collaboration with the manufacturing company.

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 on December 31, 2022, and 2021 is the carrying amounts as illustrated in note 23.

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.

December 31, 2022 the Group had unused credit facilities of DKK 3.4 million (unused credit facilities December 31, 2021: DKK 0).

NOTE 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

In March 2022, the Group established a new overdraft facility of DKK 30 million in Denmark in addition to the facility in the US of USD 1 million. The overdraft facility in Denmark is up for renewal in May 2023, and it is the assessment of management that the overdraft facilities will be renewed, as management has no indications of otherwise. The facility in the US is up for renewal in March 2024. In addition to the new overdraft facility, the Group has established a loan of DKK 10 million to be repaid in six years with a grace period until January 1, 2024. In February 2023, Napatech announced an agreement for a DKK 52.2 million investment in Napatech. The investment will be made through a private placement of 6,200,738 shares at NOK 12.34 per share, representing 6.94% of the issued share capital of the Company post-delivery of the new shares. The closing date of the transaction is expected to be around April 14.

The cash available together with the unused credit facilities and the announced issue of new shares are assessed to be sufficient to cover the Group's obligations and planned investments as they fall due for a period of at least 12 months from December 31, 2022.

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

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

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

			2022		
DKK'000	**Jan - Mar**	**Apr - Dec**	**1 - 2 years**	**over 2 year**	**Total**
Leasehold deposits	-	-	-	1,397	1,397
Trade receivables	59,553	-	-	-	59,553
Other receivables	635	8,173	-	-	8,808
Cash and cash equivalents	11,962	-	-	-	11,962
Total financial assets	**72,150**	**8,173**	**-**	**1,397**	**81,720**

			2022		
DKK'000	**Jan - Mar**	**Apr - Dec**	**1 - 2 years**	**over 2 year**	**Total**
Interest-bearing loans and borrowings	195	27,843	9,935	9,901	47,874
Other financial liabilities	-	175	-	4,393	4,568
Trade payables	11,821	-	-	-	11,821
Total financial liabilities	**12,016**	**28,018**	**9,935**	**14,294**	**64,263**

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

NOTE 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	2021			
DKK'000	Jan - Mar	Apr - Dec	over 1 year	Total
Interest-bearing loans and borrowings	2,500	-	6,561	9,061
Other financial liabilities	-	280	4,860	5,140
Trade payables	10,990	-	-	10,990
Total financial liabilities	**13,490**	**280**	**11,421**	**25,191**

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates mainly to the Group's interest-bearing loans in the amount of DKK 43,528 thousand (2021 DKK 9,061 thousand). The interest rates on the Group´s loans and credit facilities are variable and in the range of 4.16% - 8.50% at the end of December 2022. 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.

	Effect on profit before tax		Effect on equity	
DKK'000	2022	2021	2022	2021
Change in USD by +/÷ 5%	+/÷ 3,117	+/÷ 2,954	+/÷ 2,431	+/÷ 2,304
Change in USD by +/÷ 10%	+/÷ 6,233	+/÷ 5,908	+/÷ 4,862	+/÷ 4,608

Capital management

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

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

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

NOTE 29 EVENTS AFTER THE REPORTING PERIOD

On February 17, 2023, Napatech announced an agreement for a DKK 52.2 million investment in Napatech. The investment will be made through a private placement of 6,200,738 shares at NOK 12.34 per share, representing 6.94% of the issued share capital of the Company post-delivery of the new shares. The closing date of the transaction is expected to be around April 14, 2023. On February 27, 2023, Henrik Brill Jensen replaced Ray Smets as CEO of Napatech. There have been no other significant events after December 31, 2022, that might affect the consolidated financial statements.

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT

For the year ended 31 December 2022

Note	DKK'000	2022	2021
	Revenue	122,534	164,409
	Cost of goods sold	(68,248)	(55,113)
	Gross profit	**54,286**	**109,296**
2	Other operating income	-	625
3, 6	Staff costs	(68,812)	(60,886)
4	Transferred to capitalized development costs	23,270	23,608
4, 5	Other external costs	(31,952)	(20,876)
	Operating profit before depreciation, amortization and impairment (EBITDA)	**(23,208)**	**51,767**
7	Depreciation, amortization and impairment	(26,028)	(22,146)
	Operating result (EBIT)	**(49,236)**	**29,621**
8	Finance income	3,589	6,953
9	Finance costs	(1,366)	(605)
	Result before tax	**(47,013)**	**35,969**
10	Income tax	(4,223)	4,771
	Result for the year	**(51,236)**	**40,740**

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

Note	DKK'000	2022	2021
	Result for the year	**(51,236)**	**40,740**
	Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**-**	**-**
	Total comprehensive income for the year, net of tax	**(51,236)**	**40,740**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2022

ASSETS

Note	DKK'000	2022	2021
	Development projects, completed	35,102	26,685
	Development projects, in progress	18,383	15,589
	Patents	2,351	3,016
11	**Intangible assets**	**55,836**	**45,290**
12	Plant and equipment	5,446	6,492
13	Right-of-use assets	4,708	6,995
12	Leasehold improvements	635	727
	Tangible assets	**10,789**	**14,214**
14	Investments in subsidiaries	7,599	6,590
15	Deferred tax asset	-	9,715
20	Leasehold deposits	1,389	1,349
	Other non-current assets	**8,988**	**17,654**
	Non-current assets	**75,613**	**77,158**
16	Inventories	38,854	24,123
17, 20	Trade receivables	39,161	6,308
17, 20	Receivables from group entities	5,220	47,853
	Right-of-return asset	-	17
	Prepayments	1,040	-
17, 20	Other receivables	8,808	4,822
18	Income tax receivable	5,500	-
20	Cash and cash equivalents	6,887	7,002
	Current assets	**105,470**	**90,125**
	Total assets	**181,083**	**167,283**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2022

EQUITY AND LIABILITIES

Note	DKK'000	2022	2021
19	Issued capital	20,774	20,774
19	Share premium	290,457	290,435
19	Treasury shares	(2,520)	-
19	Share-based payment reserve	13,860	8,242
	Reserve for development project costs	41,718	32,973
	Retained earnings	(280,003)	(219,969)
	Equity	**84,286**	**132,455**
20, 22	Interest-bearing loans and borrowings	9,758	-
20, 22	Other financial liabilities	4,568	4,860
13, 20, 22	Lease liabilities	2,017	4,545
21	Contract liabilities	3,744	-
	Non-current liabilities	**20,087**	**9,405**
20, 22	Interest-bearing loans and borrowings	26,798	2,500
13, 20, 22	Lease liabilities	2,929	2,726
20	Trade payables	11,821	10,990
	Other payables	4,594	6,171
21	Contract liabilities	30,568	2,659
	Provisions	-	297
	Refund liability	-	80
	Current liabilities	**76,710**	**25,423**
	Total liabilities	**96,797**	**34,828**
	Total equity and liabilities	**181,083**	**167,283**

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022

Note	DKK'000	Share capital	Share premium	Treasury shares	Share based payment reserve	Reserve for develop-ment project costs	Retained earnings	Total equity
	At 1 January 2021	**20,767**	**290,330**	**-**	**6,744**	**24,249**	**(253,300)**	**88,790**
	Result for the year	-	-	-	-	8,724	32,016	40,740
	Total comprehensive income	**-**	**-**	**-**	**-**	**8,724**	**32,016**	**40,740**
	Issue of shares	7	46	-	-	-	-	53
	Share buyback	-	-	-	-	-	(273)	(273)
	Reversal, exercised and lapsed share options	-	59	-	(1,609)	-	1,588	38
6	Share-based payments	-	-	-	3,107	-	-	3,107
	Total transactions with shareholders	**7**	**105**	**-**	**1,498**	**-**	**1,315**	**2,925**
	At 31 December 2021	**20,774**	**290,435**	**-**	**8,242**	**32,973**	**(219,969)**	**132,455**
	Result for the year	-	-	-	-	8,745	(59,981)	(51,236)
	Total comprehensive income	**-**	**-**	**-**	**-**	**8,745**	**(59,981)**	**(51,236)**
	Issue of shares	-	22	-	-	-	-	22
	Share buyback	-	-	(2,634)	-	-	-	(2,634)
	Reversal, exercised and lapsed share options	-	-	114	(56)	-	(53)	5
6	Share-based payments	-	-	-	5,674	-	-	5,674
	Total transactions with shareholders	**-**	**22**	**(2,520)**	**5,618**	**-**	**(53)**	**3,067**
	At 31 December 2022	**20,774**	**290,457**	**(2,520)**	**13,860**	**41,718**	**(280,003)**	**84,286**

PARENT COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2022

Note	DKK'000	2022	2021
	Operating activities		
	Result before tax	(47,013)	35,969
	Adjustments to reconcile profit before tax to net cash flows:		
	Finance income	(3,589)	(6,953)
	Finance costs	1,366	605
	Depreciation, amortization and impairment	26,028	22,146
	Gain/loss on the sale of non-current assets		(625)
	Share-based payment expense	4,665	2,023
	Working capital adjustments:		
	Change in inventories	(14,731)	(5,400)
	Change in trade and other receivables, right-of-return asset, prepayments and intercompany receivables	8,594	(18,915)
	Change in trade and other payables, provisions, refund liability and contract liabilities	29,614	(6,892)
	Interest received	-	-
	Interest paid	(1,182)	(348)
	Income tax received, net	(24)	51
	Net cash flows from operating activities	**3,728**	**21,661**
	Investing activities		
	Proceeds from sale of tangible assets	-	625
	Purchase of tangible assets	(2,367)	(6,989)
	Proceeds from sale of intangible assets	-	3,986
	Investments in intangible assets	(30,296)	(28,503)
	Investments in leasehold deposits	(40)	(39)
	Net cash from investing activities	**(32,703)**	**(30,920)**
	Free cash flow	**(28,975)**	**(9,259)**
	Financing activities		
	Capital increase	22	53
	Share buyback	(2,634)	(273)
	Repayment of lease liabilities	(3,002)	(3,088)
	Proceeds from borrowings	36,556	-
	Repayment of borrowings	(2,792)	(11,321)
	Net cash flows from financing activities	**28,150**	**(14,629)**
	Net change in cash and cash equivalents	**(825)**	**(23,888)**
	Net foreign exchange difference	710	461
	Cash and cash equivalents at 1 January	7,002	30,429
	Cash and cash equivalents at 31 December	**6,887**	**7,002**

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NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

General

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

Dividends

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

Investments in subsidiaries

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

Share-based payments to employees in subsidiaries

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

Equity reserve for development project costs

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

NOTE 2 OTHER OPERATING INCOME

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

NOTE 3 STAFF COSTS

DKK'000	2022	2021
Employee benefits expense is reported as follows:		
Wages and salaries	60,125	55,246
Defined contribution schemes	3,428	3,075
Share-based payment expense	4,665	2,023
Social security costs	594	542
Total employee benefits expense	**68,812**	**60,886**
Average number of employees	**67**	**64**

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

NOTE 4 RESEARCH AND DEVELOPMENT COSTS

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

NOTE 5 AUDITORS' FEES

DKK'000	2022	2021
Fees to the Company's auditor appointed by the general meeting:		
Statutory audit fee	594	521
Assurance engagements	-	60
Tax advisory fee	46	-
Fees for other services	26	13
Total auditors' fees	**666**	**594**

The fee in relation to non-audit services from EY Godkendt Revisionspartnerselskab, DKK 72 thousand, consists of tax advice regarding transfer pricing and general accounting advice.

NOTE 6 SHARE-BASED PAYMENT EXPENSE

The share options described in note 8 to the consolidated financial statements are issued by the parent company. The value of share options granted to employees in the fully owned US-based subsidiary is recognised as cost of the investment in the subsidiary. Out of the Group's total share-based payment expense of DKK 5,674 thousand (2021: DKK 3,107 thousand), DKK 1,009 thousand (2021: DKK 1,086 thousand) has been recognised as an additional cost of the investment in the subsidiary see note 14.

NOTE 7 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

DKK'000	2022	2021
Depreciation, amortization and impairment are reported as follows:		
Depreciation plant and property	3,168	964
Depreciation of leasehold improvements	337	329
Depreciation of right-of-use assets	2,773	2,855
Total depreciation of tangible assets	**6,278**	**4,148**
Amortization of patents	665	690
Amortization of completed development projects	19,085	17,308
Total amortization and impairment of intangible assets	**19,750**	**17,998**
Total depreciation, amortization and impairment	**26,028**	**22,146**

NOTE 8 FINANCE INCOME

DKK'000	2022	2021
Foreign exchange gains	3,589	4,594
Other finance income	-	2,359
Total finance income	**3,589**	**6,953**
Finance income at amortized costs	**-**	**2,359**

NOTE 9 FINANCE COSTS

DKK'000	2022	2021
Interest payable to banks	747	191
Interest payable under leases	184	257
Other finance costs	435	157
Total finance costs	**1,366**	**605**
Finance costs at amortized costs	**1,366**	**605**

NOTE 10 INCOME TAX

DKK'000	2022	2021
Current tax recognised in the parent company income statement:		
Current income tax	-	16
Current income tax carry back refund	(5,500)	-
Change in deferred tax	9,715	(4,783)
Adjustment prior years taxes	8	(4)
Total income tax	**4,223**	**(4,771)**

A reconciliation between tax expense and profit before tax multiplied by the applicable income tax rate for the parent company for 2022 and 2021 is as follows:

DKK'000	2022	2021
Profit before tax	(47,013)	35,969
At the applicable Danish income tax rate for the parent company, 22% (2021: 22%)	(10,343)	7,913
Tax effect of:		
Tax deductable expenses	(3,041)	(2,236)
Non-deductible expenses	1,030	447
Accounting estimate for not recognized deferred tax assets	16,569	(10,891)
Adjustment prior years taxes	8	(4)
At the effective income tax rate of -9% (2021: -13%)	**4,223**	**(4,771)**

NOTE 11 INTANGIBLE ASSETS

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

NOTE 12 TANGIBLE ASSETS

	Plant and equipment		Leasehold improvements		Total	
DKK'000	2022	2021	2022	2021	2022	2021
Cost at 1 January	38,414	33,563	5,701	4,946	44,115	38,509
Additions	2,122	6,234	245	755	2,367	6,989
Disposals in the period	(28,078)	(1,383)	(4,242)	-	(32,320)	(1,383)
Cost at 31 December	**12,458**	**38,414**	**1,704**	**5,701**	**14,162**	**44,115**
Accumulated depreciation at 1 January	31,922	32,341	4,974	4,645	36,896	36,986
Depreciation for the year	3,168	964	337	329	3,505	1,293
Disposals in the period	(28,078)	(1,383)	(4,242)	-	(32,320)	(1,383)
Accumulated depreciation at 31 December	**7,012**	**31,922**	**1,069**	**4,974**	**8,081**	**36,896**
Carrying amount at 31 December	**5,446**	**6,492**	**635**	**727**	**6,081**	**7,219**

In 2022, the parent company tested the tangible assets for impairment. In relation to this, the parent company recognised DKK 0 as an impairment in the reporting period (2021: DKK 0). Disposals in 2022 are due to scrapping.

NOTE 13 LEASING

Right-Of-Use Assets

	Properties		Plant and equipment		Total	
DKK'000	2022	2021	2022	2021	2022	2021
Cost at 1 January	6,538	9,069	458	259	6,995	9,327
Additions	-	-	486	523	486	523
Depreciation for the year	(2,531)	(2,531)	(242)	(324)	(2,773)	(2,855)
Carrying amount at 31 December	**4,007**	**6,538**	**702**	**458**	**4,708**	**6,995**

Lease Liabilities

DKK'000	2022	2021
Maturity of lease liabilities:		
Falling due within one year	2,929	2,726
Falling due between one and three years	1,970	4,459
Falling due between four and five years	47	86
Total lease liabilities	**4,946**	**7,271**

See note 2 to the consolidated financial statements for a description of the extent of the Group's leases, exposure to potential cash flows and the process of determining the discount rate.

NOTE 13 LEASING (CONTINUED)

Amounts recognised in the parent company income statement

DKK'000	2022	2021
Depreciation	2,773	2,855
Finance costs	184	257
Expense relating to low-value assets (included in other external costs)	6	3
Expense relating to short-term leases (included in other external costs)	39	-
Total lease costs recognized in the parent company income statement	**3,002**	**3,115**

For 2022, the parent company has recognised DKK 3,002 thousand (2021: DKK 3,088 thousand) as minimum payments regarding lease agreements, of which interest costs related to lease liabilities amount to DKK 184 thousand (2021: DKK 257 thousand) and repayments on lease liabilities amount to DKK 2,818 thousand (2020: DKK 2,831 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	2022	2021
Cost at 1 January	11,340	10,254
Value of share-based payment to employees in subsidiaries	1,009	1,086
Cost at 31 December	**12,349**	**11,340**
Accumulated impairment at 1 January	4,750	4,750
Accumulated impairment at 31 December	**4,750**	**4,750**
Carrying amount at 31 December	**7,599**	**6,590**

The parent company’s investments in subsidiaries at 31 December 2022 and 2021 consist of the following:

		Ownership in %		Proportion of voting rights in %		
Name	**Country**	**2022**	**2021**	**2022**	**2021**	**Business activity**
Napatech Inc.	USA	100	100	100	100	Sale and distribution of the Group's products

DKK'000	Result for the year		Equity	
Name	**2022**	**2021**	**2022**	**2021**
Napatech Inc.	3,985	573	11,568	7,607

NOTE 15 DEFERRED TAX

DKK'000	Statement of financial position 2022	Statement of financial position 2021	Income statement 2022	Income statement 2021
Tax losses carry-forwards	(10,024)	(18,251)	8,227	(8,707)
Intangible assets	12,151	9,717	2,434	2,642
Tangible assets	(825)	448	(1,273)	28
Lease liabilities	(1,088)	(1,600)	512	506
Provision for expected credit loss	(214)	(15)	(199)	(8)
Other receivables	-	-	-	706
Right-of-return asset and refund liability	-	(14)	14	50
Deferred tax liability and expense	**-**	**(9,715)**	**9,715**	**(4,783)**

DKK'000	2022	2021
Reconciliation of deferred tax liability / (asset) is as follows:		
Opening balance at 1 January	(9,715)	(4,932)
Adjustment recognized in parent company income statement	9,715	(4,783)
Closing balance at 31 December	**-**	**(9,715)**

The parent company has tax losses of DKK 188,589 thousand (2021 DKK 150,382 thousand) that are available indefinitely for offsetting against future taxable profit. In 2022 the deferred tax assets have not been fully recognised in respect of these losses due to uncertainty in timing to offset future taxable profit.

If the parent company was able to recognise all unrecognised deferred tax assets the value would be DKK 31,466 thousand (2021: DKK 24,548 thousand). See note 3 to the consolidated financial statements for a description of the assumptions used for recognizing the deferred tax asset.

NOTE 16 INVENTORIES

DKK'000	2022	2021
Consumables and components	13,646	9,330
Finished goods and goods for resale	25,208	14,793
Total inventories	**38,854**	**24,123**
Carrying value of inventories recognised at fair value	**-**	**-**

The cost of goods sold for the year is DKK 68,248 thousand (2021: DKK 55,113 thousand) which also include movements in inventory writedown for the year. Movements in inventory writedown are as follows:

DKK'000	2022	2021
Inventory writedown at 1 January	16,331	16,995
Inventory writedown for the year	1,026	135
Reversal of inventory writedown	(17,227)	(799)
Inventory writedown at 31 December	**130**	**16,331**

NOTE 16 INVENTORIES (CONTINUED)

In 2022 DKK 1,026 thousand (2021: 135 DKK) was recognized as an impairment expense. The impairment expense was partly related to decisions to end of life of certain products for inventories, carried at net realizable value. Reversal of inventory write-down relates mainly to products that have now been scrapped.

NOTE 17 TRADE AND OTHER RECEIVABLES

DKK'000	2022	2021
Receivables recognized in the parent company statement of financial position:		
Trade receivables	39,161	6,308
Receivables from group entities	5,220	47,853
Other receivables	8,808	4,822
Total current receivables	**53,189**	**58,983**

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

DKK'000	2022	2021
At 1 January	66	32
Change in the year	908	34
At 31 December	**974**	**66**

See note 25 for ageing analysis of trade receivables and description of the credit risk.

NOTE 18 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 21 to the consolidated financial statements.

NOTE 19 ISSUED CAPITAL AND RESERVES

Information in relation to issued capital and reserves is disclosed in note 22 to the consolidated financial statements.

NOTE 20 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK'000	2022	2021
Financial assets measured at amortized cost:		
Leasehold deposits	1,389	1,349
Trade receivables	39,161	6,308
Receivables from group entities	5,220	47,853
Other receivables	8,808	936
Cash and cash equivalents	6,887	7,002
Total financial assets	**61,465**	**63,448**
Financial liabilities measured at amortized cost:		
Interest-bearing loans and borrowings	36,556	2,500
Trade payables	11,821	10,990
Other non current financial liabilities	4,568	4,860
Total financial liabilities	**52,945**	**18,350**

Carrying amounts of financial assets and financial liabilities approximate their fair value. The main part of the financial liabilities is current/short-termed. Loans and overdraft facilities are subject to variable interest rates.

NOTE 21 CONTRACT LIABILITIES

Contract liabilities relate to prepayment from customers regarding engineering services, extended warranties and technical product support. The movements in contract liabilities are as follows:

DKK'000	2022	2021
At 1 January	2,659	-
Deferred during the year	34,312	2,659
Recognized as revenue during the year	(2,659)	-
At 31 December	**34,312**	**2,659**

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) at 31 December are expected to be recognized as revenue in the income statement as follows:

DKK'000	2022	2021
Within one year	30,568	2,659
More than one year	3,744	-
	34,312	**2,659**

The remaining performance obligation expected to be recognized as revenue in more than one year primarily relates to extended warranties.

NOTE 22 LIABILITIES FROM FINANCING ACTIVITIES

DKK'000	2022 At 1 January	Non-cash	Cash flows	At 31 December
Interest bearing loans and borrowings	2,500	-	34,056	36,556
Other financial liabilities	4,860	-	(292)	4,568
Lease liabilities	7,271	677	(3,002)	4,946
Total liabilities from financing activities	**14,631**	**677**	**30,762**	**46,070**

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

NOTE 23 COMMITMENTS AND CONTINGENCIES

Collaterals

The parent company (as vel as the Group) has issued a floating charge in the amount of DKK 40 million (2021: DKK 30 million) secured on receivables, inventories, patents and plant and equipment with a carrying amount of DKK 85,812 thousand (2021: DKK 33,447 thousand) as collateral for loans. The parent company has in addition issued a charge in the shares in the subsidiary Napatech Inc.

NOTE 24 RELATED PARTY TRANSACTIONS

The parent company's related parties are the same as the Group's. Additional information is set out in note 27 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:

DKK'000	Napatech Inc, USA 2022	2021
Income statement:		
Sales to subsidiaries	82,360	109,804
Statement of financial position:		
Receivables from subsidiaries	5,220	47,853

NOTE 25 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 28 to the consolidated financial statements.

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

	2022			
DKK'000	**Loss percentage**	**Receivable**	**Expected loss**	**Total**
Not past due	0.9%	7,623	72	7,551
Past due for less than 30 days	2.3%	28,818	669	28,149
Past due between 30 and 60 days	4.7%	3,569	169	3,400
Past due between 60 and 90 days	9.1%	22	2	20
Past due after 90 days	60.2%	103	62	41
Total maximum credit risk		**40,135**	**974**	**39,161**

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

As for the receivables from group entities, the assessment is based on the fact that the parent company has not historically realised any significant losses on group receivables and the fact that the group entities in all material aspects are able to settle the receivable as they fall due. As such, as in previous years, no impairment provision has been recognised as of 31 December 2022.

NOTE 26 EVENTS AFTER THE REPORTING PERIOD

Information in relation to events after the reporting period is disclosed in note 29 to the consolidated financial statements.

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

The Board of Directors and the Executive Board have today discussed and approved the annual report of Napatech A/S for 2022.

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 2022 and of the results of their operations and cash flows for the financial year 1 January – 31 December 2022.

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

In our opinion, the Annual Report of Napatech A/S for the financial year 1 January to 31 December 2022 with the file name Napatech-2022-12-31-en.zip has been prepared, in all material respects, in compliance with the ESEF Regulation.

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

Søborg, 23 March 2023

Executive Management

Henrik Brill Jensen, Chief Executive Officer

Heine Thorsgaard, Chief Financial Officer

Board of Directors

Lars Boilesen, Chairman

Christian Jebsen

Howard Bubb

Thomas Bonnerud

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 2022, 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 2022 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 2022 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

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

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

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

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

Appointment of auditor
Subsequent to Napatech A/S being listed on the Oslo Stock Exchange, we were initially appointed as auditors of Napatech A/S on 29 April 2014. We have been reappointed annually by resolution of the general meeting for a total consecutive period of nine years up until the financial year 2022.

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 2022. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Recognition and valuation of capitalized development projects

Development projects mainly comprise hardware and software development. The Group capitalizes eligible development projects upon meeting the criteria as described in IAS 38. This includes whether the development projects are clearly defined and identifiable and if technical feasibility, sufficient resources, and probable future economic benefits can be demonstrated. The recognition and measurement of capitalized development projects require internal procedures and significant management judgements and assumptions, which in nature are uncertain and increases the inherent risk of misstatements.

Management monitors the expected value-in-use of development projects in progress and evaluates the carrying amount of completed development projects for indications of impairment. Development projects in progress and completed projects are tested for impairment at least annually, based on the strategy plan approved by Management and value-in-use calculations on expected future cash flows.

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 projects for capitalization as intangible asset under applicable accounting standards, including for a sample of development projects in progress we considered whether the criteria in IAS 38 were met as basis for capitalization.
- We tested on a sample basis recognized salary costs to timesheets and salary information. We tested on a sample basis the accuracy of capitalized investments and that the recognised investments were directly attributable to development projects.
- We evaluated Management’s assessment of impairment indicators of completed development projects based on the commercial prospects of the projects. We discussed with management the value-in-use calculations of development projects in progress and used professional scepticism to evaluate key assumptions applied in the impairment test. As part of our evaluation, we compared the applied budgets in the impairment test with the strategy plan approved by management and assessed the key assumptions in the impairment test based on discussions with management related to strategic initiatives.
- Assessment of the adequacy of the disclosures provided by management in the financial statements compared to applicable accounting standards.

Statement on the Management’s review

Management is responsible for the Management's review.

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

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

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

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on compliance with the ESEF Regulation

As part of our audit of the Consolidated Financial Statements and Parent Company Financial Statements of Napatech A/S we performed procedures to express an opinion on whether the annual report for the financial year 1 January – 31 December 2022 with the file name Napatech-2022-12-31-en.zip is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the Consolidated Financial Statements, including notes.

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

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

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

- Testing whether the annual report is prepared in XHTML format;
- Obtaining an understanding of the company’s iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the Consolidated Financial Statements, including notes;

- Evaluating the appropriateness of the company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and
- Reconciling the iXBRL tagged data with the audited Consolidated Financial Statements.

In our opinion, the annual report of Napatech for the financial year 1 January – 31 December 2022 with the file name Napatech-2022-12-31-en.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

Copenhagen, 23 March 2023

EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jan C. Olsen	Peter Andersen
State Authorised	State Authorised
Public Accountant	Public Accountant
mne33717	mne34313

EUROPE, MIDDLE EAST AND AFRICA
Napatech A/S
Copenhagen
Denmark

Tel. +45 45 96 15 00
info@napatech.com
www.napatech.com

NORTH AMERICA
Napatech Inc.
Portsmouth
New Hampshire
USA

Tel. +1 888 318 8288
info@napatech.com
www.napatech.com

APAC
ntapacsales@napatech.com
www.napatech.com