

# Napatech A/S

Tobaksvejen 23A, 1, DK-2860 Søborg  
CVR No. 10 10 91 24

## ANNUAL REPORT 2012

10<sup>th</sup> financial year

Approved by the Annual General Meeting of shareholders on  
28 May 2013

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Chairman

**napatech** 

## FINANCIAL HIGHLIGHTS AND RATIOS

In DKK '000	IFRS 2012	IFRS 2011	IFRS 2010	IFRS 2009	DFSA* 2008
<b>Consolidated income statement</b>					
Revenue	181,179	134,477	143,096	96,303	68,912
Gross profit	85,718	57,677	69,233	32,893	25,371
Operating profit / (loss)	18,289	1,308	17,201	(833)	(3,734)
Net finance income / (expense)	(1,007)	81	1,432	(2,062)	(3,424)
Profit / (Loss) before tax	17,282	1,390	18,634	(2,895)	(310)
<b>Profit / (Loss) for the year</b>	<b>12,501</b>	<b>421</b>	<b>13,812</b>	<b>(3,323)</b>	<b>(244)</b>
<b>Consolidated statement of financial position</b>					
Total assets	122,459	112,855	99,782	72,850	60,383
Investments in property, plant and equipment	3,389	5,018	2,937	1,177	4,492
Shareholders' equity	89,868	71,195	62,300	1,437	42,670
<b>Consolidated statement of cash flows</b>					
Net cash flows from operating activities	49,268	6,828	31,117	17,719	
Net cash flows from investing activities	(21,896)	(26,610)	(21,066)	(13,628)	
Free cash flow	27,372	(19,782)	10,051	4,091	
Net cash flows from financing activities	(4,786)	18,561	(3,000)	(2,000)	
Annual change in cash and cash equivalents	22,586	(1,221)	7,051	2,091	
Cash and cash equivalents at 1 January	7,519	8,740	1,689	(402)	
<b>Cash and cash equivalents at 31 December</b>	<b>30,105</b>	<b>7,519</b>	<b>8,740</b>	<b>1,689</b>	
<b>Ratios</b>					
Gross profit margin in %	47%	43%	48%	34%	37%
Operating profit margin in %	10%	1%	12%	-1%	-5%
Current ratio in %	232%	120%	125%	103%	183%
<b>Other ratios</b>					
Number of employees	79	70	56	45	39

The financial highlights and ratios are defined and calculated in accordance with the guidance from the Danish Association of Financial Analysts regarding the calculation of financial highlights and ratios: "Recommendations & Financial Ratios 2010". See also under the accounting policies.

In 2009 the parent company prepared the first set of consolidated financial statements.

\*The financial ratios for 2008 are based on the Danish Financial Statements Act. Had the 2008 financial ratios been based on IFRS, the loss for the year would have been increased by DKK 5,481 thousand based on the share-based payment expense.

## MANAGEMENT'S REVIEW

### PRESENTATION OF THE COMPANY

Napatech A/S (the Company) is an international company that develops and distributes intelligent high-speed Ethernet network adapters to the OEM (Original Equipment Manufacturing) market in various countries with the main emphasis in Northern America, Europe and some countries in Asia. The Company's customers integrate the Company's products in their own products and resell these to own customers. This means that when a product is integrated into a customer's own product, the Company's future sales to that particular customer will follow the customer's future distribution of own products. The Company distributes exclusively an integrated package consisting of hardware, software and firmware.

The Company's product development is carried out by the parent company in Denmark from which the European customers are served. The product manufacturing is outsourced to subcontractors in Europe and USA. The subsidiary company in USA is exclusively a sales subsidiary serving the American customers.

The Company's products support the still increasing volume of traffic on the world's various data networks, including the internet. This development will drive the Group's growth in future.

### BRANCHES ABROAD

The US-based subsidiary has premises in Andover, MA, Mountain View, CA, and Colombia, ML. In 2010, a branch office was established in Tokyo, Japan, and in 2011 a branch office was set up in Seoul, South Korea.

### DEVELOPMENT OF ACTIVITIES AND FINANCIAL MATTERS

The consolidated income statement for the year ended 31 December 2012 shows a profit of DKK 12,501,015 (2011: DKK 421,044), and the consolidated statement of financial position at 31 December 2012 shows equity in the amount of DKK 89,868,380 (2011: DKK 71,194,822).

The Group's growth is, due to the high inflow of new customers and high revenue, derived from the existing customer portfolio.

The high revenue growth in 2012 resulted in an increase in the Groups' expenses and the number of employees. The number of employees increased from 70 to 79 within the sales and marketing, customer support, administration and R&D functions. The increased number of employees primarily took place in the parent company in Denmark.

In 2012, the Company developed a product portfolio specifically targeted towards the market for security products.

### THE ANNUAL RESULTS COMPARED WITH PREVIOUSLY EXPRESSED EXPECTATIONS

The annual revenue and results of operations are in line with the managements' expectations at the beginning of the reporting period.

### RESEARCH AND DEVELOPMENT ACTIVITIES

Most of the Company's employees in Denmark work on the development of new products within the Company's business areas. The development work includes both development of new functionalities to the existing products and development of completely new products. In the reporting period, the Company completed the development of the Bypass 1 G product, which complements the Company's product portfolio, meaning that the whole traffic spectrum is covered by 1, 10 and 40 gigabit adapters.

### FUTURE PROSPECTS

The management expects continued growth in revenue and profit in 2013. Likewise, the management expects continued increase in the Group's cash inflows.

## MANAGEMENT'S REVIEW - CONTINUED

### UNUSUAL RISKS

The Groups' business activities do not include risks above the usual risks for a company operating in the sector for technologically sophisticated products.

Napatech will also in future develop products to maintain the position of being ahead of the technological development.

Additional information about financial risks is provided in Note 16.

### UNUSUAL MATTERS

There were no unusual matters in the year affecting the annual report for 2012.

### RECOGNITION AND MEASUREMENT UNCERTAINTIES

At 31 December 2012, the Group capitalised internal development costs in the amount of DKK 40,716,431 (2011: DKK 42,304,036) due to the management's assessment that these projects will generate considerable revenues in 2013 and onwards.

The Group has recognised a deferred tax asset in the amount of DKK 5,387,756 (2011: DKK 9,901,179) primarily due to prior years' income tax losses. The value of the deferred tax asset is dependent on the Group's ability to utilise future tax loss carry forwards. On the basis of the expected positive growth and profits in 2013 onwards, it is the management's opinion that the Company's tax loss carry forwards will be fully utilised in 2013 and in the following years.

Additional and more detailed information is provided in Note 1.

### EVENTS AFTER THE REPORTING PERIOD

There have been no events after the reporting period that have a material impact on the Group's financial position.

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## STATEMENT BY THE MANAGEMENT ON THE ANNUAL REPORT

The management has today considered and approved the annual report for Napatech A/S for the year ended 31 December 2012.

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

In our opinion, the consolidated financial statements and the parent company financial statements give true and fair view of the Groups' and the parent companys' assets, liabilities and financial position at 31 December 2012 and of the results of the Groups' and the parent companys' operations and cash flows for the year ended 31 December 2012.

In our opinion, the management review includes a fair review of the matters dealt with in the management's review.

We recommend the adoption of the annual report by the Annual General Meeting of shareholders.

Gladsaxe, 28 May 2013

### EXECUTIVE MANAGEMENT

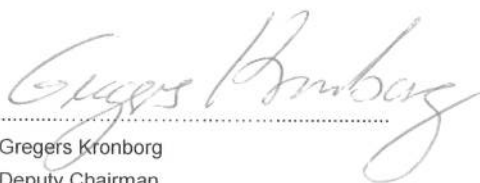


Henrik Brill Jensen

### BOARD OF DIRECTORS



Olav Stokke  
Chairman



Gregers Kronborg  
Deputy Chairman



Bjørn Erik Reinseth



Richard Breiter

## INDEPENDENT AUDITOR'S REPORTS

### TO THE SHAREHOLDERS OF NAPATECH A/S

#### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS

We have audited the consolidated financial statements and the parent company financial statements of Napatech A/S for the year ended 31 December 2012, which comprise an income statement, comprehensive income statement, statement of financial position, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies for the Group as well as 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 disclosure requirements in Danish Financial Statements Act.

#### THE MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS

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

#### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on the consolidated financial statements and the parent company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements according to Danish audit regulations. This requires us that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and the parent company financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the parent company financial statements. The procedures selected depend on the auditor's judgement including an assessment of the risk of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the consolidated financial statements and the parent company financial statements that give a true and fair view. The purpose is to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by the management as well as the overall presentation of the consolidated financial statements and the parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion. Our audit has not resulted in any qualification.

#### OPINION

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 December 2012 and of the results of the Groups' and the parent company's operations and cash flows for the year ended 31 December 2012 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

## INDEPENDENT AUDITOR'S REPORTS - CONTINUED

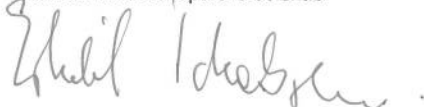
### STATEMENT ON THE MANAGEMENT'S REVIEW

In accordance with the Danish Financial Statements Act, we have read the management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent company financial statements. On this basis, it is our view that the information provided in the management's review is consistent with the consolidated financial statements and the parent company financial statements.

Copenhagen, 28 May 2013

**Ernst & Young**

Godkent Revisionspartnerselskab



Eskild Jakobsen

State Authorised Public Accountant



## CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2012

DKK	Note	2012	2011
Revenue		181,178,976	134,476,655
Production costs		(52,598,307)	(43,933,797)
Research and development costs	2,3,6	(42,862,592)	(32,865,527)
<b>Gross profit</b>		<b>85,718,077</b>	<b>57,677,332</b>
Selling and distribution expenses	2	(45,846,722)	(38,827,302)
Administrative expenses	2,3,5	(21,582,240)	(17,541,813)
<b>Operating profit</b>		<b>18,289,115</b>	<b>1,308,216</b>
Finance income	7	698	574,299
Finance costs	8	(1,008,115)	(492,996)
<b>Profit before tax</b>		<b>17,281,698</b>	<b>1,389,519</b>
Income tax expense	9	(4,780,683)	(968,475)
<b>Profit for the year</b>		<b>12,501,015</b>	<b>421,044</b>

The profit for the year is attributable to equity holders of the parent company.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

DKK	Note	2012	2011
<b>Profit for the year</b>		<b>12,501,015</b>	<b>421,044</b>
Exchange differences on translation from functional to presentation currency		(276,964)	1,903,291
Deferred tax on exchange differences on translation from functional to presentation currency		117,776	(968,327)
<b>Other comprehensive income/(loss), net of tax</b>		<b>(159,188)</b>	<b>934,964</b>
<b>Total comprehensive income for the year</b>		<b>12,341,827</b>	<b>1,356,008</b>

The total comprehensive income for the year is attributable to equity holders of the parent company.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2012

## ASSETS

DKK	Note	2012	2011
Development projects, completed	10	33,596,594	39,066,818
Development projects, in progress	10	7,119,837	3,237,218
Patents	10	3,745,856	2,221,901
<b>Intangible assets</b>		<b>44,462,287</b>	<b>44,525,937</b>
Plant and equipment	11	6,188,864	6,131,543
Leasehold improvements	11	1,104,151	968,682
<b>Property, plant and equipment</b>		<b>7,293,015</b>	<b>7,100,225</b>
Deferred tax asset	12	5,387,756	9,901,179
Long-term deposits		1,239,107	1,165,957
<b>Investments</b>		<b>6,626,863</b>	<b>11,067,136</b>
<b>Non-current assets</b>		<b>58,382,165</b>	<b>62,693,298</b>
Inventories	13	3,858,717	4,748,533
Trade receivables	14	26,696,628	35,148,503
Other receivables	14	3,416,110	2,746,075
Cash		30,105,304	7,518,936
<b>Current assets</b>		<b>64,076,759</b>	<b>50,162,047</b>
<b>Total assets</b>		<b>122,458,924</b>	<b>112,855,345</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2012

## EQUITY AND LIABILITIES

DKK	Note	2012	2011
Share capital	18	3,523,456	3,426,113
Share premium		103,364,083	99,836,462
Foreign currency translation reserve		771,520	930,708
Other reserves		19,753,008	17,046,241
Accumulated loss		(37,543,687)	(50,044,702)
<b>Equity</b>		<b>89,868,380</b>	<b>71,194,822</b>
Interest-bearing loans and borrowings	16	5,000,000	-
<b>Non-current liabilities</b>		<b>5,000,000</b>	<b>-</b>
Interest-bearing loans and borrowings		-	13,410,877
Provisions	17	7,665,729	7,135,477
Trade payables		13,644,570	18,566,641
Other payables		6,280,245	2,547,527
<b>Current liabilities</b>		<b>27,590,544</b>	<b>41,660,522</b>
<b>Total liabilities</b>		<b>32,590,544</b>	<b>41,660,522</b>
<b>Total equity and liabilities</b>		<b>122,458,924</b>	<b>112,855,344</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

DKK	Note	Share capital	Share premium	Foreign currency translation reserve	Other reserves	Retained earnings / (Acc. loss)	Total equity
<b>At 1 January 2011</b>		<b>3,287,926</b>	<b>94,824,360</b>	<b>(4,256)</b>	<b>14,657,666</b>	<b>(50,465,746)</b>	<b>62,299,950</b>
Profit for the year		-	-	-	-	421,044	421,044
Other comprehensive income		-	-	934,964	-	-	934,964
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>934,964</b>	<b>-</b>	<b>421,044</b>	<b>1,356,008</b>
Capital increase		138,187	5,012,102	-	-	-	5,150,289
Share-based payments	3	-	-	-	2,388,575	-	2,388,575
<b>Total transactions with equity holders</b>		<b>138,187</b>	<b>5,012,102</b>	<b>-</b>	<b>2,388,575</b>	<b>-</b>	<b>7,538,864</b>
<b>At 31 December 2011</b>		<b>3,426,113</b>	<b>99,836,462</b>	<b>930,708</b>	<b>17,046,241</b>	<b>(50,044,702)</b>	<b>71,194,822</b>
Profit for the year		-	-	-	-	12,501,015	12,501,015
Other comprehensive income		-	-	(159,188)	-	-	(159,188)
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>(159,188)</b>	<b>-</b>	<b>12,501,015</b>	<b>12,341,827</b>
Issue of shares		97,343	3,527,621	-	-	-	3,624,964
Share-based payments	3	-	-	-	2,706,767	-	2,706,767
<b>Total transactions with equity holders</b>		<b>97,343</b>	<b>3,527,621</b>	<b>-</b>	<b>2,706,767</b>	<b>-</b>	<b>6,331,731</b>
<b>At 31 December 2012</b>		<b>3,523,456</b>	<b>103,364,083</b>	<b>771,520</b>	<b>19,753,008</b>	<b>(37,543,687)</b>	<b>89,868,380</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

DKK	Note	2012	2011
Profit before tax		17,281,698	1,389,519
Net financials	7,8	422,586	492,393
Depreciation and amortisation	2	21,221,217	15,944,604
Share-based payment expense	4	2,706,767	2,952,752
Decrease in inventories		889,816	3,086,978
Currency adjustment, non-current assets		217,047	94,655
Currency adjustment, inventories		(21,948)	85,614
Decrease / (increase) in trade receivables		8,451,875	(5,461,307)
(Increase) in other receivables		(670,035)	(2,009,684)
(Decrease) in trade payables		(4,922,071)	(6,139,133)
Increase / (decrease) in other payables		4,262,970	(3,092,816)
		<b>49,839,921</b>	<b>7,343,575</b>
Interest received	7	698	603
Interest paid	8	(423,284)	(492,996)
Income tax paid	9	(149,485)	(23,434)
<b>Net cash flows from operating activities</b>		<b>49,267,850</b>	<b>6,827,748</b>
Purchase of non-current assets	11	(21,822,419)	(26,367,058)
Investments in long-term deposits		(73,150)	(242,928)
<b>Net cash flows from investing activities</b>		<b>(21,895,569)</b>	<b>(26,609,986)</b>
Capital increase		3,624,964	5,150,289
(Repayment of) / Proceeds from borrowings		(8,410,877)	13,410,877
<b>Net cash flows from financing activities</b>		<b>(4,785,913)</b>	<b>18,561,166</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>22,586,367</b>	<b>(1,221,072)</b>
Cash and cash equivalents at 1 January		7,518,936	8,740,008
Net increase / (decrease) in cash and cash equivalents		22,586,367	(1,221,072)
<b>Cash and cash equivalents at 31 December</b>		<b>30,105,304</b>	<b>7,518,936</b>

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## NOTES

### NOTE 1 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. Below are presented significant accounting judgements, estimates and assumptions. A summary of significant accounting policies is presented in Note 22 to the consolidated financial statements.

#### **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 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 Groups' 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 major sources of estimation of uncertainties at the balance sheet date, which involve significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are presented below.

#### *Development projects*

There is an ongoing assessment of whether the development costs meet the criteria for capitalisation as set out in the summary of significant accounting policies, Note 22, including whether the development projects will generate future economic benefits.

Both completed development projects and development projects in progress 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 project is DKK 40,716,431 as at 31 December 2012.

#### *Deferred tax asset*

The Group recognises deferred tax assets, including the tax value of the income tax losses carried forward, when the management assesses that the deferred tax asset can be realised in the foreseeable future. The judgement is made annually on the basis of the budgets and business plans for the next year. The carrying amount of the deferred tax asset as at 31 December 2012 is DKK 5,387,756.

#### **Judgements in relation to the significant accounting policies**

In applying the Groups' accounting policies, the management makes judgements that may have a material impact on the values recognised in the consolidated financial statements.

In the definition of the Groups' accounting policies, the management made the following judgements that have a significant impact on the values recognised in the consolidated financial statements.

#### *Hedge accounting*

The Group does not meet the criteria for hedge accounting in relation to forward exchange contracts.

#### *Functional currency*

On the transition to IFRS, the Group decided, in accordance with the rules in IAS 21, that the functional currency of the Group is to be USD and not DKK. The conversion from the Group's functional currency into the reporting currency is presented in Note 22.

## NOTES

### NOTE 2 DEPRECIATION, AMORTISATION AND IMPAIRMENT

DKK	2012	2011
<b>Depreciation, amortisation and impairment are reported as follows:</b>		
Amortisation of development projects	17,915,550	13,131,920
Depreciation of plant and equipment	2,897,355	2,494,106
Depreciation of leasehold improvements	408,311	318,578
<b>Total depreciation and amortisation</b>	<b>21,221,217</b>	<b>15,944,604</b>
<b>Depreciation, amortisation and impairment are recognised in the consolidated income statement as follows:</b>		
Research and development costs	21,221,217	15,944,604
Administrative expenses	-	-
<b>Total depreciation and amortisation</b>	<b>21,221,217</b>	<b>15,944,604</b>

### NOTE 3 EMPLOYEE BENEFITS EXPENSE

DKK	2012	2011
<b>Employee benefits expense is reported as follows:</b>		
Wages and salaries	65,112,509	56,776,614
Defined contribution schemes	6,532,526	5,572,995
Share-based payment expense	2,706,767	2,952,752
Social security costs	1,995,437	1,749,125
Allocated to development projects	(14,702,279)	(15,555,196)
<b>Total employee benefits expense</b>	<b>61,644,960</b>	<b>51,496,290</b>
<b>Employee benefits expense is recognised in the consolidated income statement as follows:</b>		
Research and development costs	17,512,321	15,781,809
Selling and distribution expenses	33,729,212	28,209,920
Administrative expenses	10,403,427	7,504,561
<b>Total employee benefits expense</b>	<b>61,644,960</b>	<b>51,496,290</b>
Average number of employees during the year	79	70

### Remuneration of the Executive Management and Board of Directors

DKK	2012		2011	
	Executive Management	Board of Directors	Executive Management	Board of Directors
Short-term staff benefits	5,085,733	111,629	7,494,011	111,629
Defined contribution schemes	243,178	-	212,272	-
Share-based payment expense	649,087	-	22,311	-
<b>Total</b>	<b>5,977,998</b>	<b>111,629</b>	<b>7,728,594</b>	<b>111,629</b>



## NOTER

### NOTE 4 SHARE-BASED PAYMENT EXPENSE

Employees and the management in both the Danish parent company and the US subsidiary and the Chairman of the Board of Directors are eligible for in various warrant or stock option plans. They are granted a certain number of warrants or stock options in the parent company in return for the services they provide to the Group.

Warrants and stock options under these schemes are granted at fixed exercise prices. The right to warrants and stock options can only be vested as long as the holder of warrants or stock options is an employee of the Group. The vesting period is four years from the grant date, with the exemption of the warrants granted to the Chairman. The right to warrants granted to the Chariman is vested at the grant date.

In case of specific, exercising events, the vesting date of the warrants granted to employees and the management is accelerated, so that the holder of a warrant can either utilise the warrant or become entitled to demand cash payment for the difference between the fair value of the shares and the exercise price. The exercising events are under the control of the Company, since the decisions in relation to the exercising events must be approved by the holders of class B shares who hold the majority of the shares. The vesting period for the warrants that are subject to accelerated vesting is assessed at every reporting date. In December 2012, the management assessed that it is unlikely that an exercising event will occur during the term of the warrants. The remaining vesting period is therefore treated in relation to the contracts.

All granted warrants and stock options are equity-based.

The share-based payment expense is measured at fair value at the grant date using the Black-Scholes model. The expense is recognised in the income statement with the counter item in the equity, and it is recognised over: (a) the period during which the warrant or stock 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.

#### General terms for stock option programs:

Vesting period	4-6 years from grant date
Earliest exercise date	1 year from grant date
Latest exercise date	9-10 years from grant date

Stock options	Number	Average exercise price
At 1 January 2011	570,954	32.34
Granted during the year	150,487	37.46
Exercised / expired during the year	12,300	32.00
At 31 December 2011	709,141	33.43
Exercisable at 31 December 2011	338,691	32.09
At 1 January 2012	709,141	33.43
Granted during the year	-	37.46
Exercised / expired during the year	42,325	32.00
At 31 December 2012	666,816	33.52
Exercisable at 31 December 2012	397,029	32.02

## NOTER

### NOTE 4 SHARE-BASED PAYMENT EXPENSE - CONTINUED

3,850 warrants were exercised and 38,475 lapsed in 2012. In 2011, 4,700 warrants were exercised and 7,600 lapsed.

The following shows the exercise price of the outstanding stock options at 31 December:

Outstanding stock options, number	2012	2011
Exercise price DKK 23.57	28,800	28,800
Exercise price DKK 32.00	427,929	449,704
Exercise price DKK 37.46	210,087	230,637
Total number of outstanding stock options at 31 December	666,816	709,141

The weighted average of the remaining contractual period of the outstanding stock options at 31 December 2012 is 4 years and 11 months (2011: 5 years and 11 months).

#### Assumptions for the calculation of the fair value of stock options

Since no grants were made during 2012 the new fair value of stock options has not been calculated.

Assumptions for the calculation of the fair value	Granted	
	2012	2011
Volatility		47.0%
Risk-free interest rate		0.8%
Exercise price, DKK		37.46
Exercise date		9.75

The volatility is calculated based on a peer group of 7 similar companies listed on Nasdaq in the United States.

The total share-based payment expense in 2012 is DKK 2,706,767 (2011: DKK 2,952,745).

### NOTE 5 AUDITORS' FEES

Fees to the Group's auditors are included in administrative expenses.

DKK	2012	2011
<b>Ernst &amp; Young:</b>		
Statutory audit fee	200,000	200,000
Fees for other assurance engagements	10,000	-
Tax advisory fee	87,000	59,000
Fees for other services	171,589	380,645
Total auditors' fees	468,589	639,645

## NOTES

### NOTE 6 RESEARCH AND DEVELOPMENT COSTS

Research and development costs recognised in the consolidated income statement are DKK 40,804,912 (2011: DKK 32,865,527). All research and development costs are incurred by the parent company.

### NOTE 7 FINANCE INCOME

DKK	2012	2011
<b>Finance income from receivables and loans</b>		
<b>measured at amortised cost:</b>		
Interest receivable, bank	698	603
Foreign exchange gains	-	573,696
Total finance income	698	574,299

### NOTE 8 FINANCE COSTS

DKK	2012	2011
<b>Finance costs from financial liabilities</b>		
<b>measured at amortised cost:</b>		
Interest payable, bank	369,295	401,377
Foreign exchange losses	584,831	-
Other finance costs	53,988	91,619
Total finance costs	1,008,115	492,996

## NOTES

### NOTE 9 INCOME TAX

DKK	2012	2011
<b>Current tax recognised in the consolidated income statement:</b>		
Calculated current income tax, excl. financing surcharge	149,485	23,433
Change in deferred tax	4,631,198	945,042
Total income tax	4,780,683	968,475

**Reconciliation between income tax expense and profit before tax multiplied by the applicable income tax rate for the Group for 2012 and 2011:**

DKK	2012	2011
Profit before tax	17,281,698	1,389,519
Applicable Danish income tax rate for the Group 25% (2011: 25%)	4,320,425	347,380
<b>Tax effect of:</b>		
Effect of the income tax rate in USA	23,110	(159,531)
Non-taxable income	(202,287)	(138,364)
Non-deductible expenses	687,577	744,589
Other	(48,142)	174,401
Effective income tax rate 28% (2011: 70%)	4,780,683	968,475

## NOTES

### NOTE 10 INTANGIBLE ASSETS

The Group develops innovative network adapters for analysis and monitoring purposes. A network adapter is an integrated package of hardware, functionality programmed into the FPGA and driver software for server handling of the adapter.

The development projects are amortised over 3 years, as this, based on historical events, is the expected useful life of products.

Patents include the Group's cost of application and registration of patents. Patents are amortised over the term of a patent from the date on which a patent comes into force.

All development projects and patents are legally owned by the parent company.

DKK	Patents		Development projects completed		Development projects in progress	
	2012	2011	2012	2011	2012	2011
Cost at 1 January	2,221,901	1,454,041	65,899,692	38,363,486	3,237,218	7,836,416
Additions in the year	1,593,841	671,119	12,867,730	25,378,561	16,839,865	20,673,372
Disposals in the year	-	-	-	-	12,867,730	25,378,561
Exchange adjustments	(69,887)	96,741	(978,031)	2,157,644	(89,516)	105,991
Cost at 31 December	3,745,856	2,221,901	77,789,391	65,899,692	7,119,837	3,237,218
Accumulated amortisation and impairment at 1 January	-	-	26,832,874	12,822,409	-	-
Amortisation and impairment in the year	-	-	17,915,550	13,131,920	-	-
Exchange adjustments	-	-	(555,628)	878,544	-	-
Accumulated amortisation and impairment at 31 December	-	-	44,192,797	26,832,874	-	-
Carrying amount at 31 December	3,745,856	2,221,901	33,596,594	39,066,818	7,119,837	3,237,218

There were no indications of impairment of the Group's intangible assets in the year.

### NOTE 11 PROPERTY, PLANT AND EQUIPMENT

DKK	Plant and equipment		Leasehold improvements	
	2012	2011	2012	2011
Cost at 1 January	14,574,581	9,477,984	2,114,992	1,620,468
Additions	2,862,729	4,594,836	525,984	423,566
Exchange adjustments	268,734	501,762	45,060	70,957
Cost at 31 December	17,706,044	14,574,581	2,686,036	2,114,992
Accumulated depreciation and impairment at 1 January	8,443,038	5,662,472	1,146,310	786,820
Depreciation and impairment in the year	2,897,355	2,494,106	408,311	318,578
Exchange adjustments	176,786	286,460	27,263	40,911
Accumulated depreciation and impairment at 31 December	11,517,180	8,443,038	1,581,884	1,146,310
Carrying amount at 31 December	6,188,864	6,131,543	1,104,151	968,682

There were no indications of impairment of the Group's property, plant and equipment in the year.

## NOTES

### NOTE 12 DEFERRED TAX

DKK	2012	2011	Income statement 2012
Intangible assets	(8,411,000)	(9,818,000)	1,407,000
Property, plant and equipment	1,570,000	109,000	1,461,000
Exchange adjustments, non-current assets	117,775	-	-
Tax loss carry-forwards	12,203,000	19,585,000	(7,382,000)
Other	(92,019)	25,179	(117,198)
Deferred tax	5,387,756	9,901,179	(4,631,198)

Deferred tax is recognised in the consolidated statement of financial position as follows:

Deferred tax asset	5,387,756	9,901,179
Deferred tax liability	-	-
Deferred tax, net	5,387,756	9,901,179

Deferred tax reconciliation:

At 1 January	9,901,179	12,378,717
Recognised in the consolidated income statement	(4,631,198)	(945,042)
Recognised in the consolidated statement of comprehensive income	117,775	(1,532,496)
At 31 December	5,387,756	9,901,179

The Group has recognised a deferred tax asset whose value depends on the Group's ability to utilise the deferred tax asset. Based on the expectations as to positive growth and profits in 2013 and onwards, it is the management's view that the tax loss carry forwards will be utilised in full. Therefore, the entire value of the deferred tax asset has been recognised at 31 December 2012.

### NOTE 13 INVENTORIES

DKK	2012	2011
Consumables and components	728,910	1,033,959
Finished goods and goods for resale	3,138,547	3,701,366
Exchange differences	(8,740)	13,208
Total inventories	3,858,717	4,748,533

The cost of goods sold for the year is DKK 52,297,726 (2011: DKK 43,933,797).

## NOTES

### NOTE 14 RECEIVABLES

DKK	2012	2011
<b>Receivables recognised in the consolidated statement of financial position:</b>		
Trade receivables	26,696,628	35,148,503
Other receivables	3,416,110	2,746,075
<b>Total current receivables</b>	<b>30,112,738</b>	<b>37,894,578</b>

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

At 1 January	700,000	46,669
Utilised	(246,431)	-
Reversal of non-utilised amounts	(453,569)	(46,669)
Change in the year	2,669,780	700,000
<b>At 31 December</b>	<b>2,669,780</b>	<b>700,000</b>

**Ageing analysis of past due but not impaired trade receivables at 31 December is as follows:**

Past due less than 30 days	7,518,130	4,308,596
Past due between 30 and 60 days	890,148	1,097,923
Past due between 60 and 90 days	335,040	1,420,175
Past due after 90 days	435,663	917,856
	<b>9,178,981</b>	<b>7,744,550</b>

The Groups' customers are multinational groups of companies with which the Group has had relationships over a long period of time. The Group therefore expects the above receivables to be settled.

**Ageing analysis of past due and impaired trade receivables at 31 December is as follows:**

Past due less than 30 days	474,719	58,765
Past due between 30 and 60 days	9,380	25,519
Past due between 60 and 90 days	171,895	23,226
Past due after 90 days	2,338,590	1,603,002
	<b>2,994,584</b>	<b>1,710,512</b>

## NOTES

### NOTE 15 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK	2012	2011
<b>Financial assets measured at fair value through profit or loss:</b>		
	-	-
<b>Total financial assets measured at fair value through profit or loss</b>	<b>-</b>	<b>-</b>
<b>Loans and receivables measured at amortised cost:</b>		
Other receivables	3,416,110	2,746,075
Trade receivables	26,696,628	35,148,503
Cash	30,105,304	7,518,936
Long-term deposits	1,239,107	1,165,957
<b>Total loans and receivables measured at amortised cost</b>	<b>61,457,149</b>	<b>46,579,471</b>
<b>Total financial assets</b>	<b>61,457,149</b>	<b>46,579,471</b>
<b>Financial liabilities measured at amortised cost:</b>		
Interest-bearing loans and borrowings	5,000,000	13,410,877
Trade payables	13,644,570	18,566,641
Other payables	6,280,245	2,547,527
<b>Total financial liabilities measured at amortised cost</b>	<b>24,924,815</b>	<b>34,525,045</b>
<b>Total financial liabilities</b>	<b>24,924,815</b>	<b>34,525,045</b>



## NOTES

### NOTE 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

#### Credit risk

The credit risk relates to trade receivables and cash and cash equivalents. The maximum credit risk associated with the financial assets corresponds to the carrying amounts recognised in the financial statements.

The OEM business model, as described in the management's review, results in the Group having a thorough knowledge of its customers and their business before the turnover reaches a significant extent. The Groups' customers have 30 days as a standard payment term and historically the Group has not had impairment for bad debts. The credit risk associated with trade receivables is therefore assessed as low.

The credit risk associated with cash and cash equivalents is related to deposits in reputable banks with a maximum risk corresponding to the carrying value.

The Group has no formal policies for managing the credit risk.

#### Liquidity risk

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

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

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

In the year, the Group generated sufficient cash to support its business activities. The management expects that this progress will continue in future.

In case it becomes unable to generate necessary cash, the Group has access to unused credit facilities in Denmark (DKK 6,000,000 and USD 650,000) and USA (USD 700,000) (2011: Denmark (DKK 324,763 and USA (USD 50,000)).

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 payment terms offered to the customers.

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

DKK	2012			
	Jan-Mar	Apr-Dec	> 1 year	Total
Interest-bearing loans and borrowings	-	-	5,000,000	5,000,000
Trade payables	13,644,570	-	-	13,644,570
Other payables	6,280,245	-	-	6,280,245
Total financial liabilities	19,924,815	-	5,000,000	24,924,815

## NOTES

### NOTE 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - CONTINUED

DKK	2011			Total
	Jan-Mar	Apr-Dec	> 1 year	
Interest-bearing loans and borrowings	-	-	13,410,877	13,410,877
Trade payables	18,566,641	-	-	18,566,641
Other payables	2,547,527	-	-	2,547,527
Total financial liabilities	21,114,168	-	13,410,877	34,525,045

#### Interest rate risk

Interest rate risk is the risk of incurring further finance costs as a result of interest rate fluctuations.

In 2012, the Group had interest-bearing liabilities in the amount of DKK 5,000,000 (2011: DKK 13,410,877). The liabilities are due on 26 June 2015. The liabilities earn a variable interest rate of 5%-8% per annum. The Group's interest rate risk is therefore limited.

The Group has no formal policies for managing interest rate risks.

#### Currency risk

The Group's functional currency is USD. The Group's revenues and cost of goods sold are mainly denominated in USD. Other expenses are primarily incurred in DKK and USD.

The Group's main currency risk is thus associated with fluctuations in DKK against USD. The Group has negligible transactions in other currencies.

Costs incurred in DKK are hedged using forward exchange contracts. Group policy is to enter into such contracts which only cover annual expenses denominated in DKK so that there are no unsettled forward exchange contracts at year-end. All forward exchange contracts at 31 December 2012 and 2011 have been settled.

As the Group prepares the annual report in DKK, there is a currency risk associated with the Group's translation of its functional currency into its presentation currency.

## NOTES

### NOTE 16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - CONTINUED

#### Capital management

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

The primary objective of the Group's capital management is to ensure, in the short term, sufficient capital needed to fund the development of new products and new markets and thereby create healthy business platform to ensure return to the shareholders in the long term. The shareholders are two large and many small venture capital companies. Thus, the Group ensures the capital resources through capital contributions from the current shareholders or new venture capital companies. In 2006, the Group began to generate revenue. Until then, the shareholders had been financing the development of the Group's first product. In accordance with Note 18, the latest capital contribution was in 2012.

The Group has not paid any dividend yet and does not expect to do so in the near future.

### NOTE 17 PROVISIONS

Provisions exclusively relate to the parent company.

DKK	Guarantees	Holiday pay	Total
At 31 December 2011	552,836	6,582,641	7,135,477
Utilised	(552,836)	(6,582,641)	(7,135,477)
Reversed in the year	-	-	-
Additions in the year	851,820	6,813,909	7,665,729
At 31 December 2012	851,820	6,813,909	7,665,729

Guarantees are associated with the sale of network adapters.

The holiday pay provision is an accrued amount for holiday pay to salaried employees, determined using a calculated percentage of the employees' salaries eligible for holiday pay.

All provisions are expected to be utilised within one year and are therefore classified as current liabilities.

## NOTES

### NOTE 18 SHARE CAPITAL

The Company's share capital, DKK 3,523,456, is divided into 640,046 class A shares at a nominal value of DKK 1 each and 2,883,410 class B shares at a nominal value of DKK 1 each. All issued shares have been fully paid in.

DKK	2012	2011	2010	2009	2008
<b>Class A shares:</b>					
At 1 January	636,196	631,496	631,496	631,496	631,496
Increase	3,850	4,700	-	-	-
At 31 December	640,046	636,196	631,496	631,496	631,496
<b>Class B shares:</b>					
At 1 January	2,789,917	2,656,430	2,656,430	2,656,430	2,656,430
Increase	93,493	133,487	-	-	-
At 31 December	2,883,410	2,789,917	2,656,430	2,656,430	2,656,430
<b>Total share capital</b>	<b>3,523,456</b>	<b>3,426,113</b>	<b>3,287,926</b>	<b>3,287,926</b>	<b>3,287,926</b>
Preference shares classified as debt	-	-	-	1,328,215	1,328,215

Class A shares carry 1 vote for each share of DKK 1. Class B shares carry 1 vote for each share of DKK 1. In accordance with the Articles of Association, the class B shareholders had a redemption right. All of the class B shareholders waived this right in 2010. The class B share capital has therefore been reclassified to equity.

### NOTE 19 COMMITMENTS AND CONTINGENCIES

#### Collaterals

The Group has issued a floating charge in the amount of DKK 10 million (2011: DKK 10 million) secured on receivables, inventories, goodwill and equipment as collateral for bank debt.

#### Other financial commitments

The Groups' other financial commitments include liabilities under operating leases concerning leases of office facilities and operating equipment.

Future minimum payments under operating leases at 31 December are as follows:

DKK	2012			
	Equipment	Cars	Rent obligation	Total
Falling due within one year	94,128	116,492	2,944,421	3,155,041
Falling due between one and five years	-	165,031	1,071,934	1,236,965
<b>Total</b>	<b>94,128</b>	<b>281,523</b>	<b>4,016,355</b>	<b>4,392,006</b>

## NOTES

### NOTE 19 COMMITMENTS AND CONTINGENCIES - CONTINUED

DKK	2011			
	Equipment	Cars	Rent obligation	Total
Falling due within one year	189,840	195,055	1,944,322	2,329,217
Falling due between one and five years	94,128	-	2,268,376	2,362,504
Total	283,968	195,055	4,212,698	4,691,721

Minimum lease payments recognised as expenses in the consolidated income statement in 2012: DKK 2,329,217 (2011: DKK 0).

### NOTE 20 RELATED PARTY TRANSACTIONS

The Group has no shareholders with controlling influence, as the shareholders include two large and many small venture capital companies.

Related parties with significant influence are the shareholders Ferd A/S (37.6%) and Northzone IV K/S (39.5%). Related parties also include the shareholders' portfolio companies as they are subject to the same significant influence as the Group. The Group had no transactions with neither the shareholders nor their portfolio companies in 2011 and 2012.

In addition, the related parties with significant influence include members of the Board and the Executive Management and their family members. The related parties also include companies in which the members of the Board and the Executive Management have significant interests.

Remunerations, salaries and share-based payments to the Board of Directors and the Executive Management are reflected in Note 3. There were no other transactions with the Board of Directors or the Executive Management in 2011 and 2012.

### NOTE 21 EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after 31 December 2012 that might affect the financial statements.

## NOTES

### NOTE 22 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Corporate information

The consolidated financial statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 28 May 2013. Napatech A/S is a public limited company incorporated and domiciled in Denmark.

#### General information

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports for class C enterprises, cf. the executive order on IFRS, issued in accordance with the Danish Financial Statements Act.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in DKK, whereas the parent company's functional currency is USD. There is thus a difference between the Group's functional currency and the presentation currency, as the primary stakeholders for purposes of this annual report are based in Denmark.

The Group has adopted all new, amended and revised accounting standards and IFRIC bases for conclusions, as adopted by the EU and applicable for the year ended 31 December 2012.

#### Effects of implementation of new standards

New and amended accounting standards issued by the IASB which are effective on or after 31 December 2012, but not adopted by the EU and therefore not adopted by the Group, include:

- Annual improvements of IFRS (IASB improvements project 2009-2011)
- IFRS 9 Financial instruments
- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosure of interests in other entities
- IFRS 13 Fair value measurement
- Amendments to IFRS 7 Financial instruments: Disclosure - offsetting financial assets and financial liabilities
- Amendments to IFRS 10: Consolidated financial statements, IFRS 11: Joint arrangements and IFRS 12: Disclosure of interests in other entities; Guidance on transition
- Amendments to IAS 1 regarding the presentation of items in other comprehensive income

The adoption of these accounting standards may result in additional disclosures but not in significant recognition and measurement changes. Additionally, the IASB has issued a number of new standards, amendments and bases for conclusions deemed to have no relevance to the Group.

#### Consolidated financial statements

The consolidated financial statements comprise the financial statements of the parent company Napatech A/S and its subsidiary. The subsidiary company is fully consolidated from the date on which the parent company obtains control and continues to be consolidated until the date such control ceases. The financial statements of the subsidiary company are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances, income and expenses, unrealised gains and losses and dividends resulting from intercompany transactions are eliminated in full.

#### Foreign currency translation

Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. The functional currency is the currency used as the primary currency by the reporting entity's business activity. Transactions in currencies other than the functional currency are transactions in foreign currency. Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency rates prevailing at the date of the transaction.

## NOTES

### NOTE 22 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the exchange rate at the reporting date. Non-monetary assets and liabilities measured at historical cost basis are translated at the date of the initial transaction. Non-monetary items in foreign currency measured at fair value are translated using the exchange rate at the date when the fair value is determined.

#### *Group entities*

The assets and liabilities of foreign entities are translated into USD using the exchange rate at the reporting date, and items in their income statements are translated using the exchange rate at the date of transactions. The exchange rate differences arising on the translation are recognised in other comprehensive income. On disposal of foreign operations, the component of other comprehensive income relating to the disposed foreign operation is recognised in the income statement.

#### *Translation into presentation currency*

On translation from the Group's functional currency into the presentation currency, assets and liabilities are recognised using the exchange rate at the reporting date, and income and expenses are recognised using the exchange rate at the transaction date. The total exchange rate difference is recognised in the statement of other comprehensive income.

#### **Revenue recognition**

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes and duties.

Revenue from the sale of finished goods is recognised in the income statement when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

#### **Production costs**

Production costs comprise costs incurred to generate the revenue for the year. Production costs include raw materials and consumables, wages and salaries, rent and leasing and depreciation of equipment used for development purposes as well as the portion of the year's development costs that are not capitalised.

#### **Selling and distribution expenses**

Selling and distribution expenses comprise expenses related to the distribution of sold goods and sales campaigns, including packaging materials, brochures, displays and fixture and fittings, pay and other expenses related to sales and distribution staff and depreciation and impairment of distribution equipment.

#### **Administrative expenses**

Administrative expenses comprise expenses paid in the year to manage the Group, including expenses related to administrative staff and offices.

#### **Finance income and costs**

Finance income and costs comprise interest income and expenses, realised and unrealised gains and losses arising on financial assets and liabilities denominated in foreign currencies and transactions in foreign currencies.

For all financial instruments measured at amortised cost, interest income and expenses are recognised using the effective interest rate which discounts estimated future cash inflows and outflows during their maturity, or during a shorter period, where appropriate, to the net carrying amount of the financial assets and liabilities. Furthermore, finance income and costs comprise realised and unrealised gains and losses on foreign currency transactions.

## NOTES

### NOTE 22 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### **Current income tax**

Current income tax assets and liabilities relating to current and prior periods are measured at the amount expected to be recovered or paid to the tax authorities.

The income tax expense for the year, which comprises current tax and deferred tax changes, including due to changes in tax rates, is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or equity. Tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

The management regularly assesses the amount reported to the tax authorities where the applicable tax rules can be interpreted and makes provisions as required.

#### **Share-based payments**

Employees, including senior executives, of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions). The share options are measured at fair value at the grant date. The fair value is determined by using the appropriate pricing model, cf. Note 4.

The cost of equity-settled transactions are recognised, together with a corresponding increase in other equity reserves, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for the equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in the cumulative expense recognised at the beginning and end of the year.

#### **Financial assets**

##### *Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, as appropriate. The Group determines the classification of its financial assets on initial recognition.

All financial assets are initially recognised at fair value including directly attributable transaction costs.

The Groups' financial assets include cash, trade receivables, other receivables and forward exchange contracts.

##### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification:

##### *Financial assets at fair value through profit or loss*

Financial assets that are measured at fair value through profit or loss include derivative financial instruments that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Financial assets at fair value through profit or loss are recognised in the consolidated statement of financial position at fair value with the changes in fair value recognised in the consolidated income statement as finance income or finance costs.



## NOTES

### NOTE 22 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. On subsequent recognition, such financial assets are measured at amortised cost using the effective interest rate method, less impairment losses. Such losses are recognised in the income statement as administrative expenses.

#### **Fair value of financial instruments**

For financial instruments not traded in an active market, the fair value is determined using an appropriate valuation model. For additional specification of the fair values and information about the valuation model, please refer to Note 15.

#### **Derivative financial instruments and hedging activities**

The Group uses forward exchange contracts to hedge its exposure to foreign exchange risks. These financial instruments are initially recognised at fair value at the date at which a derivative contract is entered into and are subsequently measured at fair value. Fair value adjustments are recognised directly in profit or loss.

Derivatives are recognised as other receivables when the fair value is positive and as other payables when the fair value is negative.

#### **Intangible assets**

Intangible assets are measured at cost on initial recognition and subsequently at cost less any accumulated amortisation and impairment losses.

Intangible assets comprise development projects and patents with definite useful lives.

Intangible assets with definite lives are amortised over their economic lives and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each period-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Amortisation charges on intangible assets with definite useful lives are recognised in the income statement as research and development costs.

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

#### *Development projects*

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility for completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resource to complete the asset
- The ability to reliably measure the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when its development is complete and the asset is available for use. The useful life has been set at 3 years.

## NOTES

### NOTE 22 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### *Patents*

Patents are recognised as intangible assets at the date of acquisition. The patents are amortised over the term of a patent starting from the date on which the patent comes into force.

#### **Property, plant and equipment**

The item includes plant and equipment and office improvements. Items of property, plant and equipment are recognised at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All repair and maintenance costs are recognised in the income statement as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets and is as follows:

IT equipment	3 years
Other plant and equipment	3 years
Leasehold improvements	5 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition is included in the income statement when the asset is derecognised. Gains and losses arising from derecognition of an item of property, plant and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the asset.

The residual values, useful lives and methods of depreciation of the assets are reviewed at each reporting date and are adjusted prospectively, if appropriate.

#### **Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Payments under operating leases are recognised as expenses on a straight-line basis over the term of the lease.

The Group has no finance leases.

#### **Inventories**

Inventories are measured at the lower of cost and net realisable value.

Goods for resale, raw materials and consumables includes cost plus transportation costs. The Group uses sub-suppliers for the production of the Group's primary products. The cost of finished goods includes the cost of work performed by sub-suppliers and other raw materials and consumables, direct labour and indirect production costs. Indirect production overheads comprise indirect cost of materials and labour.

The net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## NOTES

### NOTE 22 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### **Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the recoverable amount of the asset. The recoverable amount of an asset is the higher of the fair value of an asset or cash generating unit (CGU) less costs to sell and value in use and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of cash flows from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. In determining fair value less cost to sell, an appropriate valuation model is used.

#### **Cash**

Cash comprises cash at banks.

For the purpose of the consolidated statement of cash flows as defined above, cash consists of cash net of current liabilities.

#### **Equity**

##### *Share premium*

The share premium comprises the portion of the price of the shares that is above 100. The share premium is a part of the Group's distributable reserves.

##### *Warrants*

The cost of warrants is recognised, together with corresponding increase in other reserves in equity, over the period in which the performance and/or service conditions are satisfied. This reserve reflects the proportion of the vesting period that has elapsed and the Group's best estimate of the number of equity instruments and the Group's employees that are expected to ultimately vest.

##### *Foreign currency translation reserve*

The reserve includes translation of the Group's income statement, statement of comprehensive income and statement of financial position from functional currency (USD) to presentation currency (DKK).

#### **Financial liabilities**

##### *Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities on initial recognition.

All financial liabilities are initially recognised at fair value or loans and borrowings plus directly attributable transaction costs.

The Group's financial liabilities include trade payables, other receivables, bank overdrafts, loans and borrowings and derivative financial instruments.

##### *Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

##### *Loans and borrowings*

Following initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs.

## NOTES

### NOTE 22 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a risk-free interest rate. Where discounting is used, the increase in the provision due to the passage of time is recognised under finance costs.

#### Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets or liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all temporary differences, except:

- When a deferred tax liability arises from initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor the taxable income.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all temporary differences, the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that the taxable income will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilised.

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 income will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting period and are recognised to the extent it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation with the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authorities.

## NOTES

### NOTE 22 SUMMARY OF ACCOUNTING POLICIES - CONTINUED

#### Statement of cash flows

The statement of cash flows shows the cash flows for the year, cash and cash equivalents at the beginning and at the end of the reporting period.

Net cash flows from operating activities are presented using the indirect method and calculated as the profit or loss before tax adjusted for non-cash items, changes in working capital, interest paid and received, extraordinary items and income tax paid.

Net cash flows from investing activities include payments for purchase and sale of non-current assets, securities and dividend received from associates.

Net cash flows from financing activities include dividends to shareholders, increases and decreases in share capital, proceeds from loans and borrowings and repayment of interest-bearing debt.

#### Ratios

Free cash flow	Net cash flows from operating activities less capital expenditure
Gross profit margin in %	Gross profit / Revenue
Operating profit margin in %	Profit/loss before net financials (EBIT) / Revenue
Current ratio in %	Current assets / Current liabilities
Average number of employees	Calculated average number of full-time employees during the year

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## INCOME STATEMENT

for the year ended 31 December 2012

DKK	Note	2012	2011
Revenue		157,086,358	115,545,054
Production costs		(52,873,662)	(46,533,372)
Research and development costs	1,2	(42,703,974)	(32,865,527)
<b>Gross profit</b>		<b>61,508,722</b>	<b>36,146,155</b>
Selling and distribution expenses	2	(22,162,734)	(17,874,932)
Administrative expenses	2	(21,582,240)	(17,409,032)
<b>Operating profit</b>		<b>17,763,748</b>	<b>862,191</b>
Finance income	4	329,655	930,071
Finance costs	5	(961,189)	(426,177)
<b>Profit before tax</b>		<b>17,132,214</b>	<b>1,366,086</b>
Income tax expense		(4,631,198)	(945,042)
<b>Profit for the year</b>		<b>12,501,016</b>	<b>421,044</b>

The profit for the year is attributable to equity holders of the parent company.

## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

DKK	Note	2012	2011
<b>Profit for the year</b>		<b>12,501,016</b>	<b>421,044</b>
Exchange differences on translation from functional currency into presentation currency		(276,964)	1,903,291
Deferred tax on exchange differences on translation from functional into presentation currency		117,776	(968,327)
<b>Other comprehensive income, net of tax</b>		<b>(159,188)</b>	<b>934,964</b>
<b>Total comprehensive income for the year</b>		<b>12,341,828</b>	<b>1,356,008</b>

The total comprehensive income for the year is attributable to equity holders of the parent company.

# STATEMENT OF FINANCIAL POSITION

at 31 December 2012

## ASSETS

DKK	Note	2012	2011
Development projects, completed		33,596,594	39,066,818
Development projects, in progress		7,119,837	3,237,218
Patents		3,745,856	2,221,901
<b>Intangible assets</b>		<b>44,462,287</b>	<b>44,525,937</b>
Plant and equipment	6	6,049,917	5,915,890
Leasehold improvements	6	1,020,878	841,862
<b>Property, plant and equipment</b>		<b>7,070,795</b>	<b>6,757,752</b>
Investment in subsidiary	7	-	-
Deferred tax asset		5,387,756	9,901,179
Long-term deposits		1,105,851	1,030,664
<b>Other non-current assets</b>		<b>6,493,607</b>	<b>10,931,843</b>
<b>Non-current assets</b>		<b>58,026,689</b>	<b>62,215,532</b>
Inventories	8	3,858,717	4,748,533
Receivables from subsidiary	9	30,924,666	27,017,956
Trade receivables	9	10,093,143	13,504,811
Other receivables	9	1,298,603	1,819,571
Cash		16,071,346	3,950,704
<b>Current assets</b>		<b>62,246,475</b>	<b>51,041,575</b>
<b>Total assets</b>		<b>120,273,164</b>	<b>113,257,107</b>



# STATEMENT OF FINANCIAL POSITION

at 31 December 2012

## EQUITY AND LIABILITIES

DKK	Note	2012	2011
Share capital		3,523,456	3,426,113
Share premium		103,364,083	99,836,462
Foreign currency translation reserve		703,175	862,363
Other reserves		19,753,008	17,046,241
Accumulated loss		(37,475,347)	(49,976,363)
<b>Equity</b>		<b>89,868,375</b>	<b>71,194,816</b>
Interest-bearing loans and borrowings		5,000,000	-
<b>Non-current liabilities</b>		<b>5,000,000</b>	
Interest-bearing loans and borrowings		-	9,676,237
Provisions		7,665,729	7,135,477
Trade payables		13,603,442	23,821,930
Other payables		4,135,618	1,428,647
<b>Current liabilities</b>		<b>25,404,789</b>	<b>42,062,291</b>
<b>Total liabilities</b>		<b>30,404,789</b>	<b>42,062,291</b>
<b>Total equity and liabilities</b>		<b>120,273,164</b>	<b>113,257,107</b>

# STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

DKK	Note	Share capital	Share premium	Foreign currency translation reserve	Other reserves	Retained earnings	Total equity
<b>At 1 January 2011</b>		<b>3,287,926</b>	<b>94,824,360</b>	<b>(72,601)</b>	<b>14,657,666</b>	<b>(50,397,407)</b>	<b>62,299,944</b>
Profit for the year		-	-	-	-	421,044	421,044
Other comprehensive income		-	-	934,964	-	-	934,964
Total comprehensive income		-	-	934,964	-	421,044	1,356,008
Issue of shares		138,187	5,012,102	-	-	-	5,150,289
Share-based payments	3	-	-	-	2,388,575	-	2,388,575
Total transactions with equity holders		138,187	5,012,102	-	2,388,575	-	7,538,864
<b>At 31 December 2011</b>		<b>3,426,113</b>	<b>99,836,462</b>	<b>862,363</b>	<b>17,046,241</b>	<b>(49,976,363)</b>	<b>71,194,816</b>
Profit for the year		-	-	-	-	12,501,016	12,501,016
Other comprehensive income / (loss)		-	-	(159,188)	-	-	(159,188)
Total comprehensive income / (loss)		-	-	(159,188)	-	12,501,016	12,341,828
Issue of shares		97,343	3,527,621	-	-	-	3,624,964
Share-based payments	3	-	-	-	2,706,767	-	2,706,767
Total transactions with equity holders		97,343	3,527,621	-	2,706,767	-	6,331,731
<b>At 31 December 2012</b>		<b>3,523,456</b>	<b>103,364,083</b>	<b>703,175</b>	<b>19,753,008</b>	<b>(37,475,347)</b>	<b>89,868,375</b>

# STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

DKK	Note	2012	2011
Profit before tax		17,132,214	1,366,086
Net financials	5,6	46,703	69,801
Depreciation and amortisation	1	21,062,600	15,802,263
Share-based payment expense	3	2,706,767	2,952,752
(Increase) / Decrease in receivables from subsidiary		(3,906,710)	7,307,637
Decrease in inventories		889,816	3,086,978
Currency adjustment, non-current assets		215,654	94,655
Currency adjustment, inventories		(21,948)	85,614
Decrease / (Increase) in trade receivables		3,411,668	(20,769,099)
Decrease / (Increase) in other receivables		520,968	(803,694)
(Decrease) / Increase in trade payables		(10,218,488)	4,478,092
Increase in provisions		530,252	1,356,172
Increase / (Decrease) in other payables		2,706,971	(5,279,221)
		35,076,466	9,748,036
Interest received	5	329,655	356,375
Interest paid	6	(376,358)	(426,177)
<b>Net cash flows from operating activities</b>		<b>35,029,763</b>	<b>9,678,234</b>
Purchase of non-current assets	6	(21,782,668)	(26,063,589)
Investments in long-term deposits		(75,187)	(202,816)
<b>Net cash flows used in investing activities</b>		<b>(21,857,855)</b>	<b>(26,266,405)</b>
Issue of shares		3,624,964	5,150,289
(Repayment) / Proceeds from borrowings		(4,676,237)	9,676,237
<b>Net cash flows (used in) / from financing activities</b>		<b>(1,051,273)</b>	<b>14,826,526</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>12,120,635</b>	<b>(1,761,645)</b>
Cash and cash equivalents at 1 January		3,950,711	5,712,356
Net increase / (decrease) in cash and cash equivalents		12,120,635	(1,761,645)
<b>Cash and cash equivalents at 31 December</b>		<b>16,071,346</b>	<b>3,950,711</b>

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## NOTES

### NOTE 1 DEPRECIATION, AMORTISATION AND IMPAIRMENT

DKK	2012	2011
<b>Depreciation, amortisation and impairment are reported as follows:</b>		
Amortisation of development projects	17,915,550	13,131,920
Depreciation of plant and equipment	2,781,359	2,351,765
Depreciation of leasehold improvements	365,691	318,578
<b>Total depreciation and amortisation</b>	<b>21,062,600</b>	<b>15,802,263</b>

Depreciation, amortisation and impairment are recognised in research and development costs.

### NOTE 2 EMPLOYEE BENEFITS EXPENSE

DKK	2012	2011
<b>Employee benefits expense is reported as follows:</b>		
Wages and salaries	47,846,133	41,894,894
Contribution pension schemes	6,532,526	5,572,995
Share-based payment expense	2,706,767	2,952,752
Social security costs	602,393	519,614
Allocated to development projects	(14,702,279)	(15,555,196)
<b>Total employee benefits expense</b>	<b>42,985,540</b>	<b>35,385,059</b>

**Employee benefits expense is recognised in consolidated income statement as follows:**

Research and development costs	17,512,321	15,781,809
Selling and distribution expenses	15,601,075	12,098,689
Administrative expenses	9,872,144	7,504,561
<b>Total employee benefits expense</b>	<b>42,985,540</b>	<b>35,385,059</b>

Average number of employees during the year	57	52
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Wages and salaries to the Board of Directors and the Executive Management are set out in Note 3 to the consolidated financial statements.

### NOTE 3 SHARE-BASED PAYMENT EXPENSE

The stock options described in Note 4 to the consolidated financial statements are issued by Napatech A/S. The value of stock options granted to employees in the wholly-owned US subsidiary is recognised as cost of the investment in subsidiary. Out of the Group's total share-based payment expense of DKK 2,706,767 (2011: 2,952,752), DKK 232,580 (2011: 508,610) is recognised as cost of the investment in subsidiary.

## NOTES

### NOTE 4 FINANCE INCOME

DKK	2012	2011
<b>Finance income from receivables and loans</b>		
<b>measured at amortised cost:</b>		
Interest receivable, bank	-	603
Interest receivable, subsidiary	329,655	355,772
Foreign exchange gain	-	573,696
<b>Total finance income</b>	<b>329,655</b>	<b>930,071</b>

### NOTE 5 FINANCE COSTS

DKK	2012	2011
<b>Finance costs from financial liabilities</b>		
<b>measured at amortised cost:</b>		
Interest payable, bank	329,494	334,558
Foreign exchange loss	584,831	-
Other finance costs	46,864	91,619
<b>Total finance costs</b>	<b>961,189</b>	<b>426,177</b>

## NOTES

### NOTE 6 PROPERTY, PLANT AND EQUIPMENT

DKK	Plant and equipment		Leasehold improvements	
	2012	2011	2012	2011
Cost at 1 January	13,942,311	9,022,356	1,988,171	1,620,467
Additions	2,822,978	4,422,359	525,984	296,747
Exchange differences	260,046	497,597	46,971	70,957
Cost at 31 December	17,025,335	13,942,311	2,561,126	1,988,171
Accumulated depreciation and impairment at 1 January	8,026,421	5,388,196	1,146,309	786,820
Depreciation and impairment for the year	2,781,359	2,351,765	365,691	318,578
Exchange differences	167,639	286,460	28,248	40,911
Accumulated depreciation and impairment at 31 December	10,975,419	8,026,421	1,540,248	1,146,309
Carrying amount at 31 December	6,049,917	5,915,890	1,020,878	841,862

There were no indications of impairment of the Group's property, plant and equipment in 2012.

### NOTE 7 INVESTMENT IN SUBSIDIARY

Napatech A/S owns 100% of shares in the subsidiary Napatech Inc, USA.

DKK	Investment in subsidiary
Cost at 1 January 2011	1,251,832
Additions, share-based payments	508,610
Exchange differences	-
Cost at 31 December 2011	1,760,442
Additions, share-based payments	232,850
Exchange differences	-
Cost at 31 December 2012	1,993,292
Accumulated impairment at 1 January 2011	(1,251,832)
Annual impairment	(508,610)
Accumulated impairment at 31 december 2011	(1,760,442)
Annual impairment	(232,850)
Accumulated impairment at 31 december 2012	(1,993,292)
Carrying amount at 31 December 2012	-

## NOTES

### NOTE 8 INVENTORIES

DKK	2012	2011
Consumables and components	728,910	1,033,959
Finished goods and goods for resale	3,138,547	3,701,366
Exchange differences	(8,740)	13,208
<b>Total inventories</b>	<b>3,858,717</b>	<b>4,748,533</b>

The cost of goods sold for the year is DKK 52,873,662 (2011: DKK 46,533,372).

### NOTE 9 RECEIVABLES

DKK	2012	2011
<b>Receivables recognised in the statement of financial position:</b>		
Trade receivables	10,093,143	13,504,811
Receivables from subsidiary	30,924,666	27,017,956
Other receivables	1,298,603	1,819,571
<b>Total current receivables</b>	<b>42,316,412</b>	<b>42,342,338</b>

**Movements in the provision for impairment of trade receivables are as follows:**

At 1 January	700,000	27,046
Utilised	(246,431)	-
Reversal of non-utilised amounts	(453,569)	(27,046)
Change in the year	1,684,355	700,000
<b>At 31 December</b>	<b>1,684,355</b>	<b>700,000</b>

**Ageing analysis of past due but not impaired trade receivables at 31 December is as follows:**

Past due less than 30 days	3,755,949	3,068,997
Past due between 30 and 60 days	341,583	861,516
Past due between 60 and 90 days	198,736	-
Past due after 90 days	402,367	-
	<b>4,698,635</b>	<b>3,930,513</b>

The parent company's customers are multinational groups of companies with which the Group has had relationships over a long period of time. The parent company therefore expects the above receivables to be settled.

**Ageing analysis of past due and impaired trade receivables at 31 December is as follows:**

Past due less than 30 days	302,909	58,765
Past due between 30 and 60 days	-	-
Past due between 60 and 90 days	171,985	-
Past due after 90 days	1,429,455	670,726
	<b>1,904,349</b>	<b>729,491</b>



## NOTES

### NOTE 10 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK	2012	2011
<b>Financial assets measured at fair value through profit or loss:</b>		
	-	-
Total financial assets measured at fair value through profit or loss	-	-
<b>Loans and receivables measured at amortised cost:</b>		
Other receivables	1,298,603	1,819,571
Trade receivables	10,093,143	13,504,811
Cash	16,071,346	3,950,704
Long-term deposits	1,105,851	1,030,664
Receivables from subsidiary	30,924,666	27,017,956
Total loans and receivables measured at amortised cost	59,493,609	47,323,706
Total financial assets	59,493,609	47,323,706
<b>Financial liabilities measured at amortised cost:</b>		
Interest-bearing loans and borrowings	5,000,000	9,676,237
Trade payables	13,603,442	23,821,930
Other payables	4,135,618	1,428,647
Total financial liabilities measured at amortised cost	22,739,060	34,926,814
Total financial liabilities	22,739,060	34,926,814

### NOTE 11 FINANCIAL RISKS

The US-based subsidiary is a distribution company that settles all its transactions in USD and whose most significant risk is related to its customers. Napatech A/S incurs external financial liabilities and settles its transactions in currencies other than the functional currency. The Groups' financial risks are therefore primarily related to Napatech A/S. Relevant additional information is set out in Note 16 to the consolidated financial statements.

## NOTES

### NOTE 12 RELATED PARTY TRANSACTIONS

Related parties to Napatech A/S are the same as the Group's. Additional information is set out in Note 20 to the consolidated financial statements.

Related parties in which Napatech A/S has a controlling influence include the US-based subsidiary Napatech Inc.

The following related party transaction has been carried through with Napatech Inc.:

DKK	2012	2011
<b>The subsidiary's income statement:</b>		
Revenue	106,168,944	75,475,444
Production costs	(2,433,837)	(2,599,575)
Finance income	329,655	355,722
Total	104,064,762	73,231,591
<b>The subsidiary's statement of financial position</b>		
Receivables	30,924,666	27,017,956
Total	30,924,666	27,017,956

Napatech Inc. has a deficit on equity. The receivables from Napatech Inc. are therefore impaired by DKK 438,789 at 31 December 2012 (31 December 2011: DKK 1,255,912).

## NOTES

### NOTE 13 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for Napatech A/S for the year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

The financial statements are presented in DKK, and the Company's functional currency is USD.

The accounting policies for the Parent company are the same as for the Group as set out in Note 22 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 has been declared.

#### **Investments in subsidiaries**

Investment in subsidiaries are measured at cost. If the cost exceeds the recoverable amount the investment is written down to the lower value.

#### **Share-based payments to employees in subsidiaries**

The value of granted share options to the employees in 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.

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