

2015 ANNUAL REPORT



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Editors

Napatech A/S
Tobaksvejen 23A
2860 Søborg



DEAR READER

I strongly believe that we are well positioned to capture future growth by providing exceptional solutions created by our motivated employees.

2015 has been an outstanding year for Napatech. We have seen strong growth, especially during the second half of the year, and exciting new design wins with key customers in our markets around the world. We trust this is a reflection of the confidence our customers, and the market, have in our solutions and our future product innovation capabilities.

In October, a custom study conducted by independent research firm Heavy Reading for Napatech revealed that by 2018, access, metro and core transport networks will have reached a tipping point. As the need to support high-bandwidth services continues to grow, the requirement for greater throughput is driving a steep rise in the penetration of 100 Gigabit networks.

Throughout 2015, we developed significant new solutions that addressed the need for Smarter Data Delivery in the 100 Gigabit era, delivering new 100 Gigabit solutions to data center and telecommunications customers. We also enhanced our 1, 10 and 40 Gigabit Accelerator portfolio to support new advanced use cases for example within cyber security.

In 2015, we also expanded our growth platform by delivering the Pandion 20 Gigabit recording solution. This is a fast engine for real-time capture, indexing and search of network data, allowing Napatech customers to focus on software innovation for their management and security solutions.

Today, we have top tier customers in all market areas, and the common denominators for these customers are that they are looking for data to be delivered: Faster, More Efficient and On-demand.

To strengthen our sales power, we entered into a distribution agreement with Arrow Electronics in the fall of 2015.

We strongly believe that this, together with our Dell OEM partnership, will provide better future global scaling of our sales capabilities and customer relationships.


In addition to our partnerships, we are continuing to expand our relevance in global markets. In 2015, Napatech opened an office in Taiwan in order to strengthen our presence in the APAC region and serve as a base of operations as the Company prepares to solidify its presence in China.

In 2016, we have a number of exciting new products in the pipeline, the most important being our Network Function Virtualization NIC (NFV NIC). This will enable Napatech to provide more efficient and flexible solutions of data delivery in virtualized environments.

The Napatech NFV solutions will focus on improving the performance of NFV infrastructures and virtual switching in particular, without constraints on how and where virtual functions are deployed. The goal is to maintain virtual function mobility allowing the full promise of NFV to be realized.

I strongly believe that we are well positioned to capture future growth by providing exceptional solutions created by our motivated employees. With this in mind, I look forward to an exciting and productive 2016.

Kind regards,


Henrik Brill Jensen
CEO

OUR STRATEGY

**NAPATECH PRODUCTS
SUPPORT MAJOR TRENDS
WITHIN MOBILE, SECURITY
AND VIRTUALIZATION**



**MARKET LEADER
IN ACCELERATOR
SOLUTIONS**



**MARKET LEADER FOR
NETWORK RECORDER
SOLUTIONS**



**FRONT-RUNNER
IN ACCELERATING
VIRTUALIZED SOLUTIONS**



**THOUGHT LEADER
DRIVING EXCEPTIONAL
NEW INNOVATION**

Our strategy is centered around executing on 4 clearly defined strategic areas, all based on our leading-edge core technology and capabilities.

An important part of the strategic execution is Co-Creation with market leading customers. We define Co-Creation as development of new solutions, products and value-adding services in close collaboration with selected market-leading and innovative customers. We do this to secure more optimal and faster product adoption in the market.

THE NAPATECH STORY

Napatech aims to provide solutions that will allow more efficient and flexible data delivery in virtualized environments.

The volume, complexity, and velocity of data in networks are increasing at explosive rates. The performance of network management and security applications needs to keep up; organizations must not only monitor and analyze data, but must also correlate that data and predict trends – often in real time.

As the amount of data continues to grow, with Cisco predicting that global IP traffic will reach 168 Exabytes per month in 2019, Napatech is positioned to be a fundamental player in the future landscape of network architecture. Our solutions focus on providing Smarter Data Delivery, allowing our customers to focus on analytics in order to optimize their network management and security applications.

All of this puts increasing pressure on network engineers, system integrators, product managers, CTOs, and executives to deliver smarter solutions that are faster, more efficient, and able to deliver data on-demand. At the same time, they must find ways to cut both costs and development time. Further complicating these challenges, more data will in the future be routed through the virtual environments of Software-Defined Networking (SDN) and Network Functions Virtualization (NFV) where networks are transformed into a programmable platform allowing appliances, services and applications to be moved in the blink of an eye.

In this future landscape of network architecture, data capture and delivery becomes pivotal for mobile apps to run quickly, videos stream smoothly, financial trades be executed fairly, and end-user data remain secure. Network management and security applications need Smarter Data Delivery.

SMARTER DATA DELIVERY **FASTER**

We not only accelerate the speed and capacity of our customers' solutions with a product portfolio that scales from 1 to 200 Gigabit, we also help them accelerate their

in-house development or time-to-market. Our customers can reduce risks with our integrated and pretested solutions using patented technology.

MORE EFFICIENT

Our customers can control what data is delivered, where and how. We not only provide more efficient data delivery through high performance features, we also allow our customers to mix and match port speeds – which is unique in the industry. Our solutions, which utilize commercial off-the-shelf servers, conserve rack space as well as reduce heat, thereby providing more energy-efficient and cost-effective total solutions.

ON DEMAND

With our solutions, our customers can record, specify and retrieve data where, when, and how they want. We allow our customers to travel back in time with exceptional precision and guaranteed information availability at even the highest Gigabit line rates.

Napatech continues to invest in new product development to support our growth ambitions with both existing and new customers in our core markets.

THE PEOPLE

The solutions we provide are due to highly skilled employees who are committed to creating value for Napatech and its shareholders. Napatech employees serve our customers through development of innovative products that enhance our customers, application performance, shorten time-to-market, and through continuous local support at our offices around the world. Last year, we recognized that we needed to improve our customer pipeline and sales power. Thus, we started to increase our investments within our Global Marketing and Sales. At the same time we increased our commercial focus by engaging in closer collaboration with some of our key customers.

#1

DATA DELIVERY
VENDOR**THE TECHNOLOGY**

Napatech solutions are designed to address the data delivery challenges of management and security vendors through innovative product design. Napatech accelerators use a combination of cutting-edge hardware based on Field Programmable Gate Array (FPGA) technology and an extensive range of software capabilities. This enables guaranteed visibility into high-speed data traffic on several networks, across applications and at multiple speed rates based on commercial off-the-shelf server platforms.

The Napatech Pandion product family uses our innovative accelerator technology as a foundation to deliver high-precision Gigabit capture, indexing and search of network data. The recorder software not only provides core functionality to deliver network data back in time, but also features an industry standard REST API that allows our customers to easily integrate their management and security applications taking advantage of the recorded network data.

THE BUSINESS STRATEGY

It is the ambition of Napatech to be the number one vendor for Smarter Data Delivery solutions to applications that ensure the quality and security of the network services upon which we all rely. This position will be attained by focusing on continued growth in our accelerator and network recorder business while expanding the application of Napatech technology and solutions in new markets starting with Napatech solutions for data delivery in virtualized environments.

Today, Napatech Smarter Data Delivery solutions include our broad 1, 10, 40 and 100 Gigabit portfolios of Accelerators and the Napatech Pandion family of dedicated network recorder solutions. With these solutions, we ensure the availability of reliable data for real-time, on-demand and post-analysis. We are now extending these capabilities to virtual environments where there is a recognized need for more efficient and flexible solutions for data delivery to virtual applications.

Virtualization is just one of many technology trends that are shaping the future for Napatech and our customers.

CUSTOMERS

150+

INTERNATIONALLY

INDUSTRY
EXPERIENCE

13

YEARS

The Internet of Things, Big Data Analytics and the increase in cyber security threats are also driving major innovation in new solutions and techniques. Napatech intends to be on the forefront of these developments by engaging with our market-leading customers to co-create new solutions that address their needs. These solutions are based on continued sustained innovation in Napatech core technology and capabilities that will ensure that we remain on the leading edge in our core technology areas. In addition, we are strengthening our innovation capabilities and processes to expand the application of Napatech technology solutions in new products and markets, beginning with virtualized environments.

In 2016, Napatech aims to provide solutions that will allow more efficient and flexible data delivery in virtualized environments.

The concept of Network Functions Virtualization (NFV) was first introduced in 2012 with the goal of accelerating time-to-market for new communication services using a centrally controlled, programmable virtualized network infrastructure based on cost-effective standard hardware.

Instead of using dedicated appliances based on expensive, proprietary hardware and requiring manual administration, NFV can use common hardware that can be used to host any virtual function.

In just a few short years, over 200 carriers and vendors from the telecom and IT industry have succeeded in realizing functioning NFV solutions. Despite this success, there are still a number of challenges that threaten to undermine the promise of NFV.

One of the major issues is the currently rather disappointing performance of the NFV infrastructure, in particular virtual switching. Different solutions have been proposed to address this, but each solution either increases cost or undermines flexibility by placing constraints on how virtual functions are deployed or moved.

To realize fast time-to-market for new services, it is important that virtual functions can be instantiated, scaled, moved and deleted on-demand. This also optimizes cost as it reduces the amount of un-used CPU cores and servers.

Napatech NFV solutions will focus on improving the performance of NFV infrastructures and virtual switching in particular, without constraints on how and where virtual functions are deployed. The goal is to maintain virtual function mobility allowing the full promise of NFV to be realized.

With these initiatives, we intend to continuously enhance the value we bring to our customers as a supplier and strategic partner, ensuring they stay one step ahead.

Napatech strategy is to grow organically and possibly through acquisitions, while also using our current position and strong capital base to enable sustainable growth while building long-term relevance for Napatech customers and shareholders.

COMPANY PROFILE

Napatech is the world leader in accelerating network management and security applications. As data volume and complexity grow, the performance of these applications needs to stay ahead of the speed of networks in order to do their jobs. We make this possible, for even the most demanding financial, telecom, corporate and government networks. Now and in the future, we enable our customers' applications to run faster than the networks they need to manage and protect.

OUR MISSION

To keep our customers one step ahead of the data growth curve by delivering data faster, more efficiently and on-demand to their applications, while also accelerating their time-to-market and reducing risk.

OUR VISION

To be the number one vendor for smarter data delivery to applications that ensure the quality and security of the network services we all rely on.

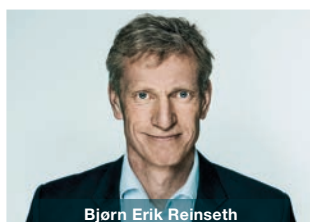
Napatech. SMARTER DATA DELIVERY

BOARD AND MANAGEMENT PRESENTATION

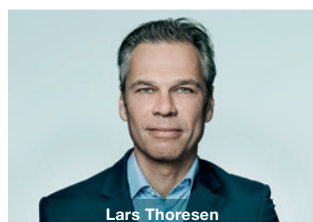
BOARD OF DIRECTORS



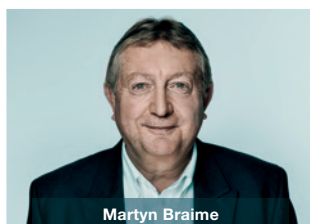
Olav Stokke



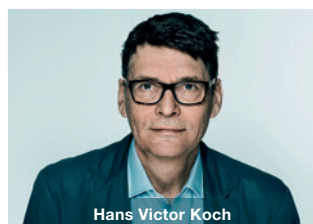
Bjørn Erik Reinseth



Lars Thoresen



Martyn Braime

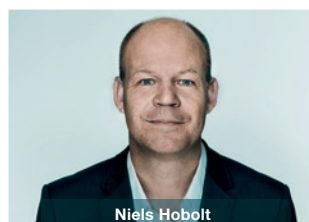


Hans Victor Koch

MANAGEMENT TEAM



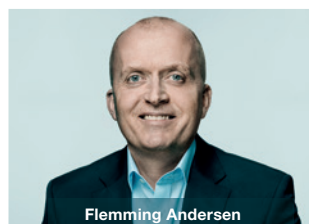
Henrik Brill Jensen



Niels Hobolt



Peter Ekner



Flemming Andersen



Andrew Patterson



Walther Johannesen

BOARD OF DIRECTORS

Olav Stokke, Chairman. Directorships: GentleCap AS – Chairman / Owner. **Bjørn Erik Reinseth**, Board member. Directorships: Foinco AS – CEO, Zentuvo AS – Chairman of the board, AllieroGruppen AS – Chairman of the board, Norstat AS – Chairman of the board. **Lars Thoresen**, Board Member. Directorships: LT Invest AS - Chairman / Owner, Verdane Group of companies – multiple directorships. **Martyn Braime**, Board member. Directorships: Linersh Management Service Ltd – Director. **Hans Victor Koch**, Board member.

MANAGEMENT TEAM

Henrik Brill Jensen, CEO. **Niels Hobolt**, CFO. **Peter Ekner**, CTO. **Flemming Andersen**, EVP of Engineering. **Andrew Patterson**, SVP Global Sales. **Walther Johannesen**, SVP Global Marketing.

KEY MARKETS

**NAPATECH PRODUCTS
ARE ESSENTIAL
IN MARKETS WITH
MASSIVE DATA USAGE**



TELECOM
OPERATORS



FINANCIAL
SERVICES



CLOUD AND
DATA CENTER
SERVICES



INFRASTRUCTURE
AND DEFENCE

We have selected four markets where we already have solid business, and where we believe there are great future potentials for Napatech to grow, and help our customer by solving their need for smarter data delivery.

Today, we have top tier customers in all four market areas, and the common denominators for these customers are that they are looking for data to be delivered: Faster, More Efficient and On-demand.

GROUP KEY FIGURES AND RATIOS

	2015	2014	2013	2012	2011
KEY FIGURES (DKK'000)					
Revenue	216,677	182,335	182,047	181,179	134,477
Gross profit	154,701	133,627	130,501	128,581	90,453
EBITDA	34,232	18,010	29,354	39,510	17,253
EBIT	5,465	(5,889)	7,998	18,289	1,308
Net finance income / (expense)	5,534	5,186	580	(1,007)	81
Profit / (loss) before tax	10,999	(703)	1,796	17,282	1,390
Profit / (loss) for the year	7,713	(981)	(509)	12,501	421
Investments in intangible assets	42,915	38,371	26,446	18,433	21,344
Investments in property, plant and equipment	4,125	7,244	4,649	3,389	5,019
Net working capital	27,663	20,333	8,776	7,233	14,393
Total assets	247,552	224,829	232,648	122,459	112,855
Equity	197,002	189,619	190,364	89,868	71,195
Net cash flows from operating activities	33,226	10,665	23,538	49,267	6,828
Cash at the end of year	75,921	88,230	122,223	30,105	7,519
Free cash flow	(14,272)	(35,047)	(7,987)	27,372	(19,782)
Average number of employees	108	106	95	79	70
FINANCIAL REPORTING RATIOS (%)					
Gross profit margin	71.4%	73.3%	71.7%	71.0%	67.3%
EBITDA margin	15.8%	9.9%	16.1%	21.8%	12.8%
Current ratio	360.3%	462.9%	461.9%	232.2%	120.4%
Return on equity	4.0%	-0.5%	-0.4%	15.5%	0.6%
SHARE-RELATED RATIOS (DKK)					
Basic EPS	1.32	(0.17)	(0.14)	3.61	0.13
Diluted EPS	1.32	(0.17)	(0.13)	3.51	0.12
Free cash flow per share	(2.45)	(6.02)	(2.04)	7.69	(5.78)
Cash flow per share	5.71	1.83	6.02	13.85	1.99

KEY FIGURE AND RATIO EXPLANATIONS AND DEFINITIONS

The financial highlights and ratios are defined and calculated in accordance with the guidance from the Danish Finance Society regarding the calculation of financial highlights and ratios: "Recommendations & Financial Ratios 2015".

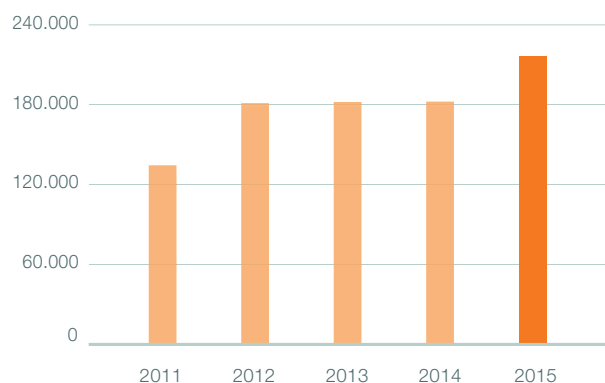
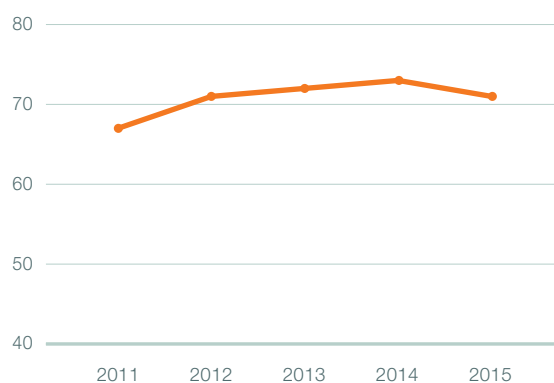
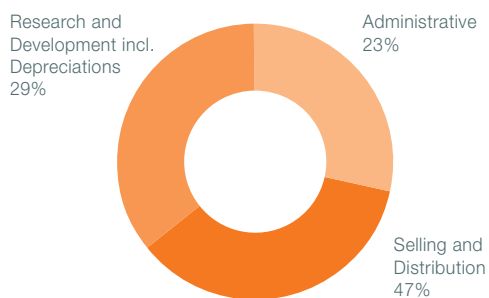
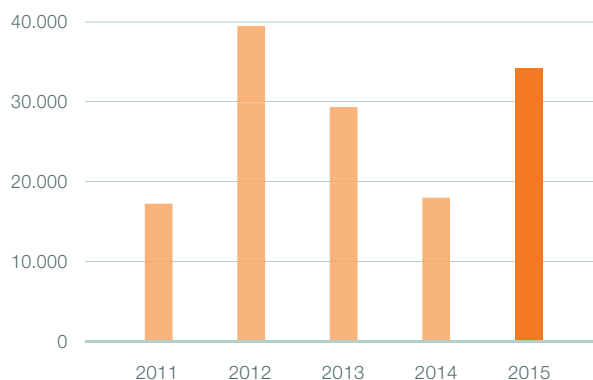
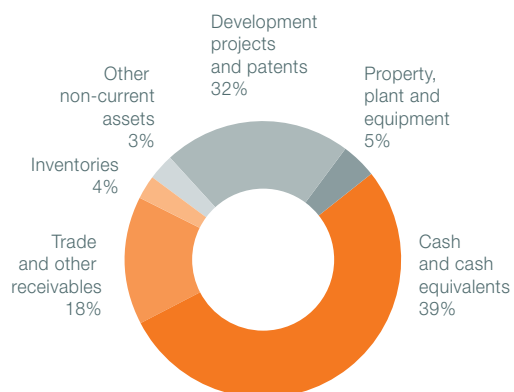
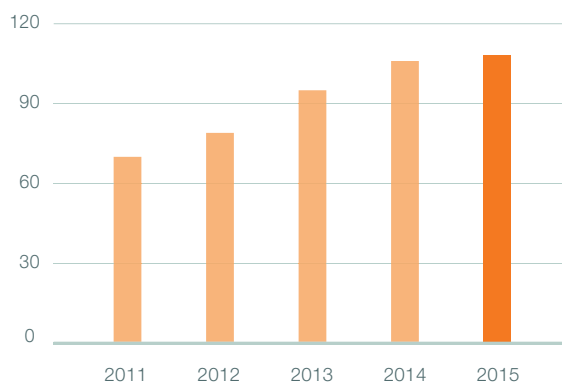
Ratio	Calculation formula	Explanation
Gross profit margin	$\frac{\text{Gross profit}}{\text{Revenue}} \times 100$	The ratio represents the percentage of the revenue less cost of goods sold to cover research and development costs, selling and distribution costs, administrative expenses, depreciation and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

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

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

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

Calculation of the Group's basic and diluted earnings per share (EPS) is specified in Note 13 to the consolidated financial statements.

REVENUE in DKK'000**GROSS MARGIN** IN %**COST****EBITDA** IN DKK'000**ASSETS****AVERAGE NUMBER OF EMPLOYEES**

BOARD OF DIRECTORS' REPORT 2015

Napatech aims to become
the recognized standard
for data delivery in the
network appliance market.

SUMMARY

Napatech aims to become the recognized standard for data delivery in the network appliance market, providing visibility into the performance and operation of networks, applications and data services. To achieve this, Napatech's strategy is to help its customers develop high-performance products in a timely, efficient and profitable manner by using Commercial Off-the-Shelf (COTS) servers powered by Napatech solutions.

The volume, variety and velocity of data in networks are increasing at explosive rates. In order to stay ahead of this data deluge, network management and security appliances need to stay ahead of the speed of networks in order to ensure apps run quickly, videos stream smoothly and end user data is secure.

In order to stay faster than the future, vendors need smarter data delivery to their network management or security applications in order to provide next-generation solutions at 100Gbps and beyond. They also need to bring these solutions to market in a short time with low risk at relevant price points. Only by using readily available commercial solutions can Original Equipment Manufacturers (OEMs) appliance vendors overcome these key challenges.

Napatech is a leading OEM supplier of smarter data delivery solutions with an installed base of more than 200,000 ports. Extensive network data growth, increased security challenges, a growing number of software applications and increasingly complex transaction schemes all drive a very urgent need for network visibility and analytic capabilities. Napatech solutions deliver data faster, more efficiently and on-demand, guaranteeing network insight that enables effective decision making.

As more customers are looking to use open source analytic or security applications and also need high-performance, we deliver a value added PCAP software solution that together with the Napatech Accelerator provide easy integration and guaranteed high-performance for these open source applications.

Our business objective is to grow by extending worldwide sales and support capabilities into new verticals and geographies. Thus supporting the growth of our global customers while addressing local market needs. We plan to grow the business across current markets and customers by enhancing our product portfolio to stay one step ahead of market demands for next-generation network connectivity, while at the same time exploiting the latest server and industry standards.

Napatech again received numerous awards in 2015, demonstrating our commitment to delivering innovative, high quality products to our customers. The most important of these awards, Interop Tokyo Best of Show, was awarded to Napatech Pandion and our 200 Gigabit Performance Solution in the management and monitoring categories. Winning these awards validates our efforts to deliver solutions that address the high-speed challenges facing networks today.

Napatech has been a leading provider of advanced data delivery hardware and software since 2003. The Company is headquartered in Copenhagen, Denmark and has offices around the world. The United States subsidiary has offices in Andover, MA, Los Altos, CA, and Columbia, MD. The Parent Company has a branch office in Seoul, South Korea. The subsidiary in Japan has an office in Tokyo, and we have representation in Taiwan and Dubai.

SOLUTIONS

TELECOM OPERATORS

– WE KEEP TELECOM OPERATORS ONE STEP AHEAD OF THE DATA DELUGE

Our solutions deliver data faster, more efficiently and on-demand to applications that analyze, in real time, all the information going through telecom networks. This enables operators to tailor their solutions and offer new services that customers want to purchase.

FINANCIAL SERVICES

– WE DELIVER DATA FOR LATENCY ANALYSIS TO ENSURE TRADING RUNS SMOOTHLY

Financial information providers depend on the transport of critical market data with the lowest delay possible, without compromising delivery. In order to ensure that trading runs smoothly, exchanges, trading institutions, and service providers all need reliable data delivery to the analysis application. Our solutions deliver data to independent network monitoring systems that are able to visualize all transactions in real time.

CLOUD AND DATA CENTRE SERVICES

– WE HELP ENSURE QUALITY OF EXPERIENCE AND ENABLE NEW BUSINESS MODELS

Cloud and data centre service providers need insight into their vast and complex networks. Our solutions deliver data to applications that provide impeccable quality of experience without compromising on data security and availability. Seeing trends within their traffic will allow cloud and data centres to offer innovative services, maximizing their business potential.

INFRASTRUCTURE AND DEFENCE

– WE HELP INFRASTRUCTURE AND GOVERNMENT NETWORKS RUN SMOOTHLY AND SAFELY

Government and infrastructure network managers face the challenge of exponential growth in data volume and complexity, as well as increased sophistication of attacks on public safety. Our solutions deliver data to security applications that protect public and private information, as well as critical infrastructure networks.

CONSOLIDATED FINANCIAL DEVELOPMENT

(2014 FIGURES IN BRACKETS)

Net revenues in 2015 came in at DKK 216.6 million (DKK 182.3 million) representing a solid revenue growth. The Group experienced softness in the European market, APAC showed a limited growth for the year, but a good recovery towards the end of the year. The North American market showed significant improvements with a growth of 26% for the year. The EBITDA for 2015 was DKK 34.2 million (DKK 18.0 million), and the profit before tax for the year was DKK 11.0 million (negative DKK 0.7 million).

The Group's equity at the end of the year was DKK 197.0 million (DKK 189.6 million).

The Group has in-house development resources developing new products and new functionality (features). The group also engages external consultants for specific development projects. Development costs are capitalized in compliance with IFRS. DKK 42.9 million was capitalized in 2015 (DKK 38.4 million). The increase is due both to added internal resources and external costs in connection with the new hardware platforms.

The financial items were positive with DKK 5.5 million primarily due to the positive development of the USD against DKK during the year.

The Group had a negative cash flow of DKK 12.3 million (DKK 34.8 million), primarily due to the large investments in product development. Total cash balance was DKK 75.9 million at the end of the year.

The revenue and EBITDA level for 2015 ended above the level that was guided to the market in connection with the Q4 2014 reporting in February 2015.

FINANCIAL DEVELOPMENT IN THE PARENT COMPANY

(2014 FIGURES IN BRACKETS)

Net revenues for the Parent Company in 2015 came in at DKK 183.1 million (DKK 150.4 million), representing a revenue increase of 22%. The EBITDA in the Parent Company for 2015 was DKK 29.4 million (DKK 17.5 million), and the profit for the year was positive DKK 4,4 million (negative DKK 1 million).

NET REVENUES

216.6

DKK MILLION

EBITDA

34.2

DKK MILLION

PROFIT BEFORE TAX

11.0

DKK MILLION

LEADING
200G
TECHNOLOGY

DEVELOPMENT ACTIVITIES AND KNOWLEDGE

The Company has historically had high focus on development of new products and solutions within our Accelerator product line, both for existing markets and new markets. This work continued with high efforts through 2015. Additionally the Company used significant resources on initiating a new revenue stream by developing a fast engine for real-time capture, indexing and search of network data. The first product based on this technology is our Pandion 20 Gigabit recording solution, which allows Napatech customers to focus on software innovation for their management and security solutions. Napatech underlines its technology leadership by providing new and innovative products and functionality for our entire portfolio of 1, 10, 40 and 100 gigabit products.

Napatech spends a significant part of its development activity during the year targeting solutions for the growing mobile market. The development team is organized in smaller cross-functional teams to secure optimal information sharing and agile product development. In addition, there is extensive use of IT tools that support the sharing of knowledge.

All development activities are done in the Parent Company, at one location in Denmark, which ensures a high degree of collaboration, focus and operational excellence.

DIVIDEND

The Company has until now not distributed any dividends, and does not expect to do so in the near future. The Company intends to keep investing in future growth, by developing new products and functionality together with our market leading customers.

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 on in an acceptable way, and that governing bodies have sufficient insight and influence to undertake their functions.

The communication between the Company and shareholders primarily takes place at the Company's annual general meeting, quarterly financial reporting and via Company

INDUSTRY AWARDS
20+
WORLDWIDE

GUARANTEED
100%
DATA DELIVERY

announcements. The Company shareholders are encouraged to subscribe to our investor relation e-mail service to receive Company announcements, as well as other news via e-mail.

Guidelines on Corporate Governance are approved annually by the Board of Directors in connection with the approval of the Financial Statements or when deemed necessary. The guidelines are based on the Norwegian Code of Practice for Corporate Governance, last revised on October 30th, 2014, and using the "follow or explain principle". The Company follows all the 14 recommendations. The shareholders have on the annual general meeting elected a Nomination Committee, which proposes new members for the Board of Directors, and proposal for their remuneration. The Nomination committee has 2 members.

The Board of Directors has established two committees within the Board; The Remuneration Committee and the Audit Committee, of which all 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 the Directors and the CEO of the Company. Chairman Olav Stokke is the chairman of the Remuneration Committee and Lars Thoresen and Bjørn Erik Reinseth are members of the Committee. The Remuneration Committee

handles the Company's remuneration policy and programs, including bonus programs and share-based schemes, and presents recommendations to the Board of Directors for decision according to its meeting protocols and underlying material prepared. The Committee normally evaluates annually the CEO's remuneration and presents recommendations to the Board of Directors for decision. The Company's remuneration policy, when proposed changed, is subject to approval by the annual general meeting.

The Audit Committee is composed of three members of the Board. Chairman Olav Stokke is the chairman of the Committee. Martyn Braime and Bjørn Erik Reinseth are further members of the Audit Committee. This Committee supports the Board of Directors in fulfilling its responsibilities with respect to financial reporting, auditing matters, internal control, and risk matters.

The Company's Board of Directors shall have a diverse composition and competence tailored to meet the Company's needs. None of the Board members are employees of the Company and 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 an annual self-assessment of its own activities and competence.

The Board of Directors held 14 Board meetings in 2015, where 4 of the meetings were for the approval of the quarterly report and presentations

The Guidelines, incl. the annual corporate governance status, can be found on the Company's investor relations website, at www.napatech.com/investor/corporate-governance.

RISKS

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

The Group is exposed to operational risks, as the Group depends 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, and some assets in USD as well, there is a risk that fluctuations in USD exchange rate will affect the Group's financial performance.

RISK MANAGEMENT AND INTERNAL CONTROL

The risk management relating to the Group's financial performance is controlled by the Group's CFO. The Board of Directors receives monthly financial reports from the finance department, including financial and operational key performance indicators. The Company approves and presents quarterly reports to the market in accordance with IAS 34. Financial reports are prepared and issued by the finance department, and the financial responsibility for quality assurance of the financial reports lies with the CFO. The Group has, under careful consideration of its limited size, set up procedures to secure the best possible segregation of duties.

STATEMENT ACCORDING TO CORPORATE SOCIAL RESPONSIBILITY

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 wellbeing in the work place is good.

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

Any form of corruption, extortion, or embezzlement is strictly prohibited. No bribes or improper advantage are offered or accepted. Compliance to EICC's Code of Conduct is a matter of course, where we take a stand against, exploitation of workers and child labor. The result of our focus in this area is that we have never received a single fine or penalty regarding corporate, employee, or environmental issues.

We are committed to conducting business operations in an environmentally responsible and ethical manner, and established a Conflict Mineral policy with the objective to only use 3TG that originate from conflict-free sources.

OUR PRODUCTS

Our products are assembled by contract manufacturers that share our ambitions for social responsibility. We investigate each component regularly, and we declare that 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.

We have dedicated significant amount of resources to avoid the existence of Conflict Minerals in our products, where we together with a large part of the industry are tracking all subcomponents back to the origination of gold and other minerals used.

OUR ENVIRONMENT

The Group's main impact on the environment is through the Parent Company's and the US based subsidiary's consumption of electricity consumption and through the usage of Group's petrol driven cars. The Group has 6 different locations. These are fairly numerous compared to the size of the Company with an average number of employees of 108 in 2015. Almost all emissions are Scope 2 emissions, with the exception of the emission from the company fleet. The only Greenhouse gas emissions that Napatech has, and accounts for, is Carbon Dioxide.

The Group has its own internal environmental policies which oblige the Group to take reasonable steps in order to reduce the environmental impact. The Group's goal is to make measurements covering at least 85% of the employees in 2015.

STATEMENT OF ACCOUNT OF EMPLOYEES

The Group's 98 fulltime employees by December 30th 2015 include 14 women (14%). In 2014 this was 13 women equivalent to 12% of the work force. The Group primarily

employs engineers, and as women are underrepresented among engineers, it is considered a natural consequence that women are underrepresented in the Group. There is one woman in a management position, and the Board of Directors consists of men only. The Board of Directors has a long-term goal to have at least 20% women on the Board, within the next 2 years, and to increase the presence of women throughout the organisation. It is however always the candidate which is deemed best suited for a position that will be offered said position, but efforts are made to check for candidates from the under-represented gender.

The Group has a diversification strategy and has, in the Danish headquarter, employed 12 different nationalities. Salaries, positions and duties are determined on the basis of qualifications and experience. The Group has not adopted any further specific policies regarding Corporate Social Responsibilities including policies for human rights and environmental impact.

LEGAL MATTERS

There are currently no legal proceedings which involve any company in the Napatech Group.

EVENTS AFTER YEAR-END

There are no material events after the year-end and until this date.

OUTLOOK

The Group revenue is primarily exposed to large investments in network infrastructure in the telecom industry, cloud and datacentres, defence and the financial industry. All areas show a cyclic behaviour. However, the Group expects growth in revenue and EBITDA in 2016, compared to 2015. The Company has given guidance for 2016 in connection with the Q4 2015 reporting, where revenue is expected to increase by around 20% and the EBITDA margin is expected to be around 20%.

Napatech intends to grow organically and possibly through acquisitions. Napatech intends to use its current position and its strong capital base to enable sustainable growth while building differentiation and long-term relevance for Napatech customers. Napatech continues to bring innovative products to the market, that sustains the Company's ambition to have a long-term growth.



EMPLOYEES

96

FULLTIME

WORLDWIDE

15

NATIONALITIES

LOCATIONS

8

WORLDWIDE



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 5,821,723 shares outstanding of a nominal value of DKK 1.00. The Company owned 2,700 treasury shares at year end. The Company had 424 shareholders and 54% of the shares were registered outside Norway. Total outstanding warrants at the end of the year were 413,407 warrants with an average exercise price of DKK 34.69.

Napatech has one class of shares, and no restriction on the trading in the Company's shares.

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

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

The following shareholders have issued large shareholder reports to the Company, with the following ownership at the issuing moment:

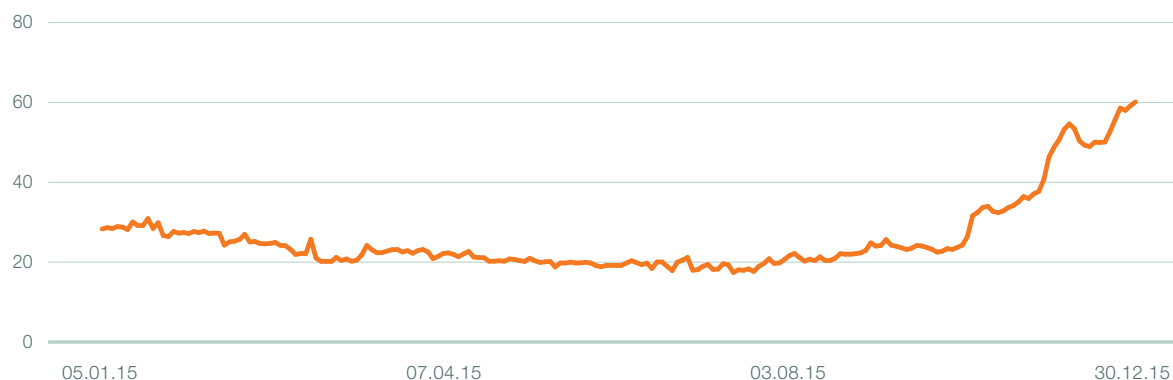
Date	Shareholder	Stake
Nov. 5, 2015	DnB Assets Management	5.15%
Dec. 3, 2015	Håkon Sæter, Silvercoin Industries and Six-Seven AS	5.06%
Jan. 18, 2016	Storebrand Assets Management	5.0%
March 2, 2016	Tigerstaden	10.17%

During 2015, a number of releases have been announced on Oslo Stock Exchange under the ticker: NAPA. For a complete overview, please see www.newsweb.no.

The Company's financial calendar for the remainder of 2016 is:

Date	Activity	Venue
April 5, 2016	CMD	Oslo
April 20, 2016	Annual assembly	Copenhagen
May 10, 2016	Q1 2016 report	Oslo
Aug. 16, 2016	Q2 2016 report	Oslo
Nov. 8, 2016	Q3 2016 report	Oslo

NAPATECH SHARE PRICE DEVELOPMENT 2015 IN NOK



NAPATECH HAD BY THE END OF 2015 THE FOLLOWING TOP 20 SHAREHOLDERS

Investor	Number of shares	% of total
Verdane Capital VIII	1,293,211	22.2%
Verdipapirfondet DNB	398,040	6.8%
Vinterstua AS	310,000	5.3%
DnB Nor Markets, AKS	248,200	4.3%
Arctic Funds plc	240,000	4.1%
Danske Bank A/S	231,728	4.0%
Storebrand Vekst	230,691	4.0%
Silvercoin Industries	225,895	3.9%
The Bank of New York	225,000	3.9%
Tigerstaden AS	203,330	3.5%
Nordnet Bank AB	139,476	2.4%
DNB Luxembourg S.A,	136,650	2.3%
Skandinaviska Enskilda	100,000	1.7%
Mertoun Capital AS	100,000	1.7%
Northzone IV K/S	98,158	1.7%
SIX SIS AG	90,362	1.6%
Six-Seven AS	79,883	1.4%
Northzea Management	76,231	1.3%
Nordea Bank Danmark	73,182	1.3%
Hobolt Niels	65,131	1.1%
Total owned by top 20	4,565,168	78.4%
Total owned by 404 other	1,256,555	21.6%
Total number of shares	5,821,723	100.0%

NETWORK VIRTUALIZATION

**TELECOM OPERATORS
AND DATACENTERS
ARE LOOKING FOR COST
EFFECTIVE SOLUTIONS**



FULLY MOBILE
VIRTUAL FUNCTIONS



VIRTUAL SWITCH
ENABLES VNF MOBILITY



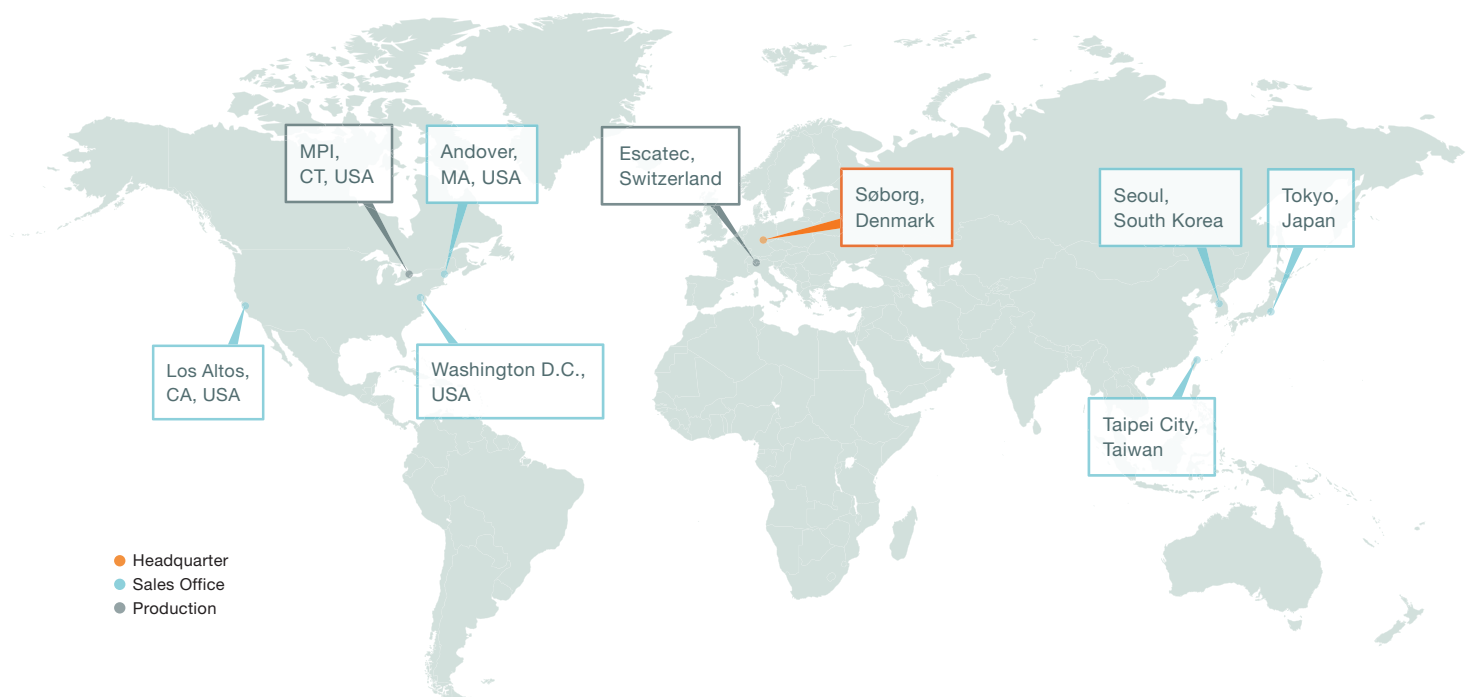
HIGH PERFORMANCE
NAPATECH NFV NIC

Napatech NFV NIC solution enables full optimization of datacenter server usage by allowing any function to be run anywhere with full throughput and flexibility. This unique solution also simplifies management and orchestration of virtual networks as there are no constraints or exceptions on where virtual functions can be deployed.

With the Napatech NFV NIC solution we make the dream of Network Functions Virtualization a reality.

GEOGRAPHICAL PRESENCE

At Napatech, we believe it is important to be close to our customers in order to deliver excellent support and sales services locally. Therefore, Napatech has established local offices in key markets and new geographies showing growth potential. In the map below, our presence and the location of our outsourced production facilities are also shown.



A smiling man with dark hair, wearing a light blue and white striped button-down shirt, is holding a black smartphone to his ear. He is looking down and to the side with a pleasant expression. The background is a warm, orange-toned image of a city skyline at sunset or sunrise, with a grid pattern overlaid on the bottom right. Three vertical orange lines separate the financial data columns.

CURRENT ASSETS

145.5

DKK MILLION

NET OPERATING
CASH FLOW

33.2

DKK MILLION

EQUITY

197

DKK MILLION

FINANCIAL STATEMENTS



CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2015

Note	In DKK '000	2015	2014
4	Revenue	216,677	182,335
	Cost of goods sold	(61,976)	(48,708)
	Gross profit	154,701	133,627
5, 6	Research and development costs	(15,094)	(16,020)
5	Selling and distribution expenses	(70,728)	(65,362)
5, 7, 8	Administrative expenses	(34,647)	(34,235)
	Operating profit before depreciation and amortisation (EBITDA)	34,232	18,010
9	Depreciation and amortisation	(28,767)	(23,899)
	Operating profit / (loss) (EBIT)	5,465	(5,889)
10	Finance income	6,122	5,671
11	Finance costs	(588)	(485)
	Profit / (loss) before tax	10,999	(703)
12	Income tax	(3,286)	(278)
	Profit / (loss) for the year	7,713	(981)
13	Earnings per share:		
	Basic, DKK	1.32	(0.17)
	Diluted, DKK	1.32	(0.17)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

Note	In DKK '000	2015	2014
	Profit / (loss) for the year	7,713	(981)
	Other comprehensive income to be reclassified to profit and loss in subsequent periods:		
	Exchange differences on translation from functional to presentation currency	-	(427)
	Exchange differences on translation of foreign operations	28	143
	Value adjustments on hedging instruments:		
	- Net loss on cash cash flow hedges	(3,840)	-
	- Net loss on cash cash flow hedges reclassified to revenue	2,594	-
	- Net loss on cash cash flow hedges reclassified to finance costs	237	-
	- Income tax effect	237	-
	Net other loss to be reclassified to profit or loss in subsequent periods	(744)	(284)
	Total comprehensive income / (loss) for the year, net of tax	6,969	(1,265)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2015

Note	In DKK '000	2015	2014
ASSETS			
	Development projects, completed	70,087	54,335
	Development projects, in progress	12,439	8,687
	Patents	7,665	6,606
	Other intangible assets	1,202	1,700
14	Intangible assets	91,393	71,328
	Plant and equipment	7,435	8,770
	Leashold improvements	1,049	1,456
15	Property, plant and equipment	8,484	10,226
16	Deferred tax asset	-	4,325
21	Leasehold deposits	2,224	1,766
	Other non-current assets	2,224	6,091
	Non-current assets	102,101	87,645
17	Inventories	14,341	9,477
18, 21	Trade receivables	48,254	36,236
18, 21	Other receivables	4,484	3,241
19	Income tax receivable	2,451	-
21	Cash and cash equivalents	75,921	88,230
	Current assets	145,451	137,184
	Total assets	247,552	224,829

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2015

Note	In DKK '000	2015	2014
EQUITY AND LIABILITIES			
20	Issued capital	5,822	5,822
20	Share premium	210,675	210,675
	Foreign currency translation reserve	81	53
20	Other capital reserves	9,209	12,101
	Accumulated loss	(28,785)	(39,032)
	Equity	197,002	189,619
16	Deferred tax liability	5,182	-
21, 24	Interest-bearing loans and borrowings	5,000	5,574
	Non-current liabilities	10,182	5,574
21, 24	Interest-bearing loans and borrowings	637	706
21	Trade payables	18,645	15,069
21	Other payables	19,763	13,552
22	Derivative financial instruments	1,008	-
23	Provisions	315	309
	Current liabilities	40,368	29,636
	Total liabilities	50,550	35,210
	Total equity and liabilities	247,552	224,829

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

Note In DKK '000

	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Cash flow hedge reserve	Accumu- lated losses	Total equity
At 1 January 2014	5,812	201,180	(4,089)	25,514	-	(38,053)	190,364
Loss for the year	-	-	-	-	-	(981)	(981)
Exchange differences on translation from functional to presentation currency	-	-	3,999	-	-	(4,426)	(427)
Exchange differences on translation of foreign operations	-	-	143	-	-	-	143
Total comprehensive income	-	-	4,142	-	-	(5,407)	(1,265)
Issue of shares	10	303	-	-	-	-	313
Reversal, exercised and lapsed share options	-	9,192	-	(13,620)	-	4,428	-
7 Share-based payments	-	-	-	207	-	-	207
At 31 December 2014	5,822	210,675	53	12,101	-	(39,032)	189,619
Profit for the year	-	-	-	-	-	7,713	7,713
Exchange differences on translation of foreign operations	-	-	28	-	-	-	28
Net loss on cash cash flow hedges	-	-	-	-	(3,840)	-	(3,840)
Net loss on cash cash flow hedges reclassified to revenue	-	-	-	-	2,594	-	2,594
Net loss on cash cash flow hedges reclassified to finance costs	-	-	-	-	237	-	237
Income tax effect	-	-	-	-	237	-	237
Total comprehensive income	-	-	28	-	(772)	7,713	6,969
Reversal, exercised and lapsed share options	-	-	-	(2,534)	-	2,534	-
7 Share-based payments	-	-	-	414	-	-	414
At 31 December 2015	5,822	210,675	81	9,981	(772)	(28,785)	197,002

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2015

Note	In DKK '000	2015	2014
	Operating activities		
	Profit / (loss) before tax	10,999	(703)
	Adjustments to reconcile (loss) / profit before tax to net cash flows:		
	Finance income	(6,122)	(5,671)
	Finance costs	588	485
	Depreciation and amortisation	28,767	23,899
	Share-based payment expense	414	207
	Currency adjustment		
	Working capital adjustments:		
	Change in inventories	(4,864)	(1,555)
	Change in trade and other receivables	(13,261)	(3,696)
	Change in trade and other payables and provisions	9,793	(6,516)
	Cash flows from operating activities	26,314	6,450
	Currency gains and losses	3,374	4,568
	Interest received	120	299
	Interest paid	(588)	(485)
	Income tax received / (paid)	4,006	(167)
	Net cash flows from operating activities	33,226	10,665
	Investing activities		
	Purchase of plant, property and equipment	(4,125)	(7,244)
	Investments in intangible assets	(42,915)	(38,371)
	Investments in leasehold deposits	(458)	(97)
	Net cash from investing activities	(47,498)	(45,712)
	Free cash flow	(14,272)	(35,047)
	Financing activities		
	Issue of shares	-	313
	Repayment of borrowings	(643)	(63)
	Net cash flows from financing activities	(643)	250
	Net decrease in cash and cash equivalents	(14,915)	(34,797)
	Net foreign exchange difference	2,606	804
	Cash and cash equivalents at 1 January	88,230	122,223
	Cash and cash equivalents at 31 December	75,921	88,230

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 CORPORATE INFORMATION

The consolidated financial statements of Napatech A/S and its subsidiaries (collectively, the Group) for the year ended were authorised for issue in accordance with the resolution of the Management on 29 March 2016.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

General

The financial statements have been prepared in accordance International Financial Reporting Standards (IFRS), as adopted by the EU, and additional Danish disclosure requirements for listed companies.

The consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, which are measured at fair value.

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

With the exception of the new standards, amendments to standards and basis for conclusions enumerated below, the accounting policies are consistent with those of last year.

Effect of implementation of new and revised standards

During the financial year, the Group implemented all new IFRS standards, amendments to existing standards and annual improvements that have been approved by the EU for annual periods beginning on 1 January 2015. The standards, amendments and annual improvements to existing standards which are deemed relevant to the Group are enumerated below:

- Parts of Annual Improvements to IFRSs 2010-12 Cycle; and
- Annual Improvements to IFRSs 2011-13 Cycle.

None of the amendments and improvements has affected the recognition and measurement in these financial statements.

As none of the standards and interpretations impacted recognition and measurement in 2015, they neither impacted profit or loss for the year nor diluted earnings per share.

The consolidated financial statements

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Currency translation

Determination of functional currency and recognition of transactions denominated in foreign currencies

For each group entity, a functional currency is determined, and items recognised in the financial statements of the individual entities are measured using that functional currency. The functional currency is the currency used as 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 at the date of payment are recognised in the income statement as financial income or financial expenses.

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

Translation of group entities

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

Revenue

Revenue from the sale of 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. Revenue is recognised to the extent that it is probable that future economic benefits will flow to the group and the revenue can be reliably measured.

Revenue is measured at the fair value of the consideration received, excluding rebates and VAT.

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.

Research and development costs

Development costs include costs incurred to develop new products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Selling and distribution expenses

Selling and distribution expenses include costs related to the distribution of goods sold, sales campaigns, wages to sales and distribution staff, cars, advertising and exhibitions.

Administrative expenses

Administrative expenses comprise expenses relating to management and administration of the Group, including expenses related to administrative staff, offices and office expenses.

Finance income and cost

Finance income and cost comprise realised interest income and expenses, unrealised gains and losses on financial assets and liabilities in foreign currencies and realised gains and losses on fair value adjustments of derivative financial instruments.

For all financial instruments measured at amortised cost, interest income and expenses are recognised using the effective interest rate method. Financial income and expenses also comprise realised and unrealised exchange gains and losses on foreign currency transactions.

Tax for the period

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

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

Share-based payments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments

The Group enters into forward exchange contracts to hedge the future value of its cash flows. Upon initiation of contracts, the Group classifies each contract that qualifies for hedge accounting as a hedge for a specific hedged financial transaction or firm commitment.

On initial recognition, all forward exchange contracts are measured at cost and subsequently re-measured at their fair value at the balance sheet date. The value adjustments on forward contracts designated as hedges are recognised directly in equity, given the hedge effectiveness. The value adjustments on those forward contracts that do not meet the requirements of IAS 39 for hedge accounting are recognised in the income statement under financial income/expenses.

Intangible assets

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

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

Intangible assets with finite useful lives are amortised 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. Amortisation and impairment losses are recognised in the income statement.

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

Development projects

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

- The technical feasibility of completing the development project so that it will be available for use or sale;
 - The intention to complete the development project and the group's ability to use or sell it;
 - The probability that the development project will generate future economic benefits;
 - The availability of adequate technical, financial and other resources to complete the development project and to use or sell it; and
 - The ability to measure the costs reliably.
- Subsequent to initial recognition of the development costs as an intangible asset, the development project is recognised at cost less any accumulated amortisation and impairment losses. Amortisation of the intangible asset begins when the development of the asset has been completed and the asset is used as planned. The expected useful life of development projects is 3 - 5 years.

Patents

Patents are recognised as intangible assets at the time of acquisition. Patents are amortised over their useful lives, starting at the time when the patent takes effect. The useful life of patents is estimated at 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property plant and equipment include plant and equipment and leasehold improvements. Items of property, plant and equipment 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 disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognised in the income statement.

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

Leases

Leases are divided into finance leases and operating leases. A finance lease is a lease that in all essential respects transfers the risk and benefits associated with owning the leased asset to the lessee. Other leases are designated as operating leases.

Assets held under finance leases are measured at the lower of the fair value of the assets and the net present value of future minimum lease payments. For purposes of calculating the net present value, the internal rate of return is used as discount factor or an approximate value thereof. Financial liabilities include the capitalised residual obligation on finance leases, measured at amortised cost.

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

Impairment of non-financial assets

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

The value in use is calculated as the present value of expected future cash flows from the asset or the cash-generating unit of which the asset is a part. For purposes of determining the fair value less costs to sell, an appropriate valuation model is used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Receivables are measured at amortised cost less impairment losses. Where receivables are found to be impaired, their carrying amount is reduced to the estimated net realisable value.

Impairment losses are recognised in the income statement under administrative expenses.

Inventories

Inventories are measured at the lower of cost and net realisable 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 realisable value of inventories is determined as the selling price less costs of completion and costs incurred to generate the revenue, taking into account marketability, obsolescence and developments in the expected selling price.

Equity

Share premium

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

Share-based payment reserve

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

Foreign currency translation reserve

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

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

Financial liabilities

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

Non-financial liabilities are measured at net realisable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions include warranty commitments and are recognised when the group has a present obligation (legal or constructive) as a result of a past event, 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.

Income tax and deferred tax

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

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

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

Deferred tax assets are recognised for all deductible temporary differences and all unutilised 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 unutilised tax loss carry forward 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 utilised.

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

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 substantially enacted at the balance sheet date.

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

Deferred tax assets and deferred tax liabilities 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of cash flows

The statement 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, adjusted for non-cash operating items, changes in working capital, paid and/or received interests and paid and/or received income taxes.

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

Cash flows from financing activities comprise dividend distributed to shareholders, capital increases and/or reductions, repayments and/or proceeds of/from interest-bearing debt.

Cash and cash equivalents at end of reporting period include cash less bank overdrafts.

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.

The segment information 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 managements 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.

Accounting estimates and uncertainty of estimates

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Development projects

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

Development projects in progress are annually tested for impairment. Completed development projects are reviewed for impairment indicators. If there is evidence of impairment, an impairment test is carried out for the project concerned. The impairment test is prepared on the basis of factors such as the future use of the project, the present value of expected future income, interest and risk. The carrying amount of completed development projects is DKK 70,087 thousand at 31 December 2015 (31 December 2014: DKK 54,335 thousand).

The Group has from 1 January 2015 amended the useful life of some development projects that have been completed on 31 December 2014. For those projects the expected useful life has been extended from 3 years to 5 years.

With the exception of the above, the accounting judgments, estimates and assumptions that the management makes for development projects are consistent with previous years.

Judgments in relation to significant accounting policies

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

When defining the Group's significant accounting policies, the management made the following judgements that have a significant impact of the values recognised in the consolidated financial statements:

Share-based payments

In February 2013, after the share options of the Group's employees and management had vested, but prior to the exercise date, the management made modifications to some of the share option agreements concluded with employees and management. The management treats the change of terms as modifications to the existing share option agreements. Accordingly, the fair value determined at the original grant date has been charged to the income statement over the original vesting period. In addition, an expense is recognised over the new vesting period, corresponding to the increase in the fair value of the share-based payments as a result of change of terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 OPERATING SEGMENTS

The following tables present revenue and gross profit information about the Group's operating segments for the years ended 31 December 2015 and 2014, respectively:

Year ended 31 December 2015:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
Revenue					
Total revenue	174,977	177,408	10,867	68	363,320
Inter-segment	(146,643)	-	-	-	(146,643)
Revenue, external customers	28,334	177,408	10,867	68	216,677
Cost of goods sold	(7,377)	(52,173)	(2,401)	(25)	(61,976)
Segment gross profit	20,957	125,235	8,466	43	154,701

Year ended 31 December 2014:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
Revenue					
Total revenue	150,431	141,190	9,496	68	301,185
Inter-segment	(118,850)	-	-	-	(118,850)
Revenue, external customers	31,581	141,190	9,496	68	182,335
Cost of goods sold	(6,733)	(39,771)	(2,184)	(20)	(48,708)
Segment gross profit	24,848	101,419	7,312	48	133,627

Explanation of abbreviations:

EMEA = Europe, Middle East and Africa

APAC = Asia and Pacific

NAM = North America

LAM = Latin America

Inter-segment revenues are eliminated upon consolidation and are reflected in the "Inter-segment" row.

Adjustments and eliminations

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

Transactions with major customers

Revenue from one customer amounted to DKK 33,913 thousand (2014: DKK 51,403 thousand) corresponding to 16% (2014: 28%) of the Group revenue. Revenue from this customer is arising from the sales in the NAM segment.

Revenue from a second customer amounted to DKK 56,876 thousand (2014: DKK 16,123 thousand) corresponding to 26% (2014: 9%) of the Group revenue. Revenue from this customer also arises from sales in the NAM segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 EMPLOYEE BENEFITS EXPENSE

DKK'000 2015 2014

Employee benefits expense is reported as follows:

Wages and salaries	99,376	89,725
Defined contribution schemes	10,850	10,088
Share-based payment expense (Note 7)	414	207
Social security costs	2,831	2,738
Allocated to development projects	(35,265)	(29,453)
Total employee benefits expense	78,206	73,305

DKK'000 2015 2014

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

Research and development costs	12,577	13,834
Selling and distribution expenses	51,063	44,346
Administrative expenses	14,566	15,125
Total employee benefits expense	78,206	73,305

Average number of employees **108 106**

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

	2015		2014	
DKK'000	Manage- ment	Board of Directors	Manage- ment	Board of Directors
Short-term staff benefits	10,551	825	8,421	782
Defined contribution schemes	487	-	476	-
Share-based payment expense	230	-	115	-
Total compensation of key management personnel	11,268	825	9,012	782

Of the total compensation to the Management the CEO received DKK 2,9 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 RESEARCH AND DEVELOPMENT COSTS

Research and development costs including annual amortisation charge on completed development projects recognised in the consolidated income statement are DKK 36,950 thousand (2014: DKK 34,492 thousand). All research and development costs are incurred by the Parent Company.

NOTE 7 SHARE-BASED PAYMENTS

Employees and members of the management in both the Parent Company and the US-based subsidiary are eligible for share option schemes. They are granted a certain number of share options in the Parent Company in return for the services they provide to the Group.

Share options under these schemes are granted at fixed exercise prices. The right to share options can only be vested as long as the holder is an employee of the Group.

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

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

In addition, an expense is recognised over the new vesting period, corresponding to the increase in the fair value of the share-based payment as a result of the change of terms. All granted share options are equity-based.

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

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

The general terms for share options are summarised as follows:

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

In May 2014, the Board of Directors decided to issue share options to key employees in the Group. A total of 101,000 share options have been issued for subscription of 101,000 shares of a nominal value of DKK 1 at an exercise price of NOK 48.70 (DKK 43.00 at 1 July 2014). The share options' life time is 5 years. The first 2 years from the date of issue is a lock-up period during which the share options may not be exercised. The exercise of these share options may take place in the 3rd, 4th and 5th year and they vest with 1/3 in each of these 3 years.

The general terms for the new share options (2014 programme) are summarised as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 SHARE-BASED PAYMENTS (CONTINUED)

2015						
	Executive Management		Other Employees		Total	
Share options	Number	Avg. ex. price	Number	Avg. ex. price	Number	Avg. ex. price
At 1 January 2015	316,787	33.94	181,205	34.73	497,992	34.23
Granted during the year	-	-	-	-	-	-
Exercised/expired during the year	(58,575)	32.00	(26,010)	32.00	(84,585)	32.00
At 31 December 2015	258,212	34.38	155,195	35.19	413,407	34.69
Exercisable at 31 December 2015	202,212	32.00	110,195	32.00	312,407	32.00
2014						
	Executive Management		Other Employees		Total	
Share options	Number	Avg. ex. price	Number	Avg. ex. price	Number	Avg. ex. price
At 1 January 2014	269,037	32.00	151,855	32.00	420,892	32.00
Granted during the year	56,000	43.00	45,000	43.00	101,000	43.00
Exercised/expired during the year	(8,250)	32.00	(15,650)	32.00	(23,900)	32.00
At 31 December 2014	316,787	33.94	181,205	34.73	497,992	32.00
Exercisable at 31 December 2014	260,787	32.00	136,205	32.00	396,992	32.00

In 2015, none of share options were exercised and 84,585 were lapsed (2014: 9,775 exercised and 14,125 lapsed). The following shows the exercise price of the outstanding share options and warrants:

	2015	2014
Number of share options at 31 December:		
Exercise price DKK 32,00	312,407	396,992
Exercise price DKK 43,00	101,000	101,000
Total number of outstanding share options	413,407	497,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 SHARE-BASED PAYMENTS (CONTINUED)

The weighted average of the remaining contractual period of the outstanding share options from the 2013 share options programme at 31 December 2015 is 1 year and 8 months (at 31 December 2014: 2 years and 8 months). The weighted average of the remaining contractual period of the outstanding share options from the 2014 share options programme at 31 December 2015 is 3 years and 6 months (at 31 December 2014: 4 years and 6 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 and 2014 was estimated on the date of grant using the following assumptions:

	2013	2014
Volatility	47.92%	43.53% - 44.94%
Risk-free interest rate	1.65%	1.70% - 2.00%
Exercise price (DKK)	32.00	43.00
Exercise period (years)	2.27	3.00
Number of options	130,175	101,500

The volatility is calculated based on a peer group of 7 similar companies listed on Nasdaq Stock Exchange in the USA.

The grant date fair value of the share options during 2014 was DKK 16.03.

The fair value of the share options is determined using the Black-Scholes option pricing model.

For 2015, the Group has recognised DKK 414 thousand of share-based payment expense in the income statement (2014: DKK 207 thousand). DKK 230 thousand was recognised in relation to the Executive Management (2014: DKK 115 thousand) and DKK 184 thousand in relation to others (2014: DKK 92).

NOTE 8 AUDITORS' FEES

DKK'000	2015	2014
Ernst & Young:		
Statutory audit fee	273	255
Tax advisory fee	21	37
Fees for other services	127	236
Total auditors' fees	421	528

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 DEPRECIATION AND AMORTISATION

DKK'000	2015	2014
Depreciation and amortisation are reported as follows:		
Depreciation of plant and equipment	5,403	4,515
Depreciation of leasehold improvements	514	530
Total depreciation of property, plant and equipment	5,917	5,045
Amortisation of patents	331	108
Amortisation of completed development projects	21,856	18,472
Amortisation of other intangible assets	663	274
Total amortisation of intangible assets	22,850	18,854
Total depreciation and amortisation	28,767	23,899

NOTE 10 FINANCE INCOME

DKK'000	2015	2014
Interest receivable from banks	120	299
Foreign exchange gains	6,002	5,372
Total finance income	6,122	5,671

NOTE 11 FINANCE COSTS

DKK'000	2015	2014
Interest payable to banks	523	418
Finance charges payable under finance leases	44	61
Other finance costs	21	6
Total finance costs	588	485

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 INCOME TAX

DKK'000	2015	2014
Current tax recognised in the consolidated income statement:		
Current income tax	1,247	279
Current income tax carry back refund	(7,705)	-
Change in deferred tax	9,744	(1)
Total income tax	3,286	278

A reconciliation between tax expense and profit before tax multiplied by the applicable income tax rate for the Group for 2015 and 2014 is as follows:

DKK'000	2015	2014
(Loss) / profit before tax	10,999	(703)
At the applicable Danish income tax rate for the Group, 23.5% (2014: 22%)	2,585	(155)
Tax effect of:		
Carry back refunded at 25%	(354)	-
Change in tax rate from 25% to 22% used for calculation of deferred tax asset	-	441
Tax-deductible expenses	(237)	-
Non-deductible expenses	1,106	68
Effect of higher tax rates in the US and Japan	186	-
Other	-	(76)
At the effective income tax rate of 30% (2014: 40%)	3,286	278

NOTE 13 EARNINGS PER SHARE

DKK'000	2015	2014
Net profit / (loss) attributable to equity holders of the Parent Company for basic earnings and the effect of dilution	7,713	(981)
Thousands	2015	2014
Weighted average number of shares for basic earnings per share	5,822	5,817
Effect of dilution:		
Share options	1	-
Weighted average number of shares adjusted for the effect of dilution	5,823	5,817

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 INTANGIBLE ASSETS

	Development projects, completed		Development projects, in progress		Patents		Other intangible assets		Total	
DKK'000	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Cost at 1 January	132,872	88,246	8,687	17,370	6,795	4,787	1,974	-	150,328	110,403
Additions in the year	-	-	41,360	34,664	1,390	1,733	165	1,974	42,915	38,371
Transfers in the year	37,608	44,086	(37,608)	(44,086)	-	-	-	-	-	-
Presentation currency adjustment	-	540		739	-	275	-	-	-	1,554
Cost at 31 December	170,480	132,872	12,439	8,687	8,185	6,795	2,139	1,974	193,243	150,328
Accumulated amortisation at 1 January	78,537	58,466	-	-	189	78	274	-	79,000	58,544
Amortisation for the year	21,856	18,472	-	-	331	108	663	274	22,850	18,854
Presentation currency adjustment	-	1,599	-	-	-	3	-	-	-	1,602
Accumulated amortisation at 31 December	100,393	78,537	-	-	520	189	937	274	101,850	79,000
Carrying amount at 31 December	70,087	54,335	12,439	8,687	7,665	6,606	1,202	1,700	91,393	71,328

There are two material development projects with carrying amount of DKK 11,210 thousand and 14,689 at 31 December 2015 respectively (31 December 2014: DKK 17,325 thousand and DKK 18,361 thousand respectively). The aim of the first project is to develop new non-blocking 4x10G accelerator and the aim of the second project is to develop new 1x100G accelerator. The remaining amortisation periods of these two projects are 1 year and 10 months and 4 years respectively.

There were no indications of impairment of the Group's intangible assets in the year. Development projects in progress have been tested for impairment. No impairment loss was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment		Leasehold improvements		Total	
DKK'000	2015	2014	2015	2014	2015	2014
Cost at 1 January	28,111	22,012	3,844	3,734	31,955	25,746
Additions	4,068	6,560	104	189	4,172	6,749
Disposals in the period	(106)	-	-	-	(106)	-
Currency adjustment	151	(461)	22	(79)	173	(540)
Cost at 31 December	32,224	28,111	3,970	3,844	36,194	31,955
Accumulated depreciation at 1 January	19,341	14,978	2,388	1,898	21,729	16,876
Depreciation for the year	5,403	4,515	514	530	5,917	5,045
Disposals in the period	(59)	-	-	-	(59)	-
Currency adjustment	104	(152)	19	(40)	123	(192)
Accumulated depreciation at 31 December	24,789	19,341	2,921	2,388	27,710	21,729
Carrying amount at 31 December	7,435	8,770	1,049	1,456	8,484	10,226

The carrying amount of property, plant and equipment held under finance leases is DKK 328 thousand at 31 December 2015 (31 December 2014: DKK 1,058 thousand).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 DEFERRED TAX

	Consolidated statement of financial position		Consolidated income statement	
DKK'000	2015	2014	2015	2014
Tax losses carry-forwards	(11,361)	(14,433)	3,072	(6,218)
Intangible assets	18,777	14,196	4,581	7,281
Plant, property and equipment	(1,987)	(3,704)	1,717	(867)
Provision for bad debts	(247)	(384)	137	7
Presentation currency adjustment	-	-	-	(204)
Deferred tax liability / (asset) and expense / (income)	5,182	(4,325)	9,507	(1)

DKK'000	2015	2014
Reconciliation of deferred tax liability / (asset) is as follows:		
Opening balance at 1 January	(4,325)	(4,324)
Recognised in consolidated income statement	9,744	(1)
Recognised in consolidated statement of comprehensive income	(237)	-
Closing balance at 31 December	5,182	(4,325)

NOTE 17 INVENTORIES

DKK'000	2015	2014
Consumables and components	5,364	1,071
Finished goods and goods for resale	8,977	8,406
Total inventories	14,341	9,477
Carrying value of inventories recognised at fair value	-	-

The cost of goods sold for the year is DKK 61,976 thousand (2014: DKK 48,708 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 TRADE AND OTHER RECEIVABLES

DKK'000	2015	2014
Receivables recognised in the consolidated statement of financial position:		
Trade receivables	48,254	36,236
Other receivables	4,484	3,241
Total current receivables	52,738	39,477

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

DKK'000	2015	2014
At 1 January	2,002	1,593
Utilised in the year	-	(191)
Written off in the year	(858)	-
Change in the year	671	600
At 31 December	1,815	2,002

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

DKK'000	2015	2014
Not past due	42,728	28,973
Past due for less than 30 days	1,912	2,010
Past due between 30 and 60 days	57	777
Past due between 60 and 90 days	266	988
Past due after 90 days	3,291	3,488
Total maximum credit risk	48,254	36,236

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 INCOME TAX RECEIVABLE

DKK'000	2015	2014
At 1 January	-	-
Income tax carry back refund	7,705	-
Received during the year	(5,254)	-
At 31 December	2,451	-

NOTE 20 ISSUED CAPITAL AND RESERVES

	2015	2014
Authorised shares	Thousands	Thousands
Ordinary shares of DKK 1 each at 1 January	5,822	5,812
Increase in ordinary shares DKK 1 each	-	10
Ordinary shares of DKK 1 each at 31 December	5,822	5,822

	2015	2015
Ordinary shares and fully paid	Thousands	DKK'000
At 1 January 2015	5,822	5,822
Exercise of share options for cash during the year	-	-
At 31 December 2015	5,822	5,822

	2015	2014
Share premium	DKK'000	DKK'000
At 1 January	210,675	201,180
Exercise of share options for cash in excess of cost of ordinary shares during the year	-	303
Reversals regarding exercised share options	-	9,192
At 31 December	210,675	210,675

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 ISSUED CAPITAL AND RESERVES (CONTINUED)

Share-based payment reserve

Share-based payment reserve is issued to recognise the value of equity-settled Share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 7 for further details on this plan.

Movements in other capital reserves are as follows:

DKK'000	2015	2014
At 1 January	12,101	25,514
Share-based payment expense (Note 7)	414	207
Reversals regarding exercised and lapsed share options	(2,534)	(13,620)
At 31 December	9,981	12,101

NOTE 21 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK'000	2015	2014
Financial assets measured at amortised cost:		
Leasehold deposits	2,224	1,766
Trade receivables	48,254	36,236
Other receivables	4,484	3,241
Income tax receivable	2,451	-
Cash and cash equivalents	75,921	88,230
Total financial assets	133,334	129,473
Financial liabilities measured at amortised cost:		
Finance lease liability	637	1,343
Interest-bearing loans and borrowings	5,000	4,937
Trade payables	18,645	15,069
Derivatives designed as hedging instruments:		
Foreign exchange forward contracts	1,008	-
Total financial liabilities	25,290	21,349

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 DERIVATIVE FINANCIAL INSTRUMENTS

At 31 December 2015, the Group held forward exchange contracts to hedge part of the future budgeted sales in USD covering a period of 12 months.

The terms of the outstanding contracts at 31 December were as follows:

	Latest maturity date	Average exchange rate DKK/USD	Market value	Unrealised gain/(loss)
			DKK'000	DKK'000
Forward exchange contracts to hedge expected future sales and costs USD 2,972 thousand	15/01/16	648.78	(1,008)	(1,008)

In the year ended 31 December 2015 the Group realised loss from the expiry of forward contracts held during the totalled DKK 2,594 thousand.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At 31 December 2015, the Group held solely derivative financial instruments that were measured at fair value using Level 2 valuation techniques. The Group enters into derivative financial contracts with various counterparties composed of financial institutions. The derivative financial instruments are measured using valuation techniques with market observable inputs. The most frequently applied techniques for valuation of forward contracts and interest swap contracts are present value calculations based on foreign exchange spot rates and interest rate curves among others. Fair values are based on fair value reports from financial institutions.

NOTE 23 PROVISIONS

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

DKK'000	2015	2014
At 1 January	309	519
Utilised during the year	(309)	(519)
Additions in the year	315	309
At 31 December 2015	315	309

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24 COMMITMENTS AND CONTINGENCIES

Collaterals

The Group has issued a floating charge in the amount of DKK 10 million (2014: DKK 10 million) secured on receivables, inventories and equipment as collateral for bank debt.

Operating lease commitments

The Group's operating lease commitments relate to leasing of operating equipment, cars and office facilities. Future minimum payments under operating leases at 31 December are as follows:

2015			
DKK'000	Cars	Office facilities	Total
Falling due within one year	106	5,644	5,750
Falling due between one and five years	71	2,551	2,622
Total	177	8,195	8,372
2014			
DKK'000	Cars	Office facilities	Total
Falling due within one year	155	4,964	5,119
Falling due between one and five years	177	221	398
Total	332	5,185	5,517

The Group recorded DKK 155 thousand and DKK 4,964 thousand (2014: DKK 151 thousand and DKK 4,447 thousand) as operating lease expenses for cars and office facilities.

Finance lease commitments

The Group's finance lease commitments relate to operating equipment used in the research and development department. Future minimum lease payments together with the present value of the net minimum lease payments at 31 December 2015 are as follows:

DKK'000	Minimum payments	Present value of payments
Falling due within one year	656	637
Falling due between one and five years	-	-
Total minimum lease payments	656	637
Less: finance charge	(19)	-
Present value of lease payments	637	637

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 RELATED PARTY DISCLOSURES

Terms and conditions of related party transactions

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

Controlling influence

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

Entity with significant influence over the Group

Entity with significant influence over the Group include the venture capital company Verdane Capital VIII. Verdane Capital VIII owns 22.2% (2014: 22.2%). 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 2014 or 2015.

Transactions with key management personnel

Remunerations, salaries and Share-based payments to the Board of Directors and the Executive Management are reflected in Note 5. There were no other transactions with the Board of Directors or the Executive Management in 2014 and 2015.

NOTE 26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Trade receivables

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

At 31 December 2015, the Group had 2 customers (2014: 3 customers) that each owed the Group more than 10% of all trade receivables. The credit risk associated with these customers has been assessed as low as they historically meet the Group standard payment terms of 30 days.

The need for an impairment is analysed each quarter on an individual basis for major customers. Additionally, a number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value disclosed in Note 18. 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.

Cash deposits

Credit risk from balances with banks is managed by the senior management in accordance with the Group's policy. Investments of surplus funds are mainly made to finance development projects. Development projects are reviewed by the senior management on a quarterly basis. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2015 and 2014 is the carrying amounts as illustrated in Note 21.

Liquidity risk

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

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

The Group's manufacturing policy is to order components and semi-finished goods according to forecasts, and finished products according to orders to ensure minimal amounts of cash being tied up in inventories. Furthermore, the suppliers' terms of payment are between 30 and 60 days, and the Group's customers standard terms of payment are between 30 and 60 days as well.

In case it becomes unable to generate necessary cash, the Group has access to unused credit facilities in Denmark in the amount of DKK 6,000 thousand and USD 650 thousand (2014: DKK 6,000 thousand and USD 650 thousand) and in USA in the amount of USD 1,000 thousand (2014: USD 1,000 thousand).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

2015				
DKK'000	Jan - Mar	Apr - Dec	Over 1 year	Total
Finance lease liability	80	557	-	637
Interest-bearing loans and borrowings	-	-	5,000	5,000
Trade payables	18,645	-	-	18,645
Derivative financial instruments	1,008	-	-	1,008
Total financial liabilities	19,733	557	5,000	25,290

2014				
DKK'000	Jan - Mar	Apr - Dec	Over 1 year	Total
Finance lease liability	177	530	636	1,343
Interest-bearing loans and borrowings	-	-	4,937	4,937
Trade payables	15,069	-	-	15,069
Total financial liabilities	15,246	530	5,573	21,349

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates mainly to the Group's interest-bearing loans and borrowings in the amount of DKK 5,000 thousand (2014: DKK 4,937 thousand). These loan and borrowings yield an interest rate between 5% and 8% per annum. The Group's policy is to keep sufficient cash in place to mitigate adverse impacts caused by fluctuation in market interest rates. The Group's interest rate risk is immaterial.

Foreign currency risk

The Group's functional currency is DKK. 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 USD against DKK. The Group has negligible transactions in other currencies.

Cash flow hedges

Foreign exchange forward contracts measured at fair value through other comprehensive income are designated as hedging instruments in to hedge cash flow exposure in USD based on the part of the future budgeted sales and costs in USD. These forecast transactions are highly probable, and they comprise significant part the Group's net exposure in USD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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	
	2015	2014	2015	2014
DKK'000				
Change in DKK by +/- 2%	+/- 1,081	+/- 1,102	+/- 1,081	+/- 1,102

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.

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

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus debt. The Group's policy is to keep the gearing ratio below 10%. The Group's gearing ratios for 2014 and 2015 are negligible.

NOTE 27 EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after 31 December 2015 that might affect the consolidated financial statements.

PARENT COMPANY INCOME STATEMENT

for the year ended 31 December 2015

Note	In DKK '000	2015	2014
	Revenue	183,082	150,431
	Cost of goods sold	(62,764)	(48,688)
	Gross profit	120,318	101,743
2	Research and development costs	(15,094)	(16,020)
2	Selling and distribution expenses	(41,187)	(33,913)
2, 3	Administrative expenses	(34,647)	(34,281)
	Operating profit before depreciation and amortisation (EBITDA)	29,390	17,529
4	Depreciation and amortisation	(28,521)	(23,694)
	Operating profit / (loss) (EBIT)	869	(6,165)
5	Finance income	6,016	5,651
6	Finance costs	(401)	(454)
	Profit / (loss) before tax	6,484	(968)
7	Income tax	(2,039)	1
	Profit / (loss) for the year	4,445	(967)

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

Note	In DKK '000	2015	2014
	Profit / (loss) for the year	4,445	(967)
	Other comprehensive income to be reclassified to profit and loss in subsequent periods:		
	Exchange differences on translation from functional to presentation currency	-	(412)
	Value adjustments on hedging instruments:		
	- Net loss on cash cash flow hedges	(3,840)	-
	- Net loss on cash cash flow hedges reclassified to revenue	2,594	-
	- Net loss on cash cash flow hedges reclassified to finance costs	237	-
	- Income tax effect	237	-
	Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	(772)	(412)
	Total comprehensive income / (loss) for the year, net of tax	3,673	(1,379)

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2015

Note	In DKK '000	2015	2014
ASSETS			
	Development projects, completed	70,087	54,335
	Development projects, in progress	12,439	8,687
	Patents	7,665	6,606
	Other intangible assets	1,202	1,700
8	Intangible assets	91,393	71,328
	Plant and equipment	7,183	8,313
	Leashold improvements	1,020	1,410
9	Property, plant and equipment	8,203	9,723
10	Investments in subsidiaries	51	4,045
11	Deferred tax asset	-	4,325
16	Leasehold deposits	2,012	1,576
	Other non-current assets	2,063	9,946
	Non-current assets	101,659	90,997
12	Inventories	13,893	9,135
13, 16	Trade receivables	9,139	11,004
13, 16	Receivables from group entities	61,411	48,740
13, 16	Other receivables	3,796	2,240
14	Income tax receivable	2,451	-
16	Cash and cash equivalents	49,249	60,134
	Current assets	139,939	131,253
	Total assets	241,598	222,250

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2015

Note	In DKK '000	2015	2014
EQUITY AND LIABILITIES			
15	Issued capital	5,822	5,822
15	Share premium	210,675	210,675
	Foreign currency translation reserve	-	-
15	Other capital reserves	9,209	12,101
	Accumulated loss	(31,554)	(38,533)
	Equity	194,152	190,065
11	Deferred tax liability	5,182	-
16	Interest-bearing loans and borrowings	5,000	5,574
	Non-current liabilities	10,182	5,574
16	Interest-bearing loans and borrowings	637	706
16	Trade payables	18,645	15,070
16	Other payables	16,659	10,526
17	Derivative financial instruments	1,008	-
18	Provisions	315	309
	Current liabilities	37,264	26,611
	Total liabilities	47,446	32,185
	Total equity and liabilities	241,598	222,250

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

Note In DKK '000

	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Cash flow hedge reserve	Accumu- lated losses	Total equity
At 1 January 2014	5,812	201,180	(4,089)	25,514	-	(37,493)	190,924
Loss for the year	-	-	-	-	-	(967)	(967)
Exchange differences on translation from functional to presentation currency	-	-	4,089	-	-	(4,501)	(412)
Total comprehensive income	-	-	4,089	-	-	(5,468)	(1,379)
Issue of shares	10	303	-	-	-	-	313
Reversal, exercised and lapsed share options	-	9,192	-	(13,620)	-	4,428	-
3 Share-based payments	-	-	-	207	-	-	207
At 31 December 2014	5,822	210,675	-	12,101	-	(38,533)	190,065
Profit for the year	-	-	-	-	-	4,445	4,445
Net loss on cash cash flow hedges	-	-	-	-	(3,840)	-	(3,840)
Net loss on cash cash flow hedges reclassified to revenue	-	-	-	-	2,594	-	2,594
Net loss on cash cash flow hedges reclassified to finance costs	-	-	-	-	237	-	237
Income tax effect	-	-	-	-	237	-	237
Total comprehensive income	-	-	-	-	(772)	4,445	3,673
Reversal, exercised and lapsed share options	-	-	-	(2,534)	-	2,534	-
3 Share-based payments	-	-	-	414	-	-	414
At 31 December 2015	5,822	210,675	-	9,981	(772)	(31,554)	194,152

PARENT COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2015

Note	In DKK '000	2015	2014
	Operating activities		
	Profit / (loss) before tax	6,484	(968)
	Adjustments to reconcile profit / (loss) before tax to net cash flows:		
	Finance income	(6,016)	(5,651)
	Finance costs	401	454
	Depreciation and amortisation	28,521	23,694
	Write offs	4,750	-
	Share-based payment expense	414	207
	Working capital adjustments:		
	Change in inventories	(4,758)	(1,213)
	Change in trade and other receivables and intercompany receivables	(12,362)	(9,391)
	Change in trade and other payables, intercompany payables and provisions	9,714	(10,863)
		27,148	(3,731)
	Currency gains and losses	3,395	4,583
	Interest received	14	279
	Interest paid	(401)	(454)
	Income tax received	5,254	-
	Net cash flows from operating activities	35,410	677
	Investing activities		
	Purchase of plant, property and equipment	(4,151)	(6,846)
	Investments in intangible assets	(42,915)	(38,371)
	Investments in subsidiaries	(756)	(3,384)
	Investments in leasehold deposits	(436)	(75)
	Net cash from investing activities	(48,258)	(48,676)
	Free cash flow	(12,848)	(47,999)
	Financing activities		
	Issue of shares	-	313
	Repayment of borrowings	(643)	(63)
	Net cash flows from financing activities	(643)	250
	Net decrease in cash and cash equivalents	(13,491)	(47,749)
	Net foreign exchange difference	2,606	804
	Cash and cash equivalents at 1 January	60,134	107,079
	Cash and cash equivalents at 31 December	49,249	60,134

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

General

The financial statements for Napatech A/S (the Parent Company) have been prepared in accordance International Financial Reporting Standards (IFRS), as adopted by the EU, and additional Danish disclosure requirements for listed companies.

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.

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.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 2 EMPLOYEE BENEFITS EXPENSE

DKK'000	2015	2014
Employee benefits expense is reported as follows:		
Wages and salaries	76,918	68,231
Defined contribution schemes	10,850	10,088
Share-based payment expense (Note 3)	414	207
Social security costs	800	721
Allocated to development projects	(35,265)	(29,453)
Total employee benefits expense	53,717	49,794
DKK'000	2015	2014
Employee benefits expense is recognised in the consolidated income statement as follows:		
Research and development costs	12,577	13,834
Selling and distribution expenses	26,574	20,835
Administrative expenses	14,566	15,125
Total employee benefits expense	53,717	49,794
Average number of employees	86	84

Compensation of key management personnel is set out in Note 5 to the consolidated financial statements of the Group.

Research and development costs including annual amortisation charge on completed development projects recognised in the consolidated income statement are DKK 36,950 thousand (2014: DKK 34,492 thousand). All research and development costs are incurred by the Parent Company.

NOTE 3 SHARE-BASED PAYMENT EXPENSE

The share options described in Note 7 to the consolidated financial statements are issued by the Parent Company. The value of share options granted to employees in the wholly-owned US-based subsidiary is recognised as the cost of the investment in the subsidiary. Out of the Group's total share-based payment expense of DKK 414 thousand (2014: DKK 207 thousand), no value has been recognised as the cost of the investment in the subsidiary.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 4 DEPRECIATION AND AMORTISATION

DKK'000	2015	2014
Depreciation and amortisation are reported as follows:		
Depreciation plant and property	5,179	4,367
Depreciation of leasehold improvements	492	473
Total depreciation property, plant and equipment	5,671	4,840
Amortisation of patents	331	108
Amortisation of completed development projects	21,856	18,472
Amortisation of other intangible assets	663	274
Total amortisation of intangible assets	22,850	18,854
Total depreciation and amortisation	28,521	23,694

NOTE 5 FINANCE INCOME

DKK'000	2015	2014
Interest receivable from banks	14	201
Interest receivable from subsidiaries	-	78
Foreign exchange gains	6,002	5,372
Total finance income	6,016	5,651

NOTE 6 FINANCE COSTS

DKK'000	2015	2014
Interest payable to banks	336	387
Finance charges payable under finance leases	44	61
Other finance costs	21	6
Total finance costs	401	454

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 7 INCOME TAX

DKK'000	2015	2014
Current tax recognised in the Parent Company income statement:		
Current income tax carry back refund	(7,705)	-
Change in deferred tax	9,744	(1)
Total income tax	2,039	(1)

A reconciliation between tax expense and profit before tax multiplied by the applicable income tax rate for the Parent Company for 2015 and 2014 is as follows:

DKK'000	2015	2014
Profit / (loss) before tax	6,484	(968)
At the applicable Danish income tax rate for the Parent Company, 23.5% (2014: 22%)	1,524	(213)
Tax effect of:		
Carry back refunded at 25%	(354)	-
Change in tax rate from 25% to 22% used for calculation of deferred tax asset	-	441
Tax deductible expenses	(237)	-
Non-deductible expenses	1,106	68
Other	-	(297)
At the effective income tax rate of 31% (2014: 0%)	2,039	(1)

NOTE 8 INTANGIBLE ASSETS

Intangible assets comprise patents and development projects. An overview over these assets is disclosed in Note 14 to the consolidated financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment		Leasehold improvements		Total	
DKK'000	2015	2014	2015	2014	2015	2014
Cost at 1 January	26,751	21,169	3,632	3,539	30,383	24,708
Additions	4,049	6,161	102	190	4,151	6,351
Presentation currency adjustment	-	(579)	-	(97)	-	(676)
Cost at 31 December	30,800	26,751	3,734	3,632	34,534	30,383
Accumulated depreciation at 1 January	18,438	14,312	2,222	1,805	20,660	16,117
Depreciation for the year	5,179	4,367	492	473	5,671	4,840
Presentation currency adjustment	-	(241)	-	(56)	-	(297)
Accumulated depreciation at 31 December	23,617	18,438	2,714	2,222	26,331	20,660
Carrying amount at 31 December	7,183	8,313	1,020	1,410	8,203	9,723

The carrying amount of property, plant and equipment held under finance leases is DKK 328 thousand at 31 December 2015 (31 December 2014: DKK 1,058 thousand).

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 10 INVESTMENTS IN SUBSIDIARIES

DKK'000	2015	2014
Cost at 1 January	6,191	2,807
Additions through deposit of cash	756	3,384
Cost at 31 December	6,947	6,191
Accumulated impairment at 1 January	2,146	2,146
Impairment for the year	4,750	-
Accumulated impairment at 31 December	6,896	2,146
Carrying amount at 31 December	51	4,045

The Parent Company's investments in subsidiaries at 31 December 2015 and 2014 consist of the following:

Name	Country	Ownership in %		Proportion of voting rights in %		Business activity
		2015	2014	2015	2014	
Napatech Inc., USA	Andover, USA	100	100	100	100	Sale and distribution of the Group's products
Napatech Japan KK	Tokyo, Japan	100	100	100	100	Sale and distribution of the Group's products
Napatech Brasil Ltda.	Sao Paulo, Brazil	100	100	100	100	Sale and distribution of the Group's products

Impairment for the year relates to the investment in Napatech Brasil Ltda. Due to the market conditions in Brazil the subsidiary has incurred significant losses since its incorporation, whereby the investment cost exceeds the value of net assets in the consolidated financial statements.

During 2015 the Group has communicated the closure of Napatech Brasil Ltda. in 2016. On this basis the investment in Napatech Brasil Ltda. has been 100% impaired. The impairment of DKK 4,750 thousand has been recognised under administrative expenses.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 11 DEFERRED TAX

	Statement of financial position		Income statement	
DKK'000	2015	2014	2015	2014
Tax losses carry-forwards	(11,361)	(14,433)	3,072	(6,218)
Intangible assets	18,777	14,196	4,581	7,281
Plant, property and equipment	(1,987)	(3,704)	1,717	(867)
Provision for bad debts	(247)	(384)	137	7
Presentation currency adjustment	-	-	-	(204)
Deferred tax liability / (asset) and expense / (income)	5,182	(4,325)	9,507	(1)

DKK'000	2015	2014
Reconciliation of deferred tax liability / (asset) is as follows:		
Opening balance at 1 January	(4,325)	(4,324)
Recognised in Parent Company income statement	9,744	(1)
Recognised in Parent Company statement of comprehensive income	(237)	-
Closing balance at 31 December	5,182	(4,325)

NOTE 12 INVENTORIES

DKK'000	2015	2014
Consumables and components	4,916	1,071
Finished goods and goods for resale	8,977	8,064
Total inventories	13,893	9,135
Carrying value of inventories recognised at fair value	-	-

The cost of goods sold for the year is DKK 62,764 thousand (2014: DKK 48,688 thousand).

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 13 TRADE AND OTHER RECEIVABLES

DKK'000	2015	2014
Receivables recognised in the Parent Company statement of financial position:		
Trade receivables	9,139	11,004
Receivables from group entities	61,411	48,740
Other receivables	3,796	2,240
Total current receivables	74,346	61,984

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

DKK'000	2015	2014
At 1 January	1,745	1,593
Utilised in the year	-	(192)
Written off in the year	(924)	-
Change in the year	304	344
At 31 December	1,125	1,745

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

DKK'000	2015	2014
Not past due	6,122	6,300
Past due for less than 30 days	886	1,125
Past due between 30 and 60 days	385	231
Past due between 60 and 90 days	23	786
Past due after 90 days	1,723	2,562
Total maximum credit risk	9,139	11,004

NOTE 14 INCOME TAX RECEIVABLE

Income tax receivable relates to income tax carry back refund based on the previous years tax losses as a result of investments in development projects. The movement in the income tax receivable is disclosed in Note 19 to the consolidated financial statements.

NOTE 15 ISSUED CAPITAL AND RESERVES

Information in relation to issued capital and reserves is disclosed in Note 19 to the consolidated financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 16 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK'000	2015	2014
Financial assets assets measured at amortised cost:		
Leasehold deposits	2,012	1,576
Trade receivables	9,139	11,004
Receivables from group entities	61,411	48,740
Income tax receivable	2,451	-
Other receivables	3,796	2,240
Cash and cash equivalents	49,249	60,134
Total financial assets	128,058	123,694
Financial liabilities measured at amortised cost:		
Finance lease liability	637	1,343
Interest-bearing loans and borrowings	-	4,937
Trade payables	18,645	15,070
Payables to group entities	-	-
Derivatives designed as hedging instruments:		
Foreign exchange forward contracts	1,008	-
Total financial liabilities	20,290	21,350

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

NOTE 17 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments relate to forward exchange contracts in order to hedge a part of the future budgeted sales and costs in USD covering a period of 12 months. The forward exchange contracts are held by the Parent Company and are disclosed in Note 22 to the consolidated financial statements.

NOTE 18 PROVISIONS

Provisions relate to guarantees associated with the sale of network accelerators. These provisions are incurred by the Parent Company and are disclosed in Note 23 to the consolidated financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 19 COMMITMENTS AND CONTINGENCIES

Collaterals

The Parent Company (as the whole Group) has issued a floating charge in the amount of DKK 10 million (2014: DKK 10 million) secured on receivables, inventories and equipment as collateral for bank debt.

Operating lease commitments

The Parent Company's operating lease commitments relate to leasing of operating equipment, cars and office facilities. Future minimum payments under operating leases at 31 December are as follows:

2015			
DKK'000	Cars	Office facilities	Total
Falling due within one year	106	4,908	5,014
Falling due between one and five years	71	2,551	2,622
Total	177	7,459	7,636

2014			
DKK'000	Cars	Office facilities	Total
Falling due within one year	155	3,836	3,991
Falling due between one and five years	177	-	177
Total	332	3,836	4,168

Finance lease commitments

Finance lease commitments for the Parent Company are the same as for the Group. Disclosure in relation to the finance lease commitments is provided in Note 24 to the consolidated financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 20 RELATED PARTY TRANSACTIONS

The Parent Company's related parties are the same as the Group's. Additional information is set out in Note 25 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 11 to the Parent Company financial statements.

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

	Napatech Inc., USA		Napatech Japan KK, Japan		Napatech Brasil Ltda., Brazil	
DKK'000	2015	2014	2015	2014	2015	2014
Income statement:						
Sales to subsidiaries	143,881	108,993	-	-	-	361
Purchases from subsidiaries	-	-	2,762	2,986	-	-
Finance income from subsidiaries	-	78	-	-	-	-
Statement of financial position:						
Receivables from subsidiaries	61,292	48,035	119	131	-	574

NOTE 21 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 Group's financial risks are therefore primarily related to the Parent Company. Relevant additional information is set out in Note 26 to the consolidated financial statements.

NOTE 22 EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after 31 December 2015 that might affect the Parent Company financial statements.

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

The Board of Directors and the Executive Management have today discussed and approved the annual report of Napatech A/S for the financial year 1 January – 31 December 2015.

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

It is our opinion that the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2015 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 2015.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Søborg, 29 March 2016

Executive Management



Henrik Brill Jensen, Chief Executive Officer

Board of Directors



Olav Stokke, Chairman



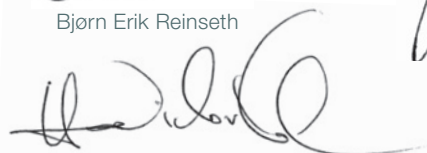
Bjørn Erik Reinseth



Lars Thoresen



Martyn Braime



Hans Victor Koch

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

Independent auditors' 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 financial year 1 January – 31 December 2015, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies for the Group as well as for 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 the Danish Financial Statements Act.

Management's responsibility for the consolidated financial statements and the Parent Company 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 disclosure requirements in the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of consolidated financial statements and Parent Company financial statements that are free from material misstatement, 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 under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the Parent Company financial statements are free from material misstatement.

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 auditors' judgement, including the assessment of the risks 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 auditors consider internal control relevant to the Company's preparation of consolidated financial statements and Parent Company financial statements that give a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating 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 a basis for our 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 2015 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 2015 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

Statement on the Management's review

Pursuant to 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 opinion that the information provided in the Management's review is consistent with the consolidated financial statements and the Parent Company financial statements.

Frederiksberg, 29 March 2016

ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30700228



Eskild N. Jakobsen
State Authorised
Public Accountant



Alex Nissov
State Authorised
Public Accountant

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