



ANNUAL REPORT
2014



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Editors

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NEW EMPLOYEE INTERVIEW

ANDREW PATTERSON
SVP GLOBAL SALES AND SUPPORT

I have over 15 years' experience driving sustainable growth in IT products at numerous international companies. I am also an entrepreneur who has run my own company. My experience with strategic sales planning and leadership will be crucial in transforming Napatech from a local to a global sales platform in order to maximize the efforts of our sales organization.



What changes can we expect to see at the Company in the short term?

There will be a major restructuring of the sales and support organization designed to emphasize three key areas. 1) Place more focus on sales through eliminating distractions and putting into place new processes which organize and support new growth. 2) Put our employees into proper positions which optimize their chances for success. 3) Concentrate on new revenue streams through attacking new verticals outside the traditional OEM market.

How do you see the Company transforming over the next few years?

The Company culture will change to place more emphasis on structured sales and marketing activities designed to drive revenue through lead generation, new vertical and product expansion, and an increased awareness of commercial activities.

THE NAPATECH STORY

Being able to see all the data within networks ensures that videos stream smoothly, financial trades are executed quickly and criminals are stopped before they get in. Yet, as speed, volume and complexity of data increase, seeing it all becomes increasingly difficult. Napatech uniquely solves the network management and security challenges brought on by the explosive growth in data traffic that marks the Zettabyte era – even at the most extreme speeds.

THE MARKET ENVIRONMENT - ENTERING THE ZETTABYTE ERA

The growth of data on the Internet is staggering. According to Cisco, annual global IP traffic will pass the zettabyte (1000 exabyte) threshold by the end of 2016, and will reach 1.6 zettabytes per year by 2018 (see graph below). Furthermore, global IP traffic has increased fivefold over the past five years, and will increase threefold over the next five years. Overall, IP traffic will grow at a compound annual growth rate (CAGR) of 21% from 2013 to 2018. Also according to Cisco, content delivery networks will carry more than half of Internet traffic by 2018 and global Internet traffic in 2018 will be equivalent to 64 times the volume of the entire global Internet in 2005. Globally, Internet traffic will reach 14 gigabytes per capita by 2018, up from 5 gigabytes per capita in 2013.

To cope with this development in global IP traffic, network operators, service providers, enterprises, content providers, governments and social networks will need to stay ahead of the data growth curve through investment in additional infrastructure to ensure necessary bandwidth and capacity. High-bandwidth applications such as video on demand and high-performance computing, as well as server virtualization and high-speed applications in data centers, will continue to drive adoption of 10, 40 and 100 gigabit Ethernet connections.

As acknowledged by the industry and Napatech’s own statistics, 10 gigabit Ethernet ports have now overtaken 1 gigabit Ethernet ports shipments and a stronger than expected demand for 100 gigabit Ethernet ports will materialize from 2015 to 2016.

At Napatech we define the leap from 1 to 10 and 10 to 100 gigabit Ethernet networks in the zettabyte era as the “10X Network Analysis Challenge”. Network operators will have to analyze 10x the data traveling across their

networks at 10x the speed and 10x the precision. This challenge will demand performance at a level only available from Napatech’s products and solutions portfolio.

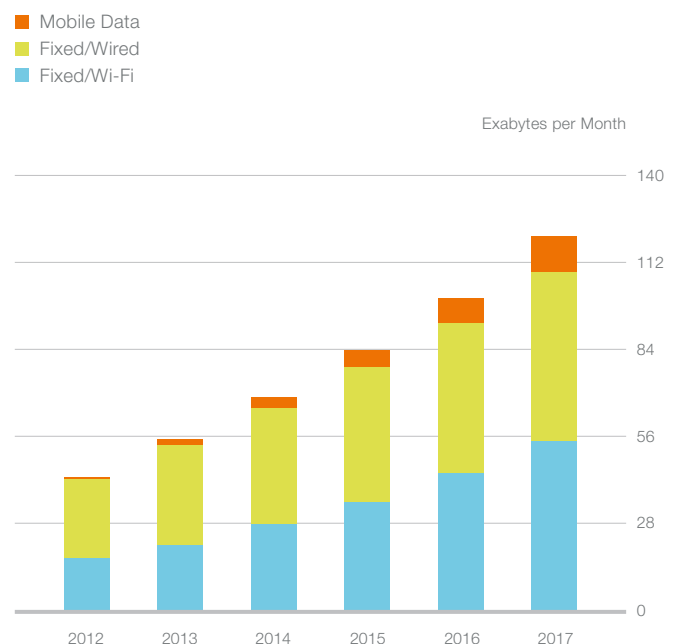
To manage Ethernet and IP networks effectively, network equipment manufacturers and vendors around the world offer network appliances for a wide range of tasks and services related to network monitoring, network management, network testing and measurements, network security, network analysis, network performance monitoring, network services monitoring, etc.

Napatech’s customers are these large industry-leading network equipment manufacturers and software vendors delivering network appliances for a wide range of network services in telecom, financial services, e-commerce and media, cloud and data center services, infrastructure and defense, enterprise management and enterprise security.

Based on internal and external analyses and reports, Napatech expects its overall addressable market size to be in the region of 1 billion USD.

GLOBAL IP TRAFFIC, 2012 - 2017

Source: Cisco Visual Networking Index (VNI), 2013-2018





PRODUCTS AND SOLUTIONS

Demand for Napatech solutions is primarily driven by the increase in data volumes, as Napatech solutions help customers cope with any amount of network traffic. The more complex data needs to be processed, the more relevant is the Napatech solution.

In order for the analysis to be reliable, appliances must capture and collect all data on the network. The real-time capabilities that appliances provide make them essential to effective management of Ethernet and IP networks. For this reason, network appliances also need to be encompassed in frameworks for managing and securing Software-Defined Networking (SDN) and Network Functions Virtualization (NFV).

Appliance vendors need to continuously accelerate performance in order to stay ahead of this data growth curve. Increasing consumption of Internet services, especially on mobile devices, is driving an exponential growth in data. At the same time, the networking industry continually needs to shorten development cycles and provide more product releases more often. The challenge facing appliance developers is twofold. They need to not only accelerate their products' performance, but also their time to market.

Napatech is dedicated to providing solutions that help our customers accelerate their products, development cycles and time to market. Napatech's product portfolio enables our customers to build affordable, high-performance network

application solutions using commercial off-the-shelf hardware. This allows our customers to focus on differentiating their software to enhance their solution, rather than developing proprietary hardware.

Napatech Accelerators are designed to handle the maximum theoretical throughput of data for a given port speed. Napatech offers a range of Accelerators supporting speeds from 1 megabit to 100 gigabit Ethernet. A single, common Application Programming Interface (API) allows application software to be developed once and used with a broad range of Napatech Accelerators. Napatech's products deliver guaranteed performance for even the most demanding network applications.

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

During 2015, Napatech will start shipping Pandion, a new Acceleration Platform with pre-integrated capture-to-disk software. The Acceleration Platform is based on the high performance provided by Napatech Accelerators.

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 shorten their time to market, as well as continuous local support at our offices around the world. We recognize that our customers are the basis for our business and will focus on becoming even more commercially focused as an organization in 2015.

NAPATECH TECHNOLOGY

Napatech solutions are designed to address the challenges that management and security appliance vendors face through innovative product design. Napatech Accelerators use a combination of innovative hardware based on Field Programmable Gate Array (FPGA) technology and software, which enables visibility into high-speed data traffic on several Accelerators at multiple speed rates on commercial off-the-shelf platforms.

THE BUSINESS STRATEGY

Napatech aims to become the recognized standard in the network appliance market for network accelerators, 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 servers powered by Napatech solutions.

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 innovations.

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 long-term relevance for Napatech customers.

As expressed in the Prospectus related to the IPO in December 2013, it is Management's ambition to improve the revenue growth to a level of around 25% (YoY). Due to several reasons, the initial guided growth for 2014 was not

reached. A number of initiatives have been started to successfully allow the Company regain focus in a market which is viewed as strongly promising.

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 VISION

Our vision is to be the recognized standard for accelerating applications that ensure the quality and security of the network services we all rely on.

OUR MISSION

Our mission is to keep our customers one step ahead of the data growth curve by accelerating their applications and time-to-market while reducing risk.

Napatech. FASTER THAN THE FUTURE



NAPATECH 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.



- Headquarter
- Sales Office
- Production





BOARD OF DIRECTORS

- ① **Olav Stokke**
Chairman

TeleMagic Group AS – Chairman of the Board
GentleCap AS – Chairman / Owner
- ② **Bjørn Erik Reinseth**
Board member

Foinco AS – CEO
Zentuvo AS – Chairman of the board
Alliero Holding AS – Chairman of the board
Norstat AS – Chairman of the board
- ③ **Martyn Braime**
Board member

Linersh Management Service Ltd - Director
- ④ **Hans Victor Koch**
Board member

MANAGEMENT TEAM

- ⑤ **Henrik Brill Jensen**
CEO
- ⑥ **Erik Norup**
CBDO
- ⑦ **Niels Hobolt**
CFO
- ⑧ **Peter Ekner**
CTO
- ⑨ **Flemming Andersen**
EVP of Engineering

GROUP KEY FIGURES AND RATIOS

	2014	2013	2012	2011	2010
KEY FIGURES (DKK'000)					
Revenue	182,335	182,047	181,179	134,477	143,096
Gross profit	133,627	130,501	128,581	90,453	93,613
EBITDA	18,010	29,354	39,510	17,253	27,003
EBIT before exceptional items	(5,889)	7,998	18,289	1,308	17,201
Net finance income / (expense)	5,186	580	(1,007)	81	1,432
Profit / (loss) before tax	(703)	1,796	17,282	1,390	18,634
Profit / (loss) for the year	(981)	(509)	12,501	421	13,812
Investments in intangible assets	38,371	26,446	18,433	21,344	17,855
Investments in property, plant and equipment	7,244	4,649	3,389	5,019	2,937
Net working capital	20,333	8,776	7,233	14,393	777
Total assets	224,829	232,648	122,459	112,855	105,847
Equity	189,619	190,364	89,868	71,195	62,300
Net cash flows from operating activities	10,665	23,538	49,267	6,828	31,117
Cash at the end of year	88,230	122,223	30,105	7,519	8,740
Free cash flow	(35,047)	(7,987)	27,372	(19,782)	10,051
Average number of employees	106	95	79	70	56
FINANCIAL REPORTING RATIOS (%)					
Gross profit margin	73.3%	71.7%	71.0%	67.3%	65.4%
EBITDA margin	9.9%	16.1%	21.8%	12.8%	18.9%
Current ratio	462.9%	461.9%	232.2%	120.4%	125.4%
Return on equity	-0.5%	-0.4%	15.5%	0.6%	43.3%
SHARE-RELATED RATIOS (DKK)					
Basic EPS	(0.17)	(0.14)	3.61	0.13	4.20
Diluted EPS	(0.17)	(0.13)	3.51	0.12	4.11
Cash flow per share	1.83	6.02	13.85	1.99	9.25

KEY FIGURE AND RATIO EXPLANATIONS AND DEFINITIONS

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

Ratio	Calculation formula	Explanation
Gross profit margin	$\text{Gross profit} / \text{Revenue} \times 100$	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	$\text{EBITDA} / \text{Revenue} \times 100$	The ratio represents the Groups operating profitability.
Current ratio	$\text{Current assets} / \text{Current liabilities} \times 100$	The ratio represents the percentage of the Groups resources to meet its liabilities over the next 12 months.
Return on equity	$\text{Profit for the year} / \text{Average equity} \times 100$	The ratio represents the Groups ability to generate return to shareholders taking into account own capital base.
Operating cash flows per share	$\text{Cash flows from operating activities} / \text{Average number of diluted shares}$	The ratio represents the Groups ability to generate cash flows from operating activities per the average number of diluted shares.

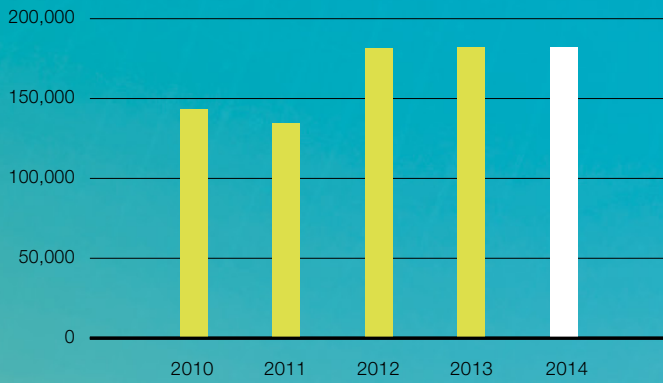
Net working capital represents the value of inventories, trade receivables of other current operating assets less trade payables and other current operating liabilities. Cash and cash equivalents and income tax receivable or payable are not part of the net working capital.

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.

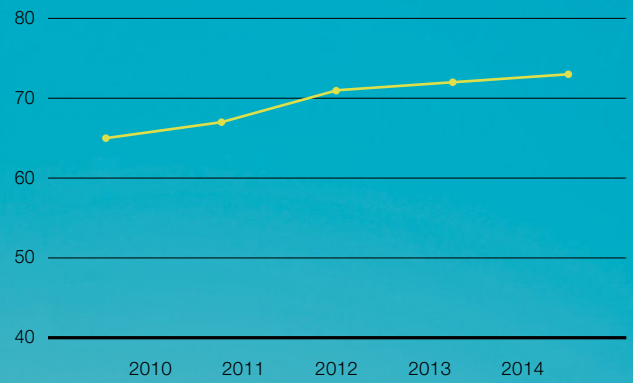
Free cash flow is net cash flow from operating activities added or deducted investing activities.

Calculation of the Groups basic and diluted earnings per share (EPS) is specified in Note 14 to the consolidated financial statements.

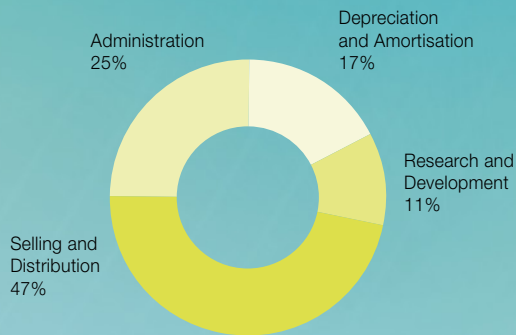
REVENUE in DKK'000



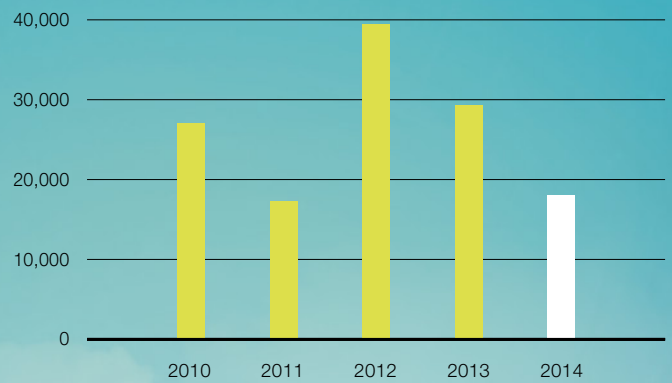
GROSS MARGIN IN %



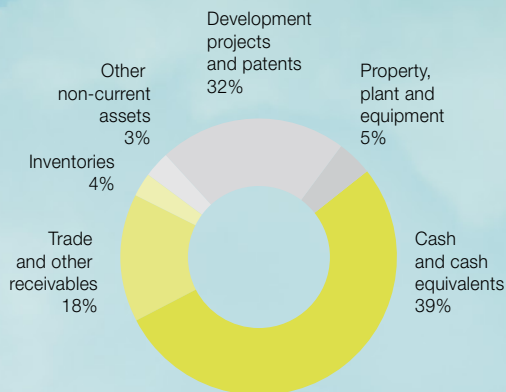
COST



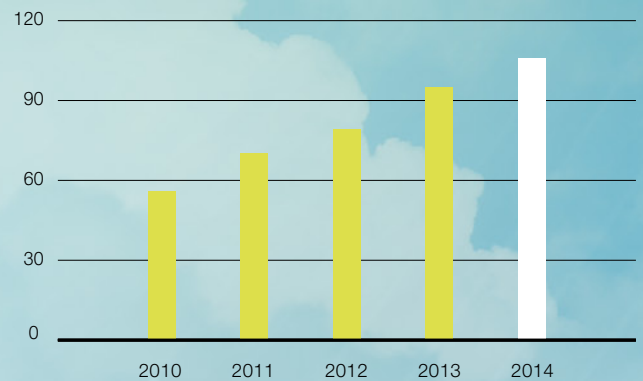
EBITDA IN DKK'000



ASSETS



AVERAGE NUMBER OF EMPLOYEES



DEAR READER

2014 has been yet an exciting year for Napatech. We again saw exciting new design wins with top tier customers in our key markets around the world. This underlines the trust and confidence that our customers have in our solutions, overall support and future innovation abilities.

2014 was also a challenging year for Napatech. We did not meet the financial market's revenue growth expectations; however, there were successful product launches and key design wins that will form the basis for our future growth ambitions. The accomplishments during the last year were only possible due to the high level of dedication from all our employees throughout the organization, and we are all motivated to improve Company performance in 2015.

As we and others have predicted, we are now entering the Zettabyte era. This milestone will demand performance only available from Napatech's overall solutions portfolio. The explosion of data caused by rich media applications and over-the-top videos are forcing mobile and telecom operators to transition from 1 to 10 and 10 to 100 gigabit Ethernet networks, generating a 10x challenge unlike anything operators have seen in the past. To conquer the 10x network analysis challenge that this transition presents, Napatech has launched an industry-first 2x100 gigabit throughput solution. As a major provider to network appliance manufacturers around the world, our R&D teams have a unique advantage over our competitors in developing solutions that help our customers stay ahead of the data growth curve.

We strongly believe in our equity story and our mission is to ensure that Napatech continues to be 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, cloud and government networks.

In order to deliver on this promise, we are focusing on increasing and strengthening our overall relevance in our markets. In 2014 Napatech opened an office in London with the primary focus to enhance our presence in the security market. We also continued to expand our activities in Brazil by hiring our first Brazilian employee.

Napatech again received numerous awards in 2014. This confirms that we continue to focus on helping our customers solve their problems and delivering solutions with a very high quality. The awards span from technical recognition for new products to the acknowledgement of Napatech being an agile company delivering innovative products to the communications industry.

In 2015 we will continue to provide new products that enable our customers to build even higher performance solutions for the future. This includes a new Acceleration Platform that will significantly reduce our customers' time to market, and continued development of our 100 gigabit product portfolio to secure acceleration of our customers' applications for even the most demanding applications.

It is still the Company's ambition to improve revenue growth to a level of around 25%. Due to several reasons, the initial guided growth for 2014 was not reached. A number of initiatives have been started to allow the Company to refocus on markets that are viewed as promising. This includes building new Sales and Marketing operations headed by our newly employed Senior Vice Presidents, who are presented elsewhere in this Annual Report.

I strongly believe that we are very well poised to capture future growth in our markets by providing exceptional solutions delivered by dedicated employees. With that in mind, I look forward to an interesting and exciting 2015.

Napatech. FASTER THAN THE FUTURE



Kind regards
Henrik Brill Jensen
CEO



BOARD OF DIRECTORS' REPORT

SUMMARY

Napatech aims to become the recognized standard in the network appliance market for network accelerators, 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 growth curve, 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.

Network appliance vendors face three key challenges:

- Secure application performance at speeds up to 100 gigabit
- Accelerate time-to-market when introducing new products
- Provide cost-effective solutions with high relevance

In order to stay faster than the future, vendors need to accelerate their application performance to provide next-generation solutions that deliver and understand data at extreme speeds. 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 Manufacturer (OEM) appliance vendors overcome these three key challenges.

At Napatech, we provide acceleration solutions that are designed to achieve maximum performance using COTS server hardware. This provides the best option to OEM appliance vendors. Based on deep insight into standard server hardware, Napatech ensures that system resources are being used optimally to guarantee data delivery and maximum performance. On-the-fly configuration allows users to change behavior as conditions shift, allowing a more dynamic response. As vendors move to 10, 40 and 100 gigabit connectivity, these capabilities will become more important than ever, along with data processing and effective memory utilization.

Napatech Software Suite makes it very easy to handle even the most demanding performance issues, abstracting from hardware details to allow programmers to focus on application performance. Facilities and tools are provided to enable the application programmer to configure performance on the fly.

Napatech is a leading OEM supplier of advanced network accelerator hardware and software with an installed base of almost 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's products deliver guaranteed network insight that enables effective decision making by network owners.

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 has been a leading provider of advanced network accelerator hardware and software since 2003. The Company is headquartered in Copenhagen, Denmark and has three offices in the United States, one in Japan, one in Brazil, one in South Korea and one in the United Kingdom.

SUBSIDIARIES

The United States subsidiary has offices in Andover MA, Mountain View CA and Columbia ML. The Parent Company has a branch office in Seoul, South Korea. The subsidiary in Japan has an office in Tokyo, and the subsidiary in Brazil has an office in São Paulo.

SOLUTIONS

TELECOM OPERATORS

Napatech's solutions accelerate the performance and time to market of telecom network management applications, while reducing risk.

Telecom network management has traditionally focused on polling mechanisms to provide snapshots of network events. As network data speeds and volumes accelerate, especially in mobile data networks, real-time data collection and analysis have become crucial for managing networks. Carriers have already recognized this and have started to monitor critical Ethernet/IP connections in real time as a supplement to information provided by traditional network nodes and interfaces. This ensures the underlying performance and availability of the network needed to deliver the required services and applications.

Napatech's solutions accelerate the performance of applications that analyze subscriber behavior while reducing time to market and risk.

The best way for a telecom operator to generate more revenue is to offer innovative services with superior quality of experience. To do this, telecoms operators need to be able to monitor mobile traffic in real time, analyze how given apps are being used across all customers, analyze how specific devices like tablets and smartphones perform and are used on a network, and profile users with multiple devices. They also need to understand network activity so they can offer services with a minimal impact on the network, but maximum value for customers. By studying subscriber behavior and building a usage profile, carriers can then design services to meet specific customers' needs. Tailoring services based on time-of-day, device, location and app use enables carriers to adjust prices according to network usage, thus increasing revenue while controlling bandwidth costs.

INFRASTRUCTURE AND DEFENSE

Napatech's solutions accelerate applications that provide comprehensive and actionable insight on the state of critical infrastructure networks.

The national and economic security of a state depends on the reliable functioning of critical infrastructure. Virtually all infrastructure programs and assets are managed through networks, meaning that protecting and managing these assets goes far beyond their physical maintenance. The incapacity or destruction of such systems would have a debilitating impact on national economic security, national public health or safety, or any combination of these vital interests. Our solution accelerates applications that provide comprehensive and actionable insight on the state of critical infrastructure networks. It helps infrastructure network managers detect and avoid performance constraints in a timely manner by providing real-time analysis on large and highly complex data.

In addition to providing the insight needed to make decisions, Napatech's solutions supporting infrastructure management and security enable infrastructure managers to more efficiently utilize their network infrastructure, and create the visibility



needed to protect these vital networks from attack. What we offer to network equipment manufacturers uniquely in the industry is the ability to build one appliance that supports both infrastructure network management and infrastructure network security applications.

ENTERPRISE MANAGEMENT

Napatech's solutions accelerate applications that analyze all network activity – in real time and correlate user and application data from multiple locations in the network.

Processes of integrating and consolidating different corporate data and existing networks, as well as virtualization of servers and mobility of the workforce ultimately means adding another layer of complexity to the IT infrastructure. Enterprise network managers need to be able to see through that complexity to ensure performance and availability of their networks, so they can deliver the required services and applications. Being able to analyze the data on per application per user basis also makes it possible to ensure the optimal quality of experience, and therefore allow the maximum productivity of the workforce. This helps network managers meet the parameters for good quality of experience, allowing the mobile workforce to be more efficient.

ENTERPRISE SECURITY

Napatech's solutions accelerate applications, which help provide a holistic view of network security such as data loss prevention, intrusion detection and intrusion prevention.

Securing enterprise networks requires multi-level security systems. Getting the right information at the right time is crucial. Each appliance must ensure that all the relevant data is available for analysis and no data is lost. These applications can see every detail within the networks they are protecting. They can stop attacks, as well as protect against data leaks while also ensuring that there is a 100% accurate record of everything that went on.

E-COMMERCE AND MEDIA

Napatech's solutions support data loss prevention applications, which help guarantee that customer data stays secure.

In order to provide smooth customer experience, e-commerce and media companies need to store a significant amount

of personal information, such as name, shipping and billing address, credit card information, and phone number. The smooth and easy shopping experience can, under no circumstances, compromise data security. E-commerce and media companies need to protect against identity thefts, carried out on purpose by criminals, as well as unintentional exposure from within the organization. Only by being able to see a 100% of what is going on within their networks can they detect unauthorized activity and protect personal data.

FINANCIAL DEVELOPMENT IN THE GROUP

(2013 FIGURES IN BRACKETS)

Net revenues in 2014 came in at DKK 182.3 million (DKK 182.0 million) representing a limited revenue growth. The Group experienced challenges from the APAC region and from a softness in the European market. The North American market did show significant improvements with growth of 13% for the year. The EBITDA for 2014 was DKK 18.0 million (DKK 29.4 million), and the loss before tax for the year was DKK 0.7 million (DKK 1.8 million).

The Group's equity at the end of the year was DKK 189.6 million (DKK 190.2 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 38.4 million was capitalized in 2014 (DKK 26.4 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 DKK 5.2 million, primarily due to the positive development of the USD against DKK towards the end of the year.

The Group had a negative cash flow of DKK 34.8 million (DKK 92.1 million) and approximately half of the negative cash flow is attributable to cost incurred in connection with the IPO in December 2013, but paid in Q1 2014. Total cash balance was DKK 88.2 million at the end of the year.

As expressed in the Prospectus related to the IPO in December 2013, it was the Company's ambition to improve the growth in revenue to a level of around 25% (YoY). Due to several reasons, the initial guided growth for 2014 was not reached. A number of initiatives have been started to successfully allow the Company to get back on track in a market which is viewed as promising.

The revenue and EBITDA level is below the level that management expected at the beginning of the year, but in line with the expectations expressed in connection with the Q3 2014 reporting.

FINANCIAL DEVELOPMENT IN THE PARENT COMPANY (2013 FIGURES IN BRACKETS)

Net revenues for the Parent Company in 2014 came in at DKK 150.4 million (DKK 156.0 million) representing a revenue decline of 4%. The EBITDA in the Parent Company for 2014 was DKK 17.5 million (DKK 28.5 million) and the profit for the year was negative DKK 1 million (DKK 0 million).

DEVELOPMENT ACTIVITIES AND KNOWLEDGE

The Company has historically had high focus on development of both new products and new functionality, both for existing markets and new markets. In 2014, there was a high focus on developing the next generation 4 port 10 gigabit Accelerator and our first generation 100 gigabit Accelerator. Napatech underlines its technology leadership by providing new and innovative products such as the 100 gigabit Accelerator for analysis purposes.

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

CORPORATE GOVERNANCE

The Company's Board of Directors recognizes the importance of good corporate governance. This is ensured through interaction between shareholders, the Board of Directors and the administration. Napatech's goal is that all interested parties are confident that the Group's activities are carried out in an acceptable way and that 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 announcements. The Company shareholders are encouraged to subscribe to our investor relation e-mail service to receive Company announcements, as well as other news.

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 30 October 2014, and using the "follow or explain principle". The Company follows all the 14 recommendations, and the recommendation regarding Nomination Committee will be established in connection with the General Assembly in April 2015.

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

The Remuneration Committee is composed of two members of the Board of the Directors and the CEO of the Company. Chairman Olav Stokke is the chairman of the Remuneration Committee and Bjørn Erik Reinseth is a member 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. 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 a self assessment of its own activities and competence.

The Board of Directors held 14 Board meetings in 2014. Four of the meetings were for the approval of the quarterly report and presentations.

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

RISKS

The Group is, due to its normal course of business, exposed to a number of risk factors. The Group operates in a technology market that could change the need for the solutions that 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.

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; the Group has low employee turnover and a low degree of absence due to illness.

The Group's 111 fulltime employees by 30 December 2014 include 13 women (12%). 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 are no women in management positions 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 three years, and to increase the presence of women throughout the organisation. It is, however, always the candidate who is deemed best suited for a position that will be offered said position.

The Group has a diversification strategy and has, in the Danish headquarters, employed 14 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.

The Group's main impact on the environment is through the parent company and the US-based subsidiary's consumption of electricity consumption and through the usage of Group's petrol driven cars. The Group has six different locations which is a fairly high number of locations compared to the size of the company with an average number of employees of 100 in 2014. Almost all emissions are Scope 2 emissions, with the exception of the emissions from the company fleet. The only Greenhouse gas emission 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 goal will make measurements covering at least 80% of the employees in 2014, increasing to 85% in 2015.

The Group's goal for its impact on the environment is to keep the percentage increase in consumption of electricity and usage of the Group's company cars at least 5 percentage points below the percentage increase in the number of employees. 2014 and forward will include both Scope 1 and Scope 2 emissions.

For 2014 the group result on Scope 2 emissions show that the Group has been able to keep its increase in electricity consumption and related Green House Gases impact significantly below the increase in the number of employees. The Group expects that it will be in a position to meet our goal for 2015 as well.

LEGAL MATTERS

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

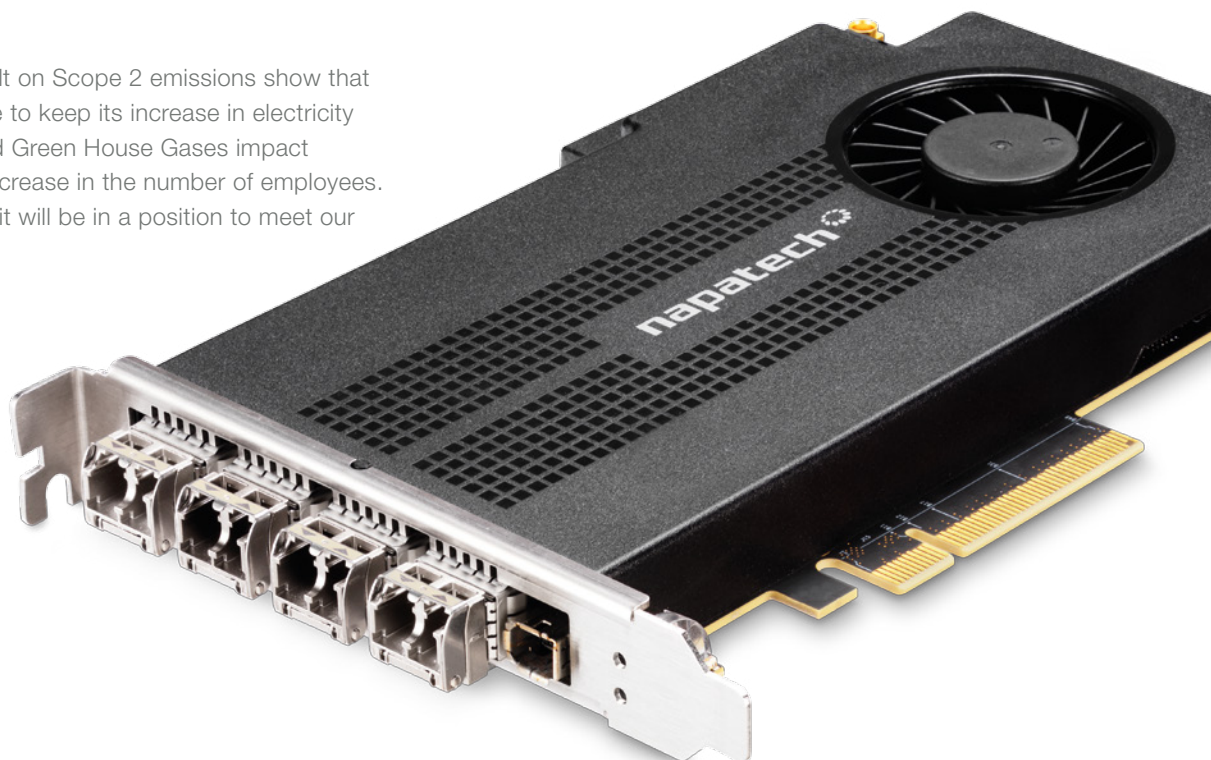
EVENTS AFTER YEAR-END

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 both the telecom industry and financial industry. Both areas show a cyclic behaviour. However, the Group expects growth in revenue and EBITDA in 2015 compared to 2014. The Company has given guidance for 2015 in connection with the Q4 2014 reporting, where revenue is expected to increase by around 12% and the EBITDA margin is expected to be around 12%.

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. When relevant, Napatech also intends to take part in possible restructuring of its industry.



SHAREHOLDER INFORMATION

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 392 shareholders and 87% of the shares were registered outside Norway. Total outstanding warrants at the end of the year was 497,992 warrants with an average exercise price of DKK 34.23.

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 with 10109124. The ISIN number is DK0060520450, and the Company trades on Oslo Stock Exchange under the Ticker: NAPA.

During 2014 a number of releases have been announced on Oslo Stock market under the ticker: NAPA. For a complete overview, please see www.newsweb.no.

The company's financial calendar for the remainder of 2015 is:

Activity	Date	Venue
Annual assembly	28th April 2015	Oslo
Q1 2015 report	12th May 2015	Oslo
Q2 2015 report	18th August 2015	Oslo
Q3 2015 report	10th November 2015	Oslo

NAPATECH HAD BY THE END OF 2014 THE FOLLOWING TOP 20 SHAREHOLDERS

Napatech, as a Danish company, cannot publicise private investors holding shares in Napatech, This is why shareholder 20 has been anonymized,

Investor	Number of shares	% of total
Verdane Capital VIII	1,293,211	22.21%
Northzone IV K/S	1,278,875	21.97%
Skandinaviska Enskilda	381,000	6.54%
Danske Bank A/S	261,524	4.49%
Skandinaviska Enskilda	252,985	4.35%
State Street Bank	242,760	4.17%
SIX SIS AG	214,748	3.69%
Swedbank AS	182,808	3.14%
SEB Private Bank S,A	146,355	2.51%
The Bank of New York	126,401	2.17%
DTU Invest rep, ved DTU Symbion	118,600	2.04%
BNP Paribas Sec, Ser	100,568	1.73%
NorthZea Management	81,231	1.40%
J,P, Morgan Chase Bank	70,480	1.21%
MVTU rep, ved DTU Symbion	62,148	1.07%
Park Lane Family Office	50,000	0.86%
Nordnet Bank AB	46,799	0.80%
AKA AS	40,000	0.69%
Nordea Bank Danmark	39,462	0.68%
Private investor	35,500	0.61%
Total number owned by to 20	5,025,455	86.32%
Total 372 other shareholders	796,268	13.68%
Total number of shares	5,821,723	100.00%

* The Shareholders above 5% is unchanged at the date of resolution of the Management Report.

NEW EMPLOYEE INTERVIEW

WALTHER JOHANNESSEN

SVP GLOBAL MARKETING

I come with experience from two big organizations, IBM and Citrix, where I was end-to-end responsible for all demand generation marketing activities. I have led two transitions from traditional to modern marketing, where a more commercial and analytical mindset is needed. This will be pivotal as Napatech makes its own marketing transformation and strengthens lead generation efforts.



How do you see the Company transforming over the next few years?

To capitalize on the growth potential in the market, Napatech needs more than the best solutions in the market. We need to become a more commercially driven Company by thinking “customer first”. We need to listen to the needs of the market and create a dialogue based on these needs. Over time, I see Napatech with a clearly defined customer journey that we are executing on. Today we already have a leading positioning and good perceived values in the market where we operate. However, Napatech needs to expand upon its currently known markets in order to grow.

How will you build on Napatech’s growth to expand into new markets?

This is very clear to me. We will expand into new markets by working with, and through, partners. At the same time, we will execute on our transformation to become a more commercially driven Company by an ongoing prospecting effort targeted at specific segments. This will be supported by an investment in marketing to enable the growth of Napatech.

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 2014.

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 2014 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 2014.

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, 1 April 2015

Executive Management



Henrik Brill Jensen, Chief Executive Officer

Board of Directors



Olav Stokke, Chairman



Martyn Braime



Bjørn Erik Reinseth



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 2014, 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

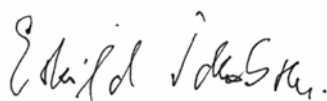
In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 December 2014 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 January – 31 December 2014 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, 1 April 2015

ERNST & YOUNG
Godkendt Revisionspartnerselskab



Eskild N. Jakobsen
State Authorised
Public Accountant



Alex Nissov
State Authorised
Public Accountant

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2014

Note	In DKK '000	2014	2013
4	Revenue	182,335	182,047
	Cost of goods sold	(48,708)	(51,546)
	Gross profit	133,627	130,501
5, 6	Research and development costs	(16,020)	(15,847)
5	Selling and distribution expenses	(65,362)	(52,695)
5, 7, 8	Administrative expenses	(34,235)	(32,605)
	Operating profit before depreciation and amortisation (EBITDA)	18,010	29,354
9	Depreciation and amortisation	(23,899)	(21,356)
	Operating (loss) / profit before exceptional items (EBIT before exceptional items)	(5,889)	7,998
10	Exceptional items	-	(6,782)
	Operating (loss) / profit (EBIT)	(5,889)	1,216
11	Finance income	5,671	3,184
12	Finance costs	(485)	(2,604)
	(Loss) / profit before tax	(703)	1,796
13	Income tax	(278)	(2,305)
	Loss for the year	(981)	(509)
14	Earnings per share:		
	Basic, DKK	(0.17)	(0.14)
	Diluted, DKK	(0.17)	(0.13)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2014

Note	In DKK '000	2014	2013
	Loss for the year	(981)	(509)
	Other comprehensive income to be reclassified to profit and loss in subsequent periods:		
	Exchange differences on translation from functional to presentation currency	(427)	(5,474)
	Exchange differences on translation of foreign operations	143	(90)
	Income tax effect	-	703
	Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods	(284)	(4,861)
	Total comprehensive loss for the year, net of tax	(1,265)	(5,370)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

ASSETS

Note	In DKK '000	2014	2013
	Development projects, completed	54,335	29,780
	Development projects, in progress	8,687	17,370
	Patents	6,606	4,709
	Other intangible assets	1,700	-
15	Intangible assets	71,328	51,859
	Plant and equipment	8,770	7,034
	Leasehold improvements	1,456	1,836
16	Property, plant and equipment	10,226	8,870
17	Deferred tax asset	4,325	4,324
21	Leasehold deposits	1,766	1,669
	Other non-current assets	6,091	5,993
	Non-current assets	87,645	66,722
20	Inventories	9,477	7,922
19, 21	Trade receivables	36,236	32,066
19, 21	Other receivables	3,241	3,715
21	Cash and cash equivalents	88,230	122,223
	Current assets	137,184	165,926
	Total assets	224,829	232,648

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

EQUITY AND LIABILITIES

Note	In DKK '000	2014	2013
20	Issued capital	5,822	5,812
20	Share premium	210,675	201,180
	Foreign currency translation reserve	53	(4,089)
20	Other capital reserves	12,101	25,514
	Accumulated loss	(39,032)	(38,053)
	Equity	189,619	190,364
21, 23	Interest-bearing loans and borrowings	5,574	6,365
	Non-current liabilities	5,574	6,365
21, 23	Interest-bearing loans and borrowings	706	473
21	Trade payables	15,069	23,010
21	Other payables	13,552	11,917
22	Provisions	309	519
	Current liabilities	29,636	35,919
	Total liabilities	35,210	42,284
	Total equity and liabilities	224,829	232,648

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

Note In DKK '000

	Share capital	Share premium	Foreign currency translation reserve	Other capital reserves	Accumulated losses	Total equity
At 1 January 2013	3,523	103,364	772	19,753	(37,544)	89,868
Loss for the year	-	-	-	-	(509)	(509)
Other comprehensive income	-	-	(4,861)	-	-	(4,861)
Total comprehensive income	-	-	(4,861)	-	(509)	(5,370)
Issue of shares	2,289	109,377	-	-	-	111,666
Transaction costs	-	(11,561)	-	-	-	(11,561)
7, 10 Share-based payments	-	-	-	5,761	-	5,761
At 31 December 2013	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 generations	-	-	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, 10 Share-based payments	-	-	-	207	-	207
At 31 December 2014	5,822	210,675	53	12,101	(39,032)	189,619

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2014

Note	In DKK '000	2014	2013
	Operating activities		
	(Loss) / profit before tax	(703)	1,796
	Adjustments to reconcile (loss) / profit before tax to net cash flows:		
	Finance income	(5,671)	(3,184)
	Finance costs	485	2,604
	Depreciation and amortisation	23,899	21,356
	Share-based payment expense	207	5,761
	Working capital adjustments:		
	Change in inventories	(1,555)	(4,063)
	Change in trade and other receivables	(3,696)	(5,668)
	Change in trade and other payables and provisions	(6,516)	7,855
	Cash flows from operating activities	6,450	26,457
	Currency adjustment	4,568	(1,987)
	Interest received	299	22
	Interest paid	(485)	(416)
	Income tax paid	(167)	(538)
	Net cash flows from operating activities	10,665	23,538
	Investing activities		
	Purchase of plant, property and equipment	(7,244)	(4,649)
	Investments in intangible assets	(38,371)	(26,446)
	Investments in leasehold deposits	(97)	(430)
	Net cash flows from investing activities	(45,712)	(31,525)
	Financing activities		
	Issue of shares	313	111,666
	Transaction costs	-	(11,561)
	Repayment of borrowings	(63)	-
	Net cash flows from financing activities	250	100,105
	Net change in cash and cash equivalents	(34,797)	92,118
	Net foreign exchange difference	804	-
	Cash and cash equivalents at 1 January	122,223	30,105
	Cash and cash equivalents at 31 December	88,230	122,223

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 1 April 2015.

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). Until 31 December 2013 the Group's functional currency was US dollar (USD). The management of the Group has re-considered the functional currency, and due to changes in circumstances affecting the operations of the parent company, the management determines that on and from 1 January 2014 the functional currency of the parent company is Danish kroner (DKK). Therefore, the parent company has applied its new functional currency prospectively from 1 January 2014.

With the exception of the changed presentation of the income statement and 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 with effective date for annual periods beginning on 1 January 2014. The standards, amendments and amendments to existing standards which are deemed relevant to the Group and which affected the consolidated financial statements for 2014 are enumerated below:

- IFRS 10 (including amendments), Consolidated Financial Statements, changes the definition of control such that an investor has control over an investee when: a) it has power over the investee; b) it is expected, or has rights, to variable returns from its involvement with the investee; and c) has the ability to use its power to affect its return.
- IFRS 12 (including amendments), Disclosure of Interests in Other Entities, is a new disclosure and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.
- Annual improvements to IFRS 2010-2012, The cycle include improvements to IFRS 2, Sharebased payments, which re-define vesting conditions for sharebased payments programs granted after 1 July 2014.

The implementation of new standards, amendments and annual improvements have been implemented with no effect on the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended standards not yet effective

The IASB has issued a number of new standards, amendments to existing standards and interpretations which have not yet become effective but will come into effect in 2015 or later. The following standard is expected to impact the annual report:

- IFRS 9, Financial Instruments, which changes the accounting treatment of financial instruments, including the classification and measurement of financial assets and liabilities. The standard is not expected to have any major impact on the recognition and measurement of financial instruments but may change the classification of individual instruments. (Not approved by the EU, effective date to be decided).
- IFRS 15, Revenue from contract with customers, replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard comprises a comprehensive framework relating to revenue recognition, which include that revenue is recognized upon the expected amount of consideration the entity is entitled to in exchange for goods or services. The new standard determines that revenue is recognized either at point in time or over time in accordance to fulfillment of the individual performance obligations in the contract. The group is currently in the planning phase of analyzing whether the new standard impact recognition of revenue. (Not approved by the EU, effective date expected at 1 January 2017).

The Group expects to implement the above standard upon its coming into force.

In addition, the IASB has issued a number of new standards, amendments to existing standards and basis for conclusions which are not relevant to the Group and are not expected to impact future financial statements.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Administrative expenses

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

Exceptional items

Exceptional items comprise material non-recurring expenses. These items are presented separately because they are treated as one-off occurrence.

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 and 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

At the trade date, derivative financial instruments are recognised in the statement of financial position at fair value and are subsequently measured at fair value. Transaction costs are recognised in the income statement. The fair value of derivative financial instruments is included in 'Other receivables' or 'Other payables'. The fair value of derivative financial instruments is determined on the basis of current market data and generally accepted valuation methods.

The Group hedges currency risks by using forward exchange contracts but does not designate forward exchange transactions as hedging instruments. Accordingly, fair value adjustments of forward exchange transactions are recognised in the income statement as financial income or financial 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 as production or development costs.

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 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Other intangible assets

Other intangible assets are recognised as intangible assets at the time of acquisition. Other intangible assets are amortised over their useful lives, starting at the time when the intangible asset is put in use. The useful life of other intangible assets is estimated at 3 years.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

Impairment of non-financial assets

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

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.

Other reserves

The value of share options granted is recognised in equity under other reserves 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Other liabilities are measured at amortised cost.

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 and securities related to investing activities.

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 only has 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 soecific risks are discussed in the relevant sections of the management's review and in the notes to the consolidated financial statements.

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

Development projects

There is an ongoing assessment whether the development costs meet the criteria for capitaliation 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 evidance 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 54,335 thousand at 31 December 2014 (31 December 2013: DKK 29,780 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Judgements in relation to significant accounting policies

In applying the Group's accounting policies, the management makes judgements 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.

Functional currency

In accordance with the rules in IAS 21 the parent company's functional currency has been changed from USD to DKK prospectively from 1 January 2014. As a result, the accumulated exchange differences arisen from previous translations of the parent company's functional currency to the Group's presentation currency have been reversed.

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 2014 and 2013, respectively:

Year ended 31 December 2014:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
Revenue from goods sold					
Total revenue	150,431	141,190	9,496	68	301,185
Inter-segment	(118,850)	-	-	-	(118,850)
Revenue from goods sold, 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

Year ended 31 December 2013:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
Revenue from goods sold					
Total revenue	136,065	125,243	19,952	-	281,260
Inter-segment	(99,213)	-	-	-	(99,213)
Revenue from goods sold, external customers	36,852	125,243	19,952	-	182,047
Cost of goods sold	(8,465)	(40,009)	(3,072)	-	(51,546)
Segment gross profit	28,387	85,234	16,880	-	130,501

Explanation of abbreviations:

EMEA = Europe, Middle East and Africa NAM = North America
 APAC = Asia and Pacific 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 51,403 thousand (2013: DKK 49,869 thousand) corresponding to 28% (2013: 27%) 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 16,126 thousand (2013: DKK 21,172 thousand) corresponding to 9% (2013: 12%) 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 2014 2013

Employee benefits expense is reported as follows:

Wages and salaries	89,725	77,553
Defined contribution schemes	10,088	8,579
Share-based payment expense (Notes 7 and 10)	207	5,761
Social security costs	2,738	2,414
Allocated to development projects	(29,453)	(21,799)
Total employee benefits expense	73,305	72,508

DKK'000 2014 2013

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

Research and development costs	13,834	12,155
Selling and distribution expenses	44,346	40,228
Administrative expenses	15,125	18,413
Exceptional items (Note 10)	-	1,712
Total employee benefits expense	73,305	72,508

Average number of employees **106 95**

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

DKK'000	2014		2013	
	Management	Board of Directors	Management	Board of Directors
Short-term staff benefits	8,421	782	9,443	203
Defined contribution schemes	476	-	444	-
Share-based payment expense	115	-	3,071	126
Total compensation of key management personnel	9,012	782	12,958	329

1) By reference to section 98b (3), (ii) of the Danish Financial Statements Act, remuneration to Executive Management is not disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 RESEARCH AND DEVELOPMENT COSTS

Research and development costs recognised in the consolidated income statement are DKK 16,020 thousand (2013: DKK 15,847 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 programmes. Therefore, the remaining vesting period of the share options has been accelerated. The effect of the share options that has been accelerated has been disclosed in Note 10: Exceptional items.

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)

2014								
Share options	Board of Directors		Management		Other Employees		Total	
	Number	Avg. ex. price	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	34.23
Exercisable at 31 December 2014	-	-	260,787	32.00	136,205	32.00	396,992	32.00

2013								
Share options	Board of Directors		Management		Other Employees		Total	
	Number	Avg. ex. price	Number	Avg. ex. price	Number	Avg. ex. price	Number	Avg. ex. price
At 1 January 2013	2,000	37.46	328,209	31.43	336,607	34.02	666,816	33.52
Granted during the year	20,550	32.00	98,050	32.00	11,575	32.00	130,175	32.00
Exercised/expired during the year	(22,550)	32.48	(157,222)	30.80	(196,327)	35.30	(376,099)	33.25
At 31 December 2013	-	-	269,037	32.00	151,855	32.00	420,892	32.00
Exercisable at 31 December 2013	-	-	269,037	32.00	151,855	32.00	420,892	32.00

In 2014 9,775 share options were exercised and 14,125 lapsed (2013: 288,495 exercised and 87,604 lapsed). The following shows the exercise price of the outstanding share options and warrants:

Number of share options at 31 December	2014	2013
Exercise price DKK 32.00	396,992	420,892
Exercise price DKK 43.00	101,000	-
Total number of outstanding share options	497,992	420,892

The weighted average of the remaining contractual period of the outstanding share options from the 2013 share options programme at 31 December 2014 is 2 years and 8 months (at 31 December 2013: 3 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 2014 is 4 years and 6 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 SHARE-BASED PAYMENTS (CONTINUED)

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

The fair value of share options and warrants granted during 2013 was estimated on the date of grant using the following assumptions:

Volatility	47.92%
Risk-free interest rate	1.65%
Exercise price (DKK)	32.00
Exercise period (years)	2.27

The fair value of share options and warrants granted during 2014 was estimated on the date of grant using the following assumptions:

	Tranche 1	Tranche 2	Tranche 3
Volatility	44.94%	44.47%	43.53%
Risk-free interest rate	1.70%	1.80%	2.00%
Exercise price (DKK)	43.00	43.00	43.00
Exercise period (years)	3.00	4.00	5.00
Number of options	33,667	33,667	33,666

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 (2013: 80.41). The fair value of the share options is determined using the Black-Scholes option pricing model.

For 2014, the Group has recognised DKK 207 thousand of share-based payment expense in the income statement (2013: DKK 5,762 thousand). DKK 115 thousand was recognised in relation to the Executive Management (2013: DKK 3,071 thousand) and DKK 92 thousand in relation to others (2013: DKK 2,565).

NOTE 8 AUDITORS' FEES

DKK'000	2014	2013
Ernst & Young:		
Statutory audit fee	255	245
Tax advisory fee	37	342
Fees for other assurance engagements	-	113
Fees for other services	236	257
Total auditors' fees	528	957

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 DEPRECIATION AND AMORTISATION

DKK'000	2014	2013
Depreciation and amortisation are reported as follows:		
Depreciation of plant and equipment	4,515	4,114
Depreciation of leasehold improvements	530	401
Total depreciation of property, plant and equipment	5,045	4,515
Amortisation of patents	108	81
Amortisation of completed development projects	18,472	16,760
Amortisation of other intangible assets	274	-
Total amortisation of intangible assets	18,854	16,841
Total depreciation and amortisation	23,899	21,356

NOTE 10 EXCEPTIONAL ITEMS

Exceptional items recognised in the income statement comprise costs in relation to the IPO executed in December 2013. The break-down of these costs is as follows:

DKK'000	2014	2013
External advisors	-	5,070
Share-based payment due to accelerated vesting period of share options	-	1,712
Total exceptional items	-	6,782

As the IPO costs recognised in the income statement are treated as one-off occurrence, the Group finds it suitable to report these costs as exceptional items separated from other costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 FINANCE INCOME

DKK'000	2014	2013
Interest receivable from banks	299	22
Foreign exchange gains	5,372	3,075
Other finance income	-	87
Total finance income	5,671	3,184

NOTE 12 FINANCE COSTS

DKK'000	2014	2013
Interest payable to banks	418	442
Foreign exchange losses	-	2,134
Finance charges payable under finance leases	61	28
Other finance costs	6	-
Total finance costs	485	2,604

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 INCOME TAX

DKK'000	2014	2013
Current tax recognised in the consolidated income statement:		
Current income tax	279	538
Change in deferred tax	(1)	1,767
Total income tax	278	2,305

A reconciliation between tax expense and profit before tax multiplied by the applicable income tax rate for the Group for 2014 and 2013 is as follows:

DKK'000	2014	2013
(Loss) / profit before tax	(703)	1,796
At the applicable Danish income tax rate for the Group, 22% (2013: 25%)	(155)	449
Tax effect of:		
Change in tax rate from 25% to 22% used for calculation of deferred tax asset	441	-
Non-taxable income	-	-
Non-deductible expenses	68	1,847
Other	(76)	9
At the effective income tax rate of 40% (2013: 128%)	278	2,305

NOTE 14 EARNINGS PER SHARE

DKK'000	2014	2013
Net (loss) / profit attributable to equity holders of the parent company for basic earnings and the effect of dilution	(981)	(509)
Thousands	2014	2013
Weighted average number of shares for basic earnings per share	5,817	3,684
Effect of dilution:		
Share options	-	229
Weighted average number of shares adjusted for the effect of dilution	5,817	3,913

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 INTANGIBLE ASSETS

	Development projects, completed		Development projects, in progress		Patents		Other intangible assets		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
DKK'000										
Cost at 1 January	88,246	77,790	17,370	7,120	4,787	3,746	-	-	110,403	88,656
Additions in the year	44,086	14,210	34,664	25,200	1,733	1,246	1,974	-	82,457	40,656
Disposals in the year	-	-	(44,086)	(14,210)	-	-	-	-	(44,086)	(14,210)
Presentation currency adjustment	540	(3,754)	739	(740)	275	(205)	-	-	1,554	(4,699)
Cost at 31 December	132,872	88,246	8,687	17,370	6,795	4,787	1,974	-	150,328	110,403
Accumulated amortisation and impairment at 1 January	58,466	44,194	-	-	78	-	-	-	58,544	44,194
Amortisation and impairment for the year	18,472	16,760	-	-	108	81	274	-	18,854	16,841
Presentation currency adjustment	1,599	(2,488)	-	-	3	(3)	-	-	1,602	(2,491)
Accumulated amortisation and impairment at 31 December	78,537	58,466	-	-	189	78	274	-	79,000	58,544
Carrying amount at 31 December	54,335	29,780	8,687	17,370	6,606	4,709	1,700	-	71,328	51,859

Within the completed development projects there are two material development projects with carrying amount of DKK 17,325 thousand and 18,361 at 31 December 2014 respectively (31 December 2013: DKK 8,999 thousand and DKK 3,556 thousand respectively). The aim of the first project is to develop new non-blocking 4x10G adapter and the aim of the second project is to develop new 1x100G adapter. The remaining amortisation periods of these two projects are 2 years and 10 months and 3 years respectively.

Within the in progress development projects there is one material development project with carrying amount of DKK 5,100 thousand at 31 December 2014 (31 December 2013: zero). The aim of the project is to develop additional functionalities of existing adapters. The project is not yet completed and therefore has not been amortised.

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 16 PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment		Leasehold improvements		Total	
	2014	2013	2014	2013	2014	2013
DKK'000						
Cost at 1 January	22,012	17,706	3,734	2,686	25,746	20,392
Additions	6,560	5,269	189	1,218	6,749	6,487
Presentation currency adjustment	(461)	(963)	(79)	(170)	(540)	(1,133)
Cost at 31 December	28,111	22,012	3,844	3,734	31,955	25,746
Accumulated depreciation and impairment at 1 January	14,978	11,517	1,898	1,582	16,876	13,099
Depreciation and impairment for the year	4,515	4,114	530	401	5,045	4,515
Presentation currency adjustment	(152)	(653)	(40)	(85)	(192)	(738)
Accumulated depreciation and impairment at 31 December	19,341	14,978	2,388	1,898	21,729	16,876
Carrying amount at 31 December	8,770	7,034	1,456	1,836	10,226	8,870

The carrying amount of property, plant and equipment held under finance leases is DKK 1,058 thousand at 31 December 2014 (31 December 2013: DKK 1,663 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 17 DEFERRED TAX

	Consolidated statement of financial position		Consolidated income statement	
	2014	2013	2014	2013
DKK'000				
Tax losses carry-forwards	14,433	8,215	(6,218)	3,988
Intangible assets	(14,196)	(6,915)	7,281	(823)
Plant, property and equipment	3,704	2,837	(867)	(1,081)
Provision for bad debts	384	391	7	(366)
Presentation currency adjustment	-	(204)	(204)	-
Other	-	-	-	49
Deferred tax asset and (income) / expense	4,325	4,324	(1)	1,767

DKK'000	2014	2013
Reconciliation of deferred tax asset is as follows:		
Opening balance at 1 January	4,324	5,388
Recognised in consolidated income statement	1	(1,767)
Recognised in consolidated statement of comprehensive income	-	703
Closing balance at 31 December	4,325	4,324

NOTE 18 INVENTORIES

DKK'000	2014	2013
Consumables and components	1,071	1,846
Finished goods and goods for resale	8,406	6,324
Exchange differences	-	(248)
Total inventories	9,477	7,922

The cost of goods sold for the year is DKK 48,708 thousand (2013: DKK 51,546 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 TRADE AND OTHER RECEIVABLES

DKK'000	2014	2013
Receivables recognised in the consolidated statement of financial position:		
Trade receivables	36,236	32,066
Other receivables	3,241	3,715
Total current receivables	39,477	35,781

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

DKK'000	2014	2013
At 1 January	1,593	2,670
Utilised in the year	(191)	(70)
Change in the year	600	(1,007)
At 31 December	2,002	1,593

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

DKK'000	2014	2013
Not past due	28,973	22,503
Past due for less than 30 days	2,010	6,087
Past due between 30 and 60 days	777	402
Past due between 60 and 90 days	988	1,521
Past due after 90 days	3,488	1,553
Total maximum credit risk	36,236	32,066

The OEM business model, 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 Groups' customers have 30 days as a standard payment term and historically the Group has not had impairment for bad debts. The credit risk associated with trade receivables is therefore assessed as low.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 ISSUED CAPITAL AND RESERVES

	2014	2013
Authorised shares:	Thousands	Thousands
Ordinary shares of DKK 1 each at 1 January	5,812	3,523
Increase in ordinary shares DKK 1 each	10	2,288
Ordinary shares of DKK 1 each at 31 December	5,822	5,812

	2014	2014
Ordinary shares and fully paid:	Thousands	DKK'000
At 1 January 2014	5,812	5,812
Exercise of share options for cash during the year	10	10
At 31 December 2014	5,822	5,822

	2014	2013
Share premium:	DKK'000	DKK'000
At 1 January	201,180	103,364
Exercise of share options for cash in excess of cost of ordinary shares during the year	303	9,667
Reversals regarding exercised share options	9,192	-
Issue of shares for cash in excess of the cost of ordinary shares as a result of the IPO	-	99,710
Transaction costs due to the IPO	-	(11,561)
At 31 December	210,675	201,180

	2014	2013
Other capital reserves:	DKK'000	DKK'000
Other capital reserves comprise share-based payment reserve 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:		
At 1 January	25,514	19,753
Share-based payment expense, Note 7	207	4,049
Share-based payment expense, Note 10	-	1,712
Reversals regarding exercised share options	(13,620)	-
At 31 December	12,101	25,514

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK'000	2014	2013
Financial assets assets measured at amortised cost:		
Leasehold deposits	1,766	1,669
Trade receivables	36,236	32,066
Other receivables	3,241	3,715
Cash and cash equivalents	88,230	122,223
Total financial assets measured at amortised cost	129,473	159,673
Financial liabilities measured at amortised cost:		
Finance lease liability	1,343	1,838
Interest-bearing loans and borrowings	4,937	5,000
Trade payables	15,069	23,010
Other payables	13,552	11,917
Total financial liabilities measured at amortised cost	34,901	41,765

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

NOTE 22 PROVISIONS

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

DKK'000	2014	2013
At 1 January	519	852
Utilised during the year	(519)	(852)
Additions in the year	309	519
At 31 December 2013	309	519

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 23 COMMITMENTS AND CONTINGENCIES

Collaterals

The Group has issued a floating charge in the amount of DKK 10 million (2013: 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:

DKK'000	2014		
	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

DKK'000	2013		
	Cars	Office facilities	Total
Falling due within one year	116	3,952	4,068
Falling due between one and five years	49	4,417	4,466
Total	165	8,369	8,534

The Group recorded DKK 151 thousand and DKK 4,447 thousand (2013: DKK 116 thousand and DKK 3,897 thousand) as operating lease expenses for cars and office facilities respectively.

Finance lease commitments

The Groups' 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 2014 are as follows:

DKK'000	Minimum payments	Present value of payments
Falling due within one year	750	706
Falling due between one and five years	656	637
Total minimum lease payments	1,406	1,343
Less: finance charge	(63)	-
Present value of lease payments	1,343	1,343

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24 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 two large venture capital companies with significant influence and many small private and corporate shareholders.

Entities with significant influence over the Group

Entities with significant influence over the Group include the venture capital companies Verdane Capital VIII and Northzone K/S. Verdane Capital VIII owns 22.2% (2013: Ferd AS 22.3%) and Northzone K/S owns 22.0% (2013: 39.5%). Related parties also include the shareholders' portfolio companies as they are subject to the same significant influence as the Group. The Group had no transactions with neither the shareholders nor their portfolio companies in 2013 or 2014.

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 2013 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 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 adapters. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group has trade and other receivables, cash and long-term leasehold deposits that derive directly from its operations. The Group does not hold any available-for-sale investments and does not enter into any derivative transactions.

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.

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 2014, the Group had 3 customers (2013: 3 customers) that each owed the Group more than 10% of all trade receivables.

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 22. 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. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2014 and 2013 is the carrying amounts as illustrated in Note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

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 (2013: DKK 6,000 thousand and USD 650 thousand) and in USA in the amount of USD 700 thousand (2013: USD 700 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.

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

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
Other payables	13,552	-	-	13,552
Total financial liabilities	28,798	530	5,573	34,901
2013				
DKK'000	Jan - Mar	Apr - Dec	over 1 year	Total
Finance lease liability	101	372	1,365	1,838
Interest-bearing loans and borrowings	-	-	5,000	5,000
Trade payables	23,010	-	-	23,010
Other payables	11,917	-	-	11,917
Total financial liabilities	35,028	372	6,365	41,765

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates mainly to the Group's interest-bearing loans and borrowings in the amount of DKK 4,937 thousand (2013: DKK 5,000 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 are mainly denominated in USD. Cost of goods sold and 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.

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 carrying amount of assets and liabilities.

DKK'000	Effect on profit before tax		Effect on equity	
	2014	2013	2014	2013
Change in DKK by +/- 2%	+/- 1,102	+/- 1,792	+/- 1,102	+/- 1,381

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 2013 and 2014 are negligible.

NOTE 26 EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after 31 December 2014 that might affect the consolidated financial statements.

PARENT COMPANY INCOME STATEMENT

for the year ended 31 December 2014

Note	In DKK '000	2014	2013
	Revenue	150,431	156,017
	Cost of goods sold	(48,688)	(51,546)
	Gross profit	101,743	104,471
2	Research and development costs	(16,020)	(15,847)
2	Selling and distribution expenses	(33,913)	(27,903)
2, 3	Administrative expenses	(34,281)	(32,166)
	Operating profit before depreciation and amortisation (EBITDA)	17,529	28,555
4	Depreciation and amortisation	(23,694)	(21,137)
	Operating (loss) / profit before exceptional items (EBIT before exceptional items)	(6,165)	7,418
5	Exceptional items	-	(6,782)
	Operating (loss) / profit (EBIT)	(6,165)	636
6	Finance income	5,651	3,734
7	Finance costs	(454)	(2,621)
	(Loss) / profit before tax	(968)	1,749
8	Income tax	1	(1,767)
	Loss for the year	(967)	(18)

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2014

Note	In DKK '000	2014	2013
	Loss for the year	(967)	(18)
	Other comprehensive income to be reclassified to profit and loss in subsequent periods:		
9	Exchange differences on translation from functional to presentation currency	(412)	(5,495)
	Income tax effect	-	703
	Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	-	(4,792)
	Total comprehensive loss for the year, net of tax	(1,379)	(4,810)

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

ASSETS

Note	In DKK '000	2014	2013
	Development projects, completed	54,335	29,780
	Development projects, in progress	8,687	17,370
	Patents	6,606	4,709
	Other intangible assets	1,700	-
10	Intangible assets	71,328	51,859
	Plant and equipment	8,313	6,857
	Leasehold improvements	1,410	1,734
11	Property, plant and equipment	9,723	8,591
12	Investments in subsidiaries	4,045	661
13	Deferred tax asset	4,325	4,324
17	Leasehold deposits	1,576	1,501
	Other non-current assets	9,946	6,486
	Non-current assets	90,997	66,936
14	Inventories	9,135	7,922
15, 17	Trade receivables	11,004	15,519
15, 17	Receivables from group entities	48,740	34,787
15, 17	Other receivables	2,240	2,287
17	Cash and cash equivalents	60,134	107,079
	Current assets	131,253	167,594
	Total assets	222,250	234,530

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

EQUITY AND LIABILITIES

Note	In DKK '000	2014	2013
16	Issued capital	5,822	5,812
16	Share premium	210,675	201,180
	Foreign currency translation reserve	-	(4,089)
16	Other capital reserves	12,101	25,514
	Accumulated loss	(38,533)	(37,493)
	Equity	190,065	190,924
17	Interest-bearing loans and borrowings	5,574	6,365
	Non-current liabilities	5,574	6,365
17	Interest-bearing loans and borrowings	706	473
17	Trade payables	15,070	23,010
17	Payables to group entities	-	2,896
17	Other payables	10,526	10,343
18	Provisions	309	519
	Current liabilities	26,611	37,241
	Total liabilities	32,185	43,606
	Total equity and liabilities	222,250	234,530

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

Note In DKK '000

	Share capital	Share premium	Foreign currency translation reserve	Other capital reserves	Accumulated losses	Total equity
At 1 January 2013	3,523	103,364	703	19,753	(37,475)	89,868
Profit for the period	-	-	-	-	(18)	(18)
Other comprehensive income	-	-	(4,792)	-	-	(4,792)
Total comprehensive income	-	-	(4,792)	-	(18)	(4,810)
Issue of shares	2,289	109,377	-	-	-	111,666
Transaction costs	-	(11,561)	-	-	-	(11,561)
Share-based payments	-	-	-	5,761	-	5,761
At 31 December 2013	5,812	201,180	(4,089)	25,514	(37,493)	190,924
Loss for the period	-	-	-	-	(967)	(967)
Exchange differences from translation from functional to presentation currency	-	-	4,089	-	(4,501)	(412)
Total comprehensive income	-	-	-	-	(967)	(967)
Issue of shares	10	303	-	-	-	313
Reversal, exercised share options	-	9,192	-	(13,620)	4,428	-
Share-based payments	-	-	-	207	-	207
At 31 December 2014	5,822	210,675	-	12,101	(38,533)	190,065

PARENT COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2014

Note	In DKK '000	2014	2013
	Operating activities		
	(Loss) / profit before tax	(968)	1,749
	Adjustments to reconcile (loss) / profit before tax to net cash flows:		
	Finance income	(5,651)	(3,734)
	Finance costs	454	2,621
	Depreciation and amortisation	23,694	21,137
	Share-based payment expense	207	5,761
	Working capital adjustments:		
	Change in inventories	(1,213)	(4,063)
	Change in trade and other receivables and intercompany receivables	(9,391)	(10,276)
	Change in trade and other payables, intercompany payables and provisions	(10,863)	11,362
		(3,731)	24,557
	Currency adjustment	4,583	(1,998)
	Interest received	279	659
	Interest paid	(454)	(445)
	Income tax paid	-	-
	Net cash flows from operating activities	677	22,773
	Investing activities		
	Purchase of plant, property and equipment	(6,846)	(4,348)
	Investments in intangible assets	(38,371)	(26,446)
	Investments in subsidiaries	(3,384)	(681)
	Investments in leasehold deposits	(75)	(395)
	Net cash from investing activities	(48,676)	(31,870)
	Financing activities		
	Issue of shares	313	111,666
	Transaction costs	-	(11,561)
	Repayment of borrowings	(63)	-
	Net cash flows from financing activities	250	100,105
	Net decrease in cash and cash equivalents	(47,749)	91,008
	Net foreign exchange difference	804	-
	Cash and cash equivalents at the beginning of the year	107,079	16,071
	Cash and cash equivalents at the end of the year	60,134	107,079

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 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 2014 2013

Employee benefits expense is reported as follows:

Wages and salaries	68,231	59,632
Defined contribution schemes	10,088	8,579
Share-based payment expense (Notes 3 and 5)	207	5,761
Social security costs	721	654
Allocated to development projects	(29,453)	(21,799)

Total employee benefits expense **49,794 52,827**

DKK'000 2014 2013

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

Research and development costs	13,834	12,155
Selling and distribution expenses	20,835	20,547
Administrative expenses	15,125	18,413
Exceptional items (Note 5)	-	1,712

Total employee benefits expense **49,794 52,827**

Average number of employees **84 72**

Compensation of key management personnel is set out in Note 5 to the consolidated financial statements of the Group. Research and development costs recognised in the parent company income statement are DKK 16,020 thousand (2013: DKK 15,847 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 207 thousand (2013: DKK 5,761 thousand), no value (2013: DKK 143 thousand) 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	2014	2013
Depreciation and amortisation are reported as follows:		
Depreciation plant and property	4,367	3,953
Depreciation of leasehold improvements	473	343
Total depreciation property, plant and equipment	4,840	4,296
Amortisation of patents	108	81
Amortisation of completed development projects	18,472	16,760
Amortisation of other intangible assets	274	-
Total amortisation of intangible assets	18,854	16,841
Total depreciation and amortisation	23,694	21,137

NOTE 5 EXCEPTIONAL ITEMS

Exceptional items relate to the IPO carried through in December 2013 and are disclosed in Note 10 to the consolidated financial statements.

NOTE 6 FINANCE INCOME

DKK'000	2014	2013
Interest receivable from banks	201	-
Interest receivable from subsidiaries	78	659
Foreign exchange gains	5,372	3,075
Total finance income	5,651	3,734

NOTE 7 FINANCE COSTS

DKK'000	2014	2013
Interest payable to banks	387	409
Finance charges payable under finance leases	61	28
Foreign exchange losses	-	2,176
Other finance costs	6	8
Total finance costs	454	2,621

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 8 INCOME TAX

DKK'000	2014	2013
Current tax recognised in the consolidated income statement:		
Current income tax	-	-
Change in deferred tax	(1)	1,767
Total income tax	(1)	1,767

A reconciliation between tax expense and profit before tax multiplied by the applicable income tax rate for the Group for 2014 and 2013 is as follows:

DKK'000	2014	2013
(Loss) / profit before tax	(968)	1,749
At the applicable Danish income tax rate for the parent company, 22% (2013: 25%)	(213)	438
Tax effect of:		
Change in tax rate from 25% to 22% used for calculation of deferred tax asset	441	-
Non-taxable income	-	-
Non-deductible expenses	68	1,847
Presentation currency adjustment	-	(644)
Other	(297)	126
At the effective income tax rate of 0% (2013: 101%)	(1)	1,767

NOTE 9 COMPONENTS OF OTHER COMPREHENSIVE INCOME

DKK'000	2014	2013
Exchange differences on translation from functional to presentation currency	-	(5,495)
Total	-	(5,495)

NOTE 10 INTANGIBLE ASSETS

Intangible assets comprise patents and development projects. An overview over these assets is disclosed in Note 15 to the consolidated financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 11 PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment		Leasehold improvements		Total	
	2014	2013	2014	2013	2014	2013
DKK'000						
Cost at 1 January	21,169	17,025	3,539	2,561	24,708	19,586
Additions	6,161	5,055	190	1,130	6,351	6,185
Presentation currency adjustment	(579)	(911)	(97)	(152)	(676)	(1,063)
Cost at 31 December	26,751	21,169	3,632	3,539	30,383	24,708
Accumulated depreciation and impairment at 1 January	14,312	10,975	1,805	1,540	16,117	12,515
Depreciation and impairment for the year	4,367	3,953	473	343	4,840	4,296
Presentation currency adjustment	(241)	(616)	(56)	(78)	(297)	(694)
Accumulated depreciation and impairment at 31 December	18,438	14,312	2,222	1,805	20,660	16,117
Carrying amount at 31 December	8,313	6,857	1,410	1,734	9,723	8,591

The carrying amount of property, plant and equipment held under finance leases is DKK 1,058 thousand at 31 December 2014 (31 December 2013: DKK 1,663 thousand).

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 12 INVESTMENTS IN SUBSIDIARIES

DKK'000	2014	2013
Cost at 1 January	2,807	1,993
Additions through deposit of cash	3,384	681
Value of share-based payment to employees in subsidiaries	-	143
Presentation currency adjustment	-	(10)
Cost at 31 December	6,191	2,807
Accumulated impairment at 1 January	2,146	1,993
Impairment for the year	-	143
Presentation currency adjustment	-	10
Accumulated impairment at 31 December	2,146	2,146
Carrying amount at 31 December	4,045	661

The parent company's investments in subsidiaries at 31 December 2014 and 2013 consist of the following:

Name	Country	Ownership in %		Proportion of voting rights in %		Business activity
		2014	2013	2014	2013	
Napatech Inc., USA	Andover, USA	100	100	100	100	Sale and distribution of the Group's products
Napatech Japan Ltd.	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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 13 DEFERRED TAX

	Statement of financial position		Income statement	
	2014	2013	2014	2013
DKK'000				
Tax losses carry-forwards	14,433	8,215	(6,218)	3,988
Intangible assets	(14,196)	(6,915)	7,281	(823)
Plant, property and equipment	3,704	2,837	(867)	(1,081)
Provision for bad debts	384	391	7	(366)
Presentation currency adjustment	-	(204)	(204)	-
Other	-	-	-	49
Deferred tax asset and (income) / expense	4,325	4,324	(1)	1,767

DKK'000	2014	2013
Reconciliation of the deferred tax asset is as follows:		
Opening balance at 1 January	4,324	5,388
Recognised in parent company income statement	1	(1,767)
Recognised in parent company statement of comprehensive income	-	703
Closing balance at 31 December	4,325	4,324

NOTE 14 INVENTORIES

DKK'000	2014	2013
Consumables and components	1,071	1,846
Finished goods and goods for resale	8,064	6,324
Exchange differences	-	(248)
Total inventories	9,135	7,922

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 15 TRADE AND OTHER RECEIVABLES

DKK'000	2014	2013
Receivables recognised in the parent company statement of financial position:		
Trade receivables	11,004	15,519
Receivables from group entities	48,740	34,787
Other receivables	2,240	2,287
Total current receivables	61,984	52,593

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

DKK'000	2014	2013
At 1 January	1,593	1,684
Utilised in the year	(192)	(70)
Change in the year	344	(21)
At 31 December	1,745	1,593

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

DKK'000	2014	2013
Not past due	6,300	9,590
Past due for less than 30 days	1,125	4,132
Past due between 30 and 60 days	231	205
Past due between 60 and 90 days	786	1,351
Past due after 90 days	2,562	241
Total maximum credit risk	11,004	15,519

NOTE 16 ISSUED CAPITAL AND RESERVES

Information in relation to issued capital and reserves is disclosed in Note 20 to the consolidated financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 17 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK'000	2014	2013
Financial assets assets measured at amortised cost:		
Leasehold deposits	1,576	1,501
Trade receivables	11,004	15,519
Receivables from group entities	48,740	34,787
Other receivables	2,240	2,287
Cash and cash equivalents	60,134	107,079
Total financial assets measured at amortised cost	123,694	161,173
Financial liabilities measured at amortised cost:		
Finance lease liability	1,343	1,838
Interest-bearing loans and borrowings	4,937	5,000
Trade payables	15,070	23,010
Payables to group entities	-	2,896
Other payables	10,526	10,343
Total financial liabilities measured at amortised cost	31,876	43,087

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

NOTE 18 PROVISIONS

Provisions relate to guarantees associated with the sale of network adapters. These provisions are incurred by the parent company and are disclosed in Note 22 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 (2013: 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:

DKK'000	2014		
	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

DKK'000	2013		
	Cars	Office facilities	Total
Falling due within one year	116	3,128	3,244
Falling due between one and five years	49	3,836	3,885
Total	165	6,964	7,129

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 23 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 12 to the parent financial statements

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

DKK'000	Napatech Inc, USA		Napatech Japan Ltd, Japan		Napatech Brasil Ltda., Brazil	
	2014	2013	2014	2013	2014	2013
Income statement:						
Sales to subsidiaries	108,993	99,213	-	-	361	-
Purchases from subsidiaries	-	-	2,986	3,418	-	-
Finance income from subsidiaries	78	659	-	-	-	-
Statement of financial position:						
Receivables from subsidiaries	48,035	32,085	131	2,702	574	-
Payables to subsidiaries	-	-	-	2,896	-	-

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 Groups' financial risks are therefore primarily related to the parent company. Relevant additional information is set out in Note 25 to the consolidated financial statements.

NOTE 22 EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after 31 December 2014 that might affect the parent company financial statements.

NEW EMPLOYEE INTERVIEW

KASPER H. VILLUMSEN**HR DIRECTOR**

My people skills, ability to get the job done, and commercial experience will add value at Napatech. I am capable of keeping things simple and operational, yet effective, because I come from the world of military leadership. I strive to make HR a trusted advisor for management, and a trusted partner for employees, by applying my competencies at various levels of the organization. I have always focused on developing both people and organizations, supporting them in understanding and reaching their potential.

**What changes can we expect to see at the Company in the short term?**

Following our restructuring in late 2014, we are moving towards a more agile organization, where roles and responsibilities are even more clearly defined and allow us to work more efficiently. We will be focusing on adjusting our organizational capabilities, enabling us to act with the customer in focus and to make sure we are creating an organizational structure, which will allow all our incredibly skilled employees to perform in the most optimal way possible.

How do you see the Company transforming over the next few years?

Napatech is on the verge of a giant leap forward from an organizational point of view. The way we have built our organization, and the way we will work in the future, will enable us to respond more effectively to our customers' needs and still keep the same high quality of our work as we pride ourselves on.

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