2023 Annual Report

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

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RECONFIGURABLE COMPUTING

CONTENTS

DEAR READER

Reflecting on Our Past, Preparing Today, Thriving Tomorrow

Both Napatech and I begin 2024 in new positions. The company has progressed on its path towards transformational growth, and with great enthusiasm, I joined the executive management team as Chief Executive Officer. I have had the privilege of serving as the Chairman of the Board since 2018 and have been a part of setting the strategy. I am excited to embrace this new role, inspired by the company's commitment to making it a reality.

The past year has been an incredible journey filled with challenges and successes. We have conquered those challenges and achieved remarkable milestones that strengthened our position as an industry leader.

Several notable industry megatrends create a perfect environment supporting Napatech's growth aspirations. Innovations in artificial intelligence, cloud and edge computing, cybersecurity, 5G mobile, financial services technologies, and other leading networking and communications use cases are all dependent on the types of solutions provided by Napatech.

Demand for our unique type of Programmable NIC solutions, often called SmartNICs or infrastructure processing units (IPUs), is moving from self-built early adopters to the mainstream for IT organizations of every size. Leading industry analysts forecast the NIC market to grow to $7B in 2027 from $4B in 2023, with the majority of the new demand in Programmable NICs, i.e. SmartNICs and IPUs that Napatech specializes in. Other leading analysts have found evidence of this trend in demand for vendor-built solutions tripling in the second half of 2023.

Napatech aims to be a leader in this emerging market for vendor-build programmable SmartNICs and IPUs. We start from a position of strength. Our core business consists of several hundred customers who were also early adopters of SmartNICs. They find themselves benefiting from a strong competitive advantage in their markets, while we have gained invaluable experience that allows us to extend our solutions to the emerging markets created by the megatrends. These new opportunities exist in next-wave cloud operators, telecommunication service providers, enterprise and government networks, and equipment manufacturers.

To achieve our goals, we are successfully executing a strategy that our board set in place with three imperatives:

- Servicing our valuable installed base of customers, the early adopters of Programmable NICs
- Accelerating our engineering in software and hardware, extending our products into projected high-growth segments
- Developing our ecosystem through partnerships that expand our go-to-market reach via marketing, business development and sales, enabling us to reach places we could not

As we look ahead to the exciting opportunities of 2024, our confidence is significantly bolstered by our achievements in 2023:

- To start the year, we navigated uncertainties caused by macro-market headwinds that remained from 2022. We focused on cost control and discipline without slowing urgent R&D towards growth initiatives.
- We secured a significant inflow of new capital through investments and NRE contracts that allowed us to make the necessary investments in R&D.
- We met our product development and fulfilment commitments to our valuable installed base of customers.
- We complete the first phase of developments in the new hardware and software products with our strategic partners, which unlocks access to the new growth segments.
- We secured new design wins that will contribute to our revenue for many years to come.
- We developed new strategic partnerships that enable us to expand vertically into growth segments, providing sales, marketing and business development access that we could not have achieved on our own.
- And finally, we meet our annual guidance expectations for revenue, profit, costs and margins.

The upcoming year holds exciting projects, groundbreaking developments, and collaborative business opportunities that will push the boundaries of what we can achieve. With your continued support, we are poised to make Napatech's future even brighter.

Fully committed and focused,

Lars Boilesen

Chief Executive Officer

THE NAPATECH OPPORTUNITY

Unleashing the Infinite Potential of Modern Datacenter Networks

OUR PLACE IN THE WORLD

Napatech's business stands upon a sturdy foundation of customers who depend upon our product and technology leadership to help them solve challenging problems in their datacenters and networks. Napatech secured a leadership position and dominant market share among these small but influential early adopters of our solutions. History has proven these valuable customers to be wise by gaining a competitive advantage utilizing what today is known as a programmable network interface card or, in short, a Programmable NIC. Fast forward, Programmable NICs are the preferred solutions for the majority of new network build-outs, creating immense opportunities for Napatech.

SINGULAR FOCUS

Napatech business remains singularly focused. We build Programmable NICs. Programmable NICs have come to be known by several names, including SmartNIC, Infrastructure Processing Unit (IPU) and Data Processing Unit (DPU), among others.

Our SmartNICs and IPUs play a critical role in modern datacenters. They provide connectivity between the software-defined network infrastructure and the virtualized servers. They help network operators scale their computing resources to meet the stringent requirements of their applications, services, and tenants. SmartNICs and IPUs offer the optimal mix of price, performance, power, and feature velocity to fulfill the vision for a software-defined datacenter. They have historically only been used on a large scale by a small number of hyperscale cloud operators. Still, a number of megatrends have begun to accelerate their move into the mainstream with deployments in next-wave cloud, telco, and hybrid multi-cloud enterprises.

MEGATRENDS DRIVING CHANGE

New network architectures that require Programmable NICs to fulfill their vision are emerging. These include the connectivity required for massive arrays of computing dedicated to Artificial Intelligence and Machine Learning, storage and content delivery for bid data and analytics, fintech and other financial services applications, cybersecurity monitoring and recording, telecom and 5G mobile core and edge networks, and hybrid multi-cloud enterprise networks and services.

RAPIDLY EXPANDING MARKET

Napatech's focus on programmable SmartNICs and IPUs allows us to address these new and high-growth segments of the NIC market. The markets Napatech serves are forecasted to consume more than 20 million servers and appliances per year by 2027, up from 14 million in 2023. This translates to an overall NIC market approaching USD 7B in that timeframe, with the Programmable NIC segment dominating the growth while the legacy basic NIC market enters a rapid decline. Napatech's position has been established by being in the top 10 among 50+ vendors serving the overall NIC market and the number 1 vendor of complete hardware and software solutions for SmartNICs and IPUs based on field-programmable gate arrays (FPGAs).

FULFILLING OUR PRODUCT STRATEGY

In 2023, Napatech successfully executed our strategy by accelerating our investments in product development. The industry trends driving the market growth play to Napatech's strengths. Our recent investments have given the company an opportunity to succeed in these new growth segments, and the early results provide validation of our product and technology strategy. Three key aspects shape it:

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

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

Hardware Independent: Napatech designs and develops its own family of FPGA-based SmartNIC and IPU hardware and partners with the top technology providers. Napatech ensures that our software designs deliver the same stunning features and performance across a wide range of FPGAs from industry-leading suppliers. Our hardware designs conform to open industry standards so they can be deployed within the top server platforms globally.

INVESTING IN NEW PRODUCTS

With an expanding set of applications, services and use cases fueling the market demand, SmartNICs are getting smarter in both hardware and software capabilities. On the hardware front, FPGA-based SmartNICs are adding additional compute resources, in the form of general-purpose CPU cores. These new hardware designs define the IPU market segment. Unlike most alternatives, Napatech uniquely offers complete software solutions that are packed with features, functions, and a high-velocity roadmap that enables our products to deliver hardware performance at the speed of software innovation. They are designed with the latest technology that deliver stunning metrics in power, cost, size and cooling, shattering previous boundaries to meet sustainability at scale. Our offering allows Napatech and our partners to address the largest portions of the expanding market by delivering turnkey, production-grade, warranted and supported SmartNICs and IPUs to IT organizations of every size.

UNLOCKING NEW SOLUTIONS

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

Our latest hardware and software products unlock new, large and expanding use cases, including user plane functions (UPF) in telco and enterprise 5G networks, storage, content delivery, machine learning and artificial intelligence.

INFLUENTIAL ECOSYSTEM

In addition to our product investments, Napatech has invested equally in our ecosystem partnerships. We have selectively focused on high-value partnerships that improve our go-to-market capabilities to extend our reach far beyond where we could alone. In 2023, we secured and expanded agreements with industry bell-weathers in technology and semiconductors, servers and appliances, and systems integration. These partnerships include joint sales, marketing, business development, and fulfilment, bringing Napatech to customers and geographies that we were previously unable to serve.

LEVERAGING OUR PEOPLE

Our 20-plus years of expertise in building SmartNICs exclusively based on FPGAs entitles us to lay claim to the best and the brightest organization serving the industry. Our people are our most valuable asset and are at the core of why tier-1 partners seek access to Napatech's full suite of software and FPGA-based hardware designs. In 2023, we invested in these teams to increase our rate of innovation and expand Napatech's leadership position. This allowed us to satisfy the requirements of our existing customers and rise to meet the demanding challenges of our newest customers and prospects.

TRANSFORMATIONAL PIPELINE DEVELOPMENT

The investments have not only unlocked new applications and use cases for SmartNICs but have done so from a class of customers whose applications have greater demand at a larger scale. With a solid foundation of core business below us and favourable tailwinds behind us from the market explosion, our new products and solutions have increased our addressable markets. We end 2023 with an addressable market increasing in both the number of prospects and annual unit demand.

IMPACTFUL DESIGN WINS

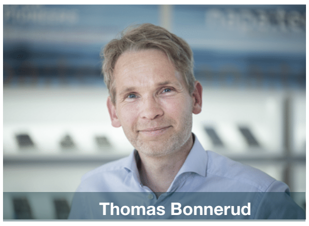
Amidst new products and an expanding pipeline, we have begun to see results in our business. In 2023, we secured new, valuable design wins from tier-1 global OEMs, end users and technology suppliers. These design wins include deployments in cloud, enterprise, telco and government networks and will contribute to our growth in 2024 and beyond.

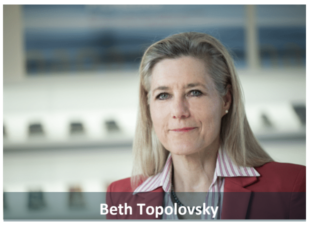
CRITICAL CO-INVESTMENTS

Beyond the new design wins, we also nurtured and completed agreements with key partners and new strategic investors. Combined, these agreements infused significant funds into Napatech in 2023, which will aim to propel Napatech to success in the emerging high-volume markets.

BOARD AND MANAGEMENT PRESENTATION

BOARD OF DIRECTORS





MANAGEMENT TEAM

BOARD OF DIRECTORS

Christian Jebsen, Chairman of the Board. Born in 1967. Member of the Board since 2019, re-elected in 2023, term expires 2024. Holds a B.S. degree in economics and a B.A. from Copenhagen Business School. Christian Jebsen represents the largest shareholder, controlling 16.9% of the shares in Napatech A/S. Christian Jebsen fulfils the Committee of Corporate Governance's definition of independence.

Other directorships: Jebsen has multiple board positions in portfolio companies of Verdane Capital.

Special competencies: Christian Jebsen is a partner at Verdane Capital. Prior to Verdane, Jebsen has had a number of executive management positions in listed and unlisted companies, including CEO of Kebony AS, CEO of Vmetro ASA, CFO/COO of Opera Software ASA, and CEO of Stavdal ASA. Jebsen's professional background also includes seven years of investment banking experience with Nomura International in London and Enskilda Securities (SEB) in Stockholm and Oslo.

Howard Bubb, Board member. Born in 1954. Member of the Board since 2016, re-elected in 2023, term expires 2024. Holds a Bachelor of Science degree from the California Institute of Technology. Howard Bubb fulfils the Committee of Corporate Governance's definition of independence.

Other directorships: No other directorships or executive functions.

Special competencies: Howard Bubb has served as a public company CEO, board member, Fortune 50 executive, venture-backed entrepreneur, professional mentor, management consultant, and advisor to AI company Luminous. Bubb has been consulting since 2009, working with corporate leaders to accelerate new strategies for growth and transformation while developing leadership. A strong leader of people, he blends strategy and execution skills with a keen ability to engage talent.

Thomas Bonnerud, Board member. Born in 1977. Member of the Board since 2022, re-elected in 2023, term expires 2024. Holds an M.Sc. in Electrical Engineering from the Norwegian University of Science and Technology. Thomas Bonnerud fulfils the Committee of Corporate Governance's definition of independence.

Other directorships: Board member of Monil AS.

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

Beth Topolovshy, Board member. Born in 1961. Member of the Board since 2023, term expires 2024. Holds a B.Sc. in Electrical Engineering. Beth Topolovsky fulfils the Committee of Corporate Governance's definition of independence.

Other directorships: Board member of Sivers Semiconductor and American Chamber of Commerce in Sweden.

Special competencies: Beth Topolovsky is an international operating and management executive with a proven record of building and leading high-performance teams by creating an energetic, accountable, and executing culture. Currently CEO of Spark Group AB, a consulting company specializing in value creation and transformations for tech companies. Career Silicon Valley manager within Cisco Systems, Hewlett-Packard, and KLA Tencor. CEO and co-founder of Swedish start-up Q2Labs, acquired in 2004. Beth started her career as a chip designer at Hewlett-Packard within the Test and Measurement group. Strategic-minded towards profitability and growth, with a great drive to create a unique company offering, both in products and company experience.

Danny Lobo, Board member. Born in 1968. Member of the Board since 2023, term expires 2024. Holds a B.Sc. in Electrical Engineering from the University of Bombay and a graduate Certificate in Management and Administration from Harvard (HES). Danny Lobo fulfils the Committee of Corporate Governance's definition of independence.

Other directorships: No other directorships.

Special competencies: Danny Lobo is a seasoned technology professional bringing more than 30 years of an extraordinary blend of strategic leadership, business acumen, and technical skills in leading cutting-edge products through its complete lifecycle. He is VP of Engineering at NETSCOUT and is responsible for Platforms, Cloud and Network Packet Broker Research & Development. He is a polyglot technologist in diverse areas such as 5G, Dockers/K*8, high-speed x86 Architectures, Security, OS/kernels, and Networking/switching, and he strongly believes that complex problems require a spectrum of technologies to create an effective solution. Compelled by a deeply held conviction that technology should be understandable to all audiences, his goal is to be a resource to key decision-makers in the tech industry.

EXECUTIVE MANAGEMENT

Lars Boilesen, CEO. Born in 1967. Member of the Board of Directors in Napatech from 2017 to January 2024. CEO since January 2024.

SHARES AND WARRANTS OF BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT AS OF DECEMBER 31, 2023.

	Number of shares 31 December 2022	Change in fiscal year, shares	Number of shares 31 December 2023	Total number of warrants 1 January 2023	Number of warrants exercised or lapsed in 2023	Number of warrants granted in 2023	Total number of warrants 31 December 2023
Board of Directors							
Lars Boilesen	358,777	-	358,777	272,306	-	-	272,306
Thomas Bonnerud	-	-	-	46,594	-	-	46,594
Howard Bubb	101,093	-	101,093	46,594	-	-	46,594
Christian Jebsen	-	-	-	-	-	-	-
Danny Lobo	-	-	-	-	-	-	-
Beth Topolovsky	-	-	-	-	-	-	-
Executive Management							
Henrik Brill Jensen	387,155	(133,284)	253,871	316,900	(216,900)	250,000	350,000
Heine Thorsgaard	-	-	-	355,000	-	100,000	455,000

GROUP KEY FIGURES AND RATIOS

KEY FIGURES (DKK '000)	2023	2022	2021	2020	2019
Revenue	182,674	158,628	195,471	194,233	170,607
Gross profit	133,548	89,697	140,358	138,968	127,186
Operating profit before depreciation, amortization and impairment (EBITDA)	(438)	(20,122)	52,915	35,361	15,273
Operating profit (EBIT)	(32,899)	(46,200)	30,662	10,085	(10,082)
Net finance income / (expense)	(3,546)	2,056	6,336	(5,004)	(4,170)
Profit / (loss) before tax	(36,445)	(44,144)	36,998	5,081	(14,252)
Profit / (loss) for the year	(32,016)	(48,259)	40,228	9,595	(13,601)
Investments in intangible assets	10,376	30,296	28,503	15,041	15,152
Investments in tangible assets	2,170	2,402	7,111	1,204	510
Net working capital	65,462	55,708	44,526	3,419	17,427
Total assets	194,295	193,968	176,726	152,855	162,690
Equity	111,710	88,255	133,472	89,768	78,452
Net cash flows from operating activities	(6,785)	(23,966)	14,950	47,642	26,448
Free cash flow	(19,475)	(56,704)	(16,003)	33,619	12,591
Cash at the end of year	42,367	11,962	39,449	62,698	64,306
Average number of employees	77	82	81	78	81
FINANCIAL REPORTING RATIOS (%)					
Gross profit margin	73.1%	56.5%	71.8%	71.5%	74.5%
EBITDA margin	-0.2%	-12.7%	27.1%	18.2%	9.0%
Current ratio	226.5%	147.0%	313.3%	201.3%	162.8%
Return on equity	-32.0%	-43.5%	38.0%	11.4%	-24.0%
SHARE RELATED RATIOS (DKK)					
Basic EPS	(0.36)	(0.58)	0.48	0.12	(0.20)
Diluted EPS	(0.36)	(0.58)	0.47	0.11	(0.19)
Operating cash flow per share	(0.08)	(0.29)	0.17	0.56	0.38
Free cash flow per share	(0.22)	(0.68)	(0.19)	0.39	0.18

KEY FIGURE AND RATIO EXPLANATIONS AND DEFINITIONS

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

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

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

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

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

The Group's basic and diluted earnings per share (EPS) is calculated in accordance with IAS 33 and specified in note 13 to the consolidated financial statements.

BOARD OF DIRECTORS REPORT 2023

2023 delivered strategic success
and early signs of success with new customers

SUMMARY

Napatech's core strength lies in its technical leadership in crafting top-tier Programmable NIC solutions, enhancing networking and cybersecurity within modern data centers. We're advancing into new markets by solving relevant, emerging problems thanks to our strategic investments over the last few years. This has positioned us strongly for growth in key market areas in the near future.

During 2023, we remained focused on R&D, enhancing our existing products while building new solutions that are expected to deliver new and future growth. Our commitment to our investment strategy led to significant product development progress and new partnerships. Throughout the year, we carefully managed sales and marketing to efficiently get to the right opportunities. Early in the year, we took action to improve our internal cost structure. As the year improved, we continued to increase our research and development activities to build products for future growth.

We're confident that our continued focus on technological advancement will keep Napatech competitive and well-placed for future opportunities.

Napatech aims to be acknowledged as a global frontrunner in the programmable network interface card market. Our goal is to provide cutting-edge solutions and expertise that enable large, IT-reliant organizations to benefit from reconfigurable computing, positioning them – and Napatech – for success in the evolving technological landscape.

THE MARKET

Napatech stands in a promising position within the high-growth sector of IT datacenters. Our Programmable NICs, serving as Infrastructure Processing Units (IPUs), are key components in the evolving architecture of modern data centers. As a leading provider of SmartNIC and IPU solutions, our reach extends across important markets such as telecommunications, cloud services, enterprise, cybersecurity, and finance. Our product line, combining advanced software with high-performance hardware, is designed to enhance efficiency in telecom, networking, and security operations, thereby optimizing server resources and improving overall system performance.

Our strategic focus is on leveraging our expertise in FPGA-based Programmable NICs to develop solutions that are both innovative and user-friendly. This approach aligns with the evolving needs of our customers and the broader market.

Over the last decade, we've seen cloud service providers drive innovation in networking, storage, and computing, heavily relying on Programmable NICs and automated data center operations. This innovation was a response to their rapid growth and the limitations of existing commercial technologies. Their advancements have led to cost reductions and quicker deployment of new services, setting a trend that is now being followed by large corporations. This shift is expected to stimulate significant growth in the programmable NIC market.

As ethernet adapters continue to evolve, offloading more tasks from CPUs and increasing in speed, new opportunities are emerging for Programmable NICs like ours. This evolution presents Napatech with the potential to expand our market reach significantly. Established in 2003 and headquartered in Copenhagen, Denmark, with a presence in EMEA, APAC, and the United States, Napatech has a solid track record as a provider of FPGA-based Programmable NICs. Our long-standing expertise and strategic positioning place us in an excellent position to capitalize on these developing market trends, offering attractive prospects for growth and innovation to our investors and stakeholders.

GROUP ENTITIES

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

FINANCIAL DEVELOPMENT (2022 FIGURES IN BRACKETS)

In 2023, Napatech generated a total revenue of DKK 182.7 million (DKK 158.6 million), representing an increase of 15%. The increase reflects an improvement during 2023 of the very challenging market conditions Napatech faced in 2022. Revenue in North America grew 8% in 2023 compared to 2022, and revenue in the Rest of the World grew 35% in 2023 compared to 2022. Engineering Services generated revenue of DKK 38.7 million in 2023 (DKK 1.6 million), and revenue from SmartNIC Products declined 8% in 2023 compared to 2022.

The gross margin in 2023 was 73% compared to 57% in 2022. The increase in the gross margin reflects a larger share of engineering services in 2023 and the fact that the supply chain situation normalized during 2023. As a result, the average gross margin on our SmartNIC grew from 56% in 2022 to 66% in 2023.

In 2023, our Staff costs and Other external costs, before staff costs transferred to capitalized development costs, amounted to DKK 143.3 million, compared to DKK 133.1 million in 2022. The change from 2022 is due to increased costs of subcontractors and personnel driven by our decision to accelerate the development of new product features.

Staff costs transferred to development costs in 2023 amounted to DKK 9.3 million compared to DKK 23.3 million in 2022.

EBITDA in 2023 was negative DKK 0.4 million compared to negative DKK 20.1 million in 2022. Depreciation, amortization, and impairment in 2023 were DKK 32.5 million compared to DKK 26.1 million in 2022.

The result for the year was negative DKK 32.0 million (negative DKK 48.3 million).

Napatech had total assets of DKK 194.3 million on December 31, 2023, compared with DKK 194.0 million on December 31, 2022. The increase of DKK 0.3 million reflects a decline in non-current assets of DKK 13.5 million and an increase in current assets of DKK 13.8 million primarily related to an increase in cash and cash equivalents.

Napatech's total liabilities were DKK 82.6 million on December 31, 2023, compared with DKK 105.7 million on December 31, 2022. The decrease in total liabilities is primarily driven by a decrease in contract liabilities.

The group's equity at the end of the year was DKK 111.7 million (DKK 88.3 million).

The group has in-house development resources, developing new products and new functionality. The group also engages external consultants for specific development projects. Development costs are capitalized in compliance with IFRS. DKK 10.4 million was capitalized in 2023 (DKK 30.3 million).

The group had a positive net change in cash of DKK 31.0 million (negative DKK 28.1 million). The net change in cash was affected by a negative free cash flow of DKK 19.5 million and positive net cash flows from financing activities of DKK 50.5 million.

Napatech issued its guidance for 2023 on February 24, 2023:

DKK million	Guidance	Actuals
Revenue	180-200	182.7
Gross margin	68-71%	73%
Staff costs & Other external costs	160-170	143.3
Staff costs transferred to capitalized development costs	20-25	9.3

Compared to the issued guidance, reported revenue is within the guided range, and gross margin is above the guided range. Staff costs and other external costs ended in 2023 at DKK 143.3 million, below the guidance for the year. Likewise, Staff costs transferred to capitalized development costs in 2023 ended below the guided range. Consequently, EBITDA in 2023 ended at DKK negative DKK 0.4 million compared to negative DKK 10.5 million in the middle of the guided ranges.

FINANCIAL DEVELOPMENT IN THE PARENT COMPANY

Net revenues for the parent company in 2023 came in at DKK 153.4 million (DKK 122.5 million), representing an increase of 25%. The EBITDA in the parent company for 2023 was negative DKK 2.5 million (negative DKK 23.2 million), and the result before tax was negative DKK 38.4 million (DKK 47.0 million).

DIVIDEND

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

DEVELOPMENT ACTIVITIES AND KNOWLEDGE

Napatech has consistently emphasized innovation, especially in the development of cutting-edge SmartNIC-based products and solutions. This commitment remained strong throughout 2023, with significant investment in research and development for new and existing markets.

Our leadership in technology is underscored by the continuous introduction of new and advanced products and functionalities across our extensive portfolio, ranging from 10 to 400 gigabits. In 2023, our strategic initiatives have not only enhanced our product offerings but also expanded their applicability, making them more versatile for a diverse array of customers and network environments.

A substantial portion of our R&D efforts in 2023 focused on developing IPU solutions and tapping into the growing market within data centers, cybersecurity and network management. These initiatives have led to the formation of significant strategic partnerships, laying a strong foundation for anticipated revenue growth in the coming years. Our development teams, organized into agile, cross-functional units, foster optimal information exchange and nimble product development. We leverage advanced IT tools for efficient knowledge sharing, ensuring that our development activities, all centralized in Denmark, are marked by exceptional collaboration, focus, and operational excellence. This strategic approach positions Napatech optimistically for future growth and innovation.

CORPORATE GOVERNANCE

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

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

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

Napatech A/S is subject to Danish law but is listed on Euronext Oslo. Napatech follows the Danish recommendations for good Corporate Governance. The Company follows the majority of the Danish recommendations for good Corporate Governance except for a few areas where Napatech has chosen a different approach compared to the recommendations. The statutory report on Corporate Governance is available at http://www.napatech.com/corporate-governance/report2023.

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

The Remuneration Committee is composed of two members of the Board of Directors. Thomas E. Bonnerud is the Chairman of the Remuneration Committee, and Beth Topolovsky is a member.

The Remuneration Committee handles the Company's remuneration policy and program and presents recommendations to the Board of Directors for decision according to its meeting protocols and underlying material prepared. The committee annually evaluates the CEO's remuneration and presents recommendations to the Board of Directors for a decision. When the Company's remuneration policy proposes a change, it is subject to approval in the annual general meeting. The committee has prepared a separate Remuneration Report to be presented at the annual general meeting. The remuneration report provides an overview of the total remuneration received by each member of the Board of Directors and the executive management board of Napatech. The report is available at http://www.napatech.com/remuneration/report2023.

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

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

The Board of Directors held 19 board meetings in 2023, 4 of which were for the approval of the quarterly reporting and presentations.

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

RISKS AND UNCERTAINTIES

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

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

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

See notes 3 and 27 in the notes to the consolidated financial statements for more information on risks and uncertainties.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2023, the Group had cash and cash equivalents of DKK 42.4 million and unutilized credit lines of DKK 2.4 million. With the cash position at the end of 2023 and the Group's credit facilities for 2024, Napatech's operations in 2024 are expected to be fully funded. See note 27 in the notes to the consolidated financial statements for more information on financial risk management objectives and policies.

RISK MANAGEMENT AND INTERNAL CONTROL

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

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

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

We are committed to conducting business operations in an environmentally responsible and ethical manner and have established a Conflict Mineral policy intending to only use tin, tantalum, tungsten, and gold (3TG), as well as cobalt, that originates from conflict-free sources. All components are screened towards the Responsible Minerals Initiative (RMI) smelter database, and the actual screening is outsourced to GreenSoft Technology.

Since 2018, our products have all been 100% conflict-free. We are proud to have maintained this position throughout 2023. Our commitment to achieving 100% conflict-free products is supported by our membership in RMI.

Napatech's Corporate Social Responsibility policy is available at www.napatech.com/investor-relations/corporate-governance, and our CSR report for 2023 regarding Section 99a of the Danish Financial Statements Act on corporate social responsibility is available on http://www.napatech.com/csr/report2023.

DATA ETHICS POLICY

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

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

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

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

OUR PRODUCTS

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

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

OUR EMPLOYEES

Napatech's 77 full-time employees, as of December 31st, 2023, include 8 women (10%), compared to 9 (11%) in 2022. The group primarily employs engineers, and as women are underrepresented among engineers, it is considered an obvious consequence that women are underrepresented in Napatech.

The group has a diversification strategy and has, in the Danish headquarters, employed more than 10 different nationalities. Salaries, positions, and duties are determined based on qualifications and experience.

REPORT ON GENDER DISTRIBUTION IN MANAGEMENT

In accordance with section 99b of the Danish Financial Statements Act the gender distribution in management is as follows:

As of December 31, 2023	Board of Directors	Other management
Total number	6	13
Women (%)	17	0
Target (%)	25	20
Target year	2026	2026

The supreme governing board in Napatech consists of the Board of Directors, which, on December 31, 2023, included 5 men and 1 woman (17%). The Board of Directors has a long-term goal to have at least 25% of women on the Board by 2026. The Nomination Committee has been instructed to actively look for suitable female candidates for additions to the Board.

In 2023, 2 new board members were elected, 1 male and 1 female. As the best candidate for the position will always be chosen, it has not been possible to meet the previous target of 20% of women on the Board before 2024, and the target has therefore been changed. However, today, the Board of Directors consists of 4 men and 1 woman (20%).

Other management consists of the two levels of management, which are below the supreme governing board. In Napatech, the first level of management consists of the executive management and the rest of the management team, see the Board and Management presentation. The second level of management consists of the persons with managerial responsibilities who refer directly to the first level of management.

On December 31, 2023, the first level of management consisted of 4 persons, all male and the second level of management consisted of 9 persons, all male. In total, other management consisted of 13 men and 0 women (0%). Since women are significantly underrepresented in the workforce, the group is recruiting within, and it has been difficult to raise the presence of women in other management.

It is the group's policy over time to increase the presence of women in other management to at least 20% by 2026. In the recruiting process, the company aims for at least one of the last three candidates to be female. However, the best candidate for a specific position will always be chosen.

Napatech wants to increase the presence of women throughout the organization, both in management and in general. In order to attract more female applicants, our efforts are focused on improving work-life balance. It is, however, always the candidate who is deemed best suited for a position that will be offered the position.

OUR ENVIRONMENT

The group's main impact on the environment is through the consumption of electricity and the usage of the group's petrol-driven cars. Most emissions are scope 2 and 3 emissions, except for the emissions from the company fleet. The only greenhouse gas emission that Napatech has and accounts for is carbon dioxide.

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

LEGAL MATTERS

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

EVENTS AFTER YEAR-END

On January 22, 2024, Lars Boilesen replaced Henrik Brill Jensen as CEO of Napatech.

OUTLOOK

2024 guidance for the Company is the following:

Target in DKK million	Guidance
Revenue	170-180
Gross margin	69-71%
Staff costs & Other external costs	145-155
Staff costs transferred to capitalized development costs	10-15

With performance in the middle of the guided ranges, EBITDA would be negative DKK 15 million.

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

SHAREHOLDER INFORMATION

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

At the end of the year, the Company had a total of 90,175,700 shares outstanding of a nominal value of DKK 0.25 each. The company owned 217,641 treasury shares at year-end. The company had 1,153 shareholders, and 56% of the shares were registered outside Norway. The total outstanding warrants at the end of the year were 3,575,462, with an average exercise price of DKK 4.87. Napatech has one class of shares and no restriction on the trading of the Company's shares.

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

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

During 2023, several releases have been announced on the Oslo Stock market under the ticker NAPA. For a complete overview, please see www.newsweb.oslobors.no.

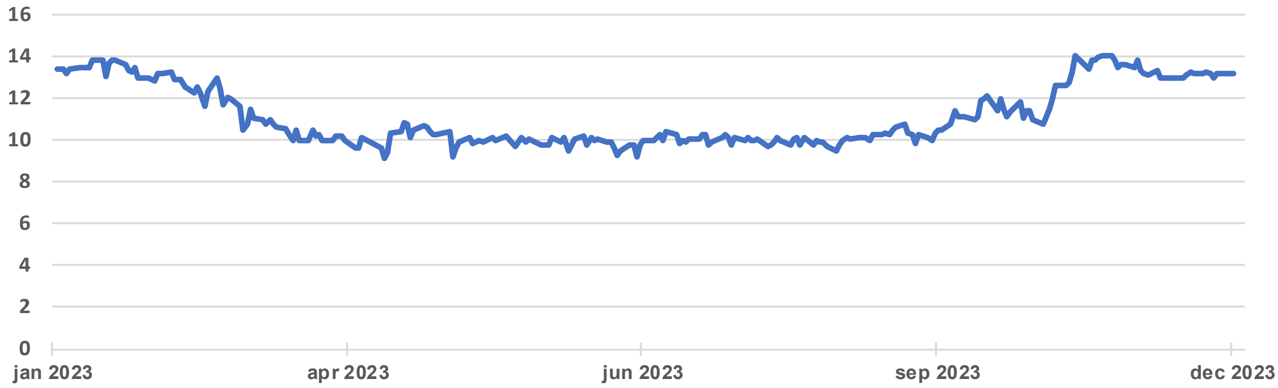
The Company's financial calendar for the remainder of 2024 is as follows:

Date	Activity
April 25	Annual General Meeting
May 3	Q1 2024 Interim Management Statement
August 22	Half-yearly Report
November 5	Q3 2024 Interim Management Statement

NAPATECH HAD BY 1ST MARCH 2024 THE FOLLOWING TOP 20 SHAREHOLDERS

Investor	Number of shares	% of total	Country
VERDANE CAPITAL VIII	15,213,618	16.87%	DK
SUNDT AS	10,900,000	12.08%	NO
J.P. MORGAN SE	6,200,738	6.88%	IRL
LUDVIG LORENTZEN AS	6,000,000	6.65%	NO
SKANDINAVISKA ENSKILDA BANKEN AB	4,384,247	4.86%	SE
ARBEJDSMARKEDETS TILLAEGSPENSION	4,000,000	4.44%	DK
BROWNSKE BEVEGELSER AS	3,515,130	3.90%	NO
EXTELLUS AS	2,177,031	2.41%	NO
SKANDINAVISKA ENSKILDA BANKEN AB	2,072,126	2.30%	DK
PRIVATE INVESTOR	1,933,952	2.14%	NO
SKANDINAVISKA ENSKILDA BANKEN AB	1,868,980	2.07%	LUX
MP PENSJON PK	1,757,184	1.95%	NO
THE BANK OF NEW YORK MELLON SA/NV	1,606,141	1.78%	BE
MANARA AS	1,578,647	1.75%	NO
SKANDINAVISKA ENSKILDA BANKEN AB	1,570,863	1.74%	LUX
DANSKE BANK A/S	1,502,031	1.67%	DK
NORDNET BANK AB	1,402,351	1.56%	SE
NORDEA BANK ABP	1,253,200	1.39%	DK
BNP PARIBAS	1,197,883	1.33%	IT
J.P. MORGAN SE	1,164,643	1.29%	LUX
Total number owned by top 20	71,298,765	79.05%	
Total 1,155 other shareholders	18,876,935	20.95%	
Total Number of shares	90,175,700	100%	

NAPATECH SHARE PRICE DEVELOPMENT 2023 (in NOK)



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

Note	In DKK'000	2023	2022
4	Revenue	182,674	158,628
4	Cost of goods sold	(49,126)	(68,931)
	Gross profit	**133,548**	**89,697**
5,6, 7	Staff costs	(87,625)	(75,641)
6, 8	Other external costs	(46,361)	(34,178)
	Operating profit before depreciation, amortization and impairment (EBITDA)	**(438)**	**(20,122)**
9	Depreciation, amortization and impairment	(32,461)	(26,078)
	Operating result (EBIT)	**(32,899)**	**(46,200)**
10	Finance income	358	3,596
11	Finance costs	(3,904)	(1,540)
	Result before tax	**(36,445)**	**(44,144)**
12	Income tax	4,429	(4,115)
	Result for the year	**(32,016)**	**(48,259)**
13	**Earnings per share:**		
	Basic, DKK	(0.36)	(0.58)
	Diluted, DKK	(0.36)	(0.58)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

Note	DKK'000	2023	2022
	Result for the year	**(32,016)**	**(48,259)**
	Other comprehensive income that may be reclassified to profit and loss in subsequent periods:		
	Exchange differences on translation of foreign operations	(515)	(26)
	Net other income / (loss) that may be reclassified to profit or loss in subsequent periods	**(515)**	**(26)**
	Total comprehensive income for the year, net of tax	**(32,531)**	**(48,285)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2023

ASSETS

Note	In DKK'000	2023	2022
	Development projects, completed	36,601	35,102
	Development projects, in progress	2,226	18,383
	Patents	1,715	2,351
14	**Intangible assets**	**40,542**	**55,836**
15	Plant and equipment	4,390	5,551
16	Right-of-use assets	7,881	4,708
15	Leasehold improvements	316	635
	Tangible assets	**12,587**	**10,894**
22	Leasehold deposits	1,541	1,397
	Other non-current assets	**1,541**	**1,397**
	Non-current assets	**54,670**	**68,127**
18	Inventories	35,572	38,854
19, 22	Trade receivables	37,586	59,553
	Prepayments	2,335	1,164
19, 22	Other receivables	15,880	8,808
20	Income tax receivable	5,885	5,500
22	Cash and cash equivalents	42,367	11,962
	Current assets	**139,625**	**125,841**
	Total assets	**194,295**	**193,968**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2023

EQUITY AND LIABILITIES

Note	In DKK'000	2023	2022
21	Share capital	22,544	20,774
21	Share premium	343,064	290,457
21	Treasury shares	(2,110)	(2,520)
	Foreign currency translation reserve	(271)	244
21	Share-based payment reserve	10,707	13,860
	Retained earnings	(262,224)	(234,560)
	Equity	**111,710**	**88,255**
22, 24	Interest-bearing loans and borrowings	8,601	9,758
22, 24	Other financial liabilities	4,433	4,568
16, 24	Lease liabilities	4,854	2,017
23	Contract liabilities	3,048	3,744
	Non-current liabilities	**20,936**	**20,087**
22, 24	Interest-bearing loans and borrowings	35,504	33,770
16, 24	Lease liabilities	3,282	2,929
22	Trade payables	5,727	11,821
	Other payables	12,495	6,538
23	Contract liabilities	4,641	30,568
	Current liabilities	**61,649**	**85,626**
	Total liabilities	**82,585**	**105,713**
	Total equity and liabilities	**194,295**	**193,968**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2023

Note	In DKK'000	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Share based payment reserve	Retained earnings	Total equity
	At 1 January 2022	**20,774**	**290,435**	**-**	**270**	**8,242**	**(186,249)**	**133,472**
	Result for the year	-	-	-	-	-	(48,259)	(48,259)
	Total other comprehensive income	-	-	-	(26)	-	-	(26)
	Total comprehensive income	**-**	**-**	**-**	**(26)**	**-**	**(48,259)**	**(48,285)**
	Issue of shares	-	22	-	-	-	-	22
	Share buyback	-	-	(2,634)	-	-	-	(2,634)
	Reversal, exercised and lapsed share options	-	-	114	-	(56)	(52)	6
7	Share-based payments	-	-	-	-	5,674	-	5,674
	Total transactions with shareholders	**-**	**22**	**(2,520)**	**-**	**5,618**	**(52)**	**3,068**
	At 31 December 2022	**20,774**	**290,457**	**(2,520)**	**244**	**13,860**	**(234,560)**	**88,255**
	Result for the year	-	-	-	-	-	(32,016)	(32,016)
	Total other comprehensive income	-	-	-	(515)	-	-	(515)
	Total comprehensive income	**-**	**-**	**-**	**(515)**	**-**	**(32,016)**	**(32,531)**
	Issue of shares	1,770	51,970	-	-	-	-	53,740
	Transaction costs	-	(365)	-	-	-	-	(365)
	Reversal, exercised and lapsed share options	-	1,002	410	-	(5,689)	4,352	75
7	Share-based payments	-	-	-	-	2,536	-	2,536
	Total transactions with shareholders	**1,770**	**52,607**	**410**	**-**	**(3,153)**	**4,352**	**55,986**
	At 31 December 2023	**22,544**	**343,064**	**(2,110)**	**(271)**	**10,707**	**(262,224)**	**111,710**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2023

Note	In DKK'000	2023	2022
	Operating activities		
	Result before tax	(36,445)	(44,144)
	Adjustments to reconcile profit before tax to net cash flows:		
	Finance income	(358)	(3,596)
	Finance costs	3,904	1,540
	Depreciation, amortization and impairment	32,461	26,078
	Share-based payment expense	2,536	5,674
	Working capital adjustments:		
	Change in inventories	3,282	(14,731)
	Change in trade and other receivables and prepayments	13,181	(23,232)
	Change in trade and other payables and contract liabilities	(26,867)	29,709
	Interest received	358	7
	Interest paid	(2,881)	(1,355)
	Income tax received, net	4,044	84
	Net cash flows from operating activities	**(6,785)**	**(23,966)**
	Investing activities		
	Purchase of tangible assets	(2,170)	(2,402)
	Investments in intangible assets	(10,376)	(30,296)
	Investments in leasehold deposits	(144)	(40)
	Net cash from investing activities	**(12,690)**	**(32,738)**
	Free cash flow	**(19,475)**	**(56,704)**
	Financing activities		
	Capital increase	53,740	22
	Proceeds from exercise of share options	75	-
	Transaction costs on issue of shares	(365)	-
	Share buyback	-	(2,634)
	Repayment of financial lease liabilities	(3,385)	(3,002)
	Proceeds from borrowings	442	36,967
	Repayment of borrowings	-	(2,792)
	Net cash flows from financing activities	**50,507**	**28,561**
	Net change in cash and cash equivalents	31,032	(28,143)
	Net foreign exchange difference	(627)	656
	Cash and cash equivalents at 1 January	11,962	39,449
	Cash and cash equivalents at 31 December	**42,367**	**11,962**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 CORPORATE INFORMATION

The consolidated financial statements of Napatech A/S and its subsidiary (collectively, the Group) for the year ended were authorized for issue in accordance with the resolution of the management on March 21, 2024.

ESEF data

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

NOTE 2 MATERIAL ACCOUNTING POLICY INFORMATION

General

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

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

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

Changes in accounting policies

The accounting policies are consistent with those applied to the consolidated financial statements for 2022.

Changes in presentation and disclosures

Transferred to capitalized development costs is no longer presented as a separate item in the income statement but included (deducted) in staff costs and disclosed in the note to staff costs. Comparative figures have been restated.

The segment reporting has been changed from January 1, 2023, due to the contract for engineering services announced in December 2022, generating revenue of material size in 2023. Engineering services are now considered a separate segment from SmartNIC products due to the difference in economic characteristics and the timing of revenue recognition. Comparative figures for the segment information have been restated according to the new segment reporting.

New and amended standards and interpretations that have become operative

All new or amended standards (IFRS) and interpretations (IFRIC) as adopted by the EU and which are effective for the financial year beginning on 1 January 2023 have been adopted. The implementation of these new or amended standards and interpretations had no material impact on the financial statements. For standards implemented prospectively, the comparative figures are not restated.

New financial reporting standards not yet adopted

Certain new accounting standards and interpretations have been published that are not yet in effect or endorsed by the EU and, therefore, not relevant for the preparation of 2023 consolidated financial statements. The Group expects to implement these standards as they take effect. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

iXBRL reporting

Napatech A/S has filed the Annual Report for 2023 in the European Single Electronic Format (ESEF), XHTML format, that can be displayed in a standard browser. The primary statements and notes in the consolidated financial statements are tagged using eXtensible Business Reporting Language (iXBRL), which complies with the ESEF taxonomy included in the ESEF Regulation.

The consolidated financial statements

The consolidated financial statements comprise the parent company, Napatech A/S, and its subsidiary. The subsidiary is fully consolidated from the date of acquisition and/or incorporation, being the date on which the parent company obtains control until the date when such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the parent company's financial statements, using consistent accounting policies. The consolidated financial statements are prepared as a consolidation of the parent company's and the subsidiary’s financial statements, eliminating all intragroup balances, transactions, unrealized gains and losses, and dividends.

NOTE 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

Currency translation

For each group entity, a functional currency is determined, and items recognized in the financial statements of the individual entities are measured using that functional currency. The functional currency is the currency used as the primary currency for the activities of the reporting entity. Transactions denominated in currencies other than the functional currency are considered transactions denominated in foreign currencies.

On initial recognition, transactions denominated in foreign currencies are translated into the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognized in the income statement as financial income or financial expenses.

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

Translation of group entities

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

Revenue

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

Sales of goods

Revenue from contracts with customers is recognized in the income statement at the point in time when control of the goods is transferred to the customer, usually on delivery of the goods, and at an amount that reflects the consideration to which the Group expects to be entitled in exchange for these goods. Revenue is measured at the fair value of the consideration received, excluding rebates and VAT.

Sales of services

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

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

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.

Staff costs

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

Share-based payments

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

NOTE 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Other external costs

Other external costs comprise costs of research and development not qualifying for recognition as intangible assets, and costs of development associated with engineering service contracts. Other external costs also comprise costs of sales, including costs of sales campaigns, advertising, exhibitions, etc., and administration costs, including office-related expenses. Write-downs on trade receivables are also included.

Finance income and cost

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

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

Income tax for the year

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

Intangible assets

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

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

Intangible assets with finite useful lives are amortized over their economic lives and tested for impairment whenever there is an indication that an asset might be impaired. Useful lives are reassessed on an annual basis. Changes in expected useful lives are accounted for as changes in accounting estimates. Amortization and impairment losses are recognized in the income statement.

Development projects

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

- The technical feasibility of completing the development project so that it will be available for use or sale;
- The intention to complete the development project and the Group's ability to use or sell it;
- The probability that the development project will generate future economic benefits;
- The availability of adequate technical, financial, and other resources to complete the development project and to use or sell it;
- The ability to measure the costs reliably.

Subsequent to the initial recognition of the development costs as an intangible asset, the development project is recognized at cost less any accumulated amortization and impairment losses. Amortization of the intangible asset begins when the development of the asset has been completed and the asset is used as planned. Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful life of development projects is 3 years.

Patents

Patents are recognized as intangible assets at the time of acquisition and measured at cost less accumulated amortization. Patents are amortized over their useful lives, starting at the time when the patent takes effect. Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The useful life of patents is estimated at 10 years.

Tangible assets

Tangible assets include plant and equipment and leasehold improvements. Items of tangible assets are measured at cost less accumulated depreciation and impairment losses, the cost being the acquisition price and costs directly related to the acquisition until such time when the asset is ready for use.

NOTE 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

Depreciation is provided on a straight-line basis over the expected useful lives of the assets, as follows:

Plant and equipment	3 years
Leasehold improvements	5 years

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

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

Leases

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

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

A right-of-use asset and a lease liability are recognized in the balance sheet when the specifically identifiable asset is made available under the lease agreement during the lease term and when the Group gains the right to virtually all the economic benefits from the use of the identified asset and the right to control the use of the identified asset.

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

Lease liabilities

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

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

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

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

Right-of-use assets

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

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

NOTE 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

Impairment of non-financial assets

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

The value in use is calculated as the present value of expected future cash flows from the asset or the cash-generating unit of which the asset is a part.

Inventories

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

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

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

Receivables

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks.

Equity

Share premium

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

Share-based payment reserve

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

Treasury shares

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

Foreign currency translation reserve

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

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

Financial liabilities

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

Non-financial liabilities are measured at net realizable value.

NOTE 2 MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

Contract liabilities

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

Income tax and deferred tax

Current tax liabilities and current tax receivable are recognized in the statement of financial position as the estimated tax charge for the period, adjusted for tax on previous years' taxable income, and tax paid on account. Income tax return receivables is evaluated with respect to situations in which applicable tax regulations are subject to interpretation and provisions are established where appropriate.

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 assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

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

Deferred tax assets are recognized for all deductible, temporary differences, and all unutilized tax loss carry forward to the extent that it is probable that taxable profit will be available against which the deductible, temporary differences and the unutilized tax loss 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 utilized.

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

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

Statement of cash flows

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

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

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

Segment information

The segment information is provided on geographical markets and business segments. The segment information for business segments has been added in 2023 as stated in the section about changes in presentation and disclosures above.

The segmentation is based on the Group's internal financial reporting and has been prepared in accordance with the Group's accounting policies. The Group monitor the performance of the segments to the level of gross profit. All other items of the income statement, as well as assets and liabilities, are managed on a group basis and, therefore, not allocated to individual segments.

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.

NOTE 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

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

Accounting estimates and uncertainty of estimates

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

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

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

Development projects

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

Development projects in progress are annually tested for impairment. Completed development projects are reviewed for impairment indicators. If there is evidence of impairment, an impairment test is carried out for the project concerned. The impairment test is prepared on the basis of factors such as the future use of the project and the present value of expected future income, interest, and risk. The carrying amount of completed development projects was DKK 36.6 million on December 31, 2023 (December 31, 2022: DKK 35.1 million).

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

NOTE 4 OPERATING SEGMENTS

The following tables present revenue and gross profit information about the Group's operating segments for the years ended December 31, 2023, and 2022, respectively:

Geographical segments

Year ended 31 December 2023:

DKK'000	AMERICAS	ROW	CONSOLIDATED
Revenue			
Total revenue	127,675	54,999	182,674
- Sales of goods	*89,896*	*52,722*	*142,618*
- Sales of services	*37,779*	*2,277*	*40,056*
Cost of goods sold	(34,171)	(14,955)	(49,126)
Segment gross profit	**93,504**	**40,044**	**133,548**

NOTE 4 OPERATING SEGMENTS (CONTINUED)

Year ended 31 December 2022:

DKK'000	AMERICAS	ROW	CONSOLIDATED
Revenue			
Total revenue	117,886	40,742	158,628
- Sales of goods	*113,928*	*39,885*	*153,813*
- Sales of services	*3,958*	*857*	*4,815*
Cost of goods sold	(56,985)	(11,946)	(68,931)
Segment gross profit	**60,901**	**28,796**	**89,697**

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

The geographical segmentation is based on the location of the customers.

Business segments

Year ended 31 December 2023:

DKK'000	SMARTNIC PRODUCTS	ENGINEERING SERVICES	CONSOLIDATED
Revenue			
Total revenue	143,994	38,680	182,674
- Sales of goods	*142,618*	-	*142,618*
- Sales of services	*1,376*	*38,680*	*40,056*
Cost of goods sold	(48,901)	(225)	(49,126)
Segment gross profit	**95,093**	**38,455**	**133,548**

Year ended 31 December 2022:

DKK'000	SMARTNIC PRODUCTS	ENGINEERING SERVICES	CONSOLIDATED
Revenue			
Total revenue	156,987	1,641	158,628
- Sales of goods	*153,813*	-	*153,813*
- Sales of services	*3,174*	*1,641*	*4,815*
Cost of goods sold	(68,931)	-	(68,931)
Segment gross profit	**88,056**	**1,641**	**89,697**

The segment information for business segments has been added in 2023 and comparative figures for 2022 have been restated as described in the section about changes in presentation and disclosures in note 2.

Revenue from Engineering services is considered a separate segment from SmartNIC products due to the difference in economic characteristics and the timing of recognition of revenue. The revenue from engineering service contracts is recognized in the income statement based on the stage of completion (over time) according to IFRS 15, while the main part of the revenue from SmartNIC products is recognized in the income statement at a point in time.

The Group monitor the performance of the segments to the level of gross profit. All other items of the income statement as well as assets and liabilities are managed on group basis and therefore not allocated to individual segments.

NOTE 4 OPERATING SEGMENTS (CONTINUED)

Transactions with major customers

In 2023, the Group had two customers (2022: one customer) with revenue amounting to 10% or more of the total revenue of the Group. Revenue from the first significant customer amounted to DKK 31,232 thousand (2022: DKK 0 thousand), corresponding to 17% (2022: 0%) of the Group revenue. Revenue from the second significant customer amounted to DKK 38,660 thousand (2022: DKK 61,526 thousand), corresponding to 21% (2022: 39%) of the Group revenue. Revenue from the first significant customer is arising from sales in the Americas segment and the Engineering Services segment. Revenue from the second significant customer is arising from sales in the Americas segment and the SmartNIC Products segment.

NOTE 5 STAFF COSTS

Employee benefits expense is reported as follows:

DKK'000	2023	2022
Wages and salaries	87,564	85,575
Defined contribution schemes	3,770	3,779
Share-based payment expense (note 7)	2,536	5,674
Social security costs	3,054	3,883
Total employee benefits expense	**96,924**	**98,911**
Transferred to capitalized development costs	(9,299)	(23,270)
Total staff costs	**87,625**	**75,641**
Average number of employees	**77**	**82**

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

Enployee benefits expense is reported as follows:	2023			2022		
	Executive management	Other management	Board of Directors	Executive management	Other management	Board of Directors
Short-term staff benefits	7,497	6,026	1,575	5,269	6,849	277
Defined contribution schemes	209	119	-	154	190	-
Share-based payment expense	549	1,255	195	860	1,298	2,609
Total compensation of key management personnel	**8,255**	**7,400**	**1,770**	**6,283**	**8,337**	**2,886**

The executive management in 2023 consisted of the CEO and the CFO, while other management consisted of the COO, CMO, and CR DO. Until February 2023, the CEO of Napatech was Ray Smets, and Henrik Brill Jensen was the COO. On February 27, 2023, Henrik Brill Jensen replaced Ray Smets as CEO of Napatech. On January 22, 2024, Lars Boilesen replaced Henrik Brill Jensen as CEO of Napatech, and Henrik Brill Jensen returned to his previous position as COO of Napatech.

NOTE 6 RESEARCH AND DEVELOPMENT COSTS

Research and development costs, including annual amortization and impairment of completed development projects and development projects in progress recognized in the consolidated income statement, are DKK 87,330 thousand (2022: DKK 47,082 thousand). All research and development costs are incurred by the parent company. The total amount of research and development costs recognized in the balance sheet is DKK 38,827 thousand (2022: DKK 53,485 thousand).

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. Members of the Board of Directors are eligible for share option schemes under corresponding terms as long as the holder is a member of the Board of Directors of the Group.

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

Share-based payment programs with outstanding share options on December 31, 2023
Based on the decision made by General Assembly in April 2017 to issue 460,000 share options, the Board of Directors issued 460,000 share options in September 2018 with the nominal value of DKK 0.25 at an exercise price of NOK 5.00 (DKK 3.88). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first 2 years of the share options' lifetime. The share options vest with 1/6 in each of the remaining 6 years of the share options' lifetime.

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

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

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

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

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

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

The general terms for all issues based on the 2019 share options program are summarized as follows:

Earliest exercise date	1 year from the grant date
Latest exercise date	8 years from the grant date

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

Based on the same decision made by General Assembly in April 2020 to issue 1,000,000 share options, the Board of Directors issued 330,000 share options in August 2023 (as some share options have reverted to the pool) with the nominal value of DKK 0.25 at an exercise price of NOK 9.92 (DKK 6.42). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first year of the share options' lifetime. The share options vest with 1/4 in each of the following 4 years.

Based on the decision made by General Assembly in April 2021 to issue 460,000 share options, the Board of Directors issued 407,000 share options in May 2022 with the nominal value of DKK 0.25 at an exercise price of NOK 19.70 (DKK 13.36). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first year of the share options' lifetime. The share options vest with 1/4 in each of the following 4 years.

NOTE 7 SHARE-BASED PAYMENTS (CONTINUED)

Based on the same decision made by General Assembly in April 2021 to issue 460,000 share options, the Board of Directors issued 40,000 share options in August 2023 with the nominal value of DKK 0.25 at an exercise price of NOK 9.92 (DKK 6.42). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first year of the share options' lifetime. The share options vest with 1/4 in each of the following 4 years.

The general terms for all issues based on the 2020 and 2021 share options program are summarized as follows:

Earliest exercise date	1 year from the grant date
Latest exercise date	8 years from the grant date

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

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

The general terms for all issues based on the 2022 share options program to the Board of Directors are summarized as follows:

Earliest exercise date	immediate from the grant date
Latest exercise date	2 years and 10 months from the grant date

Based on the decision made by General Assembly in April 2022 to issue 800,000 share options to key employees, the Board of Directors issued 300,000 share options in June 2022 with the nominal value of DKK 0.25 at an exercise price of NOK 11.00 (DKK 7.92). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first year of the share options' lifetime. The share options vest with 1/4 in each of the following 4 years.

Based on the same decision made by General Assembly in April 2022 to issue 800,000 share options to key employees, the Board of Directors issued 400,000 share options in August 2023 with the nominal value of DKK 0.25 at an exercise price of NOK 9.92 (DKK 6.42). The share options' lifetime is 8 years, where the share options holders are subject to a lock-up period in the first year of the share options' lifetime. The share options vest with 1/4 in each of the following 4 years.

The general terms for all issues based on the 2022 share options program to key employees are summarized as follows:

Earliest exercise date	1 year from the grant date
Latest exercise date	8 years from the grant date

The weighted average of the remaining contractual period of the outstanding share options from the 2017 share options program on December 31, 2023 is 2 years and 9 months (on December 31 2022: 3 years and 9 months). The weighted average of the remaining contractual period of the outstanding share options from the 2018 share options program on December 31, 2023 is 2 years and 9 months (on December 31 2022: 3 years and 9 months). The weighted average of the remaining contractual period of the outstanding share options from the 2019 share options program on December 31, 2023 is 3 years and 6 months (on December 31 2022: 4 years and 6 months). The weighted average of the remaining contractual period of the outstanding share options from the 2020 share options program on December 31, 2023 is 5 years and 10 months (on December 31 2022: 5 years and 5 months). The weighted average of the remaining contractual period of the outstanding share options from the 2021 share options program on December 31, 2023 is 5 years and 8 months (on December 31 2022: 6 years and 5 months). The weighted average of the remaining contractual period of the outstanding share options from the 2022 share options program for the Board of Directors on December 31, 2023 is 1 years and 4 months (on December 31 2022: 2 years and 4 months). The weighted average of the remaining contractual period of the outstanding share options from the 2022 share options program for key employees on December 31, 2023 is 7 years and 2 months (on December 31 2022: 7 years and 6 months).

NOTE 7 SHARE-BASED PAYMENTS (CONTINUED)

2023

Share options	Board of Directors Number	Board of Directors Avg. ex. price	Management Number	Management Avg. ex. price	Other Employees Number	Other Employees Avg. ex. price	Total Number	Total Avg. ex. price
At 1 January 2023	365,494	0.25	3,884,144	4.44	777,960	5.47	5,027,598	4.30
Granted during the year	-	-	650,000	6.42	120,000	-	770,000	6.42
Exercised/expired during the year	-	-	(2,075,811)	3.99	(146,325)	5.69	(2,222,136)	4.10
At 31 December 2023	**365,494**	**0.25**	**2,458,333**	**5.34**	**751,635**	**5.58**	**3,575,462**	**4.87**
Exercisable at 31 December 2023	**365,494**	**0.25**	**1,345,832**	**3.72**	**465,262**	**4.32**	**2,176,588**	**3.26**

2022

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

In 2023, 922,069 options were exercised and 1,300,067 lapsed (2022: 11,716 exercised and 5,000 lapsed).

The following shows the exercise price of the outstanding share options and warrants:

Number of share options at 31 December	2023	2022
Exercise price DKK 8.00	-	306,000
Exercise price DKK 19.41	-	150,000
Exercise price DKK 3.88	483,768	626,935
Exercise price DKK 2.45	55,000	55,000
Exercise price DKK 3.88	-	133,756
Exercise price DKK 1.46	-	133,488
Exercise price DKK 1.16	777,450	1,605,925
Exercise price DKK 3.32	10,000	15,000
Exercise price DKK 2.89	411,750	934,000
Exercise price DKK 14.63	392,000	392,000
Exercise price DKK 13.36	10,000	10,000
Exercise price DKK 0,25	365,494	365,494
Exercise price DKK 7,92	300,000	300,000
Exercise price DKK 6,42	770,000	-
Total number of outstanding share options	**3,575,462**	**5,027,598**

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 was estimated on the date of grant using the following assumptions:

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

	July 2019	July 2019	February 2020	May 2020	May 2021
Volatility	68.25%	68.25%	79.86%	81.73%	80.60%
Risk-free interest rate	1.40%	1.40%	1.35%	0.61%	1.47%
Exercise price (DKK)	1.46	1.16	3.32	2.89	14.63
Exercise period (years)	1.00 - 8.00	2.00 - 8.00	2.00 - 8.00	2.00 - 8.00	2.00 - 8.00
Number of options	133,488	1,736,800	20,000	995,000	407,000
Grant date fair value for each option (DKK)	0.75	0.78	2.69	2.16	11.07

	November 2021	June 2022	June 2022	June 2022	August 2023
Volatility	80.54%	80.54%	80.54%	80.54%	54.69%
Risk-free interest rate	1.69%	3.18%	3.18%	3.18%	3.79%
Exercise price (DKK)	13.36	0.25	0.25	7.92	6.42
Exercise period (years)	2.00 - 8.00	0 - 2.75	0.75 - 2.75	2.00 - 8.00	2.00 - 8.00
Number of options	10,000	114,487	251,007	300,000	770,000
Grant date fair value for each option (DKK)	10.18	7.68	7.67	6.12	3.96

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

For 2023, the Group has recognized a share-based payment expense of DKK 2,536 thousand in the income statement (2022: DKK 5,674 thousand). DKK 195 thousand was recognized in relation to Board of Directors (2022: DKK 2,609 thousand), DKK 1,804 thousand was recognized in relation to Management (2022: DKK 2,158 thousand) and DKK 537 thousand in relation to others (2022: DKK 907 thousand).

NOTE 8 AUDITORS' FEE

DKK'000	2023	2022
Fees to the Company's auditor appointed by the general meeting:		
Statutory audit fee	879	594
Tax advisory fee	-	46
Fees for other services	-	26
Total auditors' fees	**879**	**666**

NOTE 9 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

DKK'000	2023	2022
Depreciation, amortization and impairment are reported as follows:		
Depreciation of plant and equipment	3,329	3,218
Depreciation of leasehold improvements	319	337
Depreciation of right-of-use assets	3,150	2,773
Total depreciation of tangible assets	**6,798**	**6,328**
Amortization of patents	636	665
Amortization of completed development projects	25,027	19,085
Total amortization and impairment of intangible assets	**25,663**	**19,750**
Total depreciation, amortization and impairment	**32,461**	**26,078**

NOTE 10 FINANCE INCOME

DKK'000	2023	2022
Interest receivable from banks	358	7
Foreign exchange gains	-	3,589
Total finance income	**358**	**3,596**
Finance income at amortized costs	**358**	**7**

NOTE 11 FINANCE COSTS

DKK'000	2023	2022
Interest payable to banks	1,394	921
Foreign exchange losses	688	-
Interest payable under leases	245	184
Other finance costs	1,577	435
Total finance costs	**3,904**	**1,540**
Finance costs at amortized costs	**3,216**	**1,540**

NOTE 12 INCOME TAX

DKK'000	2023	2022
Current tax recognized in the consolidated income statement:		
Current income tax	1,517	7
Current income tax carry back refund	(5,500)	(5,500)
Change in deferred tax	-	9,715
Adjustment prior years taxes	(446)	(107)
Total income tax	**(4,429)**	**4,115**

A reconciliation between tax expense and profit before tax multiplied by the applicable income tax rate for the Group for 2023 and 2022 is as follows:

DKK'000	2023	2022
Profit before tax	(36,445)	(44,144)
At the applicable Danish income tax rate for the Group, 22.0% (2022: 22.0%)	(8,018)	(9,712)
Tax effect of:		
Tax-deductable expenses	(2,016)	(3,041)
Non-deductible expenses	440	1,030
Accounting estimate for not recognized deferred tax assets	4,518	16,569
Adjustment prior year taxes	(446)	(107)
Other deviations in foreign subsidiaries including other tax rates	1,093	(624)
At the effective income tax rate of 12% (2022: -9%)	**(4,429)**	**4,115**

NOTE 13 EARNINGS PER SHARE

DKK'000	2023	2022
Net profit attributable to equity holders of the parent company for basic earnings and the effect of dilution	(32,016)	(48,259)

	2023	2022
	Thousands	*Thousands*
Weighted average number of shares for basic earnings per share	88,110	83,084
Effect of dilution:		
Share options	-	-
Weighted average number of shares adjusted for the effect of dilution	**88,110**	**83,084**
Number of share options with potential effect of dilution:	**1,588**	**2,933**

According to IAS 33 the effect of dilution from share options is not allowed to decrease the loss of earnings per share.

NOTE 14 INTANGIBLE ASSETS

DKK'000	Development projects, completed 2023	Development projects, completed 2022	Development projects, in progress 2023	Development projects, in progress 2022	Patents 2023	Patents 2022	Other intangible assets 2023	Other intangible assets 2022	Total 2023	Total 2022
Cost at 1 January	304,364	276,862	18,383	40,807	10,435	10,435	-	2,139	333,182	330,243
Additions in the year	-	-	10,376	30,296	-	-	-	-	10,376	30,296
Transfers in the year	26,533	27,502	(26,533)	(27,502)	-	-	-	-	-	-
Disposals	-	-	-	(25,218)	-	-	-	(2,139)	-	(27,357)
Cost at 31 December	**330,897**	**304,364**	**2,226**	**18,383**	**10,435**	**10,435**	**-**	**-**	**343,558**	**333,182**
Accumulated impairment and amortization at 1 January	269,262	250,177	-	25,218	8,084	7,419	-	2,139	277,346	284,953
Amortization for the year	25,034	19,085	-	-	636	665	-	-	25,670	19,750
Disposals	-	-	-	(25,218)	-	-	-	(2,139)	-	(27,357)
Accumulated amortization and impairment at 31 December	**294,296**	**269,262**	**-**	**-**	**8,720**	**8,084**	**-**	**-**	**303,016**	**277,346**
Carrying amount at 31 December	**36,601**	**35,102**	**2,226**	**18,383**	**1,715**	**2,351**	**-**	**-**	**40,542**	**55,836**

Within the completed development projects there are 3 material development projects with a carrying amount of DKK 10,176 thousand, DKK 7,503 thousand and DKK 5,516 thousand on December 31, 2023, respectively (December 31 2022, the first project was in progress with a carrying amount of DKK 13,353 thousand, the second project was completed with a carrying amount of DKK 12,798 thousand and the third project was in progress with a carrying amount of DKK 1,424 thousand). The first project is aimed to develop Napatech's NT400D13 HW platform capable of delivering full throughput for 2x100G. The aim of the second project is to enhance the feature set on Napatech's virtual switching solution implementing new features such as RSS, HW QoS, and OpenStack RDO. The third project is aimed to implement Capture SW functionality on new HW platform NT400D11. The remaining amortization periods of these 3 projects are 2 years and 1 month, 1 year and 5 months and 2 years and 5 months, respectively.

The Group recognized DKK 0 thousand as an impairment in 2023 (2022: DKK 0 thousand) in respect of the Group's development projects and patents.

At year-end 2023, the Group performed its annual impairment test, based on the value in use, for both Completed and In Progress Development Projects. The Group considers the relationship between its market capitalization and its accounting value, among other factors, when assessing for indicators of impairment.

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

- The recoverable amount has been determined based on a value-in-use calculation using cash flow projections from financial budgets for 2024 and cash flow projections for a three-year period. The three-year cash flow projections are based on a three-year strategic plan and investment budget, which are approved by the board of directors. The CAGR from 2024 to 2026, assumed in the impairment test, is 37%. Due to uncertainty on projections, the impairment test is therefore based on a finite life span of 3 years, equalling the estimated useful life and not including any terminal period.
- Discount rates representing the current market assessment of the risks specific to the development project were applied to cash flow projections, but since the impairment test is based on a finite life span of 3 years and without any terminal period, the applied discount rate only had a marginal impact on the impairment test. A discount rate after tax of 22% is used in the impairment test.

The Board of Directors have approved the inputs to the impairment test and are satisfied that the judgements made are appropriate.

The results of the impairment test for both Completed and In Progress Development Projects showed that the recoverable amount exceeded the carrying value and that there was no impairment loss to be recognized. Based on the impairment test, there is significant headroom, and management deems that a sensitivity analysis is not required.

NOTE 15 TANGIBLE ASSETS

	Plant and equipment		Leasehold improvements		Total	
DKK'000	2023	2022	2023	2022	2023	2022
Cost at 1 January	12,953	38,996	1,696	5,975	14,649	44,971
Additions	2,170	2,157	-	245	2,170	2,402
Disposals in the period	-	(28,241)	-	(4,546)	-	(32,787)
Currency adjustment	(17)	41	-	22	(17)	63
Cost at 31 December	**15,106**	**12,953**	**1,696**	**1,696**	**16,802**	**14,649**
Accumulated depreciation at 1 January	7,402	32,391	1,061	5,248	8,463	37,639
Depreciation for the year	3,329	3,218	319	337	3,648	3,555
Disposals in the period	-	(28,241)	-	(4,546)	-	(32,787)
Currency adjustment	(15)	34	-	22	(15)	56
Accumulated depreciation at 31 December	**10,716**	**7,402**	**1,380**	**1,061**	**12,096**	**8,463**
Carrying amount at 31 December	**4,390**	**5,551**	**316**	**635**	**4,706**	**6,186**

In 2023, the Group assessed the tangible assets for impairment. In relation to this, the Group recognized DKK 0 thousand as an impairment in the reporting period (2022: DKK 0 thousand).

NOTE 16 LEASING

Right-Of-Use Assets

	Properties		Plant and equipment		Total	
DKK'000	2023	2022	2023	2022	2023	2022
Balance at 1 January	4,007	6,538	701	457	4,708	6,995
Additions	6,323	-	-	486	6,323	486
Depreciation for the year	(2,870)	(2,531)	(280)	(242)	(3,150)	(2,773)
Carrying amount at 31 December	**7,460**	**4,007**	**421**	**701**	**7,881**	**4,708**

Lease Liabilities

DKK'000	2023	2022
Maturity of lease liabilities:		
Falling due within one year	3,282	2,929
Falling due between one and three years	4,847	1,970
Falling due between four and five years	7	47
Total lease liabilities	**8,136**	**4,946**

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

NOTE 16 LEASING (CONTINUED)

Amounts recognized in the consolidated income statement

DKK'000	2023	2022
Depreciation	3,150	2,773
Finance costs	245	184
Expense relating to low-value assets (included in other external costs)	6	6
Expense relating to short-term leases (included in other external costs)	104	146
Total lease costs recognized in the consolidated income statement	**3,505**	**3,109**

For 2023, the Group has recognized DKK 3,385 thousand (2022: DKK 3,002 thousand) as minimum payments regarding lease agreements, of which interest costs related to lease liabilities amount to DKK 245 thousand (2022: DKK 184 thousand) and repayments on lease liabilities amount to DKK 3,140 thousand (2022: DKK 2,818 thousand). The capitalized right-of-use assets do not have any effect on investing activities in the cash flow statement.

NOTE 17 DEFERRED TAX

	Consolidated statement of financial position		Consolidated income statement	
DKK'000	2023	2022	2023	2022
Tax losses carry-forwards	(6,137)	(10,024)	3,887	8,227
Intangible assets	8,859	12,151	(3,292)	2,434
Tangible assets	(864)	(825)	(39)	(1,273)
Lease liabilities	(1,790)	(1,088)	(702)	512
Provision for expected credit loss	(68)	(214)	146	(199)
Right-of-return asset and refund liability	-	-	-	14
Deferred tax liability / (asset) and expense / (income)	**-**	**-**	**-**	**9,715**

DKK'000	2023	2022
Reconciliation of deferred tax liability / (asset) is as follows:		
Opening balance at 1 January	-	(9,715)
Adjustment recognized in consolidated income statement	-	9,715
Closing balance at 31 December	**-**	**-**

The Group has tax losses of DKK 191,447 thousand (2022: DKK 188,589 thousand) that are available indefinitely for offsetting against future taxable profit. In 2023 the deferred tax assets were not fully recognized in respect of these losses due to uncertainty in timing to offset future taxable profit. Determining the amount that can be recognized for deferred tax assets is based on estimates of the probable timing and size of future taxable profit. When assessing future profits, historical profits have been taken into account. If the Group were able to recognize all unrecognized deferred tax assets, the value would be DKK 35,982 thousand (2022: DKK 31,466 thousand).

NOTE 18 INVENTORIES

DKK'000	2023	2022
Consumables and components	11,870	13,646
Finished goods and goods for resale	23,702	25,208
Total inventories	**35,572**	**38,854**
Carrying value of inventories recognised at fair value	**-**	**-**

The cost of goods sold for the year is DKK 49,126 thousand (2022: DKK 68,931 thousand), which also includes movements in inventory write-down for the year. Movements in inventory write-down are as follows:

DKK'000	2023	2022
Inventory writedown at 1 January	130	16,331
Inventory writedown for the year	1,843	1,026
Reversal of inventory wirtedown	(65)	(17,227)
Inventory writedown at 31 December	**1,908**	**130**

In 2023 DKK 1,843 thousand (2022: DKK 1,026 thousand) was recognized as an impairment expense. The impairment expense in 2023 was mainly related to a group of products with slow tradability and near end of life.

NOTE 19 TRADE AND OTHER RECEIVABLES

DKK'000	2023	2022
Receivables recognized in the consolidated statement of financial position:		
Trade receivables	37,586	59,553
Other receivables	15,880	8,808
Total current receivables	**53,466**	**68,361**

Trade receivables regarding service contracts on December 31, 2023 was DKK 11,522 thousand, on December 31, 2022 DKK 32,245 thousand and on January 1, 2022 DKK 0.

Other receivables primarily consist of inventory support payment to the manufacturing company used by the Group.

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

DKK'000	2023	2022
At 1 January	1,593	942
Reversed in the year	(676)	-
Provision in the year	-	651
At 31 December	**917**	**1,593**

See note 27 for the ageing analysis of trade receivables and description of the credit risk.

NOTE 20 INCOME TAX RECEIVABLES

DKK'000	2023	2022
At 1 January	5,500	-
Income tax carry back refund	5,500	5,500
Income tax received during the year	(4,044)	(84)
Current income tax	(1,517)	(7)
Adjustment prior years taxes	446	91
At 31 December	**5,885**	**5,500**

NOTE 21 ISSUED CAPITAL AND RESERVES

	2023	2022
Authorised shares	*thousands*	*thousands*
Ordinary shares of DKK 0.25 each at 1 january	83,095	83,095
Increase in ordinary shares DKK 0.25 each	7,081	-
Ordinary shares of DKK 0.25 each at 31 December	**90,176**	**83,095**

Ordinary shares and fully paid	Thousands	DKK'000
At 1 January 2023	83,095	20,774
Exercise of share options for cash during the year	880	220
Capital increase	6,201	1,550
At 31 December 2023	**90,176**	**22,544**

DKK'000	2023	2022
Share premium		
At 1 January	290,457	290,435
Issue of shares for cash in excess of the cost of ordinary shares during the year	51,970	22
Transaction costs	(365)	-
Reversals regarding exercised share options	1,002	-
At 31 December	**343,064**	**290,457**

Treasury shares

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

NOTE 21 ISSUED CAPITAL AND RESERVES (CONTINUED)

Movements in treasury shares are as follows:

DKK'000	2023	Number of shares of DKK 0.25	Percentage of share capital
		thousands	
At 1 January	(2,520)	(260)	-0.3%
Issued for cash on exercise of share options	410	42	0.1%
At 31 December	**(2,110)**	**(218)**	**-0.3%**

Share-based payment reserve

Share-based payment reserve is issued to recognize the value of equity-settled share-based payments provided to employees, including key management personnel, and the Board of Directors as part of their remuneration. Refer to note 7 for further details on the share-based payment programmes.

Movements in share-based payment reserve are as follows:

DKK'000	2023	2022
At 1 January	13,860	8,242
Share-based payment expense (Note 7)	2,536	5,674
Reversals regarding exercised and lapsed share options	(5,689)	(56)
At 31 December	**10,707**	**13,860**

NOTE 22 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK'000	2023	2022
Financial assets measured at amortized cost:		
Leasehold deposits	1,541	1,397
Trade receivables	37,586	59,553
Other receivables	15,880	8,808
Cash and cash equivalents	42,367	11,962
Total financial assets	**97,374**	**81,720**
Financial liabilities measured at amortized cost:		
Other financial liabilities	4,433	4,568
Interest-bearing loans and borrowings	44,105	43,528
Trade payables	5,727	11,821
Total financial liabilities	**54,265**	**59,917**

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

NOTE 23 CONTRACT LIABILITIES

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

DKK'000	2023	2022
At 1 January	34,312	2,681
Deferred during the year	6,107	34,312
Recognized as revenue during the year	(32,730)	(2,681)
At 31 December	**7,689**	**34,312**

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

DKK'000	2023	2022
Within one year	4,641	30,568
More than one year	3,048	3,744
	7,689	**34,312**

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

NOTE 24 LIABILITIES FROM FINANCING ACTIVITIES

	2023			
DKK'000	At 1 January	Non-cash	Cash flows	At 31 December
Interest bearing loans and borrowings	43,528	-	577	44,105
Other financial liabilities	4,568	-	(135)	4,433
Lease liabilities	4,946	6,575	(3,385)	8,136
Total liabilities from financing activities	**53,042**	**6,575**	**(2,943)**	**56,674**

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

NOTE 25 COMMITMENTS AND CONTINGENCIES

Collaterals

The Group has issued a floating charge in the amount of DKK 40 million (2022: DKK 40 million) secured on receivables, inventories, patents and plant and equipment with a carrying amount of DKK 62.5 million (2022: DKK 85.8 million) as collateral for loans.

NOTE 26 RELATED PARTY DISCLOSURES

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

Entity with significant influence over the Group
There are no entities with significant influence over the Group on December 31, 2023 (2022: Verdane Capital VIII owns 27.21%).

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 shareholders with significant influence or their portfolio companies in 2023 and 2022.

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 and the Executive Management in 2023 and 2022.

NOTE 27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

In 2023, the Group has one customer (2022: 2 customers) that owed the Group more than 10% of all trade receivables. The credit risk associated with this one customer has been assessed as low. The amount receivable from this customer on 31 December 2023 was DKK 10,792 thousand and the part due at 63% was fully paid in January 2024, the rest will first be due by the end of March.

The assessment of the need for impairment of financial assets measured at amortized cost, including trade receivables, is made according to the simplified expected credit loss model. The model implies that the expected loss over the lifespan of the asset is recognized immediately in the income statement and is continuously monitored in accordance with the Group's risk management until realization.

Impairment is calculated on the basis of expected loss percentages, which are calculated individually per geographical location. Loss percentages are calculated on the basis of historical data based on expected losses over the total maturity of the receivable, adjusted for estimates of the effect of expected changes in relevant parameters, such as economic development, political risks, etc., in the given market.

NOTE 27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

DKK'000	Loss percentage	2023 Receivable	Expected loss	Total
Not past due	0.9%	29,185	275	28,910
Past due for less than 30 days	2.3%	7,586	176	7,410
Past due between 30 and 60 days	4.7%	1,315	62	1,253
Past due between 60 and 90 days	14.3%	7	1	6
Past due after 90 days	98.3%	410	403	7
Total maximum credit risk		**38,503**	**917**	**37,586**

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

The maximum exposure to credit risk for trade receivables at the reporting date is the carrying value disclosed in note 19. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and operate independently. The customer credit risk related to geographical segments in which the Group operates is similar and does not differ significantly.

Other receivables

Other receivables on December 31, 2023 primarily consist of inventory support payment to the manufacturing company used by the Group and will be repaid as the inventory need regarding the Group declines. The Group consider the credit risk regarding this receivable to be low based on many years experience of close collaboration with the manufacturing company.

Cash deposits

Credit risk from balances with banks is managed by the senior management in accordance with the Group's policy. Investments of surplus funds are mainly made to finance development projects. Development projects are reviewed by the senior management on a quarterly basis.

The Group's maximum exposure to credit risk for the components of the statement of financial position on December 31, 2023, and 2022 is the carrying amounts as illustrated in note 22.

Liquidity risk

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

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

December 31, 2023 the Group had unused credit facilities of DKK 2.2 million (unused credit facilities December 31, 2022: DKK 3.4).

In March 2022, the Group established a new overdraft facility of DKK 30 million in Denmark in addition to the facility in the US of USD 1 million. The overdraft facility in Denmark is up for renewal yearly in May, and it is the assessment of management that the overdraft facilities will be renewed in May 2024, as management has no indications of otherwise. The facility in the US is up for renewal in June 2025. In addition to the overdraft facility, the Group has established a loan of DKK 10 million to be repaid in 5 years from January 1, 2024, with a fixed yield at DKK 673 thousand per quarter and variable interest.

NOTE 27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The cash available, together with the unused credit facilities, are assessed to be sufficient to cover the Group's obligations and planned investments as they fall due for a period of at least 12 months from December 31, 2023.

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

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

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

	2023				
DKK'000	**Jan - Mar**	**Apr - Dec**	**1 - 2 years**	**over 2 year**	**Total**
Leasehold deposits	-	-	-	1,541	1,541
Trade receivables	37,586	-	-	-	37,586
Other receivables	3,581	12,299	-	-	15,880
Cash and cash equivalents	42,367	-	-	-	42,367
Total financial assets	**83,534**	**12,299**	**-**	**1,541**	**97,374**

	2023				
DKK'000	**Jan - Mar**	**Apr - Dec**	**1 - 2 years**	**over 2 year**	**Total**
Interest-bearing loans and borrowings	919	30,397	9,709	8,196	49,222
Other financial liabilities	-	-	-	4,433	4,433
Trade payables	5,727	-	-	-	5,727
Total financial liabilities	**6,646**	**30,397**	**9,709**	**12,629**	**59,382**

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

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

NOTE 27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates mainly to the Group's interest-bearing loans in the amount of DKK 44,105 thousand (2022 DKK 43,528 thousand). The interest rates on the Group´s loans and credit facilities are variable and in the range of 6.95% - 11.17% at the end of December 2023. The Group's policy is to keep sufficient cash in place to mitigate adverse impacts caused by fluctuation in market interest rates. The interest rates used to determine lease obligations are fixed. The Group's interest rate risk is immaterial.

Foreign currency risk

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

Sensitivity analysis of presentation currency

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

	Effect on profit before tax		Effect on equity	
DKK'000	2023	2022	2023	2022
Change in USD by +/÷ 5%	+/÷ 2,769	+/÷ 3,117	+/÷ 2,160	+/÷ 2,431
Change in USD by +/÷ 10%	+/÷ 5,538	+/÷ 6,233	+/÷ 4,320	+/÷ 4,862

Capital management

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

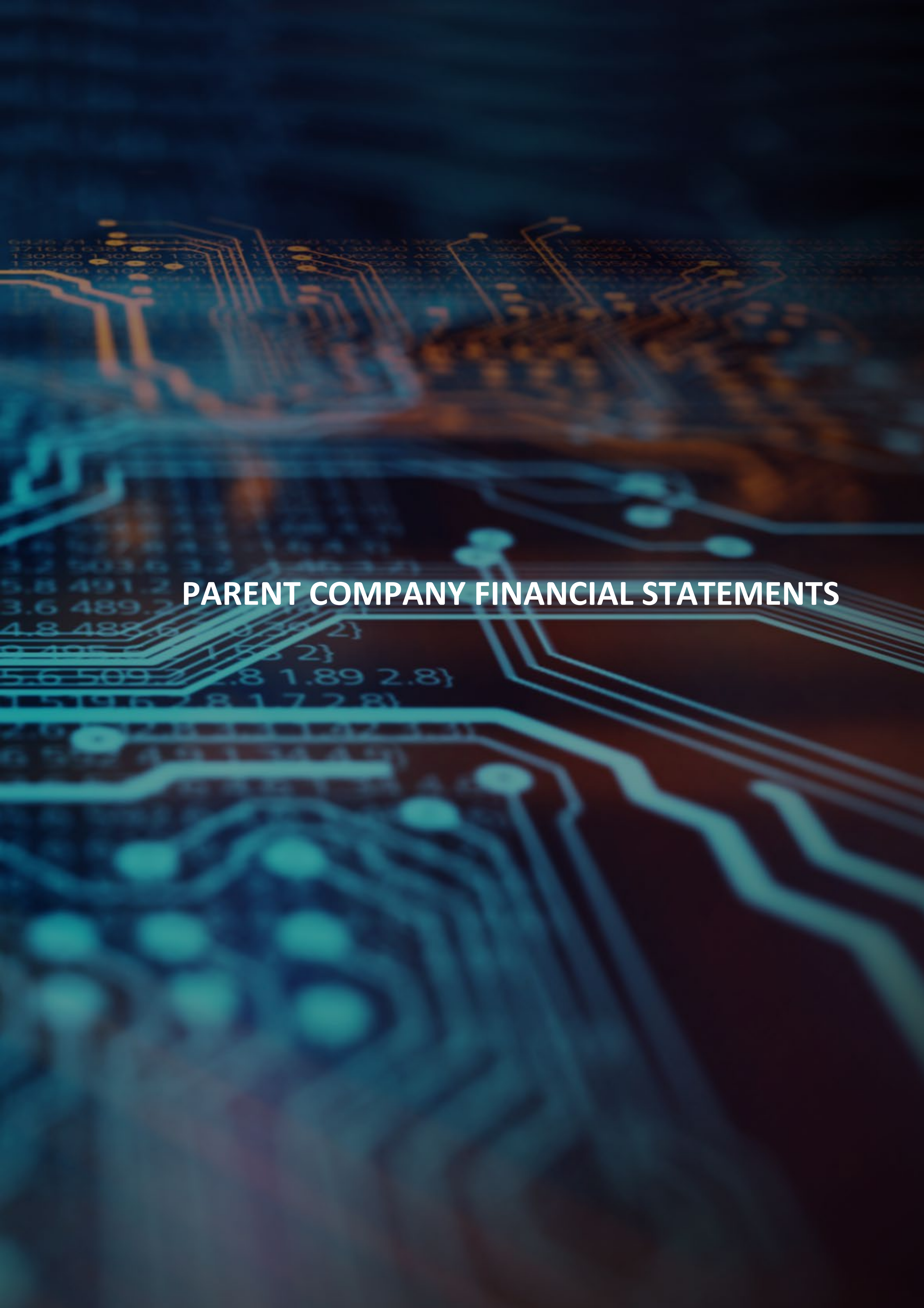
The primary objective of the Group's capital management, in the short term, is to ensure the sufficient capital needed to fund the development of new products and new markets and thereby create a healthy business platform to ensure returns to the shareholders in the long term.

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

To ensure sufficient capital to fund project development and daily operations the Group has made a capital increase during the year of DKK 52.2 million through a private placement.

NOTE 28 EVENTS AFTER THE REPORTING PERIOD

On January 22, 2024, Lars Boilesen replaced Henrik Brill Jensen as CEO of Napatech. Henrik Brill Jensen returned to his previous position as COO. There have been no other significant events after December 31, 2023, that might affect the consolidated financial statements.



PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT

For the year ended 31 December 2023

Note	DKK'000	2023	2022
	Revenue	153,427	122,534
	Cost of goods sold	(49,105)	(68,248)
	Gross profit	**104,322**	**54,286**
3, 4, 6	Staff costs	(62,803)	(45,542)
4, 5	Other external costs	(44,061)	(31,952)
	Operating profit before depreciation, amortization and impairment (EBITDA)	**(2,542)**	**(23,208)**
7	Depreciation, amortization and impairment	(32,405)	(26,028)
	Operating result (EBIT)	**(34,947)**	**(49,236)**
8	Finance income	349	3,589
9	Finance costs	(3,774)	(1,366)
	Result before tax	**(38,372)**	**(47,013)**
10	Income tax	5,500	(4,223)
	Result for the year	**(32,872)**	**(51,236)**

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

Note	DKK'000	2023	2022
	Result for the year	**(32,872)**	**(51,236)**
	Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	-	-
	Total comprehensive income for the year, net of tax	**(32,872)**	**(51,236)**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION
at 31 December 2023

ASSETS

Note	DKK'000	2023	2022
	Development projects, completed	36,601	35,102
	Development projects, in progress	2,226	18,383
	Patents	1,715	2,351
11	**Intangible assets**	**40,542**	**55,836**
12	Plant and equipment	4,343	5,446
13	Right-of-use assets	7,881	4,708
12	Leasehold improvements	316	635
	Tangible assets	**12,540**	**10,789**
14	Investments in subsidiaries	8,243	7,599
20	Leasehold deposits	1,533	1,389
	Other non-current assets	**9,776**	**8,988**
	Non-current assets	**62,858**	**75,613**
16	Inventories	35,572	38,854
17, 20	Trade receivables	20,863	39,161
17, 20	Receivables from group entities	10,047	5,220
	Prepayments	2,177	1,040
17, 20	Other receivables	15,880	8,808
18	Income tax receivable	5,500	5,500
20	Cash and cash equivalents	28,195	6,887
	Current assets	**118,234**	**105,470**
	Total assets	**181,092**	**181,083**

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

at 31 December 2023

EQUITY AND LIABILITIES

Note	DKK'000	2023	2022
19	Issued capital	22,544	20,774
19	Share premium	343,064	290,457
19	Treasury shares	(2,110)	(2,520)
19	Share-based payment reserve	10,707	13,860
	Reserve for development project costs	30,286	41,718
	Retained earnings	(297,092)	(280,003)
	Equity	**107,399**	**84,286**
20, 22	Interest-bearing loans and borrowings	8,601	9,758
20, 22	Other financial liabilities	4,433	4,568
13, 22	Lease liabilities	4,854	2,017
21	Contract liabilities	3,048	3,744
	Non-current liabilities	**20,936**	**20,087**
20, 22	Interest-bearing loans and borrowings	28,759	26,798
13, 22	Lease liabilities	3,282	2,929
20	Trade payables	5,587	11,821
	Other payables	10,911	4,594
21	Contract liabilities	4,218	30,568
	Current liabilities	**52,757**	**76,710**
	Total liabilities	**73,693**	**96,797**
	Total equity and liabilities	**181,092**	**181,083**

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2023

Note	DKK'000	Share capital	Share premium	Treasury shares	Share based payment reserve	Reserve for develop-ment project costs	Retained earnings	Total equity
	At 1 January 2022	**20,774**	**290,435**	**-**	**8,242**	**32,973**	**(219,969)**	**132,455**
	Result for the year	-	-	-	-	8,745	(59,981)	(51,236)
	Total comprehensive income	**-**	**-**	**-**	**-**	**8,745**	**(59,981)**	**(51,236)**
	Issue of shares	-	22	-	-	-	-	22
	Share buyback	-	-	(2,634)	-	-	-	(2,634)
	Reversal, exercised and lapsed share options	-	-	114	(56)	-	(53)	5
6	Share-based payments	-	-	-	5,674	-	-	5,674
	Total transactions with shareholders	**-**	**22**	**(2,520)**	**5,618**	**-**	**(53)**	**3,067**
	At 31 December 2022	**20,774**	**290,457**	**(2,520)**	**13,860**	**41,718**	**(280,003)**	**84,286**
	Result for the year	-	-	-	-	(11,432)	(21,440)	(32,872)
	Total comprehensive income	**-**	**-**	**-**	**-**	**(11,432)**	**(21,440)**	**(32,872)**
	Issue of shares	1,770	51,970	-	-	-	-	53,740
	Transaction costs	-	(365)	-	-	-	-	(365)
	Reversal, exercised and lapsed share options	-	1,002	410	(5,689)	-	4,351	74
6	Share-based payments	-	-	-	2,536	-	-	2,536
	Total transactions with shareholders	**1,770**	**52,607**	**410**	**(3,153)**	**-**	**4,351**	**55,985**
	At 31 December 2023	**22,544**	**343,064**	**(2,110)**	**10,707**	**30,286**	**(297,092)**	**107,399**

PARENT COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2023

Note	DKK'000	2023	2022
	Operating activities		
	Result before tax	(38,372)	(47,013)
	Adjustments to reconcile profit before tax to net cash flows:		
	Finance income	(349)	(3,589)
	Finance costs	3,774	1,366
	Depreciation, amortization and impairment	32,405	26,028
	Share-based payment expense	1,892	4,665
	Working capital adjustments:		
	Change in inventories	3,282	(14,731)
	Change in trade and other receivables, prepayments and intercompany receivables	4,704	8,594
	Change in trade and other payables and contract liabilities	(27,070)	29,614
	Interest received	349	-
	Interest paid	(2,750)	(1,182)
	Income tax received, net	5,500	(24)
	Net cash flows from operating activities	**(16,635)**	**3,728**
	Investing activities		
	Purchase of tangible assets	(2,170)	(2,367)
	Investments in intangible assets	(10,376)	(30,296)
	Investments in leasehold deposits	(144)	(40)
	Net cash from investing activities	**(12,690)**	**(32,703)**
	Free cash flow	**(29,325)**	**(28,975)**
	Financing activities		
	Capital increase	53,740	22
	Proceeds from exercise of share options	75	-
	Transaction costs on issue of shares	(365)	-
	Share buyback	-	(2,634)
	Repayment of lease liabilities	(3,385)	(3,002)
	Proceeds from borrowings	804	36,556
	Repayment of borrowings	(135)	(2,792)
	Net cash flows from financing activities	**50,734**	**28,150**
	Net change in cash and cash equivalents	21,409	(825)
	Net foreign exchange difference	(101)	710
	Cash and cash equivalents at 1 January	6,887	7,002
	Cash and cash equivalents at 31 December	**28,195**	**6,887**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

NOTE 1 MATERIAL ACCOUNTING POLICY INFORMATION

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

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

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

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

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

NOTE 2 REVENUE

Set out below is a disaggregation of the Parent's revenue from contracts with customers:

DKK'000	2023	2022
- Sales of goods	113,114	119,187
- Sales of services	40,313	3,347
Total revenue	**153,427**	**122,534**

NOTE 3 STAFF COSTS

DKK'000	2023	2022
Employee benefits expense is reported as follows:		
Wages and salaries	66,202	60,125
Defined contribution schemes	3,522	3,428
Share-based payment expense (note 6)	1,892	4,665
Social security costs	486	594
Total employee benefits expense	**72,102**	**68,812**
Transferred to capitalized development costs	(9,299)	(23,270)
Total staff costs	**62,803**	**45,542**
Average number of employees	**66**	**67**

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

NOTE 4 RESEARCH AND DEVELOPMENT COSTS

Research and development costs for the parent company and the Group are the same. Details of research and development costs are disclosed in note 6 to the consolidated financial statements.

NOTE 5 AUDITORS' FEES

DKK'000	2023	2022
Fees to the Company's auditor appointed by the general meeting:		
Statutory audit fee	879	594
Tax advisory fee	-	46
Fees for other services	-	26
Total auditors' fees	**879**	**666**

NOTE 6 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 fully owned US-based subsidiary is recognised as cost of the investment in the subsidiary. Out of the Group's total share-based payment expense of DKK 2,536 thousand (2022: DKK 5,674 thousand), DKK 644 thousand (2022: DKK 1,009 thousand) has been recognised as an additional cost of the investment in the subsidiary see note 14.

NOTE 7 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

DKK'000	2023	2022
Depreciation, amortization and impairment are reported as follows:		
Depreciation plant and property	3,273	3,168
Depreciation of leasehold improvements	319	337
Depreciation of right-of-use assets	3,150	2,773
Total depreciation of tangible assets	**6,742**	**6,278**
Amortization of patents	636	665
Amortization of completed development projects	25,027	19,085
Total amortization and impairment of intangible assets	**25,663**	**19,750**
Total depreciation, amortization and impairment	**32,405**	**26,028**

NOTE 8 FINANCE INCOME

DKK'000	2023	2022
Interest receivable from banks	349	-
Foreign exchange gains	-	3,589
Total finance income	**349**	**3,589**
Finance income at amortized costs	**349**	**-**

NOTE 9 FINANCE COSTS

DKK'000	2023	2022
Interest payable to banks	1,264	747
Foreign exchange losses	688	-
Interest payable under leases	245	184
Other finance costs	1,577	435
Total finance costs	**3,774**	**1,366**
Finance costs at amortized costs	**3,086**	**1,366**

NOTE 10 INCOME TAX

DKK'000	2023	2022
Current tax recognised in the parent company income statement:		
Current income tax carry back refund	(5,500)	(5,500)
Change in deferred tax	-	9,715
Adjustment prior years taxes	-	8
Total income tax	**(5,500)**	**4,223**

A reconciliation between tax expense and profit before tax multiplied by the applicable income tax rate for the parent company for 2023 and 2022 is as follows:

DKK'000	2023	2022
Profit before tax	(38,372)	(47,013)
At the applicable Danish income tax rate for the parent company, 22% (2022: 22%)	(8,442)	(10,343)
Tax effect of:		
Tax deductable expenses	(2,016)	(3,041)
Non-deductible expenses	440	1,030
Accounting estimate for not recognized deferred tax assets	4,518	16,569
Adjustment prior years taxes	-	8
At the effective income tax rate of 14% (2022: -9%)	**(5,500)**	**4,223**

NOTE 11 INTANGIBLE ASSETS

Intangible assets comprise patents and development projects, which are the same for the parent company and the Group. An overview of these assets is disclosed in note 14 to the consolidated financial statements.

NOTE 12 TANGIBLE ASSETS

DKK'000	Plant and equipment 2023	Plant and equipment 2022	Leasehold improvements 2023	Leasehold improvements 2022	Total 2023	Total 2022
Cost at 1 January	12,458	38,414	1,704	5,701	14,162	44,115
Additions	2,170	2,122	-	245	2,170	2,367
Disposals in the period	-	(28,078)	-	(4,242)	-	(32,320)
Cost at 31 December	**14,628**	**12,458**	**1,704**	**1,704**	**16,332**	**14,162**
Accumulated depreciation at 1 January	7,012	31,922	1,069	4,974	8,081	36,896
Depreciation for the year	3,273	3,168	319	337	3,592	3,505
Disposals in the period	-	(28,078)	-	(4,242)	-	(32,320)
Accumulated depreciation at 31 December	**10,285**	**7,012**	**1,388**	**1,069**	**11,673**	**8,081**
Carrying amount at 31 December	**4,343**	**5,446**	**316**	**635**	**4,659**	**6,081**

In 2023, the parent company tested the tangible assets for impairment. In relation to this, the parent company recognised DKK 0 as an impairment in the reporting period (2022: DKK 0).

NOTE 13 LEASING

Right-Of-Use Assets

DKK'000	Properties 2023	Properties 2022	Plant and equipment 2023	Plant and equipment 2022	Total 2023	Total 2022
Balance at 1 January	4,007	6,538	702	458	4,708	6,995
Additions	6,323	-	-	486	6,323	486
Depreciation for the year	(2,870)	(2,531)	(280)	(242)	(3,150)	(2,773)
Carrying amount at 31 December	**7,460**	**4,007**	**422**	**702**	**7,881**	**4,708**

Lease Liabilities

DKK'000	2023	2022
Maturity of lease liabilities:		
Falling due within one year	3,282	2,929
Falling due between one and three years	4,847	1,970
Falling due between four and five years	7	47
Total lease liabilities	**8,136**	**4,946**

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

NOTE 13 LEASING (CONTINUED)

Amounts recognised in the parent company income statement

DKK'000	2023	2022
Depreciation	3,150	2,773
Finance costs	245	184
Expense relating to low-value assets (included in other external costs)	6	6
Expense relating to short-term leases (included in other external costs)	-	39
Total lease costs recognized in the parent company income statement	**3,401**	**3,002**

For 2023, the parent company has recognised DKK 3,385 thousand (2022: DKK 3,002 thousand) as minimum payments regarding lease agreements, of which interest costs related to lease liabilities amount to DKK 245 thousand (2022: DKK 184 thousand) and repayments on lease liabilities amount to DKK 3,140 thousand (2020: DKK 2,818 thousand). The capitalized right-of-use assets do not have any effect on investing activities in the cash flow statement.

NOTE 14 INVESTMENTS IN SUBSIDIARIES

DKK'000	2023	2022
Cost at 1 January	12,349	11,340
Value of share-based payment to employees in subsidiaries	644	1,009
Cost at 31 December	**12,993**	**12,349**
Accumulated impairment at 1 January	4,750	4,750
Accumulated impairment at 31 December	**4,750**	**4,750**
Carrying amount at 31 December	**8,243**	**7,599**

The parent company’s investments in subsidiaries at 31 December 2023 and 2022 consist of the following:

		Ownership in %		Proportion of voting rights in %		
Name	**Country**	**2023**	**2022**	**2023**	**2022**	**Business activity**
Napatech Inc.	USA	100	100	100	100	Sale and distribution of the Group's products

DKK'000	Result for the year		Equity	
Name	**2023**	**2022**	**2023**	**2022**
Napatech Inc.	1,500	3,985	12,554	11,568

NOTE 15 DEFERRED TAX

DKK'000	Statement of financial position 2023	2022	Income statement 2023	2022
Tax losses carry-forwards	(6,137)	(10,024)	3,887	8,227
Intangible assets	8,859	12,151	(3,292)	2,434
Tangible assets	(864)	(825)	(39)	(1,273)
Lease liabilities	(1,790)	(1,088)	(702)	512
Provision for expected credit loss	(68)	(214)	146	(199)
Right-of-return asset and refund liability	-	-	-	14
Deferred tax liability and expense	**-**	**-**	**-**	**9,715**

DKK'000	2023	2022
Reconciliation of deferred tax liability / (asset) is as follows:		
Opening balance at 1 January	-	(9,715)
Adjustment recognized in parent company income statement	-	9,715
Closing balance at 31 December	**-**	**-**

The parent company has tax losses of DKK 191,447 thousand (2022 DKK 188,589 thousand) that are available indefinitely for offsetting against future taxable profit. In 2023 the deferred tax assets were not fully recognised in respect of these losses due to uncertainty in timing to offset future taxable profit. Determining the amount that can be recognized for deferred tax assets is based on estimates of the probable timing and size of future taxable profit. When assessing future profits, historical profits have been taken into account. If the parent company was able to recognise all unrecognised deferred tax assets the value would be DKK 35,982 thousand (2022: DKK 31,466 thousand).

NOTE 16 INVENTORIES

DKK'000	2023	2022
Consumables and components	11,870	13,646
Finished goods and goods for resale	23,702	25,208
Total inventories	**35,572**	**38,854**
Carrying value of inventories recognized at fair value	**-**	**-**

The cost of goods sold for the year is DKK 49,105 thousand (2022: DKK 68,248 thousand) which also include movements in inventory writedown for the year. Movements in inventory writedown are as follows:

DKK'000	2023	2022
Inventory writedown at 1 January	130	16,331
Inventory writedown for the year	1,843	1,026
Reversal of inventory wirtedown	(65)	(17,227)
Inventory writedown at 31 December	**1,908**	**130**

NOTE 16 INVENTORIES (CONTINUED)

In 2023 DKK 1,843 thousand (2022: DKK 1,026 thousand) was recognized as an impairment expense. The impairment expense in 2023 was mainly related to a group of products with slow tradability and near end of life.

NOTE 17 TRADE AND OTHER RECEIVABLES

DKK'000	2023	2022
Receivables recognized in the parent company statement of financial position:		
Trade receivables	20,863	39,161
Receivables from group entities	10,047	5,220
Other receivables	15,880	8,808
Total current receivables	**46,790**	**53,189**

Trade receivables regarding service contracts on December 31, 2023 was DKK 11,273 thousand, on December 31, 2022 DKK 28,403 thousand and on January 1, 2022 DKK 0.

Other receivables primarily consist of inventory support payment to the manufacturing company used by the Group.

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

DKK'000	2023	2022
At 1 January	974	66
Reversed in the year	(664)	-
Change in the year	-	908
At 31 December	**310**	**974**

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

NOTE 18 INCOME TAX RECEIVABLES

DKK'000	2023	2022
At 1 January	5,500	-
Income tax carry back refund	5,500	5,500
Income tax received during the year	(5,500)	24
Current income tax	-	-
Adjustment prior years taxes	-	(24)
At 31 December	**5,500**	**5,500**

Income tax receivable relates to income tax carry back refund based on tax losses as a result of investments in development projects.

NOTE 19 ISSUED CAPITAL AND RESERVES

Information in relation to issued capital and reserves is disclosed in note 21 to the consolidated financial statements.

NOTE 20 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

DKK'000	2023	2022
Financial assets measured at amortized cost:		
Leasehold deposits	1,533	1,389
Trade receivables	20,863	39,161
Receivables from group entities	10,047	5,220
Other receivables	15,880	8,808
Cash and cash equivalents	28,195	6,887
Total financial assets	**76,518**	**61,465**
Financial liabilities measured at amortized cost:		
Interest-bearing loans and borrowings	37,360	36,556
Trade payables	5,587	11,821
Other non current financial liabilities	4,433	4,568
Total financial liabilities	**47,380**	**52,945**

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

NOTE 21 CONTRACT LIABILITIES

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

DKK'000	2023	2022
At 1 January	34,312	2,659
Deferred during the year	3,569	34,312
Recognized as revenue during the year	(30,615)	(2,659)
At 31 December	**7,266**	**34,312**

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

DKK'000	2023	2022
Within one year	4,218	30,568
More than one year	3,048	3,744
	7,266	**34,312**

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

NOTE 22 LIABILITIES FROM FINANCING ACTIVITIES

DKK'000	2023 At 1 January	Non-cash	Cash flows	At 31 December
Interest bearing loans and borrowings	36,556	-	804	37,360
Other financial liabilities	4,568	-	(135)	4,433
Lease liabilities	4,946	6,575	(3,385)	8,136
Total liabilities from financing activities	**46,070**	**6,575**	**(2,716)**	**49,929**

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

NOTE 23 COMMITMENTS AND CONTINGENCIES

Collaterals

The parent company (as vel as the Group) has issued a floating charge in the amount of DKK 40 million (2022: DKK 40 million) secured on receivables, inventories, patents and plant and equipment with a carrying amount of DKK 62,5 million (2022: DKK 85,8 million) as collateral for loans. The parent company has, in addition, issued a charge in the shares in the subsidiary Napatech Inc.

NOTE 24 RELATED PARTY TRANSACTIONS

The parent company’s related parties are the same as the Group’s. Additional information is set out in note 26 to the consolidated financial statements.

Related parties in which the parent company has a controlling influence include the company’s subsidiary, as disclosed in note 14 to the parent company's financial statements.

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

DKK'000	Napatech Inc, USA 2023	2022
Income statement:		
Sales to subsidiary	57,091	82,360
Statement of financial position:		
Receivables from subsidiary	10,047	5,220

NOTE 25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The parent company incurs external financial liabilities and settles its transactions in currencies other than the functional currency. The Groups' financial risks are therefore primarily related to the parent company. Relevant additional information is set out in note 27 to the consolidated financial statements.

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

	2023			
DKK'000	**Loss percentage**	**Receivable**	**Expected loss**	**Total**
Not past due	0.9%	13,909	131	13,778
Past due for less than 30 days	2.3%	7,246	168	7,078
Past due between 30 and 60 days	0.0%	-	-	-
Past due between 60 and 90 days	0.0%	-	-	-
Past due after 90 days	61.1%	18	11	7
Total maximum credit risk		**21,173**	**310**	**20,863**

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

For the receivables from group entities, the assessment is based on the fact that the parent company has not historically realised any significant losses on group receivables and the fact that the subsidiary is able to settle the receivables as they fall due. As such, as in previous years, no impairment provision has been recognised as of 31 December 2023.

NOTE 26 EVENTS AFTER THE REPORTING PERIOD

Information in relation to events after the reporting period is disclosed in note 28 to the consolidated financial statements.

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

The Board of Directors and the Executive Board have today discussed and approved the annual report of Napatech A/S for 2023.

The annual report has been prepared in accordance with IFRS Accounting Standards, as adopted by the EU, and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2023 and of the results of their operations and cash flows for the financial year 1 January – 31 December 2023.

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

In our opinion, the Annual Report of Napatech A/S for the financial year 1 January to 31 December 2023 with the file name Napatech-2023-12-31-en.zip has been prepared, in all material respects, in compliance with the ESEF Regulation.

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

Søborg, 21 March 2024

Executive Management

Lars Boilesen, Chief Executive Officer

Board of Directors

Christian Jebsen, Chairman

Howard Bubb

Thomas Bonnerud

Beth Topolovsky

Danny Lobo

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

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Napatech A/S for the financial year 1 January – 31 December 2023, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including material accounting policy information, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with IFRS Accounting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2023 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 2023 in accordance with IFRS Accounting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

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

Basis for opinion

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

Independence

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

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

Appointment of auditor

We were initially appointed as auditor of Napatech A/S on 29 April 2014 for the financial year 2014. We have been reappointed annually by resolution of the general meeting for a total consecutive period of 10 years up until the financial year 2023.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2023. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Recognition and valuation of capitalized development projects

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

Management monitors the expected value-in-use of development projects in progress and evaluates the carrying amount of completed development projects for indications of impairment. Development projects in progress and completed projects are tested for impairment at least annually, based on the strategy plan approved by Management and value-in-use calculations on expected future cash flows.
Recognition and valuation of capitalized development costs is significant to our audit due to the carrying values as well as the management judgement involved in the assessment of the carrying values, basis for capitalization of development costs and judgements involved in impairment testing of the capitalized development costs.

Refer to note 14 in the consolidated financial statements and to note 11 in the financial statements for the parent company.

How our audit addressed the above key audit matters:

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

Revenue recognition

The Group's revenue primarily consists of the sales of goods that are recognized at a point in time.

Engineering services are recognized as revenue in the income statement based on the stage of completion (over time), which is determined on the basis of the relationship between the Group's resources spend in relation to the total estimate of resource consumption. The degree of completion is assessed regularly and adjustments are made to the stage of completion if deemed necessary.

Revenue recognition and measurement of the degree of completion for the Group is a matter of most significance in our audit due to the inherent risk in the estimates and judgements made by Management in the normal course of business as to timing of revenue and measurement of the degree of completion.

Refer to note 1 and 4 in the consolidated financial statements and to note 2 in the financial statements for the parent company.

How our audit addressed the above key audit matters:

- Assessment of management IFRS-15 accounting memorandum regarding recognition of revenue over time.
- Test of Management's assessment of the degree of completion of Engineering services, including test to underlying contract, supporting documentation and evaluation of assumptions.
- Data analytical procedures on revenue including correlation analysis and activity analysis.
- Test of sales transactions during the year and recognized before and after the balance sheet date to contracts and other supporting documentation to assess proper revenue recognition and cut-off.
- Assessment whether the applied revenue recognition criteria follow the Group's accounting policies as disclosed in note 1 to the consolidated financial statements.
- Evaluation of the adequacy of the disclosures provided by management in the financial statements compared to applicable accounting standards.

Statement on the Management's review

Management is responsible for the Management's review.

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

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

Moreover, it is our responsibility to consider whether the Management's review provides the information required by relevant law and regulations.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of relevant law and regulations. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on compliance with the ESEF Regulation

As part of our audit of the Consolidated Financial Statements and Parent Company Financial Statements of Napatech A/S, we performed procedures to express an opinion on whether the annual report of Napatech A/S for the financial year 1 January – 31 December 2023 with the file name Napatech-2023-12-31-en.zip is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic

Format (ESEF Regulation) which includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the Consolidated Financial Statements including notes.

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

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

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

- Testing whether the annual report is prepared in XHTML format;
- Obtaining an understanding of the company's iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the Consolidated Financial Statements including notes;
- Evaluating the appropriateness of the company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and
- Reconciling the iXBRL tagged data with the audited Consolidated Financial Statements.

In our opinion, the annual report of Napatech for the financial year 1 January – 31 December 2023 with the file name Napatech-2023-12-31-en.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

Copenhagen, 21 March 2024

EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Peter Andersen
State Authorised
Public Accountant
mne34313

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