

NAPATECH  
2<sup>ND</sup> QUARTER 2014  
INTERIM REPORT

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## MANAGEMENT STATEMENT

The Board of Directors and the Executive Board have discussed and approved the interim report of Napatech Group for the three months period from 1 April to 30 June 2014 and the six months period from 1 January to 30 June 2014.

The interim report has been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the EU, and additional interim reporting requirements for listed companies.

In our opinion, the interim report gives a true and fair view of the Napatech Group's assets, liabilities and financial position at 30 June 2014, and of the results of the Napatech Group's operations and cash flows for the three months period 1 April to 30 June 2014 and the six months period 1 January to 30 June 2014.

We also find that the management's review provides a fair statement of developments in the activities and financial situation of the Group, financial results for the period and the general financial position of the Group, and describes the major risks and elements of uncertainty faced by the Group.

The interim report has not been subject to audit or review by our auditors.

Oslo, 25 August 2014

### Executive Management

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Henrik Brill Jensen, CEO

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Niels Hobolt, CFO

### Board of Directors

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Olav Stokke, Chairman

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Bjørn Erik Reinseth, Deputy Chairman

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Martyn Braime

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Hans Victor Koch

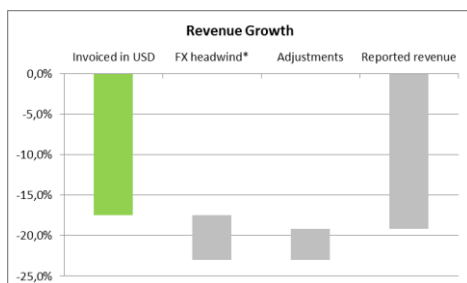
## First half of 2014 in line with our initial expectations

### Highlights

- Revenue for the first half of 2014 amounted to DKK 89.6 million, a decrease of 7% compared to first half of 2013.
- Revenue for second quarter 2014 amounted to DKK 41.8 million, a decrease of 19% compared to second quarter 2013. This was a sequential decrease of 13% compared to first quarter 2014.
- Gross margin for second quarter 2014 was 73%, in line with both first quarter of 2014 and second quarter of 2013 with 73% respectively.
- EBITDA for second quarter of 2014 amounted to DKK 1.8 million, a decrease of DKK 7.3 million compared to second quarter 2013.
- EBITDA margin for second quarter 2014 was 4%, a decrease from 18% in second quarter 2013.
- EBIT margin for second quarter 2014 was negative with 9% compared to positive 7% in second quarter 2013.

### MANAGEMENT'S REVIEW

The business progress for second quarter 2014 was not satisfactory as first quarter of 2014 gave reason to expect a stronger than initially expected recovery. However the revenue for second quarter of 2014 ended lower than expected. The revenue for the full half year of 2014 ended in line with our initial expectations as the first quarter isolated was well above our initial expectations, and this second quarter was below our initial expectations.



\*Average bookkeeping rates

As stated previously, we expected first half of 2014 to provide recovery from the experienced market difficulties in second half of 2013. Thus, as previously stated, we expect the second half of 2014 to again demonstrate growth.

The gross margin has shown a positive development during the past years, and this continued during first half of 2014. The gross margin increases were due to several factors: e.g. operational excellence, improvements and the change in product mix towards higher speed adapters.

Recent design wins for new and existing customers are showing an important and continued enhancement to our customer base. Design wins are key milestones indicating a future revenue stream linked to our customers' performance and market share. This underlines our customers' confidence in Napatech, and it is the definite foundation for future growth.

During second quarter of 2014 a number of design wins again materialized:

- 1 Gigabit design win with a US based telecom equipment manufacturer.
- 10 Gigabit second design win with existing South Korean based, telecom equipment manufacturer.
- 40 Gigabit design win with US based test & measurement solution vendor for the communications industry.

In addition to these recent design wins, Napatech has increased its business activities related to major projects at Tier 1 equipment manufacturers providing a large potential within our telecom sector growth focus area.

In June, Napatech announced an important design win in the security sector where US based Lancope Inc. had chosen Napatech to accelerate the high-end system StealthWatch Flowsensor 4000 appliance.

Napatech has increased focus on offerings to our customers in the telecom sector, as we strongly believe that customers in this sector will benefit from Napatech offerings. Specifically we currently see increased business activities towards monitoring and analysis of LTE networks.

Network Products Guide has chosen Napatech as Gold Winner for Best IT Hardware Product for our 4 port 10G Accelerator.

## MANAGEMENT'S REVIEW (CONTINUED)

### Napatech operations

The statements below are related to Napatech development in second quarter of 2014 compared to second quarter 2013 and the six months period from 1 January to 30 June 2014 compared to the six months period from 1 January to 30 June 2013, unless otherwise stated. Additional information is available at [www.napatech.com/investor](http://www.napatech.com/investor).

### Key figures and ratios

	2 <sup>nd</sup> Quarter		YTD June	
	2014	2013	2014	2013
Revenue, DKK'000	41,818	51,747	89,648	95,961
Gross profit margin, %	73%	73%	73%	71%
EBITDA, DKK'000	1,822	9,121	8,295	14,319
EBITDA margin, %	4%	18%	9%	15%
Profit / (loss) before tax, DKK'000	(3,659)	5,490	(2,800)	6,329
EPS basic, DKK	(0.59)	1.01	(0.48)	1.19
EPS diluted, DKK	(0.58)	0.98	(0.49)	1.03
Equity, DKK'000	187,921	97,412	187,921	97,412
Cash and cash equivalents, DKK'000	90,344	26,741	90,344	26,741

## Financial review

### Revenue

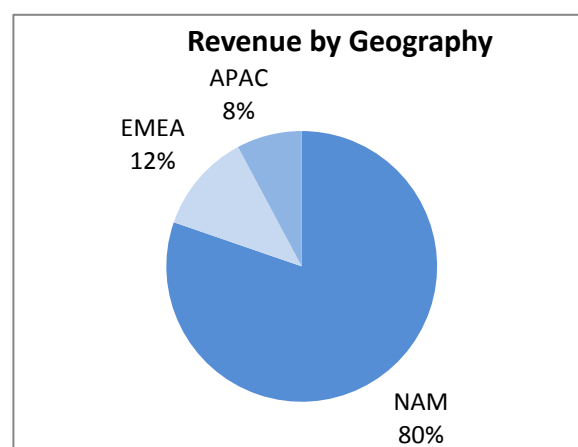
Napatech reported revenue of DKK 41.8 million in the second quarter, a decrease of 19% compared to the same period in 2013. The half year ended at DKK 89.6 million, a decrease of 7% compared to the same period last year.

Revenue was affected by a combination of oush out of customer projects and some projects not materializing or being redefined; and some run-rate customers being below expectations

Sales were distributed with 80% in NAM, 12% in EMEA and the remaining 8% in APAC. The North American market share of the sales was higher than normal.

### Gross Margin

Gross margin for second quarter 2014 was 73%, in line with the 73% in second quarter 2013. The trend from last quarter with a high share of high speed accelerators has continued.



## MANAGEMENT'S REVIEW (CONTINUED)

### Financial review (continued)

#### Costs

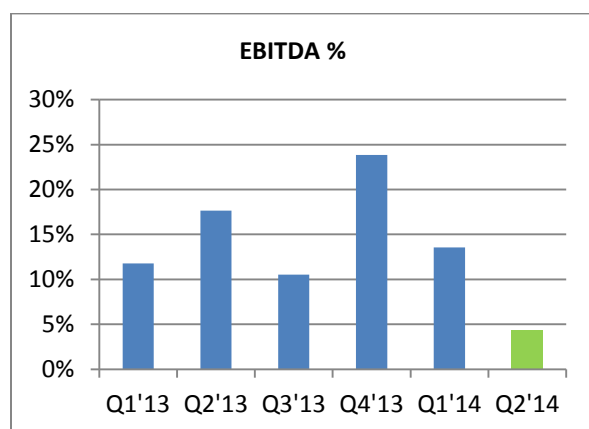
R&D cost for second quarter 2014 was DKK 4.5 million compared to DKK 2.8 million in second quarter 2013. The primary reason for this increase is a lower level of capitalization, due to the different project plans, and consequently higher proportion of development cost in the P&L.

Sales and distribution costs for second quarter 2014 were DKK 16.0 million, compared to DKK 16.5 million in second quarter 2013. The main reason for the decrease is lower sales commissions. Underlying Sales and Marketing costs have increased compared to last year in line with the company's plans, in order to invest in the Company's ability to capture future growth.

Administrative expenses for first quarter 2014 were DKK 8.3 million compared to DKK 9.4 million in second quarter 2013. The decrease is primarily due to the IFRS related share based expense was DKK 0 compared to DKK 1.3 million booked in first quarter 2013.

#### EBITDA

EBITDA was DKK 1.8 million in second quarter 2014, compared to DKK 9.1 million in second quarter 2013. The decrease is driven by lower sales volumes. The EBITDA margin of 4% is again an effect of the lower sales.



#### Depreciation and amortisation

Depreciation and amortisation were DKK 5.8 million in second quarter 2014 compared to DKK 5.6 million in second quarter 2013. The increase is in line with our plans as the increased investment level will lead to increased depreciations

#### EBIT

EBIT for second quarter 2014 was negative with DKK 4.0 million, a decrease compared to DKK 3.5 million in second quarter 2013. This is caused by the decrease in revenue.

#### Financial Items

Financial items for second quarter 2014 were an income of DKK 0.3 million compared to an income of DKK 1.9 million in second quarter 2013. The financial items are primarily affected by the change in USD, as Napatech has large USD denominated assets.

#### Taxes

Taxes for the first quarter 2014 are calculated as 24.5% of the pre-tax result. The 24.5% is the Danish tax rate.

#### Investments

Total investments in second quarter 2014 were DKK 11.8 million. The main part was related to new product development with DKK 9.6 million. In second quarter 2013 total investments were DKK 7.8 million, of which DKK 6.1 million was internal product development.

The investment level in a given period is primarily dependent on the timing of product development activities and the nature of these activities. In general, activities including new hardware are more expensive than activities only including software and firmware development. In second quarter 2014 there were two major projects which included new hardware: the new 4 port 10 Gigabit PCI GEN3 accelerator and the new 100 Gigabit accelerator.

#### Cash Flow

For second quarter 2014 net cash flow from operating activities was positive with DKK 3 million, a decrease of DKK 1.8 million from second quarter 2013. The lower sale in Q2 is the primary reason for this decrease.

Negative cash flow from investing activities was DKK 11.8 million in second quarter 2014, an increase from DKK 7.8 million in second quarter 2013.

Napatech had a negative cash flow of DKK 8.8 million in the second quarter of 2014. The total cash position of the company was DKK 90.3 million by end of second quarter 2014, an increase of DKK 63.6 million compared to the end of second quarter 2013. The increase is due to the completion of the IPO in fourth quarter 2013.

Napatech had unused credit facilities of DKK 10 million in Denmark and USD 1 million in the US subsidiary as well at the end of second quarter 2014.

## MANAGEMENT'S REVIEW (CONTINUED)

### Financial review (continued)

#### Shareholders and Share Information

Napatech had per June 30, 2014 issued 5,815,373 shares at DKK 1.00 each. This gives a share capital of 5,815,373 DKK divided among the 335 shareholders.

Shareholder	Shareholding	Ownership %
FERD AS	1.293.211	22,2%
NORTHZONE IV K/S	1.278.875	22,0%
SKANDINAVISKA ENSKIL	381.000	6,6%
SKANDINAVISKA ENSKIL	291.816	5,0%
STATE STREET BANK &	275.000	4,7%
DANSKE BANK A/S	269.257	4,6%
SIX SIS AG	237.219	4,1%
SEB PRIVATE BANK S.A	202.098	3,5%
THE BANK OF NEW YORK	141.765	2,4%
DTU INVEST REP. VED	118.600	2,0%
TRESCHOW-FRITZØE AS	116.703	2,0%
NORTHZEA MANAGEMENT	86.231	1,5%
MVTU REP. VED DTU SY	62.148	1,1%
NORDEA BANK DANMARK	61.543	1,1%
PENSJONSORDNINGEN	60.000	1,0%
J.P. MORGAN CHASE BA	57.230	1,0%
AKA AS	40.000	0,7%
Private investor	37.000	0,6%
BANK JULIUS BÄR & CO	35.000	0,6%
NORDNET BANK AB	33.733	0,6%
Total 20 Largest shareholders	5.078.429	87,3%
Total 315 other shareholders	736.944	12,7%
Total	5.815.373	100,0%

Napatech, as a Danish company, cannot publicise private investors holding shares in Napatech. This is why shareholder 18 has been anonymized.

In connection with the second quarter presentation, the company will issue 6.350 new shares as a result of employees exercising warrants with a strike price of 32 DKK (approximately 35 NOK).

Napatech announced on May 28 that 101.000 out of the 124.656 options available under the 2014 program had been issued, the issue is done with no accounting impact in second quarter 2014.

#### Outlook for 2014

Please see the presentation for Q2 2014 in the section Market trends & Outlook for the 2014 outlook.

#### Risk and Uncertainties

All Napatech revenue is invoiced in USD, and as Napatech reports in DKK there is a currency risk towards movements in USD exchange rates.

For additional explanations regarding risks and uncertainties, please refer to the prospectus dated November 20, 2013, section 2 and [www.napatech.com/investor](http://www.napatech.com/investor).

#### Disclaimer

This report contains statements regarding the future in connection with Napatech growth initiatives, profit figures, outlook, strategies and objectives. In particular, the section Outlook for 2014 contains forward-looking statements regarding the Group's expectations. All statements regarding the future are subject to inherent risks and uncertainties, and many factors can lead to actual profits and developments deviating substantially from what has been expressed or implied in such statements

Oslo, 25 August 2014

The Board of Directors of Napatech A/S

## INTERIM CONSOLIDATED INCOME STATEMENT

For the period ended 30 June 2014

DKK'000	Note	2 <sup>nd</sup> Quarter		YTD June	
		2014	2013	2014	2013
Revenue	3	41,818	51,747	89,648	95,961
Costs of goods sold		(11,250)	(13,999)	(24,345)	(28,133)
<b>Gross profit</b>		<b>30,568</b>	<b>37,748</b>	<b>65,303</b>	<b>67,828</b>
Research and development cost		(4,469)	(2,777)	(7,952)	(6,640)
Selling and distribution expenses		(15,994)	(16,452)	(32,539)	(27,887)
Administrative expenses	4	(8,283)	(9,398)	(16,517)	(18,982)
<b>Operating profit before depreciation and amortisation (EBITDA)</b>		<b>1,822</b>	<b>9,121</b>	<b>8,295</b>	<b>14,319</b>
Depreciation and amortisation		(5,792)	(5,575)	(11,157)	(10,668)
<b>Operating profit / (loss) (EBIT)</b>		<b>(3,970)</b>	<b>3,546</b>	<b>(2,862)</b>	<b>3,651</b>
Finance income		311	2,275	318	3,340
Finance costs		-	(331)	(256)	(662)
<b>Profit / (loss) before tax</b>		<b>(3,659)</b>	<b>5,490</b>	<b>(2,800)</b>	<b>6,329</b>
Income tax expense		896	(1,937)	686	(2,147)
<b>Profit / (loss) for the period</b>		<b>(2,763)</b>	<b>3,553</b>	<b>(2,114)</b>	<b>4,182</b>
<b>Earnings per share:</b>	5				
Basic, DKK		(0.48)	1.01	(0.36)	1.19
Diluted, DKK		(0.47)	0.98	(0.36)	1.16

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2014

DKK'000	Note	2 <sup>nd</sup> Quarter		YTD June	
		2014	2013	2014	2013
<b>Profit / (loss) for the period</b>		<b>(3,449)</b>	<b>3,553</b>	<b>(2,800)</b>	<b>4,182</b>
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>					
Exchange differences on translation from functional to presentation currency		(427)	1,573	(427)	(1,187)
Exchange differences on translation of foreign operations		(23)	21	(12)	21
Income tax effect		-	282	-	282
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<b>(450)</b>	<b>1,876</b>	<b>(439)</b>	<b>(884)</b>
<b>Total comprehensive income for the period</b>		<b>(3,899)</b>	<b>5,429</b>	<b>(3,239)</b>	<b>3,298</b>



## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

### ASSETS

DKK'000	Note	30 June 2014	31 December 2013	30 June 2013
Development projects, completed		27,371	29,780	24,960
Development projects, in progress		28,190	17,370	17,751
Patents		5,847	4,709	4,173
Other intangible assets		1,865	-	-
<b>Intangible assets</b>	<b>6</b>	<b>63,273</b>	<b>51,859</b>	<b>46,884</b>
Plant and equipment		9,066	7,034	7,505
Office improvements		1,671	1,836	1,303
<b>Property, plant and equipment</b>	<b>7</b>	<b>10,737</b>	<b>8,870</b>	<b>8,808</b>
Deferred tax asset		5,010	4,324	3,824
Leasehold deposits		1,770	1,669	1,614
<b>Other non-current assets</b>		<b>6,780</b>	<b>5,993</b>	<b>5,438</b>
<b>Non-current assets</b>		<b>80,104</b>	<b>66,722</b>	<b>61,130</b>
Inventories		5,570	7,922	4,996
Trade receivables	8	34,837	32,066	29,137
Other receivables	8	5,002	3,715	1,812
Cash and cash equivalents		90,344	122,223	26,741
<b>Current assets</b>		<b>135,753</b>	<b>165,926</b>	<b>62,686</b>
<b>Total assets</b>		<b>216,543</b>	<b>232,648</b>	<b>123,816</b>

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

### EQUITY AND LIABILITIES

DKK'000	Note	30 June 2014	31 December 2013	30 June 2013
Share capital	9	5,816	5,812	3,528
Share premium	9	201,286	201,180	103,494
Foreign currency translation reserve		(4,528)	(4,089)	(112)
Other reserves		25,514	25,514	23,864
Accumulated loss		(40,167)	(38,053)	(33,362)
<b>Equity</b>		<b>187,921</b>	<b>190,364</b>	<b>97,412</b>
Interest-bearing loans and borrowings		6,087	6,365	5,492
<b>Non-current liabilities</b>		<b>6,087</b>	<b>6,365</b>	<b>5,492</b>
Interest-bearing loans and borrowings		506	473	191
Trade payables		10,383	23,010	10,287
Other payables		11,127	11,917	9,882
Provisions		519	519	552
<b>Current liabilities</b>		<b>22,535</b>	<b>35,919</b>	<b>20,912</b>
<b>Total liabilities</b>		<b>28,622</b>	<b>42,284</b>	<b>26,404</b>
<b>Total equity and liabilities</b>		<b>216,543</b>	<b>232,648</b>	<b>123,816</b>

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2014

DKK'000	Share capital	Share premium	Foreign currency translation reserve	Other reserves	Acc. losses	Total equity
<b>At 1 January 2014</b>	<b>5,812</b>	<b>201,180</b>	<b>(4,089)</b>	<b>25,514</b>	<b>(38,053)</b>	<b>190,364</b>
Profit for the period	-	-	-	-	649	649
Other comprehensive income	-	-	11	-	-	11
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>649</b>	<b>660</b>
Issue of shares	4	106	-	-	-	110
Share-based payments	-	-	-	-	-	-
<b>At 31 March 2014</b>	<b>5,816</b>	<b>201,286</b>	<b>(4,078)</b>	<b>25,514</b>	<b>(37,404)</b>	<b>191,134</b>
Loss for the period	-	-	-	-	(2,763)	(2,763)
Other comprehensive income	-	-	(450)	-	-	(450)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(450)</b>	<b>-</b>	<b>(2,763)</b>	<b>(3,213)</b>
Issue of shares	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-
<b>At 30 June 2014</b>	<b>5,816</b>	<b>201,286</b>	<b>(4,528)</b>	<b>25,514</b>	<b>(40,167)</b>	<b>187,921</b>
<b>At 1 January 2013</b>	<b>3,523</b>	<b>103,364</b>	<b>772</b>	<b>19,753</b>	<b>(37,544)</b>	<b>89,868</b>
Profit for the period	-	-	-	-	629	629
Other comprehensive income	-	-	(2,760)	-	-	(2,760)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(2,760)</b>	<b>-</b>	<b>629</b>	<b>(2,131)</b>
Issue of shares	-	-	-	-	-	-
Share-based payments	-	-	-	2,809	-	2,809
<b>At 31 March 2013</b>	<b>3,523</b>	<b>103,364</b>	<b>(1,988)</b>	<b>22,562</b>	<b>(36,915)</b>	<b>90,546</b>
Profit for the period	-	-	-	-	3,553	3,553
Other comprehensive income	-	-	1,876	-	-	1,876
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>1,876</b>	<b>-</b>	<b>3,553</b>	<b>5,429</b>
Issue of shares	5	130	-	-	-	135
Share-based payments	-	-	-	1,302	-	1,302
<b>At 30 June 2013</b>	<b>3,528</b>	<b>103,494</b>	<b>(112)</b>	<b>23,864</b>	<b>(33,362)</b>	<b>97,412</b>

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2014

DKK'000	Note	2 <sup>nd</sup> Quarter		YTD June	
		2014	2013	2014	2013
<b>Operating activities</b>					
Profit / (loss) before tax		(3,659)	5,490	(2,800)	6,329
Adjustments to reconcile profit before tax to net cash flows:					
Finance income		(231)	(146)	(318)	(1,211)
Finance costs		(80)	(122)	256	209
Amortisation and depreciation		5,792	5,575	11,157	10,668
Share-based payment expense		-	1,302	-	4,111
Currency adjustments		289	2,760	78	-
Working capital adjustments:					
(Increase) / decrease in inventories		(52)	(1,570)	2,352	(1,137)
(Increase) / decrease in trade and other receivables		2,567	(8,676)	(4,058)	(836)
Increase / (decrease) in trade and other payables and provisions		(1,605)	173	(13,417)	(6,871)
<b>Cash flows (used in) / from operating activities</b>		<b>3,021</b>	<b>4,786</b>	<b>(6,750)</b>	<b>11,262</b>
Interest received		68	2	155	2
Interest paid		(106)	(194)	(221)	(194)
Income tax paid		-	(301)	-	(301)
<b>Net cash flows from / (used in) operating activities</b>		<b>2,983</b>	<b>4,293</b>	<b>(6,816)</b>	<b>10,769</b>
<b>Investing activities</b>					
Purchase of plant, property and equipment		(2,139)	(1,384)	(4,816)	(2,856)
Investments in intangible assets		(9,593)	(6,063)	(20,256)	(11,037)
Investments in leasehold deposits		(70)	(375)	(101)	(375)
<b>Net cash used in investing activities</b>		<b>(11,802)</b>	<b>(7,822)</b>	<b>(25,173)</b>	<b>(14,268)</b>
<b>Financing activities</b>					
Issue of shares		-	135	110	135
Proceeds from borrowings		-	-	-	-
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>135</b>	<b>110</b>	<b>135</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(8,819)</b>	<b>(3,394)</b>	<b>(31,879)</b>	<b>(3,364)</b>
Cash and cash equivalents at the beginning of the period		99,163	30,135	122,223	30,105
<b>Cash and cash equivalents at the end of the period</b>		<b>90,344</b>	<b>26,741</b>	<b>90,344</b>	<b>26,741</b>

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 1 BASIS OF PREPARATION

The interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU and additional Danish disclosure requirements for listed companies.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### General

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

The interim consolidated financial statements are presented in thousand Danish kroner (DKK'000). Until 31 December 2013 the Group's functional currency was US dollar (USD). The management of the Group has considered the functional currency and due to change in circumstances affecting the operations of the parent company, the management determines that on 1 January 2014 the functional currency of the parent company is Danish kroner (DKK). Therefore, the parent company has applied DKK as its new functional currency prospectively from 1 January 2014.

With the exception of the amendments to standards and interpretations enumerated below, the accounting policies are consistent with those applied to the year end 31 December 2013.

#### Effect of implementation of new and revised standards

The Group implemented all new IFRS standards, amendments to existing standards and basis for conclusions that have been approved by the EU and entered into effect in the first half of 2014. The standards and amendments to existing standards which are relevant to the Group are enumerated below:

- IFRS 10, Consolidated Financial Statements, changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to affect its return;
- IFRS 12, Disclosure of Interests in Other Entities, is a new disclosure and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

The implementation of the new and revised Standards and Interpretation have not affected the recognition or measurement.

#### New and amended standards not yet effective

The IASB has issued a number of new standards, amendments to existing standards and interpretations which have not yet become effective but will come into effect during 2014 or later. The following standard is expected to impact the interim consolidated financial statements:

- IFRS 9, Financial Instruments, which changes the accounting treatment of financial instruments, including the classification and measurement of financial assets and liabilities. The standard is not expected to have any major impact on the recognition and measurement of financial instruments but may change the classification of individual instruments. (Not approved by the EU, effective date to be decided).

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

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

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

#### The interim consolidated financial statements

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

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 3 OPERATING SEGMENTS

**2<sup>nd</sup> Quarter 2014:**

<b>DKK'000</b>	<b>EMEA</b>	<b>NAM</b>	<b>APAC</b>	<b>LAM</b>	<b>Consolidated</b>
<b>Revenue</b>					
Total revenue	31,712	33,573	3,262	-	68,547
Inter-segment	(26,729)	-	-	-	(26,729)
<b>Revenue, external customers</b>	<b>4,983</b>	<b>33,573</b>	<b>3,262</b>	-	<b>41,818</b>
Cost of goods sold	(1,116)	(9,616)	(518)	-	(11,250)
<b>Gross profit</b>	<b>3,867</b>	<b>23,957</b>	<b>2,744</b>	-	<b>30,568</b>

**2<sup>nd</sup> Quarter 2013:**

<b>DKK'000</b>	<b>EMEA</b>	<b>NAM</b>	<b>APAC</b>	<b>LAM</b>	<b>Consolidated</b>
<b>Revenue</b>					
Total revenue	55,649	37,835	6,019	-	99,503
Inter-segment	(47,756)	-	-	-	(47,756)
<b>Revenue, external customers</b>	<b>7,893</b>	<b>37,835</b>	<b>6,019</b>	-	<b>51,747</b>
Cost of goods sold	(2,649)	(10,737)	(613)	-	(13,999)
<b>Gross profit</b>	<b>5,244</b>	<b>27,098</b>	<b>5,406</b>	-	<b>37,748</b>

#### Explanation of abbreviations

EMEA	= Europe, Middle East and Africa
NAM	= Northern America
APAC	= Asia and Pacific
LAM	= Latin America

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 3 OPERATING SEGMENTS (CONTINUED)

The following tables present revenue and gross profit information about the Group's operating segments:

**YTD June 2014:**

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
<b>Revenue</b>					
Total revenue	67,630	68,790	7,004	22	143,446
Inter-segment	(53,798)	-	-	-	(53,798)
<b>Revenue, external customers</b>	<b>13,832</b>	<b>68,790</b>	<b>7,004</b>	<b>22</b>	<b>89,648</b>
Cost of goods sold	(3,070)	(19,706)	(1,563)	(6)	(24,345)
<b>Gross profit</b>	<b>10,762</b>	<b>49,084</b>	<b>5,441</b>	<b>16</b>	<b>65,303</b>

**YTD June 2013:**

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
<b>Revenue</b>					
Total revenue	78,458	70,461	8,735	-	157,654
Inter-segment	(61,693)	-	-	-	(61,693)
<b>Revenue, external customers</b>	<b>16,765</b>	<b>70,461</b>	<b>8,735</b>	<b>-</b>	<b>95,961</b>
Cost of goods sold	(4,718)	(21,972)	(1,443)	-	(28,133)
<b>Gross profit</b>	<b>12,047</b>	<b>48,489</b>	<b>7,292</b>	<b>-</b>	<b>67,828</b>

#### Explanation of abbreviations

EMEA	= Europe, Middle East and Africa
NAM	= Northern America
APAC	= Asia and Pacific
LAM	= Latin America

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

#### Adjustments and eliminations

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

Current taxes and deferred taxes are not allocated to individual segments as they are also managed on a group basis.



## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 4 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. The exercise price of DKK 32 is equivalent to approximately NOK 35 with exchange rate as of 21 August 2014.

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

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

The management treats the change of terms as modifications to the existing share-based payment arrangements. Accordingly, the fair value determined at the original grant date has been charged to the income statement over the original vesting period. In addition, an expense is recognised over the new vesting period, corresponding to the increase in the fair value of the share-based payment as a result of the change of terms. All granted share options are equity-based.

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

In December 2013 the initial public offering (IPO) on the Oslo Stock Exchange (OSE) resulted in an exercising event in relation to all share option programmes. Therefore, the remaining vesting period of the share options has been accelerated. The general terms for share options are summarised as follows:

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

Share options (DKK)	Board of Directors		Management		Others		Total	
	Number	Average exercise price	Number	Average exercise price	Number	Average exercise price	Number	Average exercise price
At 1 January 2014	-	-	269,037	32.00	151,855	32.00	420,892	32.00
Granted during the period	-	-	-	-	-	-	-	-
Exercised / expired during the period	-	-	-	-	(3,425)	32.00	(3,425)	32.00
<b>At 30 June 2014</b>	<b>-</b>	<b>-</b>	<b>269,037</b>	<b>32.00</b>	<b>148,430</b>	<b>32.00</b>	<b>417,467</b>	<b>32.00</b>
<b>Exercisable at 30 June 2014</b>	<b>-</b>	<b>-</b>	<b>269,037</b>	<b>32.00</b>	<b>148,430</b>	<b>32.00</b>	<b>417,467</b>	<b>32.00</b>
At 1 January 2013	2,000	37.46	328,209	31.43	336,607	34.02	666,816	32.52
Granted during the period	20,550	32.00	71,750	32.00	3,050	32.00	95,350	32.00
Exercised / expired during the period	-	-	(42,750)	26.30	(8,375)	32.00	(51,125)	27.25
<b>At 30 June 2013</b>	<b>22,550</b>	<b>32.48</b>	<b>357,209</b>	<b>32.18</b>	<b>331,282</b>	<b>34.00</b>	<b>711,041</b>	<b>33.77</b>
<b>Exercisable at 30 June 2013</b>	<b>22,550</b>	<b>32.48</b>	<b>299,483</b>	<b>32.18</b>	<b>307,032</b>	<b>34.00</b>	<b>629,065</b>	<b>33.77</b>

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 4 SHARE-BASED PAYMENTS (CONTINUED)

In the first half year of 2014 no share options were exercised or lapsed (first half year of 2013: 4,200 exercised and 46,925 lapsed).

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

<b>Number of share options</b>	<b>As at 30 June 2014</b>	<b>As at 30 June 2013</b>
Exercise price DKK 32.00	417,467	577,554
Exercise price DKK 37.46	-	133,487
<b>Total number of outstanding share options and warrants</b>	<b>417,467</b>	<b>711,041</b>

The weighted average of the remaining contractual period of the outstanding stock options at 30 June 2014 is 3 years and 5 months (at 30 June 2013: 4 years and 5 months).

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

Since no share options were granted during 2<sup>nd</sup> quarter 2014 no fair value of share options was estimated. The fair value of share options granted during 2013 was estimated on the date of grant using the following assumptions:

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

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

Since no grants were made during 2<sup>nd</sup> quarter 2014 the fair value has not been assessed (2<sup>nd</sup> quarter 2013: The grant date fair value of the share options during 2013 was DKK 80.41). The fair value of the share options is determined using the Black-Scholes option pricing model.

The Group did not recognise share-based payment expense in the income statement for 2<sup>nd</sup> quarter 2014 since the new share options programme did not take effect during that period (2<sup>nd</sup> quarter 2013: DKK 1,302 thousand).

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 5 EARNINGS PER SHARE

DKK'000	2 <sup>nd</sup> Quarter		YTD June	
	2014	2013	2014	2013
<b>Net profit attributable to equity holders of the parent company for basic earnings and the effect of dilution</b>	<b>(2,763)</b>	<b>3,553</b>	<b>(2,114)</b>	<b>4,182</b>

DKK'000	2014	2013	2014	2013
	<i>Thousand</i>	<i>Thousand</i>	<i>Thousand</i>	<i>Thousand</i>
Weighted average number of shares for basic earnings per share	5,815	3,523	5,814	3,523
Effect of dilution:				
Share options	90	95	101	95
<b>Weighted average number of shares adjusted for the effect of dilution</b>	<b>5,905</b>	<b>3,618</b>	<b>5,915</b>	<b>3,618</b>

### 6 INTANGIBLE ASSETS

The Group develops innovative network adapters for analysis and monitoring purposes. A network adapter is an integrated package of hardware, a functionality programmed into the FPGA and driver software for server handling of the adapter. All development projects and patents are legally owned by the parent company.

Within the completed development projects there is one material development project with carrying amount of DKK 11,782 thousand at 30 June 2014. The aim of this project is to develop GTP tunnelling support. The remaining amortisation period of this project is 2 years and 6 months.

Within the in progress development projects there are two material development projects with carrying amounts of DKK 18,224 thousand and DKK 8,522 thousand at 30 June 2014 respectively. The aim of the first project is to develop new non-blocking 4x10G adapter and the aim of the second project is to develop new 1x100G adapter. These projects are not yet completed and therefore have not been amortised.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 6 INTANGIBLE ASSETS (CONTINUED)

DKK'000	Development projects, completed	Development projects, in progress	Patents	Other intangible assets	Total
Cost at 1 January 2014	88,246	17,370	4,787	-	110,403
Additions in the period	7,381	17,462	929	1,865	27,637
Disposals in the period	-	(7,381)	-	-	(7,381)
Currency adjustment	540	739	275	-	1,554
<b>Cost at 30 June 2014</b>	<b>96,167</b>	<b>28,190</b>	<b>5,991</b>	<b>1,865</b>	<b>132,213</b>
Accumulated amortisation at 1 January 2014	58,466	-	78	-	58,544
Amortisation for the period	8,731	-	63	-	8,794
Currency adjustment	1,599	-	3	-	1,602
<b>Accumulated amortisation 30 June 2014</b>	<b>68,796</b>	<b>-</b>	<b>144</b>	<b>-</b>	<b>68,940</b>
<b>Carrying amount at 30 June 2014</b>	<b>27,371</b>	<b>28,190</b>	<b>5,847</b>	<b>1,865</b>	<b>63,273</b>

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

### 7 PROPERTY, PLANT AND EQUIPMENT

DKK'000	Plant and equipment	Leasehold improvements	Total
Cost at 1 January 2014	22,012	3,734	25,746
Additions in the period	4,467	134	4,601
Currency adjustment	(566)	(93)	(659)
<b>Cost at 30 June 2014</b>	<b>25,913</b>	<b>3,775</b>	<b>29,688</b>
Accumulated depreciation at 1 January 2014	14,978	1,898	16,876
Depreciation for the period	2,104	259	2,363
Currency adjustment	(235)	(53)	(288)
<b>Accumulated depreciation 30 June 2014</b>	<b>16,847</b>	<b>2,104</b>	<b>18,951</b>
<b>Carrying amount at 30 June 2014</b>	<b>9,066</b>	<b>1,671</b>	<b>10,737</b>

The carrying amount for plant and equipment held under finance leasing is DKK 1,325 thousand at 30 June 2014. There were no indications of impairment of the Group's property, plant and equipment in the reporting period.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 8 TRADE RECEIVABLES

DKK'000	30 June 2014	30 June 2013
<b>Receivables recognised in the consolidated statement of financial position:</b>		
Trade receivables	34,837	29,137
Other receivables	5,002	1,812
<b>Total current receivables</b>	<b>39,839</b>	<b>30,949</b>

The provision for bad and doubtful receivables is as follows:

DKK'000	2014	2013
At 1 January	1,593	2,670
Utilised	(192)	(934)
<b>At 30 June</b>	<b>1,401</b>	<b>1,736</b>

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

DKK'000	30 June 2014	30 June 2013
Not past due	15,080	22,950
Past due less than 30 days	6,246	2,526
Past due between 30 and 60 days	4,266	241
Past due between 60 and 90 days	2,336	579
Past due after 90 days	6,909	2,841
<b>Total maximum credit risk</b>	<b>34,837</b>	<b>29,137</b>

### 9 ISSUED SHARE CAPITAL AND RESERVES

Authorised shares	2014	2013
	<i>Thousand</i>	<i>Thousand</i>
Ordinary shares of DKK 1 each at 1 January	5,812	3,523
Increase in ordinary shares DKK 1 each	4	5
<b>Ordinary shares of DKK 1 each at 30 June</b>	<b>5,816</b>	<b>3,528</b>

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 9 ISSUED SHARE CAPITAL AND RESERVES (CONTINUED)

Ordinary shares and fully paid	Thousand	DKK'000
At 1 January 2014	5,812	5,812
Exercise of share options during the period	4	4
<b>At 30 June 2014</b>	<b>5,816</b>	<b>5,816</b>

#### Share premium

DKK'000	2014	2013
At 1 January	201,180	103,364
Exercise of share options for cash in excess of cost of ordinary shares during the period	106	130
<b>At 30 June</b>	<b>201,286</b>	<b>103,494</b>

### 10 COMMITMENTS AND CONTINGENCIES

#### Collaterals

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

#### Operating lease commitments

The Groups' operating lease commitments relate to cars and office facilities. Future minimum payments under operating leases at 30 June 2014 are as follows:

DKK'000	Cars	Office facilities	Total
Falling due within one year	107	3,957	4,064
Falling due between one and five years	-	2,312	2,312
<b>Total</b>	<b>107</b>	<b>6,269</b>	<b>6,376</b>

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### Finance lease commitments

The Groups' finance lease commitments relate to equipment used in the research and development department. Future minimum lease payments together with the present value of the net minimum lease payments at 30 June 2014 are as follows:

<b>DKK'000</b>	<b>Minimum payments</b>	<b>Present value of payments</b>
Falling due within one year	560	506
Falling due between one and five years	1,126	1,087
<b>Total minimum lease payments</b>	<b>1,686</b>	<b>1,593</b>
Less: finance charge	(93)	-
<b>Present value of lease payments</b>	<b>1,593</b>	<b>1,593</b>

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