

NAPATECH
3RD 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 July to 30 September 2014 and the nine months period from 1 January to 30 September 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 September 2014, and of the results of the Napatech Group's operations and cash flows for the three months period from 1 July to 30 September 2014 and the nine months period from 1 January to 30 September 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, 17 November 2014

Executive Management

Henrik Brill Jensen, CEO

Niels Hobolt, CFO

Board of Directors

Olav Stokke, Chairman

Bjørn Erik Reinseth, Deputy Chairman

Martyn Braime

Hans Victor Koch

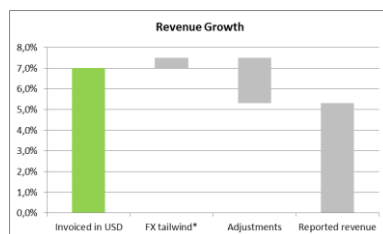
Growth and Profit

Highlights

- Revenue for third quarter 2014 amounted to DKK 44.3 million, an increase of 5% compared to third quarter 2013, and a sequential increase of 6% compared to second quarter 2014.
- Gross margin for third quarter 2014 was 75%, 3 pct. points above the gross margin for third quarter 2013 of 72%, and above the 73% of second quarter of 2014.
- EBITDA for third quarter of 2014 amounted to DKK 5.1 million, an increase of DKK 0.7 million compared to third quarter 2013.
- EBITDA margin for third quarter 2014 was 12%, an increase from 11% in third quarter 2013.
- EBT margin for third quarter 2014 was positive with 5% compared to negative 7% in third quarter 2013.

MANAGEMENT'S REVIEW

The business progress for third quarter 2014 was not satisfactory as expectations were that we should see a significant uptake in the market during the second half of 2014. As seen from the QSI for Q3, reported on October 8th 2014, the end of the quarter did not provide the up-lift expected and forecasted by Management for the quarter. The investments in high-end networking equipment where the majority of Napatech products are used, did in 2nd half 2013 experience a slowdown, which as expected continued during first half of 2014. A return to normal was expected in second half of 2014.



*Average bookkeeping rates

The gross margin has shown a positive development during the past years, and this has continued during the first 3 quarters 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 third quarter of 2014 a number of design wins again materialized:

- 1 Gigabit design win at existing US based customer for a security product
- 10 Gigabit design win at a European based Tier 1 Telecom Equipment Manufacture
- 10 Gigabit design win with existing customer who are a US based Tier 1 Network Equipment Manufacture

In addition to these recent design wins, Napatech made progress in the geographical expansion, where a new customer has launched products based on Napatech's products

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.

Golden Bridge Awards made Napatech's 100 Gbe product Gold winner in 3 different categories. In addition, Napatech won the Danish Technology Firm of the year 2014.

MANAGEMENT'S REVIEW (CONTINUED)

Napatech operations

The statements below are related to Napatech's development in third quarter of 2014 compared to third quarter 2013, and the nine months period from 1 January to 30 September 2014 compared to the nine months period from 1 January to 30 September 2013, unless otherwise stated. Additional information is available at www.napatech.com/investor.

Key figures and ratios

	3 rd Quarter		YTD September	
	2014	2013	2014	2013
Revenue, DKK'000	44,305	42,067	133,953	138,028
Gross profit margin, %	75%	72%	73%	71%
EBITDA, DKK'000	5,114	4,427	13,409	18,766
EBITDA margin, %	12%	11%	10%	14%
Profit / (loss) before tax, DKK'000	2,400	(3,057)	(400)	3,271
EPS basic, DKK	0.31	(0.90)	(0.05)	0.28
EPS diluted, DKK	0.31	(0.88)	(0.05)	0.28
Equity, DKK'000	190,219	94,603	190,219	94,603
Cash and cash equivalents, DKK'000	84,325	23,605	84,325	23,605

Financial review

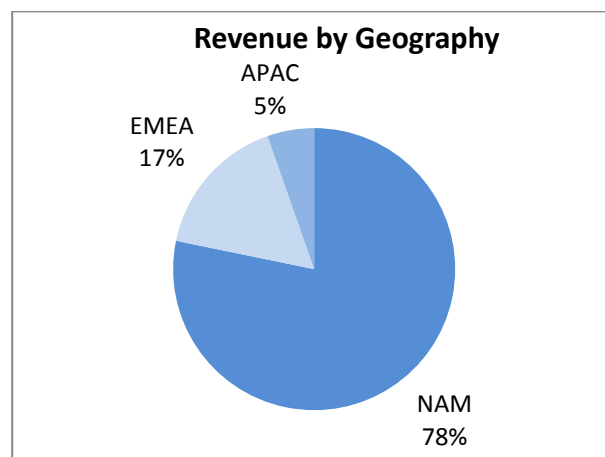
Revenue

Napatech reported revenue of DKK 44.3 million in the third quarter, an increase of 5% compared to the same period in 2013. The three quarters combined ended at DKK 134.0 million, a decrease of 3% compared to the same period last year.

Sales were distributed with 78% in NAM, 17% in EMEA and the remaining 5% in APAC. The North American market share of the sales was higher than normal, and especially the APAC region was lower than normal.

Gross Margin

Gross margin for third quarter 2014 was 75%, which was higher than both last year's 72% and third quarters 73%. The trend from last quarter with a high share of high speed accelerators has continued.



MANAGEMENT'S REVIEW (CONTINUED)

Financial review (continued)

Costs

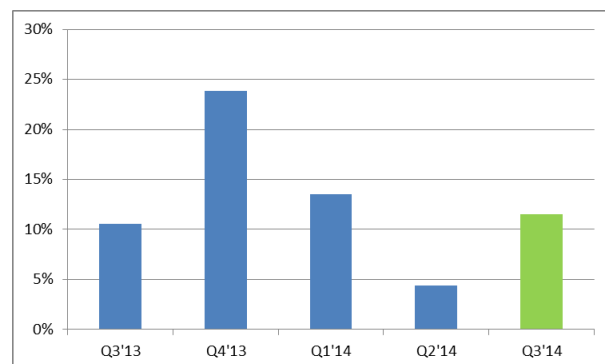
R&D cost for third quarter 2014 was DKK 4.0 million compared to DKK 4.0 million in third quarter 2013. The added resources in the R&D department have been allocated to new product development in the period.

Sales and distribution costs for third quarter 2014 were DKK 15.4 million, compared to DKK 13.7 million in third quarter 2013. The main reason for the increase is increased investments in Sales and Marketing efforts, both by geographical expansion and by increased resources in existing geographies. This increase is in line with the company's plans to invest in the Company's ability to capture future growth.

Administrative expenses for third quarter 2014 were DKK 8.6 million compared to DKK 8.1 million in third quarter 2013. The increase is due to capacity expansion as consequence of investments in Sales Marketing and development of new products

EBITDA

EBITDA was DKK 5.1 million in third quarter 2014, compared to DKK 4.4 million in third quarter 2013. The increase is driven by higher sales and higher margins.



Depreciation and amortisation

Depreciation and amortisation were DKK 6.3 million in third quarter 2014 compared to DKK 5.2 million in third quarter 2013. The increase is in line with our plans as the increased investment level will lead to increased depreciations.

EBIT

EBIT for third quarter 2014 was negative with DKK 1.2 million, a decrease compared to negative DKK 0.8 million in third quarter 2013. This is caused by the increase in depreciations.

Financial Items

Financial items for third quarter 2014 were an income of DKK 3.6 million compared to an expense of DKK 2.3 million in third quarter 2013. The financial items are primarily affected by the change in USD, as Napatech has large USD denominated assets. The USD exchange rate had a significant increase towards the end of third quarter 2014.

Taxes

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

Investments

Total investments in third quarter 2014 were DKK 8.9 million. The main part was related to new product development with DKK 8.0 million. In third quarter 2013 total investments were DKK 6.9 million, of which DKK 5.5 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 third quarter 2014 there were one major project which included new hardware: the new 100 Gigabit accelerator.

Cash Flow

For third quarter 2014 net cash flow from operating activities was positive with DKK 2.9 million, a decrease of DKK 1.1 million from third quarter 2013. An increase in trade payables is the main reason for the lower cash flow from operations.

Negative cash flow from investing activities was DKK 8.9 million in third quarter 2014, an increase from DKK 6.9 million in third quarter 2013.

Napatech had a negative cash flow of DKK 6.0 million in the third quarter of 2014. The total cash position of the company was DKK 84.3 million by end of third quarter 2014, an increase of DKK 60.7 million compared to the end of third 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 third quarter 2014.

MANAGEMENT'S REVIEW (CONTINUED)

Financial review (continued)

Shareholders and Share Information

Napatech had per September 30, 2014 issued 5,821,723 shares at DKK 1.00 each. This gives a share capital of 5,821,723 DKK divided among the 395 shareholders.

Investor	Number of shares	% of total
VERDANE CAPITAL VIII	1.293.211	22,2%
NORTHZONE IV K/S	1.278.875	22,0%
SKANDINAVISKA ENSKILDA	381.000	6,5%
SKANDINAVISKA ENSKILDA	297.810	5,1%
STATE STREET BANK	275.000	4,7%
DANSKE BANK A/S	267.157	4,6%
SIX SIS AG	214.748	3,7%
SEB PRIVATE BANK S.A	202.098	3,5%
SWEDBANK AS	182.808	3,1%
THE BANK OF NEW YORK	144.227	2,5%
DTU INVEST REP. VED	118.600	2,0%
NORTHZEA MANAGEMENT	81.231	1,4%
J.P. MORGAN CHASE BANK	73.480	1,3%
MVTU REP. VED DTU SYMBION	62.148	1,1%
NORDEA BANK DANMARK	60.782	1,0%
AKA AS	40.000	0,7%
BANK JULIUS BÄR & CO	35.000	0,6%
NORDNET BANK AB	34.268	0,6%
BROWNSKE BEVAEGELSER	30.000	0,5%
PARK LANE FAMILY OFFICE	29.999	0,5%
Total number owned by top 20	5.102.442	87,6%
Total 375 other shareholders	719.281	12,4%
Total number of shares	5.821.723	100%

Outlook for 2014

Napatech previously expected an improved business situation in 2nd half of 2014. The business situation has improved in the 3rd quarter but not to the extent we originally expected.

Based on our Q3 growth, business activity in first half of Q4 and our inherent short order visibility, management reduces the outlook for 2014 to:

- Revenue for 2014 around 2013 level
- EBITDA margin around 10%

The second half of 2013 showed a slowdown in our customers' bookings, due to less investments in high-end equipment where Napatech products are used. This was expected to continue in first half of 2014, and improve significantly during second half of 2014. This improvement is no longer expected to materialize in 2014 as the low visibility into the 4th quarter 2014 does not support it. The change in the expected EBITDA is driven by the lower revenue expectations.

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.

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 have been expressed or implied in such statements.

Oslo, 17 November 2014

The Board of Directors of Napatech A/S

INTERIM CONSOLIDATED INCOME STATEMENT

For the period ended 30 September 2014

DKK'000	Note	3 rd Quarter		YTD September	
		2014	2013	2014	2013
Revenue	3	44,305	42,067	133,953	138,028
Costs of goods sold		(11,285)	(11,881)	(35,630)	(40,014)
Gross profit		33,020	30,186	98,323	98,014
Research and development cost		(3,975)	(4,025)	(11,927)	(10,645)
Selling and distribution expenses		(15,362)	(13,683)	(47,901)	(41,570)
Administrative expenses	4	(8,569)	(8,051)	(25,086)	(27,033)
Operating profit before depreciation and amortisation (EBITDA)		5,114	4,427	13,409	18,766
Depreciation and amortisation		(6,287)	(5,218)	(17,444)	(15,906)
Operating profit / (loss) (EBIT)		(1,173)	(791)	(4,035)	2,860
Finance income		3,696	-	4,014	2,285
Finance costs		(123)	(2,266)	(379)	(1,874)
Profit / (loss) before tax		2,400	(3,057)	(400)	3,271
Income tax expense		(588)	(124)	98	(2,271)
Profit / (loss) for the period		1,812	(3,181)	(302)	1,000
Earnings per share:	5				
Basic, DKK		0.31	(0.90)	(0.05)	0.28
Diluted, DKK		0.31	(0.88)	(0.05)	0.28

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 September 2014

DKK'000	Note	3 rd Quarter		YTD September	
		2014	2013	2014	2013
Profit / (loss) for the period		1,812	(3,181)	(302)	1,000
<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	(492)	-	(1,679)
Exchange differences on translation of foreign operations		(247)	-	(259)	21
Income tax effect		-	-	-	282
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		180	(492)	(259)	(1,376)
Total comprehensive income for the period		1,992	(3,673)	(561)	(376)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2014

ASSETS

DKK'000	Note	30 September 2014	31 December 2013	30 September 2013
Development projects, completed		40,873	29,780	21,002
Development projects, in progress		17,316	17,370	23,158
Patents		6,263	4,709	4,560
Other intangible assets		1,864	-	-
Intangible assets	6	66,316	51,859	48,720
Plant and equipment		8,912	7,034	6,772
Office improvements		1,539	1,836	1,793
Property, plant and equipment	7	10,451	8,870	8,565
Deferred tax asset		4,422	4,324	3,997
Leasehold deposits		1,760	1,669	1,672
Other non-current assets		6,182	5,993	5,669
Non-current assets		82,949	66,722	62,954
Inventories		5,870	7,922	6,998
Trade receivables	8	42,501	32,066	25,582
Other receivables	8	3,951	3,715	5,116
Cash and cash equivalents		84,325	122,223	23,605
Current assets		136,647	165,926	61,301
Total assets		219,596	232,648	124,255

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2014

EQUITY AND LIABILITIES

DKK'000	Note	30 September 2014	31 December 2013	30 September 2013
Share capital	9	5,822	5,812	3,528
Share premium	9	210,675	201,180	103,494
Foreign currency translation reserve		80	(4,089)	(604)
Other reserves		11,997	25,514	24,728
Accumulated loss		(38,355)	(38,053)	(36,543)
Equity		190,219	190,364	94,603
Interest-bearing loans and borrowings		5,957	6,365	5,443
Non-current liabilities		5,957	6,365	5,443
Interest-bearing loans and borrowings		511	473	193
Trade payables		9,336	23,010	12,316
Other payables		13,144	11,917	10,354
Provisions		429	519	1,346
Current liabilities		23,420	35,919	24,209
Total liabilities		29,377	42,284	29,652
Total equity and liabilities		219,596	232,648	124,255

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2014

DKK'000	Share capital	Share premium	Foreign currency translation reserve	Other reserves	Acc. losses	Total equity
At 1 January 2014	5,812	201,180	(4,089)	25,514	(38,053)	190,364
Loss for the period	-	-	-	-	(2,114)	(2,114)
Other comprehensive income	-	-	(439)	-	-	(439)
Total comprehensive income	-	-	(439)	-	(2,114)	(2,553)
Issue of shares	4	106	-	-	-	110
Share-based payments	-	-	-	-	-	-
At 30 June 2014	5,816	201,286	(4,528)	25,514	(40,167)	187,921
Profit for the period	-	-	-	-	1,812	1,812
Reversals	-	-	4,428	-	(4,428)	-
Other comprehensive income	-	-	180	-	-	180
Total comprehensive income	-	-	4,608	-	(2,616)	(3,213)
Issue of shares	6	197	-	-	-	203
Reversals	-	9,192	-	(13,620)	4,428	-
Share-based payments	-	-	-	103	-	103
At 30 September 2014	5,822	210,675	80	11,997	(38,355)	190,219
<hr/>						
At 1 January 2013	3,523	103,364	772	19,753	(37,544)	89,868
Profit for the period	-	-	-	-	4,182	4,182
Other comprehensive income	-	-	(884)	-	-	(884)
Total comprehensive income	-	-	(884)	-	4,182	3,298
Issue of shares	5	130	-	-	-	135
Share-based payments	-	-	-	4,111	-	4,111
At 30 June 2013	3,528	103,494	(112)	23,864	(33,362)	97,412
Loss for the period	-	-	-	-	(3,181)	(3,181)
Other comprehensive income	-	-	(492)	-	-	(492)
Total comprehensive income	-	-	(492)	-	(3,181)	(3,673)
Issue of shares	-	-	-	-	-	-
Share-based payments	-	-	-	864	-	864
At 30 September 2013	3,528	103,494	(604)	24,728	(36,543)	94,603

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 September 2014

		3 rd Quarter		YTD September	
DKK'000	Note	2014	2013	2014	2013
Operating activities					
Profit / (loss) before tax		2,400	(3,057)	(400)	3,271
Adjustments to reconcile profit before tax to net cash flows:					
Finance income		(3,696)	-	(4,014)	(2,285)
Finance costs		123	2,266	379	1,874
Amortisation and depreciation	6, 7	6,287	5,218	17,444	15,906
Share-based payment expense		103	864	103	4,975
Currency adjustments		3,688	(2,816)	3,796	(1,836)
Working capital adjustments:					
(Increase) / decrease in inventories		(300)	(2,002)	2,052	(3,139)
(Increase) / decrease in trade and other receivables		(6,613)	251	(10,671)	(585)
Increase / (decrease) in trade and other payables and provisions		800	3,296	(12,537)	(3,575)
Cash flows (used in) / from operating activities		2,872	4,020	(3,848)	14,606
Interest received		104	-	259	2
Interest paid		(158)	(116)	(379)	(310)
Income tax paid		-	(124)	-	(425)
Net cash flows from / (used in) operating activities		2,818	3,780	(3,968)	13,873
Investing activities					
Purchase of plant, property and equipment		(865)	(1,268)	(5,466)	(4,131)
Investments in intangible assets		(8,017)	(5,543)	(28,273)	(16,580)
Investments in leasehold deposits		(33)	(58)	(134)	(433)
Net cash used in investing activities		(8,915)	(6,869)	(33,873)	(21,144)
Financing activities					
Issue of shares		203	-	313	135
Proceeds from borrowings		-	-	-	636
Repayment of borrowings		(125)	(47)	(370)	-
Net cash flows from financing activities		78	(47)	(57)	771
Net decrease in cash and cash equivalents		(6,019)	(3,136)	(37,898)	(6,500)
Cash and cash equivalents at the beginning of the period		90,344	26,741	122,223	30,105
Cash and cash equivalents at the end of the period		84,325	23,605	84,325	23,605

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 nine months period ended 30 September 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

3rd Quarter 2014:					
DKK'000	EMEA	NAM	APAC	LAM	Consolidated
Revenue					
Total revenue	34,019	34,656	2,381	-	71,056
Inter-segment	(26,751)	-	-	-	(26,751)
Revenue, external customers	7,268	34,656	2,381	-	44,305
Cost of goods sold	(1,629)	(9,208)	(448)	-	(11,285)
Gross profit	5,639	25,448	1,933	-	33,020

3rd Quarter 2013:					
DKK'000	EMEA	NAM	APAC	LAM	Consolidated
Revenue					
Total revenue	18,972	27,635	5,057	-	51,664
Inter-segment	(9,597)	-	-	-	(9,597)
Revenue, external customers	9,375	27,635	5,057	-	42,067
Cost of goods sold	(1,479)	(9,525)	(877)	-	(11,881)
Gross profit	7,896	18,110	4,180	-	30,186

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 September 2014:					
DKK'000	EMEA	NAM	APAC	LAM	Consolidated
Revenue					
Total revenue	101,649	103,446	9,385	22	214,502
Inter-segment	(80,549)	-	-	-	(80,549)
Revenue, external customers	21,100	103,446	9,385	22	133,953
Cost of goods sold	(4,699)	(28,914)	(2,011)	(6)	(35,630)
Gross profit	16,401	74,532	7,374	16	98,323

YTD September 2013:					
DKK'000	EMEA	NAM	APAC	LAM	Consolidated
Revenue					
Total revenue	97,430	98,096	13,792	-	209,318
Inter-segment	(71,290)	-	-	-	(71,290)
Revenue, external customers	26,140	98,096	13,792	-	138,028
Cost of goods sold	(6,197)	(31,497)	(2,320)	-	(40,014)
Gross profit	19,943	66,599	11,472	-	98,014

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.

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.

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 the existing share options (2013 programme) are summarised as follows:

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

In May 2014 the Board of Directors decided to issue share options to key employees in the Group. A total of 101,000 share options have been issued for subscription of 101,000 shares of a nominal value of DKK 1 at an exercise price of NOK 48.70 (DKK 44.65 at 30 September 2014). The share options' life time is 5 years. The first 2 years from the date of issue is a lock-up period during which the options may not be exercised. The exercise of these share options can take place in the 3rd, 4th and 5th year and vest with 1/3 in each of these 3 years.

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

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

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 the nine months period ended on 30 September 2014 the Group recognised DKK 103 thousand of share-based payment expense in the income statement (nine months period ended on 30 September 2013: DKK 4,975 thousands).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4 SHARE-BASED PAYMENTS (CONTINUED)

DKK'000	Board of Directors		Management		Others		Total	
	Number	Average exercise price	Number	Average exercise price	Number	Average exercise price	Number	Average exercise price
Share options								
At 1 January 2014	-	-	269,037	32.00	151,855	32.00	420,892	32.00
Granted during the period	-	-	56,000	44.65	45,000	44.65	101,000	44.65
Exercised / expired during the period	-	-	(8,250)	32.00	(15,650)	32.00	(23,900)	32.00
At 30 September 2014	-	-	316,787	34.24	181,205	35.14	497,992	32.57
Exercisable at 30 September 2014	-	-	260,787	32.00	136,205	32.00	396,992	32.00
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	98,050	32.00	11,575	32.00	130,175	32.00
Exercised / expired during the period	-	-	(53,800)	32.00	(18,225)	32.00	(72,025)	32.00
At 30 September 2013	22,550	31.95	372,549	31.50	329,957	34.06	724,966	33.40
Exercisable at 30 September 2013	22,550	31.95	274,409	31.50	318,832	34.06	615,341	33.40

In the nine months period ended 30 September 2014 9,775 share options were exercised and 14,125 lapsed (nine months period ended 30 September 2013: 7,300 exercised and 64,725 lapsed).

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

Number of share options	As at 30 September 2014	As at 30 September 2013
Exercise price DKK 32.00	396,992	722,966
Exercise price DKK 37.46	-	2,000
Exercise price DKK 44.65	101,000	-
Total number of outstanding share options and warrants	497,992	724,966

The weighted average of the remaining contractual period of the 2013 programme share options at 30 September 2014 is 3 years and 2 months (at 30 September 2013: 4 years and 2 months).

The weighted average of the remaining contractual period of the 2014 programme share options at 30 September 2014 is 4 years and 9 months.

4 SHARE-BASED PAYMENTS (CONTINUED)

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

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.

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

Volatility	44.94%	44.47%	43.53%
Risk-free interest rate	1.70%	1.80%	2.00%
Exercise price (DKK)	44.65	44.65	44.65
Exercise period (years)	3.00	4.00	5.00
Number of options	33,667	33,667	33,666

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5 EARNINGS PER SHARE

DKK'000	3 rd Quarter		YTD September	
	2014	2013	2014	2013
Net profit attributable to equity holders of the parent company for basic earnings and the effect of dilution	1,812	(3,181)	(302)	1,000

	3 rd Quarter		YTD September	
	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	5,819	3,531	5,816	3,527
Effect of dilution:				
Share options	43	103	58	100
Weighted average number of shares adjusted for the effect of dilution	5,862	3,634	5,874	3,627

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 are two material development projects with carrying amount of DKK 10,604 thousand and 18,344 at 30 September 2014 respectively (31 December 2013: DKK 14,138 thousand and DKK 8,999 thousand respectively). The aim of the first project is to develop GTP tunnelling support and the aim of the third project is to develop new non-blocking 4x10G adapter. The remaining amortisation periods of these two projects are 2 years and 3 months and 3 years respectively.

Within the in progress development projects there is one material development project with carrying amount of DKK 13,684 thousand at 30 September 2014 respectively (31 December 2013: DKK 3,556 thousand). The aim of the project is to develop new 1x100G adapter. The project is not yet completed and therefore has 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	25,724	24,931	1,368	1,974	53,997
Disposals in the period	-	(25,724)	-	-	(25,724)
Currency adjustment	540	739	275	-	1,554
Cost at 30 September 2014	114,510	17,316	6,430	1,974	140,230
Accumulated amortisation at 1 January 2014	58,466	-	78	-	58,544
Amortisation for the period	13,572	-	86	110	13,768
Currency adjustment	1,599	-	3	-	1,602
Accumulated amortisation 30 September 2014	73,637	-	167	110	73,914
Carrying amount at 30 September 2014	40,873	17,316	6,263	1,864	66,316

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	5,466	134	5,600
Currency adjustment	(484)	(81)	(565)
Cost at 30 September 2014	26,994	3,787	30,781
Accumulated depreciation at 1 January 2014	14,978	1,898	16,876
Depreciation for the period	3,282	394	3,676
Currency adjustment	(178)	(44)	(222)
Accumulated depreciation 30 September 2014	18,082	2,248	20,330
Carrying amount at 30 September 2014	8,912	1,539	10,451

The carrying amount for plant and equipment held under finance leasing is DKK 1,227 thousand at 30 September 2014 (31 December 2013: DKK 1,663 thousand).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

8 TRADE RECEIVABLES

DKK'000	30 September 2014	30 September 2013
Receivables recognised in the consolidated statement of financial position:		
Trade receivables	42,501	25,582
Other receivables	3,951	5,116
Total current receivables	46,452	30,698

The provision for bad and doubtful receivables is as follows:

DKK'000	2014	2013
At 1 January	1,593	2,670
Utilised	(192)	(934)
At 30 September	1,401	1,736

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

DKK'000	30 September 2014	30 September 2013
Not past due	32,956	19,022
Past due less than 30 days	4,928	3,309
Past due between 30 and 60 days	361	1,121
Past due between 60 and 90 days	485	913
Past due after 90 days	3,771	1,217
Total maximum credit risk	42,501	25,582

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	10	5
Ordinary shares of DKK 1 each at 30 September	5,822	3,528

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	10	10
At 30 September 2014	5,822	5,822

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	9,495	130
At 30 September	210,675	103,494

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 September 2014 are as follows:

DKK'000	Cars	Office facilities	Total
Falling due within one year	184	3,965	4,149
Falling due between one and five years	204	1,386	1,590
Total	388	5,351	5,739

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 September 2014 are as follows:

DKK'000	Minimum payments	Present value of payments
Falling due within one year	560	511
Falling due between one and five years	986	957
Total minimum lease payments	1,546	1,468
Less: finance charge	(78)	-
Present value of lease payments	1,468	1,468

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