

NAPATECH  
4<sup>TH</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 October to 31 December 2014 and the twelve months period from 1 January to 31 December 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 31 December 2014, and of the results of the Napatech Group's operations and cash flows for the three months period from 1 October to 31 December 2014 and the twelve months period from 1 January to 31 December 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, 23 February 2015

### 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

## Growth and positive cash flow

### Highlights

- Revenue for fourth quarter 2014 amounted to DKK 48.4 million, an increase of 10% compared to fourth quarter 2013, and a sequential increase of 9% compared to third quarter 2014.
- Gross margin for fourth quarter 2014 was 73%, 1 per cent point below the gross margin for fourth quarter 2013 of 74%, and below the 75% of third quarter of 2014.
- EBITDA for fourth quarter of 2014 amounted to DKK 4.6 million, a decrease of DKK 5.9 million compared to fourth quarter 2013.
- EBITDA margin for fourth quarter 2014 was 10%, a decrease from 24% in fourth quarter 2013.
- Loss before tax for fourth quarter 2014 was reduced to negative 0.3 MDKK from negative 1.5 MDKK in fourth quarter 2013.
- Napatech had a positive cash flow of DKK 3.9 million in the fourth quarter of 2014. The total cash position of the company was DKK 88.2 million by end of fourth quarter 2014

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

Recent design wins for new and existing customers continue to show an important 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.

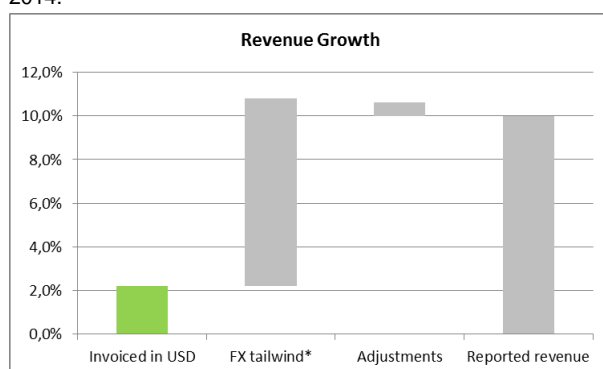
During fourth quarter of 2014 a number of design wins again materialized:

- 10 Gigabit design win at Tier 1 Social Network customer for a security appliance
- 10 Gigabit design win at a US based Financial customer for transaction latency monitoring
- 10 Gigabit design win with Asian telecom customer for monitoring of 4K video streaming

### MANAGEMENT'S REVIEW

The business progress for fourth quarter 2014 was in line with the revised expectations given at the third quarter reporting and presentation.

The graph below shows that the underlying business showed progress, and a favourable USD to DKK currency exchange rate contributed significantly to the growth in Q4 2014. Accounting adjustments had a small negative impact in Q4 2014.



\*Average bookkeeping rates

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 continue to see increased business activities towards monitoring and analysis of LTE networks.

## MANAGEMENT'S REVIEW (CONTINUED)

### Napatech operations

The statements below are related to Napatech's development in fourth quarter of 2014 compared to fourth quarter 2013, and the twelve months period from 1 January to 31 December 2014 compared to the twelve months period from 1 January to 31 December 2013, unless otherwise stated. Additional information is available at [www.napatech.com/investor](http://www.napatech.com/investor).

### Key figures and ratios

	4 <sup>th</sup> Quarter		YTD December	
	2014	2013	2014	2013
Revenue, DKK'000	48,382	44,019	182,335	182,047
Gross profit margin, %	73%	74%	73%	72%
EBITDA, DKK'000	4,602	10,502	18,010	29,354
EBITDA margin, %	10%	24%	10%	16%
Profit / (loss) before tax, DKK'000	(302)	(1,476)	(703)	1,796
EPS basic, DKK	(0.12)	(0.36)	(0.17)	(0.14)
EPS diluted, DKK	(0.12)	(0.35)	(0.17)	(0.13)
Equity, DKK'000	189,619	190,364	189,619	190,364
Cash and cash equivalents, DKK'000	88,230	122,223	88,230	122,223

## Financial review

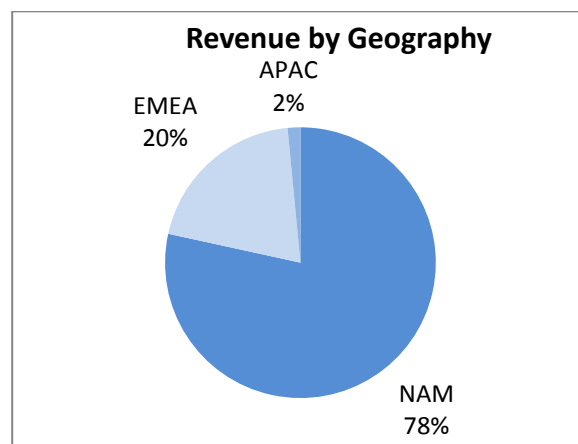
### Revenue

Napatech reported revenue of DKK 48.4 million in the fourth quarter, an increase of 10% compared to the same period in 2013. The full year ended at DKK 182.3 million, an increase of DKK 0.3 million compared to the same period last year.

Sales were distributed with 78% in NAM, 20% in EMEA and the remaining 2% in APAC. The North American market share of the sales was higher than normal, and the APAC region was significantly lower than normal.

### Gross Margin

Gross margin for fourth quarter 2014 was 73%, which was slightly lower than 2013 fourth quarter's 74%. The full year 2014 had a gross margin of 73% compared to 72% in 2013. The trend from previous quarters with a high share of high speed accelerators has continued.





## MANAGEMENT'S REVIEW (CONTINUED)

### Financial review (continued)

R&D costs for fourth quarter 2014 were DKK 4.1 million compared to DKK 5.1 million in fourth quarter 2013. The added resources in the R&D department have been allocated to new product development in the period.

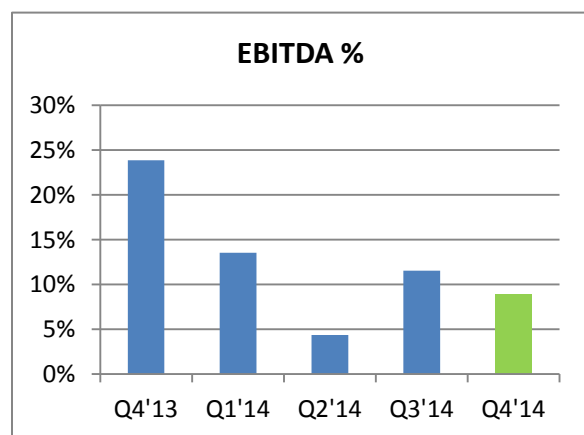
Sales and distribution costs for fourth quarter 2014 were DKK 17.5 million, compared to DKK 11.3 million in fourth quarter 2013. The main reason for the increase is increased investments in Sales and Marketing efforts, both by geographical expansion and by increased resources in existing geographies. This increase is in line with the company's plans to invest in the Company's ability to capture future growth.

The strong dollar increases the sales and marketing costs in DKK with approximately 10% as most costs are incurred in the US.

Administrative expenses for fourth quarter 2014 were DKK 9.1 million compared to DKK 5.6 million in fourth quarter 2013. The increase is due to capacity expansion as a consequence of investments in Sales and Marketing, and development of new products and that fourth quarter 2013 figures included a deduction of accelerated share based expense of DKK 0.9 million due to the IPO. This item was reclassified to exceptional items.

### EBITDA

EBITDA was DKK 4.6 million in fourth quarter 2014, compared to DKK 10.5 million in fourth quarter 2013. The decrease is driven by higher costs in 2014 compared to the costs reported in 2013, and the reclassification made in 2013 as described above.



### Depreciation and amortisation

Depreciation and amortisation were DKK 6.5 million in fourth quarter 2014 compared to DKK 5.4 million in fourth quarter 2013. The increase is in line with our plans as the increased investment level will lead to increased depreciations.

### EBIT

EBIT for fourth quarter 2014 was negative with DKK 1.9 million, a decrease compared to negative DKK 1.6 million in fourth quarter 2013. The small difference covers a negative effect from increased costs and a positive effect from no exceptional items in 2014.

### Financial Items

Financial items for fourth quarter 2014 were an income of DKK 1.6 million compared to an income of DKK 0.2 million in fourth quarter 2013. The financial items are primarily affected by the change in USD to DKK exchange rate, as Napatech has large USD denominated assets. The USD to DKK exchange rate has increased during fourth quarter 2014.

### Taxes

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

### Investments

Total investments in fourth quarter 2014 were DKK 11.4 million. The main part was related to new product development with DKK 10.1 million. In fourth quarter 2013 total investments were DKK 11.4 million, of which DKK 8.8 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 fourth quarter 2014, there was one major project which included new hardware; the new 100 Gigabit accelerator.

### Cash Flow

For fourth quarter 2014 net cash flow from operating activities was positive with DKK 15.7 million, an increase of DKK 6.1 million from fourth quarter 2013. A decrease in trade payables and other payables is the main reason for the higher cash flow from operations.

Negative cash flow from investing activities was DKK 11.4 million in fourth quarter 2014, a small increase from DKK 10.8 million in fourth quarter 2013.

Napatech had a positive cash flow of DKK 3.9 million in the fourth quarter of 2014. The total cash position of the company was DKK 88.2 million by end of fourth quarter 2014, a decrease of DKK 34 million compared to the end of fourth quarter 2013. Approximately half of this amount is IPO costs paid in Q1 2014.

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

## MANAGEMENT'S REVIEW (CONTINUED)

### Financial review (continued)

#### Shareholders and Share Information

Napatech has per December 31, 2014 issued 5,821,723 shares at DKK 1.00 each. This gives a share capital of 5,821,723 DKK divided among the 392 shareholders.

Investor	Number of shares	% of total
Verdane Capital VIII	1.293.211	22,21%
NORTHZONE IV K/S	1.278.875	21,97%
Skandinaviska Enskilda	381.000	6,54%
DANSKE BANK A/S	261.524	4,49%
SKANDINAVISKA ENSKILDA	252.985	4,35%
STATE STREET BANK	242.760	4,17%
SIX SIS AG	214.748	3,69%
Swedbank AS	182.808	3,14%
SEB Private Bank S.A	146.355	2,51%
The Bank of New York	126.401	2,17%
DTU Invest rep. ved	118.600	2,04%
BNP Paribas Sec. Ser	100.568	1,73%
NorthZea Management	81.231	1,40%
J.P. Morgan Chase Bank	70.480	1,21%
MVTU rep. ved DTU symbion	62.148	1,07%
PARK LANE FAMILY OFFICE	50.000	0,86%
NORDNET BANK AB	46.799	0,80%
AKA AS	40.000	0,69%
Nordea Bank Danmark	39.462	0,68%
Private investor	35.500	0,61%
<b>Total number owned by to 20</b>	<b>5.025.455</b>	<b>86,32%</b>
<b>Total 372 other shareholders</b>	<b>796.268</b>	<b>13,68%</b>
<b>Total number of shares</b>	<b>5.821.723</b>	<b>100,00%</b>

In connection with the Q4 reporting a total of 35,600 warrants with a strike price of 32 DKK has lapsed.

#### Outlook for 2015

The Napatech business continues to have low visibility, and experiences fluctuations in customers' buying pattern. Taking this into our considerations, Napatech expects

- Revenue growth around 12%
- EBITDA margin around 12%

This guidance is based on an approximately flat revenue in USD compared to 2014, and a USD to DKK exchange rate of around 6.5 DKK per USD (average for 2014 was 5.65). Napatech expects a rather modest Q1 2015 compared to 2014.

Napatech has made a hedge of the USD net exposure, where approximately 60% of the USD revenue is hedged around 6.5 DKK, and the remaining 40% is exposed to currency fluctuations.

#### 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 (see above).

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 2015 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, 24 February 2015

The Board of Directors of Napatech A/S

## INTERIM CONSOLIDATED INCOME STATEMENT

DKK'000	Note	4 <sup>th</sup> Quarter		YTD December	
		2014	2013	2014	2013
Revenue	3	48,382	44,019	182,335	182,047
Costs of goods sold		(13,078)	(11,532)	(48,708)	(51,546)
<b>Gross profit</b>		<b>35,304</b>	<b>32,487</b>	<b>133,627</b>	<b>130,501</b>
Research and development cost		(4,092)	(5,128)	(16,020)	(15,847)
Selling and distribution expenses		(17,461)	(11,285)	(65,362)	(52,695)
Administrative expenses	4	(9,149)	(5,572)	(34,235)	(32,605)
<b>Operating profit before depreciation and amortisation (EBITDA)</b>		<b>4,602</b>	<b>10,502</b>	<b>18,010</b>	<b>29,354</b>
Depreciation and amortisation		(6,455)	(5,364)	(23,899)	(21,356)
<b>Operating profit / (loss) (EBIT) before exceptional items</b>		<b>(1,853)</b>	<b>5,138</b>	<b>(5,899)</b>	<b>7,998</b>
Exceptional items		-	(6,782)	-	(6,782)
<b>Operating profit / (loss) (EBIT)</b>		<b>(1,853)</b>	<b>(1,644)</b>	<b>(5,899)</b>	<b>1,216</b>
Finance income		1,657	898	5,671	3,184
Finance costs		(106)	(730)	(485)	(2,604)
<b>Profit / (loss) before tax</b>		<b>(302)</b>	<b>(1,476)</b>	<b>(703)</b>	<b>1,796</b>
Income tax		(377)	(34)	(279)	(2,305)
<b>Profit / (loss) for the period</b>		<b>(679)</b>	<b>(1,510)</b>	<b>(982)</b>	<b>(509)</b>
<b>Earnings per share:</b>	5				
Basic, DKK		(0.12)	(0.36)	(0.17)	(0.14)
Diluted, DKK		(0.12)	(0.35)	(0.17)	(0.13)

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DKK'000	Note	4 <sup>th</sup> Quarter		YTD December	
		2014	2013	2014	2013
<b>Profit / (loss) for the period</b>		<b>(679)</b>	<b>(1,510)</b>	<b>(982)</b>	<b>(509)</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		-	(4,188)	-	(5,564)
Exchange differences on translation of foreign operations		(25)	-	(284)	-
Income tax effect		-	703	-	703
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<b>(25)</b>	<b>(3,485)</b>	<b>(284)</b>	<b>(4,861)</b>
<b>Total comprehensive income for the period</b>		<b>(704)</b>	<b>(4,995)</b>	<b>(1,266)</b>	<b>(5,370)</b>



## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### ASSETS

DKK'000	Note	31 December 2014	30 September 2014	31 December 2013
Development projects, completed		54,335	40,873	29,780
Development projects, in progress		8,687	17,316	17,370
Patents		6,606	6,263	4,709
Other intangible assets		1,700	1,864	-
<b>Intangible assets</b>	<b>6</b>	<b>71,328</b>	<b>66,316</b>	<b>51,859</b>
Plant and equipment		8,770	8,912	7,034
Office improvements		1,456	1,539	1,836
<b>Property, plant and equipment</b>	<b>7</b>	<b>10,226</b>	<b>10,451</b>	<b>8,870</b>
Deferred tax asset		4,325	4,422	4,324
Leasehold deposits		1,766	1,760	1,669
<b>Other non-current assets</b>		<b>6,091</b>	<b>6,182</b>	<b>5,993</b>
<b>Non-current assets</b>		<b>87,645</b>	<b>82,949</b>	<b>66,722</b>
Inventories		9,477	5,870	7,922
Trade receivables	8	36,236	42,501	32,066
Other receivables	8	3,241	3,951	3,715
Cash and cash equivalents		88,230	84,325	122,223
<b>Current assets</b>		<b>137,184</b>	<b>136,647</b>	<b>165,926</b>
<b>Total assets</b>		<b>224,829</b>	<b>219,596</b>	<b>232,648</b>

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### EQUITY AND LIABILITIES

DKK'000	Note	31 December 2014	30 September 2014	31 December 2013
Share capital	9	5,822	5,822	5,812
Share premium	9	210,675	210,675	201,180
Foreign currency translation reserve		55	80	(4,089)
Other reserves		12,101	11,997	25,514
Accumulated loss		(39,034)	(38,355)	(38,053)
<b>Equity</b>		<b>189,619</b>	<b>190,219</b>	<b>190,364</b>
Interest-bearing loans and borrowings		5,574	5,957	6,365
<b>Non-current liabilities</b>		<b>5,574</b>	<b>5,957</b>	<b>6,365</b>
Interest-bearing loans and borrowings		706	511	473
Trade payables		15,069	9,336	23,010
Other payables		13,552	13,054	11,917
Provisions		309	519	519
<b>Current liabilities</b>		<b>29,636</b>	<b>23,420</b>	<b>35,919</b>
<b>Total liabilities</b>		<b>35,210</b>	<b>29,377</b>	<b>42,284</b>
<b>Total equity and liabilities</b>		<b>224,829</b>	<b>219,596</b>	<b>232,648</b>

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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>
Loss for the period	-	-	-	-	(302)	(302)
Reversals	-	-	4,428	-	(4,428)	-
Other comprehensive income	-	-	(259)	-	-	(259)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>4,169</b>	<b>-</b>	<b>(4,730)</b>	<b>(561)</b>
Issue of shares	10	303	-	-	-	313
Reversals	-	9,192	-	(13,620)	4,428	-
Share-based payments	-	-	-	103	-	103
<b>At 30 September 2014</b>	<b>5,822</b>	<b>210,675</b>	<b>80</b>	<b>11,997</b>	<b>(38,355)</b>	<b>190,219</b>
Loss for the period	-	-	-	-	(679)	(679)
Other comprehensive income	-	-	(25)	-	-	(25)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(25)</b>	<b>-</b>	<b>(679)</b>	<b>(704)</b>
Issue of shares	-	-	-	-	-	-
Share-based payments	-	-	-	104	-	-
<b>At 31 December 2014</b>	<b>5,822</b>	<b>210,675</b>	<b>55</b>	<b>12,101</b>	<b>(39,034)</b>	<b>189,619</b>
<hr/>						
<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	-	-	-	-	1,001	1,001
Other comprehensive income	-	-	(1,376)	-	-	(1,376)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(1,376)</b>	<b>-</b>	<b>1,001</b>	<b>(375)</b>
Issue of shares	5	130	-	-	-	135
Share-based payments	-	-	-	4,975	-	4,975
<b>At 30 September 2013</b>	<b>3,528</b>	<b>103,494</b>	<b>(604)</b>	<b>24,728</b>	<b>(36,543)</b>	<b>94,603</b>
Loss for the period	-	-	-	-	(1,510)	(1,510)
Other comprehensive income	-	-	(3,485)	-	-	(3,485)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(3,485)</b>	<b>-</b>	<b>(1,510)</b>	<b>(4,995)</b>
Issue of shares	2,284	109,247	-	-	-	111,531
Transaction costs	-	(11,561)	-	-	-	(11,561)
Share-based payments	-	-	-	786	-	786
<b>At 31 December 2013</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>

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

		4 <sup>th</sup> Quarter		YTD December	
DKK'000	Note	2014	2013	2014	2013
<b>Operating activities</b>					
Profit / (loss) before tax		(679)	(1,476)	(703)	1,796
Adjustments to reconcile profit before tax to net cash flows:					
Finance income		(1,657)	(898)	(5,671)	(3,184)
Finance costs		106	730	485	2,604
Amortisation and depreciation	6, 7	6,455	5,364	23,899	21,356
Share-based payment expense		104	786	207	5,761
Currency adjustments		1,797	(331)	4,568	(1,987)
Working capital adjustments:					
Change in inventories		(3,607)	(924)	(1,555)	(4,063)
Change in trade and other receivables		6,975	(5,081)	(3,696)	(5,668)
Change in trade and other payables		6,021	11,430	(6,516)	7,855
<b>Cash flows from operating activities</b>		<b>15,515</b>	<b>9,600</b>	<b>11,018</b>	<b>24,470</b>
Interest received		40	17	299	22
Interest paid		(106)	(106)	(485)	(416)
Income tax paid		(167)	(34)	(167)	(538)
<b>Net cash flows from operating activities</b>		<b>15,282</b>	<b>9,477</b>	<b>10,665</b>	<b>23,538</b>
<b>Investing activities</b>					
Purchase of plant, property and equipment		(1,283)	(2,016)	(6,749)	(4,649)
Investments in intangible assets		(10,098)	(8,810)	(38,371)	(26,446)
Investments in leasehold deposits		-	(3)	(97)	(430)
<b>Net cash used in investing activities</b>		<b>(11,381)</b>	<b>(10,829)</b>	<b>(45,217)</b>	<b>(31,525)</b>
<b>Financing activities</b>					
Issue of shares		-	99,970	313	111,666
Transaction costs		-	-	-	(11,561)
Repayment of borrowings		(188)	-	(558)	-
<b>Net cash flows from financing activities</b>		<b>(188)</b>	<b>99,970</b>	<b>(245)</b>	<b>100,105</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,713</b>	<b>98,618</b>	<b>(34,797)</b>	<b>92,118</b>
Net foreign exchange difference		192	-	804	-
Cash and cash equivalents at the beginning of the period		84,325	23,605	122,223	30,105
<b>Cash and cash equivalents at the end of the period</b>		<b>88,230</b>	<b>122,223</b>	<b>88,230</b>	<b>122,223</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 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

#### 4<sup>th</sup> Quarter 2014:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
<b>Revenue</b>					
Total revenue	38,802	37,744	731	46	77,323
Inter-segment	(28,941)	-	-	-	(28,941)
<b>Revenue, external customers</b>	<b>9,861</b>	<b>37,744</b>	<b>731</b>	<b>46</b>	<b>48,382</b>
Cost of goods sold	(2,549)	(9,939)	(576)	(14)	(13,078)
<b>Gross profit</b>	<b>7,312</b>	<b>27,805</b>	<b>155</b>	<b>32</b>	<b>35,304</b>

#### 4<sup>th</sup> Quarter 2013:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
<b>Revenue</b>					
Total revenue	39,546	26,135	6,261	-	71,942
Inter-segment	(27,923)	-	-	-	(27,923)
<b>Revenue, external customers</b>	<b>11,623</b>	<b>26,135</b>	<b>6,261</b>	<b>-</b>	<b>44,019</b>
Cost of goods sold	(2,191)	(8,534)	(807)	-	(11,532)
<b>Gross profit</b>	<b>9,432</b>	<b>17,601</b>	<b>5,454</b>	<b>-</b>	<b>32,487</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 December 2014:					
DKK'000	EMEA	NAM	APAC	LAM	Consolidated
<b>Revenue</b>					
Total revenue	150,431	141,190	9,496	68	301,185
Inter-segment	(118,850)	-	-	-	(118,850)
<b>Revenue, external customers</b>	<b>31,581</b>	<b>141,190</b>	<b>9,496</b>	<b>68</b>	<b>182,335</b>
Cost of goods sold	(6,733)	(39,771)	(2,184)	(20)	(48,708)
<b>Gross profit</b>	<b>24,848</b>	<b>101,419</b>	<b>7,312</b>	<b>48</b>	<b>133,627</b>

YTD December 2013:					
DKK'000	EMEA	NAM	APAC	LAM	Consolidated
<b>Revenue</b>					
Total revenue	136,065	125,243	19,952	-	281,260
Inter-segment	(99,213)	-	-	-	(99,213)
<b>Revenue, external customers</b>	<b>36,852</b>	<b>125,243</b>	<b>19,952</b>	<b>-</b>	<b>182,047</b>
Cost of goods sold	(8,465)	(40,009)	(3,072)	-	(51,546)
<b>Gross profit</b>	<b>28,387</b>	<b>85,234</b>	<b>16,880</b>	<b>-</b>	<b>130,501</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.

#### Transactions with major customers

Revenue from one customer amounted to DKK 51,403 thousand (2013: DKK 49,869 thousand) corresponding to 28% (2013: 27%) of the Group revenue. Revenue from this customer is arising from the sales in the NAM segment.

Revenue from a second customer amounted to DKK 16,126 thousand (2013: 21,172 thousand) corresponding to 9% (2013: 12%) of the Group revenue. Revenue from this customer is also arising from sales in the NAM segment.

## 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 43.00 at 1 July 2014). The share options' life time is 5 years. The first 2 years from the date of issue is a lock-up period during which the options may not be exercised. The exercise of these share options can take place in the 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> 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 twelve months period ended 31 December 2014 the Group recognised DKK 207 thousand of share-based payment expense in the income statement (twelve months period ended 31 December 2013: DKK 5,761 thousand).

## 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
<b>Share options</b>								
At 1 January 2014	-	-	269,037	32.00	151,855	32.00	420,892	32.00
Granted during the period	-	-	56,000	43.00	45,000	43.00	101,000	43.00
Exercised / expired during the period	-	-	(8,250)	32.00	(15,650)	32.00	(23,900)	32.00
<b>At 31 December 2014</b>	<b>-</b>	<b>-</b>	<b>316,787</b>	<b>33.94</b>	<b>181,205</b>	<b>34.73</b>	<b>497,992</b>	<b>34.23</b>
<b>Exercisable at 31 December 2014</b>	<b>-</b>	<b>-</b>	<b>260,787</b>	<b>32.00</b>	<b>136,205</b>	<b>32.00</b>	<b>396,992</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	98,050	32.00	11,575	32.00	130,175	32.00
Exercised / expired during the period	(22,550)	32.48	(157,222)	30.80	(196,327)	35.30	(376,099)	33.25
<b>At 31 December 2013</b>	<b>-</b>	<b>-</b>	<b>269,037</b>	<b>32.00</b>	<b>151,855</b>	<b>32.00</b>	<b>420,892</b>	<b>32.00</b>
<b>Exercisable at 31 December 2013</b>	<b>-</b>	<b>-</b>	<b>269,037</b>	<b>32.00</b>	<b>151,855</b>	<b>32.00</b>	<b>420,892</b>	<b>32.00</b>

In the year ended 31 December 2014 9,775 share options were exercised and 14,125 lapsed (31 December 2013: 288,495 exercised and 87,604 lapsed).

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

Number of share options	As at 31 December 2014	As at 31 December 2013
Exercise price DKK 32.00	396,992	420,892
Exercise price DKK 44.65	101,000	-
<b>Total number of outstanding share options and warrants</b>	<b>497,992</b>	<b>420,892</b>

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

The weighted average of the remaining contractual period of the 2014 share options programme at 31 December 2014 is 4 years and 6 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:

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

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 5 EARNINGS PER SHARE

	4 <sup>th</sup> Quarter		YTD December	
DKK'000	2014	2013	2014	2013
<b>Net loss attributable to equity holders of the parent company for basic earnings and the effect of dilution</b>	<b>(679)</b>	<b>(1,510)</b>	<b>(982)</b>	<b>(509)</b>

	4 <sup>th</sup> Quarter		YTD December	
	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	5,822	4,157	5,817	3,684
Effect of dilution:				
Share options	-	148	-	232
<b>Weighted average number of shares adjusted for the effect of dilution</b>	<b>5,822</b>	<b>4,305</b>	<b>5,817</b>	<b>3,916</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 are two material development projects with carrying amount of DKK 17,325 thousand and DKK 18,361 thousand at 31 December 2014 respectively (31 December 2013: DKK 8,999 thousand and DKK 3,556 thousand respectively). The aim of the first project is to develop new non-blocking 4x10G adapter and the aim of the second project is to develop new 1x100G adapter. The remaining amortisation periods of these two projects are 2 years and 10 months and 3 years respectively.

Within the in progress development projects there is one material development project with carrying amount of DKK 5,100 thousand at 31 December 2014 (31 December 2013: zero). The aim of the project is to develop additional functionalities for existing adapters. 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	44,086	34,664	1,733	1,974	82,457
Disposals in the period	-	(44,086)	-	-	(44,086)
Currency adjustment	540	739	275	-	1,554
<b>Cost at 31 December 2014</b>	<b>132,872</b>	<b>8,687</b>	<b>6,795</b>	<b>1,974</b>	<b>150,328</b>
Accumulated amortisation at 1 January 2014	58,466	-	78	-	58,544
Amortisation for the period	18,472	-	108	274	18,854
Currency adjustment	1,599	-	3	-	1,602
<b>Accumulated amortisation 31 December 2014</b>	<b>78,537</b>	<b>-</b>	<b>189</b>	<b>274</b>	<b>79,000</b>
<b>Carrying amount at 31 December 2014</b>	<b>54,335</b>	<b>8,687</b>	<b>6,606</b>	<b>1,700</b>	<b>71,328</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	6,560	189	6,749
Currency adjustment	(461)	(79)	(540)
<b>Cost at 31 December 2014</b>	<b>28,111</b>	<b>3,844</b>	<b>31,955</b>
Accumulated depreciation at 1 January 2014	14,978	1,898	16,876
Depreciation for the period	4,515	530	5,045
Currency adjustment	(152)	(40)	(192)
<b>Accumulated depreciation 31 December 2014</b>	<b>19,341</b>	<b>2,388</b>	<b>21,729</b>
<b>Carrying amount at 31 December 2014</b>	<b>8,770</b>	<b>1,456</b>	<b>10,226</b>

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

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 8 TRADE RECEIVABLES

DKK'000	31 December 2014	31 December 2013
<b>Receivables recognised in the consolidated statement of financial position:</b>		
Trade receivables	36,236	32,066
Other receivables	3,241	3,715
<b>Total current receivables</b>	<b>39,477</b>	<b>35,781</b>

The provision for bad and doubtful receivables is as follows:

DKK'000	2014	2013
At 1 January	1,593	2,670
Utilised in the year	(191)	(70)
Reversal of non-utilised in the year	(1,402)	(2,222)
Change in the year	2,002	1,215
<b>At 31 December</b>	<b>2,002</b>	<b>1,593</b>

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

DKK'000	31 December 2014	31 December 2013
Not past due	28,973	22,503
Past due less than 30 days	2,010	6,087
Past due between 30 and 60 days	777	402
Past due between 60 and 90 days	988	1,521
Past due after 90 days	3,488	1,553
<b>Total maximum credit risk</b>	<b>36,236</b>	<b>32,066</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	10	2,288
<b>Ordinary shares of DKK 1 each at 31 December</b>	<b>5,822</b>	<b>5,812</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	10	10
<b>At 31 December 2014</b>	<b>5,822</b>	<b>5,822</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 year	303	9,667
Reversals regarding exercised share options until 31 December 2013	9,192	-
Issued shares for cash in excess of cost of ordinary shares due to the IPO	-	99,710
Transaction costs due to the IPO	-	(11,561)
<b>At 31 December</b>	<b>210,675</b>	<b>201,180</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 31 December 2014 are as follows:

DKK'000	Cars	Office facilities	Total
Falling due within one year	155	4,964	5,119
Falling due between one and five years	177	221	398
<b>Total</b>	<b>332</b>	<b>5,185</b>	<b>5,517</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 31 December 2014 are as follows:

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

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