

napatech 

Napatech

Q4 2013

Interim Report

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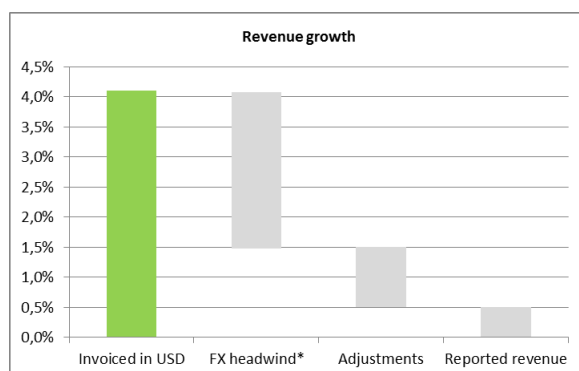
HIGH GROSS MARGINS AND IMPROVED PROFITABILITY

2013 Fourth Quarter Highlights

- Revenue for fourth quarter 2013 amounted to DKK 44.0 million, a decrease of 16% compared to fourth quarter 2012, but a sequential increase of 4.6% compared to third quarter 2013.
- Gross margin for fourth quarter 2013 was 74%, a sequential increase from 72%, but a decrease compared to fourth quarter 2012's gross margin of 77%.
- EBITDA margin for fourth quarter 2013 was 24%. This was in line with the margin in fourth quarter 2012 of 24%.
- EBIT margin before exceptional items for fourth quarter 2013 showed an increase in profitability to 11.7% compared to 11.0% in fourth quarter 2012.
- IPO was completed in December 2013 with net proceeds of DKK 95.0 million; DKK 1.7 million of expenses was non cash.

2013 Full Year Highlights

- Revenue for 2013 was DKK 182.0 million compared to DKK 181.2 million in 2012.
- Invoiced sales in USD were 32.6 million in 2013, an increase of 4.1% compared to invoiced sales in 2012.
- EBITDA margin for 2013 was 16%, well in line with our expectations of between 15-18%. The margin in 2012 was 22%.
- Free cash was DKK 122.2 million, an increase of DKK 92.1 million compared to 2012.



* Average bookkeeping rates

As previously announced, invoiced sales increased by 4.1% in 2013 compared to that of 2012.

Furthermore, DKK revenue suffered from strong headwinds due to the USD to DKK exchange rate experienced during the second half of 2013. The fourth quarter was a challenging quarter, as expressed during the IPO. The market conditions for large networking infrastructure investments, of which Napatech products primarily are a part of, were difficult due to the cyclic behaviour of both the telecom and financial sectors. The graph on the left hand side of this page illustrates the currency effect and other revenue recognition effects.

The gross margin has shown a positive development during the past years, and this continued during 2013. The gross margin increases were due to several factors: e.g. operational excellence, improvements and the change in product mix towards higher speed adapters.

During fourth quarter a number of design wins materialized. The most important one was early in the quarter with a US-based company that is a leading provider of test and measurement solutions for the communications industry. 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.

The IPO was successfully completed in December and has provided the financial basis for accelerating the development and growth of Napatech. The availability of cash reserves is important for the company's ability to continue to grow.

The growth initiatives are focused on two markets:

- The mobile market is very interesting for Napatech, as mobile operators are challenged with a rapid change in consumer behaviour that increases the need for data analysis.
- The security market is very interesting as well, as the rising number of threats increase the need for data analysis capabilities that Napatech provides.

Napatech received a number of Golden Bridge Awards. The one we are most proud of is the gold medal in the category of Network Visibility Innovation.

INTERIM REPORT

Napatech Operations

The statements below are related to Napatech development in the fourth quarter of 2013 compared to fourth quarter 2012, unless otherwise stated. Additional information is available at www.napatech.com/investor.

KEY FIGURES

	4 th quarter		Year-to-date	
	2013	2012	2013	2012
Revenue, TDKK	44,019	52,302	182,047	181,179
Gross profit margin, %	74%	77%	72%	71%
EBITDA, TDKK	10,502	12,646	29,354	39,510
EBITDA margin, %	24%	24%	16%	22%
Profit / (loss) before tax, TDKK	(1,476)	3,958	1,796	17,282
EPS basic, DKK	(0.36)	1.02	(0.14)	3.61
EPS diluted, DKK	(0.35)	0.99	(0.13)	3.51
Equity, TDKK	190,364	89,868	190,364	89,868
Free Cash, TDKK	122,223	30,105	122,223	30,105

FINANCIAL REVIEW

Revenue

Napatech reported revenue of DKK 44.0 million in the fourth quarter, a decrease of 16% compared to the same period in 2012. The decrease was due to a hesitance in the market. We saw projects being postponed, rollouts prolonged and other sorts of delays.

Sales were distributed with 59% in NAM, 27% in EMEA and the remaining 14% in APAC. The share of sales in NAM was significantly lower in fourth quarter than for the full year. This underlines the difficult conditions in North America.

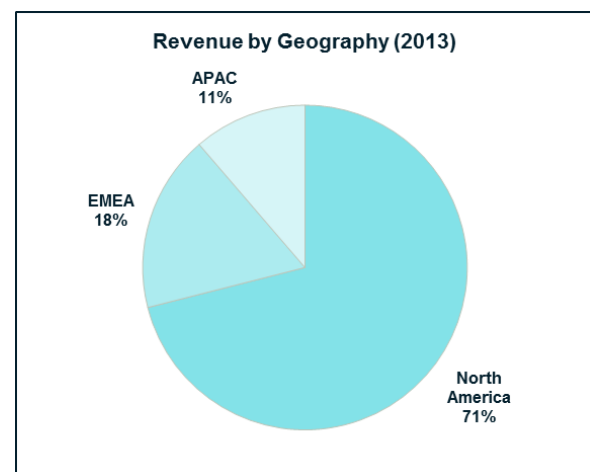
Revenue for 2013 was DKK 182.0 million compared to DKK 181.2 million in 2012, which was a small increase of 0.5%. The geographical distribution of sales was 69% in NAM, 20% in EMEA and 11% in APAC.

Gross Margin

Gross margin for fourth quarter 2013 was 74%, a decrease compared to fourth quarter 2012 where the gross margin was 77%. Fourth quarter 2012 was positively affected by an unusually favourable product mix.

Gross margin in 2013 was 72% compared to 71% in 2012. This was driven by the favourable change in product mix

towards higher speed adapters and the continuous improvement of our production.



Costs

R&D cost for fourth quarter 2013 was DKK 5.1 million compared to DKK 9.9 million in fourth quarter 2012. The reason for this is that the level of capitalization in fourth quarter 2012 was very low due to the timing of our projects in 2012. For the full year 2013 the R&D cost was DKK 15.8 million compared to DKK 21.6 million in 2012.

Sales and distribution costs for fourth quarter 2013 were DKK 11.3 million, compared to DKK 13.5 million in fourth quarter 2012. This is mainly due to lower revenue in this quarter, which affected sales commissions and the lower USD exchange rate compared with fourth quarter 2012. Selling and distribution costs for 2013 were DKK 52.7 million compared with DKK 45.8 million in 2012.

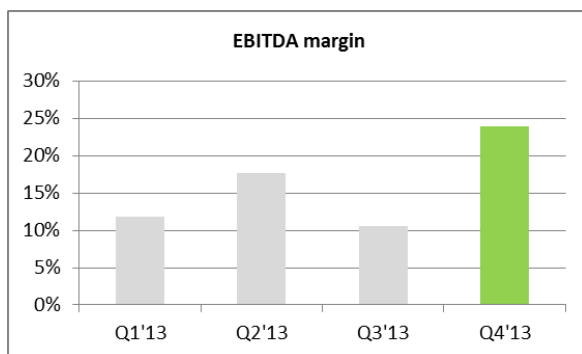
Administrative expenses for fourth quarter 2013 were DKK 5.6 million compared to DKK 4.2 million in fourth quarter 2012. The increase is primarily due to the general increase in the number of employees. The fourth quarter 2013 figures include a deduction of accelerated share based expense of DKK 0.9 million due to the IPO. This item was reclassified to exceptional items.

Administrative expenses for 2013 were DKK 32.6 million compared to DKK 21.6 million in 2012; the increase is due to the general increase in headcount as Napatech does not allocate fixed costs. IFRS related share based expenses (non cash) were DKK 4 million in 2013 and are included in the administrative costs which were DKK 2.7 million in 2012.

EBITDA

EBITDA was DKK 10.5 million in fourth quarter 2013, compared to DKK 12.6 million in fourth quarter 2012. The decrease is an effect of two opposite factors: a decrease in revenue and therefore the gross profit, but this is partly offset by a decrease in the cost for fourth quarter 2013.

For 2013 the EBITDA was DKK 29.4 million, compared to DKK 39.5 million for the previous year. The decrease is due to the investments in the company's ability to capture future growth.



Depreciation

Depreciations and amortisations were DKK 5.4 million in fourth quarter 2013 and DKK 6.9 million in fourth quarter 2012. The decrease was primarily due to a DKK 0.9 million write-off in fourth quarter 2012.

Depreciations and amortisations were DKK 21.4 million in 2013 compared to DKK 21.2 million in 2012.

EBIT Before Exceptional Items

EBIT before exceptional items for fourth quarter 2013 was DKK 5.1 million, a minor decrease compared to DKK 5.7 million in fourth quarter 2012. This result underlines the strength in the business during a challenging quarter. For the full year 2013, the EBIT before exceptional items was DKK 8.0 million compared to DKK 18.3 million the previous year. The decrease is due to investments in the company's ability to capture future growth.

Exceptional Items

Exceptional items was DKK 6,8 million in Q4 2013, the amount is the costs in connection with the IPO that cannot be booked directly against equity as incremental cost related to the listing of new shares. The costs include DKK 1.7 million of share based payments and a portion of all the costs which are related to the IPO, but not direct transaction costs. The remaining part of the costs and the direct transaction costs are booked directly against equity.

Financial Items

Financial items for fourth quarter were an income of DKK 0.2 million compared to an expense of DKK 1.8 million in fourth quarter 2012. Financial items for the full year 2013 were an income of DKK 0.6 million compared to an expense of DKK 1.0 million in 2012.

Taxes

Taxes in fourth quarter 2013 were DKK 34 thousands compared to DKK 375 thousands in fourth quarter 2012. The main reason for a taxation, despite of a loss for the quarter, is due to fact that the exceptional items are not tax deductible, as they are directly linked to the IPO.

Taxes in 2013 were DKK 2.3 million compared to DKK 4.8 million in 2012. The reason for the high tax rate in 2013 was again the non-deductible costs in connection with the IPO.

Investments

Total investments in fourth quarter 2013 were DKK 10.8 million. The main part was related to new product development with DKK 8.8 million. In fourth quarter 2012 total investments were DKK 9.4 million, of which DKK 7.6 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 that only include software and firmware development. In fourth quarter 2013 there were two major projects which included new hardware: the new 4x10 gigabit PCI GEN3 adapter and the new 100 gigabit adapter.

Cash Flow

For fourth quarter 2013 net cash flow from operating activities was DKK 9.5 million, a decrease of DKK 14.0 million from fourth quarter 2012. Negative cash flow from investing activities was DKK 10.8 million in 2013, a limited increase from DKK 9.4 million in 2012. Financing activities in the form of new shares issued contributed with DKK 100 million.

Napatech had a positive cash flow of DKK 98.6 million in the fourth quarter of 2013. The total cash position of the

company was DKK 122 million by end of 2013, an increase of DKK 92.1 million compared to the end of 2012. 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 2013.

Shareholders and Share Information

Napatech had per December 31, 2013 issued 5,811,948 shares at DKK 1.00 each. This gives a share capital of 5,811,948 DKK divided among the 466 shareholders.

Shareholder	Shareholding	Ownership %
FERD AS	1.293.211	22,3%
NORTHZONE IV K/S	918.875	15,8%
SKANDINAVISKA ENSKILDA BANKEN AB	381.000	6,6%
ABG SUNDAL COLLIER NORGE ASA	352.414	6,1%
STATE STREET BANK & TRUST COMPANY	275.000	4,7%
SKANDINAVISKA ENSKILDA BANKEN A/S	262.000	4,5%
DANSKE BANK A/S	231.694	4,0%
SIX SIS AG	228.974	3,9%
J.P. MORGAN CHASE BANK N.A. LONDON	228.486	3,9%
SEB PRIVATE BANK S.A. (EXTENDED)	207.000	3,6%
MVTU REP. VED DTU SYMBION INNOVATI	118.652	2,0%
DTU INVEST REP. VED SEED MANGEMENT	118.600	2,0%
NORTHZEA MANAGEMENT LLC	86.231	1,5%
PORTIA AS	70.000	1,2%
TRESCHOW-FRITZØE AS	65.000	1,1%
DEUTSCHE WERTPAPIERSERVICE BANK AG	60.000	1,0%
AKA AS	40.000	0,7%
NORDEA BANK DANMARK A/S	37.990	0,7%
Private investor	37.000	0,6%
BANK JULIUS BÄR & CO. AG	35.000	0,6%
Total 20 Largest shareholders	5.047.127	86,8%
Total 446 other shareholders	764.821	13,2%
Total	5.811.948	100,0%

Please note that Northzone, in connection with the greenshoe, had entered into a share lending agreement with a total of 360.000 shares.

Napatech, as a Danish company, cannot publicise private investors holding shares in Napatech. This is why shareholder 19 has been anonymized.

In connection with the fourth quarter presentation, the company will issue 3,425 new shares as a result of employees exercising warrants with a strike price of 32 DKK.

Outlook for 2014:

Based on the current structure of Napatech and with the USD exchange rate as the average rate of 2013, Napatech expects:

- Revenue growth in the range of 17-23%
- EBITDA margin in the range of 18-23%

This outlook is in line with the outlook given previously.

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.

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, February 25, 2013

The Board of Directors of Napatech A/S

INTERIM CONSOLIDATED INCOME STATEMENT

TDKK	Note	4 th quarter		Year-to-date	
		2013	2012	2013	2012
Revenue	3	44,019	52,302	182,047	181,179
Costs of goods sold		(11,532)	(12,064)	(51,546)	(52,598)
Gross profit		32,487	40,238	130,501	128,581
Research and development costs		(5,128)	(9,886)	(15,847)	(21,642)
Selling and distribution expenses		(11,285)	(13,508)	(52,695)	(45,847)
Administrative expenses	4	(5,572)	(4,198)	(32,605)	(21,582)
EBITDA		10,502	12,646	29,354	39,510
Depreciation and amortisation		(5,364)	(6,915)	(21,356)	(21,221)
EBIT before exceptional items		5,138	5,731	7,998	18,289
Exceptional items	5	(6,782)	-	(6,782)	-
EBIT / (LBIT)		(1,644)	5,731	1,216	18,289
Finance income		898	(1,779)	3,184	1
Finance costs		(730)	6	(2,604)	(1,008)
Profit / (loss) before tax		(1,476)	3,958	1,796	17,282
Income tax expense		(34)	(375)	(2,305)	(4,781)
Profit / (loss) for the period		(1,510)	3,583	(509)	12,501
Earnings per share:					
Basic		(DKK 0.36)	DKK 1.02	(DKK 0.14)	DKK 3.61
Diluted		(DKK 0.35)	DKK 0.99	(DKK 0.13)	DKK 3.51

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

TDKK	4 th quarter		Year-to-date	
	2013	2012	2013	2012
Profit / (loss) for the period	(1,510)	3,583	(509)	12,501
<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)	(277)	(5,564)	(277)
Income tax effect	703	118	703	118
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(3,485)	(159)	(4,861)	(159)
Total comprehensive income for the period, net of tax	(4,995)	3,424	(5,370)	12,342

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

TDKK	Note	31 Dec. 2013	30 Sep. 2013	31 Dec. 2012
Development projects, completed		29,780	17,292	33,596
Development projects, in progress		17,370	26,867	7,120
Patents		4,709	4,559	3,746
Intangible assets	6	51,859	48,718	44,462
Plant and equipment		7,034	6,772	6,189
Office improvements		1,836	1,793	1,104
Property, plant and equipment	7	8,870	8,565	7,293
Deferred tax asset		4,323	3,997	5,388
Leasehold deposits		1,669	1,672	1,239
Other non-current assets		5,992	5,669	6,627
Non-current assets		66,721	62,952	58,382
Inventories		7,922	6,998	3,859
Trade receivables	8	32,066	26,808	26,697
Other receivables	8	3,715	3,892	3,416
Cash and cash equivalents		122,223	23,605	30,105
Current assets		165,926	61,303	64,077
Total assets		232,647	124,255	122,459

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EQUITY AND LIABILITIES

TDKK	Note	31 Dec. 2013	30 Sep. 2013	31 Dec. 2012
Share capital		5,812	3,528	3,523
Share premium		201,180	103,494	103,364
Foreign currency translation reserve		(4,089)	(604)	772
Other reserves		25,514	27,728	19,753
Accumulated loss		(38,053)	(36,543)	(37,544)
Equity		190,364	94,603	89,868
Interest-bearing loans and borrowings		6,365	5,443	5,000
Non-current liabilities		6,365	5,443	5,000
Interest-bearing loans and borrowings		473	193	-
Trade payables		23,010	12,316	13,645
Other payables		12,435	11,700	13,946
Current liabilities		35,918	24,209	27,591
Total liabilities		42,283	29,652	32,591
Total equity and liabilities		232,647	124,255	122,459

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

TDKK	Share capital	Share premium	Foreign currency translation reserve	Other reserves	Acc. losses	Total equity
At 1 January 2012	3,426	99,836	931	17,046	(50,045)	71,194
Profit for the period	-	-	-	-	12,501	12,501
Other comprehensive income	-	-	(159)	-	-	(159)
Total comprehensive income	-	-	(159)	-	12,501	12,342
Issue of shares	97	3,528	-	-	-	3,625
Share-based payments	-	-	-	2,707	-	2,707
At 31 December 2012	3,523	103,364	772	19,753	(37,544)	89,868
Profit for the period	-	-	-	-	(509)	(509)
Other comprehensive income	-	-	(4,861)	-	-	(4,861)
Total comprehensive income	-	-	(4,861)	-	(509)	(5,370)
Issue of shares	2,289	97,816	-	-	-	100,105
Share-based payments	-	-	-	5,761	-	5,761
At 31 December 2013	5,812	201,180	(4,089)	25,514	(38,053)	190,364

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

TDKK	Note	4 th quarter		Year-to-date	
		2013	2012	2013	2012
Operating activities					
Profit before tax		(1,476)	3,958	1,796	17,282
Adjustments to reconcile profit before tax to net cash flows:					
Finance income		(898)	1,779	(3,184)	(1)
Finance costs		730	(6)	2,604	423
Amortisation		4,167	5,061	16,841	17,916
Depreciation		1,197	1,854	4,515	3,305
Share-based payment expense		786	598	5,761	2,707
Currency adjustments		(331)	(1,100)	(1,987)	392
Working capital adjustments:					
Change in inventories		(924)	6,756	(4,063)	890
Change in trade and other receivables		(5,081)	389	(5,668)	7,782
Change in trade payables and other payables		11,430	4,834	7,855	(659)
		9,600	24,123	24,470	49,838
Interest received		17	1	22	1
Interest paid		(106)	(494)	(416)	(423)
Income tax paid		(34)	(109)	(538)	(149)
Net cash flows from operating activities		9,477	23,521	23,538	49,267
Investing activities					
Purchase of plant, property and equipment		(2,016)	(1,783)	(4,649)	(3,389)
Investments in intangible assets		(8,810)	(7,628)	(26,446)	(18,433)
Investments in leasehold deposits		(3)	-	(430)	(73)
Net cash used in investing activities		(10,829)	(9,411)	(31,525)	(21,895)
Financing activities					
Issue of shares		99,970	-	100,105	3,625
Repayment of borrowings		-	-	-	(8,411)
Net cash flows from / (used in) financing activities		99,970	-	100,105	(4,786)
Net decrease in cash and cash equivalents		98,618	14,110	92,118	22,586
Cash and cash equivalents at 1 January		23,605	15,995	30,105	7,519
Cash and cash equivalents at 30 June		122,223	30,105	122,223	30,105

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 consolidated financial statements are presented in thousand Danish kroner (TDKK). The Group's entities primarily use the USD as functional currency. This means that the parent company's functional currency differs from its presentation currency as a result of its connection to Denmark.

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 2012.

Effect of implementation of new and revised standards

During the financial year, the group implemented all new IFRS standards, amendments to existing standards and interpretations that have been approved by the EU and enter into effect in 2013. The standards and amendments to existing standards which are relevant for the Group and which have affected the interim consolidated financial statements for 2013 are enumerated below:

- Amendment to IAS 1, Presentation of Financial Statements. The amendment entails changes to the statement of comprehensive income. Going forward, other comprehensive income must be divided into other comprehensive income to be reclassified to the income statement in a later reporting year and other comprehensive income that is not subsequently to be reclassified to the income statement. The change has merely caused a different presentation of other comprehensive income, affecting neither the income statement nor the statement of financial position. (Approved by the EU, effective for reporting years starting on 1 July 2012 or later);
- IFRS 13, Fair Value Measurement. The standard captures the provisions on determination of fair value included in a number of different standards and clarifies the disclosure requirements regarding assets and liabilities measured at fair value. While the implementation of the new standard has given rise to additional information in the financial statements, it has not impacted the determination of fair value and has therefore not affected the income statement or the statement of financial position. (Approved by the EU, effective for reporting years starting on 1 January 2013 or later).

New and amended standards not yet effective

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

New and amended standards not yet effective (*continued*)

- 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.

The consolidated financial statements

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3 OPERATING SEGMENTS

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

4th quarter 2013:

TDKK	EMEA	NAM	APAC	LAM	Consolidated
Revenue					
Total revenue	39,546	26,135	6,261	-	71,942
Inter-segment	(27,923)	-	-	-	(27,923)
Revenue, external customers	11,623	26,135	6,261	-	44,019
Cost of goods sold	(2,191)	(8,534)	(807)	-	(11,532)
Gross profit	9,432	17,601	5,454		32,487

4th quarter 2012:

TDKK	EMEA	NAM	APAC	LAM	Consolidated
Revenue					
Total revenue	50,736	34,958	5,578	-	91,272
Inter-segment	(38,970)	-	-	-	(38,970)
Revenue, external customers	11,766	34,958	5,578	-	52,302
Cost of goods sold	(1,889)	(9,512)	(663)	-	(12,064)
Gross profit	9,877	25,446	4,915	-	40,238

Year-to-date 2013:

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

Year-to-date 2012:

TDKK	EMEA	NAM	APAC	LAM	Consolidated
Revenue					
Total revenue	138,798	129,345	18,288	1,192	287,623
Inter-segment	(106,444)	-	-	-	(104,444)
Revenue, external customers	32,354	129,345	18,288	1,192	181,179
Cost of goods sold	(8,238)	(41,091)	(2,888)	(381)	(52,598)
Gross profit	24,116	88,254	15,400	811	128,581

Explanation of abbreviations

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3 OPERATING SEGMENTS (CONTINUED)

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.

4 SHARE-BASED PAYMENTS

Employees and the management in both the Parent company and the US-based subsidiary participate in 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. The vesting period is 4 years from the grant date.

In a case of specific, exercising events (e.g., public listing), the vesting date of the share options granted to employees and the management is accelerated, so that the holder can either exercise the share option or become entitled to demand cash payment for the difference between the fair value of the shares and the exercise price. The exercising events are under the control of the Parent company, since the decisions in relation to the exercising events must be approved by the holders of class B shares who hold the majority of the shares. The vesting period for the share options that are subject to accelerated vesting is assessed at every reporting date.

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 initial public offering (IPO) on Oslo Stock Exchange (OSE) resulted in an exercising event in relation to the share options program. Therefore, the remaining vesting period of the share options has been accelerated. The effect of the share options that has been accelerated has been disclosed in Note 5: *Exceptional items*.

The general terms for share options are summarised as follows:

Vesting period	4 years from grant date
Earliest exercise date	1 year from grant date
Latest exercise date	9-10 years from grant date

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4 SHARE-BASED PAYMENTS (CONTINUED)

Share options	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 2013	2,000	37.46	328,209	31.43	336,607	34.02	666,816	33.52
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
At 31 December 2013	-	-	269,037	32.00	151,855	32.00	420,892	32.00
Exercisable at 31 December 2013	-	-	269,037	32.00	151,855	32.00	420,892	32.00
At 1 January 2012	22,550	37.46	341,359	31.45	345,232	33.97	709,141	33.43
Granted during the period	-	-	-	-	-	-	-	-
Exercised / expired during the period	(20,550)	32.00	(13,150)	32.00	(8,625)	32.00	(42,325)	32.00
At 31 December 2012	2,000	37.46	328,209	31.43	336,607	34.02	666,816	32.02
Exercisable at 31 December 2012	2,000	37.46	223,350	32.00	171,679	32.00	397,029	32.02

In 2013 288,495 share options were exercised and 87,604 lapsed (2012: 3,850 exercised and 38,475 lapsed).

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

Number of share options	As at 31 December 2013	As at 31 December 2012
Exercise price DKK 23.57	-	28,800
Exercise price DKK 32.00	420,892	427,929
Exercise price DKK 37.46	-	210,087
Total number of outstanding share options and warrants	420,892	666,816

The weighted average of the remaining contractual period of the outstanding stock options at 31 December 2013 is 3 years and 11 months (at 31 December 2012: 4 years and 11 months).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4 SHARE-BASED PAYMENTS (CONTINUED)

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

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

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

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

The grant date fair value of the share options during 2013 was DKK 80.41 (2012: since no grants made the fair value has not been assessed). The fair value of the share options is determined using the Black-Scholes option pricing model.

For 2013, the Group has recognised TDKK 5,762 of share-based payment expense in the income statement (2012: TDKK 2,707). Out of the total amount of TDKK 4,111 for 2013 TDKK 126 was recognised in relation to the board of directors, TDKK 3,071 in relation to the management and TDKK 2,565 in relation to others (2012: zero in relation to the board of directors, TDKK 649 in relation to the management and TDKK 2,058 in relation to others).

5 EXCEPTIONAL ITEMS

The exceptional items recognised in the income statement comprise incurred costs in relation to the IPO in December 2012. The break-down of these costs is as follows:

TDKK	
External advisors	5,070
Share-based payment due to accelerated vesting period of share options	1,712
Total	6,782

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

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. The development projects are amortised over 3 years, as this, based on historical events, is the expected useful life of products. Patents include the Group's cost of application and registration of patents. Patents are amortised over 10 years. All development projects and patents are legally owned by the parent company.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

6 INTANGIBLE ASSETS (CONTINUED)

TDKK	Patents		Development projects completed		Development projects in progress	
	2013	2012	2013	2012	2013	2012
Cost at 1 January	3,746	2,222	77,790	65,900	7,120	3,236
Additions in the period	1,246	1,594	14,210	12,868	25,200	16,841
Disposals in the period	-	-	-	-	(14,210)	(12,868)
Presentation currency adjustment	(205)	(70)	(3,754)	(978)	(740)	(89)
Cost at 31 December	4,787	3,746	88,246	77,790	17,370	7,120
Accumulated amortisation and impairment at 1 January	-	-	44,194	26,833	-	-
Amortisation and impairment for the period	81	-	16,760	17,916	-	-
Presentation currency adjustment	(3)	-	(2,488)	(555)	-	-
Accumulated amortisation and impairment at 31 December	78	-	58,466	44,194	-	-
Carrying amount at 31 December	4,709	3,746	29,780	33,596	17,370	7,120

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

7 PROPERTY, PLANT AND EQUIPMENT

TDKK	Plant and equipment		Leasehold improvements	
	2013	2012	2013	2012
Cost at 1 January	17,706	14,575	2,686	2,115
Additions	5,269	2,863	1,218	526
Presentation currency adjustment	(963)	268	(170)	45
Cost at 31 December	22,012	17,706	3,734	2,686
Accumulated depreciation and impairment at 1 January	11,517	8,443	1,582	1,148
Depreciation and impairment in the year	4,114	2,897	401	408
Presentation currency adjustment	(653)	177	(85)	26
Accumulated depreciation and impairment at 31 December	14,978	11,517	1,898	1,582
Carrying amount at 30 June	7,034	6,189	1,836	1,104

The carrying amount for plant and equipment held under finance lease is TDKK 1,669 at 31 December 2013 (at 31 December 2012: zero). 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

TDKK	As at 31 December 2013	As at 31 December 2012
Receivables recognised in the consolidated statement of financial position:		
Trade receivables	32,066	26,697
Other receivables	3,715	3,416
Total current receivables	35,781	30,113

Movements in the allowance for bad and doubtful receivables are as follows:

TDKK	2013	2012
At 1 January	2,670	700
Utilised	(1,662)	(246)
Change in the period	585	2,216
At 31 December	1,593	2,670

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

TDKK	As at 31 December 2013	As at 31 December 2012
Past due less than 30 days	5,896	7,518
Past due between 30 and 60 days	205	890
Past due between 60 and 90 days	-	335
Past due after 90 days	1,393	436
Total maximum credit risk	7,494	9,179

The OEM business model, as described in the management review, results in the Group having a thorough knowledge of its customers and their business before the turnover reaches a significant extent. The Groups' customers have 30 days as a standard payment term and historically the Group has not had impairment for bad debts. The credit risk associated with trade receivables is therefore assessed as low.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

9 COMMITMENTS AND CONTINGENCIES

Collaterals

The Group has issued a floating charge in the amount of DKK 10 million secured on receivables, inventories, goodwill 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 2013 are as follows:

TDKK	Cars	Office facilities	Total
Falling due within one year	116	3,952	4,066
Falling due between one and five years	49	4,417	4,466
Total	165	8,369	8,534

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 2013 are as follows:

TDKK	Minimum payments	Present value of payments
Falling due within one year	535	473
Falling due between one and five years	1,433	1,365
Total minimum lease payments	1,968	1,838
Less: finance charge	(130)	-
Present value of lease payments	1,838	1,838

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