



NAPATECH  
2<sup>ND</sup> QUARTER 2016  
INTERIM REPORT

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## MANAGEMENT STATEMENT

The Board of Directors and the Executive Management have discussed and approved the interim report of Napatech Group for the three months period from 1 April to 30 June 2016 and the six months period from 1 January to 30 June 2016.

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

In our opinion, the interim report gives a true and fair view of the Napatech Group's assets, liabilities and financial position at 30 June 2016, and of the results of the Napatech Group's operations and cash flows for the three months period 1 April to 30 June 2016 and the six months period from 1 January to 30 June 2016.

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 term Company below refers as well to the Group.

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

Oslo, 15 August 2016.

### 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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Lars B. Thoresen

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Bjørn Erik Reinseth

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Howard Bubb

## MANAGEMENT'S REVIEW

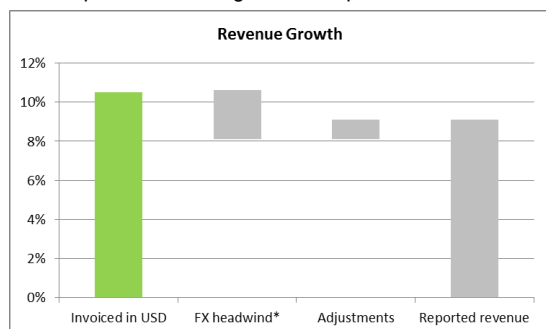
### Highlights.

#### Pandion starting to contribute to overall revenue.

- Revenue for second quarter 2016 amounted to DKK 46.6 million, an increase of 9% compared to second quarter 2015, and a sequential increase of 1% compared to first quarter 2016.
- Pandion revenue was 4% of the total revenue in Q2 2016.
- Gross margin for second quarter 2016 was 73% compared to 72% in second quarter 2015, and 73% in first quarter 2016.
- EBITDA for second quarter of 2016 amounted to DKK 3.2 million, an increase of 38% compared to second quarter 2015.
- EBITDA margin for second quarter 2016 was 7%, an increase from 5% in second quarter 2015.
- EBT for second quarter amounted to negative DKK 3.8 million compared to negative DKK 6.7 million in second quarter 2015.
- EPS for second quarter 2016 was negative 0.13 DKK, up from negative 0.22 DKK in second quarter 2015.
- Net decrease in cash was 21.4 million in the second quarter of 2016. The total cash position of the Company was DKK 48.5 million by end of second quarter 2016 compared to DKK 57.7 million by end of second quarter 2015.

The business continues to show progress. However, the nature of our business causes the revenue to be fluctuating between quarters. Normally, second half of a year has more than half of that year's revenue.

This quarter showed progress on a number of important activities. The Pandion business is now picking up the pace with a contribution of 4 % of the total second quarter 2016 revenues. Expectations for the Pandion business are high, and the Company assumes a much stronger contribution during the third quarter and the fourth quarter of 2016 as stated in the guidance for 2016 below. To help sustain this development, our Dell relationship has taken a significant step forward.



\*Average bank rates

During the quarter, we have announced progress in our partnership with Dell as Dell is now starting to sell the Napatech Pandion in a Dell branded version.

Dell has a very strong sales force with close links into both the US Government sector and the financial sector, where there is a large need for the functionality that our Pandion products offer. Dell has a unique customer access which Napatech does not have today, adding significant sales power to our Pandion business.

Napatech has given product training to more than 100 Dell sales representatives, and currently there are a number of joint activities ongoing.

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 the second quarter of 2016, a number of design wins materialized (not exhaustive):

- ✓ Pandion recorder design win with a European system integrator for a network management solution.
- ✓ 100 Gigabit design win with European Test and Measurement equipment manufacturer for a deep packet inspection solution
- ✓ 10 Gigabit design win with US based network monitoring company for a satellite communication analysis solution within the defense and public infrastructure market

Napatech products help our customers build world class products, where the data delivered into their systems are the basis for the product. Napatech is the world leader in data delivery solutions for network management and security applications. As data volume and complexity grow, organizations must monitor, compile and analyse all the information flowing through their networks. Our products use patented technology to capture and process data at high speed and high volume with guaranteed performance, enabling real-time visibility. We deliver data faster, more efficiently and on-demand for the most advanced enterprise, cloud and government networks. Now and in the future, we enable our customers' applications to be smarter than the networks they need to manage and protect

**Napatech. SMARTER DATA. DELIVERED.**

## MANAGEMENT'S REVIEW (CONTINUED)

### Napatech operations.

The statements below are related to Napatech development in second quarter and first half year of 2016 compared to second quarter and first half year of 2015, unless as otherwise stated. Additional information is available at [www.napatech.com/investor](http://www.napatech.com/investor).

### Key figures and ratios.

	2 <sup>nd</sup> Quarter		YTD June	
	2016	2015	2016	2015
Revenue, DKK'000	46,584	42,686	92,889	86,388
Gross profit margin, %	73%	72%	73%	71%
EBITDA, DKK'000	3,162	2,288	9,349	6,324
EBITDA margin, %	7%	5%	10%	7%
(Loss) / profit before tax, DKK'000	(3,775)	(6,727)	(9,533)	(2,155)
EPS basic, DKK <small>(please ref. Note 5)</small>	(0.13)	(0.22)	(0.32)	(0.07)
EPS diluted, DKK	(0.13)	(0.22)	(0.32)	(0.07)
Equity, DKK'000	193,055	186,912	193,055	186,912
Cash and cash equivalents, DKK'000	48,477	57,651	48,477	57,651

## Financial Review

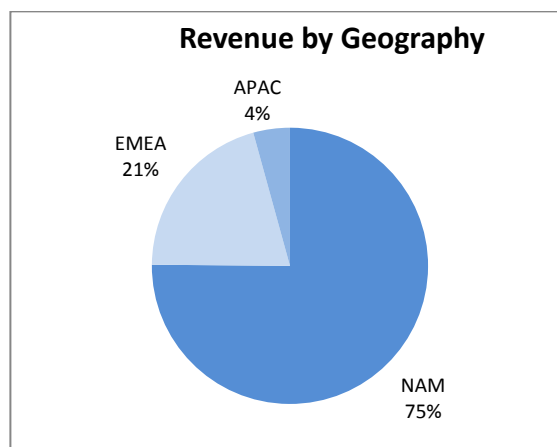
### Revenue

Napatech reports revenue of DKK 46.6 million in the second quarter, an increase of 9% compared to the same period in 2015. The nature of Napatech's revenue is that it is fluctuating between quarters and typically second half of the year is stronger than first half.

Sales were distributed with 75% in NAM, 21% in EMEA and the remaining 4% in APAC.

### Gross Margin

Gross margin for second quarter 2016 was 73%, above the 72% in second quarter 2015, and in line with the 73% in first quarter 2016. The increase is due to a favourable product mix in this particular quarter. Still, it is the Company's expectation that we could experience a gross margin around 70% in the coming quarters.



## MANAGEMENT'S REVIEW (CONTINUED)

### Financial review (continued)

#### Costs

Total costs for second quarter 2016 were 30.7 million DKK compared to 28.3 million DKK for second quarter 2015, an increase of 8% resulting from increased investments in sales and marketing.

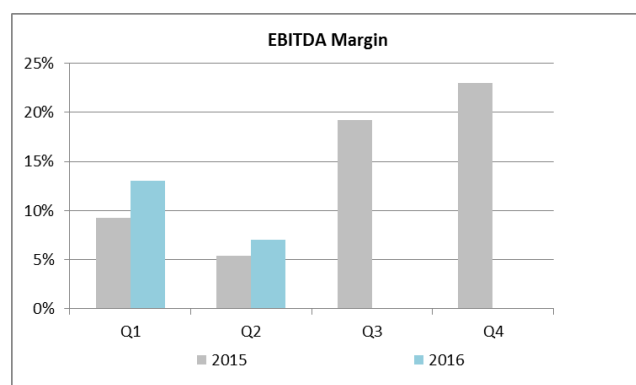
R&D costs for second quarter 2016 were DKK 3.1 million compared to DKK 3.8 million in the second quarter 2015. The decrease in costs is related to a shift in resources.

Sales and distribution costs for second quarter 2016 were DKK 19.1 million, compared to DKK 16.6 million in the second quarter of 2015. The increase in the Sales and Marketing costs are due to the increased resources in this area and one-time expenses in Q2 related to the big marketing events in first half 2016. Further, there is a timing difference between the same quarters in 2015 and 2016, as the cost increase in Q2 2016 compared with Q2 2015 is DKK 2.5 million, but only an increase of DKK 2.8 million when comparing the 2 first half years of 2015 and 2016.

Administrative expenses for second quarter 2016 were DKK 8.5 million compared to DKK 7.9 million in the second quarter 2015. This is related to a general increase in costs, and a timing variance as the first half of 2016 is still less than 50% of 2015.

#### EBITDA

EBITDA was DKK 3.2 million in the second quarter 2016, compared to DKK 2.3 million in the second quarter of 2015. The increase is driven by higher sales and higher gross margin. The EBITDA margin of 7% is again an effect of the higher sales and gross margin, and the margin expansion again highlights the scalability of the business.



#### Depreciation and amortisation

Depreciation and amortisation were DKK 8.5 million in the second quarter 2016, compared to DKK 6.9 million in the second quarter of 2015. Our depreciations are affected by the timing of the completion of our development projects, and the investment level in the past.

#### EBIT

EBIT for second quarter 2016 was negative with DKK 5.3 million, a decrease compared to negative DKK 4.6 million in the second quarter of 2015.

#### Financial Items

Financial items for second quarter 2016 were an income of DKK 1.5 million compared to an expense of DKK 2.1 million in the second quarter of 2015. The financial items are primarily affected by the change in USD exchange rate, and it has increased during second quarter 2016, which resulted in this income. In Q1 2016, we had finance costs at DKK 3.5 million also related to movements in the USD.

#### Taxes

Taxes for the second quarter 2016 are an income of 0.8 MDKK driven by the negative profit. The tax rate in Denmark is 22%.

#### Investments

Total investments in second quarter 2016 were DKK 11.5 million. This was primarily related to new product development (capitalized development) with DKK 11.0 million. In second quarter of 2015, total investments were DKK 13.3 million, of which DKK 12.0 million was internal product development.

In second quarter 2016, there was a development project related to the Pandion product, and developments related to the accelerator portfolio with the addition of new functionality.

#### Cash Flow

For the second quarter 2016, cash flow from operating activities was negative with DKK 11.3 million, a decrease of DKK 14.6 million from second quarter 2015.

Negative cash flow from investing activities was DKK 11.5 million in the second quarter 2016, a decrease from DKK 13.3 million in the second quarter of 2015.

Napatech had a negative cash flow of DKK 21.6 million in the second quarter of 2016. The total cash position of the Company was DKK 48.5 million by end of second quarter 2016, a decrease of DKK 9.2 million compared to the end of second quarter 2015. The primary reason for the negative cash flow is a DKK 18.5 million increase in our receivables, as a large part of the revenue came in late in the period.

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 second quarter 2015. Thus, the Company has available total funds of approx. 65 million DKK at the end of the second quarter of 2016.

## MANAGEMENT'S REVIEW (CONTINUED)

### Financial review (continued)

#### Shareholders and Share Information

Napatech had per June 30, 2016 issued 23,478,792 shares at DKK 0.25 each. This gives a share capital of 5,869,698 DKK divided among the 375 shareholders.

Investor	Number of shares	% of total
VERDANE CAPITAL VIII	5.172.844	22,03%
ARCTIC FUNDS PLC	2.204.316	9,39%
STOREBRAND VEKST	2.164.040	9,22%
SILVERCOIN INDUSTRIE	1.252.183	5,33%
VINTERSTUA AS	1.000.000	4,26%
DNB NOR MARKETS, AKS	1.000.000	4,26%
THE BANK OF NEW YORK	880.000	3,75%
DANSKE BANK A/S	803.121	3,42%
VERDIPAPIRFONDET DNB	773.276	3,29%
SÆTER HAAKON MORTEN	667.980	2,85%
TIGERSTADEN AS	634.041	2,70%
SKANDINAVISKA ENSKIL	548.000	2,33%
DNB LUXEMBOURG S.A.	481.508	2,05%
SIX-SEVEN AS	363.943	1,55%
NORDEA BANK DANMARK	316.364	1,35%
NORTHZEA MANAGEMENT	264.924	1,13%
HOBOLT NIELS	261.324	1,11%
EKNER PETER DAHL	240.000	1,02%
NORDNET BANK AB	230.203	0,98%
MARSTAL AS	205.000	0,87%
<b>Total number owned by to 20</b>	<b>19.463.067</b>	<b>82,90%</b>
<b>Total 355 other shareholders</b>	<b>4.015.725</b>	<b>17,10%</b>
<b>Total number of shares</b>	<b>23.478.792</b>	<b>100,00%</b>

#### Outlook for 2016

We have a sharp focus on continuing our revenue growth for the remainder of 2016, as well as realizing the EBITDA margin expansion the scalability of Napatech offers.

We believe that our Pandion business (network recording) will be the major contributor to the 2016 growth ambitions to be realized during the second half of 2016. The core accelerator business is progressing generating growth compared to 2015, but its contribution to the overall growth ambitions for the remainder of 2016 has become slightly more uncertain as some of Napatech's OEM-customers are delayed with their own ramp-up of new platforms based on Napatech's available and latest technologies.

However, Napatech is realistically optimistic about 2016, and has updated its guidance for 2016 as follows:

- Revenue growth of 15% to 20%.
- EBITDA margin around 20%.
- Pandion contribution around 10% of the overall 2016 revenue.

Napatech has made a hedge of the USD net exposure, where approximately 55% of the USD revenue is hedged around 6.77 DKK (average for 2015 was 6.72), and the remaining 45% is naturally hedged against other USD denominated costs.

#### 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 2016 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, 15 August 2016

The Board of Directors of Napatech A/S

## INTERIM CONSOLIDATED INCOME STATEMENT

For the period ended 30 June 2016

DKK'000	Note	2 <sup>nd</sup> Quarter		YTD June	
		2016	2015	2016	2015
Revenue	3	46,584	42,686	92,889	86,388
Costs of goods sold		(12,759)	(12,139)	(25,063)	(24,842)
<b>Gross profit</b>		<b>33,825</b>	<b>30,547</b>	<b>67,826</b>	<b>61,546</b>
Research and development cost		(3,088)	(3,810)	(5,801)	(6,999)
Selling and distribution expenses		(19,107)	(16,588)	(36,050)	(33,280)
Administrative expenses	4	(8,468)	(7,861)	(16,626)	(14,943)
<b>Operating profit before depreciation and amortisation (EBITDA)</b>		<b>3,162</b>	<b>2,288</b>	<b>9,349</b>	<b>6,324</b>
Depreciation and amortisation		(8,472)	(6,896)	(16,921)	(13,729)
<b>Operating profit / (loss) (EBIT)</b>		<b>(5,310)</b>	<b>(4,608)</b>	<b>(7,572)</b>	<b>(7,405)</b>
Finance income		1,535	-	4	5,615
Finance costs		-	(2,119)	(1,965)	(365)
<b>Profit / (loss) before tax</b>		<b>(3,775)</b>	<b>(6,727)</b>	<b>(9,533)</b>	<b>(2,155)</b>
Income tax		830	1,580	2,097	506
<b>Profit / (loss) for the period</b>		<b>(2,945)</b>	<b>(5,147)</b>	<b>(7,436)</b>	<b>(1,649)</b>
<b>Earnings per share:</b>	5				
Basic, DKK		(0.13)	(0.22)	(0.32)	(0.07)
Diluted, DKK		(0.13)	(0.22)	(0.32)	(0.07)

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2016

DKK'000	Note	2 <sup>nd</sup> Quarter		YTD June	
		2016	2015	2016	2015
<b>Profit / (loss) for the period</b>		<b>(2,945)</b>	<b>(5,147)</b>	<b>(7,436)</b>	<b>(1,649)</b>
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>					
Exchange differences on translation of foreign operations		316	(36)	116	77
Net movement on cash flow hedges		(3,413)	(1,082)	2,109	(1,755)
Income tax effect		752	255	(479)	413
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<b>(2,345)</b>	<b>(863)</b>	<b>1,746</b>	<b>(1,265)</b>
<b>Total comprehensive income for the period</b>		<b>(5,290)</b>	<b>(6,010)</b>	<b>(5,690)</b>	<b>(2,914)</b>



## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

### ASSETS

DKK'000	Note	30 June 2016	31 December 2015	30 June 2015
Development projects, completed		56,598	70,087	43,880
Development projects, in progress		33,999	12,439	32,090
Patents		7,860	7,665	7,047
Other intangible assets		846	1,202	1,371
<b>Intangible assets</b>	<b>6</b>	<b>99,303</b>	<b>91,393</b>	<b>84,388</b>
Plant and equipment		5,963	7,435	8,641
Office improvements		1,405	1,049	1,274
<b>Property, plant and equipment</b>	<b>7</b>	<b>7,368</b>	<b>8,484</b>	<b>9,915</b>
Deferred tax asset		-	-	5,965
Leasehold deposits		2,266	2,224	2,219
<b>Other non-current assets</b>		<b>2,266</b>	<b>2,224</b>	<b>8,184</b>
<b>Non-current assets</b>		<b>108,937</b>	<b>102,101</b>	<b>102,487</b>
Inventories		15,159	14,341	18,215
Trade receivables	8	49,551	48,254	42,850
Other receivables	8	3,721	4,484	2,542
Income tax receivable	8	2,451	2,451	-
Derivative financial instruments	9	1,100	-	-
Cash and cash equivalents		48,477	75,921	57,651
<b>Current assets</b>		<b>120,459</b>	<b>145,451</b>	<b>121,258</b>
<b>Total assets</b>		<b>229,396</b>	<b>247,552</b>	<b>223,745</b>

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

### EQUITY AND LIABILITIES

DKK'000	Note	30 June 2016	31 December 2015	30 June 2015
Share capital	10	5,870	5,822	5,822
Share premium	10	213,600	210,675	210,675
Foreign currency translation reserve		197	81	130
Other reserves		30,982	9,209	9,886
Accumulated loss		(57,594)	(28,785)	(39,601)
<b>Equity</b>		<b>193,055</b>	<b>197,002</b>	<b>186,912</b>
Deferred tax liability		3,049	5,182	-
Interest-bearing loans and borrowings		5,000	5,000	5,355
<b>Non-current liabilities</b>		<b>8,049</b>	<b>10,182</b>	<b>5,355</b>
Interest-bearing loans and borrowings		476	637	612
Trade payables		15,385	18,645	15,433
Other payables		12,102	19,763	13,369
Derivative financial instruments	9	-	1,008	1,755
Provisions		329	315	309
<b>Current liabilities</b>		<b>28,292</b>	<b>40,368</b>	<b>31,478</b>
<b>Total liabilities</b>		<b>36,341</b>	<b>50,550</b>	<b>36,833</b>
<b>Total equity and liabilities</b>		<b>229,396</b>	<b>247,552</b>	<b>223,745</b>

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2016

DKK'000	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Cash flow hedge reserve	Reserve for development project costs	Acc. Losses	Total equity
<b>At 1 January 2016</b>	<b>5,822</b>	<b>210,675</b>	<b>81</b>	<b>9,981</b>	<b>(772)</b>	<b>-</b>	<b>(28,785)</b>	<b>197,002</b>
Loss for the period	-	-	-	-	-	-	(4,491)	(4,491)
Exchange differences on translation of foreign operations	-	-	(200)	-	-	-	-	(200)
Cash flow hedges	-	-	-	-	5,522	-	-	5,522
Income tax effect	-	-	-	-	(1,230)	-	-	(1,230)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(200)</b>	<b>-</b>	<b>4,292</b>	<b>-</b>	<b>(4,491)</b>	<b>(399)</b>
Issue of shares	48	1,488	-	-	-	-	-	1,536
Reversal, exercised and lapsed share options	-	1,437	-	(1,462)	-	-	25	-
Development project costs for the period	-	-	-	-	-	10,888	(10,888)	-
Share-based payments	-	-	-	104	-	-	-	104
<b>At 31 March 2016</b>	<b>5,870</b>	<b>213,600</b>	<b>(119)</b>	<b>8,623</b>	<b>3,520</b>	<b>10,888</b>	<b>(44,139)</b>	<b>198,243</b>
Loss for the period	-	-	-	-	-	-	(2,945)	(2,945)
Exchange differences on translation of foreign operations	-	-	316	-	-	-	-	316
Cash flow hedges	-	-	-	-	(3,413)	-	-	(3,413)
Income tax effect	-	-	-	-	752	-	-	752
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>316</b>	<b>-</b>	<b>(2,661)</b>	<b>-</b>	<b>(2,945)</b>	<b>(5,290)</b>
Issue of shares	-	-	-	-	-	-	-	-
Reversal, exercised and lapsed share options	-	-	-	-	-	-	-	-
Development project costs for the period	-	-	-	-	-	10,510	(10,510)	-
Share-based payments	-	-	-	102	-	-	-	102
<b>At 30 June 2016</b>	<b>5,870</b>	<b>213,600</b>	<b>197</b>	<b>8,725</b>	<b>859</b>	<b>21,398</b>	<b>(57,594)</b>	<b>193,055</b>

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2016

DKK'000	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Cash flow hedge reserve	Acc. Losses	Total equity
<b>At 1 January 2015</b>	<b>5,822</b>	<b>210,675</b>	<b>53</b>	<b>12,101</b>	<b>-</b>	<b>(39,032)</b>	<b>189,619</b>
Profit for the period	-	-	-	-	-	3,498	3,498
Exchange differences on translation of foreign operations	-	-	113	-	-	-	113
Cash flow hedges	-	-	-	-	(673)	-	(673)
Income tax effect	-	-	-	-	158	-	158
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>113</b>	<b>-</b>	<b>(515)</b>	<b>3,498</b>	<b>3,096</b>
Issue of shares	-	-	-	-	-	-	-
Reversal, exercised and lapsed share options	-	-	-	(1,080)	-	1,080	-
Share-based payments	-	-	-	103	-	-	103
<b>At 31 March 2015</b>	<b>5,822</b>	<b>210,675</b>	<b>166</b>	<b>11,124</b>	<b>(515)</b>	<b>(34,454)</b>	<b>192,818</b>
Loss for the period	-	-	-	-	-	(5,147)	(5,147)
Exchange differences on translation of foreign operations	-	-	(36)	-	-	-	(36)
Cash flow hedges	-	-	-	-	(1,082)	-	(1,082)
Income tax effect	-	-	-	-	255	-	255
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(36)</b>	<b>-</b>	<b>(827)</b>	<b>(5,147)</b>	<b>(6,010)</b>
Issue of shares	-	-	-	-	-	-	-
Reversal, exercised and lapsed share options	-	-	-	-	-	-	-
Share-based payments	-	-	-	104	-	-	104
<b>At 30 June 2015</b>	<b>5,822</b>	<b>210,675</b>	<b>130</b>	<b>11,228</b>	<b>(1,342)</b>	<b>(39,601)</b>	<b>186,912</b>

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2016

DKK'000	Note	2 <sup>nd</sup> Quarter		YTD June	
		2016	2015	2016	2015
<b>Operating activities</b>					
(Loss) / profit before tax		(3,775)	(6,727)	(9,533)	(2,155)
Adjustments to reconcile profit before tax to net cash flows:					
Finance income		-	-	(4)	(5,615)
Finance costs		(1,535)	2,119	1,965	365
Amortisation and depreciation	6, 7	8,472	6,896	16,921	13,729
Share-based payment expense		102	104	206	207
Working capital adjustments:					
Change in inventories		(568)	(6,828)	(818)	(8,738)
Change in trade and other receivables		(18,490)	7,136	(534)	(5,922)
Change in trade and other payables and provisions		4,517	580	(10,907)	188
<b>Cash flows from operating activities</b>		<b>(11,277)</b>	<b>3,280</b>	<b>(2,704)</b>	<b>(7,941)</b>
Currency gains and losses		1,622	(649)	(1,809)	5,496
Interest received		-	69	4	119
Interest paid		(87)	(128)	(156)	(340)
Income tax paid		(245)	(159)	(515)	(722)
<b>Net cash flows from operating activities</b>		<b>(9,987)</b>	<b>2,413</b>	<b>(5,180)</b>	<b>(3,388)</b>
<b>Investing activities</b>					
Purchase of plant, property and equipment	7	(599)	(1,242)	(1,661)	(2,813)
Investments in intangible assets	6	(10,960)	(11,957)	(22,205)	(23,910)
Investments in leasehold deposits		47	(51)	(42)	(453)
<b>Net cash used from investing activities</b>		<b>(11,512)</b>	<b>(13,250)</b>	<b>(23,908)</b>	<b>(27,176)</b>
<b>Financing activities</b>					
Issue of shares	10	-	-	1,536	-
Repayment borrowings		(80)	-	(161)	-
<b>Net cash flows from financing activities</b>		<b>(80)</b>	<b>-</b>	<b>1,375</b>	<b>-</b>
<b>Net change in cash and cash equivalents</b>		<b>(21,579)</b>	<b>(10,837)</b>	<b>(27,713)</b>	<b>(30,564)</b>
Net foreign exchange difference		302	(1,420)	269	(15)
Cash and cash equivalents at the beginning of the period		69,754	69,908	75,921	88,230
<b>Cash and cash equivalents at the end of the period</b>		<b>48,477</b>	<b>57,651</b>	<b>48,477</b>	<b>57,651</b>

## **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

### **1 SIGNIFICANT ACCOUNTING POLICIES**

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.

The accounting policies are consistent with those applied to the consolidated financial statements for 2015.

The consolidated financial statements for 2015 contain a full description of accounting policies.

#### **Changes in accounting policies**

Annual Improvements to IFRSs 2010-2012 Cycle result in changes of IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and IAS 38. The changes are characterised as very specific changes with a narrow scope. Changes to IFRS 2 and IFRS 3 are applicable to transactions relating to vesting conditions for share based payments programs granted after 1 July 2015. These parts of Annual Improvements for IFRSs 2010-2012 Cycle are therefore implemented in 2015.

Annual Improvements to IFRSs 2011-2014 Cycle result in changes of IFRS 1, IFRS 3, IFRS 13 and IAS 40. These changes are also characterised as very specific changes with a narrow scope.

None of the new and revised standards and interpretations has affected the recognition and measurement in the interim consolidated financial statements.

#### **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.

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).

### **2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the interim consolidated financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities.

The accounting judgements, estimates and assumptions that management make are the same for these interim consolidated financial statements as for the consolidated financial statements for 2015.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 3 OPERATING SEGMENTS

#### 2<sup>nd</sup> Quarter 2016:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
<b>Revenue</b>					
Total revenue	38,423	34,996	1,995	-	75,414
Inter-segment	(28,830)	-	-	-	(28,830)
<b>Revenue, external customers</b>	<b>9,593</b>	<b>34,996</b>	<b>1,995</b>	<b>-</b>	<b>46,584</b>
Cost of goods sold	(2,322)	(9,925)	(512)	-	(12,759)
<b>Gross profit</b>	<b>7,271</b>	<b>25,071</b>	<b>1,483</b>	<b>-</b>	<b>33,825</b>

#### 2<sup>nd</sup> Quarter 2015:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
<b>Revenue</b>					
Total revenue	32,587	31,965	2,647	-	67,199
Inter-segment	(24,513)	-	-	-	(24,513)
<b>Revenue, external customers</b>	<b>8,074</b>	<b>31,965</b>	<b>2,647</b>	<b>-</b>	<b>42,686</b>
Cost of goods sold	(1,979)	(9,516)	(644)	-	(12,139)
<b>Gross profit</b>	<b>6,095</b>	<b>22,449</b>	<b>2,003</b>	<b>-</b>	<b>30,547</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

YTD June 2016:					
DKK'000	EMEA	NAM	APAC	LAM	Consolidated
<b>Revenue</b>					
Total revenue	70,168	70,631	5,547	-	146,346
Inter-segment	(53,457)	-	-	-	(53,457)
<b>Revenue, external customers</b>	<b>16,711</b>	<b>70,631</b>	<b>5,547</b>	<b>-</b>	<b>92,889</b>
Cost of goods sold	(3,751)	(19,951)	(1,361)	-	(25,063)
<b>Gross profit</b>	<b>12,960</b>	<b>50,680</b>	<b>4,186</b>	<b>-</b>	<b>67,826</b>

YTD June 2015:					
DKK'000	EMEA	NAM	APAC	LAM	Consolidated
<b>Revenue</b>					
Total revenue	65,486	69,652	4,371	51	139,560
Inter-segment	(53,172)	-	-	-	(53,172)
<b>Revenue, external customers</b>	<b>12,314</b>	<b>69,652</b>	<b>4,371</b>	<b>51</b>	<b>86,388</b>
Cost of goods sold	(2,625)	(20,931)	(1,267)	(19)	(24,842)
<b>Gross profit</b>	<b>9,689</b>	<b>48,721</b>	<b>3,104</b>	<b>32</b>	<b>61,546</b>

#### Explanation of abbreviations

EMEA	= Europe, Middle East and Africa
NAM	= Northern America
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## 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.

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

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

The general terms for share options are summarised as follows:

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

In May 2014 the Board of Directors decided to issue share options to key employees in the Group. A total of 404,000 share options have been issued for subscription of 404,000 shares of a nominal value of DKK 0,25 at an exercise price of NOK 12.18 (DKK 10.75 at 1 July 2014). The share options' life time is 5 years. The second 2 years from the date of issue is a lock-up period during which the share options may not be exercised. The exercise of these share options may take place in the 3rd, 4th and 5th year and they 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

In April 2016 the General Assembly decided to authorize the Board of Directors to issue 400.000 share options for subscription of 400,000 shares of a nominal value of DKK 0.25, based on the same conditions as laid out in the 2014 Option Plan. This authorization has not yet been exercised.

In accordance with the decision made on the Annual General Meeting held on 20 April 2016, Napatech conducted a split of shares in the ratio of 1:4. The nominal value of each share has been reduced from DKK 1.00 to DKK 0.25, whereby each shareholder holding one share with the nominal value of DKK 1.00 received four new shares with the nominal value of DKK 0.25.

The share split has no direct impact on the value of share options and share option programs. When share options are exercised, the share capital will be increased by the same nominal amount at the same strike price per share of DKK 1.00 nominal (multiples of four shares at nominally DKK 0.25). Consequently, the number and value of share options increased/decreased with the same ratio of 1:4. This principal has been applied on comparative figures from 2015 to enable comparison and consistency with previous periods.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 4 SHARE-BASED PAYMENTS (CONTINUED)

	Management		Others		Total	
	Number	Average exercise price (DKK)	Number	Average exercise price (DKK)	Number	Average exercise price (DKK)
<b>Share options</b>						
At 1 January 2016	1,032,848	8.60	620,780	8.80	1,653,628	8.67
Granted during the period	92,000	12.53	-	-	92,000	12.53
Exercised / expired during the period	(89,100)	8.00	(106,160)	8.00	(195,260)	8.00
<b>At 30 June 2016</b>	<b>1,035,748</b>	<b>8.99</b>	<b>514,620</b>	<b>8.96</b>	<b>1,550,368</b>	<b>8.99</b>
<b>Exercisable at 30 June 2016</b>	<b>719,748</b>	<b>8.00</b>	<b>334,620</b>	<b>8.00</b>	<b>1,054,368</b>	<b>8.00</b>
At 1 January 2015	1,267,148	8.49	724,820	8.68	1,991,968	8.56
Granted during the period	-	-	-	-	-	-
Exercised / expired during the period	(84,900)	8.00	(59,300)	8.00	(144,200)	8.00
<b>At 30 June 2015</b>	<b>1,182,248</b>	<b>8.49</b>	<b>665,520</b>	<b>8.68</b>	<b>1,847,768</b>	<b>8.60</b>
<b>Exercisable at 30 June 2015</b>	<b>958,248</b>	<b>8.00</b>	<b>485,520</b>	<b>8.00</b>	<b>1,443,768</b>	<b>8.00</b>

In the period ended 30 June 2016, 3,360 share options were lapsed and 191,900 exercised (30 June 2015: 144,200 lapsed and none exercised).

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

Number of share options	As at 30 June 2016	As at 30 June 2015
Exercise price DKK 8.00	1,054,368	1,443,768
Exercise price DKK 10.75	404,000	404,000
Exercise price DKK 12.53	92,000	-
<b>Total number of outstanding share options and warrants</b>	<b>1,550,368</b>	<b>1,847,768</b>

The weighted average of the remaining contractual period of the outstanding share options from the 2013 share options programme at 30 June 2016 is 1 year and 2 months (at 31 December 2015: 1 year and 8 months). The weighted average of the remaining contractual period of the outstanding share options from the 2014 share options programme at 30 June 2016 is 3 years (at 31 December 2015: 3 years and 6 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 and 2014 was estimated on the date of grant using the following assumptions:

	2013	2014
Volatility	47.92%	43.53% - 44.94%
Risk-free interest rate	1.65%	1.70% - 2.00%
Exercise price (DKK)	8.00	10.75
Exercise period (years)	2.27	3.00
Number of options	520,700	404,000

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 2014 was DKK 4.01. The fair value of the share options is determined using the Black-Scholes option pricing model.

For 2<sup>nd</sup> quarter 2016, the Group has recognised DKK 103 thousand of share-based payment expense in the income statement (2<sup>nd</sup> quarter 2015: DKK 104 thousand). DKK 56 thousand was recognised in relation the Executive Management and DKK 47 thousand in relation to other employees.

### 5 EARNINGS PER SHARE

DKK'000	2 <sup>nd</sup> Quarter		YTD June	
	2016	2015	2016	2015
<b>Net income attributable to equity holders of the parent company for basic earnings and the effect of dilution</b>	<b>(2,945)</b>	<b>(5,147)</b>	<b>(7,436)</b>	<b>(1,649)</b>

DKK'000	2 <sup>nd</sup> Quarter		YTD June	
	2016	2015	2016	2015
	<i>Thousand</i>	<i>Thousand</i>	<i>Thousand</i>	<i>Thousand</i>
Weighted average number of shares for basic earnings per share	23,480	23,288	23,436	23,288
Effect of dilution:				
Share options	-	-	-	-
<b>Weighted average number of shares adjusted for the effect of dilution (nominal value of DKK 0.25)</b>	<b>23,480</b>	<b>23,288</b>	<b>23,436</b>	<b>23,288</b>

In accordance with the decision made on the Annual General Meeting held on 20 April 2016, Napatech conducted a split of shares in the ratio of 1:4. The nominal value of each share has been reduced from DKK 1.00 to DKK 0.25, whereby each shareholder holding one share with the nominal value of DKK 1.00 received four new shares with the nominal value of DKK 0.25. The same principal has been applied on comparative figures from 2015 to enable comparison and consistency of EPS with previous periods.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 6 INTANGIBLE ASSETS

DKK'000	Development projects, completed	Development projects, in progress	Patents	Other intangible assets	Total
Cost at 1 January 2016	170,480	12,439	8,185	2,139	193,243
Additions in the period	-	21,560	645	-	22,205
Transfers in the period	-	-	-	-	-
<b>Cost at 30 June 2016</b>	<b>170,480</b>	<b>33,999</b>	<b>8,830</b>	<b>2,139</b>	<b>215,448</b>
Accumulated amortisation at 1 January 2016	100,393	-	520	937	101,850
Amortisation for the period	13,489	-	450	356	14,295
<b>Accumulated amortisation 30 June 2016</b>	<b>113,882</b>	<b>-</b>	<b>970</b>	<b>1,293</b>	<b>116,145</b>
<b>Carrying amount at 30 June 2016</b>	<b>56,598</b>	<b>33,999</b>	<b>7,860</b>	<b>846</b>	<b>99,303</b>

Within the completed development projects there are two material development projects with carrying amount of DKK 8,153 thousand and DKK 12,853 thousand at 30 June 2016 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 1 year and 4 months and 3 years and 6 months respectively.

Within the in progress development projects there is one material development project with carrying amount of DKK 4,520 thousand. The aim of the project is to develop next generation of our network recording platform. The project is not yet completed and therefore has not been amortised.

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 2016	32,224	3,970	36,194
Additions in the period	1,020	641	1,661
Disposals in the period	(135)	(47)	(182)
Currency adjustment	(77)	10	(67)
<b>Cost at 30 June 2016</b>	<b>33,032</b>	<b>4,574</b>	<b>37,606</b>
Accumulated depreciation at 1 January 2016	24,789	2,921	27,710
Depreciation for the period	2,375	251	2,626
Disposals in the period	(135)	(47)	(182)
Currency adjustment	40	44	84
<b>Accumulated depreciation 30 June 2016</b>	<b>27,069</b>	<b>3,169</b>	<b>30,238</b>
<b>Carrying amount at 30 June 2016</b>	<b>5,963</b>	<b>1,405</b>	<b>7,368</b>

The carrying amount for plant and equipment held under finance leasing is DKK 174 thousand at 30 June 2016. There were no indications of impairment of the Group's property, plant and equipment in the reporting period.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 8 TRADE RECEIVABLES

DKK'000	30 June 2016	30 June 2015
<b>Receivables recognised in the consolidated statement of financial position:</b>		
Trade receivables	49,551	42,850
Other receivables	3,721	2,542
Income tax receivable	2,451	-
<b>Total current receivables</b>	<b>55,723</b>	<b>45,392</b>

The provision for bad and doubtful receivables is as follows:

DKK'000	2016	2015
At 1 January	1,815	2,002
Change in the period	-	(853)
<b>At 30 June</b>	<b>1,815</b>	<b>1,149</b>

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

DKK'000	30 June 2016	30 June 2015
Not past due	42,889	31,365
Past due less than 30 days	4,406	3,104
Past due between 30 and 60 days	486	422
Past due between 60 and 90 days	327	829
Past due after 90 days	3,258	8,279
<b>Total maximum credit risk</b>	<b>51,366</b>	<b>43,999</b>

### 9 DERIVATIVE FINANCIAL INSTRUMENTS

DKK'000	30 June 2016	30 June 2015
<b>Derivative financial instruments at fair value, assets / (liabilities)</b>	<b>1,100</b>	<b>(1,755)</b>

Derivative financial instruments are classified as Level 2 instruments in accordance with the IFRS fair value hierarchy. The fair value of the derivative financial instruments is based on observable market data, such as forward exchange rates. The fair value of derivative financial instruments approximates their carrying values.

### 10 ISSUED SHARE CAPITAL AND RESERVES

Authorised shares	2016	2015
	<i>Thousand</i>	<i>Thousand</i>
Ordinary shares of DKK 0.25 each at 1 January	23,288	23,288
Increase in ordinary shares DKK 0,25 each	192	-
<b>Ordinary shares of DKK 0.25 each at 30 June</b>	<b>23,480</b>	<b>23,288</b>

## **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

### **11 COMMITMENTS AND CONTINGENCIES**

#### **Collaterals**

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

#### **Operating lease commitments**

The Groups' operating lease commitments relate to cars and office facilities. Future minimum payments under operating leases at 30 June 2016 are DKK 2,843 thousand.

#### **Finance lease commitments**

The Groups' finance lease commitments relating to equipment used in the research and development department. Future minimum lease payments together with the present value of the net minimum lease payments at 30 June 2016 are DKK 476 thousand.

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