



NAPATECH  
3<sup>RD</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 July to 30 September 2016 and the nine months period from 1 January to 30 September 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 September 2016, and of the results of the Napatech Group's operations and cash flows for the three months period 1 July to 30 September 2016 and the nine months period from 1 January to 30 September 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, 7<sup>th</sup> November 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 progresses

- Revenue for third quarter 2016 amounted to DKK 49.6 million, a decrease of 18% compared to third quarter 2015, and a sequential increase of 6% compared to second quarter 2016.
- Pandion revenue was 5% of the total revenue in third quarter 2016.
- Gross margin for third quarter 2016 was 71% compared to 70% in third quarter 2015, and 73% in second quarter 2016.
- EBITDA for third quarter of 2016 amounted to DKK 6.1 million, a decrease from DKK 11.6 million in third quarter 2015.
- EBITDA margin for third quarter 2016 was 12%, a decrease from 19% in third quarter 2015.
- EBT for third quarter amounted to negative DKK 3.0 million compared to positive DKK 5.5 million in third quarter 2015.
- EPS for third quarter 2016 was negative 0.10 DKK, down from positive 0.18 DKK in third quarter 2015.
- Net decrease in cash was 0.5 million in the third quarter of 2016 compared to DKK 48.5 million by end of second quarter 2016. The total cash position of the Company was DKK 48.0 million by end of third quarter 2016 compared to DKK 51.2 million by end of third quarter 2015.

As stated in our Q2 2016 report, the accelerator business' contribution had become more uncertain as some of Napatech's OEM customers were delayed with their own ramp-up of new platforms based on Napatech's available and latest technologies. The revenue reported for the third quarter of 2016 is therefore affected by these delays and lower ordering volumes from a few of our large OEM customers. Still, the overall business continues to show progress on a number of key activities and milestones.

Looking closer at our activities in the quarter, especially Pandion has taken some significant steps forward. We have had a very important cyber security design win with IBM already contributing to Napatech's revenue in Q3. We had

significant development in another customer relationship using Pandion as well. Another Pandion activity we will highlight is the integration efforts done with Splunk allowing the use of Pandion to be broadened.

The Pandion business did increase compared to Q2 2016 and 5% of the revenue in third quarter 2016 was attributed to Pandion.

Dell is actively promoting our Pandion solution under the Dell brand, and we had the first order from Dell on Pandion software and related accelerator for this Dell Branded solution. As previously announced we still expect full effect of this channel in 2017, as the Dell organization targets a wide range of US government customers, as well as large corporations.

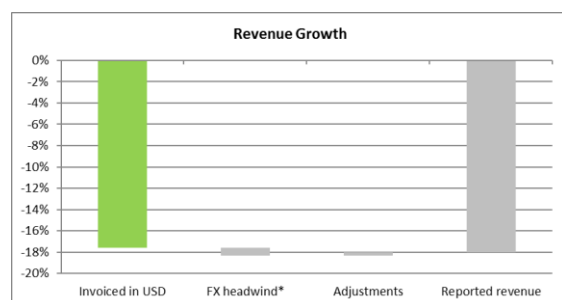
Recent design wins for new and existing customers are showing an important and continued enhancement to our customer base. Design wins are key milestones indicating a future revenue stream linked to our customers' performance and market share. This underlines our customers' confidence in Napatech, and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

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

- ✓ Pandion recorder design win with a US based network security company for a Security Information and Event Management (SIEM) solution.
- ✓ 10 Gigabit design win for a European network equipment manufacturer's security solution.
- ✓ 10 Gigabit design win with US based network security company for a SIEM solution.

For further details regarding our design wins please refer to the presentation material.

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 analyze 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.



\*Average bank rates

**Napatech. SMARTER DATA. DELIVERED.**

## MANAGEMENT'S REVIEW (CONTINUED)

### Napatech operations.

The statements below are related to Napatech's development in third quarter and first 3 quarters of 2016 compared to third quarter and first 3 quarters of 2015, unless as otherwise stated. Additional information is available at [www.napatech.com/investor](http://www.napatech.com/investor).

### Key figures and ratios.

	3 <sup>rd</sup> Quarter		YTD September	
	2016	2015	2016	2015
Revenue, DKK'000	49,560	60,406	142,449	146,794
Gross profit margin, %	71%	70%	72%	71%
EBITDA, DKK'000	6,098	11,608	15,447	17,932
EBITDA margin, %	12%	19%	11%	12%
Profit / (loss) before tax, DKK'000	(3,023)	5,516	(12,556)	3,361
EPS basic, DKK <small>(please ref. Note 5)</small>	(0.10)	0.18	(0.42)	0.11
EPS diluted, DKK	(0.10)	0.18	(0.42)	0.11
Equity, DKK'000	191,803	191,228	191,803	191,228
Cash and cash equivalents, DKK'000	48,000	51,170	48,000	51,170

## Financial Review

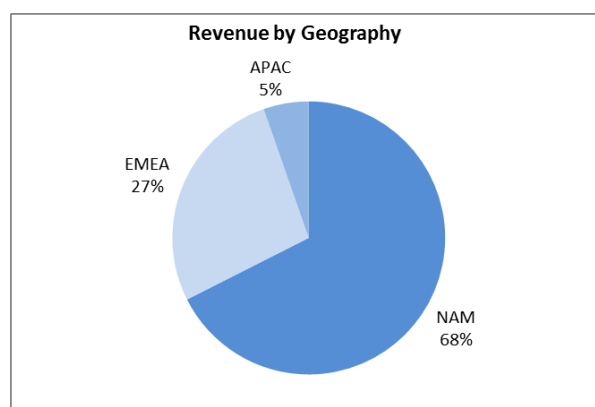
### Revenue

Napatech reports revenue of DKK 49.6 million in the third quarter, a decrease of 18% compared to the same period in 2015. The nature of Napatech's revenue is that it is fluctuating between quarters, as we are dependent on our large OEMs ordering pattern and success with their products in the market. As stated in our Q2 2016 report, the accelerator business' contribution had become more uncertain as some of Napatech's OEM customers were delayed with their own ramp-up of new platforms based on Napatech's available and latest technologies. The revenue reported for the third quarter of 2016 is therefore affected by these delays and lower ordering volumes from a few of our large OEM customers. Still, the overall business continues to show progress on a number of key activities and milestones.

Sales were distributed with 68% in NAM, 27% in EMEA and the remaining 5% in APAC. The share of revenue in North America is lower than usual, due to the few large OEMs not performing as we expected initially.

### Gross Margin

Gross margin for third quarter 2016 was 71%. This was above the 70% in third quarter 2015, but lower than the 73% in second quarter 2016.



Gross margin is expected to be slightly reduced over the coming periods, even though we continue to see improvements in our production costs.

## MANAGEMENT'S REVIEW (CONTINUED)

### Financial review (continued)

#### Costs

Total costs for third quarter 2016 were 28.9 million DKK compared to 30.6 million DKK for third quarter 2015, a decrease of 6%. The difference is due to slightly higher sales, marketing and development costs and significantly lower administrations costs.

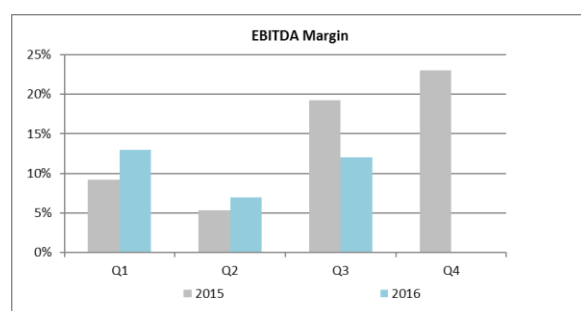
R&D costs for third quarter 2016 were DKK 4.7 million compared to DKK 4.1 million in the third quarter 2015. The increase in costs is related to the development activities in all 3 strategic focus areas; our accelerators, network recorders and virtualization efforts.

Sales and distribution costs for third quarter 2016 were DKK 18.0 million, compared to DKK 17.4 million in the third quarter of 2015. The increase in the Sales and Marketing costs are due to the shift of resources into sales and marketing we initiated last year

Administrative expenses for third quarter 2016 were DKK 6.3 million compared to DKK 9.0 million in the third quarter 2015. The administration costs are lower primarily due to timing variances, as the year to date administration cost are almost in line with the same period last year

#### EBITDA

EBITDA was DKK 6.1 million in the third quarter 2016, compared to DKK 11.6 million in the third quarter of 2015. The decrease is driven by lower sales. The EBITDA margin of 12% is again an effect of the lower sales, as our costs are fairly stable compared to Q3 2015.



#### Depreciation and amortization

Depreciation and amortization were DKK 9.7 million in the third quarter 2016, compared to DKK 6.3 million in the third 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 third quarter 2016 was negative with DKK 3.6 million, a decrease compared to positive DKK 5.4 million in the third quarter of 2015.

#### Financial Items

Financial items for third quarter 2016 were an income of DKK 0.6 million compared to an income of DKK 0.1 million in the third quarter of 2015. The financial items are primarily affected by the change in USD exchange rate, and it has increased during third quarter 2016, resulting in this income.

#### Taxes

Taxes for the third quarter 2016 are an income of 0.7 MDKK driven by the negative profit. The tax rate in Denmark is 22%.

#### Investments

Total investments in third quarter 2016 were DKK 12.7 million. This was primarily related to new product development (capitalized development) with DKK 11.3 million. In third quarter of 2015, total investments were DKK 9.1 million, of which DKK 7.7 million was internal product development.

In third quarter 2016 there were several development projects related to the Pandion product, and development projects related to the accelerator portfolio and development of our virtualization product.

#### Cash Flow

For the third quarter 2016, cash flow from operating activities was positive with DKK 10.0 million, an increase of DKK 7.8 million from third quarter 2015.

Negative cash flow from investing activities was DKK 12.7 million in the third quarter 2016, an increase from DKK 9.1 million in the third quarter of 2015.

Napatech had a negative cash flow of DKK 0.5 million in the third quarter of 2016. The total cash position of the Company was DKK 48.0 million by end of third quarter 2016, a decrease of DKK 3.2 million compared to the end of third quarter 2015. The slightly negative cash flow is driven by our high investment activities.

Napatech has unused credit facilities of DKK 10 million in Denmark and USD 1 million in the US subsidiary as well as at the end of third quarter 2015. Thus, the Company has available total funds of approx. 65 million DKK at the end of the third quarter of 2016.

## MANAGEMENT'S REVIEW (CONTINUED)

### Financial review (continued)

#### Shareholders and Share Information

Napatech had per September 30, 2016 issued 23,665,456 shares at DKK 0.25 each. This gives a share capital of 5,916,364 DKK divided among the 392 shareholders.

Investor	Number of shares	% of total
VERDANE CAPITAL VIII	5.172.844	21,86%
STOREBRAND VEKST	2.274.040	9,61%
ARCTIC FUNDS PLC BNY	2.270.021	9,59%
SILVERCOIN INDUSTRIE	1.324.107	5,60%
VINTERSTUA AS	1.000.000	4,23%
VERDIPAPIRFONDET DNB	988.182	4,18%
The Bank of New York c/o	980.000	4,14%
DnB NOR MARKETS, AKS DNB	900.000	3,80%
DANSKE BANK A/S 3887	742.958	3,14%
SÆTER HAAKON MORTEN	670.000	2,83%
TIGERSTADEN AS	575.410	2,43%
SKANDINAVISKA ENSKIL	500.000	2,11%
MARSTAL AS	492.150	2,08%
DNB Luxembourg S.A. S/A	459.275	1,94%
Nordea Bank Danmark S/A	312.242	1,32%
SIX-SEVEN AS	275.004	1,16%
Hobolt Niels	263.524	1,11%
PEDERSEN TORE ANDRÉ	258.361	1,09%
NorthZea Management	251.633	1,06%
NORDNET BANK AB	249.695	1,06%
<b>Total number owned by top 20</b>	<b>19.959.446</b>	<b>84,34%</b>
<b>Total 372 other shareholders</b>	<b>3.706.010</b>	<b>15,66%</b>
<b>Total number of shares</b>	<b>23.665.456</b>	<b>100,00%</b>

#### Outlook for 2016

As stated in our Q2 2016 report, the accelerator business' contribution to the growth ambitions for 2016 had become more uncertain as some of Napatech's OEM customers were delayed with their own ramp-up of new platforms based on Napatech's available and latest technologies. The revenue reported for the third quarter of 2016 is therefore affected by these delays and lower ordering volumes from a few of our large OEM customers. Still, the overall business continues to show progress on a number of key activities and milestones.

We continue to have a sharp focus on achieving revenue growth in the remainder of 2016, as well as realizing the EBITDA margin expansion that the scalability of Napatech offers.

At the beginning of Q4-2016 Napatech had a strong sales and project pipeline of opportunities around 24 MUSD for Q4 2016 (including order backlog). Thus, the expectations for Q4 2016 are very high, and as with Q4 last year, we are expecting a strong finish to 2016.

However, as reported by the market and some of our OEM customers selling into the service provider markets, the visibility into current and future quarters has again become more limited and has made long term forecasting much more difficult. We also see that end-customers' buying decisions due to budgets, etc. can cause projects to be delayed into future quarters to a larger extent than previously experienced, especially for end of year related decisions and projects. This certainly can have an effect on the quality and probability of our predictions.

We still believe that our Pandion business (network recording) will be a major contributor to the 2016 growth ambitions.

Napatech has previously stated an ambition of 15% to 20% growth for 2016. We still believe it is possible, based on the opportunities in our current pipeline and the orders received to date, to achieve the low end of our stated range. Thus, a possibility of reaching 15.5 MUSD in sales in Q4 2016.

As stated above, uncertainty exists and we have therefore updated our guidance for 2016 as follows:

- Revenue growth of 5% to 15%
- 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, 7<sup>th</sup> November 2016

The Board of Directors of Napatech A/S

## INTERIM CONSOLIDATED INCOME STATEMENT

For the period ended 30 September 2016

DKK'000	Note	3 <sup>rd</sup> Quarter		YTD September	
		2016	2015	2016	2015
Revenue	3	49,560	60,406	142,449	146,794
Costs of goods sold		(14,531)	(18,203)	(39,594)	(43,045)
<b>Gross profit</b>		<b>35,029</b>	<b>42,203</b>	<b>102,855</b>	<b>103,749</b>
Research and development cost		(4,667)	(4,142)	(10,468)	(11,141)
Selling and distribution expenses		(18,013)	(17,413)	(54,063)	(50,693)
Administrative expenses	4	(6,251)	(9,040)	(22,877)	(23,983)
<b>Operating profit before depreciation and amortization (EBITDA)</b>		<b>6,098</b>	<b>11,608</b>	<b>15,447</b>	<b>17,932</b>
Depreciation, amortization and impairment		(9,695)	(6,228)	(26,616)	(19,957)
<b>Operating profit / (loss) (EBIT)</b>		<b>(3,597)</b>	<b>5,380</b>	<b>(11,169)</b>	<b>(2,025)</b>
Finance income		574	220	4	5,835
Finance costs		-	(84)	(1,391)	(449)
<b>Profit / (loss) before tax</b>		<b>(3,023)</b>	<b>5,516</b>	<b>(12,556)</b>	<b>3,361</b>
Income tax		665	(1,296)	2,762	(790)
<b>Profit / (loss) for the period</b>		<b>(2,358)</b>	<b>4,220</b>	<b>(9,794)</b>	<b>2,571</b>
<b>Earnings per share:</b>	5				
Basic, DKK		(0.10)	0.18	(0.42)	0.11
Diluted, DKK		(0.10)	0.18	(0.42)	0.11

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 September 2016

DKK'000	Note	3 <sup>rd</sup> Quarter		YTD September	
		2016	2015	2016	2015
<b>Profit / (loss) for the period</b>		<b>(2,358)</b>	<b>4,220</b>	<b>(9,794)</b>	<b>2,571</b>
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>					
Exchange differences on translation of foreign operations		(29)	(524)	87	(447)
Net movement on cash flow hedges		(596)	676	1,513	(1,079)
Income tax effect		131	(160)	(347)	253
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<b>(494)</b>	<b>(8)</b>	<b>1,253</b>	<b>(1,273)</b>
<b>Total comprehensive income for the period</b>		<b>(2,852)</b>	<b>4,212</b>	<b>(8,541)</b>	<b>1,298</b>



## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

### ASSETS

DKK'000	Note	30 September 2016	31 December 2015	30 September 2015
Development projects, completed		70,291	70,087	48,230
Development projects, in progress		24,224	12,439	30,629
Patents		7,102	7,665	7,365
Other intangible assets		668	1,202	1,206
<b>Intangible assets</b>	6	<b>102,285</b>	<b>91,393</b>	<b>87,430</b>
Plant and equipment		5,499	7,435	8,470
Office improvements		1,307	1,049	1,168
<b>Property, plant and equipment</b>	7	<b>6,806</b>	<b>8,484</b>	<b>9,638</b>
Deferred tax asset		-	-	4,719
Leasehold deposits		2,299	2,224	2,218
<b>Other non-current assets</b>		<b>2,299</b>	<b>2,224</b>	<b>6,937</b>
<b>Non-current assets</b>		<b>111,390</b>	<b>102,101</b>	<b>104,005</b>
Inventories		15,550	14,341	16,545
Trade receivables	8	47,262	48,254	49,599
Other receivables	8	3,790	4,484	2,393
Income tax receivable	8	2,451	2,451	-
Derivative financial instruments	9	505	-	-
Cash and cash equivalents		48,000	75,921	51,170
<b>Current assets</b>		<b>117,558</b>	<b>145,451</b>	<b>119,707</b>
<b>Total assets</b>		<b>228,948</b>	<b>247,552</b>	<b>223,712</b>

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

### EQUITY AND LIABILITIES

<b>DKK'000</b>	<b>Note</b>	<b>30 September 2016</b>	<b>31 December 2015</b>	<b>30 September 2015</b>
Share capital	10	5,916	5,822	5,822
Share premium	10	216,429	210,675	210,675
Foreign currency translation reserve		168	81	(394)
Other reserves		40,529	9,209	9,052
Accumulated loss		(71,239)	(28,785)	(33,927)
<b>Equity</b>		<b>191,803</b>	<b>197,002</b>	<b>191,228</b>
Deferred tax liability		1,975	5,182	-
Interest-bearing loans and borrowings		5,000	5,000	5,394
<b>Non-current liabilities</b>		<b>6,975</b>	<b>10,182</b>	<b>5,394</b>
Interest-bearing loans and borrowings		394	637	564
Trade payables		16,281	18,645	11,249
Other payables		13,113	19,763	13,889
Derivative financial instruments	9	-	1,008	1,079
Provisions		382	315	309
<b>Current liabilities</b>		<b>30,170</b>	<b>40,368</b>	<b>27,090</b>
<b>Total liabilities</b>		<b>37,145</b>	<b>50,550</b>	<b>32,484</b>
<b>Total equity and liabilities</b>		<b>228,948</b>	<b>247,552</b>	<b>223,712</b>

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 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>
Loss for the period	-	-	-	-	-	-	(2,358)	(2,358)
Exchange differences on translation of foreign operations	-	-	(29)	-	-	-	-	(29)
Cash flow hedges	-	-	-	-	(596)	-	-	(596)
Income tax effect	-	-	-	-	131	-	-	131
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(29)</b>	<b>-</b>	<b>(465)</b>	<b>-</b>	<b>(2,358)</b>	<b>(2,852)</b>
Issue of shares	46	1,451	-	-	-	-	-	-
Reversal, exercised and lapsed share options	-	1,378	-	(1,383)	-	-	5	-
Development project costs for the period	-	-	-	-	-	11,292	(11,292)	-
Share-based payments	-	-	-	103	-	-	-	103
<b>At 30 September 2016</b>	<b>5,916</b>	<b>216,429</b>	<b>168</b>	<b>7,445</b>	<b>394</b>	<b>32,690</b>	<b>(71,239)</b>	<b>191,803</b>

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 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>
Profit for the period	-	-	-	-	-	4,220	4,220
Exchange differences on translation of foreign operations	-	-	(524)	-	-	-	(524)
Cash flow hedges	-	-	-	-	676	-	676
Income tax effect	-	-	-	-	(160)	-	(160)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(524)</b>	<b>-</b>	<b>516</b>	<b>4,220</b>	<b>4,212</b>
Issue of shares	-	-	-	-	-	-	-
Reversal, exercised and lapsed share options	-	-	-	(1,454)	-	1,454	-
Share-based payments	-	-	-	104	-	-	104
<b>At 30 September 2015</b>	<b>5,822</b>	<b>210,675</b>	<b>(394)</b>	<b>9,878</b>	<b>(826)</b>	<b>(33,927)</b>	<b>191,228</b>

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 September 2016

DKK'000	Note	3 <sup>rd</sup> Quarter		YTD September	
		2016	2015	2016	2015
<b>Operating activities</b>					
Profit / (loss)		(3,023)	5,516	(12,556)	3,361
Adjustments to reconcile profit before tax to net cash flows:					
Finance income		(574)	1,746	(4)	(5,835)
Finance costs		-	(1,882)	1,391	449
Amortization, depreciation and impairment	6, 7	9,695	6,228	26,616	19,957
Share-based payment expense		103	104	309	311
Working capital adjustments:					
Change in inventories		(391)	1,670	(1,209)	(7,068)
Change in trade and other receivables		2,220	(6,593)	1,686	(12,515)
Change in trade and other payables and provisions		1,960	(3,671)	(8,947)	(3,483)
<b>Cash flows from operating activities</b>		<b>9,990</b>	<b>3,118</b>	<b>7,286</b>	<b>(4,823)</b>
Currency gains and losses		684	220	(1,125)	5,716
Interest received		-	-	4	119
Interest paid		(110)	(109)	(266)	(449)
Income tax paid		(279)	(209)	(794)	(931)
<b>Net cash flows from operating activities</b>		<b>10,285</b>	<b>3,020</b>	<b>5,105</b>	<b>(368)</b>
<b>Investing activities</b>					
Purchase of plant, property and equipment	7	(751)	(1,325)	(2,412)	(4,138)
Investments in intangible assets	6	(11,314)	(7,730)	(33,519)	(31,340)
Investments in leasehold deposits		(647)	1	(689)	(452)
<b>Net cash used from investing activities</b>		<b>(12,712)</b>	<b>(9,054)</b>	<b>(36,620)</b>	<b>(35,930)</b>
<b>Financing activities</b>					
Issue of shares	10	1,497	-	3,033	-
Repayment borrowings		(82)	-	(243)	-
<b>Net cash flows from financing activities</b>		<b>1,415</b>	<b>-</b>	<b>2,790</b>	<b>-</b>
<b>Net change in cash and cash equivalents</b>		<b>(1,012)</b>	<b>(6,034)</b>	<b>(28,725)</b>	<b>(36,298)</b>
Net foreign exchange difference		535	(447)	804	(762)
Cash and cash equivalents at the beginning of the period		48,477	57,651	75,921	88,230
<b>Cash and cash equivalents at the end of the period</b>		<b>48,000</b>	<b>51,170</b>	<b>48,000</b>	<b>51,170</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 characterized 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 characterized 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, unrealized 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

#### 3<sup>rd</sup> Quarter 2016:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
<b>Revenue</b>					
Total revenue	36,447	33,547	2,661	-	72,655
Inter-segment	(23,095)	-	-	-	(23,095)
<b>Revenue, external customers</b>	<b>13,352</b>	<b>33,547</b>	<b>2,661</b>	<b>-</b>	<b>49,560</b>
Cost of goods sold	(3,154)	(10,853)	(524)	-	(14,531)
<b>Gross profit</b>	<b>10,198</b>	<b>22,694</b>	<b>2,137</b>	<b>-</b>	<b>35,029</b>

#### 3<sup>rd</sup> Quarter 2015:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
<b>Revenue</b>					
Total revenue	50,515	50,758	1,206	17	102,496
Inter-segment	(42,090)	-	-	-	(42,090)
<b>Revenue, external customers</b>	<b>8,425</b>	<b>50,758</b>	<b>1,206</b>	<b>17</b>	<b>60,406</b>
Cost of goods sold	(2,968)	(14,885)	(344)	(6)	(18,203)
<b>Gross profit</b>	<b>5,457</b>	<b>35,873</b>	<b>862</b>	<b>11</b>	<b>42,203</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 September 2016:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
<b>Revenue</b>					
Total revenue	106,615	104,178	8,208	-	219,001
Inter-segment	(76,552)	-	-	-	(76,552)
<b>Revenue, external customers</b>	<b>30,063</b>	<b>104,178</b>	<b>8,208</b>	<b>-</b>	<b>142,449</b>
Cost of goods sold	(6,905)	(30,804)	(1,885)	-	(39,594)
<b>Gross profit</b>	<b>23,158</b>	<b>73,374</b>	<b>6,323</b>	<b>-</b>	<b>102,855</b>

YTD September 2015:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
<b>Revenue</b>					
Total revenue	116,001	120,410	5,577	68	242,056
Inter-segment	(95,262)	-	-	-	(95,262)
<b>Revenue, external customers</b>	<b>20,739</b>	<b>120,410</b>	<b>5,577</b>	<b>68</b>	<b>146,794</b>
Cost of goods sold	(5,593)	(35,816)	(1,611)	(25)	(43,045)
<b>Gross profit</b>	<b>15,146</b>	<b>84,594</b>	<b>3,966</b>	<b>43</b>	<b>103,749</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

### 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 recognized 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 recognized in the income statement with the counter item in the other reserves under the equity, and it is recognized 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 programs. Therefore, the remaining vesting period of the share options has been accelerated.

The general terms for share options are summarized 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 program) are summarized 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 been fully exercised yet, but on 15<sup>th</sup> of August 145,000 share options were issued to key employees in the organization

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	9.44	145,000	18,04	237,000	10.03
Transfer	(224,000)	8.00	224,000	8.00	-	-
Exercised / expired during the period	(186,300)	8.00	(203,980)	8.00	(390,280)	8.00
<b>At 30 September 2016</b>	<b>714,548</b>	<b>8.51</b>	<b>785,800</b>	<b>10.71</b>	<b>1,500,348</b>	<b>8.90</b>
<b>Exercisable at 30 September 2016</b>	<b>543,212</b>	<b>8.00</b>	<b>298,003</b>	<b>8.00</b>	<b>841,215</b>	<b>8.00</b>
At 1 January 2015	1,267,148	8.31	724,820	8.36	1,991,968	8.14
Granted during the period	-	-	-	-	-	-
Exercised / expired during the period	(234,300)	8.00	(104,040)	8.00	(338,340)	8.00
<b>At 30 September 2015</b>	<b>1,032,848</b>	<b>8.21</b>	<b>620,780</b>	<b>8.24</b>	<b>1,653,628</b>	<b>8.09</b>
<b>Exercisable at 30 September 2015</b>	<b>808,848</b>	<b>8.00</b>	<b>440,780</b>	<b>8.00</b>	<b>1,249,628</b>	<b>8.00</b>

In the period ended 30 September 2016, 186,664 share options were exercised and 203,616 lapsed (period ended 30 September 2015: 338,340 lapsed and none exercised).

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

	As at 30 Sep. 2016	As at 30 Sep. 2015
<b>Number of share options</b>		
Exercise price DKK 8.00	862.012	1.249.628
Exercise price DKK 10.75	401.336	404.000
Exercise price DKK 12.53	92.000	-
Exercise price DK18.04	145.000	
<b>Total number of outstanding stock options</b>	<b>1.500.348</b>	<b>1.653.628</b>

The weighted average of the remaining contractual period of the outstanding share options from the 2013 share options program at 30 September 2016 is 9 months (at 30 September 2015: 1 year and 11 months). The weighted average of the remaining contractual period of the outstanding share options from the 2014 share options program at 30 September 2016 is 2 years and 9 months (at 30 September 2015: 3 years and 9 months). The weighted average of the remaining contractual period of the outstanding share options from the 2016 share options program at 30 September 2016 is 5 years

## 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 3<sup>rd</sup> quarter 2016, the Group has recognized DKK 103 thousand of share-based payment expense in the income statement (3<sup>rd</sup> quarter 2015: DKK 104 thousand). DKK 56 thousand was recognized in relation the Executive Management and DKK 47 thousand in relation to other employees.

### 5 EARNINGS PER SHARE

DKK'000	3 <sup>rd</sup> Quarter		YTD September	
	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>(2,358)</b>	<b>4,220</b>	<b>(9,794)</b>	<b>2,571</b>

DKK'000	3 <sup>rd</sup> Quarter		YTD September	
	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	23,540	23,287	23,540	23,287
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	-	32,698	821	-	33,519
Transfers in the period	20,913	(20,913)	-	-	-
<b>Cost at 30 September 2016</b>	<b>191,393</b>	<b>24,224</b>	<b>9,006</b>	<b>2,139</b>	<b>226,762</b>
Accumulated amortization at 1 January 2016	100,393	-	520	937	101,850
Amortization for the period	20,709	-	500	534	21,743
Impairment for the period	-	-	884	-	884
<b>Accumulated amortization and impairment at 30 September 2016</b>	<b>121,102</b>	<b>-</b>	<b>1,904</b>	<b>1,471</b>	<b>124,477</b>
<b>Carrying amount at 30 September 2016</b>	<b>70,291</b>	<b>24,224</b>	<b>7,102</b>	<b>668</b>	<b>102,285</b>

Within the completed development projects there are two material development projects with carrying amount of DKK 6,624 thousand and DKK 11,935 thousand at 30 September 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 amortization periods of these two projects are 1 year and 1 month and 3 years and 3 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 amortized.

At 30 September 2016, the Group tested the intangible assets for impairment. The Group recognized DKK 884 thousand as an impairment of patents. There were no indications of impairment of the Group's other 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	1,723	689	2,412
Disposals in the period	(134)	(47)	(181)
Currency adjustment	(82)	10	(72)
<b>Cost at 30 September 2016</b>	<b>33,731</b>	<b>4,622</b>	<b>38,353</b>
Accumulated depreciation at 1 January 2015	24,789	2,921	27,710
Depreciation for the period	3,555	434	3,989
Disposals in the period	(134)	(47)	(181)
Currency adjustment	22	7	29
<b>Accumulated depreciation at 30 September 2016</b>	<b>28,232</b>	<b>3,315</b>	<b>31,547</b>
<b>Carrying amount at 30 September 2016</b>	<b>5,499</b>	<b>1,307</b>	<b>6,806</b>

The carrying amount for plant and equipment held under finance leasing is DKK 69 thousand at 30 September 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

<b>DKK'000</b>	<b>30 September 2016</b>	<b>30 September 2015</b>
<b>Receivables recognized in the consolidated statement of financial position:</b>		
Trade receivables	47,262	49,599
Other receivables	3,790	2,393
Income tax receivable	2,451	-
<b>Total current receivables</b>	<b>53,503</b>	<b>51,992</b>

The provision for bad and doubtful receivables is as follows:

<b>DKK'000</b>	<b>2016</b>	<b>2015</b>
At 1 January	1,815	2,002
Change in the period	-	(367)
<b>At 30 September</b>	<b>1,815</b>	<b>1,635</b>

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

<b>DKK'000</b>	<b>30 September 2016</b>	<b>30 September 2015</b>
Not past due	43,158	39,259
Past due less than 30 days	893	2,675
Past due between 30 and 60 days	933	1,362
Past due between 60 and 90 days	87	1,895
Past due after 90 days	2,191	4,408
<b>Total maximum credit risk</b>	<b>47,262</b>	<b>49,599</b>

### 9 DERIVATIVE FINANCIAL INSTRUMENTS

<b>DKK'000</b>	<b>30 September 2016</b>	<b>30 September 2015</b>
<b>Derivative financial instruments at fair value, assets / (liabilities)</b>	<b>505</b>	<b>(1,079)</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

<b>Authorized shares</b>	<b>2016</b>	<b>2015</b>
	<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	376	-
<b>Ordinary shares of DKK 0.25 each at 30 September</b>	<b>23,664</b>	<b>23,288</b>

## **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS<sup>a</sup>**

### **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 September 2016 are DKK 2,058 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 September 2016 are DKK 394 thousand.

# **Napatech A/S**

Tobaksvejen 23A, 1  
DK-2860 Søborg  
Denmark

Phone: +45 4596 1500

[www.napatech.com](http://www.napatech.com)