



NAPATECH
4TH QUARTER 2016
INTERIM REPORT

CONTENTS

Management Statement	3
Management's Review.....	4
Highlights.....	4
Financial Review.....	5
Interim Consolidated Income Statement.	8
Interim Consolidated Statement of Comprehensive Income.....	8
Interim Consolidated Statement of Financial Position.....	9
Interim Consolidated Statement of Changes in Equity.....	11
Interim Consolidated Statement of Cash Flows.....	13
Notes to the Interim Consolidated Financial Statements.....	14

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 October to 31 December 2016 and the twelve months' period from 1 January to 31 December 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 31 December 2016, and of the results of the Napatech Group's operations and cash flows for the three months' period 1 October to 31 December 2016 and the twelve months' period from 1 January to 31 December 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, 13 February 2017.

Executive Management

Henrik Brill Jensen, CEO

Niels Hobolt, CFO

Board of Directors

Lars B. Thoresen, Chairman

Howard Bubb

Bjørn Erik Reinseth

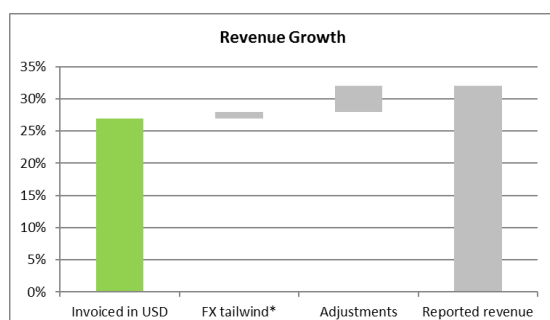
MANAGEMENT'S REVIEW

Highlights.

- Revenue for fourth quarter 2016 amounted to DKK 92.3 million, an increase of 32% compared to fourth quarter 2015, and a sequential increase of 86% compared to third quarter 2016.
- Revenue for the full year 2016 amounted to DKK 234.7 million a growth of 8%.
- Pandion revenue was 12% of the total revenue in fourth quarter 2016.
- Gross margin for fourth quarter 2016 was 66% compared to 73% in fourth quarter 2015, and 71% in third quarter 2016.
- EBITDA for fourth quarter of 2016 amounted to DKK 28.0 million, an increase from DKK 16.3 million in fourth quarter 2015.
- EBITDA margin for fourth quarter 2016 was 30%, an increase from 23% in fourth quarter 2015.
- EBITDA margin for the full year 2016 was 19%.
- EBT for fourth quarter amounted to DKK 18.3 million compared to DKK 7.6 million in fourth quarter 2015.
- EPS for fourth quarter 2016 was 0.56 DKK, up from 0.22 DKK in fourth quarter 2015.
- Decrease in cash was 1.0 million in the fourth quarter of 2016.

The activities in Q4 was at a high level, and we have seen significant progress in our business during the quarter. In addition to the strong business development, we experienced a high interest for our solutions following the increased geopolitical uncertainty and the growing need from governments and organizations for cyber security.

Our Pandion business, has been progressing well and we have seen revenue in Q4 from some of our recent design wins, as well as increasing our pipeline of projects related to the Pandion business.



*Average bank rates

The Pandion business increased to 12% of sales in fourth quarter 2016 compared to 5% of sales in Q3 2016 and made up for 7% of the annual sales for this new product, which did not have any sales in 2015.

The Accelerator business showed significant growth in Q4 as well, and some of the delays among a couple of larger OEM's we informed about in Q3, materialized during Q4. In addition, we experience as strong revenue effect on the back on previous design wins announced in 2015 and 2016. 8% of the overall revenue came from Accelerator design wins made in 2016, and additional 28% from design wins made in 2015.

The commercialization of our NFV products are moving forward as well, and we have seen significant interest from many of the large Telecom equipment providers, for these kind of products.

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

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

- Pandion recorder design win with Facebook as announced during last quarterly presentation
- 10 Gigabit design win for a North American test & measurement equipment manufacturer for a Telecommunication solution.
- 10 Gigabit design win with European based network security company for a Public Infrastructure and Defense solution

This is Napatech

Napatech products help our customers build world class products where high speed, lossless and smart data delivered into their systems is the foundation of their 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.

Napatech. SMARTER DATA. DELIVERED.

MANAGEMENT'S REVIEW (CONTINUED)

Napatech operations.

The statements below are related to Napatech's development in fourth quarter and full year of 2016 compared to fourth quarter and full year of 2015, unless as otherwise stated. Additional information is available at www.napatech.com/investor.

Key figures and ratios.

	4 th Quarter		YTD December	
	2016	2015	2016	2015
Revenue, DKK'000	92,288	69,883	234,737	216,677
Gross profit margin, %	66%	73%	70%	71%
EBITDA, DKK'000	28,012	16,300	43,459	34,232
EBITDA margin, %	30%	23%	19%	16%
Profit before tax, DKK'000	18,497	7,638	5,941	10,999
EPS basic, DKK <small>(please ref. Note 5)</small>	0.57	0.22	0.16	0.33
EPS diluted, DKK	0.56	0.22	0.16	0.33
Equity, DKK'000	204,461	197,002	204,461	197,002
Cash and cash equivalents, DKK'000	46,951	75,921	46,951	75,921

Financial Review

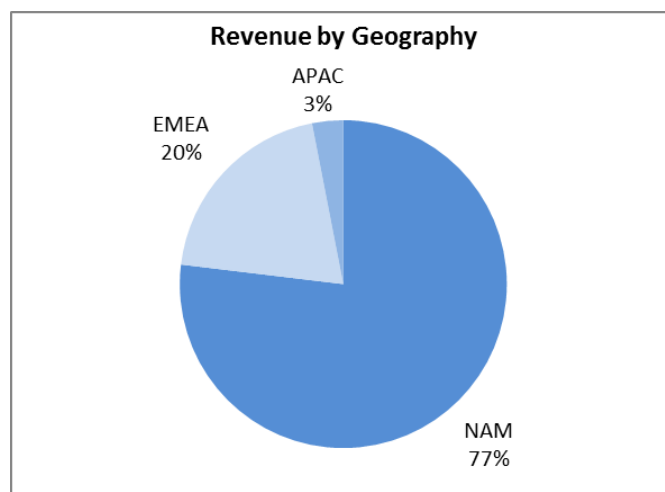
Revenue

Napatech reports revenue of DKK 92.3 million in the fourth quarter, an increase of 32% compared to the same period in 2015. The nature of Napatech's revenue is that it can be fluctuating between quarters, as we are dependent on our large OEMs ordering pattern and success with their products in the market. This quarter has been affected positively by both large Accelerator projects and Pandion projects.

Sales were distributed with 77% in NAM, 20% in EMEA and the remaining 3% in APAC. The share of revenue in North America is in the same level as we usual have seen

Gross Margin

Gross margin for fourth quarter 2016 was 66%. This was below the 73% in fourth quarter 2015, the gross margin was as expected lower in Q4 primarily due to Pandion sales and large projects. We will see fluctuations in the gross margin between quarters, as the product-mix will have bigger impact in the coming periods,



MANAGEMENT'S REVIEW (CONTINUED)

Financial review (continued)

Costs

Total costs for fourth quarter 2016 were 32.7 million DKK compared to 34.7 million DKK for fourth quarter 2015, a decrease of 6%. The difference is due to primarily lower administration costs.

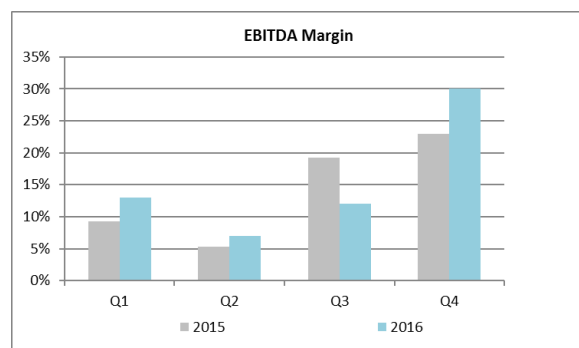
R&D costs for fourth quarter 2016 were DKK 4.7 million compared to DKK 4.0 million in the fourth quarter 2015. The increase in costs is related to the development activities in all 3 strategic focus areas; our Accelerators, Network Recorders and Virtualization efforts.

Sales and distribution costs for fourth quarter 2016 were DKK 20.6 million, compared to DKK 20.0 million in the fourth quarter of 2015. The increase in the Sales and Marketing costs are due to higher sales in 2016.

Administrative expenses for fourth quarter 2016 were DKK 7.4 million compared to DKK 10.7 million in the fourth quarter 2015. The administration costs are lower primarily due a large one of expense in 2015 related to a general bonus.

EBITDA

EBITDA was DKK 28.0 million in the fourth quarter 2016, compared to DKK 16.3 million in the fourth quarter of 2015. The increase is driven by higher sales. The EBITDA margin of 30% is again an effect of the higher sales, and underline the scalability of Napatech.



Depreciation and amortization

Depreciation and amortization were DKK 10.8 million in the fourth quarter 2016, compared to DKK 8.8 million in the fourth 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 fourth quarter 2016 was DKK 17.7 million, an increase compared to positive DKK 7.6 million in the fourth quarter of 2015.

Financial Items

Financial items for fourth quarter 2016 were an income of DKK 1.3 million compared to an income of DKK 0.1 million in the fourth quarter of 2015. The financial items are primarily affected by the change in USD exchange rate, and it has increased during fourth quarter 2016, resulting in this income.

Taxes

Taxes for the fourth quarter 2016 are an expense of 4.9 MDKK. The effective tax rate is thus 26.6%. The taxable income in Denmark is subject to a lower taxation at a rate of 22%. However, higher tax rates applicable for the taxable income in the US increases the overall effective tax rate.

Investments

Total investments in fourth quarter 2016 were DKK 12.4 million. This was primarily related to new product development (capitalized development) with DKK 12.3 million. In fourth quarter of 2015, total investments were DKK 11.6 million, of which DKK 11.3 million was internal product development.

In fourth 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 fourth quarter 2016, cash flow from operating activities was DKK 5.7 million, a decrease of DKK 25.4 million from fourth quarter 2015.

Negative cash flow from investing activities was DKK 12.4 million in the fourth quarter 2016, an increase from DKK 11.6 million in the fourth quarter of 2015.

Napatech had a negative cash flow of DKK 1 million in the fourth quarter of 2016. The total cash position of the Company was DKK 47.0 million by end of fourth quarter 2016, a decrease of DKK 28.9 million compared to the end of fourth quarter 2015. The negative cash flow is driven by change in operating cash flow and especially the outstanding receivables which had a negative effect of DKK 31 million, due to the high revenue in the quarter and the timing of the revenue during the quarter.

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

MANAGEMENT'S REVIEW (CONTINUED)

Financial review (continued)

Shareholders and Share Information

Napatech as of December 31, 2016 issued 23,665,456 shares at DKK 0.25 each. This gives a share capital of 5,916,364 DKK divided among the 377 shareholders.

Investor	Number of shares	% of total
VERDANE CAPITAL VIII	5.172.844	21,86%
STOREBRAND VEKST	2.337.178	9,88%
ARCTIC FUNDS PLC	2.270.021	9,59%
SILVERCOIN INDUSTRIE	1.336.698	5,65%
VERDIPAPIRFONDET DNB	1.105.091	4,67%
THE BANK OF NEW YORK	980.000	4,14%
VINTERSTUA AS	940.000	3,97%
DNB NOR MARKETS, AKS	900.000	3,80%
DANSKE BANK A/S	726.471	3,07%
SÆTER HAAKON MORTEN	670.000	2,83%
TIGERSTADEN AS	533.588	2,25%
SKANDINAVISKA ENSKIL	500.000	2,11%
MARSTAL AS	500.000	2,11%
DNB LUXEMBOURG S.A.	399.899	1,69%
NORDEA BANK DANMARK	313.282	1,32%
HOBOLT NIELS	263.524	1,11%
PEDERSEN TORE ANDRÉ	258.361	1,09%
SIX-SEVEN AS	248.992	1,05%
EKNER PETER DAHL	247.200	1,04%
NORDNET BANK AB	239.606	1,01%
Total number owned by top 20	19.942.755	84,27%
Total 357 other shareholders	3.722.701	15,73%
Total number of shares	23.665.456	100,00%

Outlook for 2017

Napatech is the world leader in accelerating network management and security applications. As data volume and complexity grow, organizations must monitor, compile and analyze all the information flowing through their networks.

Napatech makes this possible for even the most demanding financial, telecom, corporate and government networks. Now and in the future, the company enable the customers'

applications to run faster than the networks they need to manage and protect.

Napatech's strategy is to be the #1 vendor of Smarter Data Delivery Solutions, based on market expansion, product line investment and strong Tier 1 customer penetration

- Accelerator solutions, where the full potential has yet to be exploited
- Network recorders solutions, representing a fast growing market
- Virtualizations solutions, enabling new opportunities

Building on the growth of 8% in 2016, the company expects the revenue growth to continue in 2017, the company expects profitable revenue growth to continue in 2017, across the business areas. Consequently, the company provides the following guidance for 2017:

- Revenue growth of 10 to 20%
- Gross margin around 68%
- EBITDA margin around 20%

Napatech is comfortable with an accelerated growth path towards the ambition of 100 MUSD top-line by 2020, but underlines that the short term visibility is limited and will be affected by quarter-to-quarter order volatility and general business uncertainty.

Napatech has made a hedge of the USD net exposure, where approximately 52% of the USD revenue is hedged around 6.83 DKK (average for 2016 was 6.73) and the remaining 48% 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 2017 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, 13 February 2017

The Board of Directors of Napatech A/S

INTERIM CONSOLIDATED INCOME STATEMENT

For the period ended 31 December 2016

DKK'000	Note	4 th Quarter		YTD December	
		2016	2015	2016	2015
Revenue	3	92,288	69,883	234,737	216,677
Costs of goods sold		(31,535)	(18,931)	(71,129)	(61,976)
Gross profit		60,753	50,952	163,608	154,701
Research and development cost		(4,696)	(3,953)	(15,164)	(15,094)
Selling and distribution expenses		(20,614)	(20,035)	(74,677)	(70,728)
Administrative expenses	4	(7,431)	(10,664)	(30,308)	(34,647)
Operating profit before depreciation, amortisation and impairment (EBITDA)		28,012	16,300	43,459	34,232
Depreciation, amortisation and impairment		(10,842)	(8,810)	(37,458)	(28,767)
Operating profit (EBIT)		17,170	7,490	6,001	5,465
Finance income		1,460	287	303	6,122
Finance costs		(133)	(139)	(363)	(588)
Profit before tax		18,497	7,638	5,941	10,999
Income tax		(4,928)	(2,496)	(2,166)	(3,286)
Profit for the period		13,569	5,142	3,775	7,713
Earnings per share:	5				
Basic, DKK		0.57	0.22	0.16	0.33
Diluted, DKK		0.56	0.22	0.16	0.33

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December 2016

DKK'000	Note	4 th Quarter		YTD December	
		2016	2015	2016	2015
Profit for the period		13,569	5,142	3,775	7,713
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>					
Exchange differences on translation of foreign operations		342	475	429	28
Net movement on cash flow hedges		(1,819)	70	(306)	(1,009)
Income tax effect		400	(16)	53	237
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(1,077)	529	176	(744)
Total comprehensive income for the period		12,492	5,671	3,951	6,969

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

ASSETS

DKK'000	Note	31 December 2016	30 September 2016	31 December 2015
Development projects, completed		75,689	70,291	70,087
Development projects, in progress		22,488	24,224	12,439
Patents		6,379	7,102	7,665
Other intangible assets		489	668	1,202
Intangible assets	6	105,045	102,285	91,393
Plant and equipment		5,186	5,499	7,435
Office improvements		1,173	1,307	1,049
Property, plant and equipment	7	6,359	6,806	8,484
Leasehold deposits		2,312	2,299	2,224
Other non-current assets		2,312	2,299	2,224
Non-current assets		113,716	111,390	102,101
Inventories		18,675	15,550	14,341
Trade receivables	8	75,119	47,262	48,254
Other receivables	8	4,844	3,790	4,484
Income tax receivable	8	2,094	2,451	2,451
Derivative financial instruments	9	-	505	-
Cash and cash equivalents		46,951	48,000	75,921
Current assets		147,683	117,558	145,451
Total assets		261,399	228,948	247,552

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

EQUITY AND LIABILITIES

DKK'000	Note	31 December 2016	30 September 2016	31 December 2015
Share capital	10	5,916	5,916	5,822
Share premium	10	216,429	216,429	210,675
Foreign currency translation reserve		510	168	81
Other reserves		39,830	40,529	9,209
Retained earnings		(58,224)	(71,239)	(28,785)
Equity		204,461	191,803	197,002
Deferred tax liability		8,375	1,975	5,182
Interest-bearing loans and borrowings		5,000	5,000	5,000
Non-current liabilities		13,375	6,975	10,182
Interest-bearing loans and borrowings		-	394	637
Trade payables		25,978	16,281	18,645
Other payables		15,902	13,113	19,763
Derivative financial instruments	9	1,314	-	1,008
Provisions		369	382	315
Current liabilities		43,563	30,170	40,368
Total liabilities		56,938	37,145	50,550
Total equity and liabilities		261,399	228,948	247,552

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 2016

DKK'000	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Cash flow hedge reserve	Reserve for development project costs	Retained earnings	Total equity
At 1 January 2016	5,822	210,675	81	9,981	(772)	-	(28,785)	197,002
Loss for the period	-	-	-	-	-	-	(9,794)	(9,974)
Exchange differences on translation of foreign operations	-	-	87	-	-	-	-	87
Cash flow hedges	-	-	-	-	1,513	-	-	1,513
Income tax effect	-	-	-	-	(347)	-	-	(347)
Total comprehensive income	-	-	87	-	1,166	-	(9,794)	(8,541)
Issue of shares	94	2,939	-	-	-	-	-	3,033
Reversal, exercised and lapsed share options	-	2,815	-	(2,845)	-	-	30	-
Additions to project development costs, net of tax	-	-	-	-	-	32,690	(32,690)	-
Share-based payments	-	-	-	309	-	-	-	309
At 30 September 2016	5,916	216,429	168	7,445	394	32,690	(71,239)	191,803
Profit for the period	-	-	-	-	-	-	13,569	13,569
Exchange differences on translation of foreign operations	-	-	342	-	-	-	-	342
Cash flow hedges	-	-	-	-	(1,819)	-	-	(1,819)
Income tax effect	-	-	-	-	400	-	-	400
Total comprehensive income	-	-	342	-	(1,419)	-	13,569	12,492
Issue of shares	-	-	-	-	-	-	-	-
Reversal, exercised and lapsed share options	-	-	-	-	-	-	-	-
Additions to project development costs, net of tax	-	-	-	-	-	554	(554)	-
Share-based payments	-	-	-	166	-	-	-	166
At 31 December 2016	5,916	216,429	510	7,611	(1,025)	33,244	(58,224)	204,461

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 2016

DKK'000	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Cash flow hedge reserve	Retained earnings	Total equity
At 1 January 2015	5,822	210,675	53	12,101	-	(39,032)	189,619
Profit for the period	-	-	-	-	-	2,571	2,571
Exchange differences on translation of foreign operations	-	-	(447)	-	-	-	(447)
Cash flow hedges	-	-	-	-	(1,079)	-	(1,079)
Income tax effect	-	-	-	-	253	-	253
Total comprehensive income	-	-	(447)	-	(826)	2,571	1,298
Issue of shares	-	-	-	-	-	-	-
Reversal, exercised and lapsed share options	-	-	-	(2,534)	-	2,534	-
Share-based payments	-	-	-	311	-	-	311
At 30 September 2015	5,822	210,675	(394)	9,878	(826)	(33,927)	191,228
Profit for the period	-	-	-	-	-	5,142	5,142
Exchange differences on translation of foreign operations	-	-	475	-	-	-	475
Cash flow hedges	-	-	-	-	70	-	70
Income tax effect	-	-	-	-	(16)	-	(16)
Total comprehensive income	-	-	475	-	54	5,142	5,671
Issue of shares	-	-	-	-	-	-	-
Reversal, exercised and lapsed share options	-	-	-	-	-	-	-
Share-based payments	-	-	-	103	-	-	103
At 31 December 2015	5,822	210,675	81	9,981	(772)	(28,785)	197,002

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 31 December 2016

DKK'000	Note	4 th Quarter		YTD December	
		2016	2015	2016	2015
Operating activities					
Profit before tax		18,497	7,638	5,941	10,999
Adjustments to reconcile profit before tax to net cash flows:					
Finance income		(1,460)	(287)	(303)	(6,122)
Finance costs		133	139	363	588
Amortisation, depreciation and impairment	6, 7	10,842	8,810	37,458	28,767
Share-based payment expense		166	103	475	414
Working capital adjustments:					
Change in inventories		(3,125)	2,204	(4,334)	(4,864)
Change in trade and other receivables		(31,005)	(746)	(29,319)	(13,261)
Change in trade and other payables and provisions		11,682	13,276	2,735	9,793
Cash flows from operating activities		5,730	31,137	13,807	26,314
Currency gains and losses		1,424	(855)	299	3,374
Interest received		-	1	4	120
Interest paid		(97)	(139)	(363)	(588)
Income tax received, net		3,014	4,937	2,220	4,006
Net cash flows from operating activities		10,071	35,081	15,176	33,226
Investing activities					
Purchase of plant, property and equipment	7	(766)	(309)	(3,178)	(4,125)
Investments in intangible assets	6	(12,273)	(11,275)	(45,792)	(42,915)
Investments in leasehold deposits		601	(6)	(88)	(458)
Net cash used from investing activities		(12,438)	(11,590)	(49,058)	(47,498)
Financing activities					
Issue of shares	10	-	-	3,033	-
Repayment borrowings		(394)	(321)	(637)	(643)
Net cash flows from financing activities		(394)	(321)	2,396	(643)
Net change in cash and cash equivalents		(2,761)	23,170	(31,486)	(14,915)
Net foreign exchange difference		1,712	1,581	2,516	2,606
Cash and cash equivalents at the beginning of the period		48,000	51,170	75,921	88,230
Cash and cash equivalents at the end of the period		46,951	75,921	46,951	75,921

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.

In 2016, the Group has created an equity reserve for capitalised development project costs in order to comply with a new provision in the Danish Financial Statements Act. This provision requires that capitalised amount less applicable amortisation is recognised under a separate equity reserve, which cannot be used for distribution of dividend and/or coverage of losses. If capitalised development project costs are subject to an impairment, the corresponding amount must be deducted from the equity reserve for capitalised development project costs. If the impairment is reversed in a subsequent period, the corresponding amount under equity must result in recovery of the equity reserve for capitalised development project costs.

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, 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

4th Quarter 2016:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
Revenue					
Total revenue	85,533	70,978	2,831	-	159,342
Inter-segment	(67,054)	-	-	-	(67,054)
Revenue, external customers	18,479	70,978	2,831	-	92,288
Cost of goods sold	(5,339)	(25,269)	(927)	-	(31,535)
Gross profit	13,140	45,709	1,904	-	60,753

4th Quarter 2015:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
Revenue					
Total revenue	58,976	56,998	5,290	-	121,264
Inter-segment	(51,381)	-	-	-	(51,381)
Revenue, external customers	7,595	56,998	5,290	-	69,883
Cost of goods sold	(1,784)	(16,357)	(790)	-	(18,931)
Gross profit	5,811	40,641	4,500	-	50,952

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 December 2016:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
Revenue					
Total revenue	192,148	175,156	11,039	-	378,343
Inter-segment	(143,606)	-	-	-	(143,606)
Revenue, external customers	48,542	175,156	11,039	-	234,737
Cost of goods sold	(12,244)	(56,073)	(2,812)	-	(71,129)
Gross profit	36,298	119,083	8,227	-	163,608

YTD December 2015:

DKK'000	EMEA	NAM	APAC	LAM	Consolidated
Revenue					
Total revenue	174,977	177,408	10,867	68	363,320
Inter-segment	(146,643)	-	-	-	(146,643)
Revenue, external customers	28,334	177,408	10,867	68	216,677
Cost of goods sold	(7,377)	(52,173)	(2,401)	(25)	(61,976)
Gross profit	20,957	125,235	8,466	43	154,701

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 15th 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)
Share options						
At 1 January 2016	1,032,848	8.60	620,780	8.80	1,653,628	8.67
Granted during the period	46,000	9.04	191,000	18.04	237,000	9.80
Transfer	(178,000)	8.00	178,000	8.00	-	-
Exercised / expired during the period	(186,300)	8.00	(289,344)	8.00	(475,644)	8.00
At 31 December 2016	714,548	8.41	700,436	10.71	1,414,984	8.82
Exercisable at 31 December 2016	542,588	8.32	389,433	8.40	932,021	8.35
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	(234,300)	8.00	(104,040)	8.00	(338,340)	8.00
At 31 December 2015	1,032,848	8.60	620,780	8.80	1,653,628	8.67
Exercisable at 31 December 2015	808,848	8.00	440,780	8.00	1,249,628	8.00

In the year ended 31 December 2016, 386,568 share options were exercised and 89,076 lapsed (year ended 31 December 2015: 338,340 lapsed and none exercised).

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

Number of share options	As at 31 December 2016	As at 31 December 2015
Exercise price DKK 8.00	812,648	1,249,628
Exercise price DKK 10.75	365,336	404,000
Exercise price DKK 12.53	92,000	-
Exercise price DKK 18.04	145,000	-
Total number of outstanding stock options	1,414,984	1,653,628

The weighted average of the remaining contractual period of the outstanding share options from the 2013 share options program at 31 December 2016 is 6 months (at 31 December 2015: 1 year and 6 months). The weighted average of the remaining contractual period of the outstanding share options from the 2014 share options program at 31 December 2016 is 2 years and 6 months (at 31 December 2015: 3 years and 6 months). The weighted average of the remaining contractual period of the outstanding share options from the 2016 share options program at 31 December 2016 is 4 years and 9 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, 2014 and 2016 was estimated on the date of grant using the following assumptions:

	Share options program		
	2013	2014	2016
Volatility	47.92%	43.53% - 44.94%	49.00%
Risk-free interest rate	1.65%	1.70% - 2.00%	0.53% - 0.64%
Exercise price (DKK)	8.00	10.75	18.04
Exercise period (years)	2.27	3.00	3.00
Number of options	520,700	404,000	237,000

The volatility is calculated based on a peer group of seven similar companies listed on Nasdaq Stock Exchange in the USA. The fair value of the share options is determined using the Black-Scholes option pricing model.

For 4th quarter 2016, the Group has recognized DKK 166 thousand of share-based payment expense in the income statement (4th quarter 2015: DKK 103 thousand). DKK 119 thousand was recognized in relation the Executive Management and DKK 47 thousand in relation to other employees.

5 EARNINGS PER SHARE

DKK'000	4 th Quarter		YTD December	
	2016	2015	2016	2015
Net income attributable to equity holders of the parent company for basic earnings and the effect of dilution	13,569	5,142	3,775	7,713

DKK'000	4 th Quarter		YTD December	
	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	23,655	23,288	23,520	23,288
Effect of dilution:				
Share options	419	160	596	4
Weighted average number of shares adjusted for the effect of dilution (nominal value of DKK 0.25)	24,084	23,448	24,116	23,292

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	-	44,698	1,094	-	45,792
Transfers in the period	34,649	(34,649)	-	-	-
Cost at 31 December 2016	205,129	22,488	9,279	2,139	239,035
Accumulated amortization at 1 January 2016	100,393	-	520	937	101,850
Amortization for the period	29,047	-	611	713	30,371
Impairment for the period	-	-	1,769	-	1,769
Accumulated amortization and impairment at 31 December 2016	129,440	-	2,900	1,650	133,990
Carrying amount at 31 December 2016	75,689	22,488	6,379	489	105,045

Within the completed development projects there are two material development projects with carrying amount of DKK 9,836 thousand and DKK 11,017 thousand at 31 December 2016 respectively (31 December 2015: nil and DKK 14,607 thousand respectively). The aim of the first project was to develop new 2 x 100G Accelerator and the aim of the second project was to develop new 1 x 100G Accelerator. The remaining amortisation periods of these two projects are 4 years and 11 months and 3 years respectively.

Within the in progress development projects there is one material development project with carrying amount of DKK 9,320 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 31 December 2016, the Group tested the intangible assets for impairment. In relation to this, the Group identified patents on markets that are not expected to be utilised. Therefore, the Group recognised DKK 1,769 thousand as an impairment in respect of patents. There were no other 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	2,488	690	3,178
Disposals in the period	(135)	(47)	(182)
Currency adjustment	45	17	62
Cost at 31 December 2016	34,622	4,630	39,252
Accumulated depreciation at 1 January 2016	24,789	2,921	27,710
Depreciation for the period	4,740	578	5,318
Disposals in the period	(135)	(47)	(182)
Currency adjustment	42	5	47
Accumulated depreciation at 31 December 2016	29,436	3,457	32,893
Carrying amount at 31 December 2016	5,186	1,173	6,359

At 31 December 2016, the Group tested the property, plant and equipment for impairment. 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	31 December 2016	31 December 2015
Receivables recognized in the consolidated statement of financial position:		
Trade receivables	75,119	48,254
Other receivables	4,844	4,484
Income tax receivable	2,094	2,451
Total current receivables	82,057	55,189

The provision for bad and doubtful receivables is as follows:

DKK'000	2016	2015
At 1 January	1,815	2,002
Utilized in the period	(480)	-
Written off in the period	-	(858)
Change in the period	768	671
At 31 December	2,103	1,815

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

DKK'000	31 December 2016	31 December 2015
Not past due	70,541	42,728
Past due less than 30 days	1,373	1,912
Past due between 30 and 60 days	962	57
Past due between 60 and 90 days	152	266
Past due after 90 days	2,091	3,291
Total maximum credit risk	75,119	48,254

9 DERIVATIVE FINANCIAL INSTRUMENTS

DKK'000	31 December 2016	31 December 2015
Derivative financial instruments at fair value, assets / (liabilities)	(1,314)	(1,008)

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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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	376	-
Ordinary shares of DKK 0.25 each at 31 December	23,664	23,288

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 authorised shares with previous periods.

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 31 December 2016 are DKK 14,730 thousand.

Finance lease commitments

The Groups has repaid all finance lease commitments relating to the equipment used in the research and development department.

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