NAPATECH

2ND QUARTER 2017
INTERIM REPORT

CONTENTS

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 2017.

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 2017, and of the results of the Napatech Group's operations and cash flows for the three months' period 1 April to 30 June 2017 and the six months period from 1 January to 30 June 2017.

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 2017

Executive Management

Henrik Brill Jensen, CEO

Niels Hobolt, CFO

Board of Directors

Lars B. Thoresen, Chairman

Howard Bubb

Bjørn Erik Reinseth

Henry Wasik

LETTER FROM THE CEO

Dear fellow shareholders,

With a revenue growth of 21% in the second quarter of 2017, following an equally strong first quarter, it is evident that the Napatech team is on track for a solid 2017. Our team continues to travel the world to meet existing and new customers to partner on how our technology can monitor, compile and analyse the ever-increasing information flowing through their networks.

Moving forward, we expect to see quarter-to-quarter order fluctuations, but the first two quarters provided a solid platform for the rest of 2017, and we reiterate our 2017 growth guidance of 10 to 20%.

In early April 2017, we hosted our Capital Markets Day in Oslo where we reiterated that Napatech is in a pole position to deliver state-of-the-art products, software and technology to an ever-expanding range of customers, driven by global trends and the emerging SmartNIC opportunities for accelerated growth, a digital transformation, and migration to the cloud. We highlighted a number of market trends, such as increasing and more sophisticated internet independence, exploding volumes of data, demand for increased network speeds, and all services moving to the cloud, which are allowing us to expand to a new range of high-growth applications and virtualized servers in software defined networks. Napatech helps organizations to reimage their businesses with our SmartNIC platform.

Our strategic ambition is to be the number one vendor of SmartNIC solutions, based on our current position as the leader in FPGA-based solutions, which will inevitably become a part of every network.

The market feedback is promising. We continue to see design wins converting into orders, and experience an increased momentum for our design win pipeline. Important design wins during the quarter include:

- 100 Gigabit solution for a North American customer in the online gaming industry for a security solution
- 10 Gigabit design win for a European Network Monitoring company, in the Financial industry
- Pandion design win for a North American customer leveraging our Dell relationship, to deliver a data center security solution

Design wins with new and existing customers reflect an important and continued expansion of our customer base, as our next steps are to be the preferred supplier of cloud networking solutions to largescale datacenter operators, fortune-5000 enterprises, service providers, and government operators.

The Pandion product line was one of Napatech's growth drivers in the second quarter of 2017, growing above 100% in the quarter compared to Q2 2016.

The Pandion's share of total sales increased to 9% in the quarter, compared to 4% in Q2 2016. The Napatech and Dell partnership made good progress in the quarter as joint efforts between Napatech and Dell resulted in the first significant design win under the program, where Dell resells Napatech's Pandion solution. The rollout is expected to be completed over the coming months, with a total value for Napatech projected to more than 500,000 USD. The solution includes servers, storage components and integration from Dell with Napatech providing the accelerator and software components.

In the finance sector, trading firms and banks are facing a number of challenges, which require a rethink of their IT infrastructure. Napatech is engaged in activities focused on regulatory compliance with MiFID II, presenting Napatech Pandion Network Recorder as the perfect data capture foundation for scalable end-to-end trade analysis. This scalable alternative to traditional solutions can be achieved by creating a layered solution based on best-of-breed analytics modules for data harvesting – underpinned by 100% reliable data capture. These solutions will further enable companies to utilize their volumes of data for analytic purposes and as grounds for new business initiatives beyond regulatory compliance. More information on films.napatech.com.

The trend in networking, as elsewhere, is towards open systems. Open networking, is trying to break the tight linkage between proprietary hardware and software, and allowing complete solutions to be built from open, standard and interoperable components from any number of providers. Open Source communities are contributing to the rapid rise of this trend and Napatech's most recent work includes software contributions to these communities, in collaboration with other leading vendors, which substantially increases the performance of networking, security and other workloads in virtualized servers, used in hyper-scale cloud and data centers - unlocking new customer segments and growing our market.

In the second quarter, Henry Wasik was elected new member of the Board of Directors, further expanding the strategy capabilities and the international profile of the Board. Christina Bastius Thomsen has joined Napatech's team as Investor Relations Manager, adding to the resources aimed at serving the investor community and enhancing Napatech's presence and availability. After the end of the second quarter, Napatech appointed Ken Way as Chief Sales Officer to lead our worldwide sales organization in line with the ongoing focus on NAM .

Based on the aforementioned trends and our Napatech growth platform, we expect the profitable revenue growth to continue in 2017 and look forward to updating you on the developments during an exciting year.

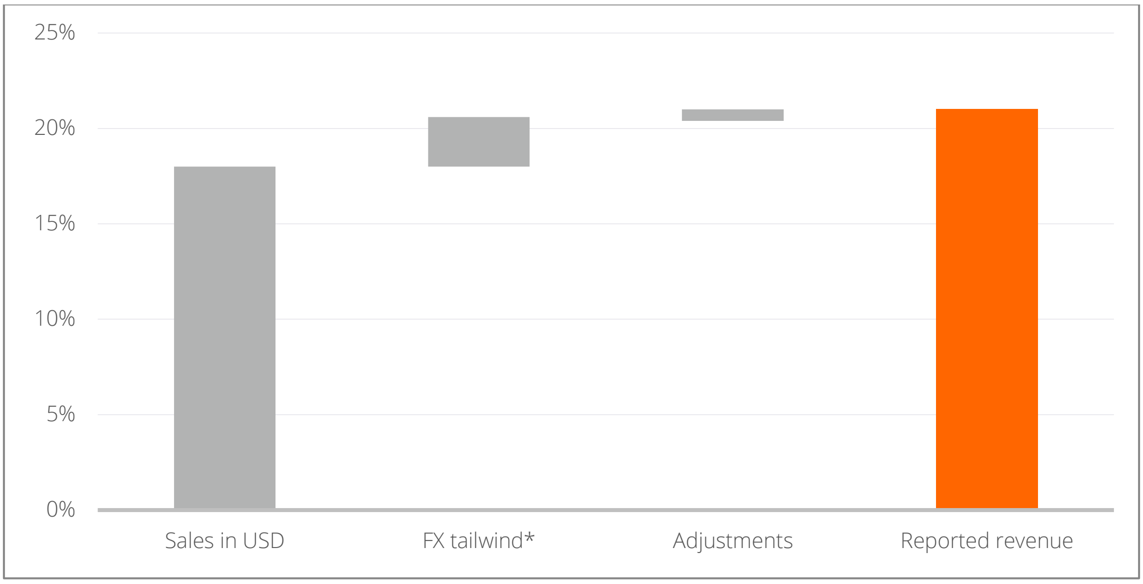
Best regards,

Henrik Brill Jensen
Chief Executive Officer

Highlights:

- Revenue for the second quarter of 2017 amounted to DKK 56.5 million, an increase of 21% compared to last year.
- Revenue for the first half year amounted to DKK 114.0 million and increase of 23% compared to last year
- Pandion revenue was 9% of the total sales in the second quarter of 2017.
- Gross margin for the second quarter of 2017 was 71% compared to 73% in the second quarter of 2016
- EBITDA for the second quarter of 2017 amounted to DKK 9.6 million, an increase from DKK 3.2 million in the second quarter of 2016.
- EBITDA margin for the second quarter of 2017 was 17%, an increase from 7% in the second quarter of 2016.
- EBIT for the second quarter amounted to DKK 0.1 million compared to negative DKK 5.3 million in Q2 2016.
- EPS for Q2 2017 was negative 0.14 DKK, compared to negative 0.13 DKK in Q2 2016.
- Cash declined to DKK 34 million in the second quarter of 2017.

Sales and Revenue Growth (YoY)



*Average bank rates

This is Napatech

Internet-of-things (IoT), cloud and mobile networking have each changed the way businesses operate, enabling them to rapidly deliver new applications and services to customers and employees. At Napatech, we aim to help organizations reimagine their business, by harnessing the technologies born in hyper-scale designs, and making their benefits available to every network. Our SmartNIC platform brings cloud-scale performance, economics, innovation and security to datacenters in fortune-5000 enterprises, government agencies, service providers and cloud operators. The Virtual Networking Platform combines standard, low-cost, high-volume servers, with the agility of Napatech's FPGA-based programmable SmartNICs and software, to improve datacenter performance and reduce costs by returning valuable compute resources to applications, services and revenue.

Napatech. SMARTER DATA. DELIVERED.

Napatech operations.

The statements below are related to Napatech's development in the second quarter of 2017 compared to second quarter of 2016, unless as otherwise stated. Additional information is available at www.napatech.com\investor.

Key figures and ratios.

	2nd Quarter		YTD June	
	2017	2016	2017	2016
Revenue, DKK'000	56,462	46,584	114,012	92,889
Gross profit margin, %	71%	73%	72%	73%
EBITDA, DKK'000	9,572	3,162	18,954	9,349
EBITDA margin, %	17%	7%	17%	10%
(Loss) / profit before tax, DKK'000	(4,266)	(3,775)	(6,258)	(9,533)
EPS basic, DKK (please ref. Note 5)	(0.14)	(0.13)	(0.21)	(0.32)
EPS diluted, DKK	(0.14)	(0.13)	(0.21)	(0.32)
Equity, DKK'000	206,153	193,055	206,153	193,055
Cash and cash equivalents, DKK'000	33,997	48,477	33,997	48,477

Financial Review

First half year 2017

Revenue for the first half of 2017 was DKK 114 million, a growth of 23% compared to the same period last year.
The EBITDA for the first half of 2017 was DKK 19 million, a growth of 103% compared to the same period last year, and equivalent to an EBITDA margin of 17%.

Revenue

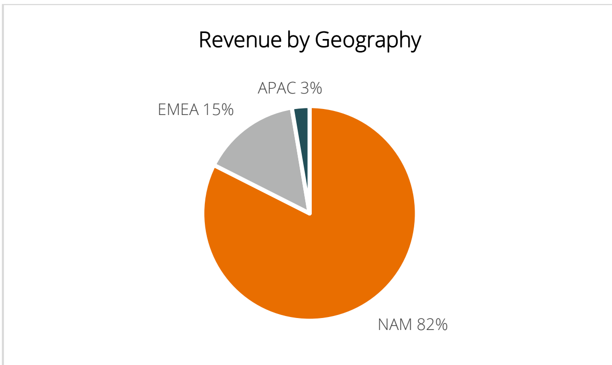
Napatech reports revenue of DKK 56.5 million in the second quarter, an increase of 21% compared to the same period in 2016. This quarter showed progress on both our Accelerator business and our Pandion business. Pandion represented 9% of total sales in the quarter, compared to 4% in Q2 2016, and showed growth well above 100% for the period.

Sales were distributed with 82% in NAM, 15% in EMEA and the remaining 3% in APAC. The share of revenue in North America is stronger than we usual see.

Napatech implemented a KPI in Q1'17 that shows the last twelve-month (LTM) development to provide the financial market with an additional indicator of the longer-term trends. In the second quarter of 2017, the LTM revenues and EBITDA were at 15% and 42% growth respectively.

Gross Margin

Napatech's gross margin for the quarter was 71%, down from 73% in the same period last year. The gross margin is dependent on the product mix, and for this specific quarter the product mix has been a more favorable than initially expected.



Financial review (continued)

Costs

Total costs for the second quarter of 2017 were DKK 30.4 million, compared to DKK 30.7 million for the second quarter of 2016. Napatech's costs for the period are in line with the company's expectations, and follow a first quarter timing variance, increasing first quarter sales and marketing costs, which lead to an opposite effect in the second quarter.

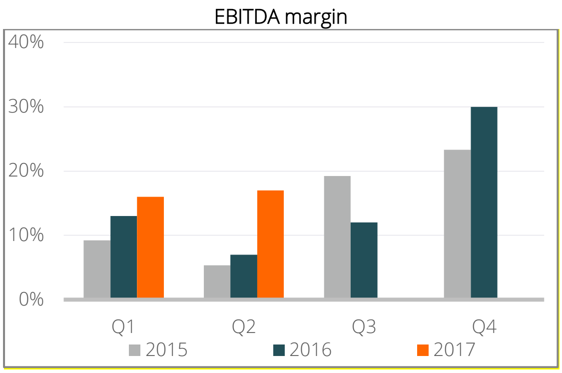
R&D costs for the second quarter of 2017 were DKK 3.9 million, compared to DKK 3.1 million in the second quarter of 2016. The increase in costs is related to the development activities in all three strategic focus areas; our Accelerators, Network Recorders and Virtualization efforts.

Sales and distribution costs for the period were DKK 17.2 million, compared to DKK 19.1 million in the same period last year. The decrease in the Sales and Marketing costs are due to timing of different costs. In 2017 compared to 2016 year to date, the sales and marketing costs have increased by 4%.

Administrative expenses for the quarter were DKK 9.3 million compared to DKK 8.5 million in the second quarter of 2016. Administration costs are in line with our expectations for the quarter.

EBITDA

EBITDA was DKK 9.6 million in the second quarter of 2017, compared to DKK 3.2 million in the second quarter of 2016. The increase is driven by higher sales and led to an EBITDA margin of 17%, underlining Napatech's scalability.



Depreciation and amortization

Depreciation and amortization for the quarter was DKK 9.5 million, compared to DKK 8.5 million in the second quarter of 2016. Depreciations are affected by the timing of completion of the company's development projects, and past investment levels.

EBIT

EBIT for the second quarter of 2017 was positive DKK 0.1 million, an improvement compared to negative DKK 5.3 million in the second quarter of 2016. The improvement is driven by the revenue growth in the quarter.

Financial Items

Financial items for the second quarter of 2017 were an expense of DKK 4.3 million, compared to an income of DKK 1.5 million in the second quarter of 2016. The financial items are primarily affected by the change in USD exchange rate and the decrease during the quarter has impacted primarily our accounts receivables

Taxes

Taxes for the second quarter of 2017 are an income of 0.9 MDKK. The effective tax rate is thus 22%.

Investments

Total investments in the second quarter of 2017 were DKK 12.6 million, primarily related to new product development (capitalized development), representing DKK 12.3 million of total investments in the quarter. In the second quarter of 2016, total investments were DKK 11.5 million, of which DKK 11.0 million was related to internal product development.
In the second quarter of 2017, there were several ongoing development projects related to the Pandion product, the Accelerator portfolio and development of our virtualization product.

Cash Flow

For the second quarter of 2017, net cash flow from operating activities was negative DKK 10.2 million, a decrease of DKK 0.2 million from the second quarter of 2016. The operating cash flow was negatively affected by increased inventory and increase in receivables. The decline in USD has also had a negative effect.

Negative cash flow from investing activities was DKK 12.6 million in the second quarter of 2017, an increase from DKK 11.5 million in the second quarter of 2016.

Net cash from financing activities, was improved by DKK 10 million with a loan guaranteed by the Danish government

The total cash position of the Company was DKK 34.0 million by the end of the second quarter of 2017, a decrease of DKK 14.4 million compared to the end of the second quarter of 2016. The negative cash flow is driven by change in operating cash flow, and especially the build of inventory, as well as the investment activities conducted by the company.

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 of 2017. Thus, the Company has available total funds of approx. 50 million DKK at the end of the second quarter of 2017.

MANAGEMENT'S REVIEW (CONTINUED)

Financial review (continued)

Shareholders and Share Information

Napatech as of June 30, 2017 had 23,813,720 shares outstanding at DKK 0.25 each. The share capital is 5,953,430 DKK divided among the 403 shareholders.

Investor	Number of shares	% of total
VERDANE CAPITAL VIII	5.172.844	21,72%
ARCTIC FUNDS PLC	2.270.021	9,53%
STOREBRAND VEKST	1.898.447	7,97%
SILVERCOIN INDUSTRIES	1.493.099	6,27%
VERDIPAPIRFONDET DNB	1.224.403	5,14%
DnB NOR MARKETS	1.195.000	5,02%
VINTERSTUA AS	1.000.854	4,20%
The Bank of New York	980.000	4,12%
JPMorgan Chase Bank	750.000	3,15%
SÆTER HAAKON MORTEN	670.000	2,81%
Danske Bank A/S	675.313	2,84%
MARSTAL AS	420.000	1,76%
NORDNET BANK AB	364.294	1,53%
DNB Luxembourg S.A	360.177	1,51%
TIGERSTADEN AS	288.944	1,21%
Nordea Bank AB Denmark Branch, CCA	303.134	1,27%
SKANDINAVISKA ENSKIL	300.000	1,26%
Hobolt Niels	263.872	1,11%
Ekner Peter Dahl	247.200	1,04%
UBS Switzerland AG	221.126	0,93%
Total number owned by top 20	**20.098.728**	**84,40%**
Total 370 other shareholders	**3.714.992**	**15,60%**
Total number of shares	**23.813.720**	**100,00%**

Significant events after the end of the period

No significant events have occurred that are not described in this interim report.

Outlook for 2017

Major changes in communications created by cloud computing, 5G mobile and the Internet of Things (IoT) have led to exploding volumes of users, devices and data, requiring organizations to rethink the way they design, deploy, operate and secure their networks and services.

Napatech helps organizations to reimage their businesses with their SmartNIC platform, including FPGA-based accelerator cards for standard servers, leading networking software optimized for large- volume and high-growth applications, and advanced applications for FPGA-based NICs including Pandion 40 Gigabit line-rate capture and write-to-disk.

The increased demand for SmartNIC hardware, software and services provides the catalyst for growth from Napatech's existing products and solutions, and anchors the company's ambition of a 100 MUSD top-line by 2020. The company expects profitable revenue growth to continue in 2017, but underlines that the short-term visibility is limited and will be affected by quarter-to-quarter order volatility and general business uncertainty.

The company reiterates the following guidance for 2017:

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

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 2017 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, 15 August 2017

The Board of Directors of Napatech A/S

INTERIM CONSOLIDATED INCOME STATEMENT

For the period ended 30 June 2017

		2nd Quarter		YTD June	
DKK'000	Note	2017	2016	2017	2016
Revenue	3	56,462	46,584	114,012	92,889
Costs of goods sold		(16,483)	(12,759)	(32,259)	(25,063)
Gross profit		39,979	33,825	81,753	67,826
Research and development cost		(3,923)	(3,088)	(7,644)	(5,801)
Selling and distribution expenses		(17,194)	(19,107)	(37,433)	(36,050)
Administrative expenses	4	(9,290)	(8,468)	(17,722)	(16,626)
Operating profit before depreciation and amortisation (EBITDA)		9,572	3,162	18,954	9,349
Depreciation and amortisation		(9,520)	(8,472)	(18,970)	(16,921)
Operating profit / (loss) (EBIT)		52	(5,310)	(16)	(7,572)
Finance income		-	1,535	-	4
Finance costs		(4,318)	-	(6,242)	(1,965)
Profit / (loss) before tax		(4,266)	(3,775)	(6,258)	(9,533)
Income tax		939	830	1,377	2,097
Profit / (loss) for the period		(3,327)	(2,945)	(4,881)	(7,436)
Earnings per share:	5				
Basic, DKK		(0.14)	(0.13)	(0.21)	(0.32)
Diluted, DKK		(0.14)	(0.13)	(0.21)	(0.32)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2017

		2nd Quarter		YTD June	
DKK'000	Note	2017	2016	2017	2016
Loss for the period		(3,327)	(2,945)	(1,554)	(4,491)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations		(233)	316	(2)	(200)
Net movement on cash flow hedges		6,620	(3,416)	2	5,522
Income tax effect		(1,456)	752	-	(1,230)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		4,931	(2,345)	-	4,092
Total comprehensive income for the period		1,604	(5,290)	(1,554)	(399)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

ASSETS

DKK'000	Note	30 June 2017	31 December 2016	30 June 2016
Development projects, completed		61,443	75,689	56,598
Development projects, in progress		45,334	22,488	33,999
Patents		5,676	6,379	7,860
Other intangible assets		133	489	846
Intangible assets	6	112,586	105,045	99,303
Plant and equipment		5,304	5,186	5,963
Office improvements		1,376	1,173	1,405
Tangible assets	7	6,680	6,359	7,368
Leasehold deposits		2,294	2,312	2,266
Other non-current assets		2,294	2,312	2,266
Non-current assets		121,560	113,716	108,937
Inventories		38,511	18,675	15,159
Trade receivables	8	55,140	75,119	49,551
Other receivables	8	3,382	4,844	3,721
Income tax receivable	8	2,231	2,094	2,451
Derivative financial instruments	9	5,309	-	1,100
Cash and cash equivalents		33,997	46,951	48,477
Current assets		138,570	147,683	120,459
Total assets		260,130	261,399	229,396

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

EQUITY AND LIABILITIES

DKK'000	Note	30 June 2017	31 December 2016	30 June 2016
Share capital	10	5,953	5,916	5,870
Share premium	10	217,584	216,429	213,600
Foreign currency translation reserve		275	510	197
Other reserves		63,961	39,830	30,982
Retained earnings		(81,620)	(58,276)	(57,594)
Equity		206,153	204,409	193,055
Deferred tax liability		7,657	8,427	3,049
Interest-bearing loans and borrowings		15,000	5,000	5,000
Non-current liabilities		22,657	13,427	8,049
Interest-bearing loans and borrowings		-	-	476
Trade payables		18,275	25,978	15,385
Other payables		12,500	15,902	12,102
Derivative financial instruments	9	-	1,314	-
Provisions		545	369	329
Current liabilities		31,320	43,563	28,292
Total liabilities		53,977	56,990	36,341
Total equity and liabilities		260,130	261,399	229,396

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2017

DKK'000	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Cash flow hedge reserve	Reserve for develop-ment 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	-	-	-	-	-	-	(4,491)	(4,491)
Additions to project development costs, net of tax	-	-	-	-	-	10,888	(10,888)	-
Exchange differences on translation of foreign operations	-	-	(200)	-	-	-	-	(200)
Cash flow hedges	-	-	-	-	5,522	-	-	5,522
Income tax effect	-	-	-	-	(1,230)	-	-	(1,230)
Total comprehensive income	-	-	(200)	-	4,292	10,888	(15,379)	(399)
Issue of shares	48	1,488	-	-	-	-	-	1,536
Reversal, exercised and lapsed share options	-	1,437	-	(1,462)	-	-	25	-
Share-based payments	-	-	-	104	-	-	-	104
Total transactions with shareholders	48	2,925	-	(1,358)	-	-	25	1,640
At 31 March 2016	5,870	213,600	(119)	8,623	3,520	10,888	(44,139)	198,243
Loss for the period	-	-	-	-	-	-	(2,945)	(2,945)
Additions to project development costs, net of tax	-	-	-	-	-	10,510	(10,510)	-
Exchange differences on translation of foreign operations	-	-	316	-	-	-	-	316
Cash flow hedges	-	-	-	-	(3,413)	-	-	(3,413)
Income tax effect	-	-	-	-	752	-	-	752
Total comprehensive income	-	-	316	-	(2,661)	10,510	(13,455)	(5,290)
Issue of shares	-	-	-	-	-	-	-	-
Reversal, exercised and lapsed share options	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	102	-	-	-	102
Total transactions with shareholders	-	-	-	102	-	-	-	102
At 30 June 2016	5,870	213,600	197	8,725	859	21,398	(57,594)	193,055

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2017

DKK'000	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Cash flow hedge reserve	Reserve for develop-ment project costs	Retained earnings	Total equity
At 1 January 2017	5,916	216,429	510	7,611	(1,025)	33,244	(58,276)	204,409
Loss for the period	-	-	-	-	-	-	(1,554)	(1,554)
Additions to project development costs, net of tax	-	-	-	-	-	8,960	(8,960)	-
Exchange differences on translation of foreign operations	-	-	(2)	-	-	-	-	(2)
Cash flow hedges	-	-	-	-	2	-	-	2
Income tax effect	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	(2)	-	2	8,960	(10,514)	(1,554)
Issue of shares	37	1,155	-	-	-	-	-	1,192
Reversal, exercised and lapsed share options	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	289	-	-	-	289
Total transactions with shareholders	37	1,155	-	289	-	-	-	1,481
At 31 March 2017	5,953	217,584	508	7,900	(1,023)	42,204	(68,790)	204,336
Loss for the period	-	-	-	-	-	-	(3,327)	(3,327)
Additions to project development costs, net of tax	-	-	-	-	-	9,503	(9,503)	-
Exchange differences on translation of foreign operations	-	-	(233)	-	-	-	-	(233)
Cash flow hedges	-	-	-	-	6,620	-	-	6,620
Income tax effect	-	-	-	-	(1,456)	-	-	(1,456)
Total comprehensive income	-	-	(233)	-	5,164	9,503	(12,830)	1,604
Issue of shares	-	-	-	-	-	-	-	-
Reversal, exercised and lapsed share options	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	213	-	-	-	213
Total transactions with shareholders	-	-	-	213	-	-	-	213
At 30 June 2017	5,953	217,584	275	8,113	4,141	51,707	(81,620)	206,153

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2017

DKK'000	Note	2nd Quarter 2017	2nd Quarter 2016	YTD December 2017	YTD December 2016
Operating activities					
Loss before tax		(4,266)	(3,775)	(6,258)	(9,533)
Adjustments to reconcile profit before tax to net cash flows:					
Finance income		-	-	-	(4)
Finance costs		4,318	(1,535)	6,242	1,965
Amortisation, depreciation and impairment	6, 7	9,520	8,472	18,970	16,921
Share-based payment expense		213	102	502	206
Working capital adjustments:					
Change in inventories		(5,660)	(568)	(19,836)	(818)
Change in trade and other receivables		(3,452)	(18,490)	21,304	(534)
Change in trade and other payables and provisions		(5,602)	4,517	(10,929)	(10,907)
Cash flows from operating activities		(4,929)	(11,277)	9,995	(2,704)
Currency gains and losses		(4,247)	1,622	(6,108)	(1,809)
Interest received		-	-	-	4
Interest paid		(71)	(87)	(134)	(156)
Income tax received, net		(950)	(245)	(950)	(515)
Net cash flows from operating activities		(10,197)	(9,987)	2,803	(5,180)
Investing activities					
Purchase of tangible assets	7	(316)	(599)	(2,922)	(1,661)
Investments in intangible assets	6	(12,299)	(10,960)	(23,938)	(22,205)
Investments in leasehold deposits		(18)	47	(18)	(42)
Net cash used from investing activities		(12,633)	(11,512)	(26,878)	(23,908)
Financing activities					
Issue of shares	10	-	-	1,192	1,536
Change in borrowings		10,000	(80)	10,000	(161)
Net cash flows from financing activities		10,000	(80)	11,192	1,375
Net change in cash and cash equivalents		(12,830)	(21,579)	(12,883)	(27,713)
Net foreign exchange difference		(141)	302	(71)	269
Cash and cash equivalents at the beginning of the period		46,968	69,754	46,951	75,921
Cash and cash equivalents at the end of the period		33,997	48,477	33,997	48,477

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 2016.

The consolidated financial statements for 2016 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.

New and amended standards and interpretations

The IASB has issued a number new standards, amendments to existing standards which will become operative for financial statements covering periods beginning on or after 1 January 2017. New and amended standards are expected to be implemented by their effective dates. The Following standards, amendments to existing standards and interpretations are expected to affect Napatech A/S' future annual reports:

- IFRS 9 Financial instruments and amendments to IFRS 9, IFRS 7 and IAS 39
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases

The analysis of the expected effect of the implementation of the above standards has not yet been completed.

IFRS 15 "Revenue from Contracts with Customers", which replaces the existing revenue standards (IAS 11 and IAS 18) and interpretations, creates a new model for revenue recognition and measurement of revenue from contracts with customers. The standard becomes effective for annual periods beginning on or after 1 January 2018.

The new model is based on a five-step process which must be applied to all contracts with customers in order to identify when and how revenue is to be recognised in the income statement.

Compared to the current practice, the most significant changes in IFRS 15 are:

- Sales transactions must be recognised as revenue in the income statement when control (either at a single point in time or over time) of the goods or services is transferred to the customer (the current concept of "risk and rewards" is replaced by a concept of control).
- New and more detailed guidance on how to identify the components of a transaction in a contract and how to recognise and measure the individual components.
- New and more detailed guidance on the recognition of revenue over time.

Napatech A/S has performed an analysis of the potential impact of the new standard on the Group. Based on analyses of the Group's current product mix and types of contracts, it is Napatech A/S' assessment that the new standard will not affect the recognition and measurement of the Group's sales types which primarily consist of goods for resale and finished goods.

Overall, based on the analyses performed, it is assessed that the effect on recognition and measurement is immaterial based on the current product mix and types of contract.

IFRS 9 Financial instruments: The Group has few derivative financial instruments, but besides these only traditional financial assets and liabilities which mainly relate to trade receivables on which only a few and immaterial losses have incurred in the past and trade payables. The implementation of the standard which becomes effective for annual periods starting on or after 1 January 2018, is therefore expected to have only limited effect.

IFRS 16 Leases sets out the principles for the recognition, measurement presentation and disclosure of leases and requires lessees to account for all leases, with a few exceptions, under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group has operating leases with minimum lease payments of approximately DKK 14,730 thousand corresponding to 5.8% of the Group's assets. Based on analyses of the Group's operating lease contracts, it is Napatech A/S' assessment that the new standard will have some effect on the Group's balance and cash flow statement, but only immaterial effect on the consolidated income statement. The standard becomes effective for annual periods starting on or after 1 January 2019.

In addition, the IASB has issued a number of new standards, amendments to existing standards and interpretations which are not relevant to the company and which are therefore not expected to affect its future annual and interim reports.

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 2016.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3 OPERATING SEGMENTS

2nd Quarter 2017:

DKK'000	EMEA	NAM	APAC	Consolidated
Revenue				
Total revenue	45,946	46,534	1,506	93,986
Inter-segment	(37,524)	-	-	(37,524)
Revenue, external customers	8,422	46,534	1,506	56,462
Cost of goods sold	(2,234)	(13,983)	(266)	(16,483)
Gross profit	6,188	32,551	1,240	39,979

2nd Quarter 2016:

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

Explanation of abbreviations

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

3 OPERATING SEGMENTS

YTD June 2017:

DKK'000	EMEA	NAM	APAC	Consolidated
Revenue				
Total revenue	90,841	89,978	6,570	187,389
Inter-segment	(73,377)	-	-	(73,377)
Revenue, external customers	17,464	89,978	6,570	114,012
Cost of goods sold	(4,057)	(26,870)	(1,332)	(32,259)
Gross profit	13,407	63,108	5,238	81,753

YTD June 2016:

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

Explanation of abbreviations

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

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 101,000 share options have been issed for subscription of 101,000 shares of a nominal value of DKK 1 at an exercise price of NOK 48.70 (DKK 43.00 at 1 July 2014). The share options' life time is 5 years. The first 2 years from the date of issue is a lock-up period during which the 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 2014 share options programme are summarised as follows:

Earliest exercise date	2 years from grant date
Latest exercise date	5 years from grant date

In February 2016 the Board of Directors decided to issue share options to key employees in the Group. A total of 23,000 share options have been issed for subscription of 23,000 shares of a nominal value of DKK 1 at an exercise price of NOK 63.50 (DKK 53.10 at 22 February 2016). The share options' life time is 5 years. The first 2 years from the date of issue is a lock-up period during which the 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.

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. This means that the nominal value of each share has been reduced from DKK 1.00 to DKK 0.25, whereby each shareholder previously holding one share with the nominal value of DKK 1.00 received four new shares with the nominal value of DKK 0.25.

The 1:4 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 exercise 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 increases/decreases with the same ratio of 1:4. The principals of the 1:4 share spli have been applied on comparative figures in order to enable comparison and consistency with previous periods.

Based on the decision made on General Assembly in April 2016 to issue 400,000 share options, the Board of Directors issued 145,000 share options in August 2016 with the nominal value of DKK 0.25 at an exercise price of NOK 22.00 (DKK 18.04). The share options' life time is 5 years, where the share options holders are subject to a lock-up period in the first 2 years of the share options' life time. The share options vest with 1/3 in each of the remaining 3 years of the share options' life time.

Based on the same decision made on General Assembly in April 2016 to issue 400,000 share options, the Board of Directors issued 150,000 share options in May 2017 with the nominal value of DKK 0.25 at an exercise price of NOK 24,50 (DKK 19.41). The share options' life time is 5 years, where the share options holders are subject to a lock-up period in the first 2 years of the share options' life time. The share options vest with 1/3 in each of the remaining 3 years of the share options' life time.

4 SHARE-BASED PAYMENTS (CONTINUED)

The general terms for both 2016 share options programmes are summarised as follows:

Earliest exercise date	2 years from grant date
Latest exercise date	5 years from grant date

	Management		Others		Total	
Share options	Number	Average exercise price (DKK)	Number	Average exercise price (DKK)	Number	Average exercise price (DKK)
At 1 January 2017	714,548	9,02	701,236	11,07	1,415,784	10,03
Granted during the period	150,000	19,41	-	-	150,000	19,41
Exercised / expired during the period	(87,396)	8.00	(61,668)	8.00	(149,064)	8.00
At 30 June 2017	777,152	11,13	639,568	11,35	1,416,720	11,23
Exercisable at 30 June 2017	455,756	8.38	326,857	8.45	782,613	8.41
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
At 30 June 2016	1,035,748	8,99	514,620	8.96	1,550,368	8.99
Exercisable at 30 June 2016	719,748	8.00	334,620	8.00	1,054,368	8.00

In the period ended 30 June 2017, no options were exercised or lapsed (period ended 30 June 2016: 0 exercised and lapsed).

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

Number of share options	As at 30 June 2017	As at 30 June 2016
Exercise price DKK 8.00	667,052	1,054,368
Exercise price DKK 10.75	362,668	404,000
Exercise price DKK 12.53	92,000	92,000
Exercise price DKK 18.04	145,000	-
Exercise price DKK 19.41	150,000	-
Total number of outstanding stock options	1,416,720	1,550,368

The weighted average of the remaining contractual period of the outstanding share options from the 2014 share options program at 31 June 2017 is 2 years (at 31 December 2016: 2 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 June 2017 is 4 years (at 31 December 2016: 4 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, 2014 and 2016 was estimated on the date of grant using the following assumptions:

	December 2013	May 2014	February 2016	August 2016
Volatility	47.92%	43.53% - 44.94%	49.00%	49.00%
Risk-free interest rate	1.65%	1.70% - 2.00%	0.50% - 0.60%	0.53% - 0.63%
Exercise price (DKK)	8.00	10.75	12.53	18.04
Exercise period (years)	2.27	3.00-5.00	3.00-5.00	3.00-5.00
Number of options	520,700	404,000	92,000	145,000

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 2nd quarter of 2017, the Group has recognized DKK 213 thousand of share-based payment expense in the income statement (2nd quarter 2016: DKK 102 thousand).

5 EARNINGS PER SHARE

	2nd Quarter		YTD June	
DKK'000	2017	2016	2017	2016
Net income attributable to equity holders of the parent company for basic earnings and the effect of dilution	(3,327)	(2,945)	(4,881)	(7,436)

	2nd Quarter		YTD June	
DKK'000	2017	2016	2017	2016
	Thousand	Thousand	Thousand	Thousand
Weighted average number of shares for basic earnings per share	23,812	23,480	23,763	23,436
Effect of dilution:				
Share options	-	-	-	-
Weighted average number of shares adjusted for the effect of dilution (nominal value of DKK 0.25)	23,812	23,480	23,763	23,436

6 INTANGIBLE ASSETS

DKK'000	Development projects, completed	Development projects, in progress	Patents	Other intangible assets	Total
Cost at 1 January 2017	205,129	22,488	9,279	2,139	239,035
Additions in the period	-	23,746	192	-	23,938
Transfers in the period	900	(900)	-	-	-
Cost at 30 June 2017	206,029	45,334	9,471	2,139	262,973
Accumulated amortization and impairment at 1 January 2017	129,440	-	2,900	1,650	133,990
Amortization for the period	15,146	-	230	356	15,732
Impairment for the period	-	-	665	-	665
Accumulated amortization and impairment at 30 June 2017	144,586	-	3,795	2,006	150,387
Carrying amount at 30 June 2017	61,443	45,334	5,676	133	112,586

Within the completed development projects there are two material development projects with carrying amount of DKK 8,836 thousand and DKK 9,181 thousand at 30 June 2017 respectively (31 December 2016: DKK 9,836 thousand and DKK 11,017 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 5 months and 2 years and 6 months respectively.

Within the in progress development projects there is one material development project with carrying amount of DKK 13,853 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 June 2017, the Group tested the intangible assets for impairment. In relation to this, the Group identified patents that are not expected to be utilised. Therefore, the Group recognised DKK 665 thousand as an impairment in respect of patents. There were no indications of impairment in relation to the Group's development projects and other intangible assets in the reporting period.

7 TANGIBLE ASSETS

DKK'000	Plant and equipment	Leasehold improvements	Total
Cost at 1 January 2017	34,622	4,630	39,252
Additions in the period	2,400	522	2,922
Currency adjustment	(100)	(28)	(128)
Cost at 30 June 2017	36,922	5,124	42,046
Accumulated depreciation at 1 January 2017	29,467	3,457	32,924
Depreciation for the period	2,264	308	2,572
Currency adjustment	(113)	(17)	(130)
Accumulated depreciation at 30 June 2017	31,618	3,748	35,366
Carrying amount at 30 June 2017	5,304	1,376	6,680

At 30 June 2017, the Group tested the tangible assets for impairment. There were no indications of impairment of the Group's tangible assets in the reporting period.

8 TRADE AND OTHER RECEIVABLES

DKK'000	30 June 2017	30 June 2016
Receivables recognized in the consolidated statement of financial position:		
Trade receivables	55,140	49,551
Other receivables	3,382	3,721
Income tax receivable	2,231	2,451
Total current receivables	60,753	55,723

The provision for bad and doubtful receivables is as follows:

DKK'000	2017	2016
At 1 January	2,103	1,815
Change in the period	(162)	-
At 30 June	1,941	1,815

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

DKK'000	30 June 2017	30 June 2016
Not past due	50,901	42,889
Past due less than 30 days	2,387	4,406
Past due between 30 and 60 days	80	486
Past due between 60 and 90 days	332	327
Past due after 90 days	1,440	1,443
Total maximum credit risk	55,140	49,551

9 DERIVATIVE FINANCIAL INSTRUMENTS

DKK'000	30 June 2017	30 June 2016
Derivative financial instruments at fair value, assets / (liabilities)	5,309	1,100

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	2017	2016
	Thousand	Thousand
Ordinary shares of DKK 0.25 each at 1 January	23,664	23,288
Increase in ordinary shares DKK 0.25 each	148	192
Ordinary shares of DKK 0.25 each at 30 June	23,812	23,480

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 2017 are DKK 7,860 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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