

NAPATECH

3RD QUARTER 2017

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 July 1 to September 30, 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 September 30, 2017, and of the results of the Napatech Group's operations and cash flows for the three months' period July 1 to September 30, 2017 and the nine months period from January 1 to September 30, 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, November 7, 2017

Executive Management

Henrik Brill Jensen, CEO

Niels Hobolt, CFO

Board of Directors

Lars Boilesen, Chairman

Howard Bubb

Lars B. Thoresen

Henry Wasik

Bjørn Erik Reinseth

LETTER FROM THE CEO

Dear fellow shareholders,

The third quarter of 2017 saw a performance below average due to quarter-to-quarter order volatility which, as previously stated, is an underlying expectation. Following two strong quarters, the third quarter presented an 11% decline compared to the third quarter of 2016. This results in a growth of 11% in the first nine months of 2017 compared to the first nine months of 2016.

The revenues were affected by the loss of a major multi-million-dollar Pandion project were the customer decided to deploy an unbundled solution. As presented at the 2017 Capital Markets Day, Napatech has a strategy of unbundling the company's SmartNIC solutions and is well positioned to secure similar projects going forward.

Napatech provides reconfigurable SmartNIC solutions based on hardware and software that help IT organizations reimagine their business by harnessing the cost, performance and innovation benefits of cloud-scale architectures. 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, allows us to expand to a new range of high-growth applications and virtualized servers in software defined networks. In other terms, Napatech's growth strategy supports the software transformation of datacenters by offering reconfigurable software-based SmartNICs to accelerate a broad set of applications reusing the customers hardware. This allows for an increased focus on software, bringing both higher margins and scalability to the core of Napatech's business.

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 with a North American customer for a network monitoring
- 10 Gigabit design win with an APAC customer primarily focused on the Telecom industry

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 increased revenues by 70% in the third quarter of 2017, compared to the third quarter of 2016.

The Pandion share of total sales increased to 8% in the quarter, compared to 5% in Q3 2016. In the third quarter, a joint industry solution with Credocom resulted in a Napatech Pandion plug-in for Palo Alto firewalls saving valuable time and scarce security professional resources.

The solution was created using the Napatech Pandion Network Recorder that allows their customers to drill down into the details of each security incident. This Napatech plug-in allows system integrators and value-added resellers to create solutions beyond standard equipment, complementing efficient real-time data with the ability to go back in time. More security events can be examined and analyzed leading ultimately to more threats and breaches being detected. In addition, the solution provides greater context and depth leading to a more accurate forensic analysis.

Similarly, and as announced in Q3 2016, IBM partnered with Napatech to ensure that their QRadar® Security Intelligence Platform would provide complete network visibility. In the battle against cyberattacks, many organizations rely on security solutions that capture just a fraction of the network data. This only provides partial visibility, which means inadequate or even misleading forensic evidence in the event of a security breach. A recently published case study describes how Napatech has helped IBM® to ensure that their QRadar® SIEM platform seizes and retrieves 100% of the network data, providing the end user with accurate, uncompromised and high-fidelity evidence.

In the third quarter, the organization was enhanced further to match out strategic ambitions. In the North American market (NAM), in particular, we see a pervasive need for SmartNIC solutions across a wide range of users in high-growth applications and services. Napatech appointed Ken Way as Chief Sales Officer to lead our worldwide sales organization in line with the ongoing focus on NAM. At an extraordinary General meeting, held after the period on October 16, 2017, the Board of Directors was expanded to include an extra member in that Lars Boilesen was elected new chairman, replacing Lars Thoresen, whom remains on the Board as member. Lars Boilesen brings significant skills in business development within NAM and other key markets from his background and current position as CEO of Opera Software ASA.

Based on the aforementioned trends and our Napatech growth platform, we expect the profitable revenue growth to continue in 2017. Quarter-to-quarter order fluctuations are still to be expected, yet we reiterate our 2017 growth guidance of 10 to 20% and look forward to updating you on the developments during an exciting year.

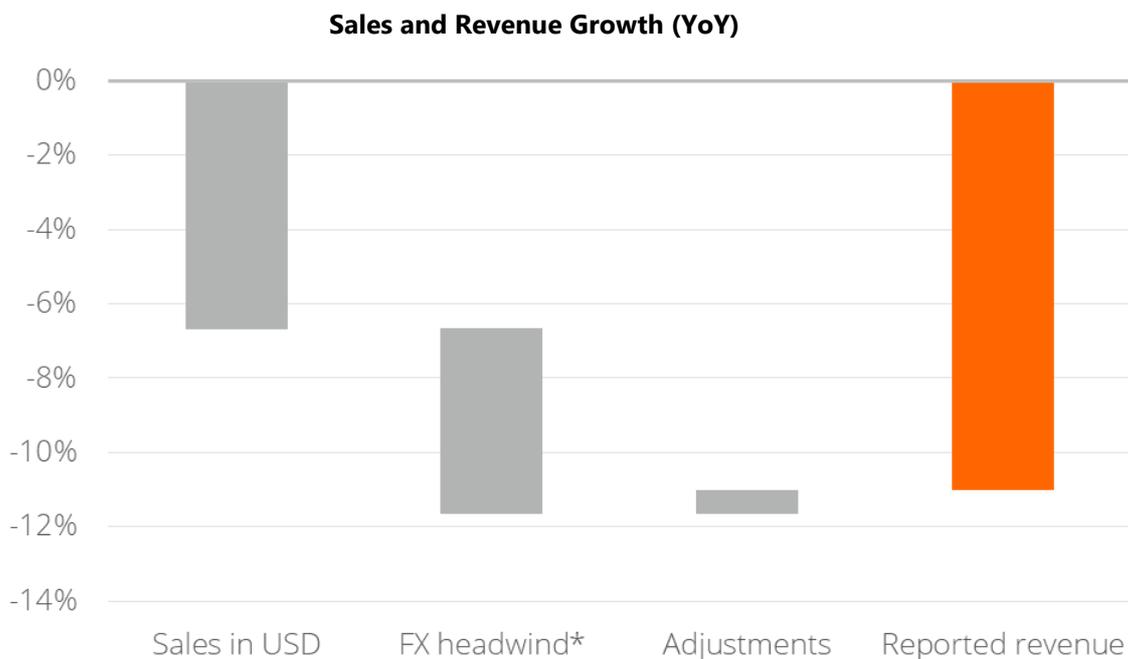
Best regards,

Henrik Brill Jensen
Chief Executive Officer

MANAGEMENT'S REVIEW

Highlights:

- Revenue for the third quarter of 2017 amounted to DKK 44.1 million, a decline of 11% compared to last year.
- Revenue for the first nine months amounted to DKK 158.1 million and increase of 11% compared to last year
- Pandion sales represented 8% of the total sales in the third quarter of 2017.
- Gross margin for the third quarter of 2017 was 72% compared to 71% in the third quarter of 2016
- EBITDA for the third quarter of 2017 amounted to DKK 2.1 million, a decline from DKK 6.1 million in the third quarter of 2016.
- EBITDA margin for the third quarter of 2017 was 5%, a decline from 12% in the third quarter of 2016.
- EBIT for the third quarter amounted to negative DKK 7.3 million compared to negative DKK 3.6 million in the third quarter of 2016.
- Cash declined to DKK 20.6 million in the third quarter of 2017.



*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.

MANAGEMENT'S REVIEW (CONTINUED)

Napatech operations.

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

Key figures and ratios.

	3 rd Quarter		YTD September	
	2017	2016	2017	2016
Revenue, DKK'000	44,136	49,560	158,148	142,449
Gross profit margin, %	72%	71%	72%	72%
EBITDA, DKK'000	2,088	6,098	21,042	15,447
EBITDA margin, %	5%	12%	13%	11%
(Loss) / profit before tax, DKK'000	(12,952)	(3,023)	(19,210)	(12,556)
EPS basic, DKK (please ref. Note 5)	(0.42)	(0.10)	(0.63)	(0.42)
EPS diluted, DKK	(0.41)	(0.10)	(0.62)	(0.42)
Equity, DKK'000	196,211	191,803	196,211	191,803
Cash and cash equivalents, DKK'000	20,628	48,000	20,628	48,000

Financial Review

Revenue

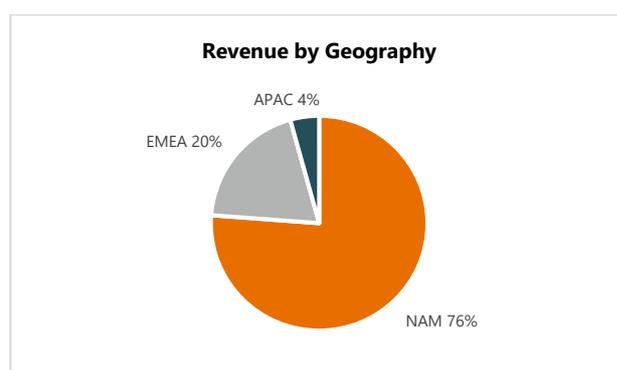
Napatech reports revenue of DKK 44.1 million in the third quarter, a decrease of 11% compared to the same period in 2016. This quarter showed progress on our Pandion business, but the Accelerator business declined due to fluctuations in our customers ordering pattern and inventory management. Pandion represented 8% of total sales in the quarter, compared to 5% in Q3 2016,

Sales were distributed with 76% in NAM, 20% in EMEA and the remaining 4% in APAC. The distribution is in line with company expectations.

Napatech implemented a KPI in Q1 2017 that shows the last twelve-month (LTM) development to provide the financial market with an additional indicator of the longer-term trends. In the third quarter of 2017, the LTM revenues and EBITDA were at 18% and 54% growth respectively.

Gross Margin

Napatech's gross margin for the quarter was 72%, up from 71% 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 more favorable than initially expected.



MANAGEMENT'S REVIEW (CONTINUED)

Financial review (continued)

Costs

Total costs for the third quarter of 2017 were DKK 29.7 million, compared to DKK 28.9 million for the third quarter of 2016. Napatech's costs for the period are in line with the company's expectations,

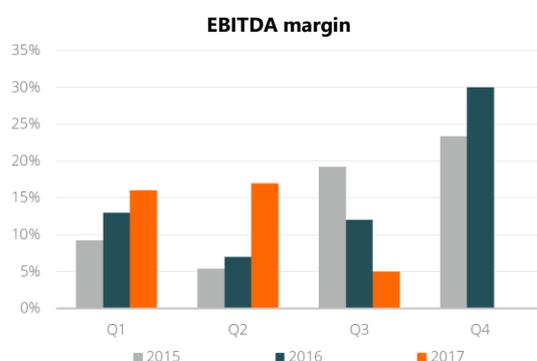
R&D costs for the third quarter of 2017 were DKK 3.8 million, compared to DKK 4.7 million in the third quarter of 2016. The decline in costs is related to the timing of our development projects.

Sales and distribution costs for the period were DKK 16.3 million, compared to DKK 18.0 million in the same period last year. The decrease in the Sales and Marketing costs is due to timing of different costs. In 2017 compared to 2016 year to date, the sales and marketing costs have decreased by 1%.

Administrative expenses for the quarter were DKK 9.6 million compared to DKK 6.3 million in the third quarter of 2016. Administration costs in Q3 2016 were affected by a reclassification of some inventory costs from Administration costs to the COGS.

EBITDA

EBITDA was DKK 2.1 million in the third quarter of 2017, compared to DKK 6.1 million in the third quarter of 2016. The decrease is driven by lower sales and led to an EBITDA margin of 5%.



Depreciation and amortization

Depreciation and amortization for the quarter was DKK 9.4 million, compared to DKK 9.7 million in the third 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 third quarter of 2017 was negative DKK 7.3 million, a decrease compared to negative DKK 3.6 million in the third quarter of 2016. The decrease is driven by the revenue decline in the quarter.

Financial Items

Financial items for the third quarter of 2017 were an expense of DKK 5.6 million, compared to an income of DKK 0.6 million in the third 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 and inventory.

Taxes

Taxes for the third quarter of 2017 are an income of 2.8 MDKK. The effective tax rate is thus 22%.

Investments

Total investments in the third quarter of 2017 were DKK 12.9 million, primarily related to new product development (capitalized development), representing DKK 12.3 million of total investments in the quarter. In the third quarter of 2016, total investments were DKK 12.7 million, of which DKK 11.3 million was related to internal product development.

In the third 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 third quarter of 2017, net cash flow from operating activities was negative DKK 1.0 million, a decrease from DKK 10.3 million from the third quarter of 2016. The operating cash flow was negatively affected by the decline in USD which had a negative effect of DKK 5,5 million.

Negative cash flow from investing activities was DKK 12.9 million in the third quarter of 2017, an increase from DKK 12.7 million in the third quarter of 2016.

Net cash from financing activities, was improved by DKK 0.6 million due to exercise of employee options.

The total cash position of the Company was DKK 20.6 million by the end of the third quarter of 2017, a decrease of DKK 27.4 million compared to the end of the third quarter of 2016. The negative cash flow is driven by change in operating cash flow and especially the build of inventory, and the decline in USD which has effected the cashflow by DKK 11.6 million. The investment activities conducted by the company has an impact as well.

Napatech has unused credit facilities of DKK 10 million in Denmark as well as USD 1 million in the US subsidiary at the end of third quarter of 2017. Thus, the Company has available total funds of approximately DKK 37 million at the end of the third quarter of 2017.

MANAGEMENT'S REVIEW (CONTINUED)

Financial review (continued)

Shareholders and Share Information

Napatech as of September 30, 2017 had 23,877,672 shares outstanding at DKK 0.25 each. The share capital is 5,969,418 DKK divided among the 400 shareholders.

Investor	Number of shares	% of total	TYPE	Country
VERDANE CAPITAL VIII	5.172.844	21,66%	Ordinary	DNK
ARCTIC FUNDS PLC	2.270.021	9,51%	Ordinary	IRL
STOREBRAND VEKST VER	1.805.527	7,56%	Ordinary	NOR
SILVERCOIN INDUSTRIE	1.477.701	6,19%	Ordinary	NOR
VERDIPAPIRFONDET DNB	1.412.858	5,92%	Ordinary	NOR
DNB NOR MARKETS, AKS	1.200.000	5,03%	Ordinary	NOR
VINTERSTUA AS	992.422	4,16%	Ordinary	NOR
THE BANK OF NEW YORK	980.000	4,10%	Nominee	GBR
JPMORGAN CHASE BANK,	750.000	3,14%	Nominee	FIN
DANSKE BANK A/S	672.265	2,82%	Nominee	DNK
SÆTER HAAKON MORTEN	670.000	2,81%	Ordinary	NOR
MARSTAL AS	420.000	1,76%	Ordinary	NOR
NORDNET BANK AB	382.296	1,60%	Nominee	SWE
DNB LUXEMBOURG S.A.	360.177	1,51%	Nominee	LUX
NORDEA BANK AB	301.916	1,26%	Nominee	DNK
SKANDINAVISKA ENSKIL	300.000	1,26%	Ordinary	NOR
HOBOLT NIELS	288.272	1,21%	Ordinary	DNK
EKNER PETER DAHL	247.200	1,04%	Ordinary	DNK
UBS SWITZERLAND AG	241.665	1,01%	Nominee	CHE
TIGERSTADEN AS	218.988	0,92%	Ordinary	NOR
Total number owned by top 20	20.164.152	84,45%		
Total 380 other shareholders	3.713.520	15,55%		
Total number of shares	23.877.672	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 reimagine 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 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, November 7, 2017

The Board of Directors of Napatech A/S

INTERIM CONSOLIDATED INCOME STATEMENT

For the period ended 30 September 2017

DKK'000	Note	3 rd Quarter		YTD September	
		2017	2016	2017	2016
Revenue	3	44,136	49,560	158,148	142,449
Costs of goods sold		(12,327)	(14,531)	(44,586)	(39,594)
Gross profit		31,809	35,029	113,562	102,855
Research and development cost		(3,812)	(4,667)	(11,456)	(10,468)
Selling and distribution expenses		(16,263)	(18,013)	(53,696)	(54,063)
Administrative expenses	4	(9,646)	(6,251)	(27,368)	(22,877)
Operating profit before depreciation and amortisation (EBITDA)		2,088	6,098	21,042	15,447
Depreciation and amortisation		(9,426)	(9,695)	(28,396)	(26,616)
Operating profit / (loss) (EBIT)		(7,338)	(3,597)	(7,354)	(11,169)
Finance income		-	574	-	4
Finance costs		(5,614)	-	(11,856)	(1,391)
Profit / (loss) before tax		(12,952)	(3,023)	(19,210)	(12,556)
Income tax		2,849	665	4,226	2,762
Profit / (loss) for the period		(10,103)	(2,358)	(14,984)	(9,794)
Earnings per share:	5				
Basic, DKK		(0.42)	(0.10)	(0.63)	(0.42)
Diluted, DKK		(0.41)	(0.10)	(0.62)	(0.42)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 September 2017

DKK'000	Note	3 rd Quarter		YTD September	
		2017	2016	2017	2016
Loss for the period		(10,103)	(2,358)	(14,984)	(9,794)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations		(53)	(29)	(288)	87
Net movement on cash flow hedges		(682)	(596)	5,940	1,513
Income tax effect		150	131	(1,306)	(347)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(585)	(494)	4,346	1,253
Total comprehensive income for the period		(10,688)	(2,852)	(10,638)	(8,541)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

ASSETS

DKK'000	Note	30 September 2017	31 December 2016	30 September 2016
Development projects, completed		70,333	75,689	70,291
Development projects, in progress		40,715	22,488	24,224
Patents		5,438	6,379	7,102
Other intangible assets		64	489	668
Intangible assets	6	116,550	105,045	102,285
Plant and equipment		4,976	5,186	5,499
Office improvements		1,217	1,173	1,307
Tangible assets	7	6,193	6,359	6,806
Leasehold deposits		2,287	2,312	2,299
Other non-current assets		2,287	2,312	2,299
Non-current assets		125,030	113,716	111,390
Inventories		35,803	18,675	15,550
Trade receivables	8	53,727	75,119	47,262
Other receivables	8	3,382	4,844	3,790
Income tax receivable	8	2,231	2,094	2,451
Derivative financial instruments	9	4,626	-	505
Cash and cash equivalents		20,628	46,951	48,000
Current assets		120,397	147,683	117,558
Total assets		245,427	261,399	228,948

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

EQUITY AND LIABILITIES

DKK'000	Note	30 September 2017	31 December 2016	30 September 2016
Share capital	10	5,969	5,916	5,916
Share premium	10	219,632	216,429	216,429
Foreign currency translation reserve		222	510	168
Other reserves		70,942	39,830	40,529
Retained earnings		(100,554)	(58,276)	(71,239)
Equity		196,211	204,409	191,803
Deferred tax liability		4,425	8,427	1,975
Interest-bearing loans and borrowings		15,074	5,000	5,000
Non-current liabilities		19,499	13,427	6,975
Interest-bearing loans and borrowings		-	-	394
Trade payables		15,988	25,978	16,281
Other payables		13,107	15,902	13,113
Derivative financial instruments	9	-	1,314	-
Provisions		622	369	382
Current liabilities		29,717	43,563	30,170
Total liabilities		49,216	56,990	37,145
Total equity and liabilities		245,427	261,399	228,948

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2017

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	-	-	-	-	-	-	(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
Loss for the period	-	-	-	-	-	-	(2,358)	(2,358)
Additions to project development costs, net of tax	-	-	-	-	-	11,292	(11,292)	-
Exchange differences on translation of foreign operations	-	-	(29)	-	-	-	-	(29)
Cash flow hedges	-	-	-	-	(596)	-	-	(596)
Income tax effect	-	-	-	-	131	-	-	131
Total comprehensive income	-	-	(29)	-	(465)	11,292	(13,650)	(2,852)
Issue of shares	46	1,451	-	-	-	-	-	1,497
Reversal, exercised and lapsed share options	-	1,378	-	(1,383)	-	-	5	-
Share-based payments	-	-	-	103	-	-	-	103
Total transactions with shareholders	46	2,829	-	(1,280)	-	-	5	1,600
At 30 September 2016	5,916	216,429	168	7,445	394	32,690	(71,239)	191,803

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2017

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 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	-	1,090	-	(1,096)	-	-	6	-
Share-based payments	-	-	-	289	-	-	-	289
Total transactions with shareholders	37	2,245	-	(807)	-	-	6	1,481
At 31 March 2017	5,953	218,674	508	6,804	(1,023)	42,204	(68,784)	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	218,674	275	7,017	4,141	51,707	(81,614)	206,153
Loss for the period	-	-	-	-	-	-	(10,103)	(10,103)
Additions to project development costs, net of tax	-	-	-	-	-	8,837	(8,837)	-
Exchange differences on translation of foreign operations	-	-	(53)	-	-	-	-	(53)
Cash flow hedges	-	-	-	-	(682)	-	-	(682)
Income tax effect	-	-	-	-	150	-	-	150
Total comprehensive income	-	-	(53)	-	(532)	8,837	(18,940)	(10,688)
Issue of shares	16	497	-	-	-	-	-	513
Reversal, exercised and lapsed share options	-	461	-	(461)	-	-	-	-
Share-based payments	-	-	-	233	-	-	-	233
Total transactions with shareholders	16	958	-	(228)	-	-	-	746
At 30 September 2017	5,969	219,632	222	6,789	3,609	60,544	(100,554)	196,211

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 September 2017

DKK'000	Note	3 rd Quarter		YTD September	
		2017	2016	2017	2016
Operating activities					
Loss before tax		(12,952)	(3,023)	(19,210)	(12,556)
Adjustments to reconcile profit before tax to net cash flows:					
Finance income		-	(574)	-	(4)
Finance costs		5,614	-	11,856	1,391
Amortisation, depreciation and impairment	6, 7	9,426	9,695	28,396	26,616
Share-based payment expense		233	103	735	309
Working capital adjustments:					
Change in inventories		2,708	(391)	(17,128)	(1,209)
Change in trade and other receivables		1,413	2,220	22,717	1,686
Change in trade and other payables and provisions		(1,603)	1,960	(12,532)	(8,947)
<hr/>					
Cash flows from operating activities		4,839	9,990	14,834	7,286
<hr/>					
Currency gains and losses		(5,468)	684	(11,576)	(1,125)
Interest received		-	-	-	4
Interest paid		(147)	(110)	(281)	(266)
Income tax received, net		(270)	(279)	(1,220)	(794)
<hr/>					
Net cash flows from operating activities		(1,046)	10,285	1,757	5,105
<hr/>					
Investing activities					
Purchase of tangible assets	7	(606)	(751)	(3,528)	(2,412)
Investments in intangible assets	6	(12,287)	(11,314)	(36,225)	(33,519)
Investments in leasehold deposits		(7)	(647)	(25)	(689)
<hr/>					
Net cash used from investing activities		(12,900)	(12,712)	(39,778)	(36,620)
<hr/>					
Financing activities					
Issue of shares	10	513	1,497	1,705	3,033
Change in borrowings		74	(82)	10,074	(243)
<hr/>					
Net cash flows from financing activities		587	1,415	11,779	2,790
<hr/>					
Net change in cash and cash equivalents		(13,359)	(1,012)	(26,242)	(28,725)
Net foreign exchange difference		(10)	535	(81)	804
Cash and cash equivalents at the beginning of the period		33,997	48,477	46,951	75,921
<hr/>					
Cash and cash equivalents at the end of the period		20,628	48,000	20,628	48,000

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The Group has operating leases with minimum lease payments of approximately DKK 8,417 thousand corresponding to 3.4% 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

3rd Quarter 2017:

DKK'000	EMEA	NAM	APAC	Consolidated
Revenue				
Total revenue	27,757	33,655	1,910	63,322
Inter-segment	(19,186)	-	-	(19,186)
Revenue, external customers	8,571	33,655	1,910	44,136
Cost of goods sold	(1,599)	(10,340)	(388)	(12,327)
Gross profit	6,972	23,315	1,522	31,809

3rd Quarter 2016:

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

Explanation of abbreviations

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3 OPERATING SEGMENTS

YTD September 2017:

DKK'000	EMEA	NAM	APAC	Consolidated
Revenue				
Total revenue	118,598	123,633	8,480	250,711
Inter-segment	(92,563)	-	-	(92,563)
Revenue, external customers	26,035	123,633	8,480	158,148
Cost of goods sold	(5,656)	(37,210)	(1,720)	(44,586)
Gross profit	20,379	86,423	6,760	113,562

YTD September 2016:

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

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 issued 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 issued 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 split 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Share options	Management		Others		Total	
	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
Transfer	(46,000)	10.75	46,000	10.75	-	-
Exercised / expired during the period	(135,348)	8.00	(77,668)	8.04	(213,016)	8.01
At 30 September 2017	683,200	11.26	669,568	11.59	1,352,768	11.43
Exercisable at 30 September 2017	470,520	8.73	368,010	8.96	838,530	8.83
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
At 30 September 2016	714,548	8.51	785,800	10.71	1,500,348	8.90
Exercisable at 30 September 2016	543,212	8.00	298,003	8.00	841,215	8.00

In the period ended 30 September 2017, 212,216 share options were exercised and 800 lapsed (period ended 30 September 2016: 186,664 share options were exercised and 203,616 lapsed).

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

Number of share options	As at 30 Sep. 2017	As at 30 Sep. 2016
Exercise price DKK 8.00	584,100	862,012
Exercise price DKK 10.75	381,668	401,336
Exercise price DKK 12.53	92,000	92,000
Exercise price DKK 18.04	145,000	145,000
Exercise price DKK 19.41	150,000	-
Total number of outstanding stock options	1,352,768	1,500,348

The weighted average of the remaining contractual period of the outstanding share options from the 2014 share options program at 30 September 2017 is 1 year and 9 months (at 30 September 2016: 2 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 2017 is 4 years and 3 months (at 30 September 2016: 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, 2016 and 2017 was estimated on the date of grant using the following assumptions:

Table 1

	December 2013	May 2014	February 2016	August 2016	May 2017
Volatility	47.92%	43.53% - 44.94%	49.00%	49.00%	50.50%
Risk-free interest rate	1.65%	1.70% - 2.00%	0.50% - 0.60%	0.53% - 0.63%	0.80% - 1.10%
Exercise price (DKK)	8.00	10.75	12.53	18.04	19.41
Exercise period (years)	2.27	3.00-5.00	3.00-5.00	3.00-5.00	3.00-5.00
Number of options	520,700	404,000	92,000	145,000	150,000

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 3rd quarter of 2017, the Group has recognized DKK 233 thousand of share-based payment expense in the income statement (3rd quarter 2016: DKK 103 thousand).

5 EARNINGS PER SHARE

DKK'000	3rd Quarter		YTD September	
	2017	2016	2017	2016
Net income attributable to equity holders of the parent company for basic earnings and the effect of dilution	(10,103)	(2,358)	(14,984)	(9,794)

DKK'000	3rd Quarter		YTD September	
	2017	2016	2017	2016
	Thousand	Thousand	Thousand	Thousand
Weighted average number of shares for basic earnings per share	23,834	23,480	23,786	23,436
Effect of dilution:				
Share options	562	-	562	-
Weighted average number of shares adjusted for the effect of dilution (nominal value of DKK 0.25)	24,396	23,480	24,348	23,436

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 2017	205,129	22,488	9,279	2,139	239,035
Additions in the period	-	35,873	352	-	36,225
Transfers in the period	17,646	(17,646)	-	-	-
Cost at 30 September 2017	222,775	40,715	9,631	2,139	275,260
Accumulated amortization and impairment at 1 January 2017	129,440	-	2,900	1,650	133,990
Amortization for the period	23,002	-	375	425	23,802
Impairment for the period	-	-	918	-	918
Accumulated amortization and impairment at 30 September 2017	152,442	-	4,193	2,075	158,710
Carrying amount at 30 September 2017	70,333	40,715	5,438	64	116,550

Within the completed development projects there are two material development projects with carrying amount of DKK 8,335 thousand and DKK 8,262 thousand at 30 September 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 2 months and 2 years and 3 months respectively.

Within the in progress development projects there is one material development project with carrying amount of DKK 15,182 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 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 918 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	3,006	522	3,528
Currency adjustment	(139)	(40)	(179)
Cost at 30 September 2017	37,489	5,112	42,601
Accumulated depreciation at 1 January 2017	29,436	3,457	32,893
Depreciation for the period	3,218	458	3,676
Currency adjustment	(141)	(20)	(161)
Accumulated depreciation at 30 September 2017	32,513	3,895	36,408
Carrying amount at 30 September 2017	4,976	1,217	6,193

At 30 September 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

8 TRADE AND OTHER RECEIVABLES

DKK'000	30 September 2017	30 September 2016
Receivables recognized in the consolidated statement of financial position:		
Trade receivables	53,727	47,262
Other receivables	3,382	3,790
Income tax receivable	2,231	2,451
Total current receivables	59,340	53,503

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	(566)	-
At 30 September	1,537	1,815

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

DKK'000	30 September 2017	30 September 2016
Not past due	46,394	43,158
Past due less than 30 days	1,070	893
Past due between 30 and 60 days	1,407	933
Past due between 60 and 90 days	4,175	87
Past due after 90 days	681	2,191
Total maximum credit risk	53,727	47,262

9 DERIVATIVE FINANCIAL INSTRUMENTS

DKK'000	30 September 2017	30 September 2016
Derivative financial instruments at fair value, assets / (liabilities)	4,626	505

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	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	213	376
Ordinary shares of DKK 0.25 each at 30 September	23,877	23,664

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 2017 are DKK 8,417 thousand.

Finance lease commitments

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

Napatech A/S

Tobaksvejen 23A, 1
DK-2860 Søborg
Denmark

Phone: +45 4596 1500

www.napatech.com