



NAPATECH
4TH 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 October 1 to December 31, 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 December 31, 2017, and of the results of the Napatech Group's operations and cash flows for the three months' period October 1 to December 31, 2017 and the twelve months period from January 1 to December 31, 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, February 13, 2018

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 fourth quarter of 2017 was a disappointing period for Napatech in terms of revenue and profit development, with sales below the same period last year following continued order volatility due to postponement of a few major projects to 2018. As a result of the weaker performance in the third and fourth quarter, the revenues for the full year 2017 saw a decline of 12% compared to 2016, while the gross margin declined to 68% for the full year 2017 compared to 70% in 2016, as a result of a higher-than-normal share of accessory product sales.

Napatech, however, continues to attract a strong interest for its reconfigurable computing solutions. While North American end-user enterprise and government customers created short-term volatility in the timing of orders for Napatech's software and hardware solutions, the company remains well positioned to reap great rewards as major industry trends fuel an increasing use of FPGAs for accelerating network and security applications in modern data centers.

Over the past few months, we have received requests from many shareholders interested in Napatech's computer solutions and products in the context of cloud computing, Internet of Things (IoT) and 5G mobile networks, and I would like to address this topic in this letter to explain these megatrends in light of Napatech's growth strategy. Cloud based applications and services, IoT and 5G mobile networks are all at the very core of the existing and future global demand for scalable and on-demand data network capacity and features. The growth and popularity of cloud services, and the expected deployment of billions of devices and sensors that connect users and applications through the internet, will imply networking changes that impact the number of endpoints, mobility, and the data that is generated, all at an exceptional level compared to where we are today.

5G networks are the "glue" that will enable mobile networks to continue to keep pace with the growth in cloud services while also providing connectivity of IoT devices. 5G is not just an evolution of 3G and 4G networks, it is a revolutionary departure from previous generations that is driven by the requirements of cloud services delivered to billions of different types of devices and services that were previously inconceivable. Smart cities, smart autonomous cars, augmented and virtual reality, 4K/8K video streaming, eHealth and industrial automation are just a

few examples of the potential applications that will be accessible, or easier accessible, through 5G.

In order to meet the requirements for speed and lower latency, the 5G networks need to be extremely flexible, agile and responsive to unforeseen changes. Reconfigurable computing, through its significant advantages, plays a key role in meeting these requirements, providing the power to enable faster connections with lower latencies at a fraction of the cost of standard computing platforms. In addition, the reconfigurable nature of the underlying FPGA technology enables the right solution to be deployed in the right location at the right time in response to new customer needs and traffic flows.

Napatech is at the forefront of this development working with some of the largest and most progressive 5G technology vendors and carriers to deliver solutions that can enable 5G networks to meet their goals. This includes:

- Network Functions Virtualization (NFV) solutions for efficient virtual switching providing insight into what is happening in 5G networks so timely automated decisions can be made.
- The delivery of data for continuous monitoring and forensics to ensure stringent 5G Service Level Agreements (SLAs) are being met.
- Acceleration of key functions and capabilities that will make the deployment and operation of 5G viable and secure.

Napatech's reconfigurable software-based SmartNICs support the software transformation of datacenters through acceleration of a broad set of applications reusing the customer's hardware, plays a key role in helping providers of cloud based services and applications to meet end-users' existing and future requirements, and is at the core of enabling 5G network features that support the demands for speed and lower latency created by the Internet of Things megatrend.

In other terms, Napatech continues to be positive in the long-term growth prospects following the current transition to capture the opportunities of more software dependent reconfigurable computing solutions of the future. The company expects the revenue growth to resume in 2018, but underlines that the short-term visibility is limited and will be affected by quarter-to-quarter order volatility and general business uncertainty.

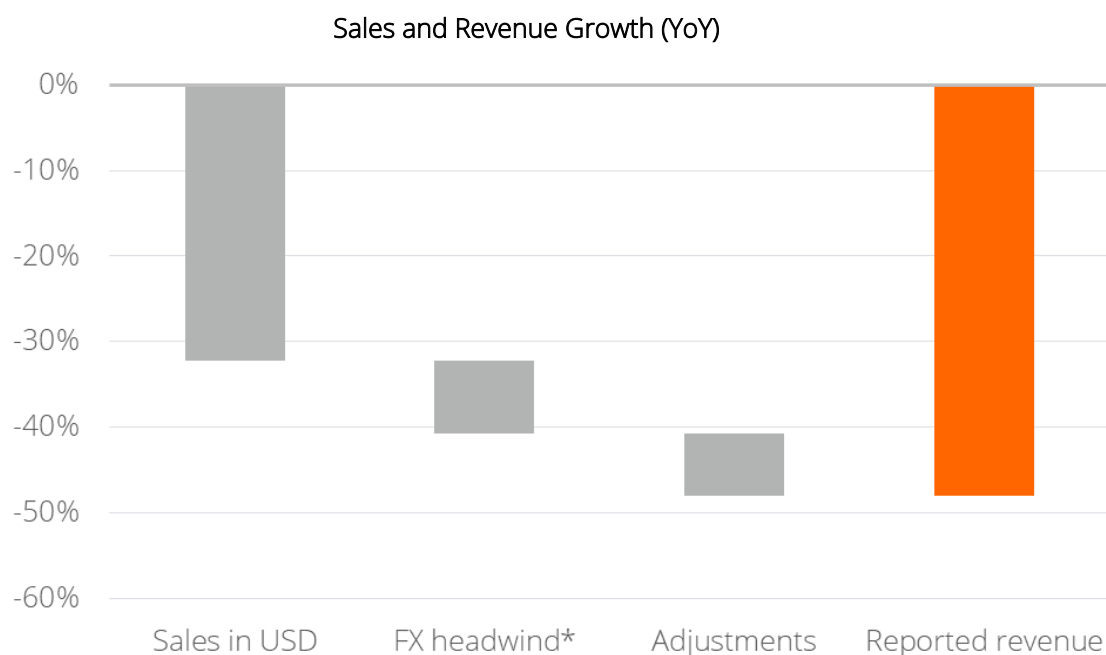
Best regards,

Henrik Brill-Jensen
Chief Executive Officer

MANAGEMENT'S REVIEW

Highlights:

- Revenue for the fourth quarter of 2017 amounted to DKK 47.9 million, a decline of 48% compared to last year.
- Revenue for the first twelve months amounted to DKK 206.0 million and decline of 12% compared to last year.
- Pandion sales represented 4% of the total sales in the fourth quarter of 2017.
- Gross margin for the fourth quarter of 2017 was 54% compared to 66% in the fourth quarter of 2016.
- EBITDA for the fourth quarter of 2017 amounted to negative DKK 7,2 million, a decline from DKK 28.0 million in the fourth quarter of 2016.
- EBITDA margin for the fourth quarter of 2017 was -15%, a decline from 30% in the fourth quarter of 2016.
- EBIT for the fourth quarter amounted to negative DKK 16.5 million compared to DKK 17.2 million in the fourth quarter of 2016.
- Cash increased to DKK 40.0 million in the fourth 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 fourth quarter of 2017 compared to the fourth quarter of 2016, unless as otherwise stated. Additional information is available at www.napatech.com/investor.

Key figures and ratios.

	4 th Quarter		YTD December	
	2017	2016	2017	2016
Revenue, DKK'000	47,898	92,288	206,046	234,737
Gross profit margin, %	54%	66%	68%	70%
EBITDA, DKK'000	(7,157)	28,012	13,885	43,459
EBITDA margin, %	-15%	30%	7%	19%
(Loss) / profit before tax, DKK'000	(10,616)	18,497	(29,826)	5,941
EPS basic, DKK (please ref. Note 5)	(0.40)	0.57	(1.03)	0.16
EPS diluted, DKK	(0.40)	0.56	(1.00)	0.15
Equity, DKK'000	183,167	204,409	183,167	204,409
Cash and cash equivalents, DKK'000	39,967	46,951	39,967	46,951

Financial Review

Revenue

Napatech reports revenue of DKK 47.9 million in the fourth quarter of 2017, a decrease of 48% compared to the same period in 2016. The revenue for the period has been negatively influenced by the postponement of a few major projects into 2018, as announced on December 13th, 2017. Furthermore, the revenue is affected by an accounting adjustment of DKK 4 million due to a risk of return.

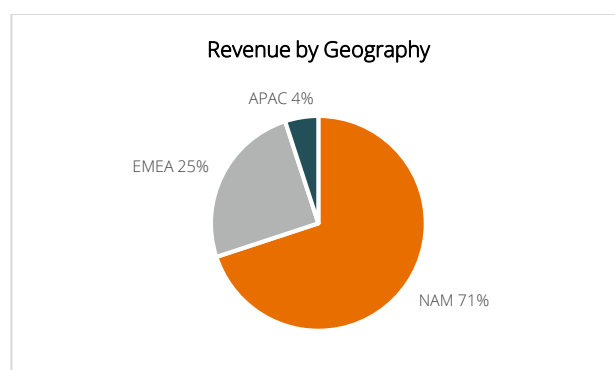
This quarter showed progress on our Pandion business, but the Accelerator business declined due to fluctuations in our customers ordering pattern and inventory management. Pandion represented 4% of total sales in the quarter, compared to 12% in Q4 2016,

Sales were distributed with 70% in NAM, 25% in EMEA and the remaining 5% 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 fourth quarter of 2017, the LTM revenues and EBITDA were at (48%) and (68%) growth, respectively.

Gross Margin

Napatech's gross margin for the quarter was 54%, down from 66% in the same period last year. The gross margin is dependent on the product mix, and as announced on January 8th, 2017, the sales reported this quarter includes a higher-than-normal share of accessory products to Napatech's customers causing a lower gross margin. In addition, there has been a reclassification of financial costs to the COGS.



MANAGEMENT'S REVIEW (CONTINUED)

Financial review (continued)

Costs

Total costs for the fourth quarter of 2017 were DKK 33.0 million, compared to DKK 32.7 million for the fourth quarter of 2016. Napatech's costs for the period are in line with the company's expectations.

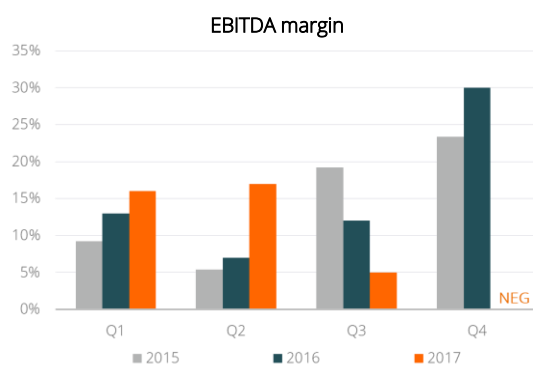
R&D costs for the fourth quarter of 2017 were DKK 6.5 million, compared to DKK 4.7 million in the fourth quarter of 2016. The increase in costs is related to the timing of our development projects.

Sales and distribution costs for the period were DKK 17.7 million, compared to DKK 20.6 million in the same period last year. The decrease in the Sales and Marketing costs is due the low revenue in the period, why commissions are lower than usual.

Administrative expenses for the quarter were DKK 8.9 million compared to DKK 7.4 million in the fourth quarter of 2016. Administration costs in Q4 2017 was in line with our expectations.

EBITDA

EBITDA was negative DKK 7.2 million in the fourth quarter of 2017, compared to DKK 28.0 million in the fourth quarter of 2016. The decrease is driven by lower sales and lower margins than last year.



Depreciation and amortization

Depreciation and amortization for the quarter was DKK 9.4 million, compared to DKK 10.8 million in the fourth 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 fourth quarter of 2017 was negative DKK 16.5 million, a decrease compared to DKK 17.2 million in the fourth quarter of 2016. The decrease is primarily driven by the revenue decline in the quarter.

Financial Items

Financial items for the fourth quarter of 2017 were an income of DKK 5.9 million, compared to an income of DKK 1.3 million in the fourth quarter of 2016. The financial items are primarily affected by the change in USD exchange rate. The income for the quarter is driven by gain on our hedging contracts and reclassification of an expense to our COGS.

Taxes

Taxes for the fourth quarter of 2017 are an income of DKK 1.1 million. The effective tax rate for the year is thus 18%.

Investments

Total investments in the fourth quarter of 2017 were DKK 13.5 million, primarily related to new product development (capitalized development), representing DKK 12.2 million of total investments in the quarter. In the fourth quarter of 2016, total investments were DKK 12.4 million, of which DKK 12.3 million was related to internal product development.

In the fourth 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 fourth quarter of 2017, net cash flow from operating activities was positive DKK 13.2 million, an increase from DKK 10.1 million from the fourth quarter of 2016.

Negative cash flow from investing activities was DKK 13.5 million in the fourth quarter of 2017, an increase from DKK 12.4 million in the fourth quarter of 2016.

Net cash from financing activities, was improved by DKK 20 million due to establishment of a new loan facility.

The total cash position of the Company was DKK 40.0 million by the end of the fourth quarter of 2017, a decrease of DKK 7.0 million compared to the end of the fourth quarter of 2016. The negative cash flow is driven the investment activities conducted by the company, as the current business not fully support the investment level needed for securing the future growth.

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 the fourth quarter of 2017. Thus, the Company has available total funds of approximately DKK 57 million at the end of the fourth quarter of 2017.

MANAGEMENT'S REVIEW (CONTINUED)

Financial review (continued)

Shareholders and Share Information

Napatech as of December 31, 2017 had 23,877,672 shares outstanding at DKK 0.25 each. The share capital is 5,969,418 DKK divided among the 405 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	1.559.930	6,58%	Ordinary	NOR
VERDIPAPIRFONDET DNB	1.393.722	5,84%	Ordinary	NOR
SILVERCOIN INDUSTRIE	1.290.998	5,41%	Ordinary	NOR
DNB NOR MARKETS, AKS	1.220.000	5,11%	Ordinary	NOR
THE BANK OF NEW YORK	980.000	4,10%	Nominee	GBR
DANSKE BANK A/S	863.599	3,62%	Nominee	DNK
SJETER HAAKON MORTEN	680.839	2,85%	Ordinary	NOR
HOLTA INVEST AS	655.272	2,74%	Ordinary	NOR
VINTERSTUA AS	648.521	2,72%	Ordinary	NOR
DANSKE BANK A/S	646.844	2,71%	Nominee	DNK
MARSTAL AS	420.000	1,76%	Ordinary	NOR
DNB LUXEMBOURG S.A.	360.177	1,51%	Nominee	LUX
NORDEA BANK AB	313.243	1,31%	Nominee	DNK
SKANDINAVISKA ENSKIL	300.000	1,26%	Ordinary	NOR
HOBOLT NIELS	294.272	1,23%	Ordinary	DNK
NORDNET BANK AB	280.624	1,18%	Nominee	SWE
UBS SWITZERLAND AG	266.365	1,12%	Nominee	CHE
EKNER PETER DAHL	247.200	1,04%	Ordinary	DNK
Total number owned by top 20	19.864.471	83,19%		
Total 385 other shareholders	4.013.201	16,81%		
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 2018

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. A massive shift is under way that utilizes standard server platforms to host the most important network and security applications and services. Napatech is a global leader in enhancing standard servers with FPGA-based SmartNICs and software, to boost innovation and release valuable compute resources, that improve services and increase revenue.

We do this by being APPLICATION DRIVEN to align with the leading cloud, mobile, IoT and security applications and services that are behind the network transformation. We are SOFTWARE CENTRIC in order to provide the most valuable FPGA software to accelerate and optimally enhance standard server platforms that host those leading applications. We are HARDWARE INDEPENDENT allowing our software solutions to power FPGAs across an entire industry of leading vendors. And we are designed to be USED ACROSS YOUR ENTIRE NETWORK with solutions that

scale for price and performance across enterprise premise, cloud datacenter and hybrid cloud deployments.

In 2018 we are taking this journey with our current and prospective customers. This has involved investments in sales, marketing and engineering that will allow us to grow our OEM business with new design wins providing peak volume production in 2020-2022, as well as expand our reach to a rapidly-growing end-user customer base in enterprise, service provide, datacenter and government networks.

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 strategic ambition of a 100 MUSD top-line.

The company expects the revenue growth to resume in 2018, but underlines that the short-term visibility is limited and will be affected by quarter-to-quarter order volatility and general business uncertainty.

As a result of the company's recent sales performance, and following a thorough evaluation of our 2020 ambition the company strongly believes in the 100 MUSD top-line ambition, but recognizes longer ramp-up time for some of the new applications. We therefore believe the target will be reached in 2022. In addition, the company provides the following guidance for 2018:

- Sales growth of 0 to 10% in USD
- Gross margin around 68%
- EBITDA margin around 15%

At the end of 2017, Napatech observed that large OEMs had higher than normal inventory, expected to affect Q1 2018 as the customers are expected to reduce the inventories before placing new orders. In addition, the projects that were postponed from 2017 to 2018 are not expected to materialize in Q1 2018. As a result of the combined effect, the company expects Q1 2018 to be weaker than normal.

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, February 13, 2018

The Board of Directors of Napatech A/S

INTERIM CONSOLIDATED INCOME STATEMENT

For the period ended 31 December 2017

DKK'000	Note	4 th Quarter		YTD December	
		2017	2016	2017	2016
Revenue	3	47,898	92,288	206,046	234,737
Costs of goods sold		(22,025)	(31,535)	(66,611)	(71,129)
Gross profit		25,873	60,753	139,435	163,608
Research and development cost		(6,451)	(4,696)	(17,907)	(15,164)
Selling and distribution expenses		(17,724)	(20,614)	(71,420)	(74,677)
Administrative expenses	4	(8,855)	(7,431)	(36,223)	(30,308)
Operating profit before depreciation and amortisation (EBITDA)		(7,157)	28,012	13,885	43,459
Depreciation and amortisation		(9,359)	(10,842)	(37,755)	(37,458)
Operating profit / (loss) (EBIT)		(16,516)	17,170	(23,870)	6,001
Finance income		-	1,460	-	303
Finance costs		5,900	(133)	(5,956)	(363)
Profit / (loss) before tax		(10,616)	18,497	(29,826)	5,941
Income tax		1,169	(4,980)	5,395	(2,218)
Profit / (loss) for the period		(9,447)	13,517	(24,431)	3,723
Earnings per share:	5				
Basic, DKK		(0.40)	0.57	(1.03)	0.16
Diluted, DKK		(0.40)	0.56	(1.00)	0.15

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December 2017

DKK'000	Note	4 th Quarter		YTD December	
		2017	2016	2017	2016
Profit / (loss) for the period		(9,447)	13,517	(24,431)	3,723
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations		(231)	342	(519)	429
Net movement on cash flow hedges		(4,626)	(1,819)	1,314	(306)
Income tax effect		1,017	400	(289)	53
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(3,840)	(1,077)	506	176
Total comprehensive income for the period		(13,287)	12,440	(23,925)	3,899

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

ASSETS				
DKK'000	Note	31 December 2017	30 September 2017	31 December 2016
Development projects, completed		68,416	70,333	75,689
Development projects, in progress		46,342	40,715	22,488
Patents		5,412	5,438	6,379
Other intangible assets		50	64	489
Intangible assets	6	120,220	116,550	105,045
Plant and equipment		5,166	4,976	5,186
Office improvements		1,079	1,217	1,173
Tangible assets	7	6,245	6,193	6,359
Leasehold deposits		2,283	2,287	2,312
Other non-current assets		2,283	2,287	2,312
Non-current assets		128,748	125,030	113,716
Inventories		36,124	35,803	18,675
Trade receivables	8	51,938	53,727	75,119
Other receivables	8	3,899	3,382	4,844
Income tax receivable	8	5,500	2,231	2,094
Derivative financial instruments	9	-	4,626	-
Cash and cash equivalents		39,967	20,628	46,951
Current assets		137,428	120,397	147,683
Total assets		266,176	245,427	261,399

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

EQUITY AND LIABILITIES

DKK'000	Note	31 December 2017	30 September 2017	31 December 2016
Share capital	10	5,969	5,969	5,916
Share premium	10	219,729	219,632	216,429
Foreign currency translation reserve		(9)	222	510
Other reserves		67,914	70,942	39,830
Retained earnings		(110,436)	(100,554)	(58,276)
Equity		183,167	196,211	204,409
Deferred tax liability		7,425	4,425	8,427
Interest-bearing loans and borrowings		-	-	5,000
Non-current liabilities		7,425	4,425	13,427
Interest-bearing loans and borrowings		35,109	15,074	-
Trade payables		26,130	15,988	25,978
Other payables		13,855	13,107	15,902
Derivative financial instruments	9	-	-	1,314
Provisions		490	622	369
Current liabilities		75,584	44,791	43,563
Total liabilities		83,009	49,216	56,990
Total equity and liabilities		266,176	245,427	261,399

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 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	-	-	-	-	-	-	(9,794)	(9,794)
Additions to project development costs, net of tax	-	-	-	-	-	32,690	(32,690)	-
Exchange differences on translation of foreign operations	-	-	87	-	-	-	-	87
Cash flow hedges	-	-	-	-	1,513	-	-	1,513
Income tax effect	-	-	-	-	(347)	-	-	(347)
Total comprehensive income	-	-	87	-	1,166	32,690	(42,484)	(8,541)
Issue of shares	94	2,939	-	-	-	-	-	3,033
Reversal, exercised and lapsed share options	-	2,815	-	(2,845)	-	-	30	-
Share-based payments	-	-	-	309	-	-	-	309
Total transactions with shareholders	94	5,754	-	(2,536)	-	-	30	3,342
At 30 September 2016	5,916	216,429	168	7,445	394	32,690	(71,239)	191,803
Profit for the period	-	-	-	-	-	-	13,517	13,517
Additions to project development costs, net of tax	-	-	-	-	-	554	(554)	-
Exchange differences on translation of foreign operations	-	-	342	-	-	-	-	342
Cash flow hedges	-	-	-	-	(1,819)	-	-	(1,819)
Income tax effect	-	-	-	-	400	-	-	400
Total comprehensive income	-	-	342	-	(1,419)	554	12,963	12,440
Issue of shares	-	-	-	-	-	-	-	-
Reversal, exercised and lapsed share options	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	166	-	-	-	166
Total transactions with shareholders	-	-	-	166	-	-	-	166
At 31 December 2016	5,916	216,429	510	7,611	(1,025)	33,244	(58,276)	204,409

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 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	-	-	-	-	-	-	(14,984)	(14,984)
Additions to project development costs, net of tax	-	-	-	-	-	27,300	(27,300)	-
Exchange differences on translation of foreign operations	-	-	(288)	-	-	-	-	(288)
Cash flow hedges	-	-	-	-	5,940	-	-	5,940
Income tax effect	-	-	-	-	(1,306)	-	-	(1,306)
Total comprehensive income	-	-	(288)	-	4,634	27,300	(42,284)	(10,638)
Issue of shares	53	1,652	-	-	-	-	-	1,705
Reversal, exercised and lapsed share options	-	1,551	-	(1,557)	-	-	6	-
Share-based payments	-	-	-	735	-	-	-	735
Total transactions with shareholders	53	3,203	-	(822)	-	-	6	2,440
At 30 September 2017	5,969	219,632	222	6,789	3,609	60,544	(100,554)	196,211
Loss for the period	-	-	-	-	-	-	(9,447)	(9,447)
Additions to project development costs, net of tax	-	-	-	-	-	1,009	(1,009)	-
Exchange differences on translation of foreign operations	-	-	(231)	-	-	-	-	(231)
Cash flow hedges	-	-	-	-	(4,626)	-	-	(4,626)
Income tax effect	-	-	-	-	1,017	-	-	1,017
Total comprehensive income	-	-	(231)	-	(3,609)	1,009	(10,456)	(13,287)
Issue of shares	-	-	-	-	-	-	-	-
Reversal, exercised and lapsed share options	-	97	-	(671)	-	-	574	-
Share-based payments	-	-	-	243	-	-	-	243
Total transactions with shareholders	-	97	-	(428)	-	-	574	243
At 31 December 2017	5,969	219,729	(9)	6,361	-	61,553	(110,436)	183,167

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 31 December 2017

DKK'000	Note	4 th Quarter		YTD December	
		2017	2016	2017	2016
Operating activities					
Loss before tax		(10,616)	18,497	(29,826)	5,941
Adjustments to reconcile profit before tax to net cash flows:					
Finance income		-	(1,460)	-	(303)
Finance costs		(5,900)	133	5,956	363
Amortisation, depreciation and impairment	6, 7	9,359	10,842	37,755	37,458
Gain/loss on the sale of non-current assets		428	-	428	-
Share-based payment expense		243	166	978	475
Working capital adjustments:					
Change in inventories		3,598	(3,125)	(17,449)	(4,334)
Change in trade and other receivables		2	(31,005)	16,283	(29,319)
Change in trade and other payables and provisions		11,076	11,682	(1,419)	2,735
<hr/>					
Cash flows from operating activities		8,190	5,730	12,706	13,016
<hr/>					
Cash flow hedges in financial items		3,637	1,424	2,506	299
Interest received		-	-	-	4
Interest paid		(580)	(97)	(861)	(363)
Income tax received, net		1,950	3,014	730	2,220
<hr/>					
Net cash flows from operating activities		13,197	10,071	15,081	15,176
<hr/>					
Investing activities					
Purchase of tangible assets	7	(1,336)	(766)	(4,864)	(3,178)
Investments in intangible assets	6	(12,177)	(12,273)	(48,402)	(45,792)
Investments in leasehold deposits		(4)	601	(29)	(88)
<hr/>					
Net cash used from investing activities		(13,517)	(12,438)	(53,295)	(49,058)
<hr/>					
Financing activities					
Issue of shares	10	-	-	1,705	3,033
Change in borrowings		20,035	(394)	30,109	(637)
<hr/>					
Net cash flows from financing activities		20,035	(394)	31,814	2,396
<hr/>					
Net change in cash and cash equivalents		19,715	(2,761)	(6,400)	(31,486)
Net foreign exchange difference		(376)	1,712	(584)	2,516
Cash and cash equivalents at the beginning of the period		20,628	48,000	46,951	75,921
<hr/>					
Cash and cash equivalents at the end of the period		39,967	46,951	39,967	46,951

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 implementation of IFRS 15 will have no significant effect on recognition and measurement.

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 7,984 thousand corresponding to 3.0% 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

4 th Quarter 2017:				
DKK'000	EMEA	NAM	APAC	Consolidated
Revenue				
Total revenue	39,525	33,453	2,419	75,397
Inter-segment	(27,499)	-	-	(27,499)
Revenue, external customers				
Cost of goods sold	12,026	33,453	2,419	47,898
	(3,654)	(17,766)	(605)	(22,025)
Gross profit	8,372	15,687	1,814	25,873

4 th Quarter 2016:				
DKK'000	EMEA	NAM	APAC	Consolidated
Revenue				
Total revenue	85,533	70,978	2,831	159,342
Inter-segment	(67,054)	-	-	(67,054)
Revenue, external customers				
Cost of goods sold	18,479	70,978	2,831	92,288
	(5,339)	(25,269)	(927)	(31,535)
Gross profit	13,140	45,709	1,904	60,753

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 December 2017:

DKK'000	EMEA	NAM	APAC	Consolidated
Revenue				
Total revenue	158,123	157,086	10,899	326,108
Inter-segment	(120,062)	-	-	(120,062)
Revenue, external customers	38,061	157,086	10,899	206,046
Cost of goods sold	(9,310)	(54,976)	(2,325)	(66,611)
Gross profit	28,751	102,110	8,574	139,435

YTD December 2016:

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

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.

Based on the same decision made on General Assembly in April 2016 to issue 400,000 share options, the Board of Directors issued the remaining share options in November 2017 with the nominal value of DKK 0.25 at an exercise price of NOK 19.00 (DKK 14.90). 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.

The general terms for all issues based on the 2016 share options programme are summarised as follows:

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4 SHARE-BASED PAYMENTS (CONTINUED)

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	8.41	700,436	10.71	1,414,984	8.82
Granted during the period	255,000	17.55	-	-	255,000	17.55
Transfer	(41,000)	10.24	41,000	9.86	-	-
Exercised / expired during the period	(135,348)	8.00	(76,868)	8.04	(212,216)	8.01
At 31 December 2017	793,200	11.77	664,568	11.54	1,457,768	11.66
Exercisable at 31 December 2017	470,536	8.73	365,901	8.95	836,437	8.83
At 1 January 2016	1,032,848	8.60	620,780	8.80	1,653,628	8.67
Granted during the period	46,000	9.04	191,000	18.04	237,000	9.80
Transfer	(178,000)	8.00	178,000	8.00	-	-
Exercised / expired during the period	(186,300)	8.00	(289,344)	8.00	(475,644)	8.00
At 31 December 2016	714,548	8.41	700,436	10.71	1,414,984	8.82
Exercisable at 31 December 2016	542,588	8.32	389,433	8.40	932,021	8.35

In the period ended 31 December 2017, 212,216 share options were exercised and nil lapsed (period ended 31 December 2016: 386,568 share options were exercised and 89,076 lapsed).

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

Number of share options	As at 31 December 2017	As at 31 December 2016
Exercise price DKK 8.00	584,100	812,648
Exercise price DKK 10.75	381,668	365,336
Exercise price DKK 12.53	92,000	92,000
Exercise price DKK 18.04	140,000	145,000
Exercise price DKK 19.41	150,000	-
Exercise price DKK 14.90	110,000	-
Total number of outstanding stock options	1,457,768	1,414,984

The weighted average of the remaining contractual period of the outstanding share options from the 2014 share options program at 31 December 2017 is 1 year and 6 months (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 December 2017 is 4 years and 3 months (at 31 December 2016: 5 years and 3 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:

	December 2013	May 2014	February 2016	August 2016	May 2017	November 2017
Volatility	47.92%	43.53% - 44.94%	49.00%	49.00%	50.50%	47.30% - 48.40%
Risk-free interest rate	1.65%	1.70% - 2.00%	0.50% - 0.60%	0.53% - 0.63%	0.80% - 1.10%	0.70% - 1.00%
Exercise price (DKK)	8.00	10.75	12.53	18.04	19.41	14.90
Exercise period (years)	2.27	3.00-5.00	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	105,000

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

For 4th quarter of 2017, the Group has recognized DKK 243 thousand of share-based payment expense in the income statement (4th quarter 2016: DKK 166 thousand).

5 EARNINGS PER SHARE

DKK'000	4 th Quarter		YTD December	
	2017	2016	2017	2016
Net income attributable to equity holders of the parent company for basic earnings and the effect of dilution	(9,447)	13,517	(24,431)	3,723

DKK'000	4 th Quarter		YTD December	
	2017	2016	2017	2016
	Thousand	Thousand	Thousand	Thousand
Weighted average number of shares for basic earnings per share	23,877	23,665	23,809	23,520
Effect of dilution:				
Share options	(57)	419	505	594
Weighted average number of shares adjusted for the effect of dilution (nominal value of DKK 0.25)	23,820	24,084	24,314	24,114

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	-	47,890	512	-	48,402
Transfers in the period	24,036	(24,036)	-	-	-
Cost at 31 December 2017	229,165	46,342	9,791	2,139	287,437
Accumulated amortization and impairment at 1 January 2017	129,440	-	2,900	1,650	133,990
Amortization for the period	31,309	-	561	439	32,309
Impairment for the period	-	-	918	-	918
Accumulated amortization and impairment at 31 December 2017	160,749	-	4,379	2,089	167,217
Carrying amount at 31 December 2017	68,416	46,342	5,412	50	120,220

Within the completed development projects there are two material development projects with carrying amount of DKK 7,835 thousand and DKK 7,344 thousand at 31 December 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 3 years and 11 months and 2 years respectively.

Within the in progress development projects there are two material development projects with carrying amount of DKK 15,789 thousand and DKK 13,617 thousand. The aim of the first project is to develop next generation of our network recording platform and the aim of the second project is to develop our new product aimed at the virtualization market primarily focused towards telecom and cloud providers. The projects are not yet completed and therefore have not been amortized.

At 31 December 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	4,342	522	4,864
Disposals in the period	(5,403)	-	(5,403)
Currency adjustment	(161)	(47)	(208)
Cost at 31 December 2017	33,400	5,105	38,505
Accumulated depreciation at 1 January 2017	29,436	3,457	32,893
Depreciation for the period	3,927	601	4,528
Disposals in the period	(4,975)	-	(4,975)
Currency adjustment	(154)	(32)	(186)
Accumulated depreciation at 31 December 2017	28,234	4,026	32,260
Carrying amount at 31 December 2017	5,166	1,079	6,245

At 31 December 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	31 December 2017	31 December 2016
Receivables recognized in the consolidated statement of financial position:		
Trade receivables	51,938	75,119
Other receivables	3,899	4,844
Income tax receivable	5,500	2,094
Total current receivables	61,337	82,057

The provision for bad and doubtful receivables is as follows:

DKK'000	2017	2016
At 1 January	2,103	1,815
Utilized in the period	(560)	(480)
Written off in the year	(607)	-
Change in the period	424	768
At 31 December	1,360	2,103

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

DKK'000	31 December 2017	31 December 2016
Not past due	45,451	70,541
Past due less than 30 days	2,592	1,373
Past due between 30 and 60 days	722	962
Past due between 60 and 90 days	525	152
Past due after 90 days	2,648	2,091
Total maximum credit risk	51,938	75,119

9 DERIVATIVE FINANCIAL INSTRUMENTS

DKK'000	31 December 2017	31 December 2016
Derivative financial instruments at fair value, assets / (liabilities)	-	(1,314)

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 31 December	23,877	23,664

11 COMMITMENTS AND CONTINGENCIES

Collaterals

The Group has issued a floating charge in the amount of DKK 30 million secured on receivables, inventories and equipment as collateral for bank debt.

Operating lease commitments

The Groups' operating lease commitments relate to cars and office facilities. Future minimum payments under operating leases at 31 December 2017 are DKK 7,984 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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