

NAPATECH

3RD QUARTER 2018
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 nine months' period from July 1 to September 30, 2018.

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, 2018, and of the results of the Napatech Group's operations and cash flows for the nine months period from January 1 to September 30, 2018.

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 6, 2018

Executive Management

Ray Smets, CEO

Board of Directors

Lars Boilesen, Chairman

Howard Bubb

Lars B. Thoresen

Henry Wasik

Bjørn Erik Reinseth

LETTER FROM THE CEO

Dear shareholders,

Since joining the Napatech team as CEO, my key priorities for the management and the company has been clear: urgently work to regain stability, focusing on our near-term sales development, our internal cost structure and efficiency, our cash position and building on our long-standing and strong relationships with partners and customers to execute on our growth ambitions.

We have made some progress, but there is still much work to be done. Compared to the weakness experienced in the first half of 2018, we saw signs of improvement in Q2, which continued in Q3 with secured Sales of DKK 30.0 million¹ (USD 4.8 million), representing a sequential improvement in our sales performance of 20%. Although behind the corresponding period last year, still negatively affected by the transformation in the market, postponement of customer projects and inventory reductions, the sales performance showed that we have taken a few steps closer towards stability. In our third quarter sales update, announced 10 October 2018, we reiterated our baseline Sales for the second half of 2018 target of DKK 74.9 million¹ (USD 12 million), within a range of DKK 62.4 million¹ (USD 10 million) to DKK 93.7 million¹ (USD 15 million). As we moved into Q4 2018, we are making good progress securing new orders within the first weeks of the quarter, which makes me more optimistic with our guidance for the second half of 2018.

In parallel, we are continuing to improve our internal cost structure and efficiency, reducing cash-break-even Revenue from DKK 62.4 million¹ (USD 10 million) to DKK 49.9 million¹ (USD 8 million) on a quarterly basis, with full effect from the beginning of 2019, with savings already being seen this quarter and in Q4 2018. As stated in our previous quarterly report, Napatech expects, in the baseline case, to be fully funded throughout 2019 and to become cash generating towards the end of 2019.

On 2 November 2018, Napatech announced that we have entered into an agreement with CounterFlowAI for the sale of the Pandion product line. The agreement defines a transfer of ownership rights for intellectual property and transfer of partnership agreements with an upfront payment and an earn-out installment over 12 months. Most importantly, the agreement creates a partnership between CounterFlowAI and Napatech where both companies will have a mutual interest in building the Pandion business further, leveraging both existing customer opportunities established by Napatech, and CounterFlowAI's customer relationships and go-to-market capabilities. CounterFlowAI will focus on selling Pandion solutions to its end-user customers, while Napatech provides its SmartNIC software and hardware to CounterFlowAI as a new volume OEM customer. This new arrangement for the Pandion product line will provide Napatech with a stronger focus on development and sales of our core products while we continue to gain the benefit from the Pandion business through SmartNIC software and hardware sales.

We believe the progress we have made with this arrangement will be a benefit to our operational efficiency

and improved performance of our business. Napatech will continue to focus on its core competencies as its position of strength. We will have a software focused and hardware independent strategy of providing solutions to accelerate network performance, taking advantage of the market shift to reconfigurable computing platforms and the rapidly increasing volume of servers deployed in the market that are equipped with FPGAs. In light of the significant transformation our markets have gone through over the past months, we have implemented and are implementing several measures to strengthen our market position and both short- and long-term revenue:

- We are aligning our product and technology plans by partnering with the leading suppliers of FPGA technology tools.
- We are continuing to focus on key strategic alliances and channel partnerships to further leverage external resources to extend our reach to the emerging set of end-user customers who require our solutions.
- We are expanding our product portfolio to include more software offerings and professional services, enabling Napatech products to be deployed in any open and standard server platform.

We are also taking other important actions to create a solid and stable foundation for our business going forward. With respect to the reported Revenue in the quarter, Napatech has already announced a commercial decision to take a one-off adjustment, to Revenue of approximately minus DKK 20 million in the third quarter of 2018 to reduce accumulated inventory within the company's channel, by accepting return of goods. As described in the introduction of this letter, buying patterns and timing of orders have changed due to changes in some of our customers' markets. These changes have caused postponement of customer projects for several large customers, which have resulted in slower consumption of sold inventory.

The intention of this adjustment is to provide greater sales stability for Napatech within the market, building stronger relationships with important value-added resellers, and continued transparency for our shareholders. We believe that this one-off adjustment to our reported Revenues will provide improved clarity to the sales and revenue performance of our business going forward. In addition, the commercial decision opens the door to channel partners selling new products, compared to trying to sell older products.

These are some of the actions we have made so far as we look to make good decisions for our business and shareholders to improve our business performance. Moving into Q4 2018 and 2019, we will continue to be focused on thorough execution of our growth strategy together with our valued partners and customers. Our long-term outlook is promising as Napatech's products and services become applicable to not only our current, but also new market segments. We see our long-term potential as significantly larger than our current business as we move to broader markets and support more applications, but we underline that the short-term visibility

¹ Amount is converted using FX average rate YTD.

is limited and will be affected by quarter-to-quarter order volatility and general business uncertainty.

However, as the recent actions and initiatives display, we are taking the right steps to build a solid foundation for our business going forward, and we are looking forward to seeing the positive effects of our implemented and ongoing initiatives in the coming quarters.

We thank our shareholders for their dedication to Napatech and I look forward to discussing the Q3 developments and outlook over the coming days and weeks.

Best regards,
Ray Smets, Chief Executive Officer

MANAGEMENT'S REVIEW

Highlights:

- Sales² in the third quarter 2018 were DKK 30.0 million³ (USD 4.8 million), compared to DKK 25.0 million³ (USD 4.0 million) in the second quarter of 2018. This represents a 20% increase in sequential Sales in Q3 over Q2.
- Financial figures for Q3 2018 is impacted by three special items of nonrecurring character. This relates to:
 1. a commercial decision to reduce accumulated inventory within the company's channel, by accepting return of goods. This extraordinary item reduces reported revenue in Q3 2018 by DKK 19.5 million. And improves the COGS in the period by DKK 7.4 million.
 2. an extraordinary write down of inventories in Q3 2018, aligned with the decision to end of life certain products and the transition with our customers from a hardware-centric to a software-centric world of software defined networking. This extraordinary item reduces the reported gross profit in Q3 2018 by DKK 10.2 million.
 3. an extraordinary impairment of assets in Q3 2018 relating to the decision in Q3 2018 to divest the Pandion product line. The impairment of assets are calculated based the market value determined by the sales agreement. This extraordinary item reduces the reported earnings before tax in Q3 2018 by DKK 22 million.
- Reported Revenue⁴ for the third quarter of 2018 amounted to DKK 5.1 million, a decline of 88% compared to last year, and decreased by 79% compared to the second quarter of 2018. Reported Revenue was reduced by DKK 19.5 million as part of the commercial decision to reduce accumulated inventory within the company's channel, by accepting return of goods. Reported Revenue for the period 1 January to 30 September 2018 were DKK 52.2 million, a decrease of 67% compared to the same period in 2017.
- Gross margin for the third quarter of 2018 was -106% compared to 72% in the third quarter of 2017. Gross margin was materially impacted by a reduction in assets associated with reduction in asset value associated with inventory. Gross Margins prior to special items no 1 and 2 would have been 69%. Gross margin for the period 1 January to 30 September 2018 were 52%.
- EBITDA for the third quarter of 2018 amounted to negative DKK 33.1 million, a decline from DKK 2.1 million in the third quarter of 2017. Prior to special items no 1 and 2, EBITDA would have been negative DKK 10.8 million. EBITDA for the period 1 January to 30 September 2018 were negative DKK 65.0 million, compared to DKK 21.0 million for the same period in 2017.
- EBITDA margin for the third quarter of 2018 was -644%, a decline from 5% in the third quarter of 2017. Prior to special items no 1 and 2, the EBITDA margin would have been -44%. EBITDA margin for the period 1 January to 30 September 2018 were negative 125%.
- Depreciation and amortization for the quarter was DKK 33.1 million, compared to DKK 9.4 million in the third quarter of 2017. The depreciations are primarily affected by the impairment of assets in conjunction with the decision in Q3 2018 to divest the Pandion product line, followed by the execution of the agreement as announced 2 November 2018. The impairment of assets are calculated based on the market value determined by the sales agreement. Depreciation and amortization for the period 1 January to 30 September 2018 were DKK 55.5 million, compared to DKK 28.4 million for the same period in 2017.
- EBIT for the third quarter amounted to negative DKK 66.2 million compared to negative DKK 7.3 million in the third quarter of 2017. Prior to special items no 1 and 2 and 3, EBIT would have been negative DKK 21.9 million. EBIT for the period 1 January to 30 September 2018 were negative DKK 120.6 million, compared to negative DKK 7.4 million for the same period in 2017.
- The total cash position of the Company including unused credit facilities by the end of the third quarter of 2018 is approximately DKK 6.4 million, a decrease of DKK 20.6 million compared to the end of the third quarter of 2017.

² "Sale" or "Sales" is in USD. Defined as invoiced sale in USD.

³ Amount is converted using FX average rate YTD.

⁴ "Reported Revenue" or "Revenue" is in DKK. Defined as Sale(s) corrected for currency exchange rate and accounting adjustments.

MANAGEMENT'S REVIEW (CONTINUED)

This is Napatech

Napatech helps companies to reimagine their business by bringing Hyperscale computing benefits to IT organizations of every size. We enhance open and standard virtualized servers to boost innovation and release valuable computing resources that improve services and increase revenue. Our reconfigurable computing platform™ is based on a broad set of FPGA software for leading IT compute, network and security applications that are supported on a wide array of FPGA hardware designs.

Napatech operations.

The statements below are related to Napatech's development in the third of 2018 compared to the third quarter of 2017, unless as otherwise stated. Additional information is available at www.napatech.com/investor.

Key figures and ratios.

	3 rd Quarter		YTD September	
	2018	2017	2018	2017
Reported Revenue, DKK'000	5,135	44,136	52,156	158,148
Gross profit margin, %	-106%	72%	52%	72%
EBITDA, DKK'000	(33,051)	2,088	(65,016)	21,042
EBITDA margin, %	-644%	5%	-125%	13%
(Loss) / profit before tax, DKK'000	(72,396)	(12,952)	(127,270)	(19,210)
EPS basic, DKK (please ref. Note 5)	(2.84)	(0.42)	(5.02)	(0.63)
EPS diluted, DKK	(2.74)	(0.41)	(4.81)	(0.62)
Equity, DKK'000	80,997	196,211	80,997	196,211
Cash and cash equivalents, DKK'000	620	20,628	620	20,628

Key figures corrected for special items in the period.

Financial figures for Q3 2018 is impacted by three special items of nonrecurring character. The special items 1, 2 and 3 are described in the previous "Highlights" section.

	3 rd Quarter		YTD September	
	2018	2017	2018	2017
Reported Revenue adjusted for special items, DKK'000	24,622	44,136	71,643	158,148
Gross profit margin adjusted for special items, %	69%	72%	69%	72%
EBITDA adjusted for special items, DKK'000	(10,762)	2,088	(42,722)	21,042
EBITDA margin adjusted for special items, %	-44%	5%	-60%	13%
(Loss) / profit before tax adjusted for extraordinary items 1, 2 and 3, DKK'000	(21,887)	(12,952)	(76,209)	(19,210)

MANAGEMENT'S REVIEW (CONTINUED)

Financial Review

Financial figures for Q3 2018 is impacted by three special items of nonrecurring character. This relates to:

1. a commercial decision to reduce accumulated inventory within the company's channel, by accepting return of goods. This extraordinary item reduces reported revenue in Q3 2018 by DKK 19.5 million. And improves the COGS in the period by DKK 7.4 million.
2. an extraordinary write down of inventories in Q3 2018, aligned with the decision to end of life certain products and to align with the transition with our customers from a hardware-centric to a software-centric world of software defined networking. This extraordinary item reduces the reported gross profit in Q3 2018 by DKK 10.2 million.
3. an extraordinary impairment of assets in Q3 2018 relating to the decision in Q3 2018 to divest the Pandion product line. The impairment of assets are calculated based the market value determined by the sales agreement. This extraordinary item reduces the reported earnings before tax in Q3 2018 by DKK 22 million.

Revenue

Napatech reports Revenue of DKK 5.1 million in the third quarter of 2018, a decrease of 88% compared to the same period in 2017. The Revenue for the period has been materially affected by the extraordinary item 1. Reported Revenue was reduced by DKK 19.5 million. The sales are in line with the previously communicated expectations for the second half of 2018.

Napatech reported Revenue for the period 1 January to 30 September 2018 were DKK 52.2 million, a decrease of 67% compared to the same period in 2017. The Revenue for the period has been negatively affected by the postponement of customer projects and inventory reductions, and the extraordinary item 1.

Gross Margin

Napatech's gross margin for the quarter was -106%, down from 72% in the same period last year. The gross margin is dependent on the product mix, and was materially impacted by the extraordinary item 1 and 2.

Napatech's gross margin for the period 1 January to 30 September 2018 were 52% %, down from 72% in the same period last year. The gross margin is dependent on the product mix, and was materially impacted by the extraordinary item 1 and 2.

Costs

Total costs for the third quarter of 2018 were DKK 27.6 million, compared to DKK 29.7 million for the third quarter of 2017. The decrease in total costs is primary due to expense reductions due to Q3 reductions in force.

Total costs for the period 1 January to 30 September 2018 were DKK 91.9 million, compared to DKK 92.5 million for the same period in 2017.

R&D costs for the third quarter of 2018 were DKK 2.9 million, compared to DKK 3.8 million in the third quarter of 2017. The level of the R&D costs is primary related to the timing of our development projects.

R&D costs for the period 1 January to 30 September 2018 were DKK 11.9 million, compared to DKK 11.5 million for the same period in 2017.

Sales and distribution costs for the period were DKK 15.5 million, compared to DKK 16.3 million in the same period last year. The Sales and distribution costs in Q3 2018 were in line with our expectations.

Sales and distribution cost for the period 1 January to 30 September 2018 were DKK 51.5 million, compared to DKK 53.7 million for the same period in 2017. The decrease in sales and distribution cost is reflected by the lower sales.

Administrative expenses for the quarter were DKK 9.2 million compared to DKK 9.6 million in the third quarter of 2017. Administrative expenses in Q2 2018 were in line with our expectations.

Administrative expenses for the period 1 January to 30 September 2018 were DKK 28.6 million, compared to DKK 27.4 million for the same period in 2017.

MANAGEMENT'S REVIEW (CONTINUED)

Financial review (continued)

EBITDA

EBITDA was negative DKK 33.1 million in the third quarter of 2018, compared to negative DKK 9.4 million in the third quarter of 2017. The EBITDA for the period has been materially affected by the extraordinary item 1 and 2. Prior to these items EBITDA would have been negative DKK 10.8 million.

EBITDA for the period 1 January to 30 September 2018 were negative DKK 65.0 million, compared to DKK 21.0 million for the same period in 2017. The decrease in EBITDA is primarily affected by considerable lower revenue compared to 2017 and the extraordinary item 1 and 2.

Depreciation, amortisation and impairment

Depreciation and amortization for the quarter was DKK 33.1 million, compared to DKK 9.4 million in the third quarter of 2017. Depreciations are materially and primarily affected by the impairment of assets in conjunction with the decision in Q3 2018 to divest the Pandion product line, followed by the execution of the agreement as announced 2 November 2018. The impairment of assets are calculated based the market value determined by the sales agreement.

Depreciation and amortization for the period 1 January to 30 September 2018 were DKK 55.5 million, compared to DKK 28.4 million for the same period in 2017. Depreciations are materially and primarily affected by the impairment of assets in conjunction with the decision in Q3 2018 to divest the Pandion product line, followed by the execution of the agreement as announced 2 November 2018. The impairment of assets are calculated based on the market value determined by the sales agreement.

EBIT

EBIT for the third quarter of 2018 was negative DKK 66.2 million, a decrease compared to negative DKK 7.3 million in the third quarter of 2017. The decrease is driven by the decline in the reported Revenue and impairment of assets in the quarter.

EBIT for the period 1 January to 30 September 2018 were negative DKK 120.6 million, compared to negative DKK 7.4 million for the same period in 2017. EBIT are materially and primarily affected by considerable lower revenue, one off adjustment and depreciation.

Financial Items

Financial items for the third quarter of 2018 are an expense of DKK 3.3 million, compared to an expense of DKK 5.6 million in the third quarter of 2017. The financial items are primarily affected by the company's hedging of cash flow during the third quarter of 2018, compared to end of 2017.

Financial items for the period 1 January to 30 September 2018 were an expense of DKK 3.8 million, compared to an expense of DKK 11.9 million for the same period in 2017. The financial items are primarily affected by the positive development in FX rate.

Taxes

Taxes for the third quarter of 2018 are an expense of DKK 18.3 million. Due to company assessment of possibility for using the deferred tax asset within the coming years.

Taxes for the period 1 January to 30 September 2018 were an expense of DKK 6.2 million, compared to an income of DKK 4.2 million for the same period in 2017. Due to company assessment of possibility for using the deferred tax asset within the coming years.

Investments

Total investments in the third quarter of 2018 were DKK 7.6 million, primarily related to new product development (capitalized development), representing DKK 7.5 million of total investments in the quarter. In the third quarter of 2017, total investments were DKK 12.9 million, of which DKK 12.3 million was related to internal product development.

In the third quarter of 2018, there were several ongoing development projects related to the SmartNIC portfolio and development of our virtualization product line.

Total Investments for the period 1 January to 30 September 2018 were DKK 29.5 million, primarily related to new product development (capitalized development), representing DKK 29.2 million of total investments, compared to DKK 39.8 million for the same period in 2017, of which DKK 36,2 million was related to internal product development. The decrease in investment is due to lower activity level in development projects.

Cash Flow

Net cash flow from operating activities was negative DKK 36.0 million in the third quarter of 2018, compared to negative DKK 1.1 million from the third quarter of 2017.

Net cash flow from operating activities for the period 1 January to 30 September 2018 were negative DKK 63.6 million, compared to an income of DKK 1.7 million for the same period in 2017.

Net cash flow from investing activities was negative DKK 7.6 million in the third quarter of 2018, compared to negative DKK 12.9 million in the third quarter of 2017.

Net cash flow from investing activities for the period 1 January to 30 September 2018 were negative DKK 29.5 million, compared to negative DKK 39.8 million for the same period in 2017.

Net cash from financing activities, was improved by DKK 44.8 million primarily due to funds received from the private placement in July 2018.

MANAGEMENT'S REVIEW (CONTINUED)

Financial review (continued)

Net cash flow from financing activities for the period 1 January to 30 September 2018 were an income of DKK 55.9 million, compared to an income of DKK 11.8 million for the same period in 2017 primarily due to funds received from the private placement in July 2018.

The total cash position of the Company including unused credit facilities by the end of the third quarter of 2018 is approximately DKK 6.4 million, a decrease of DKK 20.6 million compared to the end of the third quarter of 2017. The decrease is primarily driven by investments not fully supported by the operating activities.

Shareholders and Share Information

Napatech as of September 30, 2018 had 23,923,220 shares outstanding at DKK 0.25 each. The share capital is 5,980,805 DKK divided among the 497 shareholders.

Investor	Holding	Percentage	Country	Type
VERDANE CAPITAL VIII	6,902,444	21.62%	DNK	ORD
ARCTIC FUNDS PLC BNY MELLON SA/NV	2,969,021	9.30%	IRL	ORD
SILVERCOIN INDUSTRIE	2,369,481	7.42%	NOR	ORD
VERDIPAPIRFONDET DNB V/DNB ASSET MANAGEME	1,821,732	5.71%	NOR	ORD
STOREBRAND VEKST VER JPMORGAN EUROPE LTD.	1,773,840	5.56%	NOR	ORD
Danske Bank A/S 3993 NORDIC SETTLEME	1,483,927	4.65%	DNK	Nom
TIGERSTADEN AS	1,318,405	4.13%	NOR	ORD
DnB NOR MARKETS, AKS DNB Bank ASA	1,200,000	3.76%	NOR	ORD
The Bank of New York C/O BNYM RE 222822	958,896	3.00%	GBR	NOM
Danske Bank A/S 3887 OPERATIONS SEC.	805,472	2.52%	DNK	NOM
MARSTAL AS	720,000	2.26%	NOR	ORD
HOLTA INVEST AS	655,272	2.05%	NOR	ORD
UBS Switzerland AG A/C OMNIBUS-DISCLOSE	407,092	1.28%	CHE	NOM
NORTH ENERGY ASA	340,000	1.07%	NOR	ORD
Nordnet Bank AB	335,047	1.05%	SWE	NOM
Nordea Bank Abp Nordea DK/ Clients	302,855	0.95%	DNK	NOM
MIDDELBOG INVEST AS	268,483	0.84%	NOR	ORD
IBM KONSERNPENSJONKA	260,000	0.81%	GBR	ORD
SIX-SEVEN AS	259,009	0.81%	NOR	ORD
INRO HOLDING AS	220,000	0.69%	NOR	ORD
Total number owned by top 20	25,370,976	79.48%		
Total 477 other shareholders	6,552,244	20.52%		
Total Number of shares	31,923,220	100.00%		

Significant events after the end of the period

After the end of the period, the Financial Supervisory Authority of Norway has approved a prospectus dated 19 October 2018. Following this publication of the Prospectus, all share in conjunction with the private placement, previously announced on 10 July 2018 are tradable on the Oslo Stock Exchange from 19 October 2018. Based on the development in the quoted price in the time period from 10 July 2018 and until October 16, 2018 and also on an assumption that there will be no interest in participating in the Subsequent Offering due to the current stock market price, the board of directors resolved to cancel the proposed Subsequent Offering. Consequently the company will not receive funds in addition to the Private Placement of 10 July, 2018.

On 2 November 2018 Napatech announced an agreement to sell the company's Pandion Network Recorder Product Line to CounterFlowAI. The agreement defines a transfer of ownership rights with payment through an earn-out installment, and a partnership where CounterFlowAI and Napatech have mutual interest in building the Pandion

business further. CounterFlowAI had previously entered into an agreement with Napatech as a new volume OEM customer.

The announced agreement to sell the company's Pandion Network Recorder Product Line will have no impact on the earnings in Q4 2018

Outlook for 2018

Napatech's strategy is to be the global leader in reconfigurable computing solutions. Our strategy is to focus on delivering the solutions, technologies and expertise necessary to enable all organizations that rely on IT for their business to reap the benefits of reconfigurable computing. Our goal is to become the number one vendor of reconfigurable computing solutions.

The company expects a notable improvement in sales in the second half of 2018 compared to the weakness experienced in the first half. As such, the company currently expects Sales for the second half of 2018 at DKK 74.9 million⁵ (USD 12 million) within a range of DKK 62.4 million⁵ (USD 10 million) to DKK 93.7 million⁵ (USD 15 million). In comparison, the company had Sales of DKK 49.3 million⁵ (USD 7.9 million) in the first half of 2018.

The company still underlines that short-term visibility is limited and will be affected by quarter-to-quarter order volatility and general business uncertainty. As also outlined previously, the business transition toward a more software focused business will take longer than expected.

In the first half of 2018, Napatech has implemented a cost reduction program to ensure investment focus on growth initiatives. As a result, revenue needed to be break-even is reduced from DKK 62.4 million⁵ (USD 10 million) to DKK 49.9 million⁵ (USD 8 million) on a quarterly basis as from the beginning of 2019.

⁵ Amount is converted using FX average rate YTD.

MANAGEMENT'S REVIEW (CONTINUED)

Financial review (continued)

With new equity of DKK 31.1 million⁵ (NOK 40 million) and the company's baseline case, Napatech expects to be fully funded throughout 2019 and to become cash generating towards the end of 2019. For Revenues in the lower end of the 2018 revenue range the company will make cost optimizations to counteract the revenue shortfall.

2018 guidance for the company is the following:

- Sales⁶ of DKK 116 million⁷ (USD 18 million) to DKK 148 million (USD 23 million)
- Gross margin around 68%

The initiatives established during 2017 and being executed on during 2018 demonstrate the ongoing transition with our customers from a hardware-centric to a software-centric world of software defined networking. As a result of the changes that the markets, customers and Napatech are going through, the long-term outlook is positive as Napatech products and services become applicable to not only our current, but also new market segments. Napatech will serve an increasing addressable market going forward. Thus, as an established leader in FPGA technology, Napatech believes that it will see renewed and increased growth at the other side of the current transition.

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 2018 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 6, 2018

The Board of Directors of Napatech A/S

⁶ "Sale" or "Sales" is in USD. Defined as invoiced sale in USD before accounting adjustments.

⁷ Amount is converted using FX average rate YTD.

INTERIM CONSOLIDATED INCOME STATEMENT

For the period ended 30 September 2018

DKK'000	Note	3 rd Quarter		YTD September	
		2018	2017	2018	2017
Revenue	3	5,135	44,136	52,156	158,148
Costs of goods sold		(10,559)	(12,327)	(25,267)	(44,586)
Gross profit		(5,424)	31,809	26,889	113,562
Research and development cost		(2,927)	(3,812)	(11,857)	(11,456)
Selling and distribution expenses		(15,509)	(16,263)	(51,478)	(53,696)
Administrative expenses	4	(9,191)	(9,646)	(28,570)	(27,368)
Operating profit before depreciation and amortisation (EBITDA)		(33,051)	2,088	(65,016)	21,042
Depreciation, amortisation and impairment		(33,138)	(9,426)	(55,535)	(28,396)
Operating profit / (loss) (EBIT)		(66,189)	(7,338)	(120,551)	(7,354)
Finance income		-	-	-	-
Finance costs		(6,207)	(5,614)	(6,719)	(11,856)
Profit / (loss) before tax		(72,396)	(12,952)	(127,270)	(19,210)
Income tax		(18,289)	2,849	(6,217)	4,226
Profit / (loss) for the period		(90,685)	(10,103)	(133,487)	(14,984)
Earnings per share:	5				
Basic, DKK		(2.84)	(0.42)	(5.02)	(0.63)
Diluted, DKK		(2.74)	(0.41)	(4.81)	(0.62)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 September 2018

DKK'000	Note	3 rd Quarter		YTD September	
		2018	2017	2018	2017
Loss for the period		(90,685)	(10,103)	(133,487)	(14,984)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations		41	(53)	177	(288)
Net movement on cash flow hedges		5,414	(682)	-	5,940
Income tax effect		(1,191)	150	-	(1,306)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		4,264	(585)	177	4,346
Total comprehensive income for the period		(86,421)	(10,688)	(133,310)	(10,638)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 30 September 2018

ASSETS

DKK'000	Note	30 September 2018	31 December 2017	30 September 2017
Development projects, completed		50,015	68,416	70,333
Development projects, in progress		32,867	46,342	40,715
Patents		5,149	5,412	5,438
Other intangible assets		9	50	64
Intangible assets	6	88,040	120,220	116,550
Plant and equipment		2,138	5,166	4,976
Office improvements		702	1,079	1,217
Tangible assets	7	2,840	6,245	6,193
Leasehold deposits		2,423	2,283	2,287
Other non-current assets		2,423	2,283	2,287
Non-current assets		93,303	128,748	125,030
Inventories		37,194	36,124	35,803
Trade receivables	8	25,086	51,938	53,727
Other receivables	8	2,296	3,899	3,382
Income tax receivable	8	5,500	5,500	2,231
Derivative financial instruments	9	-	-	4,626
Cash and cash equivalents		620	39,967	20,628
Assets held for sale	6, 7	9,662	-	-
Current assets		80,358	137,428	120,397
Total assets		173,661	266,176	245,427

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 30 September 2018

EQUITY AND LIABILITIES

DKK'000	Note	30 September 2018	31 December 2017	30 September 2017
Share capital	10	7,981	5,969	5,969
Share premium	10	248,406	219,729	219,632
Foreign currency translation reserve		168	(9)	222
Other reserves		5,340	6,361	70,942
Retained earnings		(180,898)	(48,883)	(100,554)
Equity		80,997	183,167	196,211
Deferred tax liability		13,555	7,425	4,425
Interest-bearing loans and borrowings		-	-	15,074
Other non-current financial liabilities		13,733	-	-
Non-current liabilities		27,288	7,425	19,499
Interest-bearing loans and borrowings		40,511	35,109	-
Other current financial liabilities		6,383	-	-
Trade payables		2,292	26,130	15,988
Other payables		12,789	13,855	13,107
Derivative financial instruments	9	2,933	-	-
Provisions		468	490	622
Current liabilities		65,376	75,584	29,717
Total liabilities		92,664	83,009	49,216
Total equity and liabilities		173,661	266,176	245,427

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2018

DKK'000	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Cash flow hedge reserve	Retained earnings	Total equity
At 1 January 2017	5,916	216,429	510	7,611	(1,025)	(25,032)	204,409
Profit / (loss) for the period	-	-	-	-	-	(1,554)	(1,554)
Exchange differences on translation of foreign operations	-	-	(2)	-	-	-	(2)
Cash flow hedges	-	-	-	-	2	-	2
Income tax effect	-	-	-	-	-	-	-
Total comprehensive income	-	-	(2)	-	2	(1,554)	(1,554)
Issue of shares	37	1,155	-	-	-	-	1,192
Reversal, exercised and lapsed share options	-	-	-	-	-	-	-
Share-based payments	-	-	-	289	-	-	289
Total transactions with shareholders	37	1,155	-	289	-	-	1,481
At 31 March 2017	5,953	217,584	508	7,900	(1,023)	(26,586)	204,336
Profit / (loss) for the period	-	-	-	-	-	(3,327)	(3,327)
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	(3,327)	1,604
Issue of shares	-	-	-	-	-	-	-
Reversal, exercised and lapsed share options	-	-	-	-	-	-	-
Share-based payments	-	-	-	213	-	-	213
Total transactions with shareholders	-	-	-	213	-	-	213
At 30 June 2017	5,953	217,584	275	8,113	4,141	(29,913)	206,153
Profit / (loss) for the period	-	-	-	-	-	(10,103)	(10,103)
Exchange differences on translation of foreign operations	-	-	(53)	-	-	-	(53)
Cash flow hedges	-	-	-	-	(682)	-	(682)
Income tax effect	-	-	-	-	150	-	150
Total comprehensive income	-	-	(53)	-	(532)	(10,103)	(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	218,542	222	7,885	3,609	(40,016)	196,211

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2018

DKK'000	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Cash flow hedge reserve	Retained earnings	Total equity
At 1 January 2018	5,969	219,729	(9)	6,361	-	(48,883)	183,167
Profit / (loss) for the period	-	-	-	-	-	(21,927)	(21,927)
Exchange differences on translation of foreign operations	-	-	(116)	-	-	-	(116)
Cash flow hedges	-	-	-	-	-	-	-
Income tax effect	-	-	-	-	-	-	-
Total comprehensive income	-	-	(116)	-	-	(21,927)	(22,043)
Issue of shares	12	366	-	-	-	-	378
Reversal, exercised and lapsed share options	-	310	-	(994)	-	684	-
Share-based payments	-	-	-	264	-	-	264
Total transactions with shareholders	12	676	-	(730)	-	684	642
At 31 March 2018	5,981	220,405	(125)	5,631	-	(70,126)	161,766
Profit / (loss) for the period	-	-	-	-	-	(20,875)	(20,875)
Exchange differences on translation of foreign operations	-	-	252	-	-	-	252
Cash flow hedges	-	-	-	-	(5,414)	-	(5,414)
Income tax effect	-	-	-	-	1,191	-	1,191
Total comprehensive income	-	-	252	-	(4,223)	(20,875)	(24,846)
Issue of shares	-	-	-	-	-	-	-
Reversal, exercised and lapsed share options	-	-	-	(569)	-	569	-
Share-based payments	-	-	-	265	-	-	265
Total transactions with shareholders	-	-	-	(304)	-	569	265
At 30 June 2018	5,981	220,405	127	5,327	(4,223)	(90,432)	137,185
Profit / (loss) for the period	-	-	-	-	-	(90,685)	(90,685)
Exchange differences on translation of foreign operations	-	-	41	-	-	-	41
Cash flow hedges	-	-	-	-	5,414	-	5,414
Income tax effect	-	-	-	-	(1,191)	-	(1,191)
Total comprehensive income	-	-	41	-	4,223	(90,685)	(86,421)
Issue of shares	2,000	28,001	-	-	-	-	30,001
Reversal, exercised and lapsed share options	-	-	-	(219)	-	219	-
Share-based payments	-	-	-	232	-	-	232
Total transactions with shareholders	2,000	28,001	-	13	-	219	30,233
At 30 September 2018	7,981	248,406	168	5,340	-	(180,898)	80,997

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 September 2018

DKK'000	Note	3 rd Quarter		YTD September	
		2018	2017	2018	2017
Operating activities					
Profit / (loss) before tax		(72,396)	(12,952)	(127,270)	(19,210)
Adjustments to reconcile profit before tax to net cash flows:					
Finance income		-	-	-	-
Finance costs		6,207	5,614	6,719	11,856
Amortisation, depreciation and impairment	6, 7	33,138	9,426	55,535	28,396
Share-based payment expense		232	233	761	735
Working capital adjustments:					
Change in inventories		2,925	(1,211)	(1,070)	(21,047)
Change in trade and other receivables		4,295	(224)	27,616	16,144
Change in trade and other payables and provisions		(9,956)	(1,586)	(24,587)	(12,494)
Cash flows from operating activities		(35,555)	(700)	(62,295)	4,380
Cash flow hedges in financial items					
Interest received		-	-	-	(1,132)
Interest paid		(435)	(147)	(1,181)	(281)
Income tax received, net		(13)	(270)	(87)	(1,220)
Net cash flows from operating activities		(36,003)	(1,117)	(63,563)	1,747
Investing activities					
Purchase of tangible assets	7	(2)	(606)	(427)	(3,528)
Investments in intangible assets	6	(7,604)	(12,287)	(29,180)	(36,225)
Investments in leasehold deposits		8	(7)	140	(25)
Net cash used from investing activities		(7,598)	(12,900)	(29,467)	(39,778)
Financing activities					
Issue of shares	10	30,001	513	30,379	1,705
Increase of borrowings		14,826	74	25,518	10,074
Net cash flows from financing activities		44,827	587	55,897	11,779
Net change in cash and cash equivalents		1,226	(13,430)	(37,133)	(26,252)
Net foreign exchange difference		(2,234)	61	(2,214)	(71)
Cash and cash equivalents at the beginning of the period		1,628	33,997	39,967	46,951
Cash and cash equivalents at the end of the period		620	20,628	620	20,628

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated 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, except for the following, consistent with those applied to the consolidated financial statements for 2017.

The consolidated financial statements for 2017 contain a full description of accounting policies.

New standards, interpretations and amendments adopted by the Group

With effect as of 1 January 2018 Napatech A/S has adopted the following standards, interpretations and amendments:

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

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 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:

- Focus on identifying the performance obligations in a contract and determine if the goods or services are distinct.
- 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.
- Considerations on how to identify the variable considerations in a contract.

The Group has adopted IFRS 15 using the cumulative effect method, but as the implementation of IFRS 15 has not had significant effect on the Group's financial statements, as revenue recognition under IFRS 15 is already in line with the Group's current revenue recognition policies, no effect has been recognised in equity 1 January 2018. This is due to the fact that the Group's sales types which primarily consist of goods for resale and finished goods and there are no complex discount agreements, variable considerations or other elements that could result in significant reversals of revenue already recognized.

IFRS 9 Financial instruments replaces IAS 39 Financial Instruments: Recognition and Measurement bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. As there is no significant impact on recognition and measurement for the Group, no effect has been recognised in equity 1 January 2018. That is due to the fact, that the Group on a historical basis has experienced very low losses on Trade receivables due to the fact that the Trade receivables is towards large companies with high solvency ratio.

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 2019. New and amended standards are expected to be implemented by their effective dates. The following standard is expected to affect Napatech A/S' future annual reports:

- IFRS 16 Leases

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group has operating leases with minimum lease payments of approximately DKK 6,478 thousand corresponding to 3.7% 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 2017.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3 OPERATING SEGMENTS

3rd Quarter 2018:

DKK'000	EMEA	NAM	APAC	Consolidated
Revenue				
Total revenue	13,026	2,999	289	16,314
Inter-segment	(11,179)	-	-	(11,179)
Revenue, external customers	1,847	2,999	289	5,135
Cost of goods sold	685	(969)	(66)	(350)
Cost of goods sold – Inventory writedown	(10,209)	-	-	(10,209)
Gross profit	(7,677)	2,030	223	(5,424)

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

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 2018:				
DKK'000	EMEA	NAM	APAC	Consolidated
Revenue				
Total revenue	30,850	31,584	2,359	64,793
Inter-segment	(12,637)	-	-	(12,637)
Revenue, external customers	18,213	31,584	2,359	52,156
Cost of goods sold	(3,454)	(11,014)	(590)	(15,058)
Cost of goods sold	(10,209)	-	-	(10,209)
Gross profit	4,550	20,570	1,769	26,889

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

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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4 SHARE-BASED PAYMENTS (CONTINUED)

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 2018	793,200	11.77	664,568	11.54	1,457,768	11.66
Exercised / expired during the period	(133,100)	8.74	(129,600)	11.13	(262,700)	9.92
At 30 September 2018	660,100	12.38	534,968	11.64	1,195,068	12.05
Exercisable at 30 September 2018	349,343	8.80	310,079	9.36	659,422	9.06
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

In the period ended 30 September 2018, no share options were exercised and 29,152 lapsed (period ended 30 September 2017: 212,216 share options were exercised and 800 lapsed).

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

Number of share options	As at 30 September 2018	As at 30 September 2017
Exercise price DKK 8.00	404,400	584,100
Exercise price DKK 10.75	336,668	381,668
Exercise price DKK 12.53	92,000	92,000
Exercise price DKK 18.04	102,000	145,000
Exercise price DKK 19.41	150,000	150,000
Exercise price DKK 14.90	110,000	-
Total number of outstanding stock options	1,195,068	1,352,768

The weighted average of the remaining contractual period of the outstanding share options from the 2014 share options program at 30 September 2018 is 1 year (at 30 September 2017: 1 year 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 2018 is 3 years and 6 months (at 30 September 2017: 4 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 3rd quarter of 2018, the Group has recognized DKK 231 thousand of share-based payment expense in the income statement (3rd quarter 2017: DKK 233 thousand).

5 EARNINGS PER SHARE

DKK'000	3 rd Quarter		YTD September	
	2018	2017	2018	2017
Net income attributable to equity holders of the parent company for basic earnings and the effect of dilution	(90,685)	(10,103)	(133,487)	(14,984)

DKK'000	3 rd Quarter		YTD September	
	2018	2017	2018	2017
	Thousand	Thousand	Thousand	Thousand
Weighted average number of shares for basic earnings per share	31,923	23,834	26,585	23,786
Effect of dilution:				
Share options	1,195	562	1,195	562
Weighted average number of shares adjusted for the effect of dilution (nominal value of DKK 0.25)	33,118	24,396	27,780	24,348

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 2018	229,165	46,342	9,791	2,139	287,437
Additions in the period	-	28,949	231	-	29,180
Disposals in the period	-	(373)	-	-	(373)
Transfers in the period	34,908	(34,908)	-	-	-
Assets held for sale	(44,157)	(7,143)	-	-	(51,300)
Cost at 30 September 2018	219,916	32,867	10,022	2,139	264,944
Accumulated amortization and impairment at 1 January 2018	160,749	-	4,379	2,089	167,217
Amortization for the period	29,998	-	494	41	30,533
Impairment for the period	16,201	4,964	-	-	21,165
Assets held for sale	(37,047)	(4,964)	-	-	(42,011)
Accumulated amortization and impairment at 30 September 2018	169,901	-	4,873	2,130	176,904
Carrying amount at 30 September 2018	50,015	32,867	5,149	9	88,040

Within the completed development projects there are two material development projects with carrying amounts of DKK 6,335 thousand and DKK 5,628 thousand at 30 September 2018 respectively (30 September 2017: DKK 8,335 thousand and DKK 167 thousand respectively). The aim of the first project is to develop a new 2 x 100G and the aim of the second project is to develop a software for full throughput packet capture with data selection and load balancing. The remaining amortisation periods of these two projects are 3 years and 2 months and 2 years and 6 months respectively.

Within the inprocess development projects there are two material development projects with carrying amounts of DKK 14,359 thousand and DKK 5,958 thousand respectively. The aim of the first project is to develop our new product aimed at the virtualization market primarily focused towards telecom and cloud providers and the aim of the second project is to develop a software enabling network security applications running on an Intel FPGA hardware platform. The projects are not yet completed and therefore have not been amortized.

The annual impairment test for the intangible assets will be performed at 31 December 2018. As per 30 September 2018 the management has assessed, that there were some indications of impairment in relation to the Group's intangible assets in the reporting period which have been taken into account in the current reporting.

Assets held for sale refers to the Company's Pandion product portfolio and related technology. For further information please refer to Management review section.

7 TANGIBLE ASSETS

DKK'000	Plant and equipment	Leasehold improvements	Total
Cost at 1 January 2018	33,400	5,105	38,505
Additions in the period	427	-	427
Disposals in the period	(349)	-	(349)
Assets held for sale	(1,941)	-	(1,941)
Currency adjustment	27	13	40
Cost at 30 September 2018	31,564	5,118	36,682
Accumulated depreciation and impairment at 1 January 2018	28,234	4,026	32,260
Depreciation for the period	2,197	372	2,569
Disposals in the period	(349)	-	(349)
Impairment in the period	892	-	892
Assets held for sale	(1,569)	-	(1,569)
Currency adjustment	66	18	84
Accumulated depreciation and impairment at 30 September 2018	29,426	4,416	33,842
Carrying amount at 30 September 2018	2,138	702	2,840

The annual impairment test for the tangible assets will be performed at 31 December 2018. As per 30 September 2018 the management has assessed, that there were some indications of impairment in relation to the Group's tangible assets in the reporting period which have been taken into account in the current reporting.

Assets held for sale refers to the Company's Pandion product portfolio and related technology. For further information please refer to Management review section.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

8 TRADE AND OTHER RECEIVABLES

DKK'000	30 September 2018	30 September 2017
Receivables recognized in the consolidated statement of financial position:		
Trade receivables	25,086	53,727
Other receivables	2,297	3,382
Income tax receivable	5,500	2,231
Total current receivables	32,883	59,340

The provision for bad and doubtful receivables is as follows:

DKK'000	2018	2017
At 1 January	1,360	2,103
Change in the period	1,277	(566)
At 30 September	2,637	1,537

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

DKK'000	30 September 2018	30 September 2017
Not past due	19,228	46,394
Past due less than 30 days	2,362	1,070
Past due between 30 and 60 days	528	1,407
Past due between 60 and 90 days	276	4,175
Past due after 90 days	2,692	681
Total maximum credit risk	25,086	53,727

9 DERIVATIVE FINANCIAL INSTRUMENTS

DKK'000	30 September 2018	30 September 2017
Derivative financial instruments at fair value, assets / (liabilities)	(2,933)	4,626

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	2018	2017
	Thousand	Thousand
Ordinary shares of DKK 0.25 each at 1 January	23,877	23,664
Increase in ordinary shares DKK 0.25 each	8,046	148
Ordinary shares of DKK 0.25 each at 30 September	31,923	23,812

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 30 September 2018 are DKK 6,478 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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