



# napa:tech;

RECONFIGURABLE COMPUTING

**NAPATECH**

HALF-YEAR REPORT 2019

## DEAR SHAREHOLDERS

In the first half of 2019, our progress towards building a stable Napatech has gone well. With customer first and shareholder value being our guiding principles, we have focused on a series of pragmatic goals around key factors that both increased clarity on our business, improved execution on near term revenue goals, as well as increasing our efforts on delivering new products to support our future growth. Our focus on the bottom line to use our cash and credit facilities *wisely* has also gone well. The result of these efforts have begun to demonstrate the potential Napatech has within its market. As we enter the second half of 2019, we remain motivated to improve even further as our business activity accelerates.

In the first half of 2019, our customer growth has been on track. The most exciting part of this period from a customer point of view is demonstrated by our key customer wins. Our customers are using our solutions to accelerate their key business applications around network monitoring, application performance and improvements in network security. Our customers selected Napatech because our solutions solve their urgent problems with application performance and acceleration. Our technology improves the efficiency of their networks and IT infrastructure. Napatech's solutions are easy to buy and deploy within their standard server-based architecture. And our customers select Napatech over our competitors because our highly reliable solutions deliver great performance and results.

We are very pleased to report our first customer win of our partnership with Intel, where we are selling a software-only solution that runs on Intel's FPGA-based programmable acceleration NIC card. The customer is a VoIP communications company which selected Intel SmartNIC and the Napatech LinkCapture software-only product to improve VoIP quality and service assurance due to superior performance over competitive solutions. We are collaborating with Intel to build momentum and pipeline and anticipate more sales in time as we are still early within our new relationship. Our shareholders can find more information about our joint solution with Intel [here](#).

From a financial perspective, revenue growth was strong compared to 2018. In the first half of 2019, we secured revenues of DKK 77.9 million, representing an increase of 66% compared to the first half of 2018. Our gross margin improved to 71.1%, compared to 68.7% in the first half of 2018. We maintained our focus on improving our cost structure by tailoring our spending in non-critical areas of our business while optimizing our investments in areas where we will get the best return with future revenue growth. As a result of these efforts, we were able to reduce our operating costs before capitalized development costs to DKK 61.7 million in the first half of 2019, down from DKK 84.8 million in the first half of 2018.

From a cash management perspective, the second quarter of 2019 represented the third consecutive quarter with free positive cash flow, resulting in positive cash flow from operating activities of DKK 13.8 million in the first half of 2019, compared to negative DKK 26.7 million in the first half of 2018. Napatech's continued good progress in financial management and business activity, raises optimism around the company's key fundamental financial improvements.

The company's updated business guidance for 2019 is as follows (original guidance):

- Revenue in the range of DKK 150 – 180 million (unchanged)
- Gross margin around 69% (68%)

- Operating expenses<sup>1</sup> in the range of DKK 110 – 115 million (DKK 115 – 125 million)
- Investments in development projects in the range of DKK 13 – 17 million (DKK 20 – 25 million)
- Depreciation and amortization in the range of DKK 20 – 25 million (unchanged)

Napatech is operating in a dynamic marketplace. We are seeing increased interest in the evolving and growing virtualization infrastructure market, fuelled by enterprise data center networks transforming into a similar virtualized setup as hyperscale networks, building of new data centers, cloud networks, and 5G infrastructure. As Internet of Things and the number of connected devices grows, shipments of servers become larger, while also driving demand for additional data center server computational capacity to support them. The adoption of new software technologies like Artificial Intelligence and Machine Learning will further accelerate server compute demand going forward.

For Napatech, these dynamics create attractive market opportunities. Both through more servers demanding our advanced and high-performance FPGA technology, but more importantly, this market evolution moves the FPGA into the spotlight for application acceleration and security performance improvement and will play a critical part of the virtualization market.

Napatech is well positioned towards this trend as we continue to develop our products and build on our strong relationships with key industry players in the FPGA ecosystem. Our product strategy is to target the market through our application driven, software-centric and hardware independent approach, driving growth through our focus on three main product areas:

- Network Management
- Cybersecurity
- Virtualization Acceleration

To accomplish this, we will leverage our expertise in FPGA solutions to out-innovate our competition. We will compete to win new customers and will strive to expand within existing customers as their needs evolve for higher, very powerful standard open server-based computing solutions. And we will do it by bringing best-in-class reliability to the market.

In conclusion, we are working hard growing a business built upon a solid foundation of FPGA technology excellence. We have a solid product strategy, an improved go-to-market approach, and we see our long-term potential as significantly larger than our current business as we move to broader markets and support more applications.

Finally, we are optimistic about Napatech's ability to stabilize and grow, and we are looking forward to seeing the continued positive effects of our initiatives in the second half of 2019. We thank our shareholders for your support and hope to return with more positive news and results in the coming quarters.

Best regards,

Ray Smets, Chief Executive Officer

<sup>1</sup> Operating expenses include costs on R&D, sales and distribution, as well as administrative expenses.

## MANAGEMENT'S REPORT

### Highlights H1:

- Revenue in H1 2019 amounted to DKK 77.9m an increase of 66% compared to H1 2018.
- Gross margin in H1 2019 was 71.1 % an increase of 2.4 %-points compared to H1 2018.
- Operating costs before capitalized developments costs in H1 2019 amounted to DKK 61.7m compared to DKK 84.8m in H1 2018.
- EBITDAC<sup>2</sup> in H1 2019 amounted to negative DKK 6.3m compared to negative DKK 52.4m in H1 2018.
- EBITDA in H1 2019 amounted to negative DKK 0.1m compared to negative DKK 32m in H1 2018.
- Depreciation, amortization, and impairment for H1 2019 were DKK 12.7m compared to DKK 22.4m in H1 2018.
- Cash flow from operating activities in H1 2019 was positive DKK 13.8m compared to negative DKK 26.7m in H1 2018.
- Net working capital end of H1 2019 amounted to DKK 14.7m compared to DKK 41.5m end of H1 2018 and DKK 28.2m end of 2018.
- Net cash used in investing activities in H1 2019 amounted to DKK 6.5m compared to DKK 21.9m in H1 2018.
- Cash and cash equivalents at the end of H1 2019 amounted to DKK 59.9m compared to DKK 17.2m at the end of 2018.

### Highlights Q2:

- Revenue in Q2 2019 amounted to DKK 39.6m an increase of 60% compared to Q2 2018.
- Gross margin in Q2 2019 was 72.6 % an increase of 2.8 %-points compared to Q2 2018.
- Operating costs before capitalized developments costs in Q2 2019 amounted to DKK 30.5m compared to DKK 43.3m in Q2 2018.
- EBITDAC in Q2 2019 amounted to negative DKK 1.7m compared to negative DKK 26m in Q2 2018.
- EBITDA in Q2 2019 amounted to positive DKK 1.1m compared to negative DKK 16.2m in Q2 2018.
- Depreciation, amortization, and impairment for Q2 2019 were DKK 6.3m compared to DKK 11.8m in Q2 2018.
- Cash flow from operating activities in Q2 2019 was positive DKK 9.2m compared to negative DKK 18.9m in Q2 2018.
- Net cash used in investing activities in Q2 2019 amounted to DKK 2.9m compared to DKK 10.3m in Q2 2018.

### Key figures:

(Figures in MDKK)	Q2 2019	Q2 2018	H1 2019	H1 2018
Revenue	39.6	24.7	77.9	47.0
Growth YoY	60%	-56%	66%	-59%
Gross Margin	72.6%	69.8%	71.1%	68.7%
EBITDAC	-1.7	-26.0	-6.3	-52.4
EBITDA	1.1	-16.2	-0.1	-32.0
Cash Flow from Operating Activities	9.2	-18.9	13.8	-26.7
Net Working Capital, end of period	14.7	41.5	14.7	41.5
Cash and cash equivalents, end of period	59.9	1.6	59.9	1.6

### 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.

Additional information is available at [www.napatech.com/investor](http://www.napatech.com/investor).

<sup>2</sup> EBITDAC: Earnings before depreciation, amortization and impairment, and cost transferred to development projects

## Revenue and Gross Margin

### H1

Napatech reports revenue of DKK 77.9m in the first half of 2019 compared to DKK 47m in the same period in 2018, equivalent to an increase of 66%.

Gross margin in H1 2019 was 71.1 % compared to 68.7 % in H1 2018. Improvement in gross margin is due to a change in product mix.

### Q2

Napatech reports revenue of DKK 39.6m in Q2 2019 compared to DKK 24.7m in the same period in 2018, equivalent to an increase of 60%.

Gross margin in Q2 2019 was 72.6 % compared to 69.8 % in Q2 2018.

## Costs

### H1

Operating expenses before transferal of costs to capitalized development costs in H1 2019 amounted to DKK 61.7m, compared to DKK 84.8m in H1 2018. The change from 2018 is due to various cost savings initiatives implemented since summer 2018.

Operating expenses after transferal of costs to capitalized development costs in H1 2019 amounted to DKK 55.5m, compared to DKK 64.4m in H1 2018.

Implementation of IFRS 16 impacts Other external costs in H1 2019 by DKK 3.5m. 2018 figures are not adjusted for IFRS 16.

### Q2

Operating expenses before transferal of costs to capitalized development costs in Q2 2019 amounted to DKK 30.5m, compared to DKK 43.3m in Q2 2018.

Operating expenses after transferal of costs to capitalized development costs in Q2 2019 amounted to DKK 27.7m, compared to DKK 33.5m in Q2 2018.

## EBITDAC and EBITDA

### H1

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to negative DKK 6.3m in H1 2019 compared to negative DKK 52.4m in H1 2018.

EBITDA in H1 2019 was negative DKK 0.1m compared to negative DKK 32m in H1 2018.

### Q2

EBITDAC amounted to negative DKK 1.7m in Q2 2019 compared to negative DKK 26m in Q2 2018.

EBITDA in Q2 2019 was positive DKK 1.1m compared to negative DKK 16.2m in Q2 2018.

## Depreciation, amortization, and impairment

### H1

Depreciation, amortization, and impairment in H1 2019 were DKK 12.7m compared to DKK 22.4m in Q2 2018.

### Q2

Depreciation, amortization, and impairment in Q2 2019 were DKK 6.3m compared to DKK 11.8m in Q2 2018.

## Financial Items

### H1

Financial items for H1 2019 are negative DKK 1.1m compared to negative DKK 0.5m in H1 2018.

### Q2

Financial items for Q2 2019 are negative DKK 0.5m compared to positive DKK 1.2m in Q2 2018.

## Taxes

### H1

Taxes for H1 2019 amounted to negative DKK 1.8m compared to positive DKK 12.1m in H1 2018.

### Q2

Taxes for Q2 2019 amounted to negative DKK 0.5m compared to positive DKK 5.9m in Q2 2018.

## Investments

### H1

Total investments in H1 2019 were DKK 6.5m of which DKK 6.4m were related to new product development. In H1 2018 total investments were DKK 21.9m of which DKK 21.6m was related to new product development.

The change in capitalized product development reflects reductions of headcounts implemented in the second half of 2018, the divestment of the Pandion product group in Q4 2018 and an increased focus on research activities in H1 2019. Research activities are expensed as they occur.

### Q2

Total investments in Q2 2019 were DKK 2.9m of which DKK 2.9m were related to new product development. In Q2 2018 total investments were DKK 10.3m of which DKK 10.4m was related to new product development.

## Cash Flow

### H1

Cash flow from operating activities in H1 2019 was positive DKK 13.8 compared to negative DKK 26.7m in H1 2018.

Net cash flow from investing activities in H1 2019 was negative DKK 6.5m compared to negative DKK 21.9m in H1 2018.

Free cash flow in H1 2019 amounted to positive DKK 4.7m compared to negative DKK 49.4m in H1 2018.

Net cash from financing activities in H1 2019 was positive DKK 37.8m as a result of the raise conducted in H1 and repayment of borrowings, compared to positive DKK 11.1m H1 2018.

Cash and cash equivalents end of H1 2019 was DKK 59.9m compared to DKK 17.2m at the end of 2018.

### Q2

Cash flow from operating activities in Q2 2019 was positive DKK 9.2m compared to negative DKK 18.9m in Q2 2018.

Net cash flow from investing activities in Q2 2019 was negative DKK 2.9m compared to negative DKK 10.3m in Q2 2018.

Free cash flow in the quarter amounted to positive DKK 4.2m compared to negative DKK 29.5m in Q2 2018.

Net cash from financing activities in Q2 2019 was positive DKK 12.9m as a result of the subsequent offering completed in Q2 and repayment of borrowings, compared to positive DKK 10.8m in Q2 2018.

## Changes in equity

The company's equity amounted to DKK 75.4m on June 30, 2019. This is an increase of DKK 40.7m from December 31, 2018.

In H1 2019 equity was reduced by comprehensive income by DKK 15.6m, and increased by transactions with shareholders by DKK 56.3m.

## Shareholders and Share Information

Napatech as of June 30, 2019, had 83,068,220 shares, each with a nominal value of DKK 0.25. The share capital is DKK 20,767,055 divided among the 678 shareholders.

Investor	No. of shares	% of total	TYPE	Country
VERDANE CAPITAL VIII K/S	22,613,618	27.22%	Ordinary	Denmark
SUNDT AS	12,095,587	14.56%	Ordinary	Norway
LUDVIG LORENTZEN AS	5,928,745	7.14%	Ordinary	Norway
STORBRAND VEKST VERDIPAPIRFOND	3,840,804	4.62%	Ordinary	Norway
TIGERSTADEN AS	2,983,296	3.59%	Ordinary	Norway
MP PENSION PK	2,964,372	3.57%	Ordinary	Norway
SILVERCOIN INDUSTRIES AS	2,395,335	2.88%	Ordinary	Norway
BROWNSKE BEVEGELSE AS	2,371,498	2.85%	Ordinary	Norway
Private investor	1,476,404	1.78%	Ordinary	Norway
Private investor	1,335,748	1.61%	Ordinary	Norway
ARCTIC FUNDS PLC	1,310,072	1.58%	Ordinary	Ireland
Nordnet Bank AB	1,153,848	1.39%	Nominee	Sweden
Danske Bank A/S	1,123,694	1.35%	Nominee	Denmark
DNB Markets Aksjehandel/-analyse	1,038,628	1.25%	Ordinary	Norway
AREPO AS	1,037,530	1.25%	Ordinary	Norway
The Bank of New York Mellon	939,721	1.13%	Nominee	United Kingdom
INRO HOLDING AS	804,450	0.97%	Ordinary	Norway
MARSTAL AS	720,000	0.87%	Ordinary	Norway
UBS Switzerland AG	655,449	0.79%	Nominee	Switzerland
RIL AS	547,977	0.66%	Ordinary	Norway
<b>Total number owned by top 20</b>	<b>67,336,776</b>	<b>81.05%</b>		
<b>Total 658 other shareholders</b>	<b>15,731,444</b>	<b>18.95%</b>		
<b>Total Number of shares</b>	<b>83,068,220</b>	<b>100%</b>		

## Events after the end of the period

No significant events have occurred after the end of the reporting period.

## Outlook for 2019

Due to improvements in products margins and company cost structure 2019 guidance is updated as follows:

Guidance	Previous	Updated
Revenue	150-180 mDKK	150-180 mDKK
Gross margin	around 68%	around 69%
Operating expenses	115-125 mDKK	110-115 mDKK
Investments in development projects	20-25 mDKK	13-17 mDKK
Depreciation and amortization	20-25 mDKK	20-25 mDKK

Operating expenses include costs on research and development, sales and distribution, as well as administrative expenses.

With performance in the middle of the guided ranges EBITDA would be positive DKK 1.3m (original guidance: negative DKK 7.8m) and EBIT would be negative DKK 21.3m (original guidance: negative DKK 30.3m).

The company is exposed to risks that might affect our ability to reach our goals such as currency fluctuations, general market uncertainty, and material changes in our large OEMs' needs for Napatech's products.

## Disclaimer:

This report may contain statements regarding the future in connection with Napatech growth initiatives, profit figures, outlook, strategies, and objectives. 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.

## MANAGEMENT STATEMENT

The Board of Directors and the Executive Management have considered and adopted the interim report of Napatech Group for the period from January 1 to June 30, 2019

The interim report has been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the EU, and additional Danish interim reporting requirements for listed companies.

In our opinion, the interim report gives a true and fair view of the Group's assets, liabilities and financial position at June 30, 2019, and of the results of the Group's operations and cash flows for the period January 1 to June 30, 2019.

We find that the Management's commentary 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 is unaudited and has not been reviewed by the company's auditors

Søborg, August 26, 2019

Executive Management

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Ray Smets, CEO

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Henrik Brill Jensen, COO

Board of Directors

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Lars Boilesen, Chairman

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Howard Bubb

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Christian Jebsen

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Bjørn Erik Reinseth

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Henry Wasik

## INCOME STATEMENT

For the period ended June 30, 2019

DKK'000	Note	2nd quarter		YTD June	
		2019	2018	2019	2018
<b>Revenue</b>	<b>3</b>	<b>39,634</b>	<b>24,723</b>	<b>77,888</b>	<b>47,021</b>
Cost of goods sold		(10,851)	(7,478)	(22,498)	(14,708)
<b>Gross profit</b>		<b>28,783</b>	<b>17,245</b>	<b>55,390</b>	<b>32,313</b>
Other operating income		-	106	2	106
Staff expenses and remuneration		(23,528)	(31,745)	(47,578)	(61,746)
Other external costs		(6,957)	(11,560)	(14,123)	(23,045)
<b>EBITDAC</b>		<b>(1,702)</b>	<b>(25,954)</b>	<b>(6,309)</b>	<b>(52,372)</b>
Transferred to capitalized development costs		2,826	9,796	6,196	20,407
<b>EBITDA</b>		<b>1,124</b>	<b>(16,158)</b>	<b>(113)</b>	<b>(31,965)</b>
Depreciation, amortization and impairment		(6,304)	(11,837)	(12,702)	(22,397)
<b>Operating result (EBIT)</b>		<b>(5,180)</b>	<b>(27,995)</b>	<b>(12,815)</b>	<b>(54,362)</b>
Finance income		7	-	7	-
Finance costs		(506)	1,232	(1,070)	(512)
<b>Result before tax</b>		<b>(5,679)</b>	<b>(26,763)</b>	<b>(13,878)</b>	<b>(54,874)</b>
Income tax		(488)	5,888	(1,779)	12,072
<b>Result for the period</b>		<b>(6,167)</b>	<b>(20,875)</b>	<b>(15,657)</b>	<b>(42,802)</b>

DKK'000	2nd quarter		YTD June	
	2019	2018	2019	2018
Research and development expenses	(6,682)	(5,182)	(12,837)	(8,930)
Selling and distribution expenses	(11,044)	(17,583)	(24,778)	(35,969)
Administrative expenses	(9,933)	(10,638)	(17,890)	(19,379)
<b>OPEX</b>	<b>(27,659)</b>	<b>(33,403)</b>	<b>(55,505)</b>	<b>(64,278)</b>

Earnings / (loss) per share:	4	2nd quarter		YTD June	
		2019	2018	2019	2018
Basic, DKK		(0.10)	(0.87)	(0.33)	(1.79)
Diluted, DKK		(0.09)	(0.85)	(0.32)	(1.74)

## STATEMENT OF COMPREHENSIVE INCOME

For the period ended June 30, 2019

DKK'000	YTD June	
	2019	2018
<b>Result for the period</b>	<b>(15,657)</b>	<b>(42,802)</b>
<i>Items that may be reclassified to profit and loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	63	136
Net movement on cash flow hedges	-	(5,414)
Income tax effect	-	1,191
<b>Other comprehensive income after tax</b>	<b>63</b>	<b>(4,087)</b>
<b>Total comprehensive income</b>	<b>(15,594)</b>	<b>(46,889)</b>



**CASH FLOW STATEMENT**  
For the period ended June 30, 2019

DKK'000	2nd quarter		YTD June	
	2019	2018	2019	2018
<b>Operating activities</b>				
Loss before tax	(5,679)	(26,763)	(13,878)	(54,874)
<b>Adjustments to reconcile profit before tax to net cash flows</b>				
Finance income	(7)	-	(7)	-
Finance costs	506	(1,232)	1,070	512
Depreciation, amortisation and impairment	6,304	11,837	12,702	22,397
Gain/loss on the sale of non-current assets	-	-	(2)	-
Share-based payment expense	331	265	670	529
<b>Working capital adjustments</b>				
Change in inventories	946	(564)	6,241	(3,995)
Change in trade and other receivables and contract assets	6,077	(130)	17,159	23,322
Change in trade and other payables, provisions and contract liabilities	732	(2,277)	(10,196)	(14,631)
<b>Cash flows from operating activities</b>	<b>9,210</b>	<b>(18,864)</b>	<b>13,759</b>	<b>(26,740)</b>
Interest received	7	-	7	-
Interest paid	(347)	(374)	(772)	(746)
Income tax, net	(1,789)	11	(1,778)	(74)
<b>Net cash flows from operating activities</b>	<b>7,081</b>	<b>(19,227)</b>	<b>11,216</b>	<b>(27,560)</b>
<b>Investing activities</b>				
Proceeds from sale of tangible assets	-	-	7	-
Purchase of tangible assets	(112)	(2)	(112)	(425)
Investments in intangible assets	(2,855)	(10,401)	(6,426)	(21,576)
Investments in leasehold deposits	50	139	54	132
<b>Net cash used in investing activities</b>	<b>(2,917)</b>	<b>(10,264)</b>	<b>(6,477)</b>	<b>(21,869)</b>
<b>Free cash flow</b>	<b>4,164</b>	<b>(29,491)</b>	<b>4,739</b>	<b>(49,429)</b>
<b>Financing activities</b>				
Capital increase	19,020	-	58,863	378
Transaction costs on issue of shares	(2,967)	-	(3,241)	-
Payment of financial lease liabilities	(1,726)	-	(3,449)	-
Increase of borrowings	-	10,801	-	10,692
Repayment of borrowings	(1,415)	-	(14,351)	-
<b>Net cash flows (used in) / from financing activities</b>	<b>12,912</b>	<b>10,801</b>	<b>37,822</b>	<b>11,070</b>
<b>Net change in cash and cash equivalents</b>	<b>17,076</b>	<b>(18,690)</b>	<b>42,561</b>	<b>(38,359)</b>
Net foreign exchange difference	90	144	152	20
Cash and cash equivalents at the beginning of the period	42,706	20,174	17,159	39,967
<b>Cash and cash equivalents at the end of the period</b>	<b>59,872</b>	<b>1,628</b>	<b>59,872</b>	<b>1,628</b>



## BALANCE SHEET

### ASSETS

<b>DKK'000</b>	<b>Note</b>	<b>30 Jun. 2019</b>	<b>31 Dec. 2018</b>	<b>30 Jun. 2018</b>
Development projects, completed		25,441	29,773	83,493
Development projects, in progress		10,975	8,194	32,470
Patents		4,688	4,972	5,248
Other intangible assets		-	-	23
<b>Intangible assets</b>	<b>5</b>	<b>41,104</b>	<b>42,939</b>	<b>121,234</b>
Plant and equipment		1,063	1,932	4,020
Right-of-use assets		14,383	-	-
Leasehold improvements		467	605	825
<b>Tangible assets</b>		<b>15,913</b>	<b>2,537</b>	<b>4,845</b>
Deferred tax asset		-	-	5,912
Leasehold deposits		2,461	2,407	2,415
<b>Other non-current assets</b>		<b>2,461</b>	<b>2,407</b>	<b>8,327</b>
<b>Non-current assets</b>		<b>59,478</b>	<b>47,883</b>	<b>134,406</b>
Inventories		10,730	16,971	40,119
Trade receivables		10,492	25,305	29,123
Contract assets		514	514	-
Other receivables	<b>6</b>	11,255	13,814	3,129
Income tax receivable		5,500	5,487	5,500
Cash and cash equivalents		59,872	17,159	1,628
<b>Current assets</b>		<b>98,363</b>	<b>79,250</b>	<b>79,499</b>
<b>Total assets</b>		<b>157,841</b>	<b>127,133</b>	<b>213,905</b>

**EQUITY AND LIABILITIES**

<b>DKK'000</b>	<b>Note</b>	<b>30 Jun. 2019</b>	<b>31 Dec. 2018</b>	<b>30 Jun. 2018</b>
Share capital	7	20,767	7,981	5,981
Share premium		290,388	247,552	220,405
Foreign currency translation reserve		278	215	127
Other capital reserves		4,921	4,971	1,104
Retained earnings		(240,937)	(226,000)	(90,432)
<b>Equity</b>		<b>75,417</b>	<b>34,719</b>	<b>137,185</b>
Other non-current financial liabilities		13,471	13,391	-
Non-current right-of-use liabilities		8,675	-	-
<b>Non-current liabilities</b>		<b>22,146</b>	<b>13,391</b>	<b>-</b>
Interest-bearing loans and borrowings		31,559	44,701	45,801
Other current financial liabilities		4,670	5,959	-
Current right-of-use liabilities		5,807	-	-
Trade payables		1,578	11,099	11,313
Other payables		13,046	13,720	13,739
Provisions		126	69	453
Contract liabilities		3,492	3,475	-
<b>Current liabilities</b>		<b>60,278</b>	<b>79,023</b>	<b>76,720</b>
<b>Total liabilities</b>		<b>82,424</b>	<b>92,414</b>	<b>76,720</b>
<b>Total equity and liabilities</b>		<b>157,841</b>	<b>127,133</b>	<b>213,905</b>

## STATEMENT OF CHANGES IN EQUITY

DKK'000	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Cash flow hedge reserve	Retained earnings	Total equity
<b>H1 2019</b>							
<b>Equity at January 1</b>	<b>7,981</b>	<b>247,552</b>	<b>215</b>	<b>4,971</b>	<b>-</b>	<b>(226,000)</b>	<b>34,719</b>
Result for the period	-	-	-	-	-	(15,657)	(15,657)
Total other comprehensive income	-	-	63	-	-	-	63
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>63</b>	<b>-</b>	<b>-</b>	<b>(15,657)</b>	<b>(15,594)</b>
<b>Transactions with shareholders</b>							
Issue of shares	12,786	46,077	-	-	-	-	58,863
Transaction costs	-	(3,241)	-	-	-	-	(3,241)
Reversal, exercised and lapsed options	-	-	-	(720)	-	720	-
Share-based payments	-	-	-	670	-	-	670
<b>Equity at June 30</b>	<b>20,767</b>	<b>290,388</b>	<b>278</b>	<b>4,921</b>	<b>-</b>	<b>(240,937)</b>	<b>75,417</b>
<b>H1 2018</b>							
<b>Equity at January 1</b>	<b>5,969</b>	<b>219,729</b>	<b>(9)</b>	<b>6,361</b>	<b>-</b>	<b>(48,883)</b>	<b>183,167</b>
Result for the period	-	-	-	-	-	(42,802)	(42,802)
Total other comprehensive income	-	-	136	-	(4,223)	-	(4,087)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>136</b>	<b>-</b>	<b>(4,223)</b>	<b>(42,802)</b>	<b>(46,889)</b>
<b>Transactions with shareholders</b>							
Issue of shares	12	366	-	-	-	-	378
Reversal, exercised and lapsed options	-	310	-	(1,563)	-	1,253	-
Share-based payments	-	-	-	529	-	-	529
<b>Equity at June 30</b>	<b>5,981</b>	<b>220,405</b>	<b>127</b>	<b>5,327</b>	<b>(4,223)</b>	<b>(90,432)</b>	<b>137,185</b>
<b>2018</b>							
<b>Equity at January 1</b>	<b>5,969</b>	<b>219,729</b>	<b>(9)</b>	<b>6,361</b>	<b>-</b>	<b>(48,883)</b>	<b>183,167</b>
Result for the period	-	-	-	-	-	(179,298)	(179,298)
Total other comprehensive income	-	-	224	-	-	-	224
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>224</b>	<b>-</b>	<b>-</b>	<b>(179,298)</b>	<b>(179,074)</b>
<b>Transactions with shareholders</b>							
Issue of shares	2,012	29,493	-	-	-	-	31,505
Transaction costs	-	(1,980)	-	-	-	-	(1,980)
Reversal, exercised and lapsed options	-	310	-	(2,491)	-	2,181	-
Share-based payments	-	-	-	1,101	-	-	1,101
<b>Equity at December 31</b>	<b>7,981</b>	<b>247,552</b>	<b>215</b>	<b>4,971</b>	<b>-</b>	<b>(226,000)</b>	<b>34,719</b>

## NOTES TO THE 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 2018.

The consolidated financial statements for 2018 contain a full description of accounting policies.

#### New standards, interpretations, and amendments adopted by the Group

With effect as of January 1, 2019, Napatech has adopted the following standards, interpretations, and amendments:

- IFRS 16 Leases
- IFRS 3 Business combinations – amendments to IFRS 3
- IFRIC 23 Uncertainty over income tax treatments
- Annual Improvements to IFRSs 2015-2017 Cycle
- Amendments to IFRS 9 Prepayment Features with negative compensation
- Amendments to IFRS 28 Long-term interests in associates and joint ventures

New and amended standards have been implemented by their effective dates. Of the above-mentioned standards, amendments to existing standards and interpretations, only IFRS 16 has affected Napatech's interim financial reporting.

#### IFRS 16

Napatech has adopted IFRS 16 using the modified retrospective method.

Upon adoption of IFRS 16, Napatech applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. Napatech recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

In accordance with the modified retrospective approach, the comparative information in this interim condensed consolidated financial statement has not been restated. Comparative figures are presented according to IAS 17.

The impact on the financial position as of January 1, 2019:

Right of use assets increased by DKK 17.4m (Parent company: DKK 14.3m) with a corresponding increase in liabilities of DKK 17.4m (Parent Company: DKK 14.3m).

The Group and parent company have applied the weighted average incremental borrowing rate of 3% as the discount rate. The right-of-use assets are depreciated linearly over 3-5 years.

#### 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 judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities.

The accounting judgments, estimates, and assumptions that management make is the same for these interim consolidated financial statements as for the consolidated financial statements for 2018.

### 3. OPERATING SEGMENTS

The following tables present revenue and gross profit information about the Group's operating segments for H1 2019 AND H1 2018, respectively:

#### H1 2019

DKK'000	AMERICAS	ROW	CONSOLIDATED
<b>Revenue</b>			
Total revenue	38,091	39,797	77,888
Cost of goods sold	(10,315)	(12,183)	(22,498)
<b>Segment gross profit</b>	<b>27,776</b>	<b>27,614</b>	<b>55,390</b>

#### H1 2018

DKK'000	AMERICAS	ROW	CONSOLIDATED
<b>Revenue</b>			
Total revenue	28,585	18,436	47,021
Cost of goods sold	(10,045)	(4,663)	(14,708)
<b>Segment gross profit</b>	<b>18,540</b>	<b>13,773</b>	<b>32,313</b>

Explanation of abbreviations:

AMERICAS = North & South America      ROW = Rest of the World

The Group's revenue relates to a single product category (SmartNIC products) why management has assessed that no further firm-wide disclosures according to IFRS 15 are necessary.

#### Adjustments and eliminations

Research and development costs, selling and distribution expenses, administrative expenses, finance income, and costs are not allocated to individual segments as they are managed on a group basis. Current taxes and deferred taxes are not allocated to individual segments as they are also managed on a group basis.

### 4. EARNINGS PER SHARE

DKK'000	2nd quarter		YTD June	
	2019	2018	2019	2018
Net profit attributable to equity holders of the parent company for basic earnings and the effect of dilution	(6,167)	(20,875)	(15,657)	(42,802)

Thousands	2nd quarter		YTD June	
	2019	2018	2019	2018
Weighted average number of shares for basic earnings per share	63,432	23,923	47,678	23,915
Effect of dilution:				
Share options	1,752	667	1,752	667
<b>Weighted average number of shares adjusted for the effect of dilution</b>	<b>65,184</b>	<b>24,590</b>	<b>49,430</b>	<b>24,582</b>

## 5. INTANGIBLE ASSETS

DKK'000	Development projects, completed	Development projects, in progress	Patents	Other intangible assets	Total
Cost at 1 January 2019	225,874	33,412	10,122	2,139	271,547
Additions in the period	-	6,389	37	-	6,426
Disposals in the period	-	-	-	-	-
Transfers	3,608	(3,608)	-	-	-
Assets held for sale	-	-	-	-	-
<b>Cost at 30 June 2019</b>	<b>229,482</b>	<b>36,193</b>	<b>10,159</b>	<b>2,139</b>	<b>277,973</b>
Accumulated amortisation at 1 January 2019	196,101	25,218	5,150	2,139	228,608
Amortisation for the period	7,940	-	321	-	8,261
Impairment	-	-	-	-	-
Disposals	-	-	-	-	-
Assets held for sale	-	-	-	-	-
<b>Accumulated amortisation and impairment 30 June 2019</b>	<b>204,041</b>	<b>25,218</b>	<b>5,471</b>	<b>2,139</b>	<b>236,869</b>
<b>Carrying amount at 30 June 2019</b>	<b>25,441</b>	<b>10,975</b>	<b>4,688</b>	<b>-</b>	<b>41,104</b>

The annual impairment test for the intangible assets will be performed on 31 December 2019. As per 30 June 2019, the management has assessed, that there were no indications of impairment in relation to the Group's intangible assets in the reporting period.

## 6. OTHER RECEIVABLES

The Groups' other receivables mainly comprise of a receivable from the divestment of the Pandion product line (DKK 7.7m). The Group expects that the receivable will be fully paid within a 12 months period.

## 7. ISSUED SHARE CAPITAL AND RESERVES

Authorised shares	2019	2018
	<i>Thousands</i>	<i>Thousands</i>
Ordinary shares of DKK 0.25 each at 1 January	31,923	23,877
Increase in ordinary shares DKK 0.25 each	51,145	46
<b>Ordinary shares of DKK 0.25 each at 30 June</b>	<b>83,068</b>	<b>23,923</b>

## 8. COMMITMENTS AND CONTINGENCIES

### *Collaterals*

The Group has issued a floating charge in the amount of DKK 25m secured on receivables, inventories and equipment as collateral for bank debt

### *Right-of-use assets commitments*

The Groups' right-of-use assets commitments relate to cars and office facilities. Future minimum payments under operating leases at 30 June 2019 is DKK 5,6m.

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