

NAPATECH
HALF-YEAR REPORT 2023



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MANAGEMENT'S REPORT

Napatech is a leading global provider of Smart Network Interface Cards (SmartNIC) and Infrastructure Processing Units (IPU) used by cloud, enterprise, and telecommunication network operators to dramatically improve the performance and economics of servers and appliances in modern data centres.

Napatech's half-year results represent a mix of short-term activity from current customers and an array of positive news that reflects the validation of our strategic plans. Combined, this allows us to affirm our 2023 financial guidance as an important short-term milestone and express confidence in our investments in products, people and partnerships that support our design-win pipeline and aspirations for 2024-2026 revenue growth.

Napatech's half-year financial results for 2023 mirror the general market conditions for global IT spending. Our European and Asian regions continue to perform according to plan, while North America, the home of our largest mix of prospects, pipeline, customers, and revenue, has continued to exhibit caution in IT spending. Several leading industry analysts have reported slower than anticipated server sales through the first half of 2023 and a return to growth in 2H-2023 and 1H-2024. As a leading indicator of Napatech demand, the server market also matches Napatech's pipeline, with several opportunities within enterprise, government and OEM customers deferred from the first half of the year yet still anticipated in 2023.

In Q2'23, we announced a strategic agreement with Netscout, alongside a USD 7.5 million investment in Napatech. The agreement and associated investment are the extensions of a successful, long-term relationship, where Napatech's products over the years have been leveraged by Netscout to meet the demanding requirements of Netscout's market-leading solutions. During 2023 we look forward to brief about business opportunities because of this enhanced collaboration between the companies.

Within the broader market, several indicators continue to support the market growth forecasts for Napatech SmartNICs and Infrastructure Processing Units. Leading industry analysts forecast strong customer demand for new projects in traditional segments for cybersecurity, cloud infrastructure, and telco 5G infrastructure, as well as predicted solid growth in emerging segments, including private enterprise 5G networks and data centre server acceleration for networking and storage workloads driven by an explosion of artificial intelligence (AI) applications. Each of these areas aligns with our product and technology strategy and our development investments and underpins our goals for 2024-2025 design-win pipeline development.

During the first half of the year, Napatech made notable results that individually contributed to achieving our 2023 plans and collectively provided increasing visibility to our 2024-2026 business development aspirations.

We continued the development of complete hardware and software solutions for SmartNIC's and IPUs in our partnership with Intel, allowing us to position Napatech for new high-growth market segments with Intel that, while we are still early in the customer engagement process, are transformational to our business scale. We are targeting a global public launch, orderability and delivery of the IPU products and solutions in 2023.

We remain on schedule with our developments for the recently announced tier-1 OEM design win with F5 Networks, resulting in initial purchase orders for 2023 and preliminary volume forecast projects through 2024 to 2026.

We continued to expand our go-to-market reach with partnerships for complete solutions for applications and services that are forecasted to be among the highest-growth segments for SmartNICs and IPUs in the future, with the leading suppliers of complementary hardware and software solutions in our ecosystem. It includes top global server manufacturers Jabil, Kontron, and Advantech, with three others in progress. It also includes leading software application vendors in 5G, such as A5G Networks and Druid Software, with six others in progress, and trusted firms in financial services like Orthogone and Databento. These partnerships have moved beyond agreements and into pipeline building, spanning active customer engagements, including demonstrations, proof-of-concepts, and trials. We also continue to develop new markets and opportunities as a part of our AMD partnership.

In summary, I am pleased to report that Napatech remains on track to meet our objectives for 2023. Perhaps more importantly, I am inspired that several aspects of our strategic plan have progressed somewhat faster than we previously anticipated. While still early, these activities strengthen our confidence in our growth ambitions.

Best regards,



Henrik Brill Jensen
Chief Executive Officer

Highlights H1:

- Revenue in USD amounted to 10.9m in H1 2023, a decline of 16% compared to H1 2022. In DKK, revenue amounted to 74.9m, a decline of 15% compared to H1 2022.
- The gross margin in H1 2023 was 66%, an increase of 7%-points compared to H1 2022.
- Staff costs and Other external costs in H1 2023 amounted to DKK 72.7m compared to DKK 73.6m in H1 2022.
- EBITDAC¹ in H1 2023 amounted to negative DKK 23.5m compared to negative DKK 22.0m in H1 2022.
- EBITDA in H1 2023 amounted to negative DKK 16.4m compared to negative DKK 9.0m in H1 2022.
- Depreciation, amortization, and impairment for H1 2023 were DKK 16.0m compared to DKK 11.9m in H1 2022.
- Net Cash flow from operating activities in H1 2023 was positive DKK 0.2m compared to positive DKK 2.2m in H1 2022.
- Net working capital end of H1 2023 amounted to DKK 38.5m compared to DKK 38.9m end of H1 2022 and DKK 55.7m end of 2022.
- Net cash used in investing activities in H1 2023 amounted to DKK 8.7m compared to DKK 19.5m in H1 2022.
- Cash and cash equivalents at the end of H1 2023 amounted to DKK 56.0m compared to DKK 37.5m at the end of H1 2022.

Highlights Q2:

- Revenue in USD amounted to 5.5m in Q2 2023, an increase of 10% compared to Q2 2022. In DKK, revenue amounted to 37.8m, an increase of 7% compared to Q2 2022.
- The gross margin in Q2 2023 was 76%, an increase of 6%-points compared to Q2 2022.
- Staff costs and Other external costs in Q2 2023 amounted to DKK 34.3m compared to DKK 37.9m in Q2 2022.
- EBITDAC in Q2 2023 amounted to negative DKK 5.6m compared to negative DKK 12.9m in Q2 2022.
- EBITDA in Q2 2023 amounted to negative DKK 3.5m compared to negative DKK 6.9m in Q2 2022.
- Depreciation, amortization, and impairment for Q2 2023 were DKK 8.3m compared to DKK 6.2m in Q2 2022.
- Net Cash flow from operating activities in Q2 2023 was negative DKK 23.1m compared to positive DKK 2.5m in Q2 2022.
- Net cash used in investing activities in Q2 2023 amounted to DKK 2.6m compared to DKK 8.6m in Q2 2022.

Key figures²:

	Q2 2023	Q2 2022	H1 2023	H1 2022
Revenue USD m	5.5	5.0	10.9	12.9
Growth YoY USD m	10%	-33%	-16%	-15%
Revenue DKK m	37.8	35.5	74.9	87.7
Growth YoY DKK m	7%	-24%	-15%	-6%
Gross Margin	76%	70%	66%	59%
EBITDAC DKK m	-5.6	-12.9	-23.5	-22.0
EBITDA DKK m	-3.5	-6.9	-16.4	-9.0
Net Cash Flow from Operating Activities DKK m	-23.1	2.5	0.2	2.2
Net Working Capital, end of period DKK m	38.5	38.9	38.5	38.9
Cash and cash equivalents, end of period DKK m	56.0	37.5	56.0	37.5

This is Napatech

Napatech is a Danish tech company developing high-performance, programmable network interface cards and software for programmable NICs. The Napatech software suite ensures broad compatibility and seamless integration for our family of FPGA-based SmartNICs. With support for all major systems and a common API that easily integrates with custom-developed, open source, or commercial applications, we enable significantly reduced time-to-market for new products.

Additional information is available at www.napatech.com/investor.

¹ EBITDAC: Earnings before depreciation, amortization and impairment, and cost transferred to development projects.

² Definitions: Gross Margin is calculated as 'Gross Profit' / 'Revenue'; EBITDAC is calculated as 'Earnings Before Interest, Taxes, Depreciation and Amortization' before staff costs transferred to capitalized development costs; EBITDA is calculated as 'Earnings Before Interest, Taxes, Depreciation and Amortization'; Net working capital represents the value of inventories, trade receivables of other current operating assets less trade payables and other current operating liabilities. Cash and cash equivalents and income tax receivable or payable are not part of the net working capital; Cash flows from operating activities are profit or loss before tax added or deducted changes in the net working capital, added or deducted changes in provisions and added the yearly depreciation and amortization; Free cash flow is net cash flow from operating activities added or deducted investing activities.

Revenue and Gross Margin*H1*

Napatech reports revenue of DKK 74.9m in the first half of 2023 compared to DKK 87.7m in the same period in 2022, equivalent to a decline of 15%. In USD, revenue was down 16% compared to H1 2022.

The gross margin in H1 2023 was 66% compared to 59% in H1 2022.

Q2

Napatech reports revenue of DKK 37.8m in Q2 2023 compared to DKK 35.5m in the same period in 2022, equivalent to an increase of 7%. In USD, revenue grew 10% compared to Q2 2022.

The gross margin in Q2 2023 was 76% compared to 70% in Q2 2022.

Costs*H1*

Staff costs and Other external costs in H1 2023 amounted to DKK 72.7m, compared to DKK 73.6m in H1 2022.

Operating expenses after transferal of staff costs to capitalized development costs in H1 2023 amounted to DKK 65.5m, compared to DKK 60.6m in H1 2022.

Q2

Staff costs and Other external costs in Q2 2023 amounted to DKK 34.3m, compared to DKK 37.9m in Q2 2022.

Operating expenses after transferal of staff costs to capitalized development costs in Q2 2023 amounted to DKK 32.2m, compared to DKK 31.9m in Q2 2022.

EBITDAC and EBITDA*H1*

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to negative DKK 23.5m in H1 2023 compared to negative DKK 22.0m in H1 2022.

EBITDA in H1 2023 was negative DKK 16.4m compared to negative DKK 9.0m in H1 2022.

Q2

EBITDAC amounted to negative DKK 5.6m in Q2 2023 compared to negative DKK 12.9m in Q2 2022.

EBITDA in Q2 2023 was negative DKK 3.5m compared to negative DKK 6.9m in Q2 2022.

Depreciation, amortization, and impairment*H1*

Depreciation, amortization, and impairment in H1 2023 were DKK 16.0m compared to DKK 11.9m in Q2 2022.

Q2

Depreciation, amortization, and impairment in Q2 2023 were DKK 8.3m compared to DKK 6.2m in Q2 2022.

Financial Items*H1*

Financial items for H1 2023 were negative DKK 1.7m compared to a positive DKK 2.9m in H1 2022.

Q2

Financial items for Q2 2023 were negative DKK 0.7m compared to a positive DKK 1.8m in Q2 2022.

Taxes*H1*

Taxes for H1 2023 amounted to a cost of DKK 0.7m compared to a cost of DKK 0.0m in H1 2022.

Q2

Taxes for Q2 2023 amounted to a cost of DKK 0.7m compared to a cost of DKK 0.0m in Q2 2022.

Investments*H1*

The total net cash used in investing activities in H1 2023 was DKK 8.7m, of which DKK 8.2m was invested in new product development. In H1 2022, the total net cash used in investing activities was DKK 19.5m, of which DKK 17.1m was invested in new product development.

Q2

The total net cash used in investing activities in Q2 2023 was DKK 2.6m, of which DKK 2.1m was invested in new product development. In Q2 2022, the total net cash used in investing activities was DKK 8.6m, of which DKK 8.3m was invested in new product development.

Cash Flow*H1*

Net cash flow from operating activities in H1 2023 was positive DKK 0.2m compared to positive DKK 2.2m in H1 2022.

Free cash flow in H1 2023 amounted to negative DKK 8.5m compared to negative DKK 17.3m in H1 2022.

Net cash from financing activities in H1 2023 was positive DKK 53.1m, compared to positive DKK 15.4m in H1 2022.

Cash and cash equivalents end of H1 2023 was DKK 56.0m compared to DKK 37.5m at the end of H1 2022.

Q2

Net cash flow from operating activities in Q2 2023 was negative DKK 23.1m compared to positive DKK 2.5m in Q2 2022.

Free cash flow in the quarter amounted to negative DKK 25.7m compared to negative DKK 6.1m in Q2 2022.

Net cash from financing activities in Q2 2023 was positive DKK 69.5m, compared to a positive DKK 10.5m in Q2 2022.

Changes in equity

The company's equity amounted to DKK 108.0m on June 30, 2023, this is an increase of DKK 19.7 from December 31, 2022.

In H1 2023, equity was decreased by comprehensive income with DKK -35.0m and increased with DKK 54.7m by transactions with shareholders, hereof 53,7m from a cash raise.

Shareholders and Share Information

Napatech, as of June 30, 2023, had 90,175,700 shares, each with a nominal value of DKK 0.25. The share capital is DKK 22,543,925.00, divided among the 1,215 shareholders.

Investor	No. of shares	% of total	TYPE
VERDANE CAPITAL VIII	22,613,618	25.07%	Ordinary
SUNDT AS	8,622,000	9.56%	Ordinary
J.P. MORGAN SE	6,200,738	6.88%	Nominee
LUDVIG LORENTZEN AS	6,000,000	6.65%	Ordinary
SKANDINAVISKA ENSKILDA BANKEN AB	4,483,681	4.97%	Nominee
ARBEJDSMARKEDETS TILLAEGSPENSION	4,000,000	4.44%	Ordinary
BROWNSKE BEVEGELSER AS	2,741,147	3.04%	Ordinary
SKANDINAVISKA ENSKILDA BANKEN AB	2,084,580	2.31%	Nominee
MP PENSIJON PK	1,995,384	2.21%	Ordinary
SKANDINAVISKA ENSKILDA BANKEN AB	1,899,779	2.11%	Nominee
PRIVATE INVESTOR	1,857,859	2.06%	Ordinary
DANSKE BANK A/S	1,821,512	2.02%	Nominee
THE BANK OF NEW YORK MELLON SA/NV	1,459,728	1.62%	Nominee
NORDNET BANK AB	1,430,405	1.59%	Nominee
JPMORGAN CHASE BANK, N.A., LONDON	1,421,126	1.58%	Nominee
NORDEA BANK ABP	1,299,130	1.44%	Nominee
EXTELLUS AS	1,184,136	1.31%	Ordinary
J.P. MORGAN SE	1,136,484	1.26%	Nominee
THE BANK OF NEW YORK MELLON SA/NV	1,069,318	1.19%	Nominee
BNP PARIBAS	1,048,658	1.16%	Nominee
Total number owned by top 20	74,369,283	82.45%	
Total 1195 other shareholders	15,806,417	17.55%	
Total Number of shares	90,175,700	100%	

Events after the end of the period

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

Outlook for 2023

The 2023 guidance remains unchanged:

	Guidance
Revenue	DKK 180-200m
Gross margin	68-71%
Staff expenses & Other external costs	DKK 160-170m
Staff costs transferred to capitalized development costs	DKK 20-25m

With performance in the middle of the guided ranges, EBITDA would be negative DKK 10.5m.

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's 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, 2023

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 on June 30, 2023, and of the results of the Group's operations and cash flows for the period January 1 to June 30, 2023.

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 24, 2023

Executive Management



Henrik Brill Jensen, CEO



Heine Thorsgaard, CFO

Board of Directors




Lars Boilesen, Chairman



Howard Bubb



Christian Jepsen



Thomas Bonnerud



Beth Topolovsky



Danny Lobo

INCOME STATEMENT

For the period ended June 30, 2023

DKK'000	Note	2nd quarter		H1	
		2023	2022	2023	2022
Revenue	3	37,846	35,484	74,942	87,721
Cost of goods sold		(9,191)	(10,528)	(25,757)	(36,128)
Gross profit		28,655	24,956	49,185	51,593
Staff costs		(23,455)	(27,659)	(52,911)	(56,295)
Other external costs		(10,810)	(10,208)	(19,776)	(17,298)
EBITDAC		(5,610)	(12,911)	(23,502)	(22,000)
Transferred to capitalized development costs		2,065	5,965	7,144	13,029
EBITDA		(3,545)	(6,946)	(16,358)	(8,971)
Depreciation, amortization and impairment		(8,300)	(6,223)	(16,026)	(11,929)
Operating result (EBIT)		(11,845)	(13,169)	(32,384)	(20,900)
Finance income		2	2,242	5	3,511
Finance costs		(662)	(436)	(1,690)	(563)
Result before tax		(12,505)	(11,363)	(34,069)	(17,952)
Income tax		(665)	(35)	(672)	(33)
Result for the period		(13,170)	(11,398)	(34,741)	(17,985)

Earnings / (loss) per share:	4	H1	
		2023	2022
Basic, DKK		(0.40)	(0.22)
Diluted, DKK		(0.40)	(0.22)

STATEMENT OF COMPREHENSIVE INCOME

For the period ended June 30, 2023

DKK'000	H1	
	2023	2022
Result for the period	(34,741)	(17,985)
<i>Items that may be reclassified to profit and loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(266)	(330)
Other comprehensive income after tax	(266)	(330)
Total comprehensive income	(35,007)	(18,315)

CASH FLOW STATEMENT
For the period ended June 30, 2023

DKK'000	2nd quarter		H1	
	2023	2022	2023	2022
Operating activities				
Income/Loss before tax	(12,505)	(11,363)	(34,069)	(17,952)
Adjustments to reconcile profit before tax to net cash flows				
Finance income	(2)	(2,242)	(5)	(3,511)
Finance costs	662	436	1,690	563
Depreciation, amortisation and impairment	8,300	6,223	16,026	11,929
Share-based payment expense	488	2,003	1,350	2,818
Working capital adjustments				
Change in inventories	(4,549)	(4,552)	(6,097)	(492)
Change in trade and other receivables, right-of-return asset and prepayments	975	12,797	39,320	7,108
Change in trade and other payables, provisions, refund liability and contract liabilities	(15,116)	(419)	(16,296)	2,215
Interest received	2	-	5	7
Interest paid	(674)	(388)	(1,093)	(462)
Income tax received, net	(670)	(34)	(670)	(34)
Net cash flows from operating activities	(23,089)	2,461	161	2,189
Investing activities				
Purchase of tangible assets	(345)	(269)	(393)	(2,367)
Investments in intangible assets	(2,120)	(8,275)	(8,150)	(17,075)
Investments in leasehold deposits	(144)	(40)	(144)	(40)
Net cash used in investing activities	(2,609)	(8,584)	(8,687)	(19,482)
Free cash flow	(25,698)	(6,123)	(8,526)	(17,293)
Financing activities				
Capital increase	53,740	-	53,740	-
Transaction costs on issue of shares	(365)	-	(365)	-
Share buyback	-	(264)	64	(264)
Payment of financial lease liabilities	(880)	(738)	(1,638)	(1,486)
Proceeds from borrowings	-	11,545	-	26,294
Repayment of borrowings	16,965	(14)	1,326	(9,170)
Net cash flows from financing activities	69,460	10,529	53,127	15,374
Net change in cash and cash equivalents	43,762	4,406	44,601	(1,919)
Net foreign exchange difference	5	(289)	(519)	(4)
Cash and cash equivalents at the beginning of the period	12,277	33,409	11,962	39,449
Cash and cash equivalents at the end of the period	56,044	37,526	56,044	37,526

BALANCE SHEET

ASSETS

DKK'000	Note	30 June 2023	31 Dec. 2022	30 June 2022
Development projects, completed		49,230	35,102	37,218
Development projects, in progress		-	18,383	13,663
Patents		2,021	2,351	2,683
Intangible assets	5	51,251	55,836	53,564
Plant and equipment		4,329	5,551	7,158
Right-of-use assets		9,513	4,708	5,853
Leasehold improvements		475	635	795
Tangible assets		14,317	10,894	13,806
Deferred tax asset		-	-	9,715
Leasehold deposits		1,541	1,397	1,397
Other non-current assets		1,541	1,397	11,112
Non-current assets		67,109	68,127	78,482
Inventories		44,951	38,854	24,615
Trade receivables		12,786	59,553	24,783
Right-of-return asset		-	-	37
Prepayments		2,004	1,164	-
Other receivables		15,121	8,808	14,322
Income tax receivable		5,500	5,500	-
Cash and cash equivalents		56,044	11,962	37,526
Current assets		136,406	125,841	101,283
Total assets		203,515	193,968	179,765

EQUITY AND LIABILITIES

DKK'000	Note	30 June 2023	31 Dec. 2022	30 June 2022
Share capital	6	22,544	20,774	20,774
Share premium		343,013	290,457	290,435
Treasury shares	7	(2,456)	(2,520)	(264)
Foreign currency translation reserve		(22)	244	(60)
Other capital reserves		10,157	13,860	11,027
Retained earnings		(265,251)	(234,560)	(204,201)
Equity		107,985	88,255	117,711
Interest-bearing loans and borrowings		9,758	9,758	9,758
Other non-current financial liabilities		4,633	4,568	4,751
Non-current lease liabilities		6,500	2,017	3,315
Non-current contract liabilities		3,744	3,744	-
Non-current liabilities		24,635	20,087	17,824
Interest-bearing loans and borrowings		35,031	33,770	16,536
Current lease liabilities		3,247	2,929	2,804
Trade payables		4,045	11,821	10,497
Other payables		10,603	6,538	12,398
Income tax payable		-	-	16
Provisions		-	-	267
Contract liabilities		17,969	30,568	1,558
Refund liabilities		-	-	154
Current liabilities		70,895	85,626	44,230
Total liabilities		95,530	105,713	62,054
Total equity and liabilities		203,515	193,968	179,765

STATEMENT OF CHANGES IN EQUITY

DKK'000	Share capital	Share premium	Treasury shares	Foreign currency translation reserve	Share based payment reserve	Retained earnings	Total equity
H1 2023							
Equity at January 1	20,774	290,457	(2,520)	244	13,860	(234,560)	88,255
Result for the period	-	-	-	-	-	(34,741)	(34,741)
Total other comprehensive income	-	-	-	(266)	-	-	(266)
Total comprehensive income for the period	-	-	-	(266)	-	(34,741)	(35,007)
Transactions with shareholders							
Issue of shares	1,770	51,970	-	-	-	-	53,740
Transaction costs	-	(365)	-	-	-	-	(365)
Share buyback	-	-	64	-	-	-	64
Reversal, exercised and lapsed options	-	951	-	-	(5,053)	4,050	(52)
Share-based payments	-	-	-	-	1,350	-	1,350
Equity at June 30	22,544	343,013	(2,456)	(22)	10,157	(265,251)	107,985
H1 2022							
Equity at January 1	20,774	290,435	-	270	8,242	(186,249)	133,472
Result for the period	-	-	-	-	-	(17,985)	(17,985)
Total other comprehensive income	-	-	-	(330)	-	-	(330)
Total comprehensive income for the period	-	-	-	(330)	-	(17,985)	(18,315)
Transactions with shareholders							
Share buyback	-	-	(264)	-	-	-	(264)
Reversal, exercised and lapsed options	-	-	-	-	(33)	33	-
Share-based payments	-	-	-	-	2,818	-	2,818
Equity at June 30	20,774	290,435	(264)	(60)	11,027	(204,201)	117,711
2022							
Equity at January 1	20,774	290,435	-	270	8,242	(186,249)	133,472
Result for the period	-	-	-	-	-	(48,259)	(48,259)
Total other comprehensive income	-	-	-	(26)	-	-	(26)
Total comprehensive income for the period	-	-	-	(26)	-	(48,259)	(48,285)
Transactions with shareholders							
Issue of shares	-	22	-	-	-	-	22
Share buyback	-	-	(2,634)	-	-	-	(2,634)
Reversal, exercised and lapsed options	-	-	114	-	(56)	(52)	6
Share-based payments	-	-	-	-	5,674	-	5,674
Equity at December 31	20,774	290,457	(2,520)	244	13,860	(234,560)	88,255

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The interim condensed 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.

All new or amended standards (IFRS) and interpretations (IFRIC) as adopted by the EU and which are effective for the financial year beginning on January 1 2023, have been adopted. The implementation of these new or amended standards and interpretations had no impact on the interim condensed consolidated financial statements.

The accounting policies are consistent with those applied to the consolidated financial statements for 2022 except for the segment reporting, which has been changed from January 1, 2023, due to the contract for engineering services announced in December 2022, generating revenue of material size in 2023. Engineering services are now considered a separate segment from SmartNIC products due to the difference in economic characteristics and the timing of revenue recognition. The revenue from engineering service contracts is recognized in the income statement based on the completion stage (over time) according to IFRS 15, while the main part of the revenue from SmartNIC products is recognized in the income statement at a point in time. Comparative figures for the segment information have been re-stated according to the new segment reporting. The performance of the segments is monitored to the level of gross profit. Hence assets and liabilities for individual segments are not presented.

The consolidated financial statements for 2022 contain a full description of accounting policies.

The interim condensed consolidated financial statements

The interim condensed consolidated financial statements comprise the parent company, Napatech A/S, and its subsidiary. The subsidiary is 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 financial statements of the subsidiary are prepared for the same reporting period as the parent company's financial statements, using consistent accounting policies. The consolidated financial statements are prepared as a consolidation of the parent company's and the subsidiary's financial statements, eliminating all intragroup balances, transactions, unrealized gains and losses, and dividends.

The interim condensed consolidated financial statements are prepared on a historical cost basis.

The interim condensed consolidated financial statements are presented in thousand Danish kroner (DKK'000).

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

The preparation of the interim condensed 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 makes are the same for these interim condensed consolidated financial statements as for the consolidated financial statements for 2022.

3. OPERATING SEGMENTS

The following tables present revenue and gross profit information about the Group's operating segments for H1 2023 and H1 2022, respectively:

Geographical segments

H1 2023

DKK'000	AMERICAS	ROW	Consolidated
Revenue			
Total revenue	55,372	19,570	74,942
Cost of goods sold	(18,327)	(7,430)	(25,757)
Segment gross profit	37,045	12,140	49,185

H1 2022

DKK'000	AMERICAS	ROW	Consolidated
Revenue			
Total revenue	75,665	12,056	87,721
Cost of goods sold	(32,789)	(3,339)	(36,128)
Segment gross profit	42,876	8,717	51,593

Explanation of abbreviations:

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

The geographical segmentation is based on the location of the customers.

Business segments

H1 2023

DKK'000	SmartNIC Products	Engineering services	Consolidated
Revenue			
Total revenue	62,341	12,601	74,942
Cost of goods sold	(25,754)	(3)	(25,757)
Segment gross profit	36,586	12,599	49,185

H1 2022

DKK'000	SmartNIC Products	Engineering services	Consolidated
Revenue			
Total revenue	86,080	1,641	87,721
Cost of goods sold	(36,128)	-	(36,128)
Segment gross profit	51,593	1,641	53,234

Revenue from Engineering services is considered a separate segment from SmartNIC products due to the difference in economic characteristics and the timing of recognition of revenue. The revenue from engineering service contracts is recognized in the income statement based on the stage of completion (over time) according to IFRS 15, while the main part of the revenue from SmartNIC products is recognized in the income statement at a point in time. Comparative figures for the segment information have been re-stated according to the new segment reporting. The performance of the segments is monitored to the level of gross profit, hence assets and liabilities for individual segments are not presented.

Adjustments and eliminations

Research and development costs, selling and distribution expenses, administrative expenses, finance income and finance costs, as well as non-current assets, current taxes and deferred taxes, are not allocated to individual segments as they are managed on a group basis.

4. EARNINGS PER SHARE

DKK'000	H1	
	2023	2022
Net profit attributable to equity holders of the parent company for basic earnings and the effect of dilution	(34,741)	(17,985)
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Thousands	H1	
	2023	2022
Weighted average number of shares for basic earnings per share	85,889	83,095
Effect of dilution:		
Share options	-	-
Weighted average number of shares adjusted for the effect of dilution	85,889	83,095
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Number of share options with potential effect of dilution:	2,306	4,193

5. INTANGIBLE ASSETS

DKK'000	Development projects, completed	Development projects, in progress	Patents	Total
Cost at 1 January 2023	304,364	18,383	10,435	333,182
Additions in the period	-	8,150	-	8,150
Transfers	26,533	(26,533)	-	-
Cost at 30 June 2023	330,897	-	10,435	341,332
Accumulated amortisation at 1 January 2023	269,262	-	8,084	277,346
Amortisation for the period	12,405	-	330	12,735
Accumulated amortisation and impairment 30 June 2023	281,667	-	8,414	290,081
Carrying amount at 30 June 2023	49,230	-	2,021	51,251

The annual impairment test for the intangible assets will be performed on December 31, 2023. As of June 30, 2023, the Management has assessed that there were no indications of impairment concerning the Group's intangible assets in the reporting period.

6. ISSUED SHARE CAPITAL AND RESERVES

Authorised shares	2023	2022
	<i>Thousands</i>	<i>Thousands</i>
Ordinary shares of DKK 0.25 each at 1 January	83,095	83,095
Increase in ordinary shares DKK 0.25 each	7,080	-
Ordinary shares of DKK 0.25 each at 30 June	90,175	83,095

7. TREASURY SHARES

Treasury shares have been acquired with the purpose of settling share options in the Group's share option program.

8. COMMITMENTS AND CONTINGENCIES*Collaterals*

The Group has issued a floating charge of DKK 40 million secured on receivables, inventories, patents and plant and equipment as collateral for loans.

Napatech A/S

Tobaksvejen 23A, 1
DK-2860 Søborg
Denmark
CVR no. 10109124

Phone: +45 4596 1500

www.napatech.com