

NAPATECH
HALF-YEAR REPORT 2024



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MANAGEMENT'S REPORT

As I began to pen our management report for the first half of 2024, I thought about both our long-time investors as well as the many new investors and followers who have been drawn to Napatech in recent months. I am pleased to share with everyone our results for the second quarter and first half of 2024. The first half of 2024 has progressed largely according to expectations, particularly good progress in reaching important design wins and mileposts of our strategic plan that have clearly strengthened our position as an early leader in the new and evolving market for programmable NICs. However, the revenues in Q1 and Q2 have clearly been weaker than expected.

Napatech is a leading global provider of Programmable NICs, including 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.

Our strategy remains anchored in three areas. First, servicing our valuable customers who are early adopters of Programmable NICs. They are a proving-ground for the technology and the value that our solutions bring to their businesses. Next, accelerating our engineering investments into hardware and software that extend our offering into new, high-growth segments. Finally, developing a robust ecosystem that extends our own go-to-market reach via marketing, business development and sales partnerships.

I would like to share a few highlights from the first half of 2024 that give us confidence we are executing upon our strategy:

- To begin, in early April, Napatech extended our agreements with Altera, an Intel company, to include a next-generation 400G Infrastructure Processing Unit, or IPU. The collaboration develops new programmable NIC hardware and software solutions based on an architecture that promises to enable an innovative approach to powering modern public cloud, private cloud, edge, and enterprise data centers built for the era of artificial intelligence.
- Next, on April 18, we disclosed that the 400G IPU product design with Intel/Altera was developed in partnership with a tier-1, global server OEM that continues to lead in enterprise and cloud data center deployments. The collaboration was anchored by commercial agreements, associated statements of work that define the product specifications, and professional services fees from both companies to Napatech. I am happy to report that our engineering team has met every development milestone on, and in some cases ahead of schedule.
- On May 2, based on these developments, we increased our guidance on the impact from design-wins for these new products, from 30,000-40,000 units to 50,000-60,000 units in their peak annual production years.
- On May 7, Napatech completed a private placement capital raise from 9,000,000 shares at a subscription price of NOK 25.00 – above the market price at the time. The Private Placement was significantly oversubscribed and attracted interest from high-quality accounts, as well as receiving strong support from existing shareholders. ABG Sundal Collier ASA and SpareBank 1 Markets AS served as managers of the Private Placement
- On August 1, Amantya, a company focused on 5G infrastructure, specifically user plane function offload, or “UPF Offload”, disclosed that they had successfully completed the engineering integration of their 5G packet core solutions on Napatech programmable NICs. The integration significantly enhances their solution's performance and scalability, enabling them to offer superior private 5G network services to their clients.
- On August 22, we disclosed our latest design-win for our Intel-based IPUs, SigmaX.AI, an innovative provider of high-performance and cost-effective big-data analytics solutions for an exploding list of datacenter and edge computing artificial intelligence workloads. This design win represents another new customer for Napatech, created by our business development partnership with Intel, and from our new Intel-based IPU products.
- Combined, these key areas of success allow us today to reaffirm our design-win guidance for 2024.

Taking a broader view of the information technology market, there are signs of macro, tops-down industry headwinds that can include less spending, longer buying cycles, and increased design-win development schedules. These issues, combined with our customers' inventory corrections, will continue to create short-term uncertainty in the revenue from our existing business for the remainder of 2024. The primary risk for the second half of 2024 is that we do not have direct control over our customers and the certainty and timing of their business, but we are prepared to fulfil their demand as is currently projected to us.

The second half of the year promises new product development milestones, along with collaborative business opportunities that will push the boundaries of what we can achieve. With your continued support, we are poised to make Napatech's future even brighter.

Best regards,

Lars Boilesen
Chief Executive Officer

Highlights H1:

- Revenue in USD amounted to 6.5m in H1 2024, a decline of 40% compared to H1 2023. In DKK, revenue amounted to 44.7m, a decline of 40% compared to H1 2023.
- The gross margin in H1 2024 was 68%, an increase of 2%-points compared to H1 2023.
- Staff costs and Other external costs in H1 2024 amounted to DKK 83.9m compared to DKK 72.7m in H1 2023.
- EBITDAC¹ in H1 2024 amounted to negative DKK 53.4m compared to negative DKK 23.5m in H1 2023.
- EBITDA in H1 2024 amounted to negative DKK 51.7m compared to negative DKK 16.4m in H1 2023.
- Depreciation, amortization, and impairment for H1 2024 were DKK 15.6m compared to DKK 16.0m in H1 2023.
- Net Cash flow from operating activities in H1 2024 was negative DKK 47.4m compared to positive DKK 0.2m in H1 2023.
- Net working capital end of H1 2024 amounted to DKK 65.2m compared to DKK 38.5m end of H1 2023 and DKK 65.5m end of 2023.
- Net cash used in investing activities in H1 2024 amounted to DKK 3.7m compared to DKK 8.7m in H1 2023.
- Cash and cash equivalents at the end of H1 2024 amounted to DKK 103.2m compared to DKK 56.0m at the end of H1 2023.

Highlights Q2:

- Revenue in USD amounted to 3.4m in Q2 2024, a decline 39% compared to Q2 2023. In DKK, revenue amounted to 23.2m, a decline of 39% compared to Q2 2023.
- The gross margin in Q2 2024 was 65%, a decline of 11%-points compared to Q2 2023.
- Staff costs and Other external costs in Q2 2024 amounted to DKK 43.3m compared to DKK 34.3m in Q2 2023.
- EBITDAC in Q2 2024 amounted to negative DKK 28.2m compared to negative DKK 5.6m in Q2 2023.
- EBITDA in Q2 2024 amounted to negative DKK 27.4m compared to negative DKK 3.5m in Q2 2023.
- Depreciation, amortization, and impairment for Q2 2024 were DKK 7.7m compared to DKK 8.3m in Q2 2023.
- Net Cash flow from operating activities in Q2 2024 was negative DKK 41.9m compared to negative DKK 23.1m in Q2 2023.
- Net cash used in investing activities in Q2 2024 amounted to DKK 2.7m compared to DKK 2.6m in Q2 2023.

Key figures²:

	Q2 2024	Q2 2023	FY 2024	FY 2023
Revenue USD m	3.4	5.5	6.5	10.9
Growth YoY USD m	-39%	10%	-40%	-16%
Revenue DKK m	23.2	37.8	44.7	74.9
Growth YoY DKK m	-39%	7%	-40%	-15%
Gross Margin	65%	76%	68%	66%
EBITDAC DKK m	-28.2	-5.6	-53.4	-23.5
EBITDA DKK m	-27.4	-3.5	-51.7	-16.4
Net Cash Flow from Operating Activities DKK m	-41.9	-23.1	-47.4	0.2
Net Working Capital, end of period DKK m	65.2	38.5	65.2	38.5
Cash and cash equivalents, end of period DKK m	103.2	56.0	103.2	56.0

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 44.7m in the first half of 2024 compared to DKK 74.9m in the same period in 2023, equivalent to a decline of 40%. In USD, revenue was down 40% compared to H1 2023.

The gross margin in H1 2024 was 68% compared to 66% in H1 2023.

Q2

Napatech reports revenue of DKK 23.2m in Q2 2024 compared to DKK 37.8m in the same period in 2023, equivalent to a decline of 39%. In USD, revenue declined 40% compared to Q2 2023.

The gross margin in Q2 2024 was 65% compared to 76% in Q2 2023.

Costs*H1*

Staff costs and Other external costs in H1 2024 amounted to DKK 83.9m, compared to DKK 72.7m in H1 2023.

Operating expenses after transferal of staff costs to capitalized development costs in H1 2024 amounted to DKK 82.2m, compared to DKK 65.5m in H1 2023.

Q2

Staff costs and Other external costs in Q2 2024 amounted to DKK 43.3m, compared to DKK 34.3m in Q2 2023.

Operating expenses after transferal of staff costs to capitalized development costs in Q2 2024 amounted to DKK 42.4m, compared to DKK 32.2m in Q2 2023.

EBITDAC and EBITDA*H1*

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to negative DKK 53.4m in H1 2024 compared to negative DKK 23.5m in H1 2023.

EBITDA in H1 2024 was negative DKK 51.7m compared to negative DKK 16.4m in H1 2023.

Q2

EBITDAC amounted to negative DKK 28.2m in Q2 2024 compared to negative DKK 5.6m in Q2 2023.

EBITDA in Q2 2024 was negative DKK 27.4m compared to negative DKK 3.5m in Q2 2023.

Depreciation, amortization, and impairment*H1*

Depreciation, amortization, and impairment in H1 2024 were DKK 15.6m compared to DKK 16.0m in Q2 2023.

Q2

Depreciation, amortization, and impairment in Q2 2024 were DKK 7.7m compared to DKK 8.3m in Q2 2023.

Financial Items*H1*

Financial items for H1 2024 were negative DKK 0.7m compared to a negative DKK 1.7m in H1 2023.

Q2

Financial items for Q2 2024 were negative DKK 0.7m compared to a negative DKK 0.7m in Q2 2023.

Taxes*H1*

Taxes for H1 2024 amounted to an income of DKK 0.7m compared to a cost of DKK 0.7m in H1 2023.

Q2

Taxes for Q2 2024 amounted to an income of DKK 0.7m compared to a cost of DKK 0.7m in Q2 2023.

Investments*H1*

The total net cash used in investing activities in H1 2024 was DKK 3.7m, of which DKK 1.9m was invested in new product development. In H1 2023, the total net cash used in investing activities was DKK 8.7m, of which DKK 8.2m was invested in new product development.

Q2

The total net cash used in investing activities in Q2 2024 was DKK 2.7m, of which DKK 0.9m was invested in new product development. In Q2 2023, the total net cash used in investing activities was DKK 2.6m, of which DKK 2.1m was invested in new product development.

Cash Flow*H1*

Net cash flow from operating activities in H1 2024 was negative DKK 47.4m compared to positive DKK 0.2m in H1 2023.

Free cash flow in H1 2024 amounted to negative DKK 51.1m compared to negative DKK 8.5m in H1 2023.

Net cash from financing activities in H1 2024 was positive DKK 111.7m, compared to positive DKK 53.1m in H1 2023.

Cash and cash equivalents end of H1 2024 was DKK 103.2m compared to DKK 56.0m at the end of H1 2023.

Q2

Net cash flow from operating activities in Q2 2024 was negative DKK 41.9m compared to negative DKK 23.1m in Q2 2023.

Free cash flow in the quarter amounted to negative DKK 44.6m compared to negative DKK 25.7m in Q2 2023.

Net cash from financing activities in Q2 2024 was positive DKK 120.2m, compared to a positive DKK 69.5m in Q2 2023.

Changes in equity

The company's equity amounted to DKK 190.5m on June 30, 2024, this is an increase of DKK 78.8 from December

31, 2023. On May 7, 2024, Napatech completed a private placement of 9,000,000 shares at a subscription price of NOK 25.00 per share, raising DKK 143 million in gross proceeds.

In H1 2024, equity was decreased by comprehensive income with DKK -66.8m and increased with DKK 145.6m by transactions with shareholders.

Shareholders and Share Information

Napatech, as of June 30, 2024, had 99,614,548 shares, each with a nominal value of DKK 0.25. The share capital is DKK 24,903,548.00, divided among the 2,041 shareholders.

Investor	Number of shares	% of total
SUNDT AS	12,475,975	12.52%
VERDANE CAPITAL VIII	9,713,618	9.75%
LUDVIG LORENTZEN AS	6,600,000	6.63%
J.P. MORGAN SE	6,200,738	6.22%
ARBEJDSMARKEDETS TILLAEGSPENSION	5,800,000	5.82%
BROWNSKE BEVEGELSER AS	3,804,445	3.82%
SKANDINAVISKA ENSKILDA BANKEN AB	3,755,095	3.77%
BANK PICTET & CIE (EUROPE) AG	3,278,405	3.29%
SKANDINAVISKA ENSKILDA BANKEN AB	2,570,863	2.58%
EXTELLUS AS	2,425,411	2.43%
J.P. MORGAN SE	2,389,433	2.40%
PRIVATE INVESTOR	1,900,000	1.91%
MANARA AS	1,860,988	1.87%
SKANDINAVISKA ENSKILDA BANKEN AB	1,826,127	1.83%
THE BANK OF NEW YORK MELLON SA/NV	1,767,022	1.77%
MP PENSJON PK	1,569,090	1.58%
AREPO AS	1,361,535	1.37%
DANSKE BANK A/S	1,311,969	1.32%
BNP PARIBAS	1,271,922	1.28%
NORDNET BANK AB	1,211,842	1.22%
Total number owned by top 20	73,094,478	73.36%
Total 2,021 other shareholders	26,520,070	26.64%
Total Number of shares	99,614,548	100%

Events after the end of the period

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

Outlook for 2024

Since our capital raise in May this year, we have accelerated our development activities significantly to bring new products to the market quickly. As a result, we are updating our guidance for Staff costs and Other external costs in 2024 to be in the range of 170-180 mDKK (previously 145-155 mDKK). Other financial guided ranges remain unchanged with revenue in the range of DKK 170-180m, gross margin in the range of 69-71%, and Staff costs transferred to capitalized development costs in the range of DKK 10-15m

With performance in the middle of the guided ranges, EBITDA would be negative DKK 40 million (previously negative DKK 15 million).

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, 2024

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, 2024, and of the results of the Group's operations and cash flows for the period January 1 to June 30, 2024.

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 22, 2024

Executive Management



Lars Boilesen, CEO

Board of Directors



Christian Jepsen, Chairman



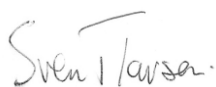
Beth Topolovsky



Howard Bubb



Danny Lobo



Svenn Tore Larsen

INCOME STATEMENT

For the period ended June 30, 2024

DKK'000	Note	2nd quarter		H1	
		2024	2023	2024	2023
Revenue	3	23,176	37,846	44,718	74,942
Cost of goods sold		(8,105)	(9,191)	(14,217)	(25,757)
Gross profit		15,071	28,655	30,501	49,185
Staff costs		(28,581)	(23,455)	(56,339)	(52,911)
Other external costs		(14,726)	(10,810)	(27,562)	(19,776)
EBITDAC		(28,236)	(5,610)	(53,400)	(23,502)
Transferred to capitalized development costs		867	2,065	1,716	7,144
EBITDA		(27,369)	(3,545)	(51,684)	(16,358)
Depreciation, amortization and impairment		(7,699)	(8,300)	(15,643)	(16,026)
Operating result (EBIT)		(35,068)	(11,845)	(67,327)	(32,384)
Finance income		373	2	1,206	5
Finance costs		(1,112)	(662)	(1,869)	(1,690)
Result before tax		(35,807)	(12,505)	(67,990)	(34,069)
Income tax		747	(665)	745	(672)
Result for the period		(35,060)	(13,170)	(67,245)	(34,741)

Earnings / (loss) per share:	4	H1	
		2024	2023
Basic, DKK		(0.73)	(0.40)
Diluted, DKK		(0.73)	(0.40)

STATEMENT OF COMPREHENSIVE INCOME

For the period ended June 30, 2024

DKK'000	H1	
	2024	2023
Result for the period	(67,245)	(34,741)
<i>Items that may be reclassified to profit and loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	400	(266)
Other comprehensive income after tax	400	(266)
Total comprehensive income	(66,845)	(35,007)

CASH FLOW STATEMENT
For the period ended June 30, 2024

DKK'000	2nd quarter		H1	
	2024	2023	2024	2023
Operating activities				
Income/Loss before tax	(35,807)	(12,505)	(67,990)	(34,069)
Adjustments to reconcile profit before tax to net cash flows				
Finance income	(373)	(2)	(1,206)	(5)
Finance costs	1,112	662	1,869	1,690
Depreciation, amortisation and impairment	7,699	8,300	15,643	16,026
Share-based payment expense	2,693	488	4,707	1,350
Working capital adjustments				
Change in inventories	3	(4,549)	(17,342)	(6,097)
Change in trade and other receivables and prepayments	(11,881)	975	14,775	39,320
Change in trade and other payables and contract liabilities	(4,434)	(15,116)	3,477	(16,296)
Interest received	201	2	266	5
Interest paid	(1,072)	(674)	(1,495)	(1,093)
Income tax received, net	(79)	(670)	(80)	(670)
Net cash flows from operating activities	(41,938)	(23,089)	(47,376)	161
Investing activities				
Purchase of tangible assets	(1,740)	(345)	(1,740)	(393)
Investments in intangible assets	(896)	(2,120)	(1,905)	(8,150)
Investments in leasehold deposits	(46)	(144)	(46)	(144)
Net cash used in investing activities	(2,682)	(2,609)	(3,691)	(8,687)
Free cash flow	(44,620)	(25,698)	(51,067)	(8,526)
Financing activities				
Capital increase	144,671	53,740	144,791	53,740
Transaction costs on issue of shares	(5,188)	(365)	(5,188)	(365)
Increase (decrease) through treasury share transactions	-	-	1,491	64
Payment of financial lease liabilities	(873)	(880)	(1,746)	(1,638)
Repayment of borrowings	(18,449)	16,965	(27,621)	1,326
Net cash flows from financing activities	120,161	69,460	111,727	53,127
Net change in cash and cash equivalents	75,541	43,762	60,660	44,601
Net foreign exchange difference	147	5	179	(519)
Cash and cash equivalents at the beginning of the period	27,518	12,277	42,367	11,962
Cash and cash equivalents at the end of the period	103,206	56,044	103,206	56,044

BALANCE SHEET**ASSETS**

DKK'000	Note	30 June 2024	31 Dec. 2023	30 June 2023
Development projects, completed		24,804	36,601	49,230
Development projects, in progress		4,131	2,226	-
Patents		1,424	1,715	2,021
Intangible assets	5	30,359	40,542	51,251
Plant and equipment		4,146	4,390	4,329
Right-of-use assets		6,250	7,881	9,513
Leasehold improvements		378	316	475
Tangible assets		10,774	12,587	14,317
Leasehold deposits		1,587	1,541	1,541
Other non-current assets		1,587	1,541	1,541
Non-current assets		42,720	54,670	67,109
Inventories		52,914	35,572	44,951
Trade receivables		19,193	37,586	12,786
Prepayments		3,594	2,335	2,004
Other receivables		19,461	15,880	15,121
Income tax receivable		6,729	5,885	5,500
Cash and cash equivalents		103,206	42,367	56,044
Current assets		205,097	139,625	136,406
Total assets		247,817	194,295	203,515

EQUITY AND LIABILITIES

DKK'000	Note	30 June 2024	31 Dec. 2023	30 June 2023
Share capital	6	24,904	22,544	22,544
Share premium		481,025	343,064	343,013
Treasury shares	7	(619)	(2,110)	(2,456)
Foreign currency translation reserve		129	(271)	(22)
Other capital reserves		14,555	10,707	10,157
Retained earnings		(329,515)	(262,224)	(265,251)
Equity		190,479	111,710	107,985
Interest-bearing loans and borrowings		8,223	8,601	9,758
Other non-current financial liabilities		4,571	4,433	4,633
Non-current lease liabilities		3,225	4,854	6,500
Non-current contract liabilities		3,306	3,048	3,744
Non-current liabilities		19,325	20,936	24,635
Interest-bearing loans and borrowings		8,123	35,504	35,031
Current lease liabilities		3,275	3,282	3,247
Trade payables		8,277	5,727	4,045
Other payables		11,048	12,495	10,603
Contract liabilities		7,290	4,641	17,969
Current liabilities		38,013	61,649	70,895
Total liabilities		57,338	82,585	95,530
Total equity and liabilities		247,817	194,295	203,515

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
2024							
Equity at January 1	22,544	343,064	(2,110)	(271)	10,707	(262,224)	111,710
Result for the period	-	-	-	-	-	(67,245)	(67,245)
Total other comprehensive income	-	-	-	400	-	-	400
Total comprehensive income for the period	-	-	-	400	-	(67,245)	(66,845)
Transactions with shareholders							
Issue of shares	2,360	142,431	-	-	-	-	144,791
Transaction costs	-	(5,188)	-	-	-	-	(5,188)
Increase (decrease) through treasury share transactions	-	-	1,491	-	-	-	1,491
Reversal, exercised and lapsed options	-	718	-	-	(859)	(46)	(187)
Share-based payments	-	-	-	-	4,707	-	4,707
Equity at June 30	24,904	481,025	(619)	129	14,555	(329,515)	190,479
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
2023							
Equity at January 1	20,774	290,457	(2,520)	244	13,860	(234,560)	88,255
Result for the period	-	-	-	-	-	(32,016)	(32,016)
Total other comprehensive income	-	-	-	(515)	-	-	(515)
Total comprehensive income for the period	-	-	-	(515)	-	(32,016)	(32,531)
Transactions with shareholders							
Issue of shares	1,770	51,970	-	-	-	-	53,740
Transaction costs	-	(365)	-	-	-	-	(365)
Share buyback	-	-	-	-	-	-	-
Reversal, exercised and lapsed options	-	1,002	410	-	(5,689)	4,352	75
Share-based payments	-	-	-	-	2,536	-	2,536
Equity at December 31	22,544	343,064	(2,110)	(271)	10,707	(262,224)	111,710

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 effective for the financial year beginning on January 1, 2024, 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 2023.

The consolidated financial statements for 2023 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, the date on which the parent company obtains control until such control ceases. The subsidiary's financial statements 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, unrealised 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 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 2023.

3. OPERATING SEGMENTS

The following tables present revenue and gross profit information about the Group's operating segments for H1 2024 and H1 2023, respectively:

Geographical segments

H1 2024

DKK'000	AMERICAS	ROW	Consolidated
Revenue			
Total revenue	33,289	11,429	44,718
Cost of goods sold	(11,828)	(2,389)	(14,217)
Segment gross profit	21,461	9,040	30,501

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	37,257	11,928	49,185

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 2024**

DKK'000	SmartNIC Products	Engineering services	Consolidated
Revenue			
Total revenue	42,645	2,073	44,718
Cost of goods sold	(14,217)	-	(14,217)
Segment gross profit	28,428	2,073	30,501

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

Revenue from Engineering services is considered a separate segment from SmartNIC products due to the difference in economic characteristics and the timing of revenue recognition. According to IFRS 15, revenue from engineering service contracts is recognized in the income statement based on the stage of completion (over time), while the main part of the revenue from SmartNIC products is recognized in the income statement at a point in time.

The Group monitors the segments' performance to the level of gross profit. All other income statement items, as well as assets and liabilities, are managed on a group basis and, therefore, are not allocated to individual segments.

4. EARNINGS PER SHARE

DKK'000	H1	
	2024	2023
Net profit attributable to equity holders of the parent company for basic earnings and the effect of dilution	(67,245)	(34,741)

Thousands	H1	
	2024	2023
Weighted average number of shares for basic earnings per share	92,703	85,889
Effect of dilution:		
Share options	-	-
Weighted average number of shares adjusted for the effect of dilution	92,703	85,889

Number of share options with potential effect of dilution:	3,229	2,306
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According to IAS 33 the effect of dilution from share options is not allowed to decrease the loss of earnings per share.

5. INTANGIBLE ASSETS

DKK'000	Development projects, completed	Development projects, in progress	Patents	Total
Cost at 1 January 2024	330,897	2,226	10,435	343,558
Additions in the period	-	1,905	-	1,905
Cost at 30 June 2024	330,897	4,131	10,435	345,463
Accumulated amortisation at 1 January 2024	294,296	-	8,720	303,016
Amortisation for the period	11,797	-	291	12,088
Accumulated amortisation and impairment 30 June 2024	306,093	-	9,011	315,104
Carrying amount at 30 June 2024	24,804	4,131	1,424	30,359

The annual impairment test for the intangible assets will be performed on December 31, 2024. 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	2024	2023
	<i>Thousands</i>	<i>Thousands</i>
Ordinary shares of DKK 0.25 each at 1 January	90,175	83,095
Increase in ordinary shares DKK 0.25 each	9,440	7,080
Ordinary shares of DKK 0.25 each at 30 June	99,615	90,175

7. TREASURY SHARES

Treasury shares have been acquired to settle 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.

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