

Cryptomathic A/S
Jægergårdsgade 118, 8000 Aarhus C,
Denmark

Annual report 2018

Registration No. 17 08 90 05

The annual report has been presented and approved at the
annual general meeting, 21 March 2019.



Torben Pryds Pedersen
Chairman

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Statement by the Executive Board and Board of Directors

The Executive Board and Board of Directors have today discussed and approved the annual report of Cryptomathic A/S for the financial year 1 January – 31 December 2018.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

It is our opinion that the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31 December 2018 and of the results of the company's operations for the financial year 1 January – 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the issues included.

We recommend that the annual report be approved at the annual general meeting.

Aarhus, 21 March 2019

Executive Board

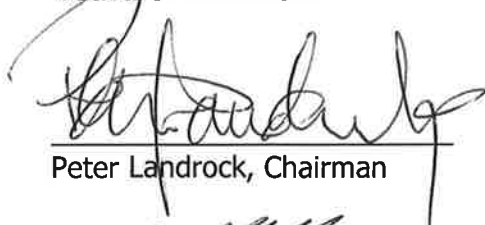


Torben Pryds Pedersen



Charlotte Møller Andersen

Board of Directors



Peter Landrock, Chairman



Morten Landrock



Mads Landrock



Wolf-Rüdiger Moritz

Independent auditor's reports

To the shareholders of Cryptomathic A/S

Opinion

We have audited the financial statements of Cryptomathic A/S for the financial year 1 January – 31 December 2018, which comprise an income statement, balance sheet and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue

an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Independent auditor's report

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Aarhus, 21 March 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
Registration No. 30 70 02 28


Henrik Pungvig Jensen
statsaut. Revisor
mne24825

Management's review

Company details

Cryptomathic A/S
Jægergårdsgade 118
8000 Aarhus C
Denmark

Telephone: +45 8676 2288

Fax: +45 8620 2975

Web site: www.cryptomathic.com

Registration No.: 17 08 90 05

Established: 2 July 1993

Registered office: Aarhus

Financial year: 1 January – 31 December

Board of Directors

Peter Landrock (chairman)
Mads Landrock
Morten Landrock
Wolf-Rüdiger Moritz

Executive Board

Torben Pryds Pedersen
Charlotte Møller Andersen

Auditors

ERNST & YOUNG
Godkendt Revisionspartnerselskab
Værkmestergade 25
Postboks 330
8000 Aarhus C
Denmark

Principal activities

The principal activity of the company is development, sale and maintenance of software related to electronic security (e-Security). The customers are typically banks and financial institutions, telecommunication companies, governments (e-Passport), software houses and system integrators.

Development in the activities and financial affairs

Profit before tax is DKK 10.1 million against a deficit of DKK 5.0 million in 2017.

Tax on profit for the year is a cost of DKK 1.8 million against a cost of DKK 0.1 million in 2017. After this, profit for the year is DKK 8.3 million against a deficit of DKK 5.0 million in 2017.

Equity comprises DKK 23.7 million at year-end compared to DKK 23.6 million in by the end of 2017. During the year DKK 7.5 million have been paid out as dividend regarding 2017.

Events after the balance sheet date

No events of any significance affecting the financial position of the company occurred after the end of the financial year.

Income statement 1 January - 31 December

	Note	2018	2017
Gross profit	2	19.375.456	13.516.219
Distribution costs	2	(2.643.112)	(3.244.331)
Administrative costs	2	(9.627.982)	(9.202.619)
Operating profit		7.104.362	1.069.269
Profit in subsidiaries after tax	6	1.781.760	(5.209.133)
Interest income and similar items	3	2.351.147	1.789.358
Interest expense and similar items	4	(1.126.751)	(2.682.541)
Profit before tax		10.110.518	(5.033.047)
Tax on profit for the year	5	(1.820.835)	(104.600)
Profit for the year		8.289.683	(5.137.647)
<i>Proposed profit appropriation:</i>			
Proposed dividends		14.000.000	7.500.000
Reserve for net revaluation according to the equity method		(7.372.353)	478.096
Retained earnings		1.662.036	(13.115.743)
		8.289.683	(5.137.647)

Balance sheet at 31 December

ASSETS	Note	2018	2017
Fixtures and fittings, tools and equipment		156.382	239.268
Total property, plant and equipment		156.382	239.268
Investments in subsidiaries	6	15.696.406	12.109.455
Investments in associates		280.759	-
Deposits given		968.044	939.995
Total investments		16.945.209	13.049.450
TOTAL FIXED ASSETS		17.101.591	13.288.718
Trade receivables		3.966.900	451.973
Contract work in progress	7	98.609	4.026.587
Amounts owed by subsidiaries	8	3.339.442	3.985.325
Tilgodehavende hos moderselskab		4.011.802	8.551.871
Corporation tax receivable		-	135.361
Other receivables		266.653	91.067
Deferred tax asset	9	1.093.225	947.700
Prepayments		1.005.331	301.484
Total receivables		13.781.962	18.491.368
Securities		847.191	3.831.928
Cash at bank and in hand		14.975.846	1.226.509
TOTAL CURRENT ASSETS		29.604.999	23.549.805
TOTAL ASSETS		46.706.590	36.838.523

Balance sheet at 31 December

EQUITY AND LIABILITIES	Note	2018	2017
Share capital		772.224	772.224
Net revaluation according to the equity method		-	7.372.353
Retained earnings		8.915.469	7.940.732
Proposed dividends for the year		14.000.000	7.500.000
TOTAL EQUITY	10	23.687.693	23.585.309
Contract work in progress	7	1.056.400	1.780.500
Trade payables		1.457.614	310.862
Amounts owed to subsidiaries		6.996.192	5.802.985
Amounts owed to group enterprises		5.690.098	1.761.188
Corporation tax liability		1.830.999	-
Other payables		-	-
Other payables		5.372.647	3.402.781
Deferred income		614.947	194.898
Total short-term liabilities		23.018.897	13.253.214
TOTAL LIABILITIES		23.018.897	13.253.214
TOTAL EQUITY AND LIABILITIES		46.706.590	36.838.523
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Notes

Note 1 Accounting policies

The annual report of Cryptomathic A/S has been prepared in accordance with the provisions applying to reporting class B enterprises under the Danish Financial Statements Act.

In accordance with section 32 of the Danish Financial Statements Act the company has aggregated the items revenue, cost of sales and other operating income and instead added the item gross profit.

In accordance with section 112 (1) of the Danish Financial Statements Act the company has omitted the presentation of consolidated financial statements.

The accounting policies, described below, are unchanged from last year.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences are recognised in the income statement as interest income or expense and similar items.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. Foreign exchange differences are recognised in the income statement as interest income or expense and similar items.

Income statement

Gross profit

In accordance with §32 of the Danish Financial Statements Act the company has aggregated the items revenue, cost of sales and other operating income and instead added the item gross profit.

Revenue from sales is recognised in net sales when transition of the main benefits and risks to the buyer has taken place, the income can be calculated reliably and payment is expected to be received. The time of transition of the main benefits and risks is based on standard delivery terms based on Incoterms® 2010.

Net sales are measured at the fair value of the agreed consideration excl. VAT and taxes charged on behalf of third parties. All forms of discounts are recognised in net sales.

Contract work in progress is recognised as gross profit by reference to the stage of completion. Accordingly, gross profit reflects the selling price of work performed during the year.

Gross profit also comprises costs of product improvement and research and development costs.

Notes

Note 1 Accounting policies (continued)

Sales and distribution costs

Costs incurred during the year relating to sales staff, advertising and exhibitions etc. are recognised as distribution costs.

Administrative costs

Administrative expenses comprise expenses incurred during the year for administrative staff, management, office premises and office expenses, and depreciation of other fixtures and fittings, tools and equipment.

Profits/losses from investments in subsidiaries

The proportionate share of the results after tax of the individual enterprises after full elimination of intra-group profits/losses, amortization of goodwill and gain/loss on disposal of shares is recognised in the income statement of the company.

Interest income and expense and similar items

Interest income and expense and similar items comprise interest income and expense, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme etc.

Tax on profit/loss for the year

The company is covered by the Danish regulations concerning compulsory joint taxation with the parent company Cryptomathic Holding ApS and its Danish parent companies. The current Danish corporation tax is apportioned through payment of joint tax contribution between the jointly taxed companies in relation to their taxable incomes.

Tax for the year, which comprises the year's joint tax contribution and changes in deferred tax, is included in the income statement with the proportion that is attributable to the year's result and directly in the equity with the proportion that is attributable to the items directly in the equity. The recognised tax relating to the extraordinary profit/loss for the year is allocated to this item whereas the remaining tax is allocated to the profit/loss for the year from ordinary activities.

Notes

Note 1 Accounting policies (continued)

Balance sheet

Property, plant and equipment

Property, plant and equipment is measured at initial recognition at cost.

Fixtures and fittings, tools and equipment are subsequently measured at cost less accumulated depreciation. The depreciation basis is calculated taking into account the residual value of the asset after completion of the useful life and reduced by any write-downs. The amortization period and the residual value are determined at the acquisition date and are reviewed annually. If the residual value exceeds the carrying amount of the asset, depreciation ceases. Changes in the amortization period or residual value include the effect on depreciation for the future as a change in accounting estimates.

The cost includes the acquisition price and costs directly related to the acquisition until the date of completion of the asset. Indirect production costs and borrowing costs are not included in the cost. The cost of an aggregate asset is divided into separate components, which are depreciated separately if the useful life of the individual components is different.

Linear depreciation is made over the expected useful life of fixtures and fittings, tools and equipment for 3-5 years.

Profits and losses on disposal of property, plant and equipment are calculated as the difference between the selling price less selling expenses and the carrying amount at the time of sale. Profits or losses are recognised in the income statement under other operating income and other operating expenses. are measured at cost less accumulated depreciation or the recoverable amount if this is lower than the carrying amount.

Lease contracts

All lease contracts are considered to be operating leases. Operating lease and rent expenses are recognised in the income statement over the lease term. The aggregate amounts of the company's lease commitments are disclosed in contingent liabilities.

Investments in subsidiaries

Investments in subsidiaries are measured according to the equity method.

The investments are measured in the balance sheet at the proportionate share of the enterprises' net asset values calculated in accordance with the parent company's accounting policies minus or plus unrealised intra-group profits and losses and with the addition of the carrying amount of goodwill.

Notes

Note 1 Accounting policies (continued)

Subsidiaries with negative net asset values are measured at DKK 0 (nil), and any amounts owed by such enterprises are written down by the parent company's share of the negative net asset value. Where the negative net asset value exceeds the amount owed, the remaining amount is recognised under provisions.

Net revaluation of investments in subsidiaries is transferred to the reserve for net revaluation according to the equity method in equity to the extent that the carrying amount exceeds cost.

Impairment of non-current assets

The carrying amount of property, plant and equipment and investments in subsidiaries is assessed annually for indications of impairment, in addition to that expressed by depreciation.

If there are indications of impairment, impairment tests of each asset or group of assets are carried out. Write-downs are made at the recoverable amount if this is lower than the carrying amount.

Receivables

Receivables are measured at amortised cost.

Receivables from the parent company regarding "I owe You" are calculated as initial amount plus the cumulative amortisation of the difference between the initial amount and the maturity amount using a constant effective interest rate.

Regarding other receivables amortised cost corresponds in all material respects to nominal value.

Write-down is made for bad debt losses.

Contract work in progress

Contract work in progress is measured at the selling price of the work performed. The selling price is measured by reference to the stage of completion at the balance sheet date and total expected income from the contract work. Individual contract work in progress is recognised in the balance sheet under either receivables or liabilities, depending on whether the net amount of the selling price less progress billings and prepayments is positive or negative.

Notes

Note 1 Accounting policies (continued)

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Securities

Listed Danish securities, recognised in current assets, are measured at fair value at the balance sheet date. Changes in fair value are recognised in the income statement.

Proposed dividend

Dividend proposed for the year is recognised as a liability at the date when it is adopted at the annual general meeting (declaration date). Dividend expected to be distributed for the financial year is presented as a separate line item under "Equity".

Corporation tax and deferred tax

Joint tax contribution liabilities and receivables calculated on the taxable income for the year, adjusted for any tax from previous years' taxable income as well as prepaid on-account taxes, are recognised in the balance sheet as corporation tax liability or corporation tax receivable.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. Deferred tax assets, including the tax base of tax loss carryforwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction. Changes in deferred tax assets resulting from a change in the tax rate are recognised in the income statement.

Other liabilities

Other liabilities are measured at net realisable value.

Deferred income

Deferred income comprise payments received for services delivered in subsequent financial years.

Notes

	<u>2018</u>	<u>2017</u>
Note 2 Staff cost		
Wages and salaries	25.849.552	23.025.464
Pensions	1.598.562	1.531.309
Social security cost	284.385	206.995
Other staff cost	<u>107.949</u>	<u>149.372</u>
	<u>27.840.448</u>	<u>24.913.140</u>
Recognised in the income statement under these items:		
Production costs (gross profit)	24.180.138	20.810.081
Distribution costs	924.271	1.164.285
Administrative costs	<u>2.736.039</u>	<u>2.938.774</u>
	<u>27.840.448</u>	<u>24.913.140</u>
Average number of employees	<u>42</u>	<u>42</u>
Employees by the end of the year	<u>43</u>	<u>43</u>
Note 3 Interest income and similar items		
Interest income and capital gains from group enterprise	273.900	391.467
Interest income and capital gains, securities	146.406	677.407
Foreign exchange gains	1.903.490	717.457
Other financial income	<u>27.351</u>	<u>3.027</u>
	<u>2.351.147</u>	<u>1.789.358</u>
Note 4 Interest expense and similar items		
Capital losses on securities	432.244	481.958
Foreign exchange losses	668.857	2.189.175
Other financial expense	<u>25.650</u>	<u>11.408</u>
	<u>1.126.751</u>	<u>2.682.541</u>

Notes

	<u>2018</u>	<u>2017</u>
Note 5 Tax on profit for the year		
Current tax for the year	(1.966.360)	-
Changes in deferred tax for the year	145.525	(131.200)
Adjustment related to previous years - current tax	-	26.600
	<u>(1.820.835)</u>	<u>(104.600)</u>
Note 6 Investments in subsidiaries		
Cost at 1 January	<u>4.608.326</u>	<u>4.608.326</u>
Cost at 31 December	<u>4.608.326</u>	<u>4.608.326</u>
Revaluations at 1 January	(2.877.586)	1.593.266
Foreign exchange adjustments	(687.299)	738.281
Profit/loss after tax	<u>1.781.760</u>	<u>(5.209.133)</u>
Revaluations at 31 December	<u>(1.783.125)</u>	<u>(2.877.586)</u>
Negative net asset values in subsidiaries deducted in amounts owed by subsidiaries	<u>12.871.205</u>	<u>10.378.715</u>
Carrying amount at 31 December	<u>15.696.406</u>	<u>12.109.455</u>

Name and registered office	Ownership	Share capital, DKK	Equity, DKK	Profit/loss for the year, DKK	Carrying amount, DKK	Com.
Cryptomathic Ltd, Cambridge, UK	100%	4.135.950	8.049.413	1.144.030	8.049.413	
Cryptomathic GmbH, München, Germany	100%	186.683	7.646.993	2.548.006	7.646.993	
Cryptomathic Inc., San Jose, USA	100%	6.519	(12.871.205)	(1.910.276)	-	1)

1) Negative net asset value at 31/12-2017 of DKK 10,378 thousand is deducted in amount owed by the subsidiary.

Notes

	<u>2018</u>	<u>2017</u>
Note 7 Contract work in progress		
Contract work in progress	146.609	4.026.587
Progress billings and prepayments	<u>(1.104.400)</u>	<u>(1.780.500)</u>
	<u>(957.791)</u>	<u>2.246.087</u>
recognised as follows:		
Contract work in progress (assets)	98.609	4.026.587
Contract work in progress (liabilities)	<u>(1.056.400)</u>	<u>(1.780.500)</u>
	<u>(957.791)</u>	<u>2.246.087</u>

Note 8 Amounts owed by subsidiaries

DKK 0 thousand falls due more than one year after the end of the financial year (2015: DKK 0 thousand).

Note 9 Deferred tax asset

Calculated deferred tax asset	<u>1.093.225</u>	<u>947.700</u>
Deferred tax asset	<u>1.093.225</u>	<u>947.700</u>

Expected utilisation of DKK 400 thousand is more than one year after the end of the financial year (2017: DKK 415 thousand).

Note 10 Equity

	<u>Share capital</u>	<u>Net revaluation acc. to the equity method</u>	<u>Retained earnings</u>	<u>Proposed dividend</u>	<u>Total</u>
Equity at 1 January	772.224	7.372.353	7.940.732	7.500.000	23.585.309
Paid dividend			-	(7.500.000)	(7.500.000)
Foreign exchange adjustments, foreign subsidiaries	-	-	(687.299)	-	(687.299)
Profit for the year	<u>-</u>	<u>(7.372.353)</u>	<u>1.662.036</u>	<u>14.000.000</u>	<u>8.289.683</u>
Equity at 31 December	<u>772.224</u>	<u>-</u>	<u>8.915.469</u>	<u>14.000.000</u>	<u>23.687.693</u>

Share capital

The share capital comprises 772,224 shares of DKK 1 each.

The share capital has remained unchanged for the last 5 years.

Notes

Note 11 Contingent liabilities

The company has operating rent commitments totalling DKK 1.0 million.

The company has operating lease commitments falling due within 23-40 months with an average monthly payment of DKK 2-6 thousand, in total DKK 0.2 million.

The company is jointly and severally liable for tax under the Danish joint taxation with the parent company Cryptomathic Holding ApS and its Danish parent companies. The known net tax liability of the jointly taxed companies is DKK 1.367 thousand as at 31st December 2017. Subsequent corrections of the joint taxable income, if any, could result in an increased liability for the company. The company is also jointly and severally liable for VAT under the joint VAT registration with the parent company Cryptomathic Holding ApS.

Note 12 Shareholders

The Company has registered the following shareholders to hold at least 5% of the voting share capital or at least 5% of the nominal value of the share capital:

Cryptomathic Holding ApS
c/o Cryptomathic A/S
Jægergårdsgade 118
8000 Aarhus C
Denmark

Note 13 Consolidated financial statements

Cryptomathic A/S and subsidiaries are included in the consolidated financial statements for LHH2 ApS
c/o Cryptomathic A/S
Jægergårdsgade 118
8000 Aarhus C
Denmark
Registration no.: 38 53 46 88