Teklatech A/S

Prinsesse Maries Allé 17, 5., 1908 Frederiksberg C

CVR no. 29 53 29 82

Annual report 2016

Approved at the annual general meeting of shareholders on 24 May 2017

Chairman:

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Valdemar Martin Børsting

Building a better working world

Contents

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Teklatech A/S for the financial year 1 January - 31 December 2016.

The annual report is 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 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Copenhagen, 24 May 2017
Executive Board:

Tobias Bjerregaard

Board of Directors:

Valdemar Martin Børsting Chairman	Finn Persson	Jesper Nørregaard
Tobias Bjerregaard	Ulrik Christian Laurits Danneskiold-Samsøe	

Independent auditor's report

To the shareholders of Teklatech A/S

Opinion

We have audited the financial statements of Teklatech A/S for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including 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 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 about 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 the 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.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism 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.

Independent auditor's report

- 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 conclusion is 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 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 our procedures, 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 Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 24 May 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Anders Flymer-Dindler
State Authorised Public Accountant

Management's review

Company details

Name	Teklatech A/S
Address, Postal code, City	Prinsesse Maries Allé 17, 5., 1908 Frederiksberg C
CVR no.	29 53 29 82
Established	3 May 2016
Registered office	Frederiksberg
Financial year	1 January - 31 December
Website	www.teklatech.com
E-mail	mailline@teklatech.com
Telephone	+45 72 19 00 85
Board of Directors	Valdemar Martin Børsting, Chairman Finn Persson Jesper Nørregaard Tobias Bjerregaard Ulrik Christian Laurits Danneskiold-Samsøe
Executive Board	Tobias Bjerregaard
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark

Management's review

Management commentary

Business review

The principal activity of the Company is to develop and sell CAD software solutions to the semiconductor industry. The technology of the Company allows for a reduction of electrical noise and dynamic voltage drop in digital ICs. This leads to considerable advantages in terms of design closure at the most advanced semiconductor process nodes of 10nm, 7nm and beyond, and economic benefits for users.

Inherent trends in the properties of nanoscale semiconductor technologies continually increase the pressure to solve critical issues that Teklatech's core product FloorDirector addresses. The pressure is particularly high in the mobile and networking segments, subsegments of the semiconductor industry with high growth rate.

During the past year, the production use of 10nm fabrication technologies, and the emergence of 7nm, causes the need for Teklatech's technology to continue to grow stronger. Commercial activities have been expanded in the financial year. A number of production runs have been established for 10nm chips, and engagements with leading edge customers continue to develop positively. Significant improvements to the FloorDirector software product have been made, and advanced new algorithms for analysis and optimization have been developed. Our technology lead on the rest of the CAD industry is maintained and even widened.

As in the previous year, our US subsidiary company Teklatech LLC has provided technical support to US customers on behalf of Teklatech A/S.

Recognition and measurement uncertainties

The measurement of intangible assets and deferred tax assets is based on expectations of future earnings, which are always subject to uncertainty.

Financial review

In 2016, the Company's revenue came in at DKK 5,667 thousand against DKK 2,197 thousand last year. The income statement for 2016 shows a loss of DKK 10,271 thousand against DKK 3,759 thousand last year, and the balance sheet at 31 December 2016 shows equity of DKK 20,863 thousand. Management does not consider the Company's financial performance satisfactory, however as expected. Management expects an improved result for 2017.

Events after the balance sheet date

In March 2017 there has been a capital increase of DKK 7.8 million. No other events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Financial statements for the period 1 January - 31 December

Income statement

Note	DKK'000	2016 12 months	2015 6 months
	Revenue	5,667	2,197
	Other operating income	1,160	330
	Other external expenses	-5,515	-2,306
	Gross margin	1,312	221
2	Staff costs	-4,183	-2,349
	Amortisation of intangible assets	-9,687	-2,084
	Profit/loss before net financials	-12,558	-4,212
	Financial income	7	9
	Financial expenses	-614	-292
	Profit/loss before tax	-13,165	-4,495
3	Tax for the year	2,894	736
	Profit/loss for the year	-10,271	-3,759

	Recommended appropriation of profit/loss		
	Other statutory reserves	2,047	0
	Retained earnings/accumulated loss	-12,318	-3,759
		-10,271	-3,759

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2016	2015
	ASSETS		
	Fixed assets		
4	**Intangible assets**		
	Completed development projects	29,571	36,699
		29,571	36,699
5	**Investments**		
	Deposits, investments	100	100
		100	100
	Total fixed assets	29,671	36,799
	Non-fixed assets		
	Receivables		
	Receivables from group enterprises	0	35
	Deferred tax assets	1,965	0
	Receivable tax credit	563	1,432
	Other receivables	697	0
	Prepayments	31	0
		3,256	1,467
	Cash	2,324	4,743
	Total non-fixed assets	5,580	6,210
	TOTAL ASSETS	35,251	43,009

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2016	2015
	EQUITY AND LIABILITIES		
	Equity		
6	Share capital	18,492	18,025
	Reserve for development costs	2,047	0
	Retained earnings	324	12,129
	Total equity	20,863	30,154
	Provisions		
	Deferred tax	0	367
	Total provisions	0	367
	Liabilities		
	Non-current liabilities other than provisions		
	Payables to shareholders	4,979	5,006
	Deferred income	4,203	4,346
		9,182	9,352
	Current liabilities		
	Received prepayments from customers	2,260	1,240
	Trade payables	510	0
	Payables to group enterprises	38	0
	Payables to shareholders and management	628	703
	Other payables	570	633
	Deferred income	1,200	560
		5,206	3,136
	Total liabilities other than provisions	14,388	12,488
	TOTAL EQUITY AND LIABILITIES	35,251	43,009

1 Accounting policies
7 Contractual obligations and contingencies, etc.

Financial statements for the period 1 January - 31 December

Statement of changes in equity

DKK'000	Share capital	Reserve for development costs	Retained earnings	Total
Equity at 1 July 2015	18,025	0	15,888	33,913
Transfer, see "Appropriation of loss"	0	0	-3,759	-3,759
Equity at 1 January 2016	18,025	0	12,129	30,154
Capital increase	467	0	513	980
Transfer, see "Appropriation of loss"	0	2,047	-12,318	-10,271
Equity at 31 December 2016	18,492	2,047	324	20,863

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Teklatech A/S for 2016 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

In accordance with section 110(1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements.

Changes in accounting policies

Effective 1 January 2016, the Company has adopted act no. 738 of 1 June 2015. This implies the following changes in the recognition and measurement:

1. An amount corresponding to development costs recognised are in future tied up in a special reserve under equity called "Reserve for development costs"

   The amount is tied up in a special reserve, which cannot be used to distribute dividend or cover losses. If the development costs recognised are sold or in some other way no longer form part of the Company's operations, the reserve will be dissolved or reduced by a transfer directly to distributable reserves under equity. If the recognised development costs are written down, part of the reserve for development costs must be reversed. The reversed portion corresponds to the write-down of the development costs. If a write-down of the development costs is subsequently reversed, the reserve for development costs must be re-established. The reserve for development costs is also reduced by amortisation charges. In doing so, the equity reserve will not exceed the amount recognised in the balance sheet as development costs.

Apart from the above changes in accounting policy and new and changed presentation and disclosure requirements, which follow from act. no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

Income statement

Revenue

Income from the rendering of consultancy services is recognised as revenue as the services are rendered. Accordingly, revenue corresponds to the market value of the services rendered during the year (percentage-of-completion method).

Licence and royalty income is recognised over the term of the agreement in accordance with the contents of the agreement.

Revenue from time limited software licences is accrued and recognised on a straight line basis over the term of the licence according to the terms of the licence agreement.

Sale of indefinite software licences is recognised as sale of goods whereby revenue is recognised when the most significant rewards and risks have been transferred to the buyer and provided the income can be measured reliably and payment is expected to be received.

Other operating income

Other operating income comprises EU grants recognised in the income statement.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Amortisation

The item comprises amortisation of intangible assets.

The cost net of the expected residual value for completed development projects and acquired IP rights is amortised over the expected useful life. Acquired IP rights include patents, rights and licences.

The basis of amortisation, which is calculated as cost less any residual value, is amortised on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Completed development projects	5 years
Development projects in progress	5 years

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further amortisation charges are recognised. In case of changes in the residual value, the effect on the amortisation charges is recognised prospectively as a change in accounting estimates.

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Balance sheet

Intangible assets

Development costs comprise expenses, salaries and amortisation directly or indirectly attributable to development activities.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities areidentifiable and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

Development costs that are recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

On completion of a development project, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually 5 years and cannot exceed 10 years.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are measured at cost. Dividends received that exceed the accumulated earnings in the subsidiary or the associate during the period of ownership are treated as a reduction in the cost of acquisition.

Impairment of fixed assets

The carrying amount of intangible assets and investments in subsidiaries is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Cash comprises cash in bank.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets 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. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases.

Other liabilities are measured at net realisable value, which is typicall nominal value.

Deferred income

Deferred income recognised as a liability comprises EU grants recognised through the gross method. EU grants are recognised in the income statement corresponding the amortisation period of the underlying intangible asset.

	DKK'000	2016 12 months	2015 6 months
2	**Staff costs**		
	Wages/salaries	3,754	2,102
	Pensions	378	215
	Other social security costs	51	32
		4,183	2,349
	Average number of full-time employees	9	10

Financial statements for the period 1 January - 31 December

Notes to the financial statements

DKK'000	2016 12 months	2015 6 months
3 Tax for the year		
Estimated tax charge for the year	-563	-242
Deferred tax adjustments in the year	-2,331	-494
	-2,894	-736

Estimated tax charge for the year relates to tax credit in accordance with section 8 X of the Danish Tax Assesment Act.

4 Intangible assets

DKK'000	Completed development projects
Cost at 1 January 2016	42,454
Additions	2,559
Cost at 31 December 2016	45,013
Impairment losses and amortisation at 1 January 2016	5,755
Amortisation for the year	9,687
Impairment losses and amortisation at 31 December 2016	15,442
Carrying amount at 31 December 2016	29,571
Amortised over	5 years

The measurement of intangible assets is based on expectations of future earnings, which are always subject to uncertainty.

The development projects primarily relate to Teklatech's core product. During the year, Management has re-assessed the estimated lifetime and scrap values of the development projects. Based on the technology development within Teklatech's business areas, Management expects the lifetime of the development projects to be 5 years (2015: 10 years).

The effect on the amortisation charges is recognised prospectively as a change in accounting estimates.

5 Investments

Name	Legal form	Domicile	Interest	Profit/loss DKK'000
Subsidiaries				
Teklatech	LLC	USA	100.00 %	0

Financial statements for the period 1 January - 31 December

Notes to the financial statements

6 Share capital

Analysis of changes in the share capital over the past 5 years:

DKK'000	2016	2015	2014	2013	2012
Opening balance	18,025	10,790	7,490	3,665	3,030
Capital increase	467	7,235	3,300	3,825	635
	18,492	18,025	10,790	7,490	3,665

7 Contractual obligations and contingencies, etc.

Other financial obligations

Other rent and lease liabilities:

DKK'000	2016	2015
Rent and lease liabilities	133	136