

Silicom Denmark A/S
Poppelgårdvej 11
2860 Søborg
CVR no. 31 30 12 70

Annual report for 2019

Adopted at the annual general
meeting on



Avinoam Eizenman
chairman

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Statement by management on the annual report

The supervisory and executive boards have today discussed and approved the annual report of Silicom Denmark A/S for the financial year 1 January - 31 December 2019.

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 company's financial position at 31 December 2019 and of the results of the company's operations for the financial year 1 January - 31 December 2019.

In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

Management recommends that the annual report should be approved by the company in general meeting.

Søborg, 27 January 2020

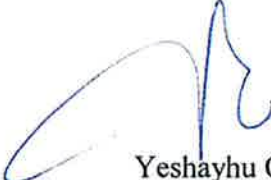
Executive board

Yeshayhu Orbach
CEO

Supervisory board


Avinoam Eizenman
chairman


Eran Gilad


Yeshayhu Orbach

Independent auditor's report

To the shareholder of Silicom Denmark A/S

Opinion

We have audited the financial statements of Silicom Denmark A/S for the financial year 1 January - 31 December 2019, which comprise a summary of significant accounting policies, income statement, balance sheet and notes. The financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2019 and of the results of the company's operations for the financial year 1 January - 31 December 2019 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 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 the 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 these financial statements.

Independent auditor's report

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment 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.
- 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 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 management's review.

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

Independent auditor's report

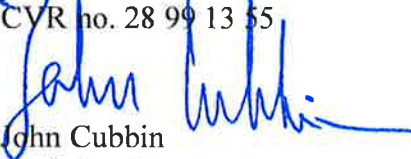
In connection with our audit of the financial statements, our responsibility is to read management's review and, in doing so, consider whether management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially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

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

Based on the work we have performed, we conclude that 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 management's review.

Roskilde, 27 January 2020

Trekroner Revision A/S
Statsautoriserede Revisor
CVR no. 28 99 13 55



John Cubbin
Registered Public Accountant
MNE no. mne3105

Company details

The company

Silicom Denmark A/S
Poppelgårdvej 11
2860 Søborg

Telephone: +45 46327455

Website: www.silicom.dk

CVR no.: 31 30 12 70

Reporting period: 1 January - 31 December 2019

Domicile: Gladsaxe

Supervisory board

Avinoam Eizenman, chairman
Eran Gilad, general partner
Yeshayhu Orbach, general partner

Executive board

Yeshayhu Orbach

Auditors

Trekroner Revision A/S
Statsautoriserede Revisorer
Universitetsparken 2
4000 Roskilde

Bankers

Nordea Bank Danmark A/S, Stændertorvet Afdeling
Algade 4
4000 Roskilde

Management's review

Business review

The company is engaged in developing, producing and selling network interface cards and related services.

Expected development of the company, including specific prerequisites and uncertainties

The income statement for the period 1. January - 31. December 2019 shows a surplus of USD 72.089. The balance sheet shows an equity of USD 178.949.

The Company expects a positiv result for 2020. We refer to Note 9.

Significant events occurring after the end of the financial year

No events have occurred after the balance sheet date which could significantly affect the company's financial position.

Accounting policies

The annual report of Silicom Denmark A/S for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act concerning reporting class B entities with optional from reporting class C.

The accounting policies applied is consistent with those of last year.

The annual report for 2019 is presented in USD.

Basis of recognition and measurement

In the income statement revenue is recognized, when it is earned, including value adjustments of financial assets and liabilities. In the income statement all costs, including depreciation and impairment losses are recognized.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any installments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Income statement

Gross profit

Gross profit reflects an aggregation of revenue, changes in inventories of finished goods and work in progress and other operating income less costs of raw materials and consumables and other external expenses.

Revenue

Income from the sale of goods for resale and finished goods is recognised in the income statement, provided that the transfer of risk, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received.

Revenue is measured at the fair value of the agreed consideration, excluding VAT and other indirect taxes. Revenue is net of all types of discounts granted.

Accounting policies

Expenses for raw materials and consumables

Costs of raw materials and consumables include the raw materials and consumables used in generating the year's revenue.

Other external expenses

Other external expenses include expenses related to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

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

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Tax on profit/loss for the year

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed to be years. The amortisation period is based on an assessment of the acquiree's market position and earnings capacity.

Licences are measured at cost less accumulated amortisation and impairment losses. Patents are amortised over the licence term of 3 years.

Development costs are measured at cost less accumulated depreciation or to the recovery value where this is lower. Development costs are amortized on a straight-line basis over the estimated useful life of the individual projects, which are assessed at 3 years.

Tangible assets

Plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The depreciable amount is cost less the expected residual value at the end of the useful life.

Accounting policies

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages.

Where individual parts of an item of property, plant and equipment have different useful lives, the cost is divided into separate parts, which are depreciated separately.

Straight-line depreciation is provided on the basis of the following estimated useful lives of the assets:

	Useful life	Residual value
Licenses	3 years	0 %
Development costs	3 years	0 %
Plant and equipment	5 - 10 years	0 %

Assets costing less than USD 2.067 are expensed in the year of acquisition.

Gains or losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses, respectively.

Stocks

Stocks are measured at cost using the FIFO method. Where the net realisable value is lower than the cost, inventories are recognised at this lower value.

The cost of goods for resale, raw materials and consumables comprises the average purchase price plus delivery costs.

The cost of finished goods and work in progress includes the cost of raw materials, consumables, direct cost of labour and production/production overheads.

The net realisable value of stocks is calculated as the selling price less costs of completion and expenses incurred to effect the sale. The net realisable value is determined taking into account marketability, obsolescence and expected selling price movements.

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 is impaired, an impairment loss for that individual asset is recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term securities whose remaining life is less than three months and which are readily convertible into cash and which are subject only to insignificant risk of changes in value.

Accounting policies

Income tax and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

Liabilities

Liabilities, which include trade payables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses. If foreign currency transactions are considered cash flow hedges, the value adjustments are taken directly to equity.

Income statement 1 January - 31 December

	<u>Note</u>	<u>2019</u> USD	<u>2018</u> USD
Gross profit		4.758.597	3.138.569
Staff costs	1	-4.027.121	-3.393.615
Profit/loss before depreciation		731.476	-255.046
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-359.265	-110.480
Other operating costs		-274.000	0
Profit/loss before net financials		98.211	-365.526
Financial income		96.426	188.246
Financial costs	3	-89.192	-85.511
Profit/loss before tax		105.445	-262.791
Tax on profit/loss for the year	4	-33.356	74.020
Profit/loss for the year		72.089	-188.771
Reserve for development costs		609.695	694.880
Retained earnings		-537.606	-883.651
		72.089	-188.771

Balance sheet 31 December

	<u>Note</u>	<u>2019</u> USD	<u>2018</u> USD
Assets			
Licenses		131.912	74.786
Development projects in progress		<u>1.672.532</u>	<u>890.872</u>
Intangible assets	5	<u>1.804.444</u>	<u>965.658</u>
Plant and machinery		140.801	179.607
Leasehold improvements		<u>47.783</u>	<u>54.708</u>
Tangible assets	6	<u>188.584</u>	<u>234.315</u>
Deposits		<u>38.156</u>	<u>35.492</u>
Fixed asset investments		<u>38.156</u>	<u>35.492</u>
Total non-current assets		<u>2.031.184</u>	<u>1.235.465</u>
Raw materials and consumables		<u>3.145.728</u>	<u>3.674.046</u>
Stocks		<u>3.145.728</u>	<u>3.674.046</u>
Trade receivables		132.018	666.333
Receivables from subsidiaries		0	809.128
Other receivables		197.531	0
Corporation tax		147.795	204.227
Prepayments		<u>35.757</u>	<u>54.555</u>
Receivables		<u>513.101</u>	<u>1.734.243</u>
Cash at bank and in hand		<u>269.022</u>	<u>1.283.597</u>
Total current assets		<u>3.927.851</u>	<u>6.691.886</u>
Total assets		<u><u>5.959.035</u></u>	<u><u>7.927.351</u></u>

Balance sheet 31 December

	<u>Note</u>	<u>2019</u> USD	<u>2018</u> USD
Equity and liabilities			
Share capital		83.279	83.283
Reserve for development expenditure		1.304.575	694.880
Retained earnings		-1.953.837	-1.416.234
Capital reserve in respect of options		744.932	505.050
Equity	7	<u>178.949</u>	<u>-133.021</u>
Provision for deferred tax	8	204.806	23.531
Total provisions		<u>204.806</u>	<u>23.531</u>
Subordinate loan capital		544.075	557.126
Other payables		138.299	0
Total non-current liabilities	9	<u>682.374</u>	<u>557.126</u>
Trade payables		234.739	478.785
Payables to subsidiaries		4.136.706	6.279.846
Other payables		521.461	721.084
Total current liabilities		<u>4.892.906</u>	<u>7.479.715</u>
Total liabilities		<u>5.575.280</u>	<u>8.036.841</u>
Total equity and liabilities		<u>5.959.035</u>	<u>7.927.351</u>
Contingent liabilities	10		
Related parties and ownership structure	11		

Notes

	2019 USD	2018 USD
1 Staff costs		
Wages, salaries and pension	3.669.218	3.029.734
Other social security costs	44.447	38.766
Other staff costs	313.456	325.115
	4.027.121	3.393.615
 Average number of employees	 40	 34
 2 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Depreciation intangible assets	288.353	51.161
Depreciation tangible assets	70.912	59.319
	359.265	110.480
 3 Financial costs		
Financial expenses, group entities	87.108	83.085
Other financial costs	2.084	2.235
Percentage surcharge, corporation tax	0	191
	89.192	85.511
 4 Tax on profit/loss for the year		
Current tax for the year	-147.795	-204.227
Deferred tax for the year	181.151	130.207
	33.356	-74.020

Notes

5 Intangible assets

	Licenses	Development projects in progress
Cost at 1 January 2019	106.471	928.306
Additions for the year	109.017	1.018.081
Cost at 31 December 2019	215.488	1.946.387
Impairment losses and amortisation at 1 January 2019	31.644	37.434
Amortisation for the year	51.932	236.421
Impairment losses and amortisation at 31 December 2019	83.576	273.855
Carrying amount at 31 December 2019	131.912	1.672.532

6 Tangible assets

	Plant and machinery	Leasehold improvements
Cost at 1 January 2019	328.017	57.731
Additions for the year	20.437	4.898
Cost at 31 December 2019	348.454	62.629
Impairment losses and depreciation at 1 January 2019	148.565	3.023
Depreciation for the year	59.088	11.823
Impairment losses and depreciation at 31 December 2019	207.653	14.846
Carrying amount at 31 December 2019	140.801	47.783

Notes

7 Equity

	Share capital	Reserve for development expenditure	Retained earnings	Capital reserve in respect of options	Total
Equity at 1 January 2019	83.279	694.880	-1.416.231	505.050	-133.022
Revaluation for the year	0	609.695	0	0	609.695
Net profit/loss for the year	0	0	-537.606	239.882	-297.724
Equity at 31 December 2019	83.279	1.304.575	-1.953.837	744.932	178.949

8 Provision for deferred tax

	2019 USD	2018 USD
Provision in year	204.806	23.531
Provision for deferred tax at 31 December 2019	204.806	23.531
Intangible assets	396.978	211.776
Fixed asset investments	4.238	8.041
Tax loss carry-forward	-196.410	-196.286
	204.806	23.531

Notes

9 Long term debt

	Debt at 1 January 2019	Debt at 31 December 2019	Instalment next year	Debt outstanding after 5 years
Subordinate loan capital	557.126	544.075	0	0
Other payables	0	138.299	0	0
	557.126	682.374	0	0

The loan was granted by the Parent Company. Silicom Denmark A/S are obligated to repay the loan in its entirety no later then twenty year after and not before five years from the date. 31. December 2016.

10 Contingent liabilities

The company has a commitment for rent of premises. The commitment is calculated to be USD 90.568.

The company has a commitment for inventories placed at manufacturers. The commitment is calculated to be USD 75.000.

11 Related parties and ownership structure

Ownership structure

According to the company's register of shareholders, the following shareholder holds at least 5% of the votes or at least 5% of the share capital:

Silicom Ltd.
14 Atir Yeda Street
Kfar Sava 4464323
Israel