

# ZyXEL

# Communications A/S

Gladsaxevej 378  
2860 Søborg

CVR no. 21 22 92 37

## Annual report 2017

The annual report was presented and approved at the  
Company's annual general meeting

on May 24 2018

chairman of the annual general meeting

TORBEN THOMSEN

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ZyXEL Communications A/S  
Annual report 2017  
CVR no. 21 22 92 37

## Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of ZyXEL Communications A/S for the financial year 1 January – 31 December 2017.

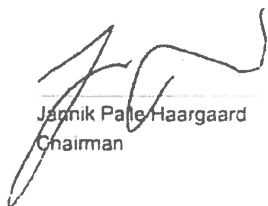
The annual report has been prepared in accordance with the Danish Financial Statements Act.

It is our opinion that the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at 31 December 2017 and of the results of the Group's and the Parent Company's operations and consolidated cash flows for the financial year 1 January – 31 December 2017.

In our opinion, the Management's review includes a fair review of the development in the Group's and the Parent Company's operations and financial matters, of the results for the year and of the Group's and the Parent Company's financial position.

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

Søborg, 24 May 2018  
Executive Board:



Jannik Palle Haargaard  
Chairman

Board of Directors:



Shun-I Chu  
Chairman

Kuo-Long Yang

Torben Thomasen



## **Independent auditor's report**

### **To the shareholder of ZyXEL Communications A/S**

#### **Opinion**

We have audited the consolidated financial statements and the parent company financial statements of ZyXEL Communications A/S for the financial year 1 January – 31 December 2017 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group as well as for the Parent Company and a consolidated cash flow statement. The consolidated financial statements and parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at 31 December 2017 and of the results of the Group's and the Parent Company's operations and a consolidated cash flow for the financial year 1 January – 31 December 2017 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 consolidated financial statements and the parent company financial statements" section of our report. We are independent of the Group 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 responsibility for the consolidated financial statements and the parent company financial statements**

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

In preparing the consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group's and the Parent 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 consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.



## Independent auditor's report

### Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements

Our objectives are to obtain reasonable assurance as to whether the consolidated financial statements and the parent company 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 in Denmark will always detect a material misstatement when it exists. Misstatements may 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 financial statement users made on the basis of these consolidated financial statements and parent company 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 scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and the parent company 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 Group's and the Parent 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 consolidated financial statements and the parent company 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 Group's and the Parent 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 consolidated financial statements and the parent company 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 Group and the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the disclosures, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.



## Independent auditor's report

### Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the consolidated financial statements and the parent company 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 consolidated financial statements and the parent company 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 consolidated financial statements or the parent company 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.

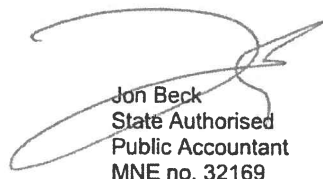
Based on the work we have performed, we conclude that the Management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any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

Copenhagen, 24 May 2018

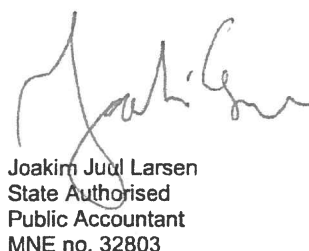
**KPMG**

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98



Jon Beck  
State Authorised  
Public Accountant  
MNE no. 32169



Joakim Juul Larsen  
State Authorised  
Public Accountant  
MNE no. 32803

**ZyXEL Communications A/S**  
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## Management's review

### Company details

ZyXEL Communications A/S  
Gladsaxevej 378  
2860 Søborg

Telephone:	+45 39 55 07 00
Website:	<a href="http://www.zyxel.dk">www.zyxel.dk</a>
E-mail:	<a href="mailto:sales@zyxel.dk">sales@zyxel.dk</a>
CVR no.:	21 22 92 37
Established:	8 October 1998
Registered office:	Gladsaxe
Financial year:	1 January – 31 December

### Board of Directors

Shun-I Chu, Chairman  
Kuo-Long Yang  
Torben Thomasen

### Executive Board

Jannik Palle Haargaard

### Auditor

KPMG  
Statsautoriseret Revisionspartnerselskab  
Dampfærgevej 28  
2100 København Ø  
Denmark

### Annual general meeting

The annual general meeting will be held on 24 May 2018.

## Management's review

### Financial highlights for the Group

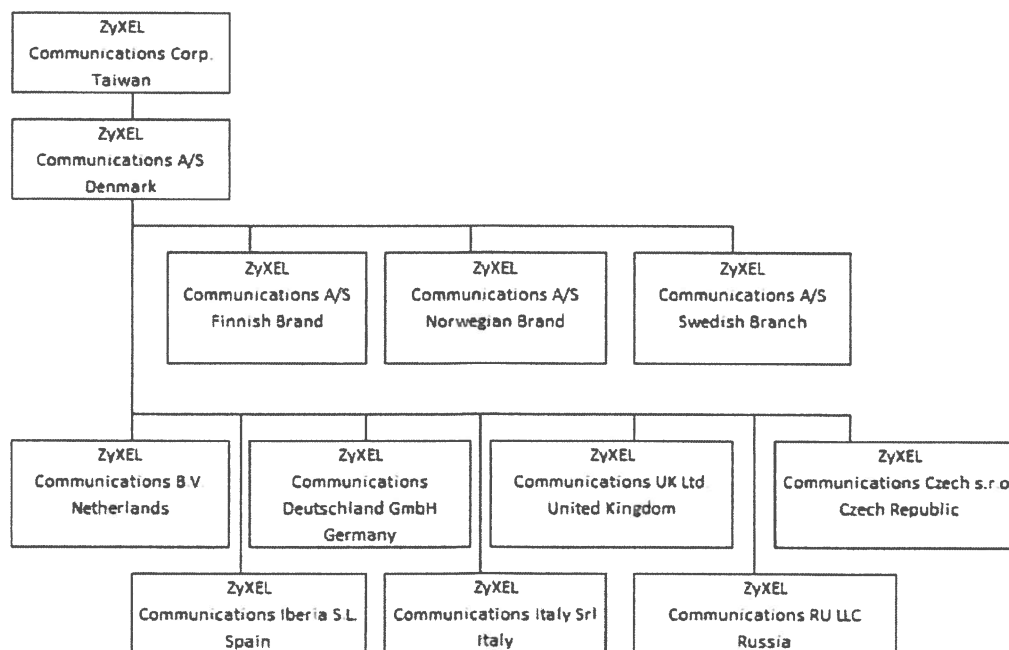
EUR'000	2017	2016	2015	2014	2013
Revenue	145,501	154,813	165,300	128,618	107,414
Gross profit	26,859	28,309	30,548	26,466	20,241
Ordinary operating profit	1,137	4,247	7,499	5,561	3,315
Profit/loss from financial income and expenses	-417	-267	-38	-162	253
<b>Profit for the year</b>	<b>407</b>	<b>2,903</b>	<b>5,350</b>	<b>4,209</b>	<b>2,859</b>
Total assets	77,562	76,570	71,168	64,778	53,387
Investment in property, plant and equipment	203	120	249	103	126
<b>Equity</b>	<b>26,122</b>	<b>25,799</b>	<b>23,228</b>	<b>17,779</b>	<b>13,472</b>
Gross margin	18.4%	18.3%	18.5%	20.6%	18.4%
Operating margin	0.8%	2.7%	4.5%	4.4%	3.1%
Return on equity	1.6%	11.8%	26.0%	27.0%	23.7%
Solvency ratio	33.7%	34.8%	33.4%	27.4%	25.2%
<b>Average number of full-time employees</b>	<b>164</b>	<b>158</b>	<b>145</b>	<b>140</b>	<b>152</b>

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Ratios". For terms and definitions, please see the accounting policies.



## Management's review

### Group chart



The subsidiaries and branches are 100% owned by ZyXEL Communications A/S, except for ZyXEL Communications RU LLC, Russia which is 99% owned.

## Management's review

### Operating review

#### Principal activities

The Group's primary activities consist of trading ZyXEL branded IT network products in Denmark, Norway, Sweden, Finland, Iceland, Estonia, Latvia, Lithuania, Germany, the Netherlands, Poland, the Czech Republic, Spain, Italy, Austria, England, Hungary, Romania, Greece, Ireland, Russia and Middle East.

All sales take place via the parent company as is the case for the major part of the administrative functions. Offices in Finland, Norway, Sweden and the subsidiaries provide sales and technical support, etc., locally.

#### Development in activities and financial position as well as outlook

The Group realised a decrease in revenue of 5.9% from EUR 154,813 thousand in 2016 to EUR 145,653 thousand in 2017. The Group realised a profit of EUR 407 thousand against a profit of EUR 2,903 thousand in 2016.

The development in revenue and the profit for the year is satisfactory and in line with the expectations expressed in the financial statements for 2016.

The Group expects the activities and the result for 2018 to be at the same level as for 2017.

#### Events after the balance sheet date

No events have occurred from the balance sheet date to this date that may affect the Company's financial position.

#### General risks

ZyXEL Communications A/S is a trading company that sells products for the Company's owner to a limited number of customers in the countries where the Company is represented, and on this background the Company does not have any specific general risks.

#### Financial risks

ZyXEL Communications A/S invoices its subsidiaries for purchase of goods in EUR. Moreover, the majority of sales is also invoiced in EUR. An exchange rate risk exists in England, Norway and the Czech Republic due to the fact that sales are invoiced in local currencies. The risks are not hedged using financial instruments. In the other countries, the risk is minimal.

#### Intellectual capital

It is necessary that our employees are updated on the development within our business areas and complementary areas as well. This is made via education, exhibitions, networking, etc.

## Management's review

### Environment

ZyXEL Communications A/S is conscious about the responsibility to ensure that the Company is doing business in an environmentally correct way. The Company observes and acts in accordance with local laws and regulations as well as EU's environmental requirements and reports the quantities of sold electronic equipment according to those rules and regulations.

### Operating review

### Corporate social responsibility

ZyXEL Communications A/S has not implemented separate policies on corporate social responsibilities, including policies for human rights, climate and environment.

### Gender distribution in Management

The Board of Directors of ZyXEL Communications A/S has three representatives who have been chosen in relation to their professional experience, where two also are senior managers of the ZyXEL Group. None of the Board members are female. It is the goal that before the end of 2019 the Board should have a female Board member. Taking the industry into consideration we might encounter challenges in achieving our target within the defined timeframe.

The senior management team included seven persons in 2017, all of which have been chosen with due respect to their professional experience. Two of the senior managers are female.

ZyXEL Communications A/S has acknowledged the changes in the Danish Financial Statements Act regarding an equal distribution of gender among the senior management and will take it into consideration in addition to the professional experience of a candidate, when a position becomes available. The aim will be to increase the female representation to a more equal distribution within the next two years.

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Income statement

EUR'000	Note	Group		Parent Company	
		2017	2016	2017	2016
<b>Revenue</b>	2	145,501	154,813	136,508	142,513
Cost of goods sold		-118,642	-126,504	-119,493	-124,613
<b>Gross profit</b>		26,859	28,309	17,015	17,900
Distribution costs	3, 4, 5	-16,153	-15,633	-4,186	-6,330
Administrative expenses	3, 4, 5	-9,569	-8,429	-11,783	-8,336
<b>Operating profit</b>		1,137	4,247	1,046	3,234
Income from subsidiaries	6	0	0	-96	575
Financial income	7	19	5	12	22
Financial expenses	8	-436	-272	-350	-287
<b>Profit before tax</b>		720	3,980	612	3,544
Tax on profit for the year	9	-313	-1,077	-205	-641
<b>Profit for the year</b>	10	407	2,903	407	2,903

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Balance sheet

EUR'000	Note	Group		Parent Company	
		2017	2016	2017	2016
<b>ASSETS</b>					
<b>Fixed assets</b>					
<b>Intangible assets</b>					
Rights	11	2,202	1,649	1,504	665
		2,202	1,649	1,504	665
<b>Property, plant and equipment</b>					
Property, plant and equipment	12	266	264	97	67
		266	264	97	67
<b>Investments</b>					
Investments in subsidiaries	13	0	0	8,269	8,449
		0	0	8,269	8,449
<b>Receivables</b>					
Other receivables		110	129	62	86
		110	129	62	86
<b>Total fixed assets</b>		<b>2,578</b>	<b>2,042</b>	<b>9,932</b>	<b>9,267</b>
<b>Current assets</b>					
<b>Inventories</b>					
Goods for resale		22,889	27,608	22,722	27,608
Prepayments for goods		504	378	244	254
		23,393	27,986	22,966	27,862
<b>Receivables</b>					
Trade receivables		36,641	33,812	16,550	13,024
Amounts owed by group entities		194	172	18,991	19,519
Deferred tax assets	14	611	545	594	494
Other receivables		568	47	249	29
		38,014	34,576	36,384	33,066
<b>Cash at bank and in hand</b>		<b>13,577</b>	<b>11,966</b>	<b>6,109</b>	<b>6,289</b>
<b>Total current assets</b>		<b>74,984</b>	<b>74,528</b>	<b>65,459</b>	<b>67,217</b>
<b>TOTAL ASSETS</b>		<b>77,562</b>	<b>76,570</b>	<b>75,391</b>	<b>76,484</b>

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Balance sheet

EUR'000	Note	Group		Parent Company	
		2017	2016	2017	2016
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	15	5,496	5,496	5,496	5,496
Retained earnings		20,626	20,303	20,626	20,303
<b>Total equity</b>		<b>26,122</b>	<b>25,799</b>	<b>26,122</b>	<b>25,799</b>
<b>Provisions</b>					
Warranty provisions	16	2,214	2,488	2,214	2,488
<b>Total provisions</b>		<b>2,214</b>	<b>2,488</b>	<b>2,214</b>	<b>2,488</b>
<b>Liabilities other than provisions</b>					
<b>Current liabilities other than provisions</b>					
Trade payables		1,359	1,681	1,086	1,043
Amounts owed to group enterprises		40,556	40,574	42,316	44,194
Other payables, including income taxes payable		7,311	6,028	3,653	2,960
		49,226	48,283	47,055	48,197
<b>Total liabilities other than provisions</b>		<b>49,226</b>	<b>48,283</b>	<b>47,055</b>	<b>48,197</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>77,562</b>	<b>76,570</b>	<b>75,391</b>	<b>76,484</b>
<b>Contractual commitments, contingent liabilities</b>					
	17				
<b>Related parties</b>	18				
<b>Consolidation</b>	19				

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Statement of changes in equity

EUR'000	Consolidated		
	Share capital	Retained earnings	Total
Equity at 1 January 2016	5,496	17,732	23,228
Profit for the year	0	2,903	2,903
Foreign exchange adjustment, foreign subsidiaries	0	-332	-332
<b>Equity at 1 January 2017</b>	<b>5,496</b>	<b>20,303</b>	<b>25,799</b>
Profit for the year	0	407	407
Foreign exchange adjustment, foreign subsidiaries	0	-84	-84
<b>Equity at 31 December 2017</b>	<b>5,496</b>	<b>20,626</b>	<b>26,122</b>

EUR'000	Parent company		
	Share capital	Retained earnings	Total
Equity at 1 January 2016	5,496	17,732	23,228
Profit for the year	0	2,903	2,903
Foreign exchange adjustment, foreign subsidiaries	0	-332	-332
<b>Equity at 1 January 2017</b>	<b>5,496</b>	<b>20,303</b>	<b>25,799</b>
Profit for the year	0	407	407
Foreign exchange adjustment, foreign subsidiaries	0	-84	-84
<b>Equity at 31 December 2017</b>	<b>5,496</b>	<b>20,626</b>	<b>26,122</b>

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Cash flow statement

EUR'000	Note	2017	2016
Profit before tax		720	3,980
Depreciation, amortisation and impairment losses		812	826
Other adjustments of non-cash operating items		-101	-58
Cash generated from operations before changes in working capital		1,431	4,748
Changes in working capital		2,672	173
Cash generated from operations before tax		4,103	4,921
Income taxes paid		-1,182	-1,782
<b>Cash flows from operating activities</b>		<b>2,921</b>	<b>3,139</b>
Acquisition of intangible assets		-1,131	0
Acquisition of property, plant and equipment		-203	-120
Disposal of property, plant and equipment		24	5
<b>Cash flows from investing activities</b>		<b>-1,310</b>	<b>-115</b>
<b>Cash flows for the year</b>			
Cash and cash equivalents at the beginning of the year		11,966	8,942
Net cash flow for the year		1,611	3,024
<b>Cash and cash equivalents at year end</b>		<b>13,577</b>	<b>11,966</b>



## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Notes

#### 1 Accounting policies

The annual report of ZyXEL Communications A/S for 2017 has been prepared in accordance with the provisions applying to reporting class C large entities under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

#### Recognition and measurement

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

Liabilities are recognised in the balance sheet when an outflow of economic benefits is probable and when the liability can be reliably measured.

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

In recognizing and measuring assets and liabilities, any gains, losses and risks occurring prior to the presentation of the annual report that evidence conditions existing at the balance sheet date are taken into account.

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities measured at fair value or amortized cost. Equally, costs incurred to generate the year's earnings are recognised, including depreciation, amortization, impairment and provisions as well as reversals as a result of changes in accounting estimates of amounts which were previously recognised in the income statement.

#### Consolidated financial statements

The consolidated financial statements comprise the Parent Company, ZyXEL Communications A/S, and subsidiaries in which ZyXEL Communications A/S directly or indirectly holds more than 50% of the votes or in some other way exercises control. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends and realised and unrealised gains and losses on intra-group transactions are eliminated.

Investments in subsidiaries are set off against the proportionate share of subsidiaries' fair value of net assets and liabilities at the date of acquisition.

#### Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Notes

#### 1 Accounting policies (continued)

Upon recognition of foreign subsidiaries which are independent entities, the income statements are translated into EUR at average exchange rates for the month, and balance sheet items are translated at the exchange rates at the balance sheet date. Foreign exchange differences arising upon translation of foreign subsidiaries' opening equity and results at the exchange rates at the balance sheet date are recognised directly in equity.

### Income statement

#### Revenue

Income from the sale of goods for resale is recognised in the income statement provided that delivery and transfer of risk to the buyer have taken place before year end, the income may be reliably measured and is expected to be received. Revenue is measured excluding VAT and taxes charged on behalf of third parties.

Revenue is measured at fair value of the agreed remuneration excluding VAT and taxes charged on behalf of third parties. All forms of discounts granted are recognised in revenue.

#### Distribution costs

Costs incurred in distributing goods sold during the year and in conducting sales campaigns, etc. are recognised as distribution costs. Also, costs relating to sales staff and depreciation are recognised.

#### Administrative expenses

Administrative expenses comprise expenses incurred during the year for management and administration of the Group and parent company, including expenses for administrative staff, management, office premises, office expenses and depreciation.

#### Income from subsidiaries

The proportionate share of the individual subsidiaries' profit/loss after tax is recognised in the Parent Company's income statement after full elimination of internal gains/losses and amortisation of goodwill.

#### Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on payables and transactions in foreign currencies, as well as surcharges and refunds under the on-account tax scheme, etc.

#### Tax on profit/loss for the year

Tax for the year comprises current corporation tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Notes

#### 1 Accounting policies (continued)

#### Balance sheet

##### Intangible assets

##### Rights

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

Amortisation is provided on a straight-line basis over the expected useful lives of the assets which are 5-7 years.

Gains and losses on the disposal of intangible assets are determined as the difference between the sales price less disposal costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as operating income or operating costs, respectively.

##### Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use.

The basis of depreciation, which is calculated as cost less any projected residual values after the end of the useful life, is depreciated on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Leasehold improvements	5 years
Tools and equipment	2-5 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Gains and losses on the disposal of property, plant and equipment are stated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating costs, respectively.

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Notes

#### 1 Accounting policies (continued)

##### Investments in subsidiaries

Investments in subsidiaries are measured according to the equity method.

Investments in subsidiaries are measured at the proportionate share of the subsidiaries' net asset values calculated in accordance with the Group's accounting policies minus or plus unrealised intra-group profits and losses and plus or minus any residual value of positive or negative goodwill determined in accordance with the purchase method.

Investments in subsidiaries with negative net asset values are measured at EUR 0 (nil), and any amounts owed by such subsidiaries are written down if the amount owed is irrecoverable. If the parent company has a legal or constructive obligation to cover a deficit that exceeds the amount owed, the remaining amount is recognised under provisions.

Net revaluation of investments in subsidiaries is recognised in the reserve for net revaluation according to the equity method in equity to the extent that the carrying amount exceeds cost. Dividends from subsidiaries which are expected to be adopted before the approval of the annual report of ZyXEL Communications A/S are not recognised in the reserve for net revaluation.

##### Impairment of non-current assets

The carrying amount of intangible assets and property, plant and equipment is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

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

##### Inventories

Inventories are measured at cost, comprising purchase price plus delivery costs, in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Notes

#### 1 Accounting policies (continued)

##### Receivables

Receivables are measured at amortised cost. Write-down is made for bad debt losses based on an individual assessment of receivables.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a portfolio of receivables has been impaired. If there is an objective indication that an individual receivable has been impaired, a write-down is made.

Receivables with no objective indication of individual impairment are assessed for objective indication of impairment on a portfolio basis. The objective indicators used in relation to portfolios are determined on the basis of past payment default.

##### Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

##### Equity

###### *Reserve for net revaluation according to the equity method*

Reserve for net revaluation according to the equity method comprises net revaluation of investments in subsidiaries in proportion to cost.

The reserve can be eliminated by loss, realisation of investments or by change of accounting estimates.

The reserve cannot be recognised with a negative amount.

###### *Dividends*

Proposed dividends are recognised as a liability at the date on which they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year (declaration date) is disclosed as a separate item under equity.

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Notes

#### 1 Accounting policies (continued)

##### Corporation tax and deferred tax

Current tax payable and receivable is recognised on the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities based on the planned use of the asset or settlement of the liability. However, deferred tax is not recognised on temporary differences relating to goodwill which is non-deductible for tax purposes and on other items where the temporary differences arise at the date of acquisition without affecting either profit/loss for the year or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; 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. Any deferred net assets are measured at net realisable value.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax. The change in deferred tax as a result of changes in tax rates is recognised in the income statement and equity.

##### Other provisions

Provisions comprise anticipated costs of warranties. Provisions are recognised when, as a result of past events, the Group has a legal or a constructive obligation, and it is probable that there may be outflow of resources embodying economic benefits to settle the obligation.

Provisions are measured at net realisable or fair value if the obligation is expected to be settled in the distant future.

Warranties comprise obligations to make good any defects on goods sold. Provisions are measured at net realisable value and recognised on the basis of the Group's past record with warranties. Provisions expected to be maintained for more than one year from the balance sheet date are discounted at a rate reflecting risk and the due date for payment.

##### Liabilities other than provisions

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost.

Other liabilities are measured at net realisable value.

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Notes

#### 1 Accounting policies (continued)

##### Cash flow statement

The cash flow statement shows the Group's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning and end of the year.

The cash flow effect of acquisitions and divestment of entities is shown separately in cash flows from investing activities. Cash flows relating to acquired entities are recognised in the cash flow statement from the date of acquisition, and cash flows relating to divested entities are recognised up to the date of divestment.

##### Cash flow statement

###### Cash flows from operating activities

Cash flows from operating activities are calculated as the profit/loss for the year adjusted for non-cash operating items, changes in working capital and income taxes paid.

###### Cash flows from investing activities

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of entities and activities, intangible assets, property, plant and equipment and investments.

###### Cash flows from financing activities

Cash flows from financing activities comprise purchase and sale of treasury shares, payments relating to increases or reductions in capital and related costs as well as payment of dividends to shareholders and raising and repayment of interest-bearing debt.

###### Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less which are easily convertible into cash and that are subject to only an insignificant risk of changes in value.

##### Segment information

Segment information is provided on geographical markets. The segment information is in line with the Group's accounting policies, risks and internal financial management.

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Notes

#### Financial ratios

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios have been calculated as follows:

Gross margin	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$
Operating margin	$\frac{\text{Operating profit/loss} \times 100}{\text{Revenue}}$
Return on equity	$\frac{\text{Profit/loss from ordinary activities after tax} \times 100}{\text{Average equity}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$

	Consolidated		Parent Company	
	2017	2016	2017	2016
EUR'000				
<b>2 Revenue</b>				
Denmark	6,032	25,279	6,032	25,279
The Nordic countries	36,206	36,491	36,206	36,491
Europe	103,415	93,043	94,270	80,743
	<u>145,653</u>	<u>154,813</u>	<u>136,508</u>	<u>142,513</u>

#### 3 Fee to statutory auditor EUR'000

	Consolidated	
	2017	2016
Fee regarding statutory audit	126	127
Other assurance engagements	6	31
Tax assistance	92	30
Other assistance	78	38
Total fees to KPMG	<u>302</u>	<u>226</u>



## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Notes

EUR'000	Consolidated		Parent Company	
	2017	2016	2017	2016
<b>4 Depreciation, amortisation and impairment losses</b>				
Rights	573	668	285	380
Software	61	11	56	11
Property, plant and equipment	179	158	75	54
	<u>813</u>	<u>837</u>	<u>416</u>	<u>445</u>
Depreciation and amortisation are recognised as follows in the consolidated financial statements and parent company financial statements:				
Administration	240	158	131	54
Distribution	573	679	285	391
	<u>813</u>	<u>837</u>	<u>416</u>	<u>445</u>
<b>5 Staff costs</b>				
Selling and distribution cost	10,904	10,051	2,440	2,557
Administrative expenses	1,895	1,665	1,252	671
	<u>12,799</u>	<u>11,716</u>	<u>3,692</u>	<u>3,228</u>
Total staff can be specified as follows:				
Salaries and remunerations, etc.	11,057	10,361	3,202	2,855
Pensions	432	1,035	140	224
Other social security costs	1,310	320	350	149
	<u>12,799</u>	<u>11,716</u>	<u>3,692</u>	<u>3,228</u>
Average number of full-time employees	<u>164</u>	<u>158</u>	<u>36</u>	<u>38</u>

Staff costs of the Group and the Parent Company include remuneration of the Parent Company's Executive Board, EUR 638 thousand, and pensions, EUR 4 thousand.

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Notes

EUR'000	Group		Parent Company	
	2017	2016	2017	2016
<b>6 Income from subsidiaries</b>				
Share of profit			-96	575
			<u>-96</u>	<u>575</u>
<b>7 Other financial income</b>				
Interest income on cash at bank	6	4	6	21
Other financial income	13	1	6	1
	<u>19</u>	<u>5</u>	<u>12</u>	<u>22</u>
<b>8 Financial expenses</b>				
Foreign exchange losses	376	158	300	176
Other financial expenses	60	114	50	111
	<u>436</u>	<u>272</u>	<u>350</u>	<u>287</u>
<b>9 Tax on profit for the year</b>				
Current tax for the year	371	930	305	817
Deferred tax adjustment for the year	-66	147	-100	-176
Adjustment regarding previous years	8	0	0	0
	<u>313</u>	<u>1.077</u>	<u>205</u>	<u>641</u>
<b>10 Proposed profit appropriation</b>				
Retained earnings			407	2,903
			<u>407</u>	<u>2,903</u>

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Notes

#### 11 Intangible assets

EUR'000	Consoli- dated	Parent Company
Cost at 1 January 2017	3,922	2,256
Additions	1,284	1,285
Disposals	-154	-154
Cost at 31 December 2017	5,052	3,387
Amortisation and impairment losses at 1 January 2017	-2,217	-1,543
Amortisation	-633	-340
Amortisation and impairment losses at 31 December 2017	-2,850	-1,883
Carrying amount at 31 December 2017	2,202	1,504

#### 12 Property, plant and equipment

EUR'000	Consoli- dated	Parent company
Cost at 1 January 2017	1,998	1,036
Additions	203	105
Disposals	-46	0
Exchange rate adjustment	-6	0
Cost at 31 December 2017	2,149	1,141
Depreciation and impairment losses at 1 January 2017	-1,734	-969
Depreciation for the year	-179	-75
Disposals	27	0
Exchange rate adjustment	3	0
Depreciation and impairment losses at 31 December 2017	-1,883	-1,044
Carrying amount at 31 December 2017	266	97

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Notes

#### 13 Investments in subsidiaries

EUR'000	Parent Company	
	2017	2016
Cost at 1 January	10,069	10,069
Additions	1	0
Cost at 31 December	10,070	10,069
Net revaluation at 1 January	-1,620	-1,863
Foreign exchange adjustment	-85	-332
Net share of profit for the year	-96	575
Net revaluation at 31 December	-1,801	-1,620
<b>Carrying amount at 31 December</b>	<b>8,269</b>	<b>8,449</b>

Name/legal form	Registered office	Voting rights and ownership interest	Equity EUR'000	Profit/ loss for the year EUR'000
ZyXEL Deutschland GmbH	Germany	100%	3,736	98
ZyXEL Communications UK Ltd	England	100%	1,612	17
ZyXEL Communications Czech s.r.o	Czech Republic	100%	598	24
ZyXEL Communications B.V.	The Netherlands	100%	1,381	20
ZyXEL Communications Iberia S.L.	Spain	100%	134	3
ZyXEL Communications Italy Srl.	Italy	100%	129	47
ZyXEL Communications Russia	Russia	99%	-17	-17
Amortization of rights in Italy			696	-288
			<b>8,269</b>	<b>-96</b>

#### Subsidiary audit exemption

The subsidiary ZyXEL Communication UK Ltd., company number 05061338, is exempt from the requirements of Companies Act 2016 of the United Kingdom relating to the audit of individual accounts by virtue of s479A CA 2006.

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Notes

#### 14 Deferred tax assets

DKK'000	Group		Parent Company	
	2017	2016	2017	2016
Deferred tax at 1 January	545	398	494	318
Deferred tax adjustment for the year in the income statement	66	147	100	176
	<u>611</u>	<u>545</u>	<u>594</u>	<u>494</u>

The deferred tax asset is recognised at its full value as it is expected to be utilised within the coming years according to the Group's and Parent Company's budgets and projections.

#### 15 Share capital

The share capital consists of 1 share of EUR 5,496 thousand.

The share does not carry special right.

#### 16 Warranty provisions

Warranty provisions comprise commitments relating to warranties on sold products.

#### 17 Contractual obligations and contingent liabilities, etc.

##### Parent company

The Company has rental and lease commitments of EUR 687 thousand (2016: EUR 464 thousand) at the balance sheet date. EUR 189 thousand falls due within one year. EUR 687 thousand falls due within the next 5 years. EUR 0 thousand falls due after 5 years.

The Company has pledged bank deposits of EUR 0 thousand as security.

The Company is party to a few disputes. The expected outcome of the cases has been recognised in the financial statements. None of these cases are deemed material for the evaluation of the Company's financial position.

The Company has issued a guarantee to its subsidiary ZyXEL Communications UK Ltd. for all the subsidiary's outstanding liabilities existing at the balance sheet date 31 December 2017. The guarantee is issued in relation to exemption from the requirement of the Companies Act 2006 of the United Kingdom relating to the audit of individual accounts by virtue of s479A CA 2006. The exemption is also disclosed in note 13.

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2017

### Notes

#### Group

The Group has rental and lease commitments of EUR 1,974 thousand (2016: EUR 1,181 thousand) at the balance sheet date. EUR 622 thousand falls due within one year. EUR 1,961 thousand falls due within the next 5 years. EUR 13 thousand falls due after 5 years.

The Group has pledged bank deposits of EUR 160 thousand as security.

The Group is party to a few disputes. The expected outcome of the cases has been recognised in the financial statements. None of these cases are deemed material for the evaluation of the Group's financial position.

#### 18 Related parties

##### Controlling interest

The following related parties have a controlling interest in the ZyXEL Communications A/S Group:

Name	Registered office	Basis of influence
ZyXEL Communications Corporation	Taiwan	Parent company at 31 December 2017

The Company has chosen only to disclose transactions that are not carried out on an arm's length basis in accordance with section 98c(7) of the Danish Financial Statements Act.

#### 19 Consolidation

ZyXEL Communications A/S and its subsidiaries are included in the consolidated financial statements of ZyXEL Communications Corporation, Taiwan (immediate and ultimate parent). The consolidated financial statements of ZyXEL Communications Corporation can be obtained by contacting the Company.