ZyXEL Communications A/S

Generatorvej 8 D, 3.
2860 Søborg

CVR no. 21 22 92 37

Annual report 2016

The annual report was presented and approved at the Company's annual general meeting on ______________________________ 20 ___ ______________________________________ chairman of the annual general meeting

Contents

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 2016.

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 2016 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 2016.

In our opinion, the Management's review gives 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, 15 May 2017
Executive Board:

Lee Eric Marsden

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 2016 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 as well as consolidated statement of cash flows. The consolidated financial statements and the 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 2016 and of the results of the Group's and the Parent Company's operations as well as the consolidated cash flows 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 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.

Independent auditor's report

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.

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

Independent auditor's report

- 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.

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.

Independent auditor's report

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, 15 May 2017

KPMG

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98

Jon Beck State Authorised Public Accountant	Joakim Juul Larsen State Authorised Public Accountant

Management's review

Company details

ZyXEL Communications A/S
Generatorvej 8 D, 3.
2860 Søborg

Telephone:	+45 39 55 07 00
Website:	www.zyxel.dk
E-mail:	sales@zyxel.dk
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

Lee Eric Marsden

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
2100 København Ø
Denmark

Annual general meeting

The annual general meeting will be held on 15 May 2017.

Management's review

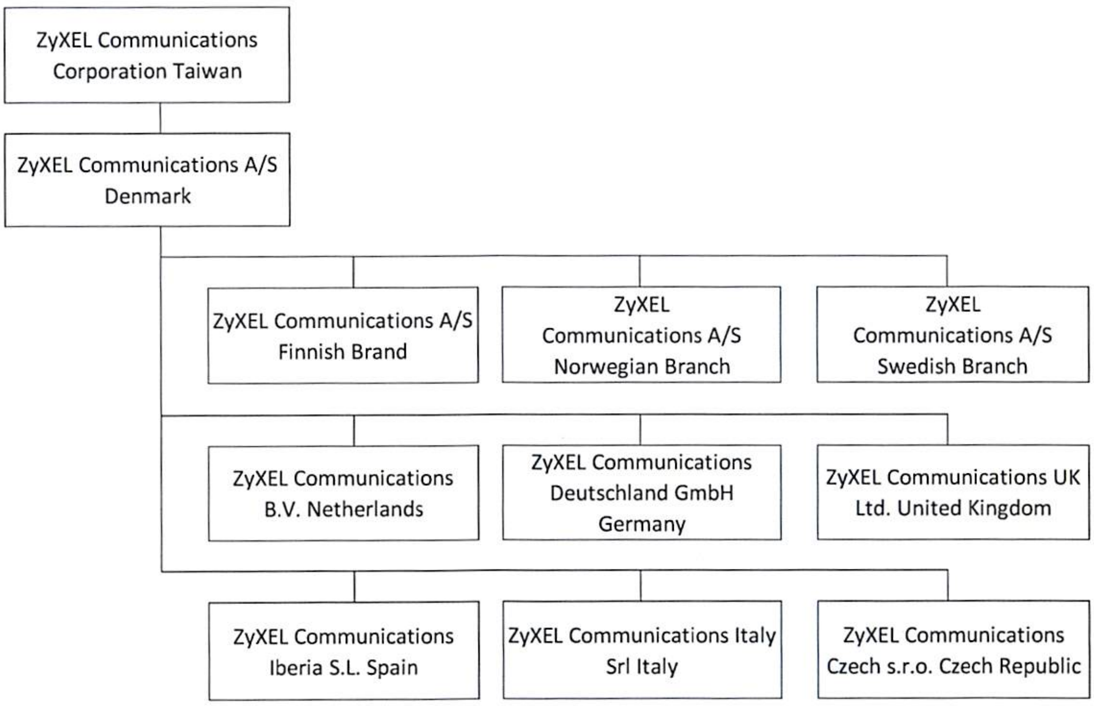
Financial highlights for the Group

EUR'000	2016	2015	2014	2013	2012
Revenue	154,813	165,300	128,618	107,414	94,159
Gross profit	28,309	30,548	26,466	20,241	18,240
Ordinary operating profit	4,247	7,499	5,561	3,315	2,744
Profit/loss from financial income and expenses	-267	-38	-162	253	83
Profit for the year	**2,903**	**5,350**	**4,209**	**2,859**	**2,127**
Total assets	76,570	71,168	64,778	53,387	52,654
Investment in property, plant and equipment	120	249	103	126	73
Equity	**25,799**	**23,228**	**17,779**	**13,472**	**10,616**
Gross margin	18.3%	18.5%	20.6%	18.4%	19.3%
Operating margin	2.7%	4.5%	4.4%	3.1%	2.2%
Return on equity	11.8%	26.0%	27.0%	23.7%	26.9%
Solvency ratio	34.8%	33.4%	27.4%	25.2%	20.2%
Average number of full-time employees	158	145	140	152	150

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". For terms and definitions, please see the accounting policies.

Management's review

Group chart



The subsidiaries and branches are 100 % owned by ZyXEL Communication A/S.

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 and Ireland.

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 6.3% from EUR 165,300 thousand in 2015 to EUR 154,813 thousand in 2016. The Group realised a profit of EUR 2,903 thousand against a profit of EUR 5,350 thousand in 2015.

The development in revenue and the profit for the year is satisfactory and in line with the expectations expressed in the financial statements for 2015.

The Group expects the activities and the results for 2017 to be at the same level as for 2016.

Events after the balance sheet date

No events have occurred from the balance sheet 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 are also invoiced in EUR. An exchange rate risk exists in England, Norway and the Czech Republic due 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 related areas as well. This is ensured by means of training, exhibitions, networking, etc.

Management's review

Operating review

Environment

ZyXEL Communications A/S is conscious of 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 the EU's environmental requirements and reports the quantities of electronic equipment sold according to those laws and regulations.

Corporate social responsibility

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

The ZyXEL Communications Group's policies on corporate social responsibility are available at the following link:

http://www.zyxel.com/about_zyxel/green_social_responsibility_csr_commitment.shtml.

Gender distribution in Management

The Board of Directors of ZyXEL Communications A/S has three members who have been chosen based on their professional experience, where two are also senior managers of the ZyXEL Group. None of the board members are female. It is the Company's goal that one of the board members should be female before the end of 2019.

The senior management team included seven persons in 2016, all of which have been chosen with due respect to their professional experience. One of the senior managers is female.

ZyXEL Communications A/S has acknowledged the changes in the Danish Financial Statements Act regarding equal gender distribution in 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 three years.

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Income statement

		Group		Parent Company	
EUR'000	Note	2016	2015	2016	2015
Revenue	2	154,813	165,300	142,513	151,760
Cost of goods sold		-126,504	-134,752	-124,613	-132,383
Gross profit		28,309	30,548	17,900	19,377
Distribution costs	3,4,5	-15,633	-16,045	-6,330	-6,610
Administrative expenses	3,4,5	-8,429	-7,004	-8,336	-7,670
Operating profit		4,247	7,499	3,234	5,097
Income from subsidiaries	6	0	0	575	1,720
Other financial income	7	5	82	22	58
Financial expenses	8	-272	-120	-287	-111
Profit before tax		3,980	7,461	3,544	6,764
Tax on profit for the year	9	-1,077	-2,111	-641	-1,414
Profit for the year	10	2,903	5,350	2,903	5,350

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Balance sheet

		Group		Parent Company	
EUR'000	Note	2016	2015	2016	2015
ASSETS					
Fixed assets					
Intangible assets	11				
Rights		1,649	2,317	665	1,045
		1,649	2,317	665	1,045
Property, plant and equipment	12				
Property, plant and equipment		264	321	67	89
		264	321	67	89
Investments					
Investments in subsidiaries	13	0	0	8,449	8,206
		0	0	8,449	8,206
Receivables					
Other receivables		129	110	86	57
Total fixed assets		2,042	2,748	9,267	9,397
Current assets					
Inventories					
Goods for resale		27,608	21,072	27,608	21,072
Prepayments for goods		378	637	254	324
		27,986	21,709	27,862	21,396
Receivables					
Trade receivables		33,812	37.262	13,024	11,511
Receivables from group entities		172	103	19,519	21,395
Deferred tax assets	14	545	398	494	318
Other receivables		47	6	29	14
		34,576	37,769	33,066	33,238
Cash at bank and in hand		11,966	8,942	6,289	3,929
Total current assets		74,528	68,420	67,217	58,563
TOTAL ASSETS		76,570	71,168	76,484	67,960

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Balance sheet

		Group		Parent Company	
EUR'000	Note	2016	2015	2016	2015
EQUITY AND LIABILITIES					
Equity					
Share capital	15	5,496	5,496	5,496	5,496
Retained earnings		20,303	17,732	20,303	17,732
Total equity		25,799	23,228	25,799	23,228
Provisions					
Warranty provisions	16	2,488	2,186	2,488	2,186
Total provisions		2,488	2,186	2,488	2,186
Liabilities other than provisions					
Current liabilities other than provisions					
Trade payables		1,681	2,190	1,043	1,199
Payables to group entities		40,574	35,826	44,194	37,811
Other payables, including taxes payable		6,028	7,738	2,960	3,536
Total current liabilities other than provisions		48,283	45,754	48,197	42,546
TOTAL EQUITY AND LIABILTIES		76,570	71,168	76,484	67,960

Contractual obligations and contingent liabilities	17
Related party disclosures	18
Consolidation	19

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Statement of changes in equity

	Consolidated		
EUR'000	Share capital	Retained earnings	Total
Equity at 1 January 2015	5,496	12,283	17,779
Profit for the year	0	5,350	5,350
Foreign exchange adjustment, foreign subsidiaries	0	99	99
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
Equity at 31 December 2016	5,496	20,303	25,799

	Parent company		
EUR'000	Share capital	Retained earnings	Total
Equity at 1 January 2015	5,496	12,283	17,779
Profit for the year	0	5,350	5,350
Foreign exchange adjustment, foreign subsidiaries	0	99	99
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
Equity at 31 December 2016	5,496	20,303	25,799

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Cash flow statement

EUR'000	Note	2016	2015
Profit before tax		3,980	7,461
Depreciation, amortisation and impairment losses		826	949
Other adjustments of non-cash operating items		-58	132
Cash generated from operations before changes in working capital		4,748	8,542
Changes in working capital		173	-7,150
Cash generated from operations before tax		4,921	1,392
Corporation tax paid		-1,782	-1,827
Cash flows from operating activities		3,139	-435
Acquisition of intangible assets		0	-1,440
Acquisition of property, plant and equipment		-120	-248
Disposal of property, plant and equipment		5	0
Cash flows from investing activities		-115	-1,688
Cash flows for the year			
Cash and cash equivalents at the beginning of the year		8,942	11,065
Net cash flow for the year		3,024	-2,123
Cash and cash equivalents at year end		11,966	8,942

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Notes

1 Accounting policies

The annual report of ZyXEL Communications A/S for 2016 has been prepared in accordance with the provisions applying to reporting class C large entities under the Danish Financial Statements Act.

As from 1 January 2016, the Company has implemented Act no. 738 of 1 June 2015.

This has entailed the following changes to recognition and measurement:

— Going forward, the residual value of intangible assets and property, plant and equipment must be reassessed on an ongoing basis. Pursuant to the transition provisions of the Act, any adjustments to residual values must be made prospectively as an accounting estimate without restatement of comparative figures and without effect on equity.

The changes have no monetary effect on the income statement or the balance sheet for 2016 or for the comparative figures.

Apart from the above, 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 Company and when 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 recognising 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 amortised cost. Equally, costs incurred to generate the year's earnings are recognised, including depreciation, amortisation, impairment losses and provisions as well as reversals as a result of changes in accounting estimates of amounts that were previously recognised in the income statement.

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Notes

1 Accounting policies (continued)

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.

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 and that 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. The date of the transfer of the most important risks and rewards is determined using standard incoterms ® 2010.

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Notes

1 Accounting policies (continued)

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, 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 securities, payables and transactions in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax on profit/loss for the year

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 2016

Notes

1 **Accounting policies (continued)**

Balance sheet

Intangible assets

Goodwill

Goodwill is amortised on a straight-line basis over the estimated useful lives determined on the basis of Management's experience within the individual business areas. The maximum amortisation period is 20 years and longest for strategically acquired entities with a strong market position and long-term earnings profile.

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.

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Notes

1 Accounting policies (continued)

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.

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.

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Notes

1 Accounting policies (continued)

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.

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 2016

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 Company 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 Company'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.

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Notes

1 Accounting policies (continued)

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.

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 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 corporation tax 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 that are easily convertible into cash and that are subject to only an insignificant risk of changes in value.

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Notes

1 **Accounting policies (continued)**

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.

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 $$\frac{\text{Gross profit/loss x 100}}{\text{Revenue}}$$

Operating margin $$\frac{\text{Operating profit/loss x 100}}{\text{Revenue}}$$

Return on equity $$\frac{\text{Profit/loss from ordinary activities after tax x 100}}{\text{Average equity}}$$

Solvency ratio $$\frac{\text{Equity at year end x 100}}{\text{Total equity and liabilities at year end}}$$

		Consolidated		Parent Company	
	EUR'000	2016	2015	2016	2015
2	**Revenue**				
	Denmark	25,279	25,025	25,279	25,025
	The Nordic countries	36,491	36,732	36,491	36,732
	Europe	93,043	103,543	80,743	90,003
		154,813	165,300	142,513	151,760

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Notes

EUR'000	Consolidated	
	2016	2015
3 Fee to statutory auditor		
Fee regarding statutory audit	127	105
Other assurance engagements	31	28
Tax assistance	30	31
Other assistance	38	21
Total fees to KPMG	226	185

	Consolidated		Parent Company	
EUR'000	2016	2015	2016	2015
4 Depreciation, amortisation and impairment losses				
Goodwill	0	246	0	246
Rights	668	548	380	380
Fixtures and fitting, tools and equipment	158	155	54	45
	826	949	434	671

Depreciation and amortisation are recognised as follows in the consolidated financial statements and parent company financial statements:

Administration	158	155	54	45
Distribution	668	794	380	626
	826	949	434	671

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Notes

		Group		Parent Company	
	EUR'000	2016	2015	2016	2015
5	**Staff costs**				
	Selling and distribution costs	10,051	10,410	2,557	2,994
	Administrative expenses	1,665	1,669	671	785
		11,716	12,079	3,228	3,779
	Total staff can be specified as follows:				
	Salaries and remuneration, etc.	10,361	10,419	2,855	3,314
	Pensions	1,035	1,315	224	295
	Other social security costs	320	345	149	170
		11,716	12,079	3,228	3,779
	Average number of full-time employees	158	145	38	37

In accordance with section 98b of the Danish Financial Statements Act, remuneration of the Executive Board is not disclosed.

6	**Income in subsidiaries**				
	Share of profit			575	1,720
				575	1,720
7	**Other financial income**				
	Interest income on cash at bank	4	11	21	9
	Foreign exchange gains	0	21	0	0
	Other financial income	1	50	1	49
		5	82	22	58
8	**Financial expenses**				
	Foreign exchange losses	158	17	176	16
	Other financial expenses	114	103	111	95
		272	120	287	111

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Notes

		Group		Parent Company	
	EUR'000	2016	2015	2016	2015
9	**Tax on profit for the year**				
	Current tax for the year	930	1,804	817	1,510
	Deferred tax adjustment for the year	147	162	-176	-241
	Withholding taxes	0	-8	0	-8
	Adjustment regarding previous years	0	153	0	153
		1,077	2,111	641	1,414
10	**Proposed profit appropriation**				
	Retained earnings			2,903	5,350
				2,903	5,350

11 Intangible assets

EUR'000	Consoli-dated	Parent Company
Cost at 1 January 2016	3,340	1,900
Cost at 31 December 2016	3,340	1,900
Amortisation and impairment losses at 1 January 2016	-1,023	-855
Amortisation	-668	-380
Amortisation and impairment losses at 31 December 2016	-1,691	-1,235
Carrying amount at 31 December 2016	1,649	665

12 Property, plant and equipment

EUR'000	Consoli-dated	Parent Company
Cost at 1 January 2016	1,384	673
Additions	120	32
Disposals	-17	0
Exchange rate adjustment	-61	0
Cost at 31 December 2016	1,426	705
Depreciation and impairment losses at 1 January 2016	-1,063	-584
Depreciation for the year	-158	-54
Disposals	10	0
Exchange rate adjustment	49	0
Depreciation and impairment losses at 31 December 2016	-1,162	-638
Carrying amount at 31 December 2016	264	67

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Notes

13 Equity investments in group entities

	Parent Company	
EUR'000	2016	2015
Cost at 1 January	10,069	8,619
Additions	0	1,450
Cost at 31 December	10,069	10,069
Net revaluation at 1 January	-1,863	-3,735
Foreign exchange adjustment	-332	152
Net share of profit for the year	575	1,720
Net revaluation at 31 December	-1,620	-1,863
Carrying amount at 31 December	8,449	8,206

Name/legal form	Registered office	Voting rights and ownership interest	Equity	Profit/ loss for the year
			EUR'000	EUR'000
ZyXEL Deutschland GmbH	Germany	100%	3,638	445
ZyXEL Communications UK Ltd	England	100%	1,693	177
ZyXEL Communications Czech s.r.o	The Czech Republic	100%	560	125
ZyXEL Communications B.V.	The Netherlands	100%	1,361	83
ZyXEL Communications Iberia S.L.	Spain	100%	130	16
ZyXEL Communications Italy Srl.	Italy	100%	83	17
Amortisation of rights in Italy			984	-288
			8,449	575

14 Deferred tax asset

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 the Parent Company's budgets and projections.

15 Share capital

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

The share capital has not been divided into classes.

The share capital was increased by EUR 3,350 thousand in 2012; otherwise, it has remained unchanged for the last five years.

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Notes

16 Warranty provisions

Warranty provisions comprise commitments relating to warranties on sold products.

17 Contractual obligations and contingent liabilities, etc.

Parent Company

The Parent Company has rental and lease commitments of EUR 464 thousand (2015: EUR 1,183 thousand) at the balance sheet date. EUR 464 thousand falls due within the next five years. EUR 0 thousand falls due after five years.

The Parent Company has pledged bank deposits of EUR 36 thousand as security.

The Parent 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 to the evaluation of the Company's financial position.

Group

The Group has rental and lease commitments of EUR 1,181 thousand (2015: EUR 1,937 thousand) at the balance sheet date. EUR 1,181 thousand falls due within the next five years. EUR 0 thousand falls due after five years.

The Group has pledged bank deposits of EUR 212 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 to 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 2016

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.

Consolidated financial statements and parent company financial statements 1 January – 31 December 2016

Notes

19 Consolidation

ZyXEL Communications A/S and its subsidiaries are included in the consolidated financial statements of ZyXEL Communications Corporation, Taiwan (immediate and ultimative parent).

The consolidated financial statements of ZyXEL Communications Corporation can be obtained by contacting the Company.