

# ZyXEL

## Communications A/S

Gladsaxevej 378  
2860 Søborg

CVR no. 21 22 92 37

**Annual report 2018**

The annual report was presented and approved at the  
Company's annual general meeting  
on GLADSAXE, 5/6 2019  
chairman of the annual general meeting  
TORBEN THOMASSEN

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## 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 2018.

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 2018 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 2018.

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.

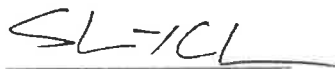
Søborg, 5<sup>th</sup> June 2019  
Executive Board:



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Jannik Palle Haargaard  
Chairman

Board of Directors:



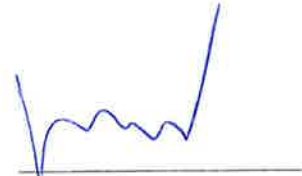
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Shun-I Chu  
Chairman



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Kuo-Long Yang



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Torben Thomsen



## **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 2018 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 2018 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 2018 in accordance with the Danish Financial Statements Act.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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, 5th June 2019

#### **KPMG**

Statsautoriseret Revisionspartnerselskab  
CVR no. 25 57 81 98

Jon Beck  
State Authorised  
Public Accountant  
mne32169

Joakim Juul Larsen  
State Authorised  
Public Accountant  
mne32803

**ZyXEL Communications A/S**  
Annual report 2018  
CVR no. 21 22 92 37

## 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 5<sup>th</sup> June 2019.

## Management's review

### Financial highlights for the Group

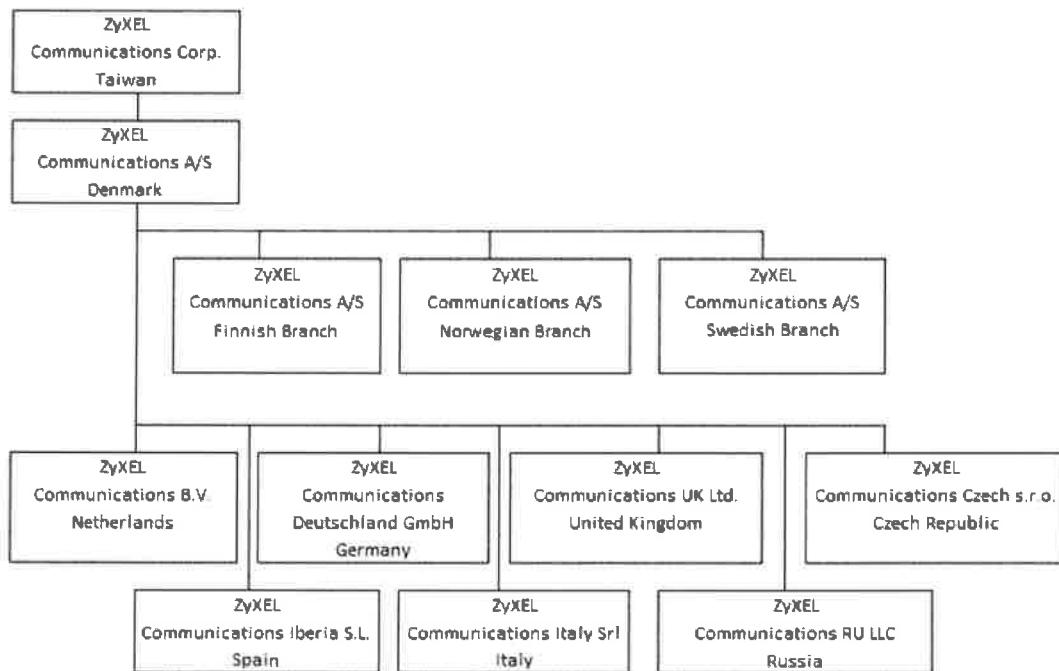
EUR'000	2018	2017	2016	2015	2014
Revenue	168,617	145,501	154,813	165,300	128,618
Gross profit	28,709	26,859	28,309	30,548	26,466
Ordinary operating profit	1,473	1,137	4,247	7,499	5,561
Profit/loss from financial income and expenses	-251	-417	-267	-38	-162
<b>Profit for the year</b>	<b>842</b>	<b>407</b>	<b>2,903</b>	<b>5,350</b>	<b>4,209</b>
Total assets	113,808	77,562	76,570	71,168	64,778
Investment in property, plant and equipment	259	203	120	249	103
<b>Equity</b>	<b>26,934</b>	<b>26,122</b>	<b>25,799</b>	<b>23,228</b>	<b>17,779</b>
Gross margin	17.0%	18.4%	18.3%	18.5%	20.6%
Operating margin	0.9%	0.8%	2.7%	4.5%	4.4%
Return on equity	3.2%	1.6%	11.8%	26.0%	27.0%
Solvency ratio	23.7%	33.7%	34.8%	33.4%	27.4%
<b>Average number of full-time employees</b>	<b>158</b>	<b>164</b>	<b>158</b>	<b>145</b>	<b>140</b>

Financial ratios are calculated in accordance with the guidelines "Recommendations & Ratios" issued by the Danish Society of Financial Analysts. 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.

The Group operates in two business segments, ISP (Internet Service Provider) and Channel (Distribution). The products sold in the ISP segment are often customized whereas products sold via distributors are more generic products.

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 an increase in revenue of 15.8% from EUR 145,501 thousand in 2017 to EUR 168,617 thousand in 2018. The Group realised a profit of EUR 842 thousand against a profit of EUR 407 thousand in 2017.

The increase in revenue relates to the service provider business in Italy. The development in revenue and the profit for the year is satisfactory and in line with the expectations expressed in the financial statements for 2017.

The Group expects the activities and the result for 2019 to be at the same level as for 2018.

#### **Events after the balance sheet date**

The ultimate parent company plans to make a demerger on a global level – separating the business into two separate divisions – one for ISP and one for Channel. The demerger plan has been public announced and is expected to be carried out during June 2019.

No other 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.

ZyXel Communication A/S operates in the British market through its subsidiary ZyXel Communications UK Ltd, but does not expect any special financial impact related to Brexit.

#### **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**

As part of the recruiting process ZyXEL Communications A/S and all its subsidiaries has implemented a Code of Conduct document, which every new employee should sign. The document set standards for how the Group wants employees to behave towards business partners, be it customers, suppliers or other external individual or groups. The document also sets general standards for human rights, social and staff policy, anti-corruption as well as bribery.

Nevertheless, the group has currently not implemented any individual policies to environment, climate, human rights, social and staff matters, anti-corruption and bribery. It is our understanding that based on the performed internal risk assessment to each of those areas and considering our countries of operations that the risks to environment, climate, human rights, social and staff matters, anti-corruption and bribery are not material from our operations and by following robust environmental, climate, human rights, labour, anti-corruption and bribery laws and standards, there is no need to develop such policy at the current stage.

### **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 2018, 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 2018

### Income statement

EUR'000	Note	Group		Parent Company	
		2018	2017	2018	2017
<b>Revenue</b>	2	168,617	145,501	129,510	136,508
Cost of goods sold		-139,908	-118,642	-110,768	-119,493
<b>Gross profit</b>		28,709	26,859	18,742	17,015
Distribution costs	3, 4, 5	-18,215	-16,153	-4,766	-4,186
Administrative expenses	3, 4, 5	-9,021	-9,569	-12,796	-11,783
<b>Operating profit</b>		1,473	1,137	1,180	1,046
Income from subsidiaries	6	0	0	147	-96
Financial income	7	249	19	1	12
Financial expenses	8	-500	-436	-275	-350
<b>Profit before tax</b>		1,222	720	1,053	612
Tax on profit for the year	9	-380	-313	-211	-205
<b>Profit for the year</b>	10	842	407	842	407

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2018

### Balance sheet

EUR'000	Note	Group		Parent Company	
		2018	2017	2018	2017
<b>ASSETS</b>					
<b>Fixed assets</b>					
<b>Intangible assets</b>					
Rights	11	1,986	2,202	1,576	1,504
		<u>1,986</u>	<u>2,202</u>	<u>1,576</u>	<u>1,504</u>
<b>Property, plant and equipment</b>					
Property, plant and equipment	12	387	266	61	97
		<u>387</u>	<u>266</u>	<u>61</u>	<u>97</u>
<b>Investments</b>					
Investments in subsidiaries	13	0	0	8,386	8,270
		<u>0</u>	<u>0</u>	<u>8,386</u>	<u>8,270</u>
<b>Receivables</b>					
Other receivables		121	110	45	62
		<u>121</u>	<u>110</u>	<u>45</u>	<u>62</u>
<b>Total fixed assets</b>		<u>2,494</u>	<u>2,578</u>	<u>10,068</u>	<u>9,933</u>
<b>Current assets</b>					
<b>Inventories</b>					
Goods for resale		39,205	22,889	33,314	22,722
Prepayments for goods		421	504	185	244
		<u>39,626</u>	<u>23,393</u>	<u>33,499</u>	<u>22,966</u>
<b>Receivables</b>					
Trade receivables		57,578	36,641	9,351	16,550
Amounts owed by group entities		3,569	194	26,340	18,991
Deferred tax assets	14	585	611	512	594
Other receivables		492	568	27	248
		<u>62,224</u>	<u>38,014</u>	<u>36,230</u>	<u>36,383</u>
<b>Cash at bank and in hand</b>		<u>9,464</u>	<u>13,577</u>	<u>4,305</u>	<u>6,109</u>
<b>Total current assets</b>		<u>111,314</u>	<u>74,984</u>	<u>74,034</u>	<u>65,458</u>
<b>TOTAL ASSETS</b>		<u>113,808</u>	<u>77,562</u>	<u>84,102</u>	<u>75,391</u>

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2018

### Balance sheet

EUR'000	Note	Group		Parent Company	
		2018	2017	2018	2017
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	15	5,496	5,496	5,496	5,496
Retained earnings		21,438	20,626	21,438	20,626
<b>Total equity</b>		<b>26,934</b>	<b>26,122</b>	<b>26,934</b>	<b>26,122</b>
<b>Provisions</b>					
Warranty provisions	16	1,976	2,214	1,976	2,214
<b>Total provisions</b>		<b>1,976</b>	<b>2,214</b>	<b>1,976</b>	<b>2,214</b>
<b>Liabilities other than provisions</b>					
<b>Current liabilities other than provisions</b>					
Trade payables		1,312	1,359	747	1,086
Amounts owed to group enterprises		79,445	40,556	52,307	42,316
Other payables, including income taxes payable		4,141	7,311	2,138	3,653
		84,898	49,226	55,192	47,055
<b>Total liabilities other than provisions</b>		<b>84,898</b>	<b>49,226</b>	<b>55,192</b>	<b>47,055</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>113,808</b>	<b>77,562</b>	<b>84,102</b>	<b>75,391</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 2018

### Statement of changes in equity

EUR'000	Consolidated		
	Share capital	Retained earnings	Total
Equity at 1 January 2017	5,496	20,303	25,799
Profit for the year	0	407	407
Foreign exchange adjustment, foreign subsidiaries	0	-84	-84
<b>Equity at 1 January 2018</b>	<b>5,496</b>	<b>20,626</b>	<b>26,122</b>
Profit for the year	0	842	842
Foreign exchange adjustment, foreign subsidiaries	0	-30	-30
<b>Equity at 31 December 2018</b>	<b>5,496</b>	<b>21,438</b>	<b>26,934</b>

EUR'000	Parent company		
	Share capital	Retained earnings	Total
Equity at 1 January 2017	5,496	20,303	25,799
Profit for the year	0	407	407
Foreign exchange adjustment, foreign subsidiaries	0	-84	-84
<b>Equity at 1 January 2018</b>	<b>5,496</b>	<b>20,626</b>	<b>26,122</b>
Profit for the year	0	842	842
Foreign exchange adjustment, foreign subsidiaries	0	-30	-30
<b>Equity at 31 December 2018</b>	<b>5,496</b>	<b>21,438</b>	<b>26,934</b>

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2018

### Cash flow statement

EUR'000	Note	2018	2017
Profit before tax		1,222	720
Depreciation, amortisation and impairment losses		1,026	813
Other adjustments of non-cash operating items		-274	-102
Cash generated from operations before changes in working capital		1,974	1,431
Changes in working capital		-4,797	2,672
Cash generated from operations before tax		-2,823	4,103
Income taxes paid		-354	-1,182
<b>Cash flows from operating activities</b>		<b>-3,177</b>	<b>2,921</b>
Acquisition of intangible assets		-682	-1,131
Acquisition of property, plant and equipment		-259	-203
Disposal of property, plant and equipment		5	24
<b>Cash flows from investing activities</b>		<b>-936</b>	<b>-1,310</b>
<b>Cash flows for the year</b>			
Cash and cash equivalents at the beginning of the year		13,577	11,966
Net cash flow for the year		-4,113	1,611
<b>Cash and cash equivalents at year end</b>		<b>9,464</b>	<b>13,577</b>



## Consolidated financial statements and parent company financial statements 1 January – 31 December 2018

### Notes

#### 1 Accounting policies

The annual report of ZyXEL Communications A/S for 2018 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 2018

## 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 2018

### 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 2018

### 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 2018

### 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 2018

### 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 2018**

### **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 2018

### Notes

#### Financial ratios

Financial ratios are calculated in accordance with the guidelines "Recommendations & Ratios" issued by the Danish Society of Financial Analysts.

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	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$

EUR'000	Consolidated		Parent Company	
	2018	2017	2018	2017
<b>2 Revenue</b>				
Denmark	5,575	6,032	5,575	6,032
The Nordic countries	21,614	36,206	21,614	36,206
Europe	141,428	103,263	102,321	94,270
	<u>168,617</u>	<u>145,501</u>	<u>129,510</u>	<u>136,508</u>

#### 3 Fee to statutory auditor

EUR'000	Consolidated	
	2018	2017
Fee regarding statutory audit	110	126
Other assurance engagements	0	6
Tax assistance	19	92
Other assistance	82	78
Total fees to KPMG	<u>211</u>	<u>302</u>



## Consolidated financial statements and parent company financial statements 1 January – 31 December 2018

### Notes

EUR'000	Consolidated		Parent Company	
	2018	2017	2018	2017
<b>4 Depreciation, amortisation and impairment losses</b>				
Rights	792	573	506	285
Software	106	61	104	56
Property, plant and equipment	128	179	43	75
	<u>1,026</u>	<u>813</u>	<u>653</u>	<u>416</u>
Depreciation and amortisation are recognised as follows in the consolidated financial statements and parent company financial statements:				
Administration	234	240	147	131
Distribution	792	573	794	285
	<u>1,026</u>	<u>813</u>	<u>941</u>	<u>416</u>
<b>5 Staff costs</b>				
Selling and distribution cost	11,632	10,904	2,800	2,440
Administrative expenses	2,203	1,895	1,581	1,252
	<u>13,835</u>	<u>12,799</u>	<u>4,381</u>	<u>3,692</u>
Total staff can be specified as follows:				
Salaries and remunerations, etc.	11,698	11,057	3,749	3,202
Pensions	462	432	167	140
Other social security costs	1,675	1,310	465	350
	<u>13,835</u>	<u>12,799</u>	<u>4,381</u>	<u>3,692</u>
Average number of full-time employees	<u>158</u>	<u>164</u>	<u>38</u>	<u>36</u>

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2018

### Notes

EUR'000	Group		Parent Company	
	2018	2017	2018	2017
<b>6 Income from subsidiaries</b>				
Share of profit			147	-96
			<u>147</u>	<u>-96</u>
<b>7 Other financial income</b>				
Foreign exchange gain	242	0	0	0
Interest income on cash at bank	2	6	1	6
Other financial income	5	13	0	6
	<u>249</u>	<u>19</u>	<u>1</u>	<u>12</u>
<b>8 Financial expenses</b>				
Interest expense loans	42	0	42	0
Foreign exchange losses	442	376	231	300
Other financial expenses	16	60	2	50
	<u>500</u>	<u>436</u>	<u>275</u>	<u>350</u>
<b>9 Tax on profit for the year</b>				
Current tax for the year	242	371	63	305
Deferred tax adjustment for the year	72	-66	82	-100
Adjustment regarding previous years	66	8	66	0
	<u>380</u>	<u>313</u>	<u>211</u>	<u>205</u>
<b>10 Proposed profit appropriation</b>				
Retained earnings			842	407
			<u>842</u>	<u>407</u>

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2018

### Notes

#### 11 Intangible assets

EUR'000	Consoli- dated	Parent Company
Cost at 1 January 2018	5,052	3,387
Additions	682	682
Disposals	0	0
Cost at 31 December 2018	5,734	4,069
Amortisation and impairment losses at 1 January 2018	-2,850	-1,883
Amortisation	-898	-610
Amortisation and impairment losses at 31 December 2018	-3,748	-2,493
<b>Carrying amount at 31 December 2018</b>	<b>1,986</b>	<b>1,576</b>

#### 12 Property, plant and equipment

EUR'000	Consoli- dated	Parent company
Cost at 1 January 2018	2,149	1,141
Additions	259	7
Disposals	-16	0
Exchange rate adjustment	11	0
Cost at 31 December 2018	2,381	1,148
Depreciation and impairment losses at 1 January 2018	-1,883	-1,044
Depreciation for the year	-128	-43
Disposals	13	0
Exchange rate adjustment	4	0
Depreciation and impairment losses at 31 December 2018	-1,994	-1,087
<b>Carrying amount at 31 December 2018</b>	<b>387</b>	<b>61</b>

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2018

### Notes

#### 13 Investments in subsidiaries

EUR'000	Parent Company	
	2018	2017
Cost at 1 January	10,699	10,698
Additions	0	1
Cost at 31 December	10,699	10,699
Net revaluation at 1 January	-2,429	-2,248
Foreign exchange adjustment	-31	-85
Net share of profit for the year	147	-96
Net revaluation at 31 December	-2,313	-2,429
<b>Carrying amount at 31 December</b>	<b>8,386</b>	<b>8,270</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%	3,825	89
ZyXEL Communications UK Ltd	England	100%	1,693	105
ZyXEL Communications Czech s.r.o	Czech Republic	100%	633	40
ZyXEL Communications B.V.	The Netherlands	100%	1,401	20
ZyXEL Communications Iberia S.L.	Spain	100%	135	1
ZyXEL Communications Italy Srl.	Italy	100%	266	136
ZyXEL Communications Russia	Russia	99%	25	44
Amortization of rights in Italy			408	-288
			<b>8,386</b>	<b>147</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 2018

### Notes

#### 14 Deferred tax assets

DKK'000	Group		Parent Company	
	2018	2017	2018	2017
Deferred tax at 1 January	611	545	594	494
Deferred tax adjustment for the year in the income statement	-26	66	-82	100
	<u>585</u>	<u>611</u>	<u>512</u>	<u>594</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 518 thousand (2017: EUR 687 thousand) at the balance sheet date. EUR 175 thousand falls due within one year. EUR 518 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.

In July 2017, TQDelta, LLC asserted that Zyxel's products infringed its certain patents and filed a lawsuit against Zyxel Communications A/S and its fully owned subsidiary Zyxel Communications UK. Ltd.

On March 11, 2019, the court ruled that ZyXEL had infringed one of TQDelta, LLC patents..

Zyxel Communications A/S has not incurred any costs related to the ongoing litigation and has not made any provision in the financial statements for any claim that the court has ruled against the company, as the parent company Zyxel Corporation is liable under the Intercompany Trade Agreement for all obligations relating to the use of patents, trademarks, copyrights etc.

The ultimate parent company Unizyx Holding Corporation has stated in the notes to its financial statements that Zyxel disagree with the court decision and that Zyxel will appeal the result of the verdict.

Zyxel believes that the abovementioned event will not have any significant impact on the Company and the Groups financial position.

Please refer to the statement in the accounts of the ultimate parent company Unizyx Holding Corporation.

## Consolidated financial statements and parent company financial statements 1 January – 31 December 2018

### Notes

With the exception of the above mentioned dispute, 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 2018. 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.

### Group

The Group has rental and lease commitments of EUR 2,020 thousand (2017: EUR 1,974 thousand) at the balance sheet date. EUR 699 thousand falls due within one year. EUR 2,020 thousand falls due within the next 5 years. EUR 0 thousand falls due after 5 years.

The Group has pledged bank deposits of EUR 120 thousand as security.

With the exception of the above mentioned dispute related to the Parent, 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 2018

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.