

ZyXEL Communications A/S

Gladsaxevej 378, 2860 Søborg

CVR no. 21 22 92 37

Annual report 2020

Approved at the Company's annual general meeting on 26 April 2021

Chairman:



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Torben Thomasen

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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 2020.

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

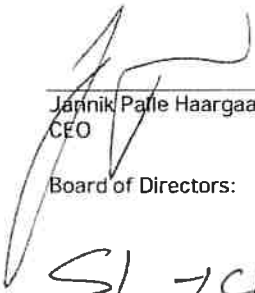
In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2020 and of the results of its operations and cash flows for the financial year 1 January - 31 December 2020.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters, the results for the year and the Company's financial position.

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

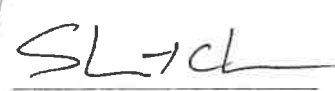
Søborg, 26 April 2021

Executive Board:




Jørnik Palle Haargaard
CEO

Board of Directors:



Shun-I Chu
Chairman



Kuo-Long Yang



Torben Thomasen

Independent auditors' report

To the shareholders of ZyXEL Communications A/S

Opinion

We have audited the financial statements of ZyXEL Communications A/S for the financial year 1 January - 31 December 2020, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2020 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2020 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and 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 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.

Independent auditor's report

- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

København, 26 April 2021
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Rasmus Berntsen
State Authorised
Public Accountant
mne35461



Karsten Bøgel
State Authorised
Public Accountant
mne27849

Management's review

Company details

| | |
|-------------------------|--|
| Name | ZyXEL Communications A/S |
| Address, zip code, city | Gladsaxevej 378, 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 | Jannik Palle Haargaard |
| Auditors | EY Godkendt Revisionspartnerselskab Dirch Passers Allé 36 Postboks 250 2000 Frederiksberg |
| Annual general meeting | The annual general meeting will be held on 26 April 2021. |

Management's review

Financial highlights

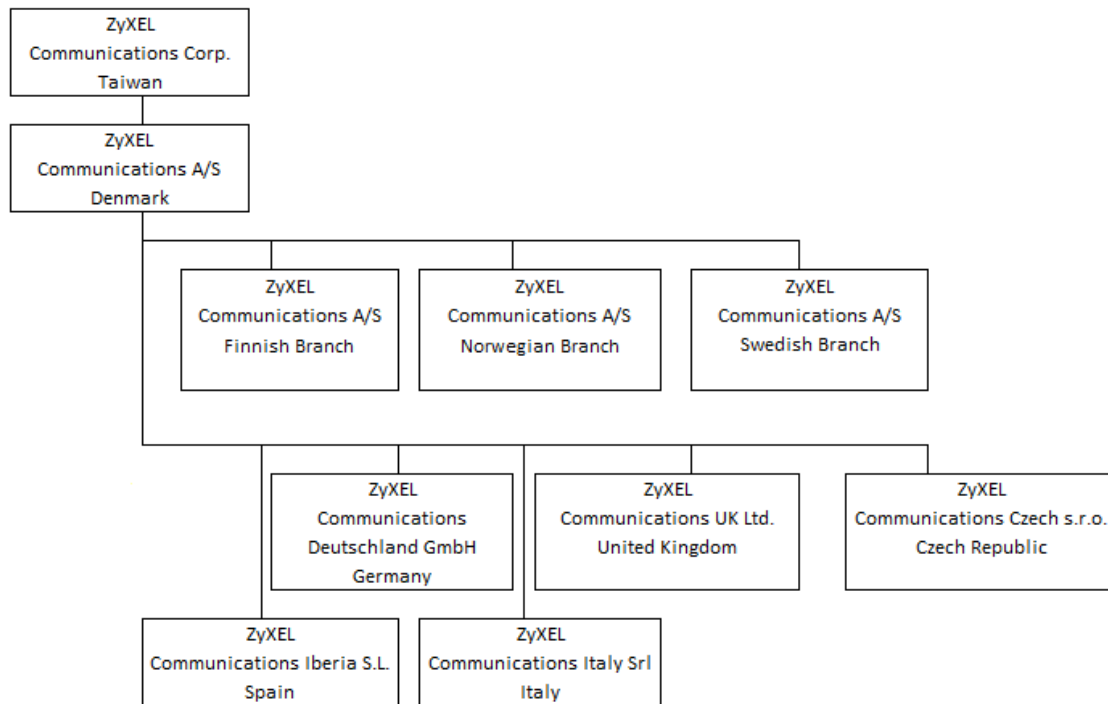
| EUR'000 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---------------|---------------|---------------|---------------|---------------|
| Revenue | 81,326 | 78,553 | 129,510 | 136,508 | 142,513 |
| Gross profit | 7,303 | 11,860 | 18,742 | 17,015 | 17,900 |
| Ordinary operating profit | 609 | 455 | 1.180 | 1.046 | 3,234 |
| Profit/loss from financial income and expenses | 1,001 | -2,138 | -127 | -434 | 310 |
| Profit/loss for the year | 1,723 | -1,817 | 842 | 407 | 2,903 |
| Total assets | 62,043 | 64,190 | 84,102 | 75,391 | 76,484 |
| Investment in property, plant and equipment | 39 | 9 | 689 | 1,390 | 32 |
| Equity | 15,805 | 14,172 | 26,122 | 26,122 | 25,799 |
| Gross margin | 9.0% | 15.1% | 14.5% | 12.5% | 12.6% |
| Operating margin | 0.8% | 0.6% | 0.9% | 0.8% | 2.3% |
| Return on equity | 11.5% | -8.8% | 3.2% | 1.6% | 11.8% |
| Solvency ratio | 25.6% | 22.1% | 32.0% | 34.6% | 33.7% |
| Average number of full-time employees | 31 | 31 | 38 | 36 | 38 |

The company did a demerger 1 April 2019, separating the two business divisions into two individual group structure.

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.

Management's review

Operating review

Principal activities

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

The Company operates in the business segment Service Provider. The products sold via Telco companies are normally customized product.

All sales take place via the parent company as is the case for the major part of the administrative functions. Offices in Finland, Sweden, Britain, Germany, Poland, Italy, Spain and Czech Republic provide sales and technical support, etc., locally.

Development in activities and financial position as well as outlook

The Company realised a profit of EUR 1,723 thousand against a loss of EUR 1.817 thousand in 2019.

The development in revenue and the profit for the year is considered satisfactory and in line with the expectations expressed in the financial statements for 2019.

The outbreak of COVID-19 was likely to have an impact on the Company's business activities for 2020. The sales of products in the ISP business segment was however not impacted as much due to the fact that there is a demand in the market for sufficient IT infrastructure which makes people able to work effectively from their homes etc.

The outbreak of COVID-19 therefore only had a minor impact on the business in 2020.

The Group expects results for 2021 to show a profit.

Events after the balance sheet date

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

General risks

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

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 UK, 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

Operating 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.

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.

“Based on the performed internal risk assessment, and considering the countries in which we operate, it is our understanding that the risks to environment, climate, human rights, social and staff matters, and anti-corruption and bribery are limited. Therefore, the Group does not have individual policies, but has instead included these policies and standards related to environment, climate, human rights, social and staff matters, and anti-corruption and bribery in the company's Code of Conduct document. The document furthermore sets standards for how the Group wants employees to behave towards business partners, be it customers, suppliers or other external individuals or groups.

Ensuring that the Code of Conduct is followed in all areas of the business, is the responsibility of the management in those areas. The management continuously follows up on the adherence to the policies in the Code of Conduct. Furthermore, as part of the recruiting process, all new employees at ZyXEL Communications A/S and all its subsidiaries have to sign the Code of Conduct. In 2020 all new employees signed this document, and there were no violations of the Code of Conduct.

By 2020, the Covid-19 pandemic has put additional pressure on the physical and mental wellbeing caused by health risks and lockdowns. ZyXEL Networks A/S has put great focus on protecting our employees during this time by prescribing reservations and providing protective equipment. This has, among other things, ensured the health of employees during the pandemic.

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, of which two are also senior managers of the ZyXEL Group. None of the Board members are female. It is the goal that before the end of 2021, 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 2020, 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 gender distribution 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.

Financial statements 1 January - 31 December

Income statement

| Note | EUR'000 | 2020 | 2019 |
|---------|---------------------------------|---------|---------|
| 2 | Revenue | 81,326 | 78,553 |
| | Cost of goods sold | -74,023 | -66,693 |
| | Gross profit | 7,303 | 11,860 |
| 3, 4, 5 | Distribution costs | -2,598 | -3,050 |
| 3, 4, 5 | Administrative expenses | -4,103 | -8,355 |
| | Operating profit | 602 | 455 |
| 6 | Income from subsidiaries | 2,146 | -2,283 |
| 7 | Financial income | 12 | 166 |
| 8 | Financial expenses | -1,150 | -21 |
| | Profit/loss before tax | 1,610 | -1,683 |
| 9 | Tax on profit for the year | 113 | -134 |
| 10 | Profit/loss for the year | 1,723 | -1,817 |

Financial statements 1 January - 31 December

Balance sheet

| Note | EUR'000 | 2020 | 2019 |
|------|--|--------|--------|
| | ASSETS | | |
| | Non-current assets | | |
| 11 | Intangible assets | | |
| | Patents and licenses | 30 | 48 |
| 12 | Property, plant and equipment | | |
| | Fixtures and fittings, tools and equipment | 15 | 26 |
| | Investments | | |
| 13 | Investments in subsidiaries | 7,660 | 4,719 |
| | Receivables | | |
| | Other receivables | 46 | 44 |
| | Total non-current assets | 7,751 | 4,837 |
| | Current assets | | |
| | Inventories | | |
| | Finished goods and goods for resale | 17,815 | 13,230 |
| | | 17,815 | 13,230 |
| | Receivables | | |
| | Trade receivables | 12,951 | 5,660 |
| | Amounts owed by group entities | 13,927 | 33,434 |
| 14 | Deferred tax assets | 154 | 460 |
| | Other receivables | 3,025 | 4,406 |
| | | 30,057 | 43,960 |
| | Cash | 6,420 | 2,163 |
| | Total current assets | 54,292 | 59,353 |
| | TOTAL ASSETS | 62,043 | 64,190 |

Financial statements 1 January - 31 December

Balance sheet

| Note | EUR'000 | 2020 | 2019 |
|------|--|---------------|---------------|
| | EQUITY AND LIABILITIES | | |
| | Equity | | |
| 15 | Share capital | 2,781 | 2,781 |
| | Retained earnings | 13,024 | 11,391 |
| | Total equity | <u>15,805</u> | <u>14,172</u> |
| | Non-current liabilities | | |
| 16 | Warranty provisions | 643 | 646 |
| | Total non-current liabilities | <u>643</u> | <u>646</u> |
| | Current liabilities | | |
| | Trade payables | 583 | 855 |
| | Amounts owed to group entities | 41,577 | 39,719 |
| | Other payables | 3,435 | 8,798 |
| | Total current liabilities | <u>45,595</u> | <u>49,372</u> |
| | Total liabilities | <u>46.238</u> | <u>50.018</u> |
| | TOTAL EQUITY AND LIABILITIES | <u>62,043</u> | <u>64,190</u> |
| 1 | Accounting policies | | |
| 17 | Contractual obligations and contingent liabilities, etc. | | |
| 18 | Related parties | | |
| 19 | Consolidation | | |

Financial statements 1 January - 31 December

Statement of changes in equity

| EUR'000 | Share capital | Retained earnings | Total |
|--|------------------|----------------------|---------------|
| Equity at 1 January 2019 | 5,496 | 21,438 | 26,934 |
| Demerger 1 April 2019 | -2,715 | -9,223 | -11,938 |
| Profit 1 January - 31 March 2019 | 0 | -1,187 | -1,187 |
| Profit for the year (1 April - 31 December 2019) | 0 | -630 | -630 |
| Foreign exchange adjustment, branches | 0 | 42 | 42 |
| Adjustment, demerger 1 April 2019 | 0 | 951 | 951 |
| Equity at 1 January 2020 | 2,781 | 11,391 | 14,172 |
| Profit for the year | 0 | 1,723 | 1,723 |
| Foreign exchange adjustment, branches | 0 | -90 | -90 |
| Equity at 31 December 2020 | 2,781 | 13,024 | 15,805 |

Financial statements 1 January - 31 December

Cash flow statement

| Note | EUR'000 | 2020 | 2019 |
|------|--|--------------|----------------|
| | Profit/loss before net financials | 602 | 455 |
| | Financial income/loss | -1,138 | 144 |
| | Income tax | 113 | -134 |
| 20 | Other adjustments of non-cash operating items | -1,013 | -360 |
| | Cash generated from operations before changes in working capital | -1,436 | 105 |
| 21 | Changes in working capital | 6,619 | 5,887 |
| | Cash flows from operating activities | 5,183 | 5,992 |
| | Disposal of intangible assets due to demerger | 0 | 3,812 |
| | Acquisition of plant and equipment | -40 | -8 |
| | Acquisition new/existing business | -886 | 0 |
| | Cash flows from investing activities | -926 | 3,804 |
| | Cash flows from financing activities | | |
| | Demerger 1 April 2019 | 0 | -11,938 |
| | Cash flows from financing activities | 0 | -11,938 |
| | Cash flows for the year | 4,257 | -2,142 |
| | Cash and cash equivalents at the beginning of the year | 2,163 | 4,305 |
| | Cash and cash equivalents at year end | 6,420 | 2,163 |

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of ZyXEL Communications A/S for 2020 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.

The demerger of the company at 1 April 2019 has been recognized at booked value, whereby no gains or losses have been realised in the income statement.

Comparative figures have not been adjusted, but where found necessary for the understanding of the development in the accounting item, the notes show the correction of the value at the beginning of the period of the accounting item, in case this has been adjusted as a consequence of the demerger.

Pursuant to section 112(1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements. The financial statements of ZyXEL Communications A/S and its subsidiaries are included in the consolidated financial statements of ZyXEL Communications Corporation.

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, 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.

Cost of goods sold

Cost of goods sold comprise costs, incurred in generating revenue for the year. Such costs include direct and indirect costs of consumables, as well as impairment losses on goods for resale.

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.

Financial statements 1 January - 31 December

Notes

1 Accounting policies (continued)

Administrative expenses

Administrative expenses comprise expenses incurred during the year for management and administration of the 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 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.

Balance sheet

Intangible assets

Patents and licenses

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.

Financial statements 1 January - 31 December

Notes

1 Accounting policies (continued)

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.

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.

Financial statements 1 January - 31 December

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.

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.

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.

Financial statements 1 January - 31 December

Notes

1 Accounting policies (continued)

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 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.

Cash flow statement

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

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1 Accounting policies (continued)

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 | | <u>2020</u> | <u>2019</u> |
| 2 Revenue | | | |
| Denmark | | 3,824 | 2,154 |
| The Nordics | | 23,338 | 19,793 |
| Europe ex Denmark and the Nordics | | 54,164 | 56,606 |
| | | <u>81,326</u> | <u>78,553</u> |
| 3 Fees paid to auditor appointed at the annual general meeting | | | |
| Total fees to EY | | 86 | 0 |
| Total fees to KPMG | | 29 | 348 |
| | | <u>115</u> | <u>348</u> |
| Fees can be specified as follows: | | | |
| Fee regarding statutory audit | | 78 | 164 |
| Other assurance engagements | | 2 | 0 |
| Tax assistance | | 15 | 30 |
| Other assistance | | 20 | 154 |
| | | <u>115</u> | <u>348</u> |
| 4 Depreciation, amortisation and impairment losses | | | |
| Software | | 44 | 94 |
| Property, plant and equipment | | 23 | 44 |
| | | <u>67</u> | <u>138</u> |
| Depreciation and amortisation are recognised as follows in the consolidated financial statements and parent company financial statements: | | | |
| Administration | | 67 | 138 |
| Distribution | | 0 | 0 |
| | | <u>67</u> | <u>138</u> |

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| EUR'000 | 2020 | 2019 |
|--|--------------|---------------|
| 5 Staff costs | | |
| Selling and distribution cost | 1,978 | 2,025 |
| Administrative expenses | 561 | 851 |
| | <u>2,539</u> | <u>2,876</u> |
| Total staff can be specified as follows: | | |
| Salaries and remunerations, etc. | 2,455 | 2,732 |
| Pensions | 69 | 99 |
| Other social security costs | 15 | 45 |
| | <u>2,539</u> | <u>2,876</u> |
| Average number of full-time employees | <u>31</u> | <u>31</u> |
| 6 Income from subsidiaries | | |
| Share of profit | 2,146 | -2,283 |
| | <u>2,146</u> | <u>-2,283</u> |
| 7 Other financial income | | |
| Foreign exchange gain | 0 | 159 |
| Interest income on cash at bank | 8 | 7 |
| Other financial income | 4 | 0 |
| | <u>12</u> | <u>166</u> |
| 8 Financial expenses | | |
| Interest expense loans | 46 | 19 |
| Foreign exchange losses | 1,103 | 0 |
| Other financial expenses | 1 | 2 |
| | <u>1,150</u> | <u>21</u> |
| 9 Tax on profit/loss for the year | | |
| Current tax for the year | -411 | 298 |
| Deferred tax adjustment for the year | 306 | -163 |
| Adjustment regarding previous years | -8 | -1 |
| | <u>-113</u> | <u>134</u> |

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| EUR'000 | 2020 | 2019 |
|--|---------------|---------------|
| 10 Proposed profit distribution | | |
| Retained earnings | 1,723 | -1,817 |
| | <u>1,723</u> | <u>-1,817</u> |
| | | |
| 11 Intangible assets | | |
| Cost at 1 January 2020 | 2,354 | 4,069 |
| Demerger 1 April 2019 | 0 | -2,934 |
| Adjustment demerger | 0 | 1,219 |
| Additions | 26 | 0 |
| Disposals | 0 | 0 |
| Cost at 31 December 2020 | <u>2,380</u> | <u>2,354</u> |
| Amortisation and impairment losses at 1 January 2020 | -2,306 | -2,493 |
| Demerger 1 April 2019 | 0 | 281 |
| Amortisation | -44 | -94 |
| Amortisation and impairment losses at 31 December 2020 | <u>-2,350</u> | <u>-2,306</u> |
| Carrying amount at 31 December 2020 | <u>30</u> | <u>48</u> |
| | | |
| 12 Property, plant and equipment | | |
| Cost at 1 January 2020 | 1,157 | 1,148 |
| Additions | 12 | 9 |
| Disposals | 0 | 0 |
| Exchange rate adjustment | 0 | 0 |
| Cost at 31 December 2020 | <u>1,169</u> | <u>1,157</u> |
| Depreciation and impairment losses at 1 January 2020 | -1,131 | -1,087 |
| Depreciation for the year | -23 | -44 |
| Disposals | 0 | 0 |
| Depreciation and impairment losses at 31 December 2020 | <u>-1,154</u> | <u>-1,131</u> |
| Carrying amount at 31 December | <u>15</u> | <u>26</u> |

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13 Investments in subsidiaries

| EUR'000 | 2020 | 2019 |
|---------------------------------------|--------------|--------------|
| Cost at 1 January | 9,748 | 10,699 |
| Additions | 886 | 0 |
| Cost at 31 December | 10,634 | 10,699 |
| Demerger 1 April (disposal) | 0 | -951 |
| Cost at 31 December | 10,634 | 9,748 |
| Net revaluation at 1 January | -5,029 | -2,313 |
| Demerger 1 April 2019 (disposal) | 0 | -475 |
| Cost at 1 April | -5,029 | -2,788 |
| Foreign exchange adjustment | -91 | 42 |
| Net share of profit for the year | 2,146 | -2,283 |
| Net revaluation at 31 December | -2,974 | -5,029 |
| Carrying amount at 31 December | 7,660 | 4,719 |

| Name/legal form | Registered office | Voting rights and ownership interest | Equity (1) | Profit for the year (1) |
|---|-------------------|--------------------------------------|------------|-------------------------|
| | | | EUR'000 | EUR'000 |
| ZyXEL Deutschland GmbH ¹ | Germany | 100% | 3,825 | 59 |
| ZyXEL Communications UK Ltd ¹ | England | 100% | 1,279 | -239 |
| ZyXEL Communications Czech s.r.o ¹ | Czech Republic | 100% | 17 | 251 |
| ZyXEL Communications Iberia S.L. ¹ | Spain | 100% | 62 | -72 |
| ZyXEL Communications Italy Srl. ¹ | Italy | 100% | -466 | -732 |
| | | | 4,717 | -733 |

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.

14 Deferred tax assets

| EUR'000 | 2020 | 2019 |
|--|------|------|
| Deferred tax at 1 January | 460 | 512 |
| Adjustment, demerger 1 April 2020 | 0 | -215 |
| Deferred tax adjustment for the year in the income statement | -306 | 163 |
| | 154 | 460 |

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

¹ 1) According to the latest approved financial statements for the financial year 1 January - 31 December 2019

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15 Share capital

The share capital consists of 1 share of EUR 2,781 thousand.

The share does not carry special right.

16 Warranty provisions

Warranty provisions comprise commitments relating to warranties on sold products and can be specified as follows:

| EUR'000 | 2020 | 2019 |
|---------------------------------|------|--------|
| Warranty provision at 1 January | 646 | 1,976 |
| Demerger 1 April 2019 | 0 | -1,197 |
| | 646 | 779 |
| Change provision current year | -3 | -133 |
| | 643 | 646 |

17 Contractual obligations and contingent liabilities, etc.

Operating lease commitments

Lease commitments (operating leases) that fall due within 5 years total EUR 567 thousand (2019: EUR 343 thousand).

Contingent liabilities

The Company has pledged bank deposits of EUR 1,000 thousand as security.

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

The Company has issued a guarantee to its subsidiary ZyXEL Communications UK Ltd. for all the subsidiary's outstanding liabilities existing at the balance sheet date 31 December 2020. 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.

The Company is jointly taxed with Zyxel Networks A/S. The Company has unlimited joint and several liability for payment of Danish corporation taxes. The jointly taxed entities' total known net liability in respect of corporation taxes payable amounted to DKK 576 thousand at 31 December 2020. Any subsequent corrections of the income subject to joint taxation may entail that the Company's liability will increase.

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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 | Industry East Road IX, Hsin-Chu, Taiwan | Parent company at 31 December 2020 |

Related party transactions

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.

| EUR'000 | 2020 | 2019 |
|--------------------------------------|---------------|--------------|
| 20 Other adjustments | | |
| Allowance bad debts | -4 | 112 |
| Provision inventory | -1,379 | 669 |
| Depreciations | 67 | 137 |
| Differed income tax | 306 | 52 |
| Warranty accrual | -3 | -1,330 |
| | <u>-1,013</u> | <u>-360</u> |
| 21 Changes in working capital | | |
| Inventories | -3,205 | 19,415 |
| Trade receivables | 15,090 | -6,834 |
| Change in other current assets | 2,176 | -3,090 |
| I/C trade payables | -1,012 | -9,718 |
| Other current liabilities | -6,430 | 6,114 |
| | <u>6,619</u> | <u>5,887</u> |