

ZyXEL Communications A/S

Gladsaxevej 378
2860 Søborg

CVR no. 21 22 92 37

Annual report 2019

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

on 14 September 2020

chairman of the annual general meeting

TORIBEN 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 2019.

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 2019 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 2019.

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.

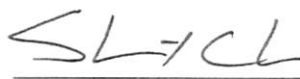
We recommend that the annual report be approved at the annual general meeting.

Søborg, 14 September 2020
Executive Board:




Jannik Palle Haargaard
CEO

Board of Directors:



Shun-I Chu
Chairman



Kuo-Long Yang



Torben Thomasen



Independent auditor's report

To the shareholder of ZyXEL Communications A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of ZyXEL Communications A/S for the financial year 1 January – 31 December 2019 comprising income statement, balance sheet, statement of changes in equity, a cash flow statement for the Group and notes, including accounting policies, for the Group and the Parent Company. 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 2019 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 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the 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, 14 September 2020

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

A handwritten signature in blue ink, appearing to be 'Jon Beck', is written over the printed name and title.

Jon Beck
State Authorised Public Accountant
mne32169

ZyXEL Communications A/S
Annual report 2019
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:	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

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
2100 København Ø
Denmark

Annual general meeting

The annual general meeting will be held on 14 September 2020.

Management's review

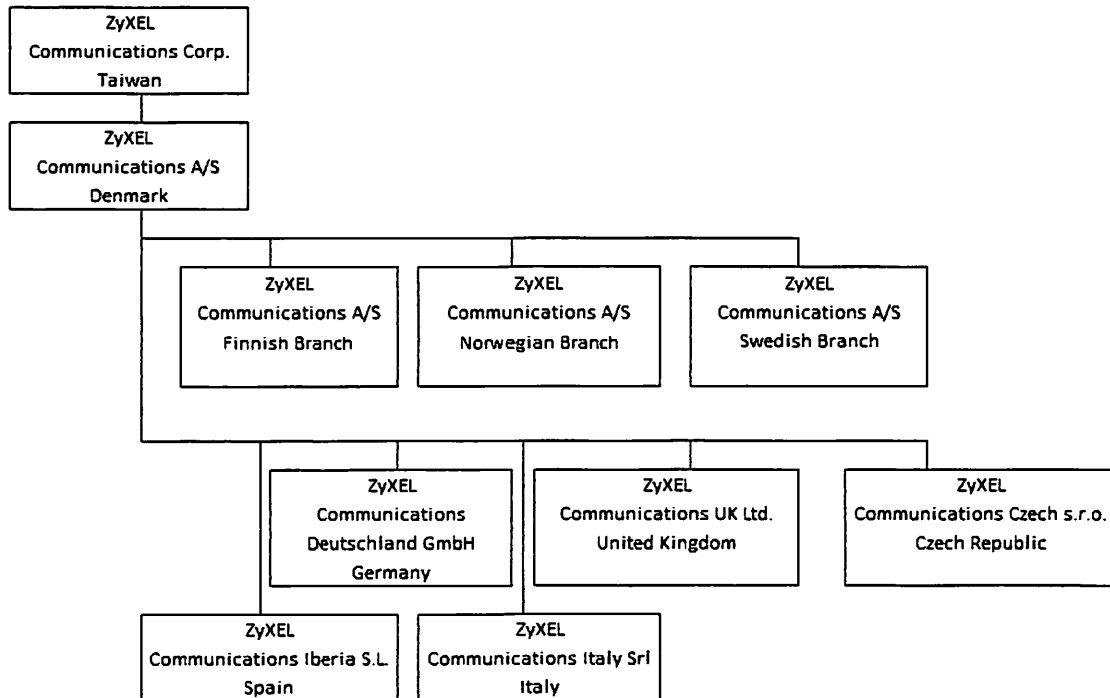
Financial highlights for the Group

EUR'000	2019	2018	2017	2016	2015
Revenue	135,200	168,617	145,501	154,813	165,300
Gross profit	16,601	28,709	26,859	28,309	30,548
Ordinary operating profit	-2,191	1,473	1,137	4,247	7,499
Profit/loss from financial income and expenses	175	-251	-417	-267	-38
Profit for the year	-1,817	842	407	2,903	5,350
Total assets	99,273	113,808	77,562	76,570	71,168
Investment in property, plant and equipment	74	259	203	120	249
Equity	14,172	26,934	26,122	25,799	23,228
Gross margin	12.3%	17.0%	18.4%	18.3%	18.5%
Operating margin	-1.6%	0.9%	0.8%	2.7%	4.5%
Return on equity	-8.8%	3.2%	1.6%	11.8%	26.0%
Solvency ratio	14.3%	23.7%	33.7%	34.8%	33.4%
Average number of full-time employees	147	158	164	158	145

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 directly or indirectly 100% owned by ZyXEL Communications A/S.

As part of the demerger effective as of 1 April 2019, the two subsidiaries Zyxel Communication B.V. (ZyBNL) and Zyxel Communications RU LLC (ZyRUS), have been transferred to Zyxel Networks A/S.

Management's review

Operating review

Demerger 1 April 2019

The ultimate parent, Unizyx Holding Corporation, decided to demerge Zyxel Communications Corporation at 1 April 2019, separating the two divisions into individual, separate group structures – one representing the business segment ISP (Internet Service Provider) and one representing Channel (Distribution).

As a consequence, Zyxel Communications A/S has been demerged too, transferring the Channel business into a new established company called Zyxel Networks A/S and leaving the ISP business in the existing group structure.

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

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 the business segment Service Provider.

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, the Czech Republic, and Turkey provide sales and technical support, etc., locally.

Development in activities and financial position as well as outlook

The Group realised a loss of EUR 1,817 thousand against a profit of EUR 842 thousand in 2019.

The development in revenue and the profit for the year is not satisfactory and not in line with the expectations expressed in the financial statements for 2018.

The Group expects to realise a profit for 2020.

Events after the balance sheet date

The outbreak of COVID-19 is likely to have an impact on the Company's business activities for 2020, but it is difficult to predict the exact consequences. The sales of products in the ISP business segment might not be 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.

Therefore, Management believes that the outbreak of COVID-19 will only have a minor impact on the business for the coming year.

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

Management's review

Operating review

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.

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.

Nevertheless, the Group has currently not implemented any individual policies to environment, climate, human rights, social and staff matters, anti-corruption and bribery. Based on the performed internal risk assessment to each of those areas, and considering the countries in which we operate, it is our understanding that the risks to environment, climate, human rights, social and staff matters, anti-corruption and bribery are not material to 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.

Management's review

Operating review

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 2020, 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 2019, 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 provisions 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.

Consolidated financial statements and parent company financial statements 1 January – 31 December 2019

Income statement

EUR'000	Note	Group		Parent Company	
		2019	2018	2019	2018
Revenue	2	135,200	168,617	78,553	129,510
Cost of goods sold		-118,599	-139,908	-66,693	-110,768
Gross profit		16,601	28,709	11,860	18,742
Distribution costs	3, 4, 5	-15,183	-18,215	-3,050	-4,766
Administrative expenses	3, 4, 5	-3,609	-9,021	-8,355	-12,796
Operating profit/loss		-2,191	1,473	455	1,180
Income/loss from subsidiaries	6	0	0	-2,283	147
Financial income	7	240	249	166	1
Financial expenses	8	-65	-500	-21	-275
Profit/loss before tax		-2,016	1,222	-1,683	1,053
Tax on profit/loss for the year	9	199	-380	-134	-211
Profit/loss for the year	10	-1,817	842	-1,817	842

Consolidated financial statements and parent company financial statements 1 January – 31 December 2019

Balance sheet

EUR'000	Note	Group		Parent Company	
		2019	2018	2019	2018
ASSETS					
Fixed assets					
Intangible assets	11				
Rights		167	1,986	48	1,576
		<u>167</u>	<u>1,986</u>	<u>48</u>	<u>1,576</u>
Property, plant and equipment	12				
Property, plant and equipment		317	387	26	61
		<u>317</u>	<u>387</u>	<u>26</u>	<u>61</u>
Investments					
Investments in subsidiaries	13	0	0	4,719	8,386
		<u>0</u>	<u>0</u>	<u>4,719</u>	<u>8,386</u>
Receivables					
Other receivables		128	121	44	45
		<u>128</u>	<u>121</u>	<u>44</u>	<u>45</u>
Total fixed assets		<u>612</u>	<u>2,494</u>	<u>4,837</u>	<u>10,068</u>
Current assets					
Inventories					
Goods for resale		23,972	39,205	13,230	33,314
Prepayments for goods		0	421	0	185
		<u>23,972</u>	<u>39,626</u>	<u>13,230</u>	<u>33,499</u>
Receivables					
Trade receivables		34,282	57,578	5,660	9,351
Amounts owed by group entities		23,543	3,569	33,434	26,340
Deferred tax assets	14	532	585	460	512
Other receivables		4,686	492	4,406	27
		<u>63,043</u>	<u>62,224</u>	<u>43,960</u>	<u>36,230</u>
Cash at bank and in hand		<u>11,646</u>	<u>9,464</u>	<u>2,163</u>	<u>4,305</u>
Total current assets		<u>98,661</u>	<u>111,314</u>	<u>59,353</u>	<u>74,034</u>
TOTAL ASSETS		<u>99,273</u>	<u>113,808</u>	<u>64,190</u>	<u>84,102</u>

Consolidated financial statements and parent company financial statements 1 January – 31 December 2019

Balance sheet

EUR'000	Note	Group		Parent Company	
		2019	2018	2019	2018
EQUITY AND LIABILITIES					
Equity					
Share capital	15	2,781	5,496	2,781	5,496
Retained earnings		11,391	21,438	11,391	21,438
Total equity		14,172	26,934	14,172	26,934
Provisions					
Warranty provisions	16	646	1,976	646	1,976
Total provisions		646	1,976	646	1,976
Liabilities other than provisions					
Current liabilities other than provisions					
Trade payables		876	1,312	855	747
Amounts owed to group enterprises		72,387	79,445	39,719	52,307
Other payables, including income taxes payable		11,192	4,141	8,798	2,138
		84,455	84,898	49,372	55,192
Total liabilities other than provisions		84,455	84,898	49,372	55,192
TOTAL EQUITY AND LIABILITIES		99,273	113,808	64,190	84,102
Contractual obligations and, contingent liabilities, etc.					
	17				
Related parties	18				
Consolidation	19				

Consolidated financial statements and parent company financial statements 1 January – 31 December 2019

Statement of changes in equity

EUR'000	Group		
	Share capital	Retained earnings	Total
Equity at 1 April 2019	5,496	21,438	26,934
Demerger	-2,715	-8,272	-10,987
	2,781	13,166	15,947
Loss for the year	-	-1,817	-1,817
Foreign exchange adjustment	-	42	42
Equity at 31 December 2019	2,781	11,391	14,172

EUR'000	Parent company		
	Share capital	Retained earnings	Total
Equity at 1 April 2019	5,496	21,438	26,934
Demerger	-2,715	-8,272	-10,987
	2,781	13,171	15,952
Loss for the year	-	-1,817	-1,817
Foreign exchanges adjustment	-	42	42
Equity at 31 December 2019	2,781	11,391	14,172

Consolidated financial statements and parent company financial statements 1 January – 31 December 2019

Cash flow statement

EUR'000	Note	Group	
		2019	2018
Profit/loss before tax		-2,016	1,222
Depreciation, amortisation and impairment losses		1,328	1,026
Other adjustments of non-cash operating items	20	43	-274
Cash generated from operations before changes in working capital		-645	1,974
Changes in working capital	21	3,141	-4,797
Cash generated from operations before tax		2,496	-2,823
Income taxes paid		-223	-354
Cash flows from operating activities		2,273	-3,177
Acquisition of intangible assets		0	-682
Acquisition of property, plant and equipment		-74	-259
Disposal of property, plant and equipment		70	5
Cash flows from investing activities		-4	-936
Cash flows for the year			
Cash and cash equivalents at the beginning of the year		9,464	13,577
Cash from demerger		-87	-
Net cash flow for the year		2,269	-4,113
Cash and cash equivalents at year end		11,646	9,464

Consolidated financial statements and parent company financial statements 1 January – 31 December 2019

Notes

1 Accounting policies

The annual report of ZyXEL Communications A/S for 2019 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 recognised in accordance with the book-value method, whereas the transfer has been recognised, whereby no gains or losses have been realised in the income statement.

In accordance with the book-value method, 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.

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 amortised cost. Equally, costs incurred to generate the year's earnings are recognised, including depreciation, amortisation, 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.

Consolidated financial statements and parent company financial statements 1 January – 31 December 2019

Notes

1 Accounting policies (continued)

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.

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 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 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 2019

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 2019

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 2019

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.

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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 2019

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 2019

Notes

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

2 Revenue

EUR'000	Consolidated		Parent Company	
	2019	2018	2019	2018
Denmark	2,153	5,575	2,154	5,575
The Nordic countries	19,793	21,614	19,793	21,614
Europe	113,254	141,428	56,606	102,321
	<u>135,200</u>	<u>168,617</u>	<u>78,553</u>	<u>129,510</u>

3 Fee to statutory auditor

EUR'000	Consolidated	
	2019	2018
Fee regarding statutory audit	164	110
Other assurance engagements	0	0
Tax assistance	30	19
Other assistance	154	82
Total fees to KPMG	<u>348</u>	<u>211</u>

Consolidated financial statements and parent company financial statements 1 January – 31 December 2019

Notes

EUR'000	Consolidated		Parent Company	
	2019	2018	2019	2018
4 Depreciation, amortisation and impairment losses				
Rights	288	792	0	506
Software	94	106	94	104
Property, plant and equipment	128	128	44	43
	<u>510</u>	<u>1,026</u>	<u>138</u>	<u>653</u>
Depreciation and amortisation are recognised as follows in the consolidated financial statements and parent company financial statements:				
Administrative costs	222	234	138	610
Distribution costs	288	792	0	43
	<u>510</u>	<u>1,026</u>	<u>138</u>	<u>653</u>
5 Staff costs				
Distribution cost	9,672	11,632	2,025	2,800
Administrative expenses	1,552	2,203	851	1,581
	<u>11,224</u>	<u>13,835</u>	<u>2,876</u>	<u>4,381</u>
Total staff can be specified as follows:				
Salaries and remunerations, etc.	10,506	11,698	2,732	3,749
Pensions	417	462	99	167
Other social security costs	301	1,675	45	465
	<u>11,224</u>	<u>13,835</u>	<u>2,876</u>	<u>4,381</u>
Average number of full-time employees	<u>147</u>	<u>158</u>	<u>31</u>	<u>38</u>

Consolidated financial statements and parent company financial statements 1 January – 31 December 2019

Notes

EUR'000	Group		Parent Company	
	2019	2018	2019	2018
6 Income/loss from subsidiaries				
Share of profit/loss			-2,283	147
			<u>-2,283</u>	<u>147</u>
7 Other financial income				
Foreign exchange gain	8	242	159	0
Interest income on cash at bank	232	2	7	1
Other financial income	0	5	0	0
	<u>240</u>	<u>249</u>	<u>166</u>	<u>1</u>
8 Financial expenses				
Interest expense loans	19	42	19	42
Foreign exchange losses	35	442	0	231
Other financial expenses	11	16	2	2
	<u>65</u>	<u>500</u>	<u>21</u>	<u>275</u>
9 Tax on profit/loss for the year				
Current tax for the year	-35	242	298	63
Deferred tax adjustment for the year	-163	72	-163	82
Adjustment regarding previous years	-1	66	-1	66
	<u>-199</u>	<u>380</u>	<u>134</u>	<u>211</u>
10 Proposed loss distribution/profit appropriation				
Retained earnings			-1,817	842
			<u>-1,817</u>	<u>842</u>

Consolidated financial statements and parent company financial statements 1 January – 31 December 2019

Notes

EUR'000	<u>Consoli- dated</u>	<u>Parent Company</u>
11 Intangible assets		
Cost at 1 January 2019	5,734	4,069
Demerger 1 April 2019 (disposal)	-1,938	-1,799
Cost at 1 April 2019	<u>3,796</u>	<u>2,270</u>
Cost at 31 December 2019	<u>3,796</u>	<u>2,270</u>
Amortisation and impairment losses at 1 January 2019	-3,748	-2,493
Demerger 1 April 2019 (disposal)	501	281
Amortisation	-382	-94
Amortisation and impairment losses at 31 December 2019	<u>-3,629</u>	<u>-2,306</u>
Carrying amount at 31 December 2019	<u>167</u>	<u>48</u>
12 Property, plant and equipment		
Cost at 1 January 2019	2,381	1,148
Additions	74	9
Disposals	-109	0
Exchange rate adjustment	19	0
Cost at 31 December 2019	<u>2,365</u>	<u>1,157</u>
Depreciation and impairment losses at 1 January 2019	-1,994	-1,087
Depreciation for the year	-128	-44
Disposals	99	0
Exchange rate adjustment	-25	0
Depreciation and impairment losses at 31 December 2019	<u>-2,048</u>	<u>-1,131</u>
Carrying amount at 31 December 2019	<u>317</u>	<u>26</u>

Consolidated financial statements and parent company financial statements 1 January – 31 December 2019

Notes

13 Investments in subsidiaries

EUR'000	Parent Company	
	2019	2018
Cost at 1 January	10,699	10,699
Demerger 1 April 2019 (disposal)	-951	0
Cost at 1 April	9,748	10,699
Cost at 31 December	9,748	10,699
Net revaluation at 1 January	-2,313	-2,429
Demerger 1 April 2019 (disposal)	-475	0
Cost at 1 April	-2,788	-2,429
Foreign exchange adjustment	42	-31
Net share of profit/loss for the year	-2,283	147
Net revaluation at 31 December	-5,029	-2,313
Carrying amount at 31 December	4,719	8,386

Name/legal form	Registered office	Voting rights and ownership interest	Equity EUR'000	Loss for the year EUR'000
ZyXEL Deutschland GmbH	Germany	100%	3,229	-596
ZyXEL Communications UK Ltd	England	100%	1,499	-232
ZyXEL Communications Czech s.r.o	Czech Republic	100%	145	-491
ZyXEL Communications Iberia S.L.	Spain	100%	118	-17
ZyXEL Communications Italy Srl.	Italy	100%	-274	-947
ZyXEL Communications B.V., 3 months	Holland	100%	0	5
ZyXEL Communications Russia, 3 months	Russia	100%	0	-5
			4,716	-2,283

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 2019

Notes

14 Deferred tax assets

EUR'000	Group		Parent Company	
	2019	2018	2019	2018
Deferred tax at 1 January	585	611	512	594
Deferred tax adjustment for the year in the income statement	162	-26	163	-82
Adjustment, demerger 1 April 2019	-215	0	-215	0
	<u>532</u>	<u>585</u>	<u>460</u>	<u>512</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 2,781 thousand. The share capital amounted to EUR 5,496 thousand at 1 January 2019 but was reduced at 1 April 2019 to EUR 2,781 thousand due to the demerger.

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	2019
Warranty provision at 1 January	1,976
Demerger 1 April 2019	-1,197
	<u>779</u>
Change provision current year	-133
	<u>646</u>

Consolidated financial statements and parent company financial statements 1 January – 31 December 2019

Notes

17 Contractual obligations and contingent liabilities, etc.

Parent company

The Company has rental and lease commitments of EUR 343 thousand (2018: EUR 518 thousand) at the balance sheet date. EUR 199 thousand falls due within one year. EUR 144 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 11 March 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 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 2019. 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 1,598 thousand (2018: EUR 2,020 thousand) at the balance sheet date. EUR 675 thousand falls due within one year. EUR 923 thousand falls due within the next 5 years. EUR 0 thousand falls due after 5 years.

The Group has pledged bank deposits of EUR 128 thousand as security.

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

Consolidated financial statements and parent company financial statements 1 January – 31 December 2019

Notes

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 2019

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.

	Group 2019
EUR	
20 Other adjustments	
Translation adjustment under equity	43
	<u>43</u>
21 Changes in working capital	
Inventories	-11,157
Trade receivables	-16,859
Change in other current assets	-2,815
I/C trade payables	45,352
Other current liabilities	-11,379
	<u>3,141</u>