

ZyXEL Networks A/S

Gladsaxevej 378
2860 Søborg

CVR no. 40 40 79 60

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

TORBEN THOMASSEN

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of ZyXEL Networks A/S for the financial year 1 April – 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 April – 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.

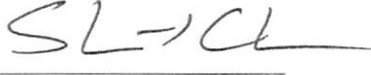
We recommend that the annual report be approved at the annual general meeting.

Søborg, 14 September 2020
Executive Board:



Jannik Palle Haargaard
CEO

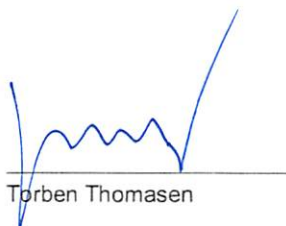
Board of Directors:



Shun-I Chu
Chairman



Kuo-Long Yang



Torben Thomasen



Independent auditor's report

To the shareholder of ZyXEL Networks A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of ZyXEL Networks A/S for the financial year 1 April – 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 April – 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, consisting of several overlapping loops and lines, positioned above the printed name and title.

Jon Beck
State Authorised Public Accountant
mne32169

ZyXEL Networks A/S
Annual report 2019
CVR no. 40 40 79 60

Management's review

Company details

ZyXEL Networks A/S
Gladsaxevej 378
2860 Søborg

Telephone:	+45 39 55 07 00
Website:	www.zyxel.dk
E-mail:	sales@zyxel.dk
CVR no.:	40 40 79 60
Established:	1 April 2019
Registered office:	Gladsaxe
Financial year:	1 April – 31 December (first year)

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

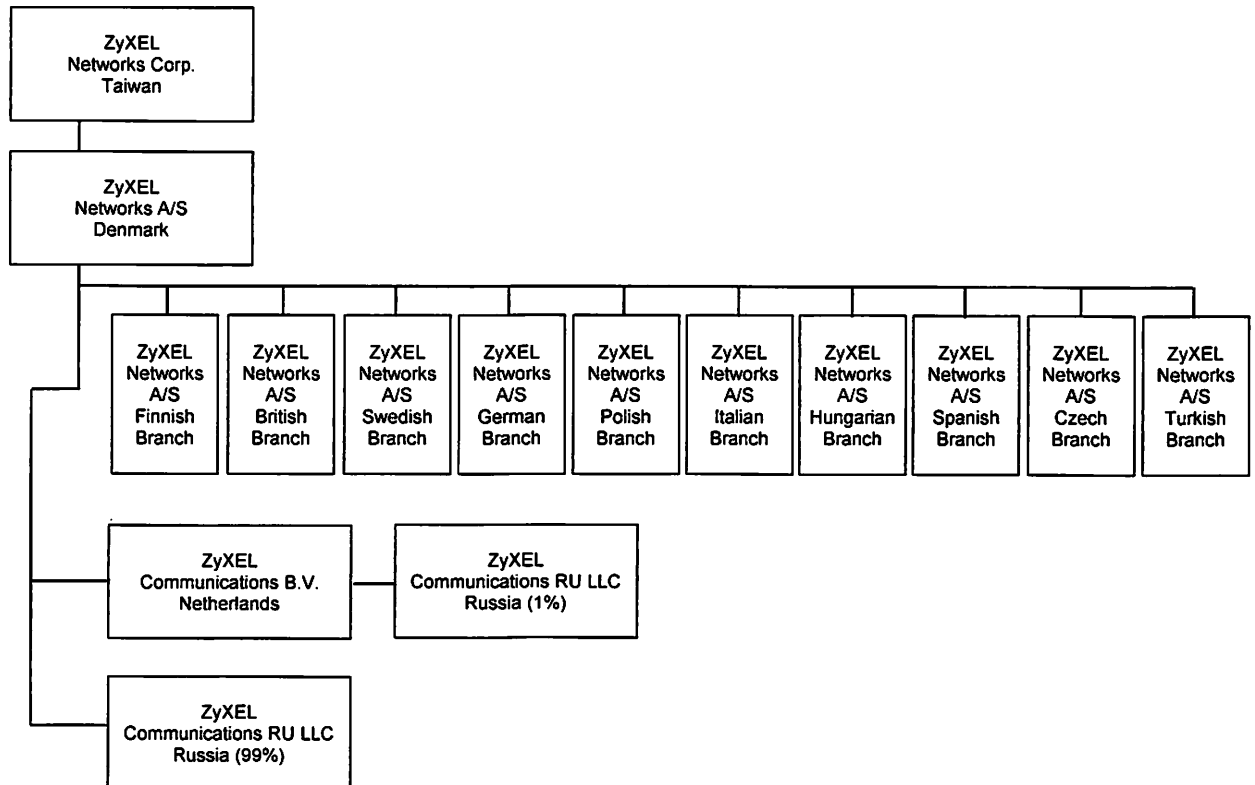
Financial highlights for the Group

EUR'000	2019
Revenue	65,796
Gross profit	12,311
Ordinary operating loss	-245
Profit/loss from financial income and expenses	56
Loss for the year	-283
Total assets	53,792
Investment in property, plant and equipment	6
Equity	10,763
Gross margin	18.7%
Operating margin	-0.4%
Return on equity	-2.6%
Solvency ratio	20.0%
Average number of full-time employees	39

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 Networks A/S, except for ZyXEL Communications RU LLC, Russia which is 99% owned, although the remaining 1% is owned by ZyXEL Communications B.V. (ZyBNL)

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 as of 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 the Middle East.

The Group operates in the business segment Channel (Distribution). The products sold via distributors are more generic products.

All sales take place via the parent company as is the case for the major part of the administrative functions. Offices in Finland, 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 revenue of EUR 65,796 thousand in 2019 and a loss for the year of EUR 283 thousand.

The development in revenue and the loss for the year is not satisfactory.

The Group expects the activities and the results for 2020 to improve although the impact from COVID-19 is uncertain.

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 sold in the Channel business segment is not expected to be negatively impacted by COVID-19 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 Networks 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 Networks A/S operates in the British market, but does not expect any significant financial impact related to Brexit.

Financial risks

ZyXEL Networks A/S invoices and purchases goods in EUR. An exchange rate risk exists in England and the Czech Republic due to the fact that sales are invoiced in local currencies. The risks are not hedged using financial instruments. The exchange risk related to sales in the other countries 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 Networks 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 Networks A/S and all its subsidiaries have 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 of 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 Networks 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 whom have been chosen with due respect to their professional experience. Two of the senior managers are female.

ZyXEL Networks 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 April – 31 December 2019 (9 months)

Income statement

EUR	Note	Group	Parent Company
		2019	2019
Revenue	2	65,795,528	61,057,924
Cost of goods sold		53,484,114	49,910,430
Gross profit		12,311,414	11,147,494
Distribution costs	3, 4, 5	-6,335,091	-4,235,865
Administrative expenses	3, 4, 5	-6,220,863	-6,521,626
Operating profit/loss		-244,539	390,003
Loss from subsidiaries	6	0	-656,721
Financial income	7	68,319	67,079
Financial expenses	8	-11,981	-6,197
Loss before tax		-188,201	-205,836
Tax on loss for the year	9	-95,098	-77,463
Loss for the year	10	-283,299	-283,299

Consolidated financial statements and parent company financial statements 1 April – 31 December 2019 (9 months)

Balance sheet

EUR	Note	Group	Parent Company
		2019	2019
ASSETS			
Fixed assets			
Intangible assets	11	2,448,771	1,091,628
		<u>2,448,771</u>	<u>1,091,628</u>
Property, plant and equipment	12		
Property, plant and equipment		134,048	26,585
		<u>134,048</u>	<u>26,585</u>
Investments			
Investments in subsidiaries	13	0	4,369,523
		<u>0</u>	<u>4,369,523</u>
Receivables			
Other receivables		26,717	0
		<u>26,717</u>	<u>0</u>
Total fixed assets		<u>2,609,536</u>	<u>5,487,671</u>
Current assets			
Inventories			
Goods for resale		19,181,972	19,181,971
		<u>19,181,972</u>	<u>19,181,971</u>
Receivables			
Trade receivables		13,225,131	10,522,745
Amounts owed by group entities		7,444,166	7,492,572
Deferred tax assets	14	487,002	482,089
Other receivables		4,724,584	4,758,647
		<u>25,880,883</u>	<u>23,256,053</u>
Cash at bank and in hand		<u>6,119,579</u>	<u>4,956,914</u>
Total current assets		<u>51,182,434</u>	<u>47,394,938</u>
TOTAL ASSETS		<u>53,791,970</u>	<u>52,882,609</u>

Consolidated financial statements and parent company financial statements 1 April – 31 December 2019 (9 months)

Balance sheet

EUR	Note	Group	Parent Company
		<u>2019</u>	<u>2019</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	15	2,781,424	2,781,424
Retained earnings		<u>7,981,801</u>	<u>7,981,801</u>
Total equity		<u>10,763,225</u>	<u>10,763,225</u>
Provisions			
Warranty provisions	16	<u>1,493,120</u>	<u>1,493,120</u>
Total provisions		<u>1,493,120</u>	<u>1,493,120</u>
Liabilities other than provisions			
Current liabilities other than provisions			
Trade payables		4,692,690	4,692,690
Amounts owed to group enterprises		34,345,120	34,656,087
Other payables, including income taxes payable		<u>2,497,815</u>	<u>1,277,487</u>
		<u>41,535,625</u>	<u>40,626,264</u>
Total liabilities other than provisions		<u>41,535,625</u>	<u>40,626,264</u>
TOTAL EQUITY AND LIABILITIES		<u>53,791,970</u>	<u>52,882,609</u>
Contractual obligations and contingent liabilities, etc.			
	17		
Related parties	18		
Consolidation	19		

Consolidated financial statements and parent company financial statements 1 April – 31 December 2019 (9 months)

Statement of changes in equity

EUR	Group		
	Share capital	Retained earnings	Total
Equity at 1 April 2019	67,015	-	67,015
Demerger 1 April 2019	2,714,326	8,267,531	10,981,857
Loss for the year	-	-283,299	-283,299
Foreign exchange adjustment	-	-2,348	-2,348
Equity at 31 December 2019	2,781,341	7,981,884	10,763,225

EUR	Parent company		
	Share capital	Retained earnings	Total
Equity at 1 April 2019	67,015	-	67,015
Demerger 1 April 2019	2,714,326	8,267,531	10,981,857
Loss for the year	-	-283,299	-283,299
Foreign exchange adjustment	-	-2,348	-2,348
Equity at 31 December 2019	2,781,341	7,981,884	10,763,225

Consolidated financial statements and parent company financial statements 1 April – 31 December 2019 (9 months)

Cash flow statement

EUR	Note	Group 2019
Loss before tax		-188,201
Depreciation, amortisation and impairment losses		349,536
Other adjustments of non-cash operating items	20	<u>1,774,587</u>
Cash generated from operations before changes in working capital		1,935,922
Changes in working capital	21	<u>4,397,997</u>
Cash generated from operations before tax		6,333,919
Income taxes paid		<u>-362,503</u>
Cash flows from operating activities		<u>5,971,416</u>
Acquisition of property, plant and equipment		<u>-6,460</u>
Cash flows from investing activities		<u>-6,460</u>
Cash flows for the year		
Cash at 1 April 2019		67,015
Cash from demerger		87,608
Net cash flow for the year		<u>5,964,956</u>
Cash and cash equivalents at year-end		<u>6.119.579</u>

Consolidated financial statements and parent company financial statements 1 April – 31 December 2019 (9 months)

Notes

1 Accounting policies

The annual report of ZyXEL Networks 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 demerger of the Company at 1 April 2019 has been recognised at book value.

Recognition and measurement

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

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

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

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

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

Consolidated financial statements

The consolidated financial statements comprise the Parent Company, ZyXEL Networks A/S, and subsidiaries in which ZyXEL Networks 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 April – 31 December 2019 (9 months)

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.

Consolidated financial statements and parent company financial statements 1 April – 31 December 2019 (9 months)

Notes

1 Accounting policies (continued)

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

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 April – 31 December 2019 (9 months)

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 Networks 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 April – 31 December 2019 (9 months)

Notes

1 Accounting policies (continued)

Receivables

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

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

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

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Equity

Reserve for net revaluation according to the equity method

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

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

The reserve cannot be recognised with a negative amount.

Dividends

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

Consolidated financial statements and parent company financial statements 1 April – 31 December 2019 (9 months)

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 April – 31 December 2019 (9 months)

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 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 April – 31 December 2019 (9 months)

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

	Consolidated	Parent Company
EUR	2019	2019
2 Revenue		
Denmark	1,064,073	1,064,073
Europe	64,731,455	59,993,851
	<u>65,795,528</u>	<u>61,057,924</u>

3 Fee to statutory auditor

EUR	Consolidated
	2019
Fee regarding statutory audit	53,650
Other assurance engagements	0
Tax assistance	0
Other assistance	0
Total fees to KPMG	<u>53,650</u>

Consolidated financial statements and parent company financial statements 1 April – 31 December 2019 (9 months)

Notes

	Consolidated	Parent Company
EUR	<u>2019</u>	<u>2019</u>
4 Depreciation, amortisation and impairment losses		
Rights	327,183	257,257
Software	8,540	0
Property, plant and equipment	<u>13,813</u>	<u>917</u>
	<u>349,536</u>	<u>258,174</u>
Depreciation and amortisation are recognised as follows in the consolidated financial statements and parent company financial statements:		
Administrative expenses	22,353	917
Distribution costs	<u>327,183</u>	<u>257,257</u>
	<u>349,536</u>	<u>258,174</u>
5 Staff costs		
Selling and distribution cost	3,663,386	2,115,632
Administrative expenses	<u>776,253</u>	<u>776,253</u>
	<u>4,439,639</u>	<u>2,891,885</u>
Total staff can be specified as follows:		
Salaries and remunerations, etc.	4,247,172	2,807,858
Pensions	129,887	79,917
Other social security costs	<u>62,580</u>	<u>4,110</u>
	<u>4,439,639</u>	<u>2,891,885</u>
Average number of full-time employees	<u>39</u>	<u>9</u>

Consolidated financial statements and parent company financial statements 1 April – 31 December 2019 (9 months)

Notes

EUR	Group 2019	Parent Company 2019
6 Loss from subsidiaries		
Share of loss		-656,721
		-656,721
7 Other financial income		
Foreign exchange gain	68,319	67,079
Other financial income	0	0
	68,319	67,079
8 Financial expenses		
Interest expense loans	11,981	6,197
Other financial expenses	0	0
	11,981	6,197
9 Tax on loss for the year		
Current tax for the year	-362,502	-344,867
Deferred tax adjustment for the year	267,404	267,404
	-95,098	-77,463
10 Proposed loss distribution		
Retained earnings		-283,299
		-283,299

Consolidated financial statements and parent company financial statements 1 April – 31 December 2019 (9 months)

Notes

EUR	Consoli- dated	Parent Company
11 Intangible assets		
Cost at 1 April 2019 (demerger)	3,336,593	1,715,034
Additions	0	0
Disposals	0	0
Cost at 31 December 2019	3,336,593	1,715,034
Amortisation and impairment losses at 1 April 2019 (demerger)	552,099	366,149
Amortisation	335,723	257,257
Amortisation and impairment losses at 31 December 2019	887,822	623,406
Carrying amount at 31 December 2019	2,448,771	1,091,628
12 Property, plant and equipment		
Cost at 1 April 2019 (demerger)	584,325	27,502
Additions	6,460	0
Disposals	0	0
Exchange rate adjustment	0	0
Cost at 31 December 2019	590,785	27,502
Depreciation and impairment losses at 1 April 2019 (demerger)	442,924	0
Depreciation for the year	13,813	917
Disposals	0	0
Exchange rate adjustment	0	0
Depreciation and impairment losses at 31 December 2019	456,737	917
Carrying amount at 31 December 2019	134,048	26,585

Consolidated financial statements and parent company financial statements 1 April – 31 December 2019 (9 months)

Notes

13 Investments in subsidiaries

	<u>Parent Company</u>
EUR	2019
Cost at 1 April (demerger)	1,426,079
Additions	3,602,515
Cost at 31 December	<u>5,028,594</u>
Net revaluation at 1 April (demerger)	0
Foreign exchange adjustment	-2,350
Net share of profit for the year	-656,721
Net revaluation at 31 December	<u>-659,071</u>
Carrying amount at 31 December	<u>4,369,523</u>

Name/legal form	<u>Registered office</u>	Voting rights and ownership interest	<u>Equity</u>	<u>Profit/loss for the year</u>
			EUR	EUR
ZyXEL Communications B.V.	The Netherlands	100%	1,331,763	-68,844
ZyXEL Communications Russia	Russia	99%	42,958	19,901
ZyXEL France	France	100%	<u>2,994,802</u>	<u>-607,778</u>
			<u>4,369,523</u>	<u>-656,721</u>

Consolidated financial statements and parent company financial statements 1 April – 31 December 2019 (9 months)

Notes

14 Deferred tax assets

	Group	Parent Company
EUR	<u>2019</u>	<u>2019</u>
Deferred tax asset 1 April (demerger)	214,685	214,685
Addition (acquisition of ZyXEL FR SAS)	4,913	0
Deferred tax adjustment for the year in the income statement	<u>267,404</u>	<u>267,404</u>
	<u>487,002</u>	<u>482,089s</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 2,781,424.

The share does not carry special rights.

16 Warranty provisions

Warranty provisions comprise commitments relating to warranties on sold products.

17 Contractual obligations and contingent liabilities, etc.

Parent Company

The Parent Company has rental and lease commitments of EUR 44,152 at the balance sheet date. EUR 44,152 falls due within one year.

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.

Group

The Group has rental and lease commitments of EUR 44,152 at the balance sheet date. EUR 44,152 falls due within one year.

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 April – 31 December 2019 (9 months)

Notes

18 Related parties

Controlling interest

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

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

	Group
EUR	2019
20 Other adjustments	
Allowance for doubtful debts	158,980
Provision for inventory obsolescence	1,054,411
Deferred income tax	267,403
Accrued warranty liabilities	296,142
Translation adjustment under equity	-2,350
	<u>1,774,587</u>
21 Changes in working capital	
Inventories	4,727,109
Trade and other receivables	-1,037,854
Change in other current assets	-5,061,659
Trade payables	9,965,791
Other current liabilities	-4,195,390
	<u>4,397,997</u>