

Sennheiser Communications A/S
Central Business Registration No. 19 22 87 46
Industriparken 27
2750 Ballerup

Annual report 2016

The Annual General Meeting adopted the annual report on 22 Marts 2017



Chairman of the General Meeting
Niels Jacobsen

Sennheiser Communications A/S

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Sennheiser Communications A/S

Company details

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Company

Sennheiser Communications A/S
Industriparken 27
DK-2750 Ballerup
Central Business Registration No. 19 22 87 46
Registered in Ballerup

Phone: +45 56 18 00 00
Fax: +45 56 18 00 99
Internet: www.sennheisercommunications.com

Board of Directors

Andreas Sennheiser, Chairman
Niels Jacobsen
Peter Claussen
Daniel Sennheiser
Arne Boye Nielsen
Søren Nielsen

Executive Board

Jeppe Johan Dalberg-Larsen
Andreas Bach

Company auditors

Deloitte

Statement by Management on the annual report

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The Board of Directors and Executive Board have today considered and approved the annual report of Sennheiser Communications A/S for the financial year 1 January to 31 December 2016.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and results as well as its cash flow for the financial year 1 January to December 31 2016.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Ballerup, 22 Marts 2017

Executive Board


Jeppe Johan Dalberg-Larsen


Andreas Bach

Board of Directors


Andreas Sennheiser
Chairman


Arne Boye Nielsen


Niels Jacobsen


Daniel Sennheiser


Peter Claussen


Søren Nielsen

Independent auditor's report

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To the shareholders of Sennheiser Communications A/S

Opinion

We have audited the financial statements of Sennheiser Communications A/S for the financial year 01.01.2016 - 31.12.2016, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31-12-2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the financial statements* section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of 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 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 financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the management commentary

Management is responsible for the management commentary. Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

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

Sennheiser Communications A/S

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Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

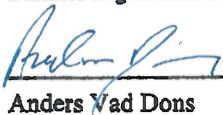
Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 22 Marts 2017

Deloitte

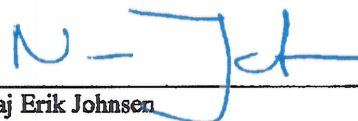
Statsautoriseret Revisionspartnerselskab

Business Registration No 33 96 35 56



Anders Vad Dons

State Authorised Public Accountant



Nikolaj Erik Johnsen

State Authorised Public Accountant

Management commentary

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	2016	2015	2014	2013	2012
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Financial highlights					
Key figures					
Net Sales	749.231	665.035	572.768	495.772	359.188
Production costs	428.932	376.256	294.094	243.050	182.010
Gross profit	320.299	288.779	278.674	252.722	177.178
Profit from primary activities	132.118	125.771	153.988	132.196	82.834
Net financial items	-318	-170	-98	-108	-55
Profit for the year	102.762	95.767	116.588	99.043	62.048
Inventories	47.201	26.269	26.910	9.849	54.815
Trade receivables	497	252	549	0	14.835
Equity	145.997	58.235	120.468	63.880	64.837
Balance sheet total	282.822	211.244	223.265	128.678	123.107
Investments in plant and equipment	10.733	7.076	7.650	11.378	5.033
Operating assets	253.655	203.030	151.767	72.702	116.820
Ratios					
Return on assets	57,9	70,7	136,7	139,4	78,7
Return on equity	100,6	107,2	126,5	153,9	90,2
Working capital ratio	208,1	132,8	217,1	191,6	206,9
Equity ratio	51,6	27,6	54,1	49,6	52,7

Management commentary, continued

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Primary activities

Sennheiser Communications A/S develops and sells lightweight headsets for telecommunication and multimedia use.

Development in activities and finances

Net Sales have increased 13% to DKK 749m in 2016 from DKK 665m in 2015. Management considers the development in earnings for 2016 to be satisfactory. Result for 2016 slightly better than expressed by the management in the 2015 Annual report due to higher than expected Net Sales.

Particular risks

There are no specific uncertainties or unusual circumstances with regard to the annual report for 2016, and the Company is not exposed to any special risks besides the normal risks of the business.

Intellectual capital resources

The Company's continued competitive position is preconditioned by an extensive knowledge as well as a wide spectrum of competencies within the Company's areas of activity.

The Company's products are manufactured in interaction with different experts, each with a thorough knowledge of their specific field and, at the same time, with an understanding of other fields and of the whole.

Considerable resources are invested in communication and knowledge sharing, including with group enterprises, with the purpose of utilising competencies across the organisation.

Development activities

In 2016, the Company paid development costs in the amount of DKK 106.723 thousand compared to DKK 90.360 thousand in 2015.

Corporate Social Responsibility

With reference to the William Demant Holding A/S' statement for corporate social responsibility according to Danish Financial Statements Act section 99a sub-clause 6

[UN Global Compact Progress Report 2016](#)

Note: The report is located at <http://www.demant.com/media/#media-documents> under the Responsibility tab.

Outlook

The objective for 2017 is a continued investment in the business for future expansion of the Company's activities with earnings short of 2016, due to continued investments.

Accounting policies

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The annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (large).

The accounting policies applied for this annual report are consistent with those applied last year.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable, as a result of a prior event, that future economic benefits will flow to the Company, and the value of the assets can be measured reliably.

Liabilities are recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Company, and the value of the liabilities can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency

Foreign currency transactions are translated applying the exchange rate at the transaction date.

Monetary items, e.g. receivables and payables denominated in foreign currencies, are translated into Danish kroner using the exchange rate at the balance sheet date. Both realised and unrealised exchange adjustments are recognised in the income statement under gross profit or as financial income or financial expenses. Property, plant and equipment, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

Income statement

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Production costs

Production costs comprises direct and indirect costs incurred to earn revenue, including cost of goods sold and depreciation on production tools.

Accounting policies, continued

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Development costs

Development costs include costs of development projects that do not meet the criteria for recognition in the balance sheet, as well as amortisation of any recognised development projects.

It is the Company's assessment that the product development taking place in the Company does not enable a meaningful segregation between development of new products and further development of existing products for which reason development costs are charged to the income statement.

Distribution costs

Distribution costs comprise costs incurred for staff training, customer support, sales, marketing, distribution as well as depreciation and amortisation.

Administrative expenses

Administrative expenses comprise expenses incurred for the administrative staff, including stationery and office supplies, IT as well as depreciation and amortisation.

Financial income and expenses

These items comprise interest income and expenses.

Income taxes

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly on equity by the portion attributable to entries directly on equity.

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carry forwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Balance sheet

Property, plant and equipment

Property, plant and equipment are measured at cost. Cost comprises the acquisition price, costs directly attributable to the acquisition, and preparation costs of the asset until the time when it is ready to be put into operation.

Accounting policies, continued

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Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. The basis of depreciation is cost less estimated residual value after the end of useful life.

Plant and machinery	3-5 years
Other fixtures and fittings, etc.	3-5 years
IT hardware and software	3 years
Leasehold improvements	5 years

Property, plant and equipment are written down to the lower of the recoverable amount and carrying amount. Scrap value is set to 0 for all tangible assets and is reassessed annually.

Inventories

Inventories are measured at the lower of cost using the FIFO method, and net realisable value. Obsolete and slow-moving items have been written down to net realisable value. The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables

Receivables are measured at amortised cost, usually corresponding to nominal value less provisions for expected losses.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial year. Prepayments are measured at cost.

Cash

Cash comprises cash in hand and bank deposits

Dividend

Dividend is recognized as a liability at the time of adoption at the general meeting. The proposed dividend for the financial year is disclosed as a separate item in equity.

Provision for guarantee commitments

Provision for guarantee commitments comprises commitments to remedy defects and deficiencies within the guarantee period. Provision for guarantee commitments are recognised and measured at nominal value based on previous years' experience.

Liabilities

Other liabilities are measured at amortised cost which usually corresponds to nominal value.

Accounting policies, continued

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Cash flow statement

The cash flow statement is presented using the indirect method and shows cash flows from operating, investing and financing activities as well as the Company's cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisition, development, improvement and sale, etc. of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise changes in the size or composition of the Company's share capital and related costs as well as the raising of loans.

Cash and cash equivalents comprise cash less short-term bank debt.

Financial highlights

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2010" issued by the Danish Society of Financial Analysts.

Return on assets:

$$\frac{\text{Operating profit/loss} \times 100}{\text{Average operating assets}}$$

Return on equity

$$\frac{\text{Net profit/loss for the year} \times 100}{\text{Average equity}}$$

Working capital ratio

$$\frac{\text{Current assets} \times 100}{\text{Short-term liabilities}}$$

Equity ratio

$$\frac{\text{Equity} \times 100}{\text{Balance sheet total}}$$

Operating assets are defined as the balance sheet total minus cash and interest-bearing assets (including shares).

Income statement for 2016

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	Notes	2016 DKK'000	2015 DKK'000
Net Sales	1	749.231	665.035
Production costs		428.932	376.256
Gross profit		320.299	288.779
Development costs	2	-106.723	-90.360
Distribution costs	2	-68.330	-58.787
Administrative expenses	2-3	-13.128	-13.861
Profit from primary activities		132.118	125.771
Financial income		22	21
Financial expenses		-340	-191
Profit before tax		131.800	125.601
Tax on profit for the year	4	-29.038	-29.834
Profit for the year		<u>102.762</u>	<u>95.767</u>
Proposed distribution of profit	5		
Dividend for the financial year, proposed		45.000	15.000
Retained earnings		57.762	40.767
Extraordinary dividend		0	40.000
		<u>102.762</u>	<u>95.767</u>

Balance sheet at 31 December

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	Notes	2016 DKK'000	2015 DKK'000
		<u> </u>	<u> </u>
Software		242	0
Intangible assets	6	242	0
Other fixtures and fittings tools & equipment		13.255	10.150
Leasehold improvements		2.653	2.734
Prepayments on property, plant and equipment		<u>2.632</u>	<u>3.406</u>
Property, plant and equipment	7	<u>18.540</u>	<u>16.290</u>
Other receivables	8	124	124
Deferred tax assets	9	<u>1.366</u>	<u>1.522</u>
Financial assets		<u>1.490</u>	<u>1.646</u>
Fixed assets		<u>20.272</u>	<u>17.936</u>
Inventories		<u>47.201</u>	<u>26.269</u>
Trade receivables		497	252
Receivables from group enterprises		145.087	123.017
Income taxes		2.501	0
Other receivables		36.110	34.042
Prepayments	10	1.987	1.514
Receivables		<u>186.182</u>	<u>158.825</u>
Cash		<u>29.167</u>	<u>8.214</u>
Current assets		<u>262.550</u>	<u>193.308</u>
Assets		<u>282.822</u>	<u>211.244</u>

Balance sheet at 31 December

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	Notes	2016 DKK'000	2015 DKK'000
Share capital	11	2.000	2.000
Retained earnings		98.997	41.235
Proposed dividends for the financial year		45.000	15.000
Equity		145.997	58.235
Provision for guarantee commitments	12	10.644	7.428
Provisions		10.644	7.428
Bank overdraft		5.358	41.552
Trade payables		85.496	61.470
Payables to group enterprises		10.161	12.384
Income taxes		0	1.977
Other payables		25.166	28.198
Short-term liabilities other than provisions		126.181	145.581
Liabilities other than provisions		126.181	145.581
Equity and liabilities		282.822	211.244
Contingent liabilities	13		
Other notes	14-17		

Statement of changes in equity for 2016

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	Share capital	Retained earnings	Proposed dividends for the financial	Total
	DKK'000	DKK'000	DKK'000	DKK'000
2015				
Equity, beginning balance	2.000	468	118.000	120.468
Dividends distributed	0		-118.000	-118.000
Extraordinary dividend distributed		-40.000		-40.000
Transferred profit for the year	0	80.767	15.000	95.767
Equity, end balance	2.000	41.235	15.000	58.235
2016				
Equity, beginning balance	2.000	41.235	15.000	58.235
Dividends distributed			-15.000	-15.000
Transferred profit for the year		57.762	45.000	102.762
Equity, end balance	2.000	98.997	45.000	145.997

Cash flow statement for 2016

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Notes	2016 DKK'000	2015 DKK'000
Profit from primary activities	132.118	125.771
Depreciation, amortisation and impairment losses	8.428	8.269
Change in provision	3.216	-1.389
Changes in inventories	-20.932	641
Changes in receivables	-24.856	-53.366
Changes in trade payables, etc.	18.771	8.072
	116.745	87.998
Financial income received	22	21
Financial expenses paid	-340	-191
Income taxes paid	-33.359	-27.091
Cash flow from operating activities	83.068	60.737
Acquisition, intangible assets	-348	0
Acquisition, etc. of property, plant and equipment	-10.733	-7.076
Sale of property, plant and equipment	160	163
Cash flow from investing activities	-10.921	-6.913
Dividends paid	-15.000	-158.000
Cash flow from financing activities	-15.000	-158.000
Increase/decrease in cash and cash equivalents	57.147	-104.176
Cash and cash equivalents, beginning balance	-33.338	70.838
Cash and cash equivalents, end balance	23.809	-33.338

	2016	2015
	DKK'000	DKK'000
1 Net Sales		
Denmark	1.202	1.009
Germany	728.157	554.283
Other	19.872	109.743
	749.231	665.035
2 Staff costs		
Salaries and wages	100.689	84.232
Social security costs	1.950	1.519
	102.639	85.751
Total remuneration for Executive & Supervisory Boards	4.077	4.060
Average number of full-time employees	173	149
Part of management remuneration is held in another group company Board of directions do not received any remuneration		
3 Fees to Auditors		
Audit fees Deloitte	112	112
Tax Services Deloitte	7	7
Other fees Deloitte	79	30
	198	149
4 Tax on profit for the year		
Current tax	28.882	29.296
Change in deferred tax	156	432
Adjustment concerning previous years	0	106
	29.038	29.834

5 Proposed distribution of profit

Dividend for the financial year, proposed	45.000	15.000
Retained earnings	57.762	40.767
Extraordinary dividend	0	40.000
	<u>102.762</u>	<u>95.767</u>

6 Intangible assets

	Software DKK'000	Intellectual Property rights DKK'000	Total DKK'000
Cost at 1 January 2016	492	9.292	9.784
Reclassification	348		348
Cost at 31 December 2016	<u>840</u>	<u>9.292</u>	<u>10.132</u>
Amortisation at 1 January 2016	492	9.292	9.784
Additions	106	0	106
Amortisation at 31 December 2016	<u>598</u>	<u>9.292</u>	<u>9.890</u>
Carrying amount at 31 December 2016	<u>242</u>	<u>0</u>	<u>242</u>

7 Property, plant and equipment

	Other fixtures, etc. DKK'000	Leasehold improvements DKK'000	Prepayments on property, plant and equipment DKK'000	Total DKK'000
Cost at 1 January 2016	69.690	3.774	3.406	76.870
Additions	3.214	469	7.398	11.081
Reclassification	7.824	0	-8.172	-348
Disposals	-372	0	0	-372
Cost at 31 December 2016	<u>80.356</u>	<u>4.243</u>	<u>2.632</u>	<u>87.231</u>
Depreciation at 1 January 2016	59.540	1040	0	60.580
Additions	7.871	550	0	8.421
Disposals	-310	0	0	-310
Depreciation at 31 December 2016	<u>67.101</u>	<u>1.590</u>	<u>0</u>	<u>68.691</u>
Carrying amount at 31 December 2016	<u>13.255</u>	<u>2.653</u>	<u>2.632</u>	<u>18.540</u>

	Deposit DKK'000	Total DKK'000
8 Other receivables		
Cost at 1 January 2016	124	124
Cost at 31 December 2016	<u>124</u>	<u>124</u>
	2016 DKK'000	2015 DKK'000
9 Deferred tax assets		
Intangible assets	53	0
Tangible fixed assets	-1.723	-1.695
Other current assets	436	459
Other short term liabilities	-132	-286
Deferred tax	<u>-1.366</u>	<u>-1.522</u>
Deferred tax - Opening balance	-1.522	-2.241
Changes in deferred tax	156	248
Correction to prior years deferred tax	0	287
Change of local tax rate	0	184
Deferred tax - Closing balance	<u>-1.366</u>	<u>-1.522</u>

10 Prepayments

Prepayments relates to insurance and licenses.

11 Share capital

The share capital consists of 2.000 shares at DKK 1.000. The shares have not been divided into classes.

There have been no changes in the share capital in the past 5 financial years.

12 Provision for guarantee commitments

Liabilities in respect of guarantee commitments have been calculated based on information on products sold, related rights concerning returns and past experience of products returned in the various markets.

	<u>2016</u> <u>DKK'000</u>	<u>2015</u> <u>DKK'000</u>
13 Contingent liabilities		
Rent and lease commitments	<u>34.821</u>	<u>21.354</u>

14 Events after the balance sheet date

No events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.

15 Related parties

Related parties with interest are William Demants og Hustru Ida Emilies Fond, Smørum, Denmark and the principal shareholders William Demant Holding A/S, Smørum, Denmark and Sennheiser Global Operations GmbH, Wedemark, Germany.

Apart from the employment, there have been no transactions with the Executive board and Board of Directors.

Transactions with related parties are conducted on market terms.

16 Ownership

The company has registered the following shareholders to hold more than 5% of the voting share capital or of the nominal value of the share capital:

- William Demant Holding A/S, Kongebakken 9, 2765 Smørum, Denmark
- Sennheiser Global Operations GmbH, Am Labor 1, 30900 Wedemark, Germany

17 Consolidation

Sennheiser Communications A/S is included in the consolidated financial statements of William Demant Holding A/S and Sennheiser Global Operations GmbH.