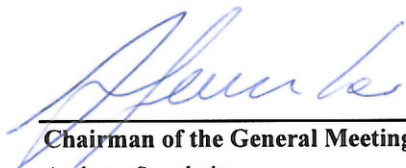


Sennheiser Communications A/S
Central Business Registration No. 19 22 87 46
Industriparken 27
2750 Ballerup

Annual report 2018

The Annual General Meeting adopted the annual report on 13 Marts 2019



Chairman of the General Meeting
Andreas Sennheiser

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Statement by Management on the annual report

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 2018.

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

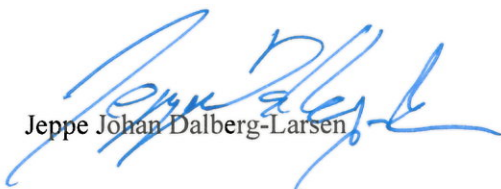
In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2018 and results as well as its cash flow for the financial year 1 January to 31 December 2018.

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, 13 Marts 2019

Executive Board

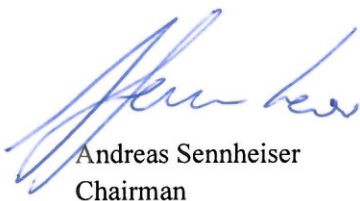


Jeppe Johan Dalberg-Larsen



Jørgen Ulbæk Wengel

Board of Directors



Andreas Sennheiser
Chairman



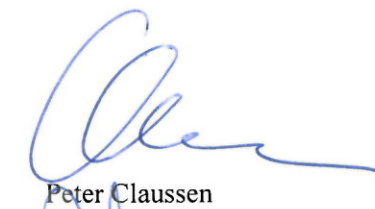
Arne Boye Nielsen



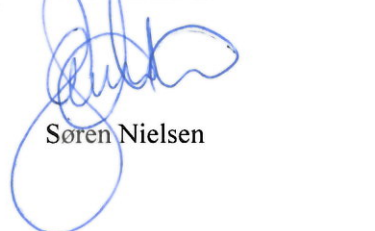
Niels Jacobsen



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 1 January to 31 December 2018, 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 December 2018 and of the results of its operations and cash flows for the financial year 1 January to 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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.

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, 13 Marts 2019

Deloitte

Statsautoriseret Revisionspartnerselskab

Business Registration No 33 96 35 56



Kåre Valtersdorf

State Authorised Public Accountant

MNE no mne34490

Management commentary

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	2018 DKK'000	2017 DKK'000	2016 DKK'000	2015 DKK'000	2014 DKK'000
Financial highlights					
Key figures					
Net Sales	1.084.672	742.764	749.231	665.035	572.768
Production costs	585.458	431.480	428.932	376.256	294.094
Gross profit	499.214	311.284	320.299	288.779	278.674
Profit from primary activities	267.477	111.604	132.118	125.771	153.988
Net financial items	117	-127	-318	-170	-98
Profit for the year	207.271	86.889	102.762	95.767	116.588
Inventories	51.133	44.123	47.201	26.269	26.910
Trade receivables	695	282	497	252	549
Equity	215.158	142.887	145.997	58.235	120.468
Balance sheet total	446.434	344.227	282.822	211.244	223.265
Investments in plant and equipment	8.152	8.300	10.733	7.076	7.650
Operating assets	299.563	309.044	253.655	203.030	151.767
Ratios					
Return on assets	87,9	39,7	57,9	70,7	136,7
Return on equity	115,8	60,2	100,6	107,2	126,5
Working capital ratio	207,4	173,0	208,1	132,8	217,1
Equity ratio	48,2	41,5	51,6	27,6	54,1

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 46% to DKK 1.085m in 2018 from DKK 743m in 2017. Management considers the development in earnings for 2018 to be satisfactory. Result for 2018 is better than expressed by the management in the 2017 Annual report.

Particular risks

There are no specific uncertainties or unusual circumstances with regard to the annual report for 2018, 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 2018, the Company paid development costs in the amount of DKK 124.577 thousand compared to DKK 109.278 thousand in 2017.

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 2018](#)

Note: The report is located at <https://www.demant.com/about/responsibility>

Outlook

The objective for 2019 is a continued investment in the business for future expansion of the Company's activities with earnings in line with 2018, 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 including exchange rate adjustments.

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

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 2017" 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 2018

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	Notes	2018 DKK'000	2017 DKK'000
Net Sales	1	1.084.672	742.764
Production costs		585.458	431.480
Gross profit		499.214	311.284
Development costs	2	-124.577	-109.278
Distribution costs	2	-92.108	-77.275
Administrative expenses	2-3	-15.052	-13.127
Profit from primary activities		267.477	111.604
Financial income		562	99
Financial expenses		-445	-226
Profit before tax		267.594	111.477
Tax on profit for the year	4	-60.323	-24.588
Profit for the year		207.271	86.889
Proposed distribution of profit	5		
Dividend for the financial year, proposed		200.000	60.000
Retained earnings		-67.729	-18.111
Extraordinary dividend		75.000	45.000
		207.271	86.889

Balance sheet at 31 December

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	Notes	2018 DKK'000	2017 DKK'000
Software		10	126
Intangible assets	6	10	126
Other fixtures and fittings tools & equipment		11.710	9.281
Leasehold improvements		1.448	2.050
Prepayments on property, plant and equipment		6.194	7.756
Property, plant and equipment	7	19.352	19.087
Other receivables	8	124	124
Deferred tax assets	9	2.196	1.964
Financial assets		2.320	2.088
Fixed assets		21.682	21.301
Inventories		51.133	44.123
Trade receivables		695	282
Receivables from group enterprises		223.893	225.239
Income taxes		0	0
Other receivables		314	16.126
Prepayments	10	1.846	1.973
Receivables		226.748	243.620
Cash		146.871	35.183
Current assets		424.752	322.926
Assets		446.434	344.227

Balance sheet at 31 December

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	Notes	2018 DKK'000	2017 DKK'000
Share capital	11	2.000	2.000
Retained earnings		13.158	80.887
Proposed dividends for the financial year		200.000	60.000
Equity		215.158	142.887
Provision for guarantee commitments	12	26.510	14.651
Provisions		26.510	14.651
Bank overdraft		0	29.126
Trade payables		115.324	101.365
Payables to group enterprises		29.691	16.205
Income taxes		5.527	2.078
Other payables		54.224	37.915
Short-term liabilities other than provisions		204.766	186.689
Liabilities other than provisions		204.766	186.689
Equity and liabilities		446.434	344.227
Contingent liabilities	13		
Other notes	14-17		

Statement of changes in equity for 2018

15

	Share capital	Retained earnings	Proposed dividends for the financial	Total
	<u>DKK'000</u>	<u>DKK'000</u>	<u>DKK'000</u>	<u>DKK'000</u>
2017				
Equity, beginning balance	2.000	98.997	45.000	145.997
Dividends distributed	0	0	-45.000	-45.000
Extraordinary dividend distributed	0	-45.000	0	-45.000
Transferred profit for the year	0	26.889	60.000	86.889
Equity, end balance	<u>2.000</u>	<u>80.887</u>	<u>60.000</u>	<u>142.887</u>
2018				
Equity, beginning balance	2.000	80.887	60.000	142.887
Dividends distributed	0	0	-60.000	-60.000
Extraordinary dividend distributed	0	-75.000	0	-75.000
Transferred profit for the year	0	7.271	200.000	207.271
Equity, end balance	<u>2.000</u>	<u>13.158</u>	<u>200.000</u>	<u>215.158</u>

Cash flow statement for 2018

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Notes	2018 DKK'000	2017 DKK'000
Profit from primary activities	267.477	111.604
Depreciation, amortisation and impairment losses	8.003	7.740
Change in provision	11.859	4.007
Changes in inventories	-7.010	3.078
Changes in receivables	16.872	-59.939
Changes in trade payables, etc.	43.754	34.662
	340.955	101.152
Financial income received	562	99
Financial expenses paid	-445	-226
Income taxes paid	-57.106	-20.607
Cash flow from operating activities	283.966	80.418
Acquisition, intangible assets	0	0
Acquisition, etc. of property, plant and equipment	-8.152	-8.300
Sale of property, plant and equipment	0	130
Cash flow from investing activities	-8.152	-8.170
Dividends paid	-135.000	-90.000
Cash flow from financing activities	-135.000	-90.000
Increase/decrease in cash and cash equivalents	140.814	-17.752
Cash and cash equivalents, beginning balance	6.057	23.809
Cash and cash equivalents, end balance	146.871	6.057

	2018	2017
	DKK'000	DKK'000
1 Net Sales		
Denmark	1.978	2.065
Germany	1.079.204	734.473
Other	3.490	6.226
	1.084.672	742.764
2 Staff costs		
Salaries and wages	127.951	116.777
Social security costs	2.245	2.078
	130.196	118.855
Total remuneration for Executive & Board of Directors	4.407	4.158
Average number of full-time employees	207	190
Part of management remuneration is held in another group company Board of directions do not receive any remuneration		
3 Fees to Auditors		
Audit fees Deloitte	129	127
Tax Services Deloitte	7	7
Other fees Deloitte	15	119
	151	253
4 Tax on profit for the year		
Current tax	59.977	25.186
Adjustment of current tax, prior years	578	0
Change in deferred tax	-232	-598
	60.323	24.588

5 Proposed distribution of profit

Dividend for the financial year, proposed	200.000	60.000
Retained earnings	-67.729	-18.111
Extraordinary dividend	75.000	45.000
	207.271	86.889

6 Intangible assets

	Software DKK'000	Intellectual Property rights DKK'000	Total DKK'000
Cost at 1 January 2018	840	9.292	10.132
Cost at 31 December 2018	840	9.292	10.132
Amortisation at 1 January 2018	714	9.292	10.006
Additions	116	0	116
Amortisation at 31 December 2018	830	9.292	10.122
Carrying amount at 31 December 2018	10	0	10

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 2018	83.179	4.243	7.756	95.178
Additions	3.778	0	4.374	8.152
Reclassification	5.936	0	-5.936	0
Disposals	0	0	0	0
Cost at 31 December 2018	92.893	4.243	6.194	103.330
Depreciation at 1 January 2018	73.898	2.193	0	76.091
Additions	7.285	602	0	7.887
Disposals	0	0	0	0
Depreciation at 31 December 2018	81.183	2.795	0	83.978
Carrying amount at 31 December 2018	11.710	1.448	6.194	19.352

	Deposit	Total
	DKK'000	DKK'000
8 Other receivables		
Cost at 1 January 2018	124	124
Cost at 31 December 2018	<u>124</u>	<u>124</u>
	2018	2017
	DKK'000	DKK'000
9 Deferred tax assets		
Intangible assets	2	28
Tangible fixed assets	-2.072	-1.900
Other current assets	6	74
Other short term liabilities	-132	-166
Deferred tax	<u>-2.196</u>	<u>-1.964</u>
Deferred tax - at 1 January	-1.964	-1.366
Changes in deferred tax	-232	-598
Deferred tax - at 31 December	<u>-2.196</u>	<u>-1.964</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>2018</u> <u>DKK'000</u>	<u>2017</u> <u>DKK'000</u>
13 Contingent liabilities		
Rent and lease commitments	<u>21.927</u>	<u>28.234</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 Group relations

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