

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

Annual report 2019

The Annual General Meeting adopted the annual report on 17 March 2020



Chairman of the General Meeting
Arne Boye Nielsen

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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

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Internet: www.sennheisercommunications.com

Board of Directors

Arne Boye Nielsen, Chairman

Niels Jacobsen

Peter Claussen

Daniel Sennheiser

Andreas Sennheiser

Søren Nielsen

Executive Board

Jeppe Johan Dalberg-Larsen

Jørgen Ulbæk Wengel

Company auditors

Deloitte, statsautoriseret revisionspartnerselskab

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 2019.

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 2019 and results as well as its cash flow for the financial year 1 January to 31 December 2019.

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, 17 March 2020

Executive Board



Jeppe Johan Dalberg-Larsen



Jørgen Ulbæk Wengel

Board of Directors



Arne Boye Nielsen
Chairman



Niels Jacobsen



Peter Claussen



Andreas Sennheiser



Daniel Sennheiser



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 2019, 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 2019 and of the results of its operations and cash flows for the financial year 1 January to 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 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, 17 March 2020

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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	2019	2018	2017	2016	2015
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Financial highlights					
Key figures					
Net Sales	1.126.099	1.084.672	742.764	749.231	665.035
Production costs	673.225	585.458	431.480	428.932	376.256
Gross profit	452.874	499.214	311.284	320.299	288.779
Profit from primary activities	170.946	267.477	111.604	132.118	125.771
Net financial items	-175	117	-127	-318	-170
Profit for the year	132.828	207.271	86.889	102.762	95.767
Inventories	52.775	51.133	44.123	47.201	26.269
Trade receivables	2.616	695	282	497	252
Equity	47.986	215.158	142.887	145.997	58.235
Balance sheet total	280.846	446.434	344.227	282.822	211.244
Investments in plant and equipment	6.751	8.152	8.300	10.733	7.076
Operating assets	235.383	299.563	309.044	253.655	203.030
Ratios					
Return on assets	63,9	87,9	39,7	57,9	70,7
Return on equity	101,0	115,8	60,2	100,6	107,2
Working capital ratio	124,0	207,4	173,0	208,1	132,8
Equity ratio	48,2	48,2	41,5	51,6	27,6

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 4% to DKK 1.126m in 2019 from DKK 1085m in 2018. Earnings reduced to DKK 133m in 2019 from DKK 207m in 2018 as a result of increased investments. Management considers the development in earnings for 2019 to be acceptable although result for 2019 is below the expectations set out in the 2018 Annual report.

Particular risks

There are no specific uncertainties or unusual circumstances with regard to the annual report for 2019, 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 2019, the Company paid development costs in the amount of DKK 144.661 thousand compared to DKK 124.577 thousand in 2018.

Corporate Social Responsibility

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

Corporate Social Responsibility Report 2019

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

Outlook

As previously announced in September 2018, the company's shareholders see great opportunities lying ahead in all of the company's three business segments. To be able to fully capture these opportunities, the shareholders wish to dedicate their focus on different business segments with full end-to-end responsibility. Therefore, the shareholders have agreed to end their joint venture and let the business segments evolve in different set-ups. While the business segments of Enterprise Solutions and Gaming headsets will evolve as a new independent company, EPOS Group A/S, under the global audio and hearing technology group Demant, the business segment of Mobile Music headsets will be part of the Sennheiser Consumer business in the future. The demerger of the company is expected to be completed during the calendar year 2020. The outlook for 2020 is to continue the business at the same level as in 2019.

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

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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 have been prepared in accordance with the recommendations and guidelines 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

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	<u>Notes</u>	<u>2019</u> <u>DKK'000</u>	<u>2018</u> <u>DKK'000</u>
Net Sales	1	1.126.099	1.084.672
Production costs		673.225	585.458
Gross profit		452.874	499.214
Development costs	2	-144.661	-124.577
Distribution costs	2	-119.794	-92.108
Administrative expenses	2-3	-17.473	-15.052
Profit from primary activities		170.946	267.477
Financial income		424	562
Financial expenses		-599	-445
Profit before tax		170.771	267.594
Tax on profit for the year	4	-37.943	-60.323
Profit for the year		132.828	207.271
Proposed distribution of profit	5		
Dividend for the financial year, proposed		30.000	200.000
Retained earnings		2.828	-67.729
Extraordinary dividend		100.000	75.000
		132.828	207.271

Balance sheet at 31 December

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	Notes	2019 DKK'000	2018 DKK'000
Software		0	10
Intangible assets	6	0	10
Other fixtures and fittings tools & equipment		13.531	11.710
Leasehold improvements		851	1.448
Prepayments on property, plant and equipment		2.300	6.194
Property, plant and equipment	7	16.682	19.352
Other receivables	8	124	124
Deferred tax assets	9	2.427	2.196
Financial assets		2.551	2.320
Fixed assets		19.233	21.682
Inventories		52.775	51.133
Trade receivables		2.616	695
Receivables from group enterprises		144.034	223.893
Income taxes		12.948	0
Other receivables		135	314
Prepayments	10	3.642	1.846
Receivables		163.375	226.748
Cash		45.463	146.871
Current assets		261.613	424.752
Assets		280.846	446.434

Balance sheet at 31 December

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	Notes	2019 DKK'000	2018 DKK'000
Share capital	11	2.000	2.000
Retained earnings		15.986	13.158
Proposed dividends for the financial year		30.000	200.000
Equity		47.986	215.158
Provision for guarantee commitments	12	21.923	26.510
Provisions		21.923	26.510
Other payables long-term		5.458	0
Long-term liabilities		5.458	0
Trade payables		102.211	115.324
Payables to group enterprises		71.810	29.691
Income taxes		0	5.527
Other payables		31.458	54.224
Short-term liabilities other than provisions		205.479	204.766
Liabilities other than provisions		210.937	204.766
Equity and liabilities		280.846	446.434
Contingent liabilities	13		
Other notes	14-17		

Statement of changes in equity

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	Share capital	Retained earnings	Proposed dividends for the financial	Total
	DKK'000	DKK'000	DKK'000	DKK'000
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	2.000	13.158	200.000	215.158
2019				
Equity, beginning balance	2.000	13.158	200.000	215.158
Dividends distributed	0	0	-200.000	-200.000
Extraordinary dividend distributed	0	-100.000	0	-100.000
Transferred profit for the year	0	102.828	30.000	132.828
Equity, end balance	2.000	15.986	30.000	47.986

Cash flow statement

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Notes	2019 DKK'000	2018 DKK'000
Profit from primary activities	170.946	267.477
Depreciation, amortisation and impairment losses	9.431	8.003
Change in provision	-4.587	11.859
Changes in inventories	-1.642	-7.010
Changes in receivables	76.321	16.872
Changes in trade payables, etc.	11.698	43.754
	262.167	340.955
Financial income received	424	562
Financial expenses paid	-599	-445
Income taxes paid	-56.649	-57.106
Cash flow from operating activities	205.343	283.966
Acquisition, etc. of property, plant and equipment	-6.751	-8.152
Cash flow from investing activities	-6.751	-8.152
Dividends paid	-300.000	-135.000
Cash flow from financing activities	-300.000	-135.000
Increase/decrease in cash and cash equivalents	-101.408	140.814
Cash and cash equivalents, beginning balance	146.871	6.057
Cash and cash equivalents, end balance	45.463	146.871

	2019	2018
	DKK'000	DKK'000
1 Net Sales		
Denmark	91.468	1.978
Germany	1.055.941	1.079.204
Other	-21.310	3.490
	1.126.099	1.084.672
2 Staff costs		
Salaries and wages	159.668	127.951
Social security costs	2.558	2.245
	162.226	130.196
Total remuneration for Executive & Board of Directors	5.173	4.407
Average number of full-time employees	245	207
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	131	129
Tax Services Deloitte	7	7
Other fees Deloitte	40	15
	178	151
4 Tax on profit for the year		
Current tax	38.596	59.977
Adjustment of current tax, prior years	-422	578
Change in deferred tax	-231	-232
	37.943	60.323

5 Proposed distribution of profit	2019	2018
	DKK'000	DKK'000
Dividend for the financial year, proposed	30.000	200.000
Retained earnings	2.828	-67.729
Extraordinary dividend	100.000	75.000
	132.828	207.271

	Software	Intellectual	Total
	DKK'000	Property rights	DKK'000
	DKK'000	DKK'000	DKK'000
6 Intangible assets			
Cost at 1 January 2019	840	9.292	10.132
Cost at 31 December 2019	840	9.292	10.132
Amortisation at 1 January 2019	830	9.292	10.122
Amortisations	10	0	10
Amortisation at 31 December 2019	840	9.292	10.132
Carrying amount at 31 December 2019	0	0	0

	Other	Leasehold	Prepayments on	Total
	fixtures, etc.	improvements	property, plant	DKK'000
	DKK'000	DKK'000	and equipment	DKK'000
	DKK'000	DKK'000	DKK'000	DKK'000
7 Property, plant and equipment				
Cost at 1 January 2019	92.893	4.243	6.194	103.330
Additions	4.923	0	1.828	6.751
Reclassification	5.722	0	-5.722	0
Disposals	0	0	0	0
Cost at 31 December 2019	103.538	4.243	2.300	110.081
Depreciation at 1 January 2019	81.183	2.795	0	83.978
Depreciations	8.824	597	0	9.421
Disposals	0	0	0	0
Depreciation at 31 December 2019	90.007	3.392	0	93.399
Carrying amount at 31 December 2019	13.531	851	2.300	16.682

	Deposit DKK'000	Total DKK'000
8 Other receivables		
Cost at 1 January 2019	124	124
Cost at 31 December 2019	<u>124</u>	<u>124</u>
	2019 DKK'000	2018 DKK'000
9 Deferred tax assets		
Intangible assets	0	2
Tangible fixed assets	-2.380	-2.072
Other current assets	85	6
Other short term liabilities	-132	-132
Deferred tax	<u>-2.427</u>	<u>-2.196</u>
Deferred tax - at 1 January	-2.196	-1.964
Changes in deferred tax	-231	-232
Deferred tax - at 31 December	<u>-2.427</u>	<u>-2.196</u>

10 Prepayments

Prepayments relates to insurance and licenses.

11 Share capital

The share capital consists of 2.000 shares of nominal 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>2019</u> <u>DKK'000</u>	<u>2018</u> <u>DKK'000</u>
13 Contingent liabilities		
Rent and lease commitments	<u>14.877</u>	<u>21.927</u>

14 Events after the balance sheet date

As previously announced in September 2018, the company's shareholders see great opportunities lying ahead in all of the company's three business segments. To be able to fully capture these opportunities, the shareholders wish to dedicate their focus on different business segments with full end-to-end responsibility. Therefore, the shareholders have agreed to end their joint venture and let the business segments evolve in different set-ups. While the business segments of Enterprise Solutions and Gaming headsets will evolve as a new independent company, EPOS Group A/S, under the global audio and hearing technology group Demant, the business segment of Mobile Music headsets will be part of the Sennheiser Consumer business in the future. The demerger of the company is expected to be completed during the calendar year 2020.

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 Demant Fonden, Smørum, Denmark and the principal shareholders Demant 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:

- Demant 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 Demant A/S and Sennheiser Global Operations GmbH.