



Sonion A/S

Betonvej 10, 4000 Roskilde

Central Business Registration Number 25 14 13 50

Annual report 2019

The Annual General Meeting adopted the annual report on 20.05.2020

Chairman of the General Meeting

A blue handwritten signature in cursive script, appearing to read "Mette Boje-Larsen".

Mette Boje-Larsen

Contents

	<u>Page</u>
Company details	2
Statement by Management on the annual report	3
Independent auditor's report	4
Management commentary	7
Income statement for 2019	10
Balance sheet at 31.12.2019	11
Statement of changes in equity for 2019	13
Notes	14
Accounting policies	19

Company details

Company

Sonion A/S
Betonvej 10
4000 Roskilde

Central Business Registration No: 25141350
Registered in: Roskilde
Financial year: 01.01.2019 - 31.12.2019

Phone: 46306666
Fax: 46306677

Website: www.sonion.com
E-mail: sonion@sonion.com

Board of Directors

Christian Johannes Gellert Nielsen, chairman
Isak Henrik Isacsson
Kim Vorbeck Jans

Executive Board

Isak Henrik Isacsson

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
2300 Copenhagen S

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Sonion A/S for the financial year 01.01.2019 - 31.12.2019.

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

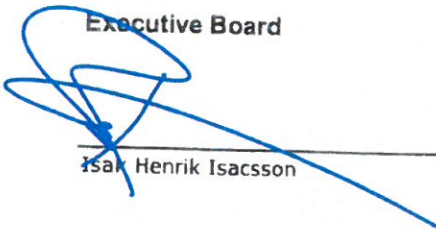
In our opinion, the financial statements give a true and fair view of the Company's financial position at 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019.

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.

Roskilde, 31.03.2020

Executive Board

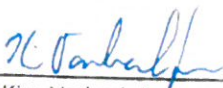


Isak Henrik Isacsson

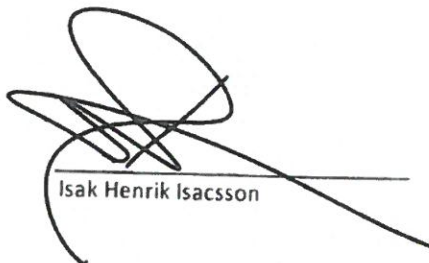
Board of Directors



Christian Johannes Gellert Nielsen
Chairman



Kim Vorbeck Jans



Isak Henrik Isacsson

Independent auditor's report

To the shareholder of Sonion A/S

Opinion

We have audited the financial statements of Sonion A/S for the financial year 01.01.2019 - 31.12.2019, which comprise the income statement, balance sheet, statement of changes in equity 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 Company's financial position at 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019 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 Company 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 responsibilities 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 Company'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 Company 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.

Independent auditor's report

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 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 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 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 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 Company 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.

Independent auditor's report

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, 31.03.2020

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556



Kim Takata Mücke
State Authorised Public Accountant
mne10944



Henrik Wolff Mikkelsen
State Authorised Public Accountant
mne33747

Management commentary

	2019 USD'000	2018 USD'000	2017 USD'000	2016 USD'000	2015 USD'000
Financial highlights					
Key figures					
Revenue	228.337	223.980	198.073	184.936	178.226
Gross profit	15.106	14.257	11.235	8.787	8.659
Operating profit	1.973	4.426	3.428	2.657	3.744
Net financials	-1.309	1.054	-10.641	-1.315	-972
Profit/loss for the year	-888	2.870	-6.999	-423	1.408
Total assets	470.431	503.911	538.308	356.835	366.317
Investments in property, plant and equipment	184	665	705	987	1.716
Equity	58.667	60.184	59.799	61.467	62.854
Employees in average	30	29	47	71	76
Ratios					
Return on equity (%)	-1,5	4,8	-11,5	-0,7	1,3
Equity ratio (%)	12,5	11,9	11,1	17,2	17,2
Net profit ratio (%)	0,9	2,0	1,7	1,4	2,1
Return on assets (%)	1,3	2,6	0,8	1,7	1,1

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts.

Ratios	Calculation formula	Explanation
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The Company's return on capital invested in the Company by the owner.
Equity ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strength of the Company.
Net profit ratio (%)	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$	Profitability of the Company.
Return on assets (%)	$\frac{\text{Operating profit} \times 100}{\text{Average operating assets}}$	The Company's ability to generate returns on capital invested.

Management commentary

Primary activities

The primary activity of the Company is development of micro mechanical components and sales of advanced micro acoustic and micro mechanical component and solutions.

In cooperation with group related companies the Company provides solutions for manufacturers of hearing instruments.

At group level we are a global leader within sales and development of advanced microacoustic and micro mechanical components as well as cost-efficient production. We combine our audiological expertise with our substantial experience in low-cost production areas.

In 2019, we successfully continued our strategy aimed at servicing the hearing health industry with innovative technologies and solutions and we now have an even stronger platform.

In recent years, we have made an expansion of our R&D capacity and we have made investments in production expansions. These actions have taken place to meet the demand there is in the market for our innovative products.

For 2019 we have seen that these investments continue to provide a satisfactory yield. Our customers have shown great interest in the many products we have introduced in the recent years and we have similar high expectations for our 2020 launches. Our quality, delivery performance and production efficiency have been at a high satisfactory level, which means that we have been able to meet our customers' expectations.

We feel strongly positioned to capitalise on the possibilities we see in our market and we thus expect to realize growth also in 2020.

Policies for the underrepresented gender

We look toward an equal balance of males and females in the board of directors with the goal of including 20% female board members before the end of 2021. Currently all board members are male.

Development in activities and finances

The Company realised a revenue growth of 2% compared to 2018 measured in the main currency of the Company, US Dollar. The Company's operating results and financial development were realised as expected in our latest annual report and, as a whole, they are considered satisfactory.

Gross profit

Gross profit amounts to USD 15.1 million equivalent to a gross margin of 7% which is slightly higher than in 2018.

Management commentary

Profit from operating activities

Operating profit amounts to USD 2.0 million, which is a decrease of USD 2.4 million compared to 2018.

Financial income and expenses

For 2019, these items comprise primarily interest expenses regarding interest and foreign exchange adjustments of loans, including bank loans.

Balance sheet

The total assets at the end of 2019 showed an amount of USD 470 million equivalent to a decrease of USD 34 million compared to 2018.

The bank loan of USD 325 million falls due during second half of 2020. Negotiations for obtaining a new loan is ongoing and we expect a positive outcome during first half of 2020.

Risks

Sonion A/S is committed to a high standard of business conduct and rational management of our risks in order to protect the Company's assets, secure shareholder investments and comply with applicable laws. Sonion A/S follows the Group's risk management program.

Statutory report on corporate social responsibility

The Group has chosen to publish the statutory report on corporate social responsibility on the Company's website. Please use the following URL:

<http://www.sonion.com/wp/about/csr/>

Events after the balance sheet date

Covid-19 will impact the Company as people are encouraged to stay indoor. We expect a short term decrease in the demand for our products. As there are no changes in the fundamental drivers of the market we expect the demand will build-up and be released later in 2020 or 2021.

Except for above no events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.

Outlook

We expect the hearing instrument market to continue its long-term volume growth rates of approximately 5-7% in 2020 if the expected build-up is released within 2020. A release in 2021 would delay the growth and result in lower growth for 2020.

Because of the COVID-19 outbreak and the uncertainty for how long the pandemic will last and what the medium to long term effect of this pandemic will be on the Company's business as a whole, it is currently not possible for the Company to disclose any reliable expectations for 2020.

Income statement for 2019

	Notes	2019 USD'000	2018 USD'000
Revenue	1	228.337	223.980
Production costs		<u>-213.231</u>	<u>-209.723</u>
Gross profit		15.106	14.257
Distribution costs		-8.942	-7.141
Administrative costs	2	<u>-4.191</u>	<u>-2.690</u>
Operating profit		1.973	4.426
Other financial income	3	13.122	15.792
Other financial expenses	4	<u>-14.431</u>	<u>-14.738</u>
Profit/loss before tax		664	5.480
Tax on profit/loss for the year	5	<u>-1.552</u>	<u>-2.610</u>
Profit/loss for the year	6	<u>-888</u>	<u>2.870</u>

Balance sheet at 31.12.2019

	Notes	2019 USD'000	2018 USD'000
Acquired intangible assets		950	1.584
Goodwill		94.470	100.768
Intangible assets	7	95.420	102.352
Plant and machinery		441	780
Other fixtures and fittings, tools and equipment		274	233
Property, plant and equipment in progress		330	504
Property, plant and equipment	8	1.045	1.517
Receivables from group enterprises		324.300	334.738
Other receivables		4.373	4.343
Fixed asset investments	9	328.673	339.081
Fixed assets		425.138	442.950
Manufactured goods and goods for resale		4.516	4.506
Inventories		4.516	4.506
Trade receivables		35.574	30.782
Receivables from group enterprises		105	390
Deferred tax	10	669	710
Other receivables		286	654
Prepayments		58	314
Receivables		36.692	32.850
Cash		4.085	23.605
Current assets		45.293	60.961
Assets		470.431	503.911

Balance sheet at 31.12.2019

	Notes	2019 USD'000	2018 USD'000
Contributed capital	11	1.757	1.757
Retained earnings		56.910	58.427
Equity		58.667	60.184
Bank loans		0	324.891
Non-current liabilities other than provisions	12	0	324.891
Current portion of long-term liabilities other than provisions	12	325.721	33.237
Bank loans		655	655
Trade payables		816	2.187
Payables to group enterprises		80.904	79.109
Income tax payable		187	879
Other payables	13	3.481	2.769
Current liabilities other than provisions		411.764	118.836
Liabilities other than provisions		411.764	443.727
Equity and liabilities		470.431	503.911
Contingent liabilities	16		
Related parties with controlling interest	17		
Group relations	18		
Subsequent events and outlook	19		

Statement of changes in equity for 2019

	Contributed capital USD'000	Retained earnings USD'000	Total USD'000
Equity beginning of year	1.757	58.427	60.184
Other equity postings	0	-629	-629
Profit/loss for the year	0	-888	-888
Equity end of year	1.757	56.910	58.667

Other equity postings composes of fair value changes of hedging instruments less related tax.

Notes

1. Revenue

Sonion A/S omits to disclose the distribution of the revenue in business areas and geographical segments in accordance with the Danish Financial Statement Act § 96 as this otherwise could cause significant damage to the Company.

	2019	2018
	USD'000	USD'000
2. Staff costs		
Wages and salaries	2.950	3.789
Pension costs	186	226
Other social security costs	8	25
	3.144	4.040
Number of employees at balance sheet date	28	32
Average number of employees	30	29

In accordance with the Danish Financial Statement Act § 98b Executive Board costs are not specified as it consists of one person.

3. Other financial income

Financial income arising from group enterprises	12.952	11.923
Exchange rate adjustments	0	2.957
Other financial income	170	912
	13.122	15.792

4. Other financial expenses

Financial expenses from group enterprises	388	441
Interest expenses	12.368	14.297
Exchange rate adjustments	1.675	0
	14.431	14.738

5. Tax on profit/loss for the year

Tax on current year taxable income	1.506	2.547
Change in deferred tax for the year	41	63
Adjustment concerning previous years	5	0
	1.552	2.610

6. Proposed distribution of profit/loss

Retained earnings	-888	2.870
	-888	2.870

Notes

	Acquired intangible assets USD'000	Goodwill USD'000
7. Intangible assets		
Cost beginning of year	2.926	125.960
Additions	0	0
Cost end of year	2.926	125.960
Amortisation and impairment losses beginning of year	-1.342	-25.192
Amortisation for the year	-634	-6.298
Amortisation and impairment losses end of year	-1.976	-31.490
Carrying amount end of year	950	94.470

	Plant and machinery USD'000	Other fix- tures and fittings, tools and equipment USD'000	Property, plant and equipment in progress USD'000
8. Property, plant and equipment			
Cost beginning of year	20.617	3.598	504
Additions	0	184	0
Disposals	-145	0	-174
Cost end of year	20.472	3.782	330
Depreciation and impairment losses beginning of the year	-19.837	-3.365	0
Depreciation for the year	-339	-143	0
Reversal regarding disposals	145	0	0
Depreciation and impairment losses end of the year	-20.031	-3.508	0
Carrying amount end of year	441	274	330

Notes

	Receivables from group enterprises USD '000	Other receivables USD '000
9. Fixed asset investments		
Cost beginning of year	334.738	4.343
Additions	0	55
Instalments	-10.438	-25
Cost end of year	<u>324.300</u>	<u>4.373</u>
Carrying amount end of year	<u>324.300</u>	<u>4.373</u>
		2019
		<u>USD'000</u>
10. Deferred tax		
Changes during the year		
Beginning of year		710
Recognised in the income statement		-41
End of year		<u>669</u>

The deferred tax assets is expected to be set-off against taxable income in the foreseeable future.

11. Contributed capital

The contributed capital consists of 12.023.465 shares of nominally DKK 1 each.

	Instalments within 12 months 2019 USD'000	Instalments within 12 months 2018 USD'000	Instalments beyond 12 months 2019 USD'000
12. Liabilities other than provisions			
Bank loans	<u>325.721</u>	<u>33.237</u>	<u>0</u>
	<u>325.721</u>	<u>33.237</u>	<u>0</u>

A refinancing is being negotiated and a positive outcome is expected within first half of 2020.

Notes

	2019	2018
	USD'000	USD'000
13. Other payables		
VAT and duties	1.058	803
Wages and salaries, personal income taxes, social security costs, etc. payable	174	732
Holiday pay obligation	330	340
Other costs payable	1.919	894
	3.481	2.769
14. Fees to the auditor appointed by the Annual General Meeting		
Statutory audit services	25	44
Tax services	2	14
Other service	25	48
	52	106

15. Application of financial instruments

In order to hedge the value of future cash flows, the Company applies forward exchange contracts, options and interest swaps. At 31 December 2019, the Company had an unrealized net loss of USD 223 k, which has been recognized under other receivables with 230 k, other payables with 453 k and in equity. At 31 December 2018, the Company had an unrealized net gain of USD 583 k which was recognized under other receivables and in equity. At 31 December 2019, the nominal value of the contracts entered into amounts to USD 33,800 k (2018: USD 22,300 k). All currency hedging contracts have been entered to hedge costs in EUR, DKK, PHP and CHF.

16. Contingent liabilities

Sonion A/S has entered into rental contracts which will terminate without further notice at June 30 2021, equivalent to USD 236 k.

Sonion A/S has provided a payment guarantee to third party of USD 363 k.

The Company participates in a Danish joint taxation arrangement. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable for income taxes etc for the jointly taxed companies and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed companies.

Notes

17. Related parties with controlling interest

Related parties with a controlling interest:

Name	Registered office	Basis of influence
Novo Nordisk Fonden	Hellerup, Denmark	Ultimate owner

18. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest and smallest group:

Novo Nordisk Fonden, Hellerup, Denmark

19. Subsequent events and outlook

Covid-19 will impact the Company as people are encouraged to stay indoor. We expect a short term decrease in the demand for our products. As there are no changes in the fundamental drivers of the market we expect the demand will build-up and be released later in 2020 or 2021.

Except for above no events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.

Because of the COVID-19 outbreak and the uncertainty as to how long the pandemic will last and what the medium to long term effect of this pandemic will be on the Company's business as a whole, it is currently not possible for the Company to disclose any reliable expectations for 2020.

Accounting policies

Reporting class

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

The financial statements is presented in USD, which is the functional currency of the Company. The DKK exchange rate against USD applied is 6.6608 for 2019 and 6.5230 for 2018.

The accounting policies applied to these financial statements are consistent with those applied last year.

As of 1 January 2019 IFRS 16 'Leases' is applied for the first time. The Company has implemented IFRS 16 'Leases' using the modified retrospective approach. As a consequence the Company has also implemented IFRS 15 'Revenue from Contracts with Customers'. It has no impact on the annual report.

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 asset 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 liability 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 translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

Accounting policies

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are recognised directly in equity. When the hedged transactions are realised, the accumulated changes are recognised as part of cost of the relevant financial statement items.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognised currently in the income statement as financial income or financial expenses.

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 and income can be measured reliable and is expected to be received. Revenue from the sale of services is recognised in the income statement when delivery is made to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Revenue is recognized in accordance with IFRS 15 'Revenue from Contracts with Customers'.

Production costs

Production costs comprise cost of sales and indirect production cost, including wages and salaries and depreciation and amortisation incurred to achieve the years's revenue. Production cost also include development cost, that do not meet the criteria for capitalization in the balance sheet.

Distribution costs

Distribution costs comprise costs incurred for distribution of goods sold, including cost for sales and distribution staff, advertising cost as well as depreciation.

Administrative costs

Administrative costs comprise expenses incurred for the Company's administrative functions, including wages and salaries for administrative staff and Management, stationery and office supplies as well as depreciation.

Accounting policies

Other financial income

Other financial income comprises interest income, including interest income on receivables from group enterprises and currency gains.

Other financial expenses

Other financial expenses comprises interest expenses, including interest expenses on payables to group enterprises, currency losses as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

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 in equity by the portion attributable to entries directly in equity.

The Company is part of joint taxation. The current Danish income tax is allocated among the jointly taxed companies proportionally to their taxable income (full allocation with a refund concerning tax losses)

Balance sheet

Goodwill

Goodwill is the positive difference between cost and value in use of assets and liabilities taken over as part of the acquisition. Goodwill is amortised straight-line over its estimated useful life which is fixed based on the strategic assessment gained by Management for each business area. The amortisation period is 20 years. The amortisation is included in production costs.

Goodwill is written down to the lower of recoverable amount and carrying amount.

Intellectual property rights etc

Intellectual property rights etc. comprise patents.

Intellectual property rights acquired are measured at cost less accumulated amortisation and impairment losses. Patents are amortised over their remaining duration.

Property, plant and equipment

Plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

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

The basis of depreciation is cost less estimated residual value after the end of useful life.

Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Plant and machinery	5-10 years
Other fixtures and fittings, tools and equipment	3-10 years

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount

Gains and losses from the sale of property, plant and equipment are calculated as the difference between selling price less selling cost and carrying amount at the time of sale. Gains or losses are recognised in the income statement as adjustment to depreciation and impairment losses, or under other operating income if the selling price exceeds original cost.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Inventories

Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale. Furthermore, net realizable value is determined with regard to marketability, obsolescence and development in expected selling price.

Deferred tax

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 carryforwards, 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.

Prepayments

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

Accounting policies

Cash

Cash comprises cash in hand and bank deposits.

Leases

As of 1 January 2019 IFRS 16 'Leases' is applied for the first time. The Company has implemented IFRS 16 'Leases' using the modified retrospective approach.

Under this method, the cumulative effect of initially applying the standard is recognised at 1 January 2019. Right-of-use assets and leasing debt have been recognised for those leases previously classified as operating leases, except for short-term leases and low value leases. The right-of-use assets have been recognised based on the amount equal to the leasing debt, adjusted for any related prepaid and accrued lease payments. Leasing debt is recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019. The comparative information has not been restated.

Other financial liabilities

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

Income tax receivable or payable

Current tax payable or receivable is recognised in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax.

Cash flow statement

According to section 86(4) of the Danish Financial Statements Act, a cash flow statement has not been prepared.

Sonion A/S, Betonvej 10, DK-4000 Roskilde, Denmark