

Natus Medical Denmark A/S

Hørskættens 9, DK-2630 Taastrup

CVR-no. 25 38 46 87

Annual report 2017

Approved at the annual general meeting

Date 2018

Chairman.....
Carsten Buhl

Contents

Statement by Management on the annual report	2
Independent auditor's report	3
Management's review	5
Company details	5
Management commentary	7
Financial statements 1 January – 31 December	9
Income statement	9
Balance sheet	10
Statement of changes in equity	12
Notes	13

Statement by Management on the annual report

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Natus Medical Denmark A/S for the financial year 1 January – 31 December 2017.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January – 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

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

Taastrup, 31 May 2018
Executive Board:

.....
Carsten Buhl
CEO

Board of Directors:

.....
James Barry Hawkins
Chairman

.....
Jonathan Abbott Kennedy

.....
Carsten Buhl

.....
Marianne Wehner Klausen

.....
Peter Estrup Nielsen

Independent auditor's report

To the shareholder of Natus Medical Denmark A/S

Opinion

We have audited the financial statements of Natus Medical Denmark A/S for the financial year 1 January – 31 December 2017, which comprise an 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 financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January – 31 December 2017 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 our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's 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, disclosing, as applicable, matters related to going concern and 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 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 the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism 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.

Independent auditor's report

- ▶ 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 conclusion is 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 contents of the financial statements, including the disclosures, 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's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 31 May 2018

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Lau Bent Baun
State Authorised
Public Accountant
MNE no. mne26708

Henrik Kyhnav
State Authorised
Public Accountant
MNE no. mne40028

Management's review

Company details

Company	<p>Natus Medical Denmark A/S Hørskættø 9 Klovtofte DK-2630 Taastrup</p> <p>Phone 45 755 555 Webpage: www.otometrics.com E-mail: info@otometrics.dk</p> <p>CVR.no.: 25 38 46 87 Started: 20. maj 2000 Location: Høje-Taastrup Accounting year 1 January - 31 December</p>
Board of Directors	<p>James Barry Hawkins (Chairman) Jonathan Abbott Kennedy Carsten Buhl Marianne Wehner Klausen Peter Estrup Nielsen</p>
Executive management	<p>Carsten Buhl</p>
Revision	<p>KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28 DK-2100 Copenhagen Ø</p>
Ownership	<p>The Company is 100% owned by Alpine Biomed ApS, Hørskættø 9, DK-2630 Taastrup, Denmark</p>

Management's review

Financial highlights

In DKK'000	2017	2016	2015	2014	2013
Key figures					
Revenue	366,161	319,453	299,206	294,016	275,217
Ordinary operating profit/loss	-24,873	-27,323	31,713	5,583	4,363
Profit/loss from financial income and expenses	1,632	-5,428	-377	-4,696	-11,494
Profit for the year	-18,600	-2,376	38,583	1,135	-6,201
Non-current assets	449,151	417,652	374,001	332,450	282,379
Current assets	262,405	180,033	294,122	207,047	189,441
Total assets	711,556	597,685	668,123	539,497	471,820
Equity	452,662	468,748	191,124	152,542	151,419
Non-current liabilities	96,226	63,099	53,297	49,809	39,165
Current liabilities	162,668	65,838	423,702	337,146	281,236
Investment in property, plant & Equipment	2,758	4,405	5,283	2,912	3,260
Financial ratios					
Operating margin	-6.8%	-8.8%	9.5%	0.6%	0.3%
Return on investment	-3.8%	-4.4%	4.7%	0.4%	0.2%
Gross margin	40.1%	40.6%	52.6%	48.1%	47.2%
Current ratio	161.3%	273.4%	69.4%	61.4%	67.4%
Equity ratio	63.6%	78.4%	28.6%	28.3%	32.1%
Return on equity	-2.7%	-0.7%	22.5%	0.7%	-4.2%
Average number of full-time employees	159	155	148	151	145

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios, "Recommendations and Ratios". For terms and definitions, please see the accounting policies.

Management's review

Management commentary

Main activities

Natus Medical Denmark A/S develops, manufactures and markets computer-based audiological, otoneurologic, vestibular instrumentation and sound rooms to hearing and balance care professionals in more than 80 countries under the MADSEN, AURICAL, HORTMANN and ICS brand names.

Natus Medical Denmark A/S is a part of Natus Medical Inc. group.

Activities and financials

Annual result

Revenue was 366,161 kDKK against 319,453 kDKK last year as expected due to increased revenue from both direct sales entities and distribution business.

Operating profit was -24,873 kDKK against -27,323 kDKK last year, which was lower than expected. The negative operating profit was mainly due to extraordinary restructuring costs related to the integration into the Natus platform and processes.

Profit after tax was -18,600 kDKK against -2,376 kDKK last year mainly due to an extraordinary restructuring costs related to the integration into the Natus platform and processes.

Revenue and profit is acceptable as the underlying profit was at a satisfactory level.

Investments

Investments in tangible and intangible fixed assets was 78,585 kDKK mainly covering investments in development projects 75,827 kDKK of which 36,407 kDKK was finalized in 2017. New launched products was mainly an update of the Otosuit platform, which is a software tool that integrates a suite of hearing tests and hearing instrument fitting functionality with result review and reporting capabilities into a single powerful PC application. In addition, minor launches of replacement of expired products and further development of existing product portfolio has been completed in 2017.

The development of the Otoscan, which is a 3D digital ear scanning solution, is almost finalized in 2017. The Otoscan is expected to be finalized in Q1 2018 and to be launched at AAA in 2018.

Risks

General risks

Natus Medical Denmark's main operating risk is the ability to stay positioned in the main markets. Further, it is substantially that the company is ahead of the technological development in audiological diagnostic and fitting equipment, which are the key business area of Natus Medical Denmark.

Financial risks

Natus Medical Denmark A/S is part of the Natus Medical Inc. Group, and will consequently be primarily funded through the groups parent company. The main financial risks are:

Currency risk

Natus Medical Denmark's currency exposure is through commercial transactions. Natus Medical Denmark does not obtain loan nor invests in foreign currency. Natus Medical Denmark is to a lesser extent exposed to currency rate changes as revenue and costs match for the main currencies.

Interest risk

Natus Medical Denmark's interest risk is primarily connected to intercompany loans within the group.

Environment

Natus Medical Denmark's production is not polluting and the material and energy consumption are limited. The production involves very limited in-house soldering (ROHS compliant) and efficient ventilation and air cleaning ensures a healthy work environment. Our customers demand for lighter products continuously decreased Natus Medical Denmark's material consumption per product.

As the majority of Natus Medical Denmark's production has been moved to Asia the supplier selection has been systemized including being in compliance with local environmental and labor rules. Natus Medical Denmark's production has been customized to the EU directive of amending on the restriction of the use of certain hazardous substances in electrical and electronic equipment. The directive was effective from 2014.

Management's review

Management commentary (continued)

CSR and minorities

On September 5, 2016 GN Hearing and Natus Medical Incorporated, entered into an agreement whereby ownership of GN Otometrics is transferred from GN Hearing to Natus. As the closing of the transaction took place on January 3, 2017 and this is the first year for Natus Medical Denmark to report under 99a of the Danish Financial Statements Act, no formal CSR policies, including climate, environment and human rights have been prepared by the company.

Natus Medical Denmark believes that diversity allows us to better understand customer needs, to attract and retain talented people from different cultures. In this regard, there is no discrimination in our recruitment and promotion activities and all employees are presented with equal opportunities to develop their talent and contribute to the growth of the company.

The Board of Natus Medical Denmark has 5 members, of which 4 are males and 1 are females. The company has a target to add 1 female to the Board by 2022. We will strive to achieve the target with the defined timeframe, but we will always stay committed to hiring the most qualified candidates irrespective of their gender.

Our management level consists of 6 female and 18 male managers for FY17. In order to increase the female representation we will continue working proactively and strengthen our recruitment process, which will ensure that we have qualified candidates for both genders applying for Board and management positions.

Knowledge management

Natus Medical Denmark's strong position within the market for audiological and fitting equipment focusing on being in front of technological development contributes to a dynamic knowledge-based work environment. The employee's skills and competences are important and Natus Medical Denmark focuses on continuous employee development.

Research and development activities

The research and development activities are concentrated in Denmark due to strong university focus within acoustics, digital signaling (DSP) and communication technology and the presence of multiple international companies with similar activities in the greater Copenhagen area.

The launch rates in Natus Medical Denmark's market has increased and requires an increased focus on innovation and prioritization within all business areas.

Events after the balance sheet date

No events have happened during the period after the balance sheet date that have impact on the assessment of the company's financial position at the balance sheet date.

Expectations for 2018

Natus Medical Denmark A/S expects revenue and profit before tax to be at the same level as 2017 as part of the distributor business with be covered outside Denmark

Financial statements 1 January – 31 December

Income statement

Note	DKK'000	2017	2016
2	Revenue	366,161	319,453
3	Production costs	-219,162	-189,903
	Gross margin	146,999	129,550
3	Research- and development costs	-51,113	-66,781
3	Distribution costs	-61,610	-45,916
3,4	Administrative expenses	-59,149	-44,176
	Operating profit/loss	-24,873	-27,323
	Other operating expenses	0	-689
	Profit/loss before net financials	-24,873	-28,012
10	Result from investment in group enterprises	0	24,000
5	Financial income	2,227	13
6	Financial expenses	-595	-5,441
	Profit/loss before tax	-23,241	-9,440
7	Tax for the year	4,641	7,064
	Profit/loss for the year	-18,600	-2,376

Financial statements 1 January – 31 December

Balance sheet

Note	DKK'000	2017	2016
	ASSETS		
	Non-current assets		
8	Intangible assets		
	Rights	80,592	81,228
	Software	16	253
	Completed development projects	126,907	133,385
	Development projects in progress	150,897	112,438
		<u>358,412</u>	<u>327,304</u>
9	Property, plant and equipment		
	Leasehold improvements	1,166	790
	Plant and machinery	8,392	8,377
		<u>9,558</u>	<u>9,167</u>
10	Financial assets		
	Investment in group entities	81,181	81,181
		<u>81,181</u>	<u>81,181</u>
	Total non-current assets	<u>449,151</u>	<u>417,652</u>
	Current assets		
	Inventories		
	Raw materials and consumables	70,700	62,451
	Work in progress	991	39
	Finished goods and goods for resale	4,375	4,590
		<u>76,066</u>	<u>67,080</u>
	Receivables		
	Trade receivables	32,622	24,461
	Receivables from group entities	93,690	70,189
11	Income tax receivable	0	4,746
	Other receivables	30,580	12,200
12	Prepayments	3,817	1,173
		<u>160,709</u>	<u>112,769</u>
	Cash	<u>25,630</u>	<u>184</u>
	Total current assets	<u>262,405</u>	<u>180,033</u>
	TOTAL ASSETS	<u>711,556</u>	<u>597,685</u>

Financial statements 1 January – 31 December

Balance sheet

Note	DKK'000	2017	2016
	EQUITY AND LIABILITIES		
	Equity		
13	Share capital	24,000	24,000
	Reserve for development costs	216,688	191,742
	Retained earnings	211,974	253,006
	Total equity	452,662	468,748
	Non-current liabilities		
14	Deferred tax	56,854	61,495
	Deferred revenue	37,768	0
	Warranty	1,604	1,604
	Total non-current liabilities	96,226	63,099
	Current liabilities		
	Trade payables	27,451	31,912
	Payables to group entities	114,630	5,743
	Other payables	20,587	28,183
	Total current liabilities	162,668	65,838
	Total liabilities	252,777	128,937
	TOTAL EQUITY AND LIABILITIES	711,556	597,685

- 1 Accounting policies
- 15 Contractual obligations and contingencies, etc.
- 16 Related parties
- 17 Appropriation of profit/loss

Financial statements 1 January – 31 December

Statement of changes in equity

Note	DKK'000	Reserve for			Total
		Share capital	development costs	Retained earnings	
	Equity at 1 January 2016	23,240	0	139,143	162,383
	Effect of change in accounting policies	0	0	28,741	28,741
	Adjusted equity 1 January 2016	23,240	0	167,884	191,124
	Issue of share capital	760	0	279,240	280,000
	Distribution of loss	0	0	-2,376	-2,376
	Transfer to reserve for capitalized development projects	0	191,742	-191,742	0
	Equity at 1 January 2017	24,000	191,742	253,006	468,748
	Asset transfer	0	0	2,514	2,514
17	Distribution of loss	0	0	-18,600	-18.600
	Transfer to reserve for capitalized development projects	0	24,946	-24,946	0
	Equity at 31 December 2017	24,000	216,688	211,974	452,662

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Natus Medical Denmark A/S for 2017 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

According to the Danish Financial Statements Act § 112 paragraph. 2, there is not prepared consolidated financial statements. The financial statements of Natus Medical Denmark A/S and its subsidiary are consolidated for Natus Medical Inc.

Omission to present a cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The entity's cash flows are part of the consolidated cash flow statement for the ultimate parent company, Natus Medical Inc.

Changes to accounting policies

The Company has changed its accounting policies regarding investment in group entities so that investment in group entities are recognised and measured at cost. Previously, investment in group entities were recognised and measured according to the equity-method. The changes in accounting policies were made in order to give a more true and fair view of the Company's activities, results and financial position.

Explanation of the accounting effect of changed accounting policies:

DKK'000	Natus Medical Denmark A/S	
	2017	2016
Effect on:		
Profit/loss	0	23,039
Total assets	51,623	51,623
Equity	51,623	51,623

The comparative figures have been restated to reflect the changed accounting policies.

Apart from the above, the accounting policies used in the preparation financial statements are consistent with those of last year.

Recognition and measurement

Revenues are recognized in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortized cost is recognized. Moreover, all expenses incurred to achieve the earnings for the year are recognized in the income statement, including depreciation, amortization, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognized in the income statement.

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

Liabilities are recognized in the balance sheet when it is probable that future economic benefits will flow out of the company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Certain financial assets and liabilities are measured at amortized cost, which involves the recognition of constant effective interest rate over the maturity period. Amortized cost is calculated as original cost less any repayments and with addition/ deduction of cumulative amortization of any difference between cost and the nominal amount.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Recognition and measurement take into account predictable losses and risks occurring before presentation of annual report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Danish kroner are used as the measurement currency. All other currencies are regarded as foreign currencies.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rate at the transaction date and the rate at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at closing rates. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Revenue

Revenue from sale of goods and rendering of services is recognized in the income statement provided that delivery and transfer of risk to the buyer has taken place before year-end and that the income can be reliably measured and is expected to be received. Extended warranties are separated from the sale of goods and recognized on a straight-line basis over the term of the contract. The value of extended warranties that is not separately priced is estimated. Revenue is measured excluding VAT, taxes and granted cash and quantity discounts in relation to the sale and expected returns of goods. The portion of goods sold that is expected to be returned is determined based on historical product returns data.

Production costs

Production costs comprise costs, including depreciation and salaries, incurred in generating the revenue for the year. Production costs include direct and indirect costs for raw materials and consumables, wages and salaries, maintenance and depreciation and impairment of production plant and costs and expenses relating to the operation, administration and management of factories. Also included are inventory write-downs.

Research- and development costs

Research and development costs comprise costs, salaries, and depreciation of operating assets and equipment directly or indirectly attributable to the Group's development activities. Furthermore, amortization and write-down of capitalized development projects are included.

Distribution costs

Distribution costs comprise costs related to the distribution of goods sold in the year and to sales campaigns, etc. carried out in the year, including costs related to sales staff, sales commissions, advertising, exhibitions and amortisation/depreciation.

Administrative expenses

Administrative expenses comprise expenses paid in the year to manage and administer the Company, including expenses related to administrative staff, management, office premises, office expenses and amortisation/depreciation. Also included are loss on receivables.

Other operating income

Other operating income comprises items secondary to the Company's activities, including gains on disposal of intangible assets and items of property, plant and equipment.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Other operating expenses

Other operating expenses comprise items secondary to the Company's activities, including losses on disposal of intangible assets and items of property, plant and equipment.

Financial income and expenses

Financial income and expenses comprise interest income and expenses, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax for the year

Natus Medical Denmark A/S is jointly taxed with Alpine Biomed ApS and all its Danish subsidiaries. The current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income. The jointly taxed companies are taxed under the on-account tax scheme.

Tax for the year comprises current tax and changes in deferred tax for the year. The tax expense relating to the profit (loss) for the year is recognized in the income statement, and the tax expense relating to amounts recognized in other comprehensive income is recognized in other comprehensive income.

Current tax payable is recognized in current liabilities and deferred tax is recognized in non-current liabilities. Tax receivable is recognized in current assets and deferred tax assets are recognized in non-current assets.

Balance sheet

Intangible assets

Intangible assets are measured at cost less accumulated amortization and impairment. Amortization is provided on a straight-line basis over the expected useful lives of the assets. When changing the depreciation period or the residual value, the effect on the depreciation is recognized prospectively as a change in accounting estimates. Amortization and impairment is recognized in the income statement as production costs, development costs, distribution costs and administrative expenses. The expected useful lives are as follows:

Software	3-5 years
Completed development projects	2-5 years
Patents, licenses, trademarks and other intellectual property rights	5 years

Development projects that are clearly defined and identifiable, where the technical utilization degree, sufficient resources and a potential future market or development opportunities in the Company is evidenced, and where Natus Medical Denmark intends to produce, market or use the project, are recognized as intangible assets if it is probable that costs incurred will be covered by future earnings. The cost of such development projects includes direct wages, salaries, materials and other direct and indirect costs attributable to the development projects. Amortization and write-down of such capitalized development projects are started at the date of completion and are included in development costs. Other development costs are recognized in the income statement as incurred.

Gains or losses on the disposal of intangible assets are determined as the difference between the selling price less selling costs and the carrying amount at the disposal date, and are recognized in the income statement as other operating income or other operating costs, respectively.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Property, plant and equipment

Leasehold improvements and plant and machinery are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers, and wages and salaries.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight-line basis over the expected useful life. The expected useful lives of the assets are as follows:

Leaseholds and improvement	5 years
Plant and machinery	3 - 5 years

Depreciation and impairment is recognized in the income statement as production costs, distribution costs and administrative expenses.

The basis of depreciation is based on the residual value of the asset reduced by impairment losses. The residual value is determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount, depreciation is discontinued. When changing the depreciation period or the residual value, the effect on the depreciation is recognized prospectively as a change in accounting estimates.

Gains and losses on the disposal of items of property, plant and equipment are calculated as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. The gains or losses are recognised in the income statement as other operating income/-expenses.

Investment in group entities

Investments in group entities are recognised and measured at cost. In cases where the cost exceeds net realizable value is written down to the lower value.

Dividends received exceeding the accumulated earnings of the subsidiary in the ownership period are treated as a reduction in cost.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Impairment of non-current assets

The carrying amount of intangible assets and property, plant and equipment is tested annually for evidence of impairment other than the decrease in value reflected by amortisation/depreciation.

Impairment tests are conducted on individual assets or groups of assets when there is evidence of impairment. Assets are written down to the lower of the carrying amount and the recoverable amount.

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the net present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists.

Inventories

Inventories are measured at cost using the standard cost method. Standard costs take into account normal levels of raw materials and consumables, staff costs, efficiency and capacity utilization. Standard costs are reviewed regularly and adjusted in accordance with the FIFO-principle.

Raw materials and goods for resale are measured at cost, comprising purchase price plus delivery costs.

Work in progress and finished goods are measured at cost, comprising the cost of direct materials, wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials, wages and salaries, maintenance and depreciation of production machinery, buildings and equipment as well as factory administration and management.

Where the net realizable value is lower than cost, inventories are written down to this lower value. The net realizable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale.

Receivables

Trade receivables are measured at amortized cost less write-down for foreseen bad debt losses. Write-down for bad debt losses is based on an individual assessment of each receivable and at portfolio level.

Prepayments

Prepayments recognised under "Current assets" comprise expenses incurred concerning subsequent financial years.

Equity

Reserve for development costs

The reserve for development costs comprises recognised development costs. The reserve cannot be used to distribute dividend or cover losses. The reserve will be reduced or dissolved if the recognised development costs are amortised or if they are no more part of the Company's operations by a transfer directly to distributable reserves under equity.

Dividend

Dividend proposed for the year is recognised as a liability at the date when it is adopted at the annual general meeting (declaration date). Dividend expected to be distributed for the financial year is presented as a separate line item under "Equity".

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Income tax and deferred tax

Current tax payables and receivables are recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on prior-year taxable income and tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes or on office premises and other items where temporary differences arise at the date of acquisition without affecting neither the profit/loss for the year nor the taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carry-forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Adjustment is made to deferred tax resulting from elimination of unrealised intra-group profits and losses.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Warranty

Warranty provisions are recognized as the underlying goods and services are sold based on warranty costs incurred in previous years and expectations of future costs.

Other provisions primarily comprise onerous contracts and return obligations related to sold products. Provisions are recognized when, as a result of events before or at the balance sheet date, the Company has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation. On measurement of provisions, the costs required to settle the liability are discounted if the effect is material to the measurement of the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting its obligations under the contract (onerous contracts). A provision for onerous contracts is recognized e.g. when the Company has entered a binding legal agreement for the purchase of components from suppliers that exceeds the benefits from the expected future use of the components and the Company can only sell the components at a loss.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities are measured at net realisable value.

Rental and Lease Matters

Leases that do not meet the criteria for classification as a financial asset are treated as operating leases. Operating lease payments are recognized in the income statement over the term of the lease.

Deferred revenue

Deferred income comprises payments received regarding income in subsequent years.

Segment Information

Information is disclosed by geographical market. Segment information is based on the Company's accounting policies, risks and internal financial management.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Financial ratios

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Ratios".

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Operating margin	$\text{Operating profit (EBIT)} \times 100 / \text{Revenue}$
Return on investment	$\text{Operating profit (EBIT)} \times 100 / \text{Total equity and liabilities}$
Gross margin	$\text{Gross profit} \times 100 / \text{Revenue}$
Current ratio	$\text{Current assets} \times 100 / \text{Current liabilities}$
Equity ratio	$\text{Equity, year-end} \times 100 / \text{Total equity and liabilities, year-end}$
Return on Equity (ROE)	$\text{Profit/loss for the year} \times 100 / \text{Average equity}$

Financial statements 1 January – 31 December

Notes

2 Segment information

DKK'000	2017	2016
Denmark	19,180	14,542
Nordic	7,862	5,142
Germany	51,268	47,031
Other Europa	100,654	92,165
USA	35,024	40,462
Other north- and south America	20,534	18,835
China	56,723	42,524
Other Asia	39,771	33,499
Other	35,145	25,253
	<u>366,161</u>	<u>319,453</u>

Financial statements 1 January – 31 December

Notes

DKK'000	2017	2016
3 Expenses		
Staff costs		
Remuneration to Executive Board*	4,560	3,454
Wages and salaries	84,896	89,167
Pensions	6,254	6,661
Other social security costs	1,193	1,245
	<u>96,903</u>	<u>100,527</u>
Staff costs are recognised the financial statements under the following line items:		
Production costs	31,598	34,971
Research and development costs	29,832	32,221
Distribution costs	23,296	21,780
Administrative expenses	12,177	11,555
	<u>96,903</u>	<u>100,527</u>
Average number of full-time employees	<u>159</u>	<u>155</u>

Staff costs include remuneration to the Executive Board, totalling DKK 4,370 thousand (2016: DKK 3,243 thousand), and pensions totalling DKK 150 thousand (2016: DKK 171 thousand) and directors' fees to the members of the Board of Directors, totalling DKK 40 thousand (2016: DKK 40 thousand).

*Furthermore Grants has been issued in Natus Medical Incorporated to the management. Total 9,143 shares with a market value as of DKK 2,168K as of December 31st 2017.

Natus Medical Inc. has a warrant-based incentive program whereby the Executive management and other management employees in Natus Medical Denmark A/S are granted restricted shares. The shares will be vested in the period from 2017-2019 with 33% per year on each anniversary of the grant date. The market value per share as of December 31st 2017 amounts to USD 38.20 per share.

Financial statements 1 January – 31 December

Notes

DKK'000	2017	2016
3 Expenses (continued)		
Amortisation/depreciation		
Amortisation intangible assets	44,014	42,866
Depreciation property, plant and equipment	2,367	2,655
Impairment losses intangible assets	483	589
	<u>46,864</u>	<u>46,110</u>
	<u><u>46,864</u></u>	<u><u>46,110</u></u>
Amortisation/depreciation charges and impairment losses are recognised in the financial statements under the following line items:		
Production costs	2,367	1,928
Research and development costs	44,497	44,138
Distribution costs	0	44
	<u>46,864</u>	<u>46,110</u>
	<u><u>46,864</u></u>	<u><u>46,110</u></u>
4 Fees paid to auditors appointed at the annual general meeting		
Fee for statutory audit	225	376
Tax assistance	65	0
	<u>290</u>	<u>376</u>
	<u><u>290</u></u>	<u><u>376</u></u>
5 Financial income		
Income from non-current securities and other investments	0	11
Unrealized foreign exchange gains	2,192	0
Other financial income	35	2
	<u>2,227</u>	<u>13</u>
	<u><u>2,227</u></u>	<u><u>13</u></u>
6 Financial expenses		
Intercompany interest expenses	0	3,783
Realized foreign exchange losses	330	0
Other financial expenses	265	1,658
	<u>595</u>	<u>5,441</u>
	<u><u>595</u></u>	<u><u>5,441</u></u>

Financial statements 1 January – 31 December

Notes

DKK'000	2017	2016
7 Tax for the year		
Current tax for the year	0	19,152
Adjustment of the deferred tax charge for the year	5,281	-11,854
Prior-year adjustments	-640	-234
	<u>4,641</u>	<u>7,064</u>

8 Intangible assets

DKK'000	Rights*	Software
Cost at 1 January 2017	83,605	6,953
Additions	0	0
Disposals	0	-222
Cost at 31 December 2017	<u>83,605</u>	<u>6,731</u>
Amortisation and impairment losses at 1 January 2017	-2,377	-6,700
Amortisation	-636	-15
Amortisation and impairment losses at 31 December 2017	<u>-3,013</u>	<u>-6,715</u>
Carrying amount at 31 December 2017	<u>80,592</u>	<u>16</u>
Amortised over	<u>5 years</u>	<u>3-5 years</u>

* Amortisation starts in connection with the launch of a product in which the rights are used. Rights that have not started amortisations amounts to DKK 80,424K.

Patens and Rights

Patens and rights primarily comprise acquired patents and rights. The most significant patents and rights relate to technologies for the development of new hearing instruments for Natus Medical Denmark A/S.

Software

Software comprises development, design and test of production and planning software and reporting systems, business intelligence etc. Implementation of these systems is expected to optimize internal procedures and processes. In 2017, management assessed that the expected useful lives were reflected in the carrying amounts at December 31, 2017.

Financial statements 1 January – 31 December

Notes

8 Intangible assets (continued)

DKK'000	Total Development projects	Hereof Completed development projects	Hereof Development projects in progress
Cost at 1 January 2017	555,222	442,784	112,438
Adjustment to beginning balance	0	(111)	111
Additions	75,827	0	75,827
Transferred	0	36,407	-36,407
Cost at 31 December 2017	<u>631,049</u>	<u>479,080</u>	<u>151,969</u>
Amortisation and impairment losses at 1 January 2017	-309,399	-309,399	0
Adjustment to beginning balance	0	589	-589
Amortisation	-43,363	-43,363	0
Impairment	-483	0	-483
Amortisation and impairment losses at 31 December 2017	<u>-353,245</u>	<u>352,173</u>	<u>-1,072</u>
Carrying amount at 31 December 2017	<u>277,804</u>	<u>126,907</u>	<u>150,897</u>
Amortised over	<u>3-5 years</u>	<u>3-5 years</u>	

Development projects and software

In-progress and completed development projects comprise development and design of balance and screening assessments. Most development projects are expected to be completed in 2018 and 2019, after which product sales and marketing can be commenced. Management performs at least one annual impairment test of the carrying amount of recognized development costs. The recoverable amount is assessed based on sales forecasts. In Management's assessment, the recoverable amount exceeds the carrying amount.

Financial statements 1 January – 31 December

Notes

9 Property, plant and equipment

DKK'000	Leaseholds improvements	Plant and machinery
Cost at 1 January 2017	3,641	24,970
Additions	450	2,308
Cost at 31 December 2017	4,091	27,278
Depreciation and impairment losses at 1 January 2017	-2,851	-16,593
Depreciation	-74	-2,293
Depreciation and impairment losses at 31 December 2017	-2,925	-18,886
Carrying amount at 31 December 2017	1,166	8,392

10 Financial assets

DKK'000	Investments in group entities
Cost at 1 January 2017	81,181
Additions	0
Disposals	0
Cost at 31 December 2017	81,181

Group entities	Domicile	Interest %	Equity DKKt	Profit/loss DKKt
GN Otometrics Holding GMBH	Germany	100%	34,440	6,645
Inmedico A/S	Denmark	100%	12,849	5,051
Genie Audio Inc.	Canada	100%	62,481	6,587
Otometrics Shanghai Co. Ltd.	China	100%	27,993	1,400

Financial statements 1 January – 31 December

Notes

DKK'000	2017	2016
11 Income taxes receivable/payable		
Income taxes payable at 1 January	4,746	-3,759
Adjustment in respect to prior years	0	-1,807
Payment relating to prior years	0	3,451
Current tax for the year	0	19,152
Income taxes paid during the year	0	-12,291
Transfer to other receivables	-4,746	0
Income taxes receivable/payable at 31 December	0	4,746
12 Prepayments		
Other prepaid expenses	3,817	1,173
	3,817	1,173

13 Share capital

The share capital comprises 24,000 shares of 1 DKK nominal value each. All shares rank equally.

The change in share capital the last five years can be specified as following:

DKK'000	2017	2016	2015	2014	2013
Share capital at 1 January	24,000	23,240	23,240	23,240	23,240
Issue of Share Capital	0	760	0	0	0
Share capital at 31 December	24,000	24,000	23,240	23,240	23,240

DKK'000	2017	2016
14 Deferred tax		
Deferred tax at 1 January	-61,495	-51,214
Deferred tax for the year recognized in profit (loss) for the year	5,281	-11,854
Adjustment with respect to prior years	-640	1,573
Deferred tax at 31 December	-56,854	-61,495

The deferred tax charge relates to:

Intangible assets	-73,422	-63,958
Property, plant and equipment	423	980
Current assets	1,123	1,483
Current liabilities	8,467	0
Loss carry forwards	6,555	0
	-56,854	-61,495

Financial statements 1 January – 31 December

Notes

15 Contractual obligations and contingencies, etc.

Contingent liabilities

The Company is jointly taxed with all Danish companies in Alpine Biomed ApS. The company is jointly and severally liable with the other companies in the joint taxation for Danish corporate taxes and withholding taxes on dividend, interests and royalties within the joint taxation. The jointly taxed companies known tax obligations against the TAX authorities are shown in the statutory accounts for the parent company Alpine Biomed ApS, company reg. no. 30277260.

Operating lease liabilities

The company has entered into an operating lease agreement concerning the property located on Hørskættø 9, DK-2630 Taastrup. The lease payments of 2018 amount to DKK 3,478K. The remaining period of the lease agreement is 3 years and the remaining lease payments amount to DKK 10,435K.

The Company has entered into operating lease agreements concerning printers. The lease payments of 2018 amount to DKK 418K. The remaining period of the lease agreements is in average 9 months and the remaining lease payments amount to DKK 451K.

Furthermore, the company has also entered into operating lease agreements concerning cars. The lease payments of 2018 amount to DKK 594K. The remaining period of the leasing agreements are in average 21 months and the remaining lease payments amount to DKK 1.037K.

16 Related parties

Natus Medical Denmark A/S' related parties comprise the following:

Parties exercising control

Alpine Biomed ApS

Hørskættø 9

DK-2630 Taastrup

The Annual Report for Natus Medical Denmark A/S is included in the Group Annual Report of Natus Medical Incorporated and may be obtained from the address mentioned below:

Natus Medical Incorporated

Corporate Headquarters

6701 Koll Center Parkway, Suite 120

Pleasanton, CA 94566 USA

Related party transactions

Remuneration/fees to members of the Executive Board and the Board of Directors are reflected in note 3.

Financial statements 1 January – 31 December

Notes

16 Related parties (continued)

DKK'000	2017	2016
Purchase of services from group enterprises	-39,875	-53,278
Sale of services sold to group enterprises	1,935	3,511
Sale of good to group enterprises, revenue	207,102	223,708
Sale of goods to group enterprises, cost of goods	-99,061	-117,819

Purchase of products and services are bought from group enterprises on normal commercial terms and conditions.

The company's balances with group enterprises at December 31, 2017 are recognized in the balance sheet. Interest income and expenses with respect to group enterprises are disclosed in note 6. Further, balances with group enterprises comprise trade balances related to the purchase and sale of goods and services.

Purchases of services from group enterprises consists of management fee, R&D services and marketing services.

No transactions have been carried out with the Board of Directors, the Executive Management, senior employees, major shareholders or other related parties, apart from ordinary remuneration disclosed in note 3.

DKK'000	2017	2016
17 Distribution of loss		
Recommended distribution of loss		
Transferred to reserves under equity	-18,600	-2,376
	<u>-18,600</u>	<u>-2,376</u>