

# **Natus Medical Denmark ApS**

Hørskættten 9, DK-2630 Taastrup

CVR-no. 25 38 46 87

## **Annual report 2018**

Approved at the annual general meeting

Date June 20th 2019

Chairman.....  
Sean Langan

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## **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 ApS for the financial year 1 January – 31 December 2018.

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 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018.

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, 20 June 2019  
Executive Board:

.....  
Sean David Langan  
CEO

**Board of Directors:**

.....  
Benjamin Drew Davies  
Chairman

.....  
Sean David Langan

.....  
Austin Francis Noll

.....  
Marianne Wehner Klausen

.....  
Loc A Han

## **Independent auditor's report**

**To the shareholder of Natus Medical Denmark ApS**

### **Opinion**

We have audited the financial statements of Natus Medical Denmark ApS for the financial year 1 January – 31 December 2019, 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 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Statements Act.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of 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, 20 June 2019

**KPMG**

Statsautoriseret Revisionspartnerselskab  
CVR no. 25 57 81 98

Lau Bent Baun  
State Authorised  
Public Accountant  
mne26708

Henrik Kyhnav  
State Authorised  
Public Accountant  
mne40028

## **Management's review**

### **Company details**

<b>Company</b>	<b>Natus Medical Denmark ApS</b> Hørskættø 9 Klovtofte DK-2630 Taastrup
	<b>Phone</b> 45 755 555 <b>Webpage:</b> <a href="http://www.natus.com">www.natus.com</a> <b>E-mail:</b> <a href="mailto:info@otometrics.dk">info@otometrics.dk</a>
	<b>CVR.no.:</b> 25 38 46 87 <b>Started:</b> 20. maj 2000 <b>Location:</b> Høje-Taastrup <b>Accounting year</b> 1 January – 31 December
<b>Board of Directors</b>	<b>Benjamin Drew Davies (Chairman)</b> Sean David Langan Austin Francis Noll Marianne Wehner Klausen Loc A Han
<b>Executive management</b>	Sean David Langan
<b>Revision</b>	<b>KPMG</b> Statsautoriseret Revisionspartnerselskab Dampfærgevej 28 DK-2100 Copenhagen Ø
<b>Ownership</b>	The Company is 100% owned by Alpine Biomed ApS, Hørskættø 9, DK-2630 Taastrup, Denmark

## Management's review

### Financial highlights

In DKK'000	2018	2017	2016	2015	2014
<b>Key figures</b>					
Revenue	552,628	366,161	319,453	299,206	294,016
Ordinary operating profit/loss	308	-24,873	-27,323	31,713	5,583
Profit/loss from financial income and expenses	-3,700	1,632	-5,428	-377	-4,696
Profit for the year	-2,953	-18,600	-2,376	38,583	1,135
<b>Balance sheet</b>					
Non-current assets	369,325	449,151	417,652	374,001	332,450
Current assets	241,684	262,405	180,033	294,122	207,047
Total assets	611,009	711,556	597,685	668,123	539,497
Equity	428,981	452,662	468,748	191,124	152,542
Non-current liabilities	91,616	96,226	63,099	53,297	49,809
Current liabilities	90,412	162,668	65,838	423,702	337,146
<b>Investment in property, plant &amp; Equipment</b>					
Investment in property, plant & Equipment	4,500	2,758	4,405	5,283	2,912
<b>Financial ratios</b>					
Operating margin	0.1%	-6.8%	-8.8%	9.5%	0.6%
Return on investment	0.1%	-3.8%	-4.4%	4.7%	0.4%
Gross margin	43.5%	40.1%	40.6%	52.6%	48.1%
Current ratio	267.3%	161.3%	273.4%	69.4%	61.4%
Equity ratio	70.2%	63.6%	78.4%	28.6%	28.3%
Return on equity	-0.7%	-4.0%	-0.7%	22.5%	0.7%
<b>Average number of full-time employees</b>					
Average number of full-time employees	180	159	155	148	151

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 ApS 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 OTOMETRIC, MADSEN, AURICAL, HORTMANN and ICS brand names.

Natus Medical Denmark ApS is a part of Natus Medical Inc. group.

#### Activities and financials

##### *Annual result*

Revenue was 552,628 kDKK against 366,161 kDKK last year as expected due to increased revenue from both direct sales entities and distribution business.

Operating profit was 308 kDKK against -24,873 kDKK last year, which was lower than expected. The low operating profit was mainly due to extraordinary consultants costs related to remediation, company name change and other regulatory requirements. Also the release of Otoscan in January 2018 have increased the depreciations compared to 2017.

Profit after tax was -2,953 kDKK against -18,600 kDKK last year mainly due to extraordinary consultants costs primarily related to remediation, name change and other regulatory requirements. Profit after tax is higher than last year expectations for 2018 mainly due to an increase in revenue in 2018.

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

#### Investments

Investments in tangible and intangible fixed assets was 48,966 kDKK mainly covering investments in development projects 44,466 kDKK of which 11,397 kDKK was finalized in 2018. New launched products was mainly the release of Otoscan, which is a 3D digital ear scanning solution was released and launched at AAA in January 2018. Other released projects relates to an update of Otobase and 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.

#### Investments in group entities

As of January 2018 Inmedico A/S was merged into Natus Medical Denmark ApS as part of simplification of legal entity structure in the Natus Group.

In 2018 Natus Medical Denmark ApS established three new entities in Norway, Sweden and Finland in order to have direct sales in the countries and be compliant with local regulations.

#### 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 ApS 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.



## Management's review

### Management commentary (continued)

#### 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.

#### CSR and gender diversity cf. 99a and b

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 is female. 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 7 female and 18 male managers for FY18. 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.

No formal CSR policies, including climate and environment, social conditions and labour rights, human rights and anti-corruption have been prepared by the company. Consequently, reference is made to the below section.

#### *Business model*

CSR is generally very important and a priority area of Natus Medical Denmark. It is management's clear belief that it adds value to the business if a company combines its business model with consideration for CSR.

Natus Medical Denmark provides hearing diagnostic, hearing aid fitting and balance instrumentation and software solutions to hearing and balance care professionals worldwide. For more than 50 years Natus Medical Denmark has been helping hearing and balance care professionals succeed in improving the quality of life for their clients and patient by delivering expert knowledge, reliable solutions and services and trusted partnerships.

Natus Medical Denmark Aps develops, manufactures and markets computer-based audiological, otoneurologic and vestibular instrumentation in more than 80 countries. The portfolio covers key application areas within hearing assessment, hearing screening, hearing instrument fitting and balance assessment. Many of the hearing and balance care solutions have set precedent within the hearing care industry and are used by thousands of clinicians around the world.

As an independent provider of hearing care diagnostic solutions, Natus Medical Denmark works closely with leading hearing aid manufacturers to develop new solutions within hearing and hearing aid fitting.

The company's business strategy, including its day-to-day activities in the form of development, manufacture and marketing of computer-based audiological, otoneurologic, vestibular instrumentation and sound rooms, always focuses on its general CSR policy.

## **Management's review (continued)**

### ***Environment and climate***

It is company ambitious of Natus Medical Denmark to have a non-polluting production and for its material and energy consumption to be at a minimum. The production involves very limited in-house soldering (ROHS compliant) and efficient ventilation and air cleaning ensure a healthy work environment. Our customers' demand for lighter products continuously decreases Natus Medical Denmark's material consumption per product. As the company's impact on the environment is on a level where it is hard to make any further improvements, it has no written policies to that effect.

As the majority of Natus Medical Denmark's production has been moved to Asia the supplier selection has been systemised including being in compliance with local environmental and labour 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.

### ***Social conditions and labor rights***

It is company ambitious of Natus Medical Denmark for all its employees to benefit physically as well as psychologically from a good and safe working environment. The activities of the company are planned and performed so that health risks are kept at a minimum both with respect to the employees and but also with respect to their business partners. The company is continuously trying to ensure good working conditions for its employees when it comes to health and well-being at the workplace along with equal treatment, working environment, development and training. During the entire existence of the company, this has been an integral part of the management agenda. Due to the high score on employee satisfaction and good working environment, management does not consider written policies to that effect important.

### ***Human rights***

It is company ambitious of Natus Medical Denmark to respect and comply with the human rights requirements. The company has not written down any policies covering this area as the compliance with such requirements already forms an integral part of the company's set-up. The strategies and internal procedures applied by management are inherent in the protection of individuals' fundamental rights and therefore also the compliance with the human rights requirements.

### ***Anti-corruption and bribery***

It is company ambitious of Natus Medical Denmark to be part of a decent and reliable business environment with no tolerance for corruption and bribery. The company employees corresponding externally with clients, suppliers, business partners, etc. have been informed of the extent to which they may give and receive gifts and hold or attend arrangements. The company does not have written policies on anti-corruption and bribery as it has already been made clear to the employees in question that there is a no-tolerance policy when it comes to such.

### ***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 2019***

Natus Medical Denmark ApS expects revenue and profit before tax to be at the same level as 2018 as part of the distributor business will be covered outside Denmark

## Financial statements 1 January – 31 December

### Income statement

Note	DKK'000	2018	2017
2	Revenue	552,628	366,161
3	Production costs	-312,002	-219,162
	<b>Gross margin</b>	<b>240,626</b>	<b>146,999</b>
3	Research- and development costs	-117,012	-51,113
3	Distribution costs	-56,798	-61,610
3,4	Administrative expenses	-66,508	-59,149
	<b>Operating profit/loss</b>	<b>308</b>	<b>-24,873</b>
5	Financial income	2,244	2,227
6	Financial expenses	-5,944	-595
	<b>Profit/loss before tax</b>	<b>-3,392</b>	<b>-23,241</b>
7	Tax for the year	439	4,641
	<b>Profit/loss for the year</b>	<b>-2,953</b>	<b>-18,600</b>

## Financial statements 1 January – 31 December

### Balance sheet

Note	DKK'000	2018	2017
	<b>ASSETS</b>		
	<b>Non-current assets</b>		
8	<b>Intangible assets</b>		
	Rights	63,870	80,592
	Software	0	16
	Completed development projects	174,285	126,907
	Development projects in progress	72,579	150,897
		<u>310,734</u>	<u>358,412</u>
9	<b>Property, plant and equipment</b>		
	Leasehold improvements	1,060	1,166
	Plant and machinery	9,688	8,392
		<u>10,748</u>	<u>9,558</u>
10	<b>Financial assets</b>		
	Investment in group entities	47,843	81,181
		<u>47,843</u>	<u>81,181</u>
	<b>Total non-current assets</b>	<b><u>369,325</u></b>	<b><u>449,151</u></b>
	<b>Current assets</b>		
	<b>Inventories</b>		
	Raw materials and consumables	28,577	70,700
	Work in progress	257	991
	Finished goods and goods for resale	56,535	4,375
		<u>85,369</u>	<u>76,066</u>
	<b>Receivables</b>		
	Trade receivables	40,745	32,622
	Receivables from group entities	99,448	93,690
	Other receivables	2,913	30,580
11	Prepayments	816	3,817
		<u>143,922</u>	<u>160,709</u>
	<b>Cash</b>	<u>12,393</u>	<u>25,630</u>
	<b>Total current assets</b>	<b><u>241,684</u></b>	<b><u>262,405</u></b>
	<b>TOTAL ASSETS</b>	<b><u>611,009</u></b>	<b><u>711,556</u></b>

## Financial statements 1 January – 31 December

### Balance sheet

Note	DKK'000	2018	2017
	<b>EQUITY AND LIABILITIES</b>		
	<b>Equity</b>		
12	Share capital	24,000	24,000
	Reserve for development costs	192,552	216,688
	Retained earnings	212,429	211,974
	<b>Total equity</b>	<b>428,981</b>	<b>452,662</b>
	<b>Non-current liabilities</b>		
13	Deferred tax	57,634	56,854
	Deferred revenue	30,290	37,768
	Warranty	3,692	1,604
	<b>Total non-current liabilities</b>	<b>91,616</b>	<b>96,226</b>
	<b>Current liabilities</b>		
	Trade payables	20,737	27,451
	Payables to group entities	35,868	114,630
	Income tax payable	4,626	0
	Other payables	29,181	20,587
	<b>Total current liabilities</b>	<b>90,412</b>	<b>162,668</b>
	<b>Total liabilities</b>	<b>177,402</b>	<b>258,894</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>611,009</b>	<b>711,556</b>

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

## Financial statements 1 January – 31 December

### Statement of changes in equity

Note	DKK'000	Share capital	Reserve for development costs	Retained earnings	Total
	Equity at 1 January 2017	24,000	191,742	253,006	468,748
	Asset transfer	0	0	2,514	2,514
	Distribution of loss	0	0	-18,600	-18,600
	Transfer to reserve for capitalized development projects	0	24,946	-24,946	0
	Equity at 1 January 2018	24,000	216,688	211,974	452,662
	Addition/disposal merger	0	0	-20,728	-20,728
16	Distribution of loss	0	0	-2,953	-2,953
	Transfer to reserve for capitalized development projects	0	-24,136	24,136	0
	Equity at 31 December 2018	24,000	192,552	212,429	428,981

## Financial statements 1 January – 31 December

### Notes

#### 1 Accounting policies

The annual report of Natus Medical Denmark ApS for 2018 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

##### **Omission to prepare consolidated financial statements**

According to the Danish Financial Statements Act § 112 paragraph. 2, there is not prepared consolidated financial statements. The financial statements of Natus Medical Denmark ApS 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.

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

## Financial statements 1 January – 31 December

### Notes

#### 2 Segment information

DKK'000	2018	2017
Denmark	33,705	19,180
Nordic	10,302	7,862
Germany	90,335	51,268
Other Europa	171,118	100,654
USA	49,065	35,024
Other north- and south America	29,326	20,534
China	73,437	56,723
Other Asia	53,849	39,771
Other	41,491	35,145
	<u>552,628</u>	<u>366,161</u>

## Financial statements 1 January – 31 December

### Notes

DKK'000	2018	2017
<b>3 Expenses</b>		
<b>Staff costs</b>		
Remuneration to Executive Board*	3,596	4,560
Wages and salaries	120,319	84,896
Pensions	8,959	6,254
Other social security costs	2,823	1,193
	<u>135,697</u>	<u>96,903</u>
Staff costs are recognised the financial statements under the following line items:		
Production costs	46,257	31,598
Research and development costs	35,441	29,832
Distribution costs	33,006	23,296
Administrative expenses	20,993	12,177
	<u>135,697</u>	<u>96,903</u>
Average number of full-time employees	<u>180</u>	<u>159</u>

Staff costs include remuneration to the Executive Board, totalling DKK 3,355 thousand (2017: DKK 4,370 thousand), and pensions totalling DKK 201 thousand (2017: DKK 150 thousand) and directors' fees to the members of the Board of Directors, totalling DKK 40 thousand (2017: DKK 40 thousand).

\*Furthermore Grants has been issued in Natus Medical Incorporated to the management. Total 7,895 shares with a market value of DKK 1,753K as of December 31<sup>st</sup> 2018.

Natus Medical Inc. has a warrant-based incentive program whereby the Executive management and other management employees in Natus Medical Denmark ApS are granted restricted shares. The shares will be vested in the period from 2019-2020 with 50% per year on each anniversary of the grant date. The market value per share as of December 31<sup>st</sup> 2018 amounts to USD 34.03 per share.

## Financial statements 1 January – 31 December

### Notes

<b>DKK'000</b>	<b>2018</b>	<b>2017</b>
<b>3 Expenses (continued)</b>		
<b>Amortisation/depreciation</b>		
Amortisation intangible assets	81,573	44,014
Depreciation property, plant and equipment	3,365	2,367
Gain/Loss	296	0
Impairment losses intangible assets	10,571	483
	<u>95,805</u>	<u>46,864</u>
Amortisation/depreciation charges and impairment losses are recognised in the financial statements under the following line items:		
Production costs	3,084	2,367
Research and development costs	92,397	44,497
Distribution costs	82	0
Administrative expenses	242	0
	<u>95,805</u>	<u>46,864</u>
<b>4 Fees paid to auditors appointed at the annual general meeting</b>		
Fee for statutory audit	405	225
Tax assistance	0	65
	<u>405</u>	<u>290</u>
<b>5 Financial income</b>		
Unrealized foreign exchange gains	0	2,192
Interest from group companies	164	0
Other financial income	2,080	35
	<u>2,244</u>	<u>2,227</u>
<b>6 Financial expenses</b>		
Realized foreign exchange losses	4,845	330
Unrealized foreign exchange gains	1,058	0
Other financial expenses	41	265
	<u>4,944</u>	<u>595</u>



## Financial statements 1 January – 31 December

### Notes

<b>DKK'000</b>	<b>2018</b>	<b>2017</b>
<b>7 Tax for the year</b>		
Current tax for the year	-5,138	0
Adjustment of the deferred tax charge for the year	6,014	5,281
Prior-year adjustments to current tax	6,274	0
Prior-year adjustments to deferred tax	-6,711	-640
	<u>439</u>	<u>4,641</u>
<b>8 Intangible assets</b>		
<b>DKK'000</b>	<b>Rights*</b>	<b>Software</b>
Cost at 1 January 2018	83,605	6,731
Addition merger	125	0
Additions	0	0
Disposals	-125	0
Cost at 31 December 2018	<u>83,605</u>	<u>6,731</u>
Amortisation and impairment losses at 1 January 2018	-3,013	-6,715
Amortisation	-16,722	-16
Amortisation and impairment losses at 31 December 2018	<u>-19,735</u>	<u>-6,731</u>
<b>Carrying amount at 31 December 2018</b>	<b><u>63,870</u></b>	<b><u>0</u></b>
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. All rights that have started amortisations.

### Patens and Rights

Patents 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 ApS.

## Financial statements 1 January – 31 December

### Notes

#### 8 Intangible assets (continued)

<b>DKK'000</b>	<b>Total development projects</b>	<b>Hereof completed development projects</b>	<b>Hereof development projects in progress</b>
Cost at 1 January 2018	631,049	479,080	151,969
Additions	44,466	0	44,466
Disposals	0	0	0
Transferred	0	120,996	-120,996
Cost at 31 December 2018	<u>675,515</u>	<u>600,076</u>	<u>75,439</u>
Amortisation and impairment losses at 1 January 2018	353,245	352,173	1,072
Amortisation	64,835	64,835	0
Disposals	0	0	0
Impairment	10,571	8,783	1,788
Amortisation and impairment losses at 31 December 2018	<u>428,651</u>	<u>425,791</u>	<u>2,860</u>
<b>Carrying amount at 31 December 2018</b>	<b><u>246,864</u></b>	<b><u>174,285</u></b>	<b><u>72,579</u></b>
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. Development projects in progress consists of several projects, whereof one project is expected to be completed in 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 2018	4,091	27,278
Addition merger	451	537
Additions	0	4,500
Disposals	-451	-373
Cost at 31 December 2018	4,091	31,942
Depreciation and impairment losses at 1 January 2018	-2,925	-18,886
Addition merger	-354	-411
Depreciation	-106	-3,259
Disposals	354	302
Depreciation and impairment losses at 31 December 2018	-3,031	-22,254
<b>Carrying amount at 31 December 2018</b>	<b>1,060</b>	<b>9,688</b>

#### 10 Financial assets

DKK'000	Investments in group entities
Cost at 1 January 2018	81,181
Additions	90
Disposals	-33,428
Cost at 31 December 2018	47,843

Group entities	Domicile	Interest %	Equity DKK'000	Profit/loss DKK'000
Genie Audio Inc.	Canada	100%	66,895	- 24
GN Otometrics Holding GMBH	Germany	100%	490	3,435
Otometrics Shanghai Co. Ltd.	China	100%	39,466	11,654
Otometrics Sweden AB	Sweden	100%	59	10
Natus Medical Finland OY	Finland	100%	30	11
Natus Medical Norway AS	Norway	100%	72	49

## Financial statements 1 January – 31 December

### Notes

<b>DKK'000</b>		<b>2018</b>	<b>2017</b>
<b>11</b>	<b>Prepayments</b>		
	Other prepaid expenses	816	3,817
		<u>816</u>	<u>3,817</u>

### 12 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:

<b>DKK'000</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Share capital at 1 January	24,000	24,000	23,240	23,240	23,240
Issue of Share Capital	0	0	760	0	0
<b>Share capital at 31 December</b>	<u>24,000</u>	<u>24,000</u>	<u>24,000</u>	<u>23,240</u>	<u>23,240</u>

<b>DKK'000</b>		<b>2018</b>	<b>2017</b>
<b>13</b>	<b>Deferred tax</b>		
	Deferred tax at 1 January	<b>-56,854</b>	-61,495
	Addition merger	-83	0
	Deferred tax for the year recognized in profit (loss) for the year	6,014	5,281
	Adjustment with respect to prior years	-6,711	-640
	<b>Deferred tax at 31 December</b>	<u><b>-57,634</b></u>	<u><b>-56,854</b></u>

The deferred tax charge relates to:

Intangible assets	-65,668	-73,422
Property, plant and equipment	269	423
Current assets	943	1,123
Current liabilities	6,822	8,467
Loss carry forwards	0	6,555
	<u><b>-57,634</b></u>	<u><b>-56,854</b></u>

## Financial statements 1 January – 31 December

### Notes

#### 14 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 Hørskættens 9, DK-2630 Taastrup. The lease payments of 2019 amount to DKK 3,478K. The remaining period of the lease agreement is 2 years and the remaining lease payments amount to DKK 6,956K.

The Company has entered into operating lease agreements concerning printers. The lease payments of 2019 amount to DKK 491K. The remaining period of the lease agreements is in average 39 months and the remaining lease payments amount to DKK 1,764K.

Furthermore, the company has also entered into operating lease agreements concerning cars. The lease payments of 2019 amount to DKK 435K. The remaining period of the leasing agreements is in average 11 months and the remaining lease payments amount to DKK 588K.

#### 15 Related parties

Natus Medical Denmark ApS' related parties comprise the following:

##### Parties exercising control

Alpine Biomed ApS

Hørskættens 9

DK-2630 Taastrup

The Annual Report for Natus Medical Denmark ApS 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

#### 15 Related parties (continued)

DKK'000	2018	2017
Purchase of services from group enterprises	-47,213	-39,875
Sale of services sold to group enterprises	206	1,935
Sale of good to group enterprises, revenue	230,267	207,102
Sale of goods to group enterprises, cost of goods	-80,311	-99,061

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, 2019 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	2018	2017
<b>16 Distribution of loss</b>		
<b>Recommended distribution of loss</b>		
Transferred to reserves under equity	-2,953	-18,600
	<u>-2,953</u>	<u>-18,600</u>