

Natus Medical Denmark ApS

Hørskættens 9, DK-2630 Taastrup

CVR-no. 25 38 46 87

Annual report 2021

Approved at the annual general meeting

Date: 30 June 2022

Chairman: _____
Benjamin Drew Davies

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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 2021.

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 2021 and of the results of the Company's operations for the financial year 1 January – 31 December 2021.

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, 30 June 2022

Executive Board:

.....
Sean David Langan
CEO

Board of Directors:

.....
Benjamin Drew Davies
Chairman

.....
Sean David Langan

.....
Austin Francis Noll

.....
Peter Demuth Lundemann

.....
Morten Koimaru Skaarup

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 2021 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2021 and of the results of the Company's operations for the financial year 1 January – 31 December 2021 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control, that 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 for the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may 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 financial statement users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements *(continued)*

- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and 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 the work we have performed, 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, 30 June 2022

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Carsten Nielsen
State Authorised
Public Accountant
mne30212

Management's review

Company details

Company	<p>Natus Medical Denmark ApS Hørskættø 9 Klovtofte DK-2630 Taastrup</p> <p>Phone 45 755 555 Webpage: www.natus.com E-mail: otoinfo@natus.com</p> <p>CVR.no.: 25 38 46 87 Started: 20 May 2000 Location: Høje-Taastrup Accounting year 1 January - 31 December</p>
Board of Directors	<p>Benjamin Drew Davies (Chairman) Sean David Langan Austin Francis Noll Peter Demuth Lundemann Morten Koimaru Skaarup</p>
Executive management	<p>Sean David Langan</p>
Auditor	<p>KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28 DK-2100 Copenhagen Ø</p>
Ownership	<p>The Company is 100% owned by Natus Manufacturing Limited, IDA Business Park, Gort, Co Galway, Ireland</p>

Management's review

Financial highlights

In DKK'000	2021	2020	2019	2018	2017
Key figures					
Revenue	327,936	382,146	435,865	552,628	366,161
Ordinary operating profit/loss	-169,496	-138,704	-90,999	308	-24,873
Profit/loss from financial income and expenses	-78,180	56,463	-15,496	-3,700	1,632
Profit/loss for the year	-194,226	-62,923	-82,754	-2,953	-18,600
Balance sheet					
Non-current assets	196,118	205,189	273,978	369,325	449,151
Current assets	131,966	333,119	236,834	241,684	262,405
Total assets	328,084	538,308	510,812	611,009	711,556
Equity	-420,699	-226,473	-163,550	428,981	452,662
Non-current liabilities (includes provisions)	10,474	35,059	61,808	91,616	96,226
Current liabilities	738,309	729,722	612,554	90,412	162,668
Investment in property, plant & equipment					
Investment in property, plant & equipment	331	724	4,502	4,500	2,758
Financial ratios					
Operating margin	-51.7%	-36.3%	-20.9%	0.1%	-6.8%
Return on investment	-51.7%	-25.8%	-17.8%	0.1%	-3.5%
Gross margin	37.2%	31.3%	46.3%	43.5%	40.1%
Current ratio	17.9%	45.7%	38.8%	267.3%	161.3%
Equity ratio	-128.2%	-42.1%	-32.0%	70.2%	63.6%
Return on equity	60.0%	32.3%	-62.4%	-0.7%	-4.0%
Average number of full-time employees					
Average number of full-time employees	88	110	150	159	155

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. During 2021, most of the manufacturing and production activity transferred out of Denmark to the parent company in Ireland, Natus Manufacturing Limited.

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

Activities and financials

Annual result

Revenue was 327,936 kDKK against 382,146 kDKK last year. The reduction in revenue is primarily due to decrease in direct sales to internal entities and distribution partners, due to transfer out of production activities as mentioned above, as well as changes to the distribution network and structure of the overall Natus group.

Operating loss was 169,496 kDKK against a loss of 138,704 kDKK last year. The operating loss was mainly due to significant cost allocations from the parent company, including R&D expense allocations, as well as significant amortization costs related to intangible assets, including patents, rights and completed development projects.

Loss after tax was 194,226 kDKK against 62,923 kDKK last year. The additional losses on top of operating loss are largely related to foreign currency retranslation losses associated with significant USD denominated loans owed to the parent companies.

The company has lost more than 50% of the equity and as a result is covered by the provisions of the Companies Act on capital loss. Management expects re-establishment of the company's equity through its own earnings and loan conversions in 2022/2023.

Investments

Investments in tangible and intangible fixed assets was 5,384 kDKK. This includes investment in new product development for two projects. One of these has been paused since 2019 and resumed in 2021, while the other is a new project which just commenced towards the end of 2021.

Risks

General risks

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

Impact of COVID-19

Our operational and financial performance has been significantly affected by the ongoing global COVID-19 pandemic and the resulting volatility and uncertainty it has caused in the international markets. Over the course of 2021, authorities have continued to recommend social distancing, vaccinations, wearing masks, and quarantining when individuals are feeling ill or recovering from the effects of COVID-19 to mitigate the spread of COVID-19. However, this virus has had adverse impacts on the U.S. and foreign economies of uncertain severity and duration and has and may continue to negatively impact our ongoing operations, including our revenue, manufacturing, and supply chain. Spikes in the transmission of COVID-19 and other variant strains of the virus may lead to renewed or expanded shutdowns, curfews or other isolation measures and may result in further restriction on, and decreased demand for, elective medical procedures, which may adversely affect our business operations, financial position, or consolidated cash flows.

In addition, we have experienced and may continue to see disruption and delays in parts of our direct and indirect supply chain. The Natus Medical group has made investments in inventory to help mitigate against further potential supply chain interruptions. These investments include increased inventory and firm purchase orders beyond our typical timeframe to secure capacity at our key suppliers. We have experienced, and may continue to experience, increased costs because of excess inventory, which in turn has resulted, and may continue to result, in lower gross margins. In addition, our inventory management systems and related supply chain visibility tools were not designed to forecast manage supply of our products and product components under these unprecedented pandemic conditions, and as a result our forecasts could be inaccurate, or our supply decisions could be incorrect. We may experience restricted stock availability or delays or difficulty sourcing certain products in the future, which could negatively impact us.

Management's review

Management commentary (continued)

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. The primary sales currencies are EUR and USD. Natus Medical Denmark does not obtain external loan nor invests in foreign currency. Internal loans are affected by the development in the USD currency exchange rate.

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.

CSR and gender diversity cf. 99a and b

In October 2021, the Natus group has developed a specific Environmental, Social & Governance (ESG) committee. One of the key topics of this committee is to ensure that Natus is committed to encouraging a culture of diversity, equity and inclusion (DEI). We regularly assess and drive continuous improvement in DEI of our people ecosystem - employees, partners, and board of directors. Our recruiting efforts evidence this commitment through the outreach programs to recruit and promote job opportunities to a broad range of organizations and hundreds of job boards with the intent of developing a diverse pool of qualified candidates. We recognize that a culture of inclusion makes us stronger.

The Board of Natus Medical Denmark has 5 members, of which all are males. 2 of these members are employee representatives and the other 3 members are senior management personnel in the Natus group. There has been no change to these positions in the past year, hence no natural reason to change the members of the board. The company has a broad target to add up to 2 females to the board in the next 2 to 3 years. 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 1 female and 7 male managers for FY21. Due to the nature of the company's business, it has a high percentage of engineers employed. This profession has historically been overrepresented by men, however, in the first 6 months of 2022, Natus Medical Denmark has hired 3 female engineers/developers. We hope that, by hiring female engineers, we will have more female managers in the future and help develop more female leaders in the industry. 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. However, 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. The overall Natus group ESG committee will enable the board to ensure ESG risks and opportunities are integrated into the group's strategy; provide oversight of the group's on-going commitment to sustainability, human capital development, health & safety, data security, diversity & inclusion, and other ESG pillars; and champion transparency in ESG reporting for shareholders.

Management's review (continued)

Management commentary (continued)

Business model

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.

Environment and climate

It is company ambition 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.

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.

As most of the production activity has now transferred out of Denmark, the above noted impacts on the environment will reduce to a negligible amount.

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.

Data ethics and data privacy

Natus is committed to the secure electronic transmission, storage and hosting of sensitive information, including personally identifiable information, personal health information, financial information, intellectual property and other sensitive information related to our customers and workforce. The company does not currently have an active data ethics policy in place, however, we are currently working on a data privacy project which will generate these policies. We expect this to be completed and in place by August 2022.

Management's review

Management commentary (continued)

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 signalling (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 have 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 2022

As noted in the Risk section above, we continue to be significantly affected by the ongoing global COVID-19 pandemic and the resulting volatility and uncertainty it has caused in the international markets. Supply chain issues are also causing difficulties in sourcing products and the higher costs associated with these products and expedited freight.

From a global perspective, Natus has assessed various accounting estimates and other matters, including those that require consideration of forecasted financial information, in context of the unknown future impacts of COVID-19 using information that is reasonably available to us at this time. The accounting estimates and other matters we assessed include, but were not limited to, our allowance for doubtful accounts, inventory and warranty reserves, stock-based compensation, goodwill and other long-lived assets, financial assets, valuation allowances for tax assets and revenue recognition.

In 2022, it is expected that that overall group Hearing and Balance revenue and margins will improve but remain below historical levels. We see our customers adapting to the COVID environment with elective procedures resuming, which we believe will result in increased capital spending, improving our business for the foreseeable future.

Most of the production activity previously based in Taastrup has now transferred to the parent company in Ireland, which will lead to a significant reduction in revenue in Natus Medical Denmark ApS in 2022.

The company will continue to perform significant R&D activities in Taastrup. R&D and engineering focus will shift more towards project development, as several remediation projects have been completed.

Financial statements 1 January – 31 December

Income statement

Note	DKK'000	2021	2020
2	Revenue	327,936	382,146
3	Production costs	-206,056	-262,555
	Gross margin	121,880	119,591
3	Research and development costs	-160,295	-140,215
3	Sales and distribution costs	-82,233	-72,846
3,4	Administrative expenses	-48,848	-45,234
	Operating profit/loss	-169,496	-138,704
5	Financial income	2,571	64,076
6	Financial expenses	-80,751	-7,613
	Profit/loss before tax	-247,676	-82,241
7	Tax for the year	53,450	19,318
	Profit/loss for the year	-194,226	-62,923

Financial statements 1 January – 31 December

Balance sheet

Note	DKK'000	2021	2020
	ASSETS		
	Non-current assets		
8	Intangible assets		
	Rights	13,707	30,428
	Completed development projects	28,730	65,562
	Development projects in progress	56,460	51,407
		<u>98,897</u>	<u>147,397</u>
9	Property, plant and equipment		
	Leasehold improvements	578	858
	Plant and machinery	6,914	9,091
		<u>7,492</u>	<u>9,949</u>
10	Financial assets		
	Investment in group entities	47,843	47,843
13	Deferred tax asset	41,886	0
		<u>41,886</u>	<u>0</u>
	Total non-current assets	196,118	205,189
	Current assets		
	Inventories		
	Raw materials and consumables	1,158	16,320
	Work in progress	499	8,817
	Finished goods and goods for resale	31,679	67,734
		<u>33,336</u>	<u>92,871</u>
	Receivables		
	Trade receivables	8,611	14,946
	Receivables from group entities	85,125	207,933
	Other receivables	2,215	4,155
11	Prepayments	232	295
		<u>96,183</u>	<u>227,329</u>
	Cash	2,447	12,919
		<u>2,447</u>	<u>12,919</u>
	Total current assets	131,966	333,119
		<u>131,966</u>	<u>333,119</u>
	TOTAL ASSETS	328,084	538,308
		<u><u>328,084</u></u>	<u><u>538,308</u></u>

Financial statements 1 January – 31 December

Balance sheet

Note	DKK'000	2021	2020
	EQUITY AND LIABILITIES		
	Equity		
12	Share capital	24,000	24,000
	Reserve for development costs	66,448	91,236
	Retained earnings	-511,147	-341,709
	Total equity	-420,699	-226,473
	Provisions		
13	Deferred tax liability	0	17,059
	Warranty	2,743	2,819
	Other non-current liabilities		
	Deferred revenue	7,731	15,181
	Total non-current liabilities	10,474	35,059
	Current liabilities		
	Trade payables	7,994	19,912
	Payables to group entities	691,734	677,404
	Income tax payable	5,399	3,990
	Other payables	33,182	28,416
	Total current liabilities	738,309	729,722
	Total liabilities	748,783	764,781
	TOTAL EQUITY AND LIABILITIES	328,084	538,308

- 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 2020	24,000	130,811	-318,361	-163,550
	Distribution of loss	0	0	-62,923	-62,923
	Transfer to reserve for capitalized development projects	0	-39,575	39,575	0
	Equity at 1 January 2021	24,000	91,236	-341,709	-226,473
16	Distribution of loss	0	0	-194,226	-194,226
	Transfer to reserve for capitalized development projects	0	-24,788	24,788	0
	Equity at 31 December 2021	24,000	66,448	-511,147	-420,699

The company has lost more than 50% of the equity and as a result is covered by the provisions of the Companies Act on capital loss. Management expects re-establishment of the company's equity through its own earnings and loan conversions in 2022/2023.

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Natus Medical Denmark ApS for 1 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.

Reclassification of comparative figures

Minor reclassifications have been made in individual items in the balance sheet and notes. This has not affected the result and equity of this year or last year and has been made solely to ensure the comparability of the individual items in the financial statements

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.

Recognition and measurement consider 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 is used as the measurement currency. All other currencies are regarded as foreign currencies.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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 if 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 losses 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

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 are 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	3-5 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 carryforwards, 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.

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.

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.

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)	$\text{Profit/loss for the year} \times 100 / \text{Average equity}$

Going concern

At the time of filing the annual report, the company has received a letter of support from its parent company in the USA which will ensure the company has sufficient liquidity for its operation until the end of the next financial year.

Financial statements 1 January – 31 December

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2 Segment information

DKK'000	2021	2020
Denmark	7,395	18,070
Other Nordic	294	1,630
Other Europe	240,457	198,686
USA	30,616	60,366
Other North and South America	4,060	14,686
China	36,918	45,702
Other Asia	967	27,385
Other	7,229	15,621
	<u>327,936</u>	<u>382,146</u>

Financial statements 1 January – 31 December

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DKK'000	2021	2020
3 Expenses		
Staff costs		
Remuneration to Executive Board	40	40
Wages and salaries	56,950	61,820
Pensions	4,972	5,189
Other social security costs	344	400
	<u>62,306</u>	<u>67,449</u>
Staff costs are recognised the financial statements under the following line items:		
Production costs	23,269	31,771
Research and development costs	11,649	15,365
Sales and distribution costs	14,900	15,059
Administrative expenses	12,488	5,254
	<u>62,306</u>	<u>67,449</u>
Average number of full-time employees	<u>88</u>	<u>110</u>

Staff costs include remuneration to the Executive Board, totalling DKK 0 thousand (2020: DKK 0 thousand), and pensions totalling DKK 0 thousand (2020: DKK 0 thousand), and directors' fees to the members of the Board of Directors totalling DKK 40 thousand (2020: DKK 40 thousand).

Financial statements 1 January – 31 December

Notes

DKK'000	2021	2020
3 Expenses (continued)		
Amortisation/depreciation		
Amortisation intangible assets	53,553	67,460
Depreciation property, plant and equipment	2,195	2,053
	<u>55,748</u>	<u>69,513</u>
Amortisation/depreciation charges and impairment losses are recognised in the financial statements under the following line items:		
Production costs	1,194	1,033
Research and development costs	53,703	67,610
Sales and distribution costs	351	368
Administrative expenses	500	502
	<u>55,748</u>	<u>69,513</u>
4 Fees paid to auditors appointed at the annual general meeting		
Fee for statutory audit	510	570
	<u>510</u>	<u>570</u>
5 Financial income		
Realized foreign exchange gains	0	270
Unrealized foreign exchange gains	274	61,667
Interest from group companies	2,297	638
Other financial income	0	1,501
	<u>2,571</u>	<u>64,076</u>
6 Financial expenses		
Realized foreign exchange losses	4,012	0
Unrealized foreign exchange losses	66,383	691
Other financial expenses	77	1,322
Interest to group companies	10,279	5,601
	<u>80,751</u>	<u>7,613</u>

Financial statements 1 January – 31 December

Notes

DKK'000		2021	2020
7	Tax for the year		
	Current tax for the year	-33	-20
	Adjustment of the deferred tax charge for the year	58,945	19,376
	Prior-year adjustments to current tax	-5,462	-38
	Prior-year adjustments to deferred tax	0	0
		<u>53,450</u>	<u>19,318</u>
8	Intangible assets		
	DKK'000	Rights*	Software
	Cost at 1 January 2021	<u>83,605</u>	<u>6,731</u>
	Cost at 31 December 2021	<u>83,605</u>	<u>6,731</u>
	Amortisation and impairment losses at 1 January 2021	53,177	6,731
	Amortisation for the year	<u>16,721</u>	0
	Amortisation and impairment losses at 31 December 2021	<u>69,898</u>	<u>6,731</u>
	Carrying amount at 31 December 2021	<u>13,707</u>	<u>0</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. All rights that have started amortisations.

Patents 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)

DKK'000	Total development projects	Hereof completed development projects	Hereof development projects in progress
Cost at 1 January 2021	676,730	600,076	76,654
Additions	5,053	0	5,053
Cost at 31 December 2021	681,783	600,076	81,707
Amortisation and impairment losses at 1 January 2021	559,761	534,514	25,247
Amortisation	36,832	36,832	0
Amortisation and impairment losses at 31 December 2021	596,593	571,346	25,247
Carrying amount at 31 December 2021	85,190	28,730	56,460
Amortised over	3-5 years	3-5 years	

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 two projects, which are expected to be completed in Q2 and Q3 2024, after which product sales and marketing can be commenced.

Management performs an 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

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9 Property, plant, and equipment

DKK'000	Leaseholds Improvements	Plant and machinery
Cost at 1 January 2021	4,091	37,065
Additions	0	331
Disposals	0	-593
Cost at 31 December 2021	4,091	36,803
Depreciation and impairment losses at 1 January 2021	3,233	27,974
Depreciation	280	1,915
Disposals	0	0
Depreciation and impairment losses at 31 December 2021	3,513	29,889
Carrying amount at 31 December 2021	578	6,914

10 Financial assets

DKK'000	Investments in group entities
Cost at 1 January 2021	47,843
Additions	0
Disposals	0
Cost at 31 December 2021	47,843

Group entities	Domicile	Interest %	Equity DKK'000	Profit/loss DKK'000
Genie Audio Inc.	Canada	100%	39,437	-10,870
GN Otometrics Holding GMBH	Germany	100%	5,452	196
Otometrics Shanghai Co. Ltd.	China	100%	50,747	-1,629
Otometrics Sweden AB	Sweden	100%	351	71
Natus Medical Finland OY	Finland	100%	361	118
Natus Medical Norway AS	Norway	100%	255	61

Financial statements 1 January – 31 December

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DKK'000		2021	2020
11	Prepayments		
	Other prepaid expenses	232	295
		<u>232</u>	<u>295</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:

DKK'000	2021	2020	2019	2018	2017
Share capital at 1 January	24,000	24,000	24,000	24,000	24,000
Issue of Share Capital	0	0	0	0	0
Share capital at 31 December	<u>24,000</u>	<u>24,000</u>	<u>24,000</u>	<u>24,000</u>	<u>24,000</u>

DKK'000		2021	2020
13	Deferred tax		
	Deferred tax at 1 January	-17,059	-36,435
	Deferred tax for the year recognized in profit (loss) for the year	58,945	19,376
	Deferred tax at 31 December	<u>41,886</u>	<u>-17,059</u>

The deferred tax charge relates to:

Intangible assets	-21,545	-31,794
Property, plant and equipment	-13	42
Current assets	-51	1,057
Current liabilities	1,701	-10,074
Loss carry forwards	61,794	23,710
	<u>41,886</u>	<u>-17,059</u>

Financial statements 1 January – 31 December

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14 Contractual obligations and contingencies, etc.

Operating lease liabilities

The company has entered into operating lease agreements for property, equipment, and vehicles. All figures provided below are excluding VAT and include estimates of variable costs associated with each of the leases agreements.

The two properties for which the company has entered into lease agreements are located on Hørskædden 9, DK-2630, Taastrup, Denmark and Willy Brandtlaan 81, NL-6716, Ede, Netherlands. The total committed property lease payments in 2022 will be DKK 2,649k, with the total property lease payments after 2022 totaling DKK 718k. The property lease in Taastrup expires on 31 December 2022, however, the company can exit the lease at any point with 6 months' notice. The lease in Ede expires on 31 March 2025.

The company has entered into operating lease agreements for certain items of office equipment, including printers. The total equipment lease payments in 2022 will be DKK 566k, with the total property lease payments after 2022 totaling DKK 535k. The average remaining period of the equipment lease agreements is 23 months.

The company has entered into operating lease agreements for a number of vehicles. The total vehicle lease payments in 2022 will be DKK 723k, with the total vehicle lease payments after 2022 totaling DKK 414k. The average remaining period of the vehicle lease agreements is 16 months.

15 Related parties

Natus Medical Denmark ApS' related parties comprise the following:

Parties exercising control

Natus Manufacturing Limited

IDA Business Park, Gort, Co. Galway

H91 PD92, Ireland

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

The largest group into which the result of the company and its subsidiaries for the year ended 31 December 2021 are consolidated is that headed by Natus Medical Incorporated.

The smallest group into which the result of the company and its subsidiaries for the year ended 31 December 2021 are consolidated is that headed by Natus Medical Incorporated.

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

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15 Related parties (continued)

DKK'000	2021	2020
Purchase of services from group enterprises	-192,399	-146,815
Sale of goods and services to group enterprises – revenue	309,586	332,997
Sale of goods to group enterprises – cost of goods sold	-119,619	-155,779

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, 2021 are recognized in the balance sheet. Balances with group enterprises comprise trade balances related to the purchase and sale of goods and services, together with loan balances and associated interest.

Interest income and expenses with respect to group enterprises are disclosed in note 6.

Purchases of services from group enterprises consists of headquarter cost allocation, R&D service fees, marketing service fees and net interest payable.

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	2021	2020
16 Distribution of loss		
Recommended distribution of loss		
Transferred to reserves under equity	-194,226	-62,923
	-194,226	-62,923