

Financial Report 2008

20 NEW PATENTS REGISTERED IN 2008 ALONE

2,117 EMPLOYEES WORLDWIDE

80,000 BENDING CYCLES UNDERGONE BY A HEADSET IN THE TESTING LABORATORY

13,500 SQUARE METERS OF FLOOR SPACE IN THE NEW TECHNOLOGY BUILDING

163 ROSE BUSHES ON THE SENNHEISER GROUNDS IN WENNEBOSTEL

1.2 KILOS OF GOLD DUST PROCESSED IN PRODUCTS IN 2008

340 MILLION ELECTRONIC COMPONENTS INTEGRATED INTO PRODUCTS

0.003 MILLIMETER THICKNESS FOR A DIAPHRAGM USED IN A CONDENSER MICROPHONE

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Report of the Supervisory Board

The members of the Supervisory Board of Sennheiser electronic GmbH & Co. KG have examined the Consolidated Management Report and the Consolidated Financial Statements for fiscal year 2008, which were submitted on time by the management. Sennheiser Beteiligungs GmbH, Wedemark, Germany, was responsible for management in its capacity as general partner. In fiscal year 2008, Volker Bartels, Heinrich Esser and Stefan Junker were appointed as registered Presidents of Sennheiser electronic GmbH & Co. KG, Wennebostel, Germany. In addition to the above-named Presidents, the other members of the Executive Team were Susanne Seidel (President, Global Marketing), Paul Whiting (President, Global Sales) and Sabine Wittenbrink-Daut (President, Global Human Resources). The Members of the Supervisory Board in the year under review were: Lars Frandsen, Dr. Christopher Pleister, Prof. Hans-Peter Wiendahl and Prof. Jörg Sennheiser, who served as Chairman.

During fiscal year 2008, the Supervisory Board held both regular and special meetings, and kept itself informed about the financial situation and development of the Sennheiser Group. Between meetings, the Supervisory Board was given detailed information by the management, both orally and in writing, about any important decisions, projects and other business events. The following topics in particular were intensively discussed by the Supervisory Board, in some cases on repeated occasions, with a view to forming an opinion:



- Detailed discussion on the usefulness of and methodology for the valuation of pension provisions in accordance with the German Act on the Modernization of Accounting Law (BilMoG) and the interest payment factor that is applied. The fact that the correct figures in the trading balance sheet drift further and further away from the tax balance sheet is just something that must be accepted.
- The first signs of an economic downturn were evident at an early stage in the unusually marked fluctuations of the forecast values for manufacturing and sales. Consequently, the management launched a cost-savings program early on. As a result of the rapid implementation of this in a wide variety of measures, it proved possible to maintain the consolidated financial figures to a large extent at budget level.
- The idea of a third pillar for the Sennheiser Group was discussed several times. The business model for this was finally approved in the fall and authorized for realization in the coming years.
- Following comprehensive discussion with the Executive Team, Daniel Sennheiser began the work of setting up “Strategic Innovation (Schweiz) AG,” with a view to offering innovative services to the entire Sennheiser Group. Operating from Zurich, Switzerland, this business unit is linked with the marketing organization, but it is largely freed from responsibilities in that organization’s day-to-day business. It will focus on futuristic aspects of our corporate activities. Here, the emphasis is not only on new technology and products, but also on maintaining close relationships with external customer contacts and on optimizing internal processes within the Sennheiser Group.

- Following unachievable sales revenue in the various markets in the last quarter of the year, new sales measures were proposed to compensate for the negative effects. Due to the rapidly deteriorating dollar-to-euro exchange rate, it was no longer possible to meet the revenue forecasts. Cost-savings plans succeeded in mitigating the effect on earnings to a considerable extent.
- Particular attention was dedicated to managing the generation change for wireless microphones from the “evolution wireless” series. Due to the extreme complexity of the development project and to the unfamiliar testing technology and testing philosophy involved, all phases of this major project could not be completed on schedule. As a result, the new product was not launched onto the market until April 2009.
- As a persistent topic of discussion, the step-by-step and systematic realization of a worldwide pricing and discount policy was brought forward. Difficulties were experienced here not just because different Value Added Tax (VAT) rates apply in different countries, but also because different distribution channels are involved (specialist traders, Internet shops and wholesalers). The statutory requirements for a solution in this area are strict, and the solution that has been worked out adheres to them. We will only receive final proof that the solution is correct and manageable on a worldwide scale after it has been introduced by our subsidiary companies and by our independent distribution partners.

The Consolidated Management Report and the Consolidated Financial Statements for fiscal year 2008 have been audited by the auditing firm Deloitte & Touche GmbH, and have been confirmed unconditionally. The Supervisory Board hereby concurs with the auditors' report.

Having completed its own examination of the Consolidated Financial Statements and the Consolidated Management report, the Supervisory Board raises no objections.

Wedemark, Germany, May 15, 2009



Prof. Dr. Jörg Sennheiser

Chairman of the Supervisory Board of Sennheiser electronic GmbH & Co. KG

Consolidated Management Report 2008

I. PRELIMINARY REMARKS

As a parent company, Sennheiser electronic GmbH & Co. KG is obliged to draw up consolidated financial statements. The company's production sites are located in Wennebostel and Burgdorf (Germany), Tullamore (Ireland) and Albuquerque (New Mexico, USA). While Wennebostel chiefly manufactures wired microphones, microphone capsules and headsets, the plant in Burgdorf concentrates on wireless microphones and monitoring systems as well as tour-guide systems. In the production process, Burgdorf is responsible for the automated assembly of circuit boards and assembly of electronic units, with prefabricated parts often being supplied from Wennebostel. Headphone production and the manufacturing of Klein + Hummel products chiefly take place in Tullamore. The Albuquerque facility manufactures wireless products such as wireless microphone and monitoring systems. The company has a branch office in Singapore that manages the functions of marketing, distribution, purchasing and part of the development for the consumer goods area. With the aim of further expanding the company's global distribution network, a new sales subsidiary was founded in China in 2008. Sennheiser Electronic (Beijing) Co., Ltd., is a 100 percent subsidiary and was included in the consolidated accounts for the first time in 2008. In order to recognize and exploit long-term trends and opportunities at an early stage, a new company has also just been established in Switzerland: Sennheiser Innovation (Schweiz) AG is a 100 percent subsidiary and was likewise included in the consolidated accounts for the first time in 2008. Besides the parent company Sennheiser electronic GmbH & Co. KG, the Sennheiser Group includes six subsidiaries within Germany and 18 subsidiaries abroad, as well as the joint venture Sennheiser Communications A/S, based in Copenhagen, Denmark.

II. ECONOMIC DEVELOPMENTS DURING THE 2008 FINANCIAL YEAR

Overall Business Developments and Development of the Industry

The global economy

The worldwide crisis on the financial markets weakened the global economy in 2008, resulting in a worldwide economic slump toward the end of the year. With the monetary and capital markets suffering nearly complete paralysis at times, a credit crunch arose in the real economy, and incoming orders declined rapidly. A drop in exports and investment projects, coupled with reduced private consumption, sent the US economy into a deep recession just halfway into the year. Even in the rising markets of Southeast Asia and eastern Europe, growth is slowing considerably due to the high dependency on exports and to the massive withdrawal of capital in the wake of the crisis on the financial markets. Finally, the parallel development of the economic downturn in all regions of the globe has plunged the world economy into its worst recession since World War II.

For the global economy, 2009 is expected to be one of the weakest years in the course of the last five decades, with slightly negative growth. A return to positive growth is not anticipated until at least 2010, and even then, the world economy is not expected to match the average growth rates experienced over the past five years. The US economy will experience a gradual recovery in the second half of 2009 at the earliest, with the US dollar managing to maintain its position against the most important global currencies. The markets in eastern Europe, Southeast Asia and Japan are expected to show a very marked decline in growth. In some countries, there is even the risk of a deep depression, which could possibly go as far as leading to a currency collapse. The success of the governmental support measures and economic stimulus programs that have been introduced will determine when the financial crisis will be overcome. So far, there is no sign that credit conditions will improve in the near future.

The European Union

Due to the crisis on the financial markets, the strengthening of the euro, and rising prices for energy and foodstuffs, the European Union and the eurozone experienced a marked economic cool-down in the annual average figures for 2008. As a result of the crisis of confidence following the collapse of the banking industry, demand in the real economy also slumped. The economic slow-down in Europe was most pronounced in the investment and export segments. In contrast to these developments, private consumption maintained itself somewhat better overall. However, some countries experienced further damping effects based on recessive prices on the real estate market (especially Great Britain, Spain and Ireland). This went hand in hand with continuing uncertainty with regard to the long-term financing of social systems, and with growing concerns about job security. From mid-2008 onward, the structural growth dynamic of the eastern European economies also receded into the background as a stabilizing factor for Europe.

Development

Outlook

Development

Outlook Measures implemented at the national level to support the banking sector and revitalize the economy are still being put in place in the early months of 2009. These efforts represent the most important buttress against recessive tendencies. Stabilizing factors will be further reductions in the European Central Bank's base interest rate and the massive drop in the price of raw materials. In the eurozone, economic growth is expected to decline sharply in 2009, with an extremely cautious recovery not expected before 2010.

Germany

Development After strong growth in the first quarter of 2008, further economic development in Germany was marked by the symptoms of recession. Private consumption dropped as inflation diminished purchasing power, but stabilized when prices for oil and foodstuffs fell. The upward revaluation of the euro by the midpoint of the year, and above all the sudden decline of global demand toward the end of the year, had painful effects on Germany's export trade.

Outlook With the global economy only showing gradual signs of recovery, a collapse of growth in the real economy is expected in Germany in 2009. Private consumption will stagnate, while exports and investments will show massive negative growth. The exact course of events will depend on the success of measures implemented by the government to create new confidence and mitigate the credit crunch.

The situation of the electrical and electronics industry in Germany

Development Following uninterrupted strong growth from 2004 to 2007, in the course of 2008, the German electrical and electronics industry experienced steady decline. The number of orders from abroad took a particularly strong hit. Growth in sales revenue was still as high as 6% in 2007, but in the period from January to October 2008, it shrank to just 2.2%.

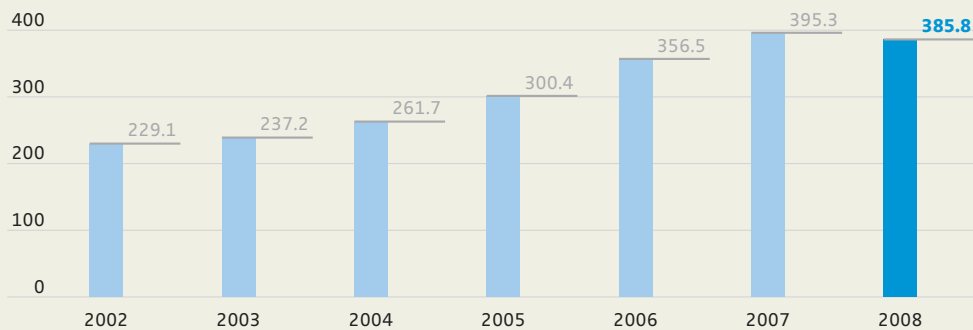
Outlook In 2009, sales revenues will continue to drop, and employment levels and capacity utilization at the end of the year can be expected to be below the values for the end of 2008. The main risks lie in an extended economic slump at the global level, in the possibility of another upward revaluation of the euro, and in a worsening credit crunch as a result of the banks' excessive reluctance to grant credit.

Sennheiser Group turnover

Following the clear growth in turnover in the past years, in view of the difficult economic situation, it was possible to achieve a growth in turnover of approximately 1.1% based on the 2007 exchange rates. However, above all the devaluation of the US dollar (–6.2% compared with the previous year, over the annual average) and a massively devalued pound sterling (–16.4% compared with the previous year) resulted in a nominal decline in turnover of 2.4% as compared with the previous year.

Development

TURNOVER DEVELOPMENT IN MILLIONS OF EUROS



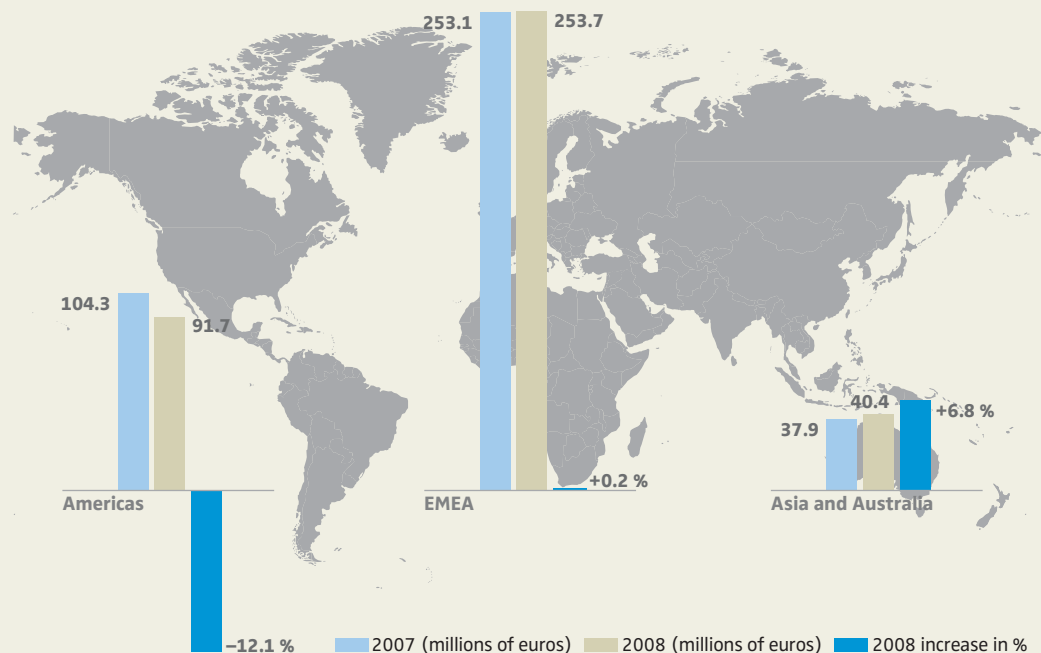
The headphones product segment showed continued growth (+0.3%) again in 2008. This has become the largest product sector, representing 28.7% of overall turnover. The second-largest segment, with a 26% share of turnover, is wireless microphones. Here, turnover fell by 2.1%. This decline is partially due to the fact that the series that is chiefly responsible for generating sales is about to be replaced by a new product generation. All other product segments have a share in turnover below 10%. These segments are: wired microphones, audiology, conference systems, aviation, spare parts and third-party products, as well as the Georg Neumann and K + H brands and the joint venture Sennheiser Communications.

In terms of the development of the individual markets, the biggest region (EMEA) showed a slight growth of 0.2%, with this growth coming explicitly from central and eastern European countries. Eastern Europe grew by 19.6%, while the significantly larger central European market recorded a 4.3% plus. Developments were equally positive in the Asian and Australian region, with 6.8% growth. This region still offers great potential. The group intends to make better inroads into these high-potential markets with the aid of its new sales subsidiaries in India, Japan and China.

Declines were recorded in the countries most affected by the financial crisis. Sales revenue in the Americas, for example, fell by 12.1% compared with the previous year. The positive development of the Latin American market took some of the edge off the recessive effects.

The economic crisis is raising the likelihood of customers falling into insolvency and is thus boosting the risk of losses in accounts receivable. Consequently, ensuring consistent claims management is becoming increasingly important.

SALES REVENUE BY REGION



Outlook Sennheiser will continue its course of profitable growth in 2009. Accomplishing this requires strategic investments to establish Sennheiser as a premium brand in key markets and in markets that are growing.

Efforts toward establishing an international system for the management of key accounts began in 2008. This must be further pursued in 2009 and in the years to come.

An important factor for the development of sales revenue in 2009 will be the introduction of "evolution wireless G3," a new generation of wireless microphone and monitoring systems. This product family is already responsible for generating a significant percentage of overall sales revenue.

Purchasing

Fiscal year 2008 was characterized by a stable supply of raw materials. It was possible to meet all requirements, and that accomplishment is owed in part to the successful implementation of the Vendor Managed Inventory and Vendor Scheduling forecasting and management systems. The high proportion of goods procured in the US-dollar zone, where more than 60% of production materials and finished products were purchased, largely made up for the exchange rate's negative effects.

The price of raw materials exhibited varying trends in 2008. After a marked rise, the price of steel fell as a result of the economic crisis in the third quarter of the year. The same held true for the price of copper, which had been very stable up until then. The price of zinc has been experiencing a slight but steady decline since 2007. The enormous rise in the price of crude oil, on the other hand, has led to a rise in the price of plastics. Here, a moderate reversal of the price trend became perceptible, but not until the fourth quarter.

Rising prices were also observed in connection with trading goods. This was caused by general developments in the prices of raw materials and by the economic overheating of the procurement markets.

Currently, supply-side surpluses worldwide are leading to a steady decline in the price of raw materials, although the downward trend has already slowed significantly. Another factor contributing to this slowing down is the worldwide reduction of production capacity.

The procurement market will be the subject of close observation in the future as well, and the material group management system will be expanded further to reduce supply risks. This also helps us to target potential suppliers for new technologies at an early stage and ensure that the suppliers have the appropriate qualifications.

Production

With a value of € 86.2 million, Sennheiser's production output in Germany during 2008 was 3.5% lower than in the previous year. The main focus of production at the German sites continues to be on the manufacture of microphones. Wireless microphones are the most important product, with a share of 33.0%, followed by wired microphones (31.7%), and by conference systems and Neumann products (each slightly below 10%).

In order to make it possible to relocate production resources from the Burgdorf site to the main plant in Wennebostel, construction of a new manufacturing building was started in the second half of 2008.

In 2008, Sennheiser Consumer Electronics GmbH's Irish site had a production output of € 22.4 million, which was 12.4% lower than in the previous year. This is principally because this site is increasingly departing from its role as a manufacturer of headphones to become a specialist and internal supplier for acoustic transducers. Consequently, production of headphones decreased sharply (-68%) compared with the previous year. Simple assembly operations are increasingly being carried out by suppliers. In the future, the second office in Singapore will also increasingly function as a unit that markets traded headphones, in addition to the product management and a part of the product development for the consumer segment.

Development

Outlook

Development

Production output at the Albuquerque site in the USA rose by 4.1% to € 35.8 million. In the plant's local currency, the real increase actually amounted to 10.6%. The main focus of production continues to be on wireless microphones (63.3%) and on supplying production components to Sennheiser electronic GmbH & Co. KG (30.5%).

In 2008, preparations were made for volume production of the third generation of "evolution wireless" in a cooperative project with Sennheiser electronic GmbH & Co. KG. Deliveries of the new product should begin in April 2009.

Outlook Construction of the new production and technology center in Wennebostel should be complete by the end of 2009. In the future, the manufacturing processes from the Burgdorf site will be transferred to that location. This step will boost productivity by alleviating the need to transport materials, creating synergies in the production process and improving communications. The efficiency improvements gained in this way will not just be restricted to the manufacturing process itself; they will also have lasting beneficial effects for logistics processes. A strict focus on the processes involved will bring together the relevant expertise and contribute to further improvements in product quality. The new building thus offers ideal conditions for implementing lean manufacturing.

Logistics

Development In February 2008, Sennheiser Logistics Services GmbH (SLS) went into operation with its first site, which is located in Osnabrück, Germany. Ever since then, as part of a new supply-chain concept, SLS has been functioning as a central finished goods warehouse for European business. This is where all logistics processes come together. The aim is not just to centralize and optimize inventories, but above all to improve the availability of goods. Moreover, all the Sennheiser Group's brands can now be ordered from a single supplier. Due to the enormous range of processes that needed to be adapted, the start of SLS was followed by a phase of optimization. New processes are regularly checked. If necessary, they are then adapted in order to minimize risk and complexity.

The Osnabrück site is responsible for handling the logistics of a large part of the customer deliveries made by the sales subsidiary Sennheiser Vertrieb und Service GmbH & Co. KG.

In July 2008, another central SLS warehouse was opened in Hong Kong for the purpose of serving the Asian markets. Until now, only Sennheiser Hong Kong Ltd.'s B2C (business-to-customer) operations are handled in this manner. Many more Asian markets are served on a B2B (business-to-business) basis from this central warehouse.

Outlook For 2009, there are plans for opening a central SLS warehouse in Chicago to serve the American market. From April 2009 onward, direct deliveries to Sennheiser UK Ltd.'s customers will be handled from the central warehouse in Osnabrück. The same approach will be rolled out in phases to the other sales subsidiaries. Further optimization of the company's logistics strategy will reduce decentralized inventory worldwide.

Quality Management

As planned, a shared CAQ/MES system was introduced at all international production sites. This results in the systematic registration and analysis of quality-related data acquired in processes such as inspection of incoming goods, recording of production defects, registration of customer complaints and performance of internal audits.

As the number and scope of international regulations and statutory requirements related to product configurations continue to grow, complying with these stipulations is becoming an increasingly significant task. In 2008, the first organizational adaptations were made with the aim of making this special knowledge available to the Sennheiser Group as a whole. An office with the expertise required for this has been set up for this purpose in Singapore.

Just as in other business areas, it is hoped that the complexity of quality management, too, can be reduced by introducing lean management processes. This goal is to be achieved in close cooperation with the various process owners.

Global social responsibility and environmental conservation are also increasingly important factors. Agreements are being made with suppliers on a defined code of conduct, and compliance checks are being performed. Here, additional competencies are being developed to enable the company to accommodate increasingly stringent international regulations in the future as well.

Development

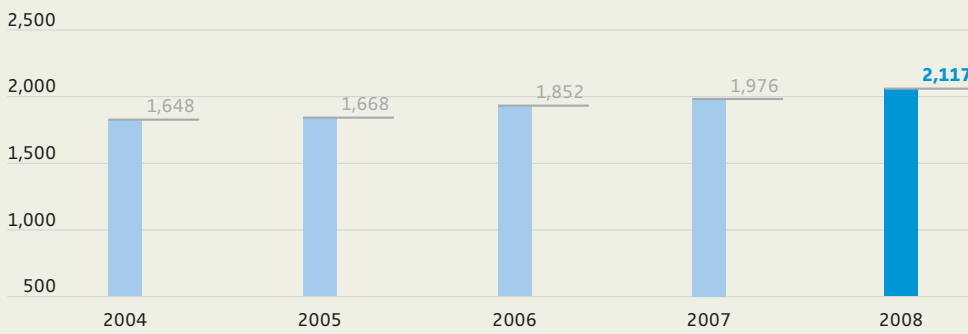
Outlook

Human Resources

The Sennheiser Group's average staffing level rose by 7.1% in 2008, to 2,117 employees. This included 56 trainees (compared with 51 in the previous year). At the end of the year, the number of employees came to 2,130. Furthermore, in August, 16 new apprentices and students in the dual-education program started their training at Sennheiser. New vocational paths available include a Bachelor of Engineering degree in the subjects of Mechatronics and Design Technology.

Development

PERSONNEL LEVELS



Personnel costs rose by 3.5% in comparison with the previous year.

The rise in the number of employees results principally from Sennheiser electronic GmbH & Co. KG and Sennheiser Communications A/S, but also from the new Asian companies. On average, 55% of all employees were working for companies within Germany and 45% for companies abroad.

The implementation of the General Remuneration Agreement (Entgeltrahmenabkommen, ERA) 2007 has proved its usefulness. Further improvements have been achieved in the consistency of personnel group allocation. Equally successful has been the new form of group compensation, which was introduced in April 2007. Since then, employees in production departments have been compensated on the basis of a system of target agreements. The agreed-upon target variables (based on delivery performance, quality and work in progress) were not just met but actually exceeded in 2008, so it was possible to pay out the agreed-upon bonuses.

International human resources (HR) work was further developed through the creation of a dedicated department for this purpose. These efforts were rolled out in a succession of projects within the framework of the second Global HR Meeting. The main emphasis of these projects was on themes such as employer branding, international HR key performance indicators, the management development program and support of the Sennheiser subsidiaries in the HR area.

Outlook Primary objectives for 2009 include integrating new hires from the previous year, analyzing working procedures and optimizing processes. In view of the development of the global economy, the main emphasis is on stabilizing these procedures and processes and on implementing appropriate measures to guard against the loss of jobs. Present staffing levels provide a solid basis for future corporate growth.

Investments

In 2008, investments in tangible and intangible assets amounted to € 20.9 million, € 1.9 million of which was attributable to intangible assets.

Sennheiser electronic GmbH & Co. KG invested € 9.1 million in tangible and intangible assets in 2008. This included not only investments in equipment and machinery to the amount of € 1.9 million as part of process optimization programs, but also purchases of measuring and laboratory equipment, coming to € 4.8 million. Tooling for suppliers is included in the investments in tangible assets, representing € 0.8 million. Other important investments in tangible assets were for the workplace equipment for new hires and for the purchase of more powerful IT hardware. Alongside this, € 0.7 million were invested in intangible assets.

The Irish production site invested € 3.7 million in tangible and intangible assets, the Singapore site € 0.4 million and the US production site € 5.3 million. Investments by sales subsidiaries in tangible and intangible assets came to € 2.4 million.

Research and Development (R&D)

In 2008, Sennheiser again invested heavily in the R&D division, and thus in its own future. The number of R&D employees in the Sennheiser Group rose by 15%. The largest number of new hires in this category was recorded by the joint venture Sennheiser Communications A/S.

During the year under review, the company again succeeded in developing numerous products to the point of readiness for volume production and in launching them onto the international market. In the area of professional microphone systems, the new flagship of the 3000 series, the EM 3732 receiver, is noted for its extreme reliability of transmission, outstanding audio quality and exceptional ease of operation. This premium product also offers a whole series of new features, including digital audio outputs, an Ethernet connection, a high-contrast display and an intuitive user menu. The MKE 1 clip-on microphone features a considerable reduction of the dimensions of the MKE 2, a product which has been successful for many years. This reduction was achieved without any impairment of the microphone's outstanding sound quality. Combined with its even more effective protection against moisture and a Kevlar™-reinforced cable that minimizes handling noise, this advance makes this clip-on microphone the premium choice for many uses – on stage, in a studio or in a conference center.

For use in the music industry, the new "evolution e 965" model is a microphone with a large-diaphragm, true condenser capsule and switchable pick-up pattern. With its full, detailed sound, this microphone is well suited for professional use in the most demanding situations.

The consumer product portfolio was extended by the addition of the MX W1, the first completely wireless ear-canal stereo earphone system. With two separate miniature earphones, the MX W1 offers uncompressed digital wireless transmission and first-class stereo sound that loses none of the detail. The new IE 6, IE 7 and IE 8 ear-canal phones are based on professional monitoring applications and have been optimized to meet the needs of demanding consumers. Their balanced, accurate and true-to-nature audio reproduction is impressive. In addition, the IE 8 includes a facility for adapting the bass frequency response to the user's individual preferences. The existing product portfolio in the range of headphones for mobile audio applications has been greatly enhanced with regard to comfortable fit, durability and product design, and expanded by the addition of the new CX 200 entry-level model.

For aviation applications, the new HME 95 and HMEC 250 headsets feature a high degree of user comfort and optimum transmission quality for reliable communications. NoiseGard™ active noise compensation (HMEC 250) helps protect users' hearing, as does a peak-level protection system for avoiding volume peaks.

The successful guidePORT product family has been upgraded with an innovative housing design for the receiver and mobile transmitter. The system offers exhibitors a comprehensive solution for providing information to visitors, either in automatic operating mode (leaving the visitor in control) or in guided tours. The equally successful Tourguide product family has been extended by the addition of the robust SKM 2020-D hand-held transmitter and the compact SR 2020-D rack-mount transmitter for use at conferences.

Development

With the MM 200 BT, the joint venture Sennheiser Communications A/S offers a stereo Bluetooth headset that supplies the premium sound quality that customers have come to expect. In addition, the MM 50 "iPhone" represents a stereo headset that has been specially optimized for Apple products. Its natural sound reproduction, with wide dynamics and an outstanding bass, is impressive. The wireless VMX 100 "office" Bluetooth headset is supplied with a base station for connection to a landline telephone and to a PC. This headset can also be used with Bluetooth-capable mobile phones or with a Bluetooth interface in a car.

The loudspeaker specialist K + H Vertriebs- und Entwicklungsgesellschaft mbH has presented a new series of flexible loudspeaker systems: the IS 122, IS 123 and IS 153 have been specially developed for installed sound systems expected to meet high standards. With three alternative back plates, they can be configured to meet different requirements. The new KPA amplifier series offers high performance and efficiency, while remaining easy to use. To make this possible, besides analog inputs, the amplifiers also have a digital K8 interface.

With its TLM 103 D microphone, Georg Neumann GmbH has brought out a new digital version (AES42 standard) of a highly successful Neumann classic. The TLM 67, with its newly developed circuit design, comes close the sound characteristics of the legendary U 67. At the heart of the new device is the classic K 67 capsule. Three switchable polar patterns, selectable pre-attenuation and a high-pass filter make it possible to adapt this product precisely to any kind of recording situation.

Outlook For 2009, hiring plans in the R&D area are much more conservative than they have been in prior years. Following the numerous new hires in recent years, the focus must now be on integrating the new staff members in the best possible way in order to boost the efficiency of the entire organization. For 2009, plans again call for the launch of important new products, which will contribute to further growth for the Sennheiser Group.

Asset, Financial and Operating Position

Asset position

Despite the rather restrained development of business, the balance sheet total has grown by € 6.3 million (2.8%) to reach € 228 million. This rise is principally attributable to the growth of fixed assets and inventory stocks. Inventory stocks rose in the reporting year by € 16.6 million to reach € 73.2 million. This increase was largely the result of global economic developments in the fourth quarter of 2008 and the resulting loss of turnover. Fixed assets rose as a result of investments in the course of the financial year by € 7.2 million to € 44.2 million. As a result of inventory stock developments and the investment in fixed assets, cash at banks and other securities fell by € 15.2 million.

In keeping with turnover developments, trade receivables have fallen by € 9.7 million (13.9%). Equity likewise fell by € 13.4 million to € 46.2 million. This results from the fact that, during the year under review, the inventory stocks held by the production companies were sold to Sennheiser Logistics Services GmbH. The profits resulting from the sale of stocks were realized by the individual companies. Sennheiser electronic GmbH & Co. KG's business results, including the assimilated business results of the affiliated companies, have been booked to the

shareholders' accounts rather than being presented under equity. Elimination of the interim profits included here is effected at group level and reduces the final equity figure. Taking into account the liabilities to shareholders, shareholders' funds come to € 113.4 million (49.7% of the balance sheet total). Shareholders' funds have risen by 8.9% in comparison with the previous year. Pension reserves have increased by € 3.0 million to € 50.2 million.

Financial position

Cash flow from current business activities comes to € 11.4 million (compared with € 33.7 million in the previous year). Cash flow from current business activities along with available liquid reserves covered the group's investment and financing activities. However, the financial resources (cash and cash equivalents) sank by € 14.5 million as compared with the previous year.

Operating position

The Sennheiser Group achieved a turnover of € 385.8 million in 2008, which represents a growth of 1.1% in the currency of the various countries. Developments in the exchange rates, however, had a negative effect (3.6%) on turnover. On a consolidated basis, this results in a 2.4% decline in turnover compared with the previous year. In view of the developments in turnover in the first quarter, cost-saving measures were introduced in April. In spite of these measures, operating expenses rose, leading to a figure of € 18.3 million for the results from ordinary activities. While the ratio for raw materials and consumables rose only slightly, the increase in personnel costs (+3.5%) and in other operating expenses (+9.5%) as compared with the previous year were influential factors contributing to the figure shown for results from ordinary activities. Results from ordinary activities were further burdened in fiscal year 2008 by expenditures arising from start-up losses for new companies (€ 2.3 million). Losses resulting from the rate of exchange due to the valuation of balance sheet items also influenced the final result. The final profits achieved by the Sennheiser Group amounted to € 14.8 million (compared with € 20.2 million in the previous year).

III. RISK MANAGEMENT

In the light of current business developments, no serious risks can be detected at the present time that would threaten the future survival of the company. In 2009, changes in the economy as a whole will continue to influence the development of the Sennheiser Group's business. Given the group's strong international commitment, the development of the global economy is also an important factor.

Economic fluctuations and the global economic and financial crisis increased market risk in the past fiscal year. Due to their high degree of volatility, exchange rates also had an increasing influence on business developments. In order to limit dependence on the current principal markets, the management strategy includes plans for opening up new markets. To strengthen the group's positioning in the end-customer area, investments are being made in brand development in particular. To reduce potential price risks in the sales markets, a project has been initiated to increase transparency in this area.

Liquid resources, inasmuch as they are not required by subsidiaries for daily business, are concentrated in the parent company on the basis of a cash pooling program. A conservative investment strategy is being pursued to minimize the risk of loss of assets.

Current tendencies toward using UHF frequencies for new digital applications (DVB-H, wireless broadband Internet, etc.) threaten the frequency resources that have traditionally been used by professional wireless microphone and monitoring systems. In the medium term, this could restrict the business with wireless microphones. For this reason, Sennheiser is working with users and competitors on initiatives to secure sufficient frequency resources. In the USA, one frequency range has already been lost and can no longer be used. In Europe, it is only a matter of time until a frequency band that until now has been used for wireless production resources will be lost; this will be the case in Germany from January 1, 2016, onward. In parts of Europe (Germany, France, Switzerland), a trend is emerging that would allow professional wireless production resources to be used in a different frequency band. Binding decisions that would define the access to this range of the spectrum are, however, not yet available. In addition, Europe already has an additional frequency band available. Discussions about more extensive harmonization measures are currently being carried on at the EU level.

A group-wide controlling system is in place. This system continuously plans and supervises business processes throughout the group, in the parent company and in the affiliated companies. If deviations are discovered, suitable control measures can be introduced in good time.

The fact that a large percentage of sales are in US dollars, coupled with the Sennheiser Group's increasingly international orientation, means that currency risks do exist. However, increasing procurement activity in the US dollar zone can substantially mitigate this risk again in 2009. In light of these circumstances, it was possible to do without any far-ranging currency hedging deals during fiscal year 2008. Besides the US dollar, the performance of the pound sterling (GBP), the Canadian dollar and the Asian currencies influence development of the business.

Owing to the company's broad customer base, the risk of loss of accounts receivable has been very low in the past. Nonetheless, tight account management has been in place, with outstanding debts being consistently monitored. In 2008, a significantly greater percentage of turnover was attributable to key accounts. The extent of cooperation with customers that operate internationally has increased, especially in the area of consumer business. In connection with the onset of the global economic crisis, this has increased the risk of loss of accounts receivable. An international key account management system has been set up to keep a closer eye on our cross-border customers.

The company's global insurance policy covers the interest of all the group's affiliated companies. Insurance policies are also in place to protect against reciprocal risks within the Sennheiser Group and against consequential damages caused by defaulting suppliers. During the year under review, comprehensive risk analysis was carried out in cooperation with an insurance broker that operates internationally. These efforts documented potential interruptions to business in detail, formulating them in actuarial terms. Furthermore, global insurance policies have been extended to include transport insurance as well.

Expansion of the company's business in the Asian region and growth in consumer business have increased the risk of counterfeit products entering the market. To protect the company brand, measures countering these activities have been implemented in cooperation with local lawyers

and authorities. Crackdowns are being carried out at the local level, and customs authorities have been requested to confiscate counterfeit goods at the border.

Strategic purchasing programs constantly monitor the risk of default by key accounts. Efforts toward strategic extension of the supplier network are being undertaken in order to prevent dependence on individual suppliers. Furthermore, the group-wide insurance strategy takes dependencies on supplier relations into account.

Appropriate organizational measures are in place to head off potential risks caused by new technological developments. The new "Strategic Innovation" organization in Zurich, Switzerland, endeavors to boost the mid- and long-term potential of the Sennheiser Group's product portfolio and markets. The recently developed technology roadmap process lays down guidelines for rapidly coming to grips with the technology of the future. Quality Function Deployment (QFD) has been integrated into the product development process, which helps take customer requirements and market demands into account in the design of Sennheiser products. This is a systematic and quantifiable approach that takes the competitive situation into account. In addition, the economic potential of product ideas is assessed at a very early stage as part of the product development process. As part of the time-to-market process, work is constantly being performed on further measures for shortening the development cycle while simultaneously continuing to improve product quality.

IV. OUTLOOK FOR FUTURE DEVELOPMENT

The Sennheiser Group's worldwide distribution structures have been extended through the foundation of a subsidiary in China. Intensive efforts are underway to gain a greater share of the markets to which access has just been gained – India, Japan and eastern Europe. In view of these developments, and on the basis of new product launches, turnover is expected to develop well in 2009, with earnings remaining at a steady level. Nonetheless, this will depend on, among other things, the development of the global economy.

In order to minimize risks, tight cost management efforts will continue in 2009. To improve net liquidity, measures are being introduced to reduce inventory levels and accounts receivable.

Wennebostel, Germany, April 3, 2009



Volker Bartels

Volker Bartels
President,
Manufacturing and Logistics



Dr. Heinrich Esser

Dr. Heinrich Esser
President,
Research and Development



Stefan Junker

Stefan Junker
President,
Controlling and Finance

Consolidated Financial Statements 2008

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2008 ASSETS

| | 2008 IN EUR (€) | PREV. YEAR, € IN THOUSANDS |
|--|-----------------------|-------------------------------|
| A. Fixed Assets | | |
| I. Intangible Assets | | |
| 1. Concessions, industrial property rights and similar rights | 2,885,467.84 | 2,723 |
| 2. Goodwill | 173,090.17 | 289 |
| | 3,058,558.01 | 3,012 |
| II. Tangible Assets | | |
| 1. Real estate, equivalent titles, and buildings, including buildings on non-owned land | 5,085,991.80 | 4,876 |
| 2. Technical equipment and machinery | 14,452,572.18 | 11,074 |
| 3. Other plant, furniture and equipment | 14,482,556.96 | 14,206 |
| 4. Down payments and plant under construction | 5,449,785.17 | 1,746 |
| | 39,470,906.11 | 31,902 |
| III. Financial Assets | | |
| 1. Shares in associated companies | 13,250.00 | 13 |
| 2. Shareholdings | 3,350.00 | 16 |
| 3. Loans | 6,864.93 | 29 |
| 4. Indemnity claims | 1,697,019.62 | 2,122 |
| | 1,720,484.55 | 2,180 |
| | 44,249,948.67 | 37,094 |
| B. Current Assets | | |
| I. Stocks | | |
| 1. Raw materials and supplies | 20,544,360.42 | 15,430 |
| 2. Work in process | 9,783,863.01 | 8,172 |
| 3. Finished products and merchandise | 42,712,537.15 | 32,753 |
| 4. Down payments | 143,123.45 | 263 |
| | 73,183,884.03 | 56,618 |
| II. Trade and Other Receivables | | |
| 1. Trade receivables | 60,328,091.75 | 70,048 |
| 2. Other receivables | 7,373,139.00 | 4,730 |
| | 67,701,230.75 | 74,778 |
| III. Trade Investments | | |
| Other trade investments | 645.76 | 5,001 |
| IV. Cash and Cash Equivalents | 27,155,356.43 | 37,341 |
| | 168,041,116.97 | 173,738 |
| C. Accruals and Deferrals | 2,849,881.33 | 2,696 |
| D. Deferred Taxes | 12,850,397.60 | 8,195 |
| Total Assets | 227,991,344.57 | 221,723 |

LIABILITIES

| | 2008 IN EUR | PREV. YEAR, € IN THOUSANDS |
|---|-----------------------|-------------------------------|
| A. Equity | | |
| I. Fixed Capital | | |
| 1. General partners' share | 0.00 | 0 |
| 2. Limited partners' share | 5,200,000.00 | 5,200 |
| | 5,200,000.00 | 5,200 |
| II. Balance Sheet Profit | 40,433,329.94 | 53,748 |
| III. Balancing Item for Shares of Other Shareholders | 585,073.65 | 623 |
| | 46,218,403.59 | 59,571 |
| B. Special Items | 190,695.20 | 197 |
| C. Provisions | | |
| 1. Pension provisions | 50,176,716.86 | 47,192 |
| 2. Tax provisions | 1,579,589.16 | 3,135 |
| 3. Other provisions | 22,745,311.62 | 30,072 |
| | 74,501,617.64 | 80,399 |
| D. Liabilities | | |
| 1. Liabilities to credit institutions | 680,143.85 | 664 |
| 2. Advance payments received for orders | 176,226.57 | 11 |
| 3. Trade payables | 21,165,676.03 | 15,748 |
| 4. Own bills of exchange payable | 487,949.00 | 620 |
| 5. Liabilities to shareholders | 67,023,739.27 | 44,403 |
| 6. Liabilities to associated companies | 2,672.62 | 3 |
| 7. Other liabilities | 17,538,210.65 | 20,107 |
| | 107,074,617.99 | 81,556 |
| E. Accruals and Deferrals | 6,010.15 | 0 |
| Total Liabilities | 227,991,344.57 | 221,723 |

CONSOLIDATED PROFIT AND LOSS STATEMENT FOR THE FINANCIAL YEAR 2008

| | 2008 IN EUR | PREV. YEAR, € IN THOUSANDS |
|---|-----------------------|-------------------------------|
| 1. Sales | 385,792,830.50 | 395,251 |
| 2. Increase / reduction (–) of the inventory of finished and semi-finished products | 11,571,526.41 | –3,006 |
| 3. Other own work capitalized | 3,560,345.31 | 1,764 |
| | 400,924,702.22 | 394,009 |
| 4. Other operating income | 17,738,586.79 | 12,377 |
| | 418,663,289.01 | 406,386 |
| 5. Raw materials and consumables | | |
| a) Expenditure on raw materials and supplies and on bought-in goods | 140,861,746.71 | 131,728 |
| b) Expenditure on bought-in services | 4,465,589.10 | 4,696 |
| | 145,327,335.81 | 136,424 |
| 6. Personnel costs | | |
| a) Wages and salaries | 100,354,126.82 | 94,460 |
| b) Social charges and expenditure on pensions and assistance | 23,374,851.46 | 25,116 |
| | 123,728,978.28 | 119,576 |
| 7. Depreciation and amortization on intangible assets and tangible assets | 12,947,384.51 | 12,973 |
| 8. Other operating expenses | 116,691,468.08 | 106,563 |
| | 19,968,122.33 | 30,850 |
| 9. Income from trade investments | 24.00 | 0 |
| 10. Other interest and similar income | 922,783.37 | 673 |
| 11. Interest and related expenses | 2,570,019.60 | 2,019 |
| | –1,647,212.23 | –1,346 |
| 12. Result of ordinary activities | 18,320,910.10 | 29,504 |
| 13. Taxes on income and profits | 3,165,918.70 | 8,947 |
| 14. Other taxes | 398,271.08 | 360 |
| 14. Net profit for the year (of which attributable to minority shareholders) | 14,756,720.32 | 20,197 |
| | 2,477,329.33 | 2,566 |

Notes on Consolidated Financial Statements 2008

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2008

A. General

The company is required by § 264a of the German Commercial Code (HGB) in conjunction with § 290 of the HGB to prepare Consolidated Annual Statements and a Consolidated Management Report.

B. Reporting Entity

Included in the consolidated financial statements, in addition to the parent company Sennheiser electronic GmbH & Co. KG, Wennebostel, are the six Sennheiser Group subsidiaries in Germany and 18 in other countries, as well as the joint venture Sennheiser Communications A/S, based in Copenhagen, Denmark.

In the financial year 2008, the recently founded subsidiaries Sennheiser Electronics (Beijing) Co., Ltd., based in Beijing, China, and Sennheiser Innovation (Schweiz) AG, based in Zurich, Switzerland, were consolidated for the first time.

All subsidiaries are majority owned with the exception of Sennheiser Communications A/S, where the holding is 50%. The table on the next page provides an overview of all consolidated subsidiary companies.

| CONSOLIDATION | SIZE OF HOLDING (IN %) | CURRENCY | EQUITY (IN THOUSANDS) |
|---|------------------------|----------|-----------------------|
| Full Consolidation | | | |
| 01. Sennheiser electronic GmbH & Co. KG, Wennebostel, Ger. | – | EUR | 5,200 |
| 02. Sennheiser Consumer Electronics GmbH, Wedemark, Ger. | 100.0 | EUR | 12,068 ¹ |
| 03. Georg Neumann GmbH, Berlin, Germany | 100.0 | EUR | 1,276 ¹ |
| 04. Sennheiser Vertrieb und Service GmbH & Co. KG, Hanover, Germany | 53.0 | EUR | 1,000 |
| 05. K + H Vertriebs- und Entwicklungs mbH, Wedemark, Ger. | 100.0 | EUR | 25 ¹ |
| 06. Sennheiser Global Operations GmbH, Wedemark, Ger. | 100.0 | EUR | 42,429 |
| 07. Sennheiser Logistic Services GmbH, Wedemark, Germany | 100.0 | EUR | 25 ¹ |
| 08. Sennheiser Electronic Corporation, Old Lyme, CT, USA | 100.0 | USD | 20,382 |
| 09. Sennheiser (Canada) Inc., Pointe Claire, Canada | 100.0 | CAD | 5,476 |
| 10. Sennheiser UK Ltd., High Wycombe, Great Britain | 100.0 | GBP | 6,256 |
| 11. Sennheiser France S.A.R.L., Ivry-sur-Seine, France | 100.0 | EUR | 9,561 |
| 12. Sennheiser Belux B.V.B.A., Zellik, Belgium | 100.0 | EUR | 1,318 |
| 13. Sennheiser Electronic Asia Pte Ltd., Singapore | 100.0 | USD | 4,521 |
| 14. Sennheiser Nederland B.V., Almere, Netherlands | 100.0 | EUR | 2,530 |
| 15. Sennheiser Mexico S.A. de C.V., Mexico City, Mexico | 100.0 | MXN | –1,394 |
| 16. Sennheiser Hong Kong Ltd., Hong Kong, China | 100.0 | HKD | 6,626 |
| 17. Sennheiser New Mexico LLC, Albuquerque, NM, USA | 100.0 | USD | 5,000 |
| 18. Sennheiser Manufacturing USA Inc., Albuquerque, USA | 100.0 | USD | ² |
| 19. Sennheiser Bondholding Company LLC, Albuquerque, USA | 100.0 | USD | ² |
| 20. Sennheiser Nordic A/S, Copenhagen, Denmark | 100.0 | DKK | 12,160 |
| 21. Sennheiser Audio OOO, Moscow, Russia | 51.0 | RUB | 20,589 |
| 22. Sennheiser Electronics India Private Limited, Haryana, India | 100.0 | INR | –12,427 |
| 23. Sennheiser Japan K.K., Tokyo, Japan | 100.0 | JPY | –132,700 |
| 24. Sennheiser Electronics (Beijing) Co., Ltd., Beijing, China | 100.0 | CNY | 2,948 |
| 25. Sennheiser Innovation (Schweiz) AG, Zurich, Switzerland | 100.0 | CHF | 114 ³ |
| Partial Consolidation | | | |
| 26. Sennheiser Communications A/S, Copenhagen, Denmark | 50.0 | DKK | 44,256 |

¹ Profit and loss transfer agreement with Sennheiser electronic GmbH & Co. KG, Wennebostel, Germany

² Contained in the annual accounts of Sennheiser New Mexico LLC, Albuquerque, New Mexico, USA

³ As per Commercial Balance Sheet II

The equity figures shown here represent the shareholder equity as presented in the balance sheet as of December 31, 2008. The results correspond to the figures reported in the annual statements, which in each case were prepared in accordance with relevant national law. In accordance with § 296, subsection 2, of the HGB, the subsidiary SVS Beteiligungs GmbH, Hanover, Germany, with a holding of 53%, is recognized as an acquisition cost during the fiscal year rather than being fully consolidated, because it is of minor significance.

C. Principles of Consolidation

The accounting and valuation principles used throughout the group correspond to those applied in the annual financial statement of the parent company and to the consolidating accounting standards laid down under commercial law (§ 308, subsections 1 and 2 of the HGB).

For the individual annual financial statements included, the common balance sheet date is December 31, 2008.

With the exception of equity, items were converted at the market rate on the accounting date. The equity, with the exception of the results for the year, is calculated using historic exchange rates. Conversion of the Profit & Loss items is on the basis of weighted average exchange rates. The currency conversion differences resulting from conversion of equity capital at historic exchange rates and the conversion of the Profit and Loss Statement at average exchange rates are shown in the equity capital as not affecting the operating results. Foreign exchange losses or gains contained in the individual financial statements included in the consolidation are recognized as affecting the net income reported for the year.

The following rates of exchange were employed for the currency conversion of the individual financial statements of foreign subsidiaries:

| | CODE | RATE OF EXCHANGE | |
|----------------------|------|--------------------|------------------------------|
| | | Average for 2008 | End of year on Dec. 31, 2008 |
| | | Foreign currency/€ | Foreign currency/€ |
| 01. US dollar | USD | 0.68457 | 0.71526 |
| 02. Canadian dollar | CAD | 0.64107 | 0.58353 |
| 03. Pound sterling | GBP | 1.25212 | 1.04167 |
| 04. Mexican peso | MXN | 0.06118 | 0.05168 |
| 05. Hong Kong dollar | HKD | 0.08795 | 0.09259 |
| 06. Danish krone | DKK | 0.13413 | 0.13419 |
| 07. Russian ruble | RUB | 0.02753 | 0.02366 |
| 08. Indian rupee | INR | 0.01574 | 0.01461 |
| 09. Japanese yen | JPY | 0.00664 | 0.00791 |
| 10. Chinese yuan | CNY | 0.09857 | 0.10740 |
| 11. Swiss franc | CHF | 0.63199 | 0.67277 |

The average exchange rates were determined using weighted monthly average rates on the basis of the Sennheiser Group's turnover development. Here, the monthly average exchange rates represent a monthly average based on the daily rates. This method was adopted in order to approximate the transaction-related exchange rates within the group as closely as possible.

Capital consolidation is based on the book value method. If this capital consolidation leads to a positive gain, it is depreciated on a linear basis over a useful life of four years. The initial consolidation of Sennheiser Audio 000, Moscow, Russia, resulted in a company value of € 220,000. Of this amount, € 55,000 were written off in the reporting year.

The difference shown on the liabilities side of the balance sheet arising from the capital consolidation was allocated to net profits.

Offsetting is undertaken on the basis of assigned values at the time of share purchase.

Receivables and payables involving the consolidated companies themselves are the subject of set-off.

Internal sales and other internal income within the group are offset against the corresponding expenses.

Interim profits from finished goods and raw materials are charged against net income.

Interim profits relating to fixed assets are charged against net income.

D. Notes on the Consolidated Balance Sheet

Intangible Assets are valued at procurement cost and are subject to scheduled linear depreciation. In accordance with tax regulations, goodwill is depreciated on a linear basis over a period of 15 years, or written off over four years. The valuation of **Tangible Assets** is based on acquisition and/or production costs, subject to scheduled depreciation. Additions for movable fixed assets that were acquired prior to January 1, 2008, are always depreciated on a declining-balance basis at a maximum permissible depreciation rate; depending on the useful life of the assets in question, a switch will be made to the linear method when most appropriate for reasons of tax efficiency. For movable fixed assets acquired from January 1, 2008, onward, linear depreciation is applied in all cases.

For the companies in Germany, in keeping with tax regulation changes that took effect in 2008, collective items were established for minor assets as defined by § 6a, subsection 2a, of the German Income Tax Act (EStG). These collective items are written off at a rate of 20 percent per year in the year of procurement and in the subsequent four financial years.

In companies outside Germany, minor assets are written off in full in the year of acquisition and are shown as disposals in the same year.

Interests in subsidiaries not fully consolidated and in associated companies are shown on the assets side of the balance sheet at acquisition cost. Other loans are shown at acquisition cost. Indemnity claims are valued in accordance with their capital cover.

Fixed assets are shown in the table on the next two pages.

STATEMENT OF ASSET ADDITIONS AND DISPOSALS FOR THE FINANCIAL YEAR 2008

| | ACQUISITION AND PRODUCTION COSTS | | | | | |
|---|----------------------------------|--------------------|----------------------|---------------------|-------------------|-----------------------|
| | IN EUR | Jan. 1, 2008 | Currency differences | Additions | Disposals | Transfers |
| I. Intangible Assets | | | | | | |
| 1. Concessions, industrial property rights and similar rights | 21,471,375.31 | -65,204.25 | 1,934,002.39 | 80,415.19 | 37,764.33 | 23,297,522.59 |
| 2. Goodwill | 2,289,967.50 | -24,425.38 | 0.00 | 0.00 | 0.00 | 2,265,542.12 |
| | 23,761,342.81 | -89,629.63 | 1,934,002.39 | 80,415.19 | 37,764.33 | 25,563,064.71 |
| II. Tangible Assets | | | | | | |
| 1. Real estate, equivalent titles, and buildings, including buildings on non-owned land | 5,722,256.39 | 61,068.12 | 358,432.64 | 0.00 | 0.00 | 6,141,757.15 |
| 2. Technical equipment and machinery | 35,130,501.58 | 190,045.78 | 8,564,591.05 | 659,123.14 | 80,484.87 | 43,306,500.14 |
| 3. Other plant, furniture and fixtures | 60,929,158.57 | -527,423.42 | 5,448,598.19 | 1,150,571.32 | 786,001.74 | 65,485,763.76 |
| 4. Down payments and plant under construction | 1,745,539.57 | 92.19 | 4,614,442.34 | 6,037.99 | -904,250.94 | 5,449,785.17 |
| | 103,527,456.11 | -276,217.33 | 18,986,064.22 | 1,815,732.45 | -37,764.33 | 120,383,806.22 |
| III. Financial Assets | | | | | | |
| 1. Shares in associated companies | 13,250.00 | 0.00 | 0.00 | 0.00 | 0.00 | 13,250.00 |
| 2. Shareholdings | 15,850.00 | 0.00 | 0.00 | 12,500.00 | 0.00 | 3,350.00 |
| 3. Loans | 29,531.37 | 5.14 | 0.00 | 22,671.58 | 0.00 | 6,864.93 |
| 4. Indemnity claims | 2,121,960.15 | 0.00 | 50,372.67 | 475,313.20 | 0.00 | 1,697,019.62 |
| | 2,180,591.52 | 5.14 | 50,372.67 | 510,484.78 | 0.00 | 1,720,484.55 |
| | 129,469,390.44 | -365,841.82 | 20,970,439.28 | 2,406,632.42 | 0.00 | 147,667,355.48 |

| IN EUR | | ACCUMULATED DEPRECIATION | | | NET BOOK VALUES | |
|----------------------|----------------------|--------------------------|---------------------|----------------------|-----------------------|--------------------------------------|
| Jan. 1, 2008 | Currency differences | Additions | Disposals | Dec. 31, 2008 | Dec. 31, 2008, in EUR | Previous year, EUR (in thousands) |
| 18,748,135.23 | 6,505.24 | 1,737,990.12 | 80,575.84 | 20,412,054.75 | 2,885,467.84 | 2,723 |
| 2,000,986.69 | 104.72 | 91,360.54 | 0.00 | 2,092,451.95 | 173,090.17 | 289 |
| 20,749,121.92 | 6,609.96 | 1,829,350.66 | 80,575.84 | 22,504,506.70 | 3,058,558.01 | 3,012 |
| 846,332.01 | 24,827.94 | 184,605.40 | 0.00 | 1,055,765.35 | 5,085,991.80 | 4,876 |
| 24,056,452.78 | 210,239.40 | 5,246,358.92 | 659,123.14 | 28,853,927.96 | 14,452,572.18 | 11,074 |
| 46,723,000.12 | -505,630.80 | 5,687,069.53 | 901,232.05 | 51,003,206.80 | 14,482,556.96 | 14,206 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 5,449,785.17 | 1,746 |
| 71,625,784.91 | -270,563.46 | 11,118,033.85 | 1,560,355.19 | 80,912,900.11 | 39,470,906.11 | 31,902 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 13,250.00 | 13 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 3,350.00 | 16 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 6,864.93 | 29 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,697,019.62 | 2,122 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,720,484.55 | 2,180 |
| 92,374,906.83 | -263,953.50 | 12,947,384.51 | 1,640,931.03 | 103,417,406.81 | 44,249,948.67 | 37,094 |

Individual **Stocks** items are valued at acquisition or production cost, plus pro rata overheads. Devaluations are undertaken for inventory risks due to storage time or restricted usability. The strict principle of the lower of cost or market is applied.

Trade and Other Receivables are shown at nominal value. The strict principle of the lower of cost or market is applied. Any necessary itemized and general provisions are set aside for bad and doubtful debts. Of the trade receivables, an amount of € 595,000 (€ 229,000 in the previous year) have a remaining term to maturity of more than one year. Of the other receivables, an amount of € 447,000 (€ 97,000 in the previous year) have a remaining term to maturity of more than one year.

The **Other Trade Investments** are valued at acquisition cost.

Cash and Cash Equivalents are valued at nominal value.

Accruals and Deferrals on the assets side of the balance sheet are stated in the amount of expenditure for the period following the balance sheet date.

Deferred Taxes result from accounting and valuation adjustments as well as consolidation entries that have temporary effects on the consolidated result. Tax accrual/deferral is undertaken in the case of temporary differences between the results as per the consolidated balance sheet and the results according to the statement of account transactions. The computation is based on an average tax rate of 25% (previous year: 25%). Deferred taxes continue to be accrued on losses carried forward. On the balance sheet deadline, the deferred taxes on losses carried forward were € 815,000.

The **Fixed Capital** is shown at the nominal amount of the parent company's general and limited liability capital. The Balance Sheet Profit includes a profit brought forward of € 59.493 million. The consolidation operations affecting net income are shown in the profit brought forward as at the end of the previous year. The difference shown on the liabilities side of the balance sheet arising from the capital consolidation has arisen through profit retentions by subsidiaries prior to initial consolidation and therefore has the nature of profit brought forward. The net profit of the parent company and the proportion of the consolidated net profit owing to minority shareholders are credited to the company clearing accounts and are thus not included in the balance sheet profit.

The **Special Items** contain the investment subsidies and advance payments granted to Sennheiser Consumer Electronics GmbH, Branch Ireland, Tullamore, Ireland, by the Industrial Development Agency for establishing the Irish production facility. The amortization of this special item for investment allowances on fixed assets corresponds to the scheduled depreciation on the assets subsidized. Under the terms of the contract, liability for part repayment of the allowances received may arise in certain circumstances.

Pension Provisions were valued on the basis of actuarial principles pursuant to actuarial table "2005 G" drawn up by Dr. Klaus Heubeck with an interest rate of 5% in accordance with the "Entry Age Normal Method" (Teilwertverfahren).

The formation of **Tax Provisions** and **Other Provisions** is in accordance with sound business judgment. Other provisions take into account all recognizable risks and contingent liabilities and contain, among other things, provisions for warranty claims in the sum of € 5.274 million (previous year: € 5.646 million), for profit shares, bonuses, fees and provisions € 4.943 million (previous year: € 8.190 million), for anniversary awards € 1.898 million (previous year: € 1.750 million), for vacation entitlement € 1.895 million (previous year: € 2.059 million), for severance payments € 1.674 million (previous year: € 250,000) and for pre-retirement reduction in work hours € 1.451 million (previous year: € 2.060 million).

Liabilities are valued at their repayment and/or discharge amount.

They are as follows:

| | IN THOUSANDS OF EUR | | | | | | LIABILITIES | |
|--------------------------------------|---------------------|---------------|----------------|---------------|----------------------|---------------|-------------|--|
| | Total | | Up to one year | | More than five years | | | |
| | Dec. 31, 2008 | Previous year | Dec. 31, 2008 | Previous year | Dec. 31, 2008 | Previous year | | |
| Liabilities to credit institutions | 680 | 664 | 680 | 664 | 0 | 0 | | |
| Advance payments received for orders | 176 | 11 | 176 | 11 | 0 | 0 | | |
| Trade payables | 21,166 | 15,748 | 21,166 | 15,748 | 0 | 0 | | |
| Own bills of exchange payable | 488 | 620 | 488 | 620 | 0 | 0 | | |
| Liabilities to shareholders | 67,024 | 44,403 | 67,024 | 44,403 | 0 | 0 | | |
| Liabilities to associated companies | 3 | 3 | 3 | 3 | 0 | 0 | | |
| Other liabilities | 17,538 | 20,107 | 17,461 | 19,978 | 1 | 30 | | |
| | 107,075 | 81,556 | 106,998 | 81,427 | 1 | 30 | | |

Other liabilities include tax liabilities in the amount of € 3.787 million (previous year: € 4.554 million) and social security liabilities of € 988,000 (previous year: € 989,000).

E. Notes on the Consolidated Profit and Loss Statement

Due to the reorganization of the product areas and market regions, the sales are structured differently than in the previous year. The previous year's figures have been adjusted accordingly. The EMEA region stands for the economic area that includes Europe, the Middle East and Africa.

The Sales are structured as follows:

| IN THOUSANDS OF EUR | 2008 | PREVIOUS YEAR |
|---------------------------|----------------|----------------|
| Headphones | 110,861 | 110,539 |
| Wireless Microphones | 100,973 | 103,179 |
| Wired Microphones | 35,586 | 37,576 |
| Conference Systems | 26,396 | 28,061 |
| Sennheiser Communications | 28,204 | 26,265 |
| Audiology | 25,159 | 25,107 |
| Georg Neumann | 16,677 | 17,547 |
| Aviation | 8,631 | 8,662 |
| Klein + Hummel | 3,166 | 2,655 |
| Other Products | 30,140 | 35,660 |
| Sales | 385,793 | 395,251 |

The Sales broken down into geographical markets are as follows:

| IN THOUSANDS OF EUR | 2008 | PREVIOUS YEAR |
|---------------------|----------------|----------------|
| Americas | 91,670 | 104,273 |
| Asia and Australia | 40,435 | 37,854 |
| EMEA | 253,688 | 253,124 |
| Sales | 385,793 | 395,251 |

Of the Central European sales, € 68.437 million (previous year: € 66.181 million) were earned in Germany.

Other Operating Income includes € 5,000 (€ 6,000 in the previous year) from the dissolution of the special items for investment allowances on fixed assets. Other operating income also includes income unrelated to the accounting period amounting to €771,000 (€ 886,000 in the previous year), which mainly resulted from a reduction of prior provisions and from a reduction in reserves for bad debts.

Personnel Costs include pension expenses in the amount of € 6.522 million (previous year: € 8.165 million).

On the annual average, the company had a staff of 2,117 **employees** (previous year: 1,976), of whom 56 (previous year: 51) were trainees.

| EMPLOYEES | 2008 | PREVIOUS YEAR |
|----------------|--------------|---------------|
| Within Germany | 1,167 | 1,099 |
| Abroad | 950 | 877 |
| | 2,117 | 1,976 |

These figures include the full number of employees in the partially consolidated Sennheiser Communications A/S (82, compared with 63 in the previous year).

Other Operating Expenses include expenses not related to the accounting period in the amount of € 1.820 million (previous year: € 1.568 million), which are mainly the result of reserves for bad debts.

F. Financial Obligations

Other financial obligations

The parent company conducts its business exclusively in leased premises. The lease contract has a fixed term up to December 31, 2022, and it may be subsequently terminated by two years' notice on expiry of the fifth calendar year. The annual rent during the reporting year amounted to € 1.903 million (€ 1.817 million in the previous year).

On the accounting date, there were vehicle leasing liabilities to the amount of € 781,000 and an obligation to order of € 37.585 million. In addition, there are liabilities of € 689,000 resulting from hardware and software maintenance contracts.

The subsidiaries have further external rent and leasing obligations:

- for the year 2009 to the amount of € 4.027 million,
- for the years 2010 to 2013 to the amount of € 6.148 million.

G. Other Statutory Information

Unlimited partner of the parent company is Sennheiser Beteiligungsgesellschaft mit beschränkter Haftung, Wedemark, whose subscribed capital amounts to € 30,000.

The **management** of Sennheiser electronic GmbH & Co. KG is the responsibility of Sennheiser Beteiligungsgesellschaft mit beschränkter Haftung, Wedemark.

The following persons were appointed as Presidents, collectively representing Sennheiser Beteiligungsgesellschaft mit beschränkter Haftung, Wedemark:

Volker Bartels, Hanover, Germany,
Dr. Heinrich Esser, Wedemark, Germany, and
Stefan Junker, Burgwedel, Germany.

During the year under review, the members of the **Supervisory Board** were:

Prof. Jörg Sennheiser, Wedemark, Germany (Chairman),
Lars Frandsen, management consultant, Lyss, Switzerland,
Dr. Christopher Pleister, president of the Federal Association of German Cooperative Banks (BVR),
Berlin, Germany, and
Prof. Hans-Peter Wiendahl, university professor (emeritus), Hanover, Germany

The **total emoluments** of the members of the Executive Team came to € 936,000 and those of the Supervisory Board to € 353,000.

Regarding the disclosure, the following subsidiaries in the form of a limited company or partnership in the sense of §264a of the HGB have made use of the exemption rule in accordance with §264, subsection 3, and §264b of the HGB:

- Georg Neumann GmbH, Berlin, Germany
- K + H Vertriebs- und Entwicklungsgesellschaft mbH, Wedemark, Germany
- Sennheiser Consumer Electronics GmbH, Wedemark, Germany
- Sennheiser Logistics Services GmbH, Wedemark, Germany
- Sennheiser Vertrieb und Service GmbH & Co. KG, Hanover, Germany

The parent company, in the form of a limited company in the sense of §264a of the HGB, makes use of the exemption rule in accordance with §264b of the HGB as the parent company producing the financial statement.

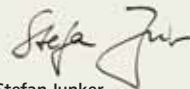
Wennebostel, Germany, April 3, 2009
Sennheiser electronic GmbH & Co. KG



Volker Bartels
President,
Global Manufacturing
and Logistics



Dr. Heinrich Esser
President,
Global Research and
Development



Stefan Junker
President,
Global Controlling and
Finance

CASH FLOW STATEMENT FOR THE FINANCIAL YEAR 2008

| IN THOUSANDS OF EUR | 2008 | PREVIOUS YEAR |
|--|---------------|---------------|
| Result for the year including the shares of profits of minority shareholders | 14,757 | 20,197 |
| Depreciation on items of fixed assets | 12,947 | 12,973 |
| Increase in medium- and long-term provisions | 2,277 | 4,903 |
| Decrease in indemnity claims | 475 | 116 |
| Changes in the special items | -5 | -7 |
| Rate fluctuations relating to fixed assets | -179 | 1,457 |
| Expenditure on deconsolidation | 0 | 746 |
| Cash earnings according to DVFA/SG¹ principles | 30,272 | 40,385 |
| Decrease (-) / increase in short-term provisions | -8,176 | 4,111 |
| Loss / gain (-) from the disposals of items or fixed assets | -14 | 1 |
| Increase (-) in inventories, trade receivables and other assets that are not allocated to the investment or financing activities | -14,298 | -9,663 |
| Increase / decrease (-) in trade payables and other liabilities that are not allocated to the investment or financing activities | 3,615 | -1,121 |
| Cash flow from current business activities | 11,399 | 33,713 |

¹ German Society of Financial Analysts and Investment Consultants.

| IN THOUSANDS OF EUR | 2008 | PREVIOUS YEAR |
|---|----------------------|----------------------|
| Payments received from disposals of items of fixed assets | 255 | 254 |
| Investments (–) in tangible fixed assets | –18,986 | –11,679 |
| Investments (–) in intangible fixed assets | –1,934 | –1,565 |
| Payments received from disposals from fixed financial assets | 50 | 17 |
| Investments (–) in fixed financial assets | –51 | –22 |
| Cash flow from investment activities | –20,666 | –12,995 |
| Other changes in shareholders' funds excluding net profit for the year | –5,489 | –6,251 |
| Cash flow from financing activities | –5,489 | –6,251 |
| Changes in cash and cash equivalents | –14,756 | 14,467 |
| Changes in cash and cash equivalents resulting from foreign exchange and valuation effects | 281 | –1,204 |
| Cash and cash equivalents at the start of the period | 33,129 | 19,866 |
| Cash and cash equivalents at the end of the period | 18,654 | 33,129 |
| COMPOSITION OF FINANCIAL FUNDS | DEC. 31, 2008 | PREVIOUS YEAR |
| Cash and cash equivalents | 27,155 | 37,341 |
| Other securities | 0 | 5,000 |
| Ongoing obligations (–) to credit institutions | –680 | –664 |
| Obligations from the cash pool (–) | –7,821 | –8,548 |
| | 18,654 | 33,129 |

STATEMENT OF SHAREHOLDER'S EQUITY FOR THE FINANCIAL YEAR 2008

| IN EUR | | | | |
|---|------------------------------|------------------------------|-----------------------------------|---|
| | Shares | | | |
| | General partners' deposit | Limited partners' deposit | Group equity capital generated | Balancing item from the foreign currency conversion |
| Status as of Dec. 31, 2007 | 0.00 | 5,200,000.00 | 59,492,591.11 | -11,078,005.63 |
| Credit to shareholder settlement accounts | 0.00 | 0.00 | -23,890,096.96 | 0.00 |
| Group net profit for the year | 0.00 | 0.00 | 12,279,390.99 | 0.00 |
| Other group result | 0.00 | 0.00 | 0.00 | -1,703,876.70 |
| Total group result | 0.00 | 0.00 | 12,279,390.99 | -1,703,876.70 |
| Status as of Dec. 31, 2008 | 0.00 | 5,200,000.00 | 47,881,885.14 | -12,781,882.33 |
| Previous year | | | | |
| Status as of Dec. 31, 2006 | 0.00 | 5,200,000.00 | 50,896,853.38 | -7,607,755.20 |
| Credit to shareholder settlement accounts | 0.00 | 0.00 | -9,968,189.25 | 0.00 |
| Changes in the reporting entity | 0.00 | 0.00 | 932,125.77 | -263,904.85 |
| Group net profit for the year | 0.00 | 0.00 | 17,631,801.21 | 0.00 |
| Other group result | 0.00 | 0.00 | 0.00 | -3,206,345.58 |
| Total group result | 0.00 | 0.00 | 17,631,801.21 | -3,206,345.58 |
| Status as of Dec. 31, 2007 | 0.00 | 5,200,000.00 | 59,492,591.11 | -11,078,005.63 |

| | PARENT COMPANY | | MINORITY SHAREHOLDERS | | |
|-------------------------------|----------------------|-------------------|---|-------------------|----------------------|
| Cumulative Other Group Result | | | Cumulative Other Group Result | | |
| Other neutral transactions | Equity | Minority capital | Balancing item from the foreign currency conversion | Equity | Group equity |
| 5,333,327.13 | 58,947,912.61 | 632,499.16 | -9,825.75 | 622,673.41 | 59,570,586.02 |
| 0.00 | -23,890,096.96 | -2,494,732.87 | 0.00 | -2,494,732.87 | -26,384,829.83 |
| 0.00 | 12,279,390.99 | 2,477,329.33 | 0.00 | 2,477,329.33 | 14,756,720.32 |
| 0.00 | -1,703,876.70 | 0.00 | -20,196.22 | -20,196.22 | -1,724,072.92 |
| 0.00 | 10,575,514.29 | 2,477,329.33 | -20,196.22 | 2,457,133.11 | 13,032,647.40 |
| 5,333,327.13 | 45,633,329.94 | 615,095.62 | -30,021.97 | 585,073.65 | 46,218,403.59 |
| 5,343,464.22 | 53,832,562.40 | 628,556.10 | -2,032.64 | 626,523.46 | 54,459,085.86 |
| 0.00 | -9,968,189.25 | -2,561,709.48 | 0.00 | -2,561,709.48 | -12,529,898.73 |
| -10,137.09 | 658,083.83 | 0.00 | 0.00 | 0.00 | 658,083.83 |
| 0.00 | 17,631,801.21 | 2,565,652.54 | 0.00 | 2,565,652.54 | 20,197,453.75 |
| 0.00 | -3,206,345.58 | 0.00 | -7,793.11 | -7,793.11 | -3,214,138.69 |
| 0.00 | 14,425,455.63 | 2,565,652.54 | -7,793.11 | 2,557,859.43 | 16,983,315.06 |
| 5,333,327.13 | 58,947,912.61 | 632,499.16 | -9,825.75 | 622,673.41 | 59,570,586.02 |

Audit Certificate

We have audited the Consolidated Financial Statements prepared by Sennheiser electronic GmbH & Co. KG, Wennebostel – consisting of the Balance Sheet, Profit and Loss Statement, Notes on the Consolidated Financial Statements, the Cash Flow Statement, and the Statement of Shareholders' Equity – as well as the Consolidated Management Report for the financial year from January 1 to December 31, 2008. The company's Executive Team is responsible for preparing the Consolidated Financial Statements and the Consolidated Management Report in accordance with the provisions of German commercial law. It is our duty to give an appraisal of the Consolidated Financial Statements and the Consolidated Management Report on the basis of the audit that we have undertaken. We conducted our audit of the Consolidated Financial Statements in accordance with §317 of the HGB (German Commercial Code), in observance of the principles of generally accepted standards for the orderly auditing of financial statements laid down by the Institut der Wirtschaftsprüfer (German Institute of Auditors). These require the audit to be planned and performed in such a way that inaccuracies and breaches that have a serious effect on the true and fair view of the net worth, financial position and earnings situation presented by the Consolidated Financial Statements, in observance of generally accepted accounting principles and in accordance with the representation provided by the Consolidated Management Report, are recognized with adequate certainty. In determining our audit work, we took into account our knowledge of the business activity and of the financial and legal circumstances of the group and any expectations of possible errors.

Within the audit, the effectiveness of the internal control system in relation to the accounts and the evidence of the details in the Consolidated Financial Statements and the Consolidated Management Report is principally appraised on the basis of random samples. The audit includes an appraisal of the annual financial statements of the consolidated companies, definition of the consolidated group, the accounting and consolidation principles and the fundamental estimations made by the management and the assessment of the overall presentation of the Consolidated Financial Statements and the Consolidated Management Report. We are of the opinion that our audit provides an adequately reliable basis for our appraisal.

Our audit gave rise to no objections.

In our judgment, on the basis of knowledge gained as part of our audit, the Consolidated Financial Statements have been prepared in accordance with the legal guidelines and proper accounting principles and, taking these principles into account, they convey a picture of the net worth, financial position and the results of operations of the group that corresponds to the actual circumstances. The Consolidated Management Report is in accordance with the Consolidated Financial Statements. Overall, it conveys an appropriate picture of the group's situation and appropriately represents the opportunities and risks related to future development.

Hanover, April 9, 2009
Deloitte & Touche GmbH
Auditors

(Dr. Beine)
Auditor

(Ziegenbein)
Auditor

