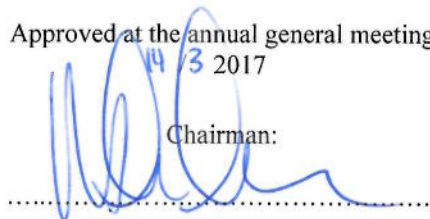


**GN Audio A/S**  
**Annual report 2016**

Approved at the annual general meeting

14/3 2017

Chairman:

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke at the end, positioned above a dotted line.

CVR-no. 15 06 95 11  
*This report contains 41 pages*

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## Statement by the Board of Directors and the Executive Management

Today, the executive management and the board of directors have discussed and approved the GN Audio A/S Annual Report 2016.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statement Act.

In our opinion the financial statements give a true and fair view of the company's assets, liabilities and financial position on December 31, 2016 and of the results of the company's operations and cash flows for the financial year January 1 – December 31, 2016.

Further, in our opinion the management's report includes a fair review of the development and performance of the company's business and financial condition, the results for the year and of the company's financial position, together with a description of the principal risks and uncertainties that the company face.

We recommend that the annual report for 2016 be approved at the annual general meeting.

Ballerup, March 13, 2017

### Executive management




René Svendsen-Tune  
CEO



Peter Gormsen  
CFO

### Board of directors



Per Wold-Olsen  
*(Chairman)*



William E. Hoover Jr.  
*(Deputy chairman)*



Hélène Barnekow



Wolfgang Reim



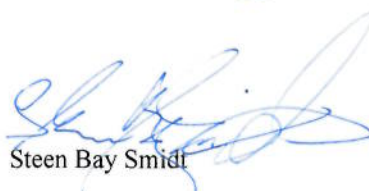
Ronica Wang



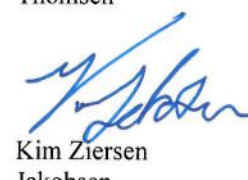
Carsten Krogsgaard  
Thomsen



Martin Arthur de  
Julienhort Hartvigsen  
*(Employee elected)*



Steen Bay Smidt  
*(Employee elected)*



Kim Ziersen  
Jakobsen  
*(Employee elected)*

## **Independent auditor's report**

### **To the shareholders of GN Audio A/S**

#### **Opinion**

We have audited the financial statements of GN Audio A/S for the financial year 1 January – 31 December 2016, which comprise an income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flow and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 2016 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **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 assurance conclusion thereon.

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

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

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

#### **Management's responsibilities for the financial statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

## Independent auditor's report

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.


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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.


We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, March 13, 2017

ERNST & YOUNG  
Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28



Torben Bender  
State Authorized Public Accountant



Anders Stig Lauritsen  
State Authorized Public Accountant

## Management's report

### Company details

**Company** GN Audio A/S  
Lautrupbjerg 7  
2750 Ballerup

Phone: 45 75 00 00  
Fax: 45 75 88 89  
Webpage: [www.jabra.com](http://www.jabra.com)

CVR.no.: 15 06 95 11  
Started: 30. August 1967  
Location: Ballerup  
Accounting year: 1. January – 31. December

**Board of Directors** Per Wold-Olsen (Chairman)  
William E. Hoover Jr. (*Deputy Chairman*)  
Hélène Barnekow  
Wolfgang Reim  
Ronica Wang  
Carsten Krogsgaard Thomsen  
Martin Arthus de julienhort Hartvigsen (*Employee elected member*)  
Steen Bay Smidt (*Employee elected member*)  
Kim Ziersen Jakobsen (*Employee elected member*)

**Executive management** René Svendsen-Tune, CEO  
Peter Gormsen, CFO

**Auditors** Ernst & Young,  
Godkendt Revisionspartnerselskab  
Osvold Helmuths Vej 4  
2000 Frederiksberg

**Ownership** The company is 100% owned by GN Store Nord A/S, Lautrupbjerg 7, 2750 Ballerup, Denmark.

## Management's report

### Financial highlights

#### Highlights and key ratios

DKK '000	2016	2015	2014	2013	2012
----------	------	------	------	------	------

#### Highlights

Revenue	2.787.771	2.522.047	2.317.067	2.093.193	1.760.293
Gross Profit	1.234.877	1.040.224	1.025.909	893.129	760.511
Operating profit (loss)	563.648	411.635	440.140	393.839	279.596
Profit (loss) from financial income and exper	(10.269)	(2.043)	8.824	37.657	49.090
<b>Profit (loss) for the year</b>	<b>431.652</b>	<b>326.953</b>	<b>341.704</b>	<b>385.044</b>	<b>182.815</b>

<b>Total Assets</b>	<b>4.661.114</b>	<b>4.320.480</b>	<b>3.013.965</b>	<b>2.507.146</b>	<b>2.124.451</b>
<b>Equity</b>	<b>3.103.763</b>	<b>2.641.939</b>	<b>2.274.133</b>	<b>1.921.464</b>	<b>1.553.899</b>

Investments in tangible assets	22.346	33.886	32.239	20.819	17.329
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#### Key ratios in %

EBITA margin	20,2	16,3	19,1	18,8	15,9
Gross margin	44,3	41,2	44,3	42,7	43,2
ROIC	17,0	14,3	15,7	18,1	10,2
Equity ratio	66,6	61,1	76,7	76,6	73,1
Return on Equity (ROE)	15,0	13,3	17,8	22,2	12,5

\* Financial ratios from 2012 - 2013 have not been restated in accordance with IFRS.

## **Management's report**

### **Business development**

#### **Principal activities of the Company**

Through its Jabra brand, GN Audio is a world leader in the development, manufacturing and marketing of headsets and speakerphones. With a reputation for innovation, reliability, and ease of use that goes back more than two decades, GN Audio's consumer and business divisions produce corded and wireless communication and audio solutions that empower individuals and businesses through increased freedom of movement, comfort and functionality. GN Audio employs approximately 1,000 people worldwide.

#### **Development in activities and financial matters**

GN Audio's revenue for 2016 ended at DKK 2,788 mill, which is a growth of 11% compared to 2015.

#### **New company name**

As part of GN's new company and brand platform announced in May 2016, GN Netcom changed its name to GN Audio. The GN Group's core competencies in the human ear, sound applications, connectivity and miniaturization, all uniquely residing under the same roof, are the foundation for the group's strong brands, where Jabra remains the flagship brand of GN Audio.

GN Audio continued to execute strongly also in the last year of the 2014 - 2016 strategy. In 2016, GN Audio delivered solid revenue growth, as well as EBITA margin increase. The development was driven by a leading product portfolio and relentless focus on commercialization. Following a successful 2016, GN Audio is well-positioned for the new strategy period.

The positive trend in the global Call Center & Office (CC&O) business continued for GN Audio throughout 2016, particularly driven by a strong development in the Unified Communications (UC) segment. GN Audio gained further market share due to its leading product portfolio and continued strong execution across the organization.

In the Mobile division, GN Audio recorded negative organic growth in 2016, driven primarily by a declining Bluetooth mono headset market.

During 2016, GN Audio has successfully focused on improving its cash flow generation. This has led to a strong increase in free cash flow and the corresponding cash conversion, to the benefit of GN and its shareholders.

GN Audio's strategy for 2017 - 2019: Hear More, Do More, Be More was announced in September 2016 and will set the direction for the next three years. The strategy is built on three cornerstones: Innovation Excellence, Commercial Excellence and People Excellence. This will be the foundation for GN Audio's continued strong profitable growth in the coming strategy period. During the year, GN Audio has emphasized The Power of Conversation. The campaign was launched to highlight GN Audio's ability to empower people with the right headset technology for their needs, which can significantly boost their productivity, improve customer relations and drive efficiency.

GN Audio is persistently investing in sales and marketing in order to continue to deliver attractive revenue growth.

Throughout 2016, the CC&O market conditions were favorable and solid as expected, driven in particular by the UC market. GN Audio expects that the market for UC solutions in coming years will expand from mostly covering large enterprises to also reaching small and medium-sized enterprises (SMEs). In recent years, GN Audio has performed well delivering intelligent audio solutions to larger corporates implementing UC solutions.

As part of the strategy for 2017 - 2019, GN Audio will increase focus and investments in the attractive Chinese market. Accordingly, during 2016, GN Audio established a new organization in China to secure a stronger footprint going forward.



## Management's report

In September 2016, at the IFA international consumer electronics tradeshow in Berlin, GN Audio launched true wireless earbuds under its new Elite franchise with superior sound, long battery life and advanced personalized fitness analysis. Leveraging GN Group's unique combined headset and hearing aid expertise, GN Audio continues to pioneer unparalleled sound capabilities with the launch of the unrivalled Elite franchise. Benefitting from, among other functionality, being waterproof, Jabra Elite Sport is a true training aid delivering freedom of movement, ground-breaking in-ear fitness analysis and long battery life for anyone who wants to work out. The new product received excellent user reviews.

GN Audio delivered a gross profit margin of 44%, (41% in 2015). Profit for the year ended at DKK 432 mill. compared to DKK 327 mill. in 2015 and the cash flow from operating and investing activities on DKK 406 mill. compared to DKK 255 mill. in 2015.

The result is in alignment with the expectations for 2016, and management assess the result as satisfying.

### Market projections

Following significant investments in the further expansion of UC software deployment during 2015, the overall CC&O market showed solid growth rates in 2016 and the market continues to develop favorably. GN Audio expects that the market trend will continue beyond 2016 creating a solid foundation for continued growth.

Long-term growth in the CC&O market is supported by the expected further adoption of UC, driven by proliferation of software-based desktop communications clients, productivity benefits, including hands-free communications and an efficient work environment with a growing number of open workspaces.

The consumer electronics market, as illustrated by parts of the smart phone market, showed a volatile and negative development during 2016. In addition, the challenges faced in the Bluetooth mono headset market during 2015 have continued in 2016 and are expected to continue into 2017.

### Risk management

Facilitated and supported by the GN's risk management function, key risks are identified and assessed by GN's management teams on a regular basis across the entire value chain.

The global management teams in GN Hearing and GN Audio subsequently evaluate the most significant risks across the two businesses and to determine whether any additional or different actions should be taken in order to mitigate them or potentially turn them into opportunities.

At least once a year, the risks assessed to be the most material are reported to and discussed with the audit committee and subsequently the Board of Directors. The overall aim of this integrated approach to risk management is to enable GN to reap the rewards of more coordinated, informed and intelligent risk-taking.

The main risks associated with GN's business and the main initiatives taken to manage them are outlined below. Facilitated and supported by GN's risk management function, key risks are identified and assessed by GN's management teams on a regular basis across the entire value chain.

#### *General risks*

GN Audio A/S' significant operating risk is linked to its ability to develop innovative new products in a cost effective platform and the ability to sell these products in key markets.

#### *Financial risk*

GN Audio A/S is as a result of its operating, investing and financing activities exposed to various financial risks. GN Group has centralized the management of financial risks.

The financial risks are handled in accordance with the general guidelines for financial risk management, as set out in GN Store Nord's fiscal policy.

The financial risks of GN Audio A/S can be outline as follows:

## Management's report

### *Interest rate risk*

GN Audio has no interest-bearing debt but net positive cash positions. Changes in interest rates are not expected to have any material effect on earnings.

### *Risks associated with distribution*

GN Audio constantly seeks to maintain an optimal inventory level that balances the desire for low working capital with the risk that the company cannot meet market demand.

GN Audio closely monitor the credit risks relating to receivables and thus the customers' payment behavior and assesses not to have significant credit risks concerning individual customers or business partners.

## Corporate Social Responsibility

### **Environment**

As a part of GN Store Nord, GN Audio A/S follow the guidelines of the group. In 2013, GN established a climate partnership with Dong Energy to ensure that GN continues to decrease its electricity spending while investing in sustainable initiatives.

### **People**

Developing talents of today into tomorrow's leaders is important to continue the group's growth. Our mentoring program is a strategic development activity, which aims at developing high performers and grow a leadership pipeline.

GN has initiated two global mentorship programs in 2016. One program focuses on our young talents who are part of our graduate program and another on growing mid-level managers into more senior management positions.

### **Business ethics**

GN's commitment to business ethics and compliance with international regulation and internal policies is anchored in our ethics guide, our code of conduct and other internal guidelines. These outline the fundamental requirements for how GN operates and describe the responsibilities and ethical standards expected of all employees and relevant business partners. To ensure and document employees' familiarity with the code of ethics and key policies at all times, relevant employees electronically sign off on their compliance within specific areas and take GN's e-learning courses within anti-corruption and competition compliance on a regular basis. This is supplemented with face-to-face compliance training for selected groups of employees.

## Operations

Carefully selected subcontractors manufacture all of GN Audio's hardware and components are sourced from trustworthy suppliers. GN Audio is working with a small number of tier-one manufacturers supported by more than 100 sub-suppliers in order to produce the comprehensive variety of products in the product portfolio.

To optimize lead-time, GN Audio maintains a regional presence at three regional warehouses located in the USA, the Netherlands and Hong Kong. The global distribution of GN Audio's products are

handled by one partner responsible for the entire process – from leaving the factories via warehouses to the final delivery to the specific customer.

## Research and development activities

Throughout 2016, GN Audio's product development focused on cementing Jabra's position as the world leader within professional headsets through the core competencies of wireless technology and intelligent audio solutions. As exemplified by the recent launches of Jabra Elite Sport, Jabra Halo Smart, as well as the two new Special Editions within the Sport Audio segment, the innovation in headsets and earbuds continued with high pace based on extensive research into customer needs and focused on delivering outstanding user benefits.

In recent years, software has become increasingly important in the development of intelligent headsets and earbuds. The distinctive functionalities of directional microphones that eliminate background noise or apps used for sport coaching are examples of software technology being critically important for delivering product benefits.

## Management's report

Software is also an important contributor in delivering excellent sound experience as exemplified by products like Jabra Elite Sport.

### Corporate Governance

According to the Danish Financial Statements Act paragraph §99 a. section 7 the company has not prepared statement on social responsibility in the annual report for 2016, as the statement contained in the consolidated financial statements of GN Store Nord A/S

The Board of Directors believes that diversity strengthens any governing body and acknowledges the importance of diversity in general, including diversity of gender, nationality and competencies.

In 2016, the Board of Directors reached its goal to see two women elected for the board by the end of 2017. As communicated in last year's annual report, the Board of Directors aims to have three female board members by the end of 2020.

Currently, women fill over 16% of the company's senior management positions. GN had aimed for 25% in 2017. It is still management's firm goal to reach this target during the implementation of the 2017 - 2019 strategy, and GN will continue to strengthen efforts to build a pipeline of future female candidates.

To achieve this goal, we ensure that diversity is an integral part of GN's yearly talent review and succession planning process, of talent development practices, of recruitment procedures, of leadership development programs, and of mentor programs. Also, recently the wording and visual identity in recruitment activities on social media and other channels has been changed to better attract female candidates.

### Events after the balance sheet date

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

### Outlook 2017

#### Strategy 2017 - 2019: Hear More, Do More, Be More

In September 2016, at GN's Capital Markets Day, GN Audio announced its strategy for the coming three-year period. The strategy is founded on three cornerstones: Innovation Excellence, Commercial Excellence and People Excellence.

To ensure strategy execution – particularly within Commercial and Innovation Excellence – a platform approach is being implemented across professional and consumer products. A combined product management function across the professional and consumer segments and a unified distribution sales organization will enable maximum utilization of technology, product and brand investments, as well as address changing partner and distribution patterns.

GN Audio's financial targets for 2017 - 2019 is to deliver 6 - 9% organic revenue growth per year (CAGR) and an EBITA margin of 17 - 19%.

## Key Ratios

Key ratios are calculated in accordance with The Danish Finance Society's guidelines on the calculations of financial ratios "Recommendations and Key Ratios 2015".

The Key ratios stated in the financial highlights have been calculated accordingly:

EBITA Margin	$\frac{\text{Operating profit (loss)} \cdot 100}{\text{Revenue}}$
Gross Margin	$\frac{\text{Gross profit (loss)} \cdot 100}{\text{Revenue}}$
Return on Investment (invested capital)	$\frac{\text{Operating profit (loss)} \cdot 100}{\text{Average invested capital}}$
Equity Ratio	$\frac{\text{Total equity} \cdot 100}{\text{Total assets}}$
Return on Equity (ROE)	$\frac{\text{Profit (loss) for the year} \cdot 100}{\text{Average equity}}$

## INCOME STATEMENT

DKK '000	Note	2016	2015
Revenue	2.1	2.787.771	2.522.047
Production costs	3.3, 3.6	(1.552.894)	(1.481.823)
<b>Gross profit</b>		<b>1.234.877</b>	<b>1.040.224</b>
Development costs	3.3	(203.996)	(197.372)
Selling and distribution costs	3.3	(332.363)	(321.751)
Management and administrative expenses	3.3, 5.4	(132.350)	(118.322)
Other operating income and costs, net		(2.520)	8.856
<b>EBITA</b>		<b>563.648</b>	<b>411.635</b>
<b>Operating profit (loss)</b>		<b>563.648</b>	<b>411.635</b>
Financial income	4.2	47.867	55.383
Financial expenses	4.2	(58.136)	(57.426)
<b>Profit (loss) before tax</b>		<b>553.379</b>	<b>409.592</b>
Tax on profit (loss)	2.3	(121.727)	(82.639)
<b>Profit (loss) for the year</b>		<b>431.652</b>	<b>326.953</b>
<b>Proposed profit appropriation/distribution of loss</b>			
Retained earnings		(1.568.348)	326.953
Proposed dividends for the year		2.000.000	-
		<b>431.652</b>	<b>326.953</b>

## STATEMENT OF COMPREHENSIVE INCOME

DKK '000	Note	2016	2015
<b>Profit (loss) for the year</b>		<b>431.652</b>	<b>326.953</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Adjustment of cash flow hedges		(429)	2.214
Foreign exchange adjustments, etc.		-	(2.289)
Tax relating to these items of other comprehensive income	2.3	94	18
<b>Other comprehensive income for the year, net of tax</b>		<b>(335)</b>	<b>(57)</b>
<b>Total comprehensive income for the year</b>		<b>431.317</b>	<b>326.896</b>

## BALANCE SHEET AT DECEMBER 31

DKK '000	Note	2016	2015
<b>ASSETS</b>			
Intangible assets	3.1	351.818	241.486
Property, plant and equipment	3.2	54.627	54.558
Investments in subsidiaries	3.4	1.182.351	1.182.351
Amounts owed by subsidiaries and group companies	4.1	19.395	10.202
<b>Total non-current assets</b>		<b>1.608.191</b>	<b>1.488.597</b>
Inventories	3.6	247.713	222.231
Trade receivables	3.7, 4.1	132.340	142.932
Amounts owed by subsidiaries and group companies	4.1	2.654.227	2.409.129
Tax receivables	2.3	-	5.479
Other receivables	4.1	18.540	52.084
Cash and cash equivalents		103	28
<b>Total current assets</b>		<b>3.052.923</b>	<b>2.831.883</b>
<b>Total assets</b>		<b>4.661.114</b>	<b>4.320.480</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital		34.006	33.886
Other reserves		3.920	4.255
RD Reserves		208.459	-
Proposed dividend for the year		2.000.000	-
Retained earnings		857.378	2.603.798
<b>Total equity</b>		<b>3.103.763</b>	<b>2.641.939</b>
Provisions	3.5	16.954	26.093
Deferred tax liabilities	2.3	43.969	31.265
Amounts owed to Subsidiaries and group companies	4.1	851.167	852.233
<b>Total non-current liabilities</b>		<b>912.090</b>	<b>909.591</b>
Bank loans	4.1	3.464	4.070
Trade payables	4.1	354.400	365.864
Tax payables	2.3	29.989	-
Amounts owed to Subsidiaries and group companies	4.1	132.175	292.949
Provisions	3.5	5.787	5.395
Other payables		119.446	100.672
<b>Total current liabilities</b>		<b>645.261</b>	<b>768.950</b>
<b>Total equity and liabilities</b>		<b>4.661.114</b>	<b>4.320.480</b>

## STATEMENT OF CASH FLOW

DKK '000	Note	2016	2015
<b>Operating activities</b>			
Operating profit (loss)		563.648	411.635
Depreciation, amortization and impairment		115.053	115.684
Other non-cash adjustments	5.3	5.297	6.583
<b>Cash flow from operating activities before changes in working capital</b>		<b>683.998</b>	<b>533.902</b>
Change in inventories		(31.547)	(37.015)
Change in receivables		49.181	(40.257)
Change in trade payables and other payables		6.877	39.966
<b>Total changes in working capital</b>		<b>24.511</b>	<b>(37.306)</b>
<b>Cash flow from operating activities before financial items and tax</b>		<b>708.509</b>	<b>496.596</b>
Interest and dividends, etc., received		122	31.898
Interest etc. paid		(583)	(13.565)
Tax paid, net		(72.951)	(73.680)
<b>Cash flow from operating activities</b>		<b>635.097</b>	<b>441.249</b>
<b>Investing activities</b>			
Investments in intangible assets, excluding development projects		(78.751)	(14.516)
Development projects		(128.465)	(138.019)
Investments in property, plant and equipment		(22.346)	(33.886)
<b>Cash flow from investing activities</b>		<b>(229.562)</b>	<b>(186.421)</b>
<b>Cash flow from operating and investing activities (free cash flow)</b>		<b>405.535</b>	<b>254.828</b>
<b>Financing activities</b>			
Increase/(decrease) of short-term loans		(606)	4.070
Share-based payment (exercised)		20.670	26.462
Increase/(decrease) of intercompany transactions		(416.131)	(263.151)
Other adjustments		(9.393)	(22.181)
<b>Cash flow from financing activities</b>		<b>(405.460)</b>	<b>(254.800)</b>
<b>Net cash flow</b>		<b>75</b>	<b>28</b>
Cash and cash equivalents, beginning of period		28	-
<b>Cash and cash equivalents, end of period</b>		<b>103</b>	<b>28</b>

## STATEMENT OF EQUITY

DKK '000	Share capital (shares of DKK 100 each)	Hedging reserve	Reserve for capitalized development costs	Proposed dividends for the year	Retained earnings	Total equity
<b>Balance sheet total at January 1, 2015</b>	33.648	2.561	-	-	2.237.924	2.274.133
Profit (loss) for the period	-	-	-	-	326.953	326.953
Adjustment of cash flow hedges	-	2.214	-	-	-	2.214
Foreign exchange adjustments, etc.	-	-	-	-	(2.289)	(2.289)
Tax relating to other comprehensive income	-	(520)	-	-	538	18
<b>Total comprehensive income for the year</b>	-	1.694	-	-	325.202	326.896
Increase of share capital	238	-	-	-	26.223	26.461
Share-based payment (granted)	-	-	-	-	8.836	8.836
Tax related to share-based incentive plans	-	-	-	-	5.613	5.613
<b>Balance sheet total at December 31, 2015</b>	33.886	4.255	-	-	2.603.798	2.641.939
Profit (loss) for the period	-	-	-	-	431.652	431.652
Adjustment of cash flow hedges	-	(429)	-	-	-	(429)
Tax relating to other comprehensive income	-	94	-	-	-	94
<b>Total comprehensive income for the year</b>	-	(335)	-	-	431.652	431.317
Increase of share capital	120	-	-	-	20.550	20.670
Share-based payment (granted)	-	-	-	-	9.327	9.327
Tax related to share-based incentive plans	-	-	-	-	510	510
Proposed dividend for the year	-	-	-	2.000.000	(2.000.000)	-
RD Reserves	-	-	208.459	-	(208.459)	-
<b>Balance sheet total at December 31, 2016</b>	34.006	3.920	208.459	2.000.000	857.378	3.103.763

The share capital has increased with kDKK 162 in 2012, kDKK 205 i 2013, kDKK 254 in 2014, kDKK 238 in 2015 and kDKK 120 in 2016

#### § Accounting policies

##### Reserve for capitalized development costs

The reserve for development costs comprise GN Audio's development costs corresponding to the capitalized development cost in the balance sheet adjusted for deferred tax. The reserve is non distributable and cannot be used to cover deficit. The reserve is dissolved upon disposal of the development cost either by sale or if the development cost is no longer part of the entity's operation. The reserve will then be transferred to the distributable reserves. The reserve will be reduced and the distributable reserves increased concurrently with either depreciations or write-downs.



**SECTION 1****Basis of preparation**

In order to make the annual report more reader friendly the notes have been grouped in sections. Furthermore, each note include the accounting policies and significant accounting estimates applicable to the relevant notes. The description of the accounting policies in the notes are part of the complete description of GN Audio's accounting policies. The notes are grouped in these five sections:

Section 1 Basis of preparation

Section 2 Results for the year

Section 3 Operating assets and liabilities

Section 4 Capital structure and financing items

Section 5 Other disclosures

Included in Section 1 are required disclosures and general accounting policies, including management's judgments and estimates under International Financial Reporting Standards (IFRS), relevant for the understanding of the basis of preparation of the separate financial statements of GN Audio A/S. GN Audio A/S's is part of GN Store Nord's consolidated Annual Account and do therefor not prepare a consolidated account for GN Audio A/S - Group.

New or revised EU endorsed accounting standards and interpretations are described in addition to how these changes are expected to impact the financial performance and reporting of GN Audio A/S

**Revenue**

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

**Production Costs**

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

**Development costs**

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

**Selling and Distribution Costs**

Selling and distribution costs comprise costs relating to the sale and distribution of products and services, including salaries, sales commissions, advertising and marketing costs, depreciation and impairment, etc. Also included are losses on trade receivables.

**Management and Administrative Expenses**

Management and administrative expenses comprise expenses incurred for management and administration. Administrative expenses include office expenses, depreciation and impairment, etc.

**Other Operating Income and Costs**

Other operating income and costs comprise items secondary to the principal activities of the enterprises.

**! Significant accounting estimates****Revenue Recognition**

Significant accounting estimates and judgments involve determining the portion of expected returns of goods. The portion of goods sold that is expected to be returned is estimated based on historical product returns data.

## 1.1 GENERAL ACCOUNTING POLICIES

The annual report of GN Audio for 2016 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Danish disclosure requirements for annual reports of listed companies. In addition, the annual report has been prepared in compliance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

The financial statements are presented in Danish kroner (DKK), rounded to the nearest DKK 1,000. The Company's functional currency is DKK.

The annual report has been prepared in accordance with the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments at fair value.

### Adoption of new and revised accounting standards

GN Audio has adopted all the relevant new and revised International Financial Reporting Standards and IFRIC Interpretations effective as of January 1, 2016. The new and revised Standards and Interpretations did not affect recognition and measurement materially nor did they result in any material changes to disclosures in the notes. Apart from these minor changes, the annual report is presented in accordance with the accounting policies applied in previous years' annual reports.

### Accounting standards not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, or have not yet been adopted by the EU, and have not been applied in preparing this annual report. Those, which may be relevant to GN Audio, are the following:

- IFRS 9 Financial Instruments applies to annual periods beginning on or after January 1, 2018. IFRS 9 contains reviewed requirements for recognizing and measuring financial instruments, including handling of expected credit losses when calculating impairment of financial instruments as well as principles for accounting for hedging transactions. The preliminary assessment of how the standard will affect the recognition and measurement of financial instruments shows, that it will most likely have an effect on recognition and measurement of financial instruments such as ownership interests in unlisted enterprises and derivative financial instruments related to such. As sufficient and recent information to measure fair value is not always available for investments in unlisted enterprises the effect has not been quantified yet. Disclosure in the financial statements will change slightly as the classification of financial assets will be simplified to include only two categories: Financial assets measured at eithized in the income statement as
- IFRS 15 Revenue from Contracts with Customers applies to annual periods beginning on or after January 1, 2018. IFRS 15 establishes a comprehensive framework for determining whether, to what extent and at what point in time revenue is recognized. The preliminary assessment of how the standard will affect the recognition and measurement of revenue shows, that it will most likely only have a limited effect on the revenue recognition in GN Store Nord. GN Store Nord's existing accounting policy for revenue recognition is based on transfer of risk to the buyer whereas revenue recognition according to IFRS 15 will be based on transfer of control to the buyer. Based on reviews of selected contracts with customers this change is not expected to affect the timing of revenue recognition in GN Store Nord. The new standard will require additional disclosures regarding revenue recognition.
- IFRS 16 Leases applies to periods beginning on or after January 1, 2019. The effects of the standard have not yet been analyzed in detail and the financial impact of the new standard will depend on the lease agreements in effect at the time of adoption. However, as the company does not have any material lease agreements the standard is only expected to have limited effect on recognition and measurement.

GN Audio expects to adopt the mentioned standards and interpretations as of the effective dates.

### Translation of Transactions and Amounts

On initial recognition, transactions denominated in foreign currencies are translated to DKK at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognized in the income statement as financial income or financial expenses. Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognized in the latest annual report is recognized in the income statement as financial income or financial expenses.

### Translation of Subsidiaries

Foreign exchange adjustment of balances with foreign entities that are considered part of the investment in the entity are recognized in other comprehensive income in the consolidated financial statements under a separate translation reserve.

**Cash Flow Statement**

The cash flow statement is presented using the indirect method based on the operating profit (loss). The cash flow statement shows the cash flow from operating, investing and financing activities for the year and the year's changes in cash and cash equivalents as well as the cash and cash equivalents at the beginning and end of the year.

Cash flow from operating activities comprises cash flow from the year's operations adjusted for non-cash operating items and changes in working capital. Working capital comprises current assets excluding items stated as cash and cash equivalents and excluding tax receivable, as well as current liabilities excluding bank loans, tax payable and provisions.

Cash flow from investing activities comprises payments in connection with acquisitions and disposals of enterprises and activities, acquisitions and disposals of intangible assets, property, plant and equipment and other non-current assets and acquisitions and disposals of securities that are not included in cash and cash equivalents.

Cash flow from financing activities comprises changes in the size or composition of the share capital and related costs as well as the raising of loans, repayment of interest-bearing debt, acquisition and disposal of treasury shares and payment of dividends to shareholders.

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less and are subject to an insignificant risk of changes in value.

**1.2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

The recognition of certain items of income and expenses and the determination of the carrying amount of certain assets and liabilities implies making accounting estimates and judgments. Significant accounting estimates and judgments comprise revenue recognition, computation of amortization, depreciation and impairment, useful lives and remaining useful lives of non-current assets. Furthermore, recognition of non-current obligations, provisions, contingent assets and liabilities as well as measurement of investment in associates requires significant accounting estimates and judgments.

The estimates used are based on assumptions, which by Management are deemed reliable, but by nature are associated with uncertainty. The assumptions may be incomplete or incorrect, and unexpected events or circumstances may arise. Accordingly, the Company is subject to risks and uncertainties that may lead to a situation where actual results differ from estimates.

A description of significant accounting estimates and judgments is included in the relevant notes:

- 2.4 Tax
- 3.1 Intangible assets
- 3.5 Provisions
- 3.6 Inventories
- 3.7 Trade receivables
- 5.5 Contingent liabilities, other financial liabilities and contingent assets

## 2.1 GEOGRAPHICAL INFORMATION

DKK '000	Revenue		Intangible assets and property, plant and	
	2016	2015	2016	2015
Denmark	103.435	92.174	360.422	252.358
Rest of Europe	1.307.439	1.206.074	-	-
North America	918.654	742.759	-	-
Asia and rest of world	458.243	481.040	46.023	43.686
<b>Consolidated Total</b>	<b>2.787.771</b>	<b>2.522.047</b>	<b>406.445</b>	<b>296.044</b>

Revenues are attributed to countries on the basis of the customer's location. Intangible assets and property, plant and equipment are attributed based on the physical location of the assets.

## 2.2 STAFF COSTS

DKK '000	2016	2015
Wages, salaries and remuneration	(278.549)	(260.081)
Pensions	(17.447)	(17.137)
Other social security costs	(2.859)	(2.365)
Share-based payments	(9.327)	(8.836)
<b>Total</b>	<b>(308.182)</b>	<b>(288.419)</b>
Included in:		
Production costs	(25.804)	(25.418)
Development costs	(118.836)	(109.843)
Selling and distribution costs	(116.213)	(102.741)
Management and administrative expenses	(47.329)	(50.417)
<b>Total</b>	<b>(308.182)</b>	<b>(288.419)</b>
Average number of employees	334	337
Number of employees, year-end	335	353
The full-year remuneration of the Board of Directors is as follows:	1.125	1.125

Executive Management remuneration can be specified as follows:

DKK '000	2016				2015			
	Fixed salary	Bonus	Share-based payments	Total	Fixed salary	Bonus	Share-based payments	Total
René Svendsen-Tune, CEO of GN Audio from April 1, 2015	(5.748)	(3.295)	(1.428)	(10.471)	(4.258)	(2.063)	(617)	(6.938)
Niels Svenningsen, CEO of GN Audio until March 31, 2015	-	-	-	-	(1.167)	(1.579)	(171)	(2.917)
Peter Gormsen, CFO of GN Audio from December 1, 2015	(2.295)	(396)	(86)	(2.777)	(162)	(439)	-	(601)
Tom Zachariassen, CFO of GN Audio until November 31, 2015	-	-	-	-	(3.420)	(414)	(422)	(4.256)
<b>Total</b>	<b>(8.043)</b>	<b>(3.691)</b>	<b>(1.514)</b>	<b>(13.248)</b>	<b>(9.007)</b>	<b>(4.495)</b>	<b>(1.210)</b>	<b>(14.712)</b>

The total remuneration of the Executive Management is based on the "General Guidelines for Incentive Pay to Management", as adopted at GN's Annual General Meeting. The total remuneration of the Executive Management decreased by 8% or kDKK 1,215 from 2015 to 2016.

Remuneration of the Executive Management is based on a fixed base salary plus a target bonus of 50% of the base salary with a potential to underperform or outperform the target leading to an effective potential bonus range of 0 - 100% of the base salary. The Executive Management's bonus is based on three parameters in light of the company's focus areas. René Svendsen-Tune's and Peter Gormsen's bonus is subject to the performance of GN Audio's EBITA, GN Audio's revenue and individual performance targets. The Company does not make pension contributions in respect of members of the Executive Management. Executive Management has severance agreements and change-of-control agreements on market terms.

Members of the Board of Directors receive a fixed remuneration as approved by the shareholders at the Annual General Meeting on March 10, 2016. The fixed remuneration is based on GN Store Nord's corporate governance structure in which an audit committee, a strategy committee, a remuneration committee and a nomination committee have been established. Further, the appointed board members of GN Store Nord also serve on the Board of Directors of GN Hearing A/S and GN Audio A/S.

## 2.3 TAX

## TAX ON PROFIT (LOSS)

DKK '000	2016	2015
<b>Tax on profit (loss)</b>		
Current tax for the year	(109,296)	(72,176)
Deferred tax for the year	(11,978)	(18,247)
Withholding tax	(117)	(307)
Adjustment to current tax with respect to prior years	484	486
Adjustment to deferred tax with respect to prior years	(820)	7,605
<b>Total</b>	<b>(121,727)</b>	<b>(82,639)</b>
<b>Reconciliation of effective tax rate</b>		
Danish tax rate	22,00%	23,50%
Non-taxable income	-(0,43%)	-(2,02%)
Non-deductable expenses	0,35%	0,61%
Withholding tax	(0,02%)	0,07%
Adjustment of tax with respect to prior years	0,06%	-(1,98%)
<b>Effective tax rate</b>	<b>22,00%</b>	<b>20,18%</b>
<b>Tax relating to other comprehensive income</b>		
Adjustment of cash flow hedges	94	(520)
Foreign exchange adjustments, etc.	-	538
<b>Total</b>	<b>94</b>	<b>18</b>

## CURRENT TAX

DKK '000	2016	2015
<b>Tax payable and tax receivable</b>		
Tax payable at January 1, net	5,479	(2,355)
Adjustment with respect to prior years	484	486
Payment relating to prior years	(5,963)	1,869
Current tax for the year	(109,296)	(72,176)
Current tax for the year recognized in other comprehensive income for the year	-	538
Withholding tax for the year	(117)	(307)
Payment of withholding tax for the year	117	307
Tax related to share-based incentive plans	510	5,613
Payments relating to the current year	78,797	71,504
<b>Tax receivable (payable) at December 31, net</b>	<b>(29,989)</b>	<b>5,479</b>

## 2.3 TAX (continued)

### DEFERRED TAX

DKK '000	2016	2015
<b>Deferred tax, net</b>		
Deferred tax at January 1, net	(31.265)	(20.103)
Adjustment with respect to prior years	(820)	7.605
Deferred tax for the year recognized in profit (loss) for the year	(11.978)	(18.247)
Deferred tax for the year recognized in other comprehensive income for the year	94	(520)
<b>Deferred tax at December 31, net</b>	<b>(43.969)</b>	<b>(31.265)</b>
<b>Deferred tax, net relates to:</b>		
Intangible assets	(64.487)	(54.443)
Property, plant and equipment	8.700	8.547
Provisions	2.998	9.098
Other	8.820	5.533
<b>Total</b>	<b>(43.969)</b>	<b>(31.265)</b>

Deferred tax, net includes DKK 6 million expected to be utilized within 12 months.

#### § Accounting policies

##### Tax on Profit (Loss) for the year

GN Audio A/S is jointly taxed with the parent company GN Store Nord A/S and all its Danish subsidiaries. The current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income. The jointly taxed companies are taxed under the on-account tax scheme.

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

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

##### Deferred tax

Deferred tax assets, including the tax base of tax loss carryforwards, are recognized at the expected value of their utilization, 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. 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. Deferred tax is not recognized on goodwill unless this is deductible for tax purposes. Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallize as current tax. The change in deferred tax as a result of changes in tax rates is recognized in the income statement. If a tax deduction on computation of the taxable income is obtained as a result of share-based payment programs, the tax benefit for the deduction is recognized directly in the balance sheet. Deferred tax assets are subject to annual impairment tests and are recognized only to the extent that it is probable that the assets will be utilized.

#### ! Significant accounting estimates

##### Deferred tax

Management has made judgments in determining the Company's provisions for tax, deferred tax assets and deferred tax liabilities and the extent to which deferred tax assets are recognized. GN Audio recognizes deferred tax assets only to the extent that it is probable that taxable profit will be available against which the temporary differences and unused tax losses can be utilized.

## SECTION 3

## Operating assets and liabilities

## 3.1 INTANGIBLE ASSETS

DKK '000	Goodwill	Patents and rights	Development projects, developed		Software	Total
			in-house			
Cost at January 1	37.418	5.766	544.475		54.345	642.004
Additions	68.951	3.846	128.465		5.954	207.216
Disposals	-	(116)	(24.940)		(11.618)	(36.674)
Cost at December 31	106.369	9.496	648.000		48.681	812.546
Amortization and impairment at January 1	(37.418)	(5.766)	(321.577)		(35.757)	(400.518)
Amortization	-	-	(83.213)		(8.667)	(91.880)
Impairment	-	-	(895)		-	(895)
Disposals	-	116	24.940		7.509	32.565
Amortization and impairment at December 31	(37.418)	(5.650)	(380.745)		(36.915)	(460.728)
<b>Carrying amount at December 31, 2016</b>	<b>68.951</b>	<b>3.846</b>	<b>267.255</b>		<b>11.766</b>	<b>351.818</b>
Cost at January 1	37.418	5.766	573.370		40.147	656.701
Additions	-	-	138.019		14.516	152.535
Disposals	-	-	(166.914)		(318)	(167.232)
Cost at December 31	37.418	5.766	544.475		54.345	642.004
Amortization and impairment at January 1	(37.418)	(5.766)	(405.454)		(25.133)	(473.771)
Amortization	-	-	(83.037)		(10.942)	(93.979)
Impairment	-	-	166.914		318	167.232
Amortization and impairment at December 31	(37.418)	(5.766)	(321.577)		(35.757)	(400.518)
<b>Carrying amount at December 31, 2015</b>	<b>-</b>	<b>-</b>	<b>222.898</b>		<b>18.588</b>	<b>241.486</b>

GN Audio has not capitalized any borrowing costs in the current or preceding periods as non-current assets are not financed with debt.

Impairment of development projects relates to projects for which the sales forecasts cannot justify the capitalized value.

The carrying amount of development projects and software in progress amount to DKK 166 million (2015: DKK 131 million).

**Development projects and software**

In-progress and completed development projects comprise development and design of headsets and other hands free audio solutions. Most development projects are expected to be completed in 2017 and 2018, after which product sales and marketing can be commenced. Management performs at least one annual impairment test of the carrying amount of recognized development costs. The recoverable amount is assessed based on sales forecasts. In Management's assessment, the recoverable amount exceeds the carrying amount.

Software comprises development, design and test of production and planning software and reporting systems, business intelligence etc. Implementation of these systems is expected to optimize internal procedures and processes. In 2016, management assessed that the expected useful lives were reflected in the carrying amounts at December 31, 2016.

**§ Accounting policies****Development projects, Software, Patents, Licenses and Other Intangible Assets**

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

Completed development projects	1-5 years
Software	1-7 years
Patents, licenses, trademarks and other intellectual property rights	up to 20 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 GN Audio 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.

**Impairment of in-process development projects**

In-process development projects are tested for impairment at least annually.

**! Significant accounting estimates****Development projects**

Development projects are measured at cost less accumulated amortization and impairment. An impairment test is performed of the carrying amount of recognized development projects. The impairment test is based on assumptions regarding strategy, product life cycle, market conditions, discount rates and budgets, etc., after the project has been completed and production has commenced. If market-related assumptions etc., are changed, development projects may have to be written down. Management examines and assesses the underlying assumptions when determining whether or not the carrying amount should be written down. In addition, management continuously assess the useful lives of its products to ensure that amortization of development projects reflects the useful lives.



## 3.2 PROPERTY, PLANT AND EQUIPMENT

DKK '000	Plant and machinery	Operating assets and equipment	Assets under construction	Total
Cost at January 1	131.911	26.722	9.680	168.313
Additions	-	1.875	20.471	22.346
Disposals	(22.376)	(322)	-	(22.698)
Transfers	9.936	-	(9.936)	-
Cost at December 31	119.471	28.275	20.215	167.961
Depreciation and impairment at January 1	(98.148)	(15.607)	-	(113.755)
Depreciation	(17.953)	(4.287)	-	(22.240)
Impairment	(37)	-	-	(37)
Disposals	22.376	322	-	22.698
Depreciation and impairment at December 31	(93.762)	(19.572)	-	(113.334)
<b>Carrying amount at December 31, 2016</b>	<b>25.709</b>	<b>8.703</b>	<b>20.215</b>	<b>54.627</b>
Cost at January 1	109.398	21.080	4.646	135.124
Additions	-	6.319	27.567	33.886
Disposals	(20)	(677)	-	(697)
Transfers	22.533	-	(22.533)	-
Cost at December 31	131.911	26.722	9.680	168.313
Depreciation and impairment at January 1	(79.879)	(12.852)	-	(92.731)
Depreciation	(18.273)	(3.432)	-	(21.705)
Disposals	4	677	-	681
Depreciation and impairment at December 31	(98.148)	(15.607)	-	(113.755)
<b>Carrying amount at December 31, 2015</b>	<b>33.763</b>	<b>11.115</b>	<b>9.680</b>	<b>54.558</b>

GN Audio has not capitalized any borrowing costs in the current or preceding periods as non-current assets are not financed with debt.

#### § Accounting policies

##### Property, plant and Equipment

Land and buildings, plant and machinery and fixtures and fittings, other plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and costs of materials, components, suppliers, direct wages and salaries and indirect production costs until the date when the asset is available for use. 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. Depreciation is provided on a straight-line basis over the expected useful lives of property, plant and equipment. The expected useful lives are as follows:

Plant and machinery	1-7 years
Operating assets and equipment	2-7 years

The basis of depreciation is calculated as the residual value of the asset less 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. Depreciation and impairment is recognized in the income statement as production costs, development costs, distribution costs and administrative expenses.

Expenses for repairs and maintenance of property, plant and equipment are included in the income statement. Gains or losses on disposal or scrapping of an item of property, plant and equipment are determined as the difference between the sales price reduced by costs related to dismantling and removing the asset, selling costs and costs related to restoring the site on which the asset is located and the carrying amount. Gains or losses are recognized in the income statement as Other operating income or Other operating costs, respectively.

## 3.3 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

DKK '000	2016	2015
Depreciation, amortization and impairment for the year of property, plant and equipment and intangible assets are recognized in the income statement as follows:		
Production costs	(18.133)	(18.555)
Development costs	(86.579)	(85.530)
Selling and distribution costs	(6.318)	(8.771)
Management and administrative expenses	(4.023)	(2.827)
<b>Total</b>	<b>(115.053)</b>	<b>(115.683)</b>
Amortization of intangible assets is recognized in the income statement as follows:		
Production costs	(143)	(283)
Development costs	(83.867)	(83.554)
Selling and distribution costs	(6.312)	(8.758)
Management and administrative expenses	(1.559)	(1.383)
<b>Total</b>	<b>(91.881)</b>	<b>(93.978)</b>

**3.4 INVESTMENTS IN SUBSIDIARIES**

<b>DKK '000</b>	<b>2016</b>	<b>2015</b>
Cost at January 1	1.182.351	382.239
Additions, capital contribution	-	800.112
<b>Cost at December 31</b>	<b>1.182.351</b>	<b>1.182.351</b>

Group companies are listed on page 41.

No indications of impairment of investments in subsidiaries have been identified, and accordingly no impairment tests have been performed.

**§ Accounting policies****Investments in subsidiaries in the parent company financial statements**

Investments in subsidiaries are measured at cost. Investments are written down to the lower of cost and recoverable amount.

**! Significant accounting estimates****Investments in subsidiaries**

Management performs an annual test for indications of impairment of investments in subsidiaries. It is Management's assessment that no indications of impairment existed at year-end 2016. Impairment test have therefore not been made of subsidiaries.

## 3.5 PROVISIONS

DKK '000	Warranty provisions	Other provisions	Total
Provisions at January 1	17.862	13.626	31.488
Additions	10.513	-	10.513
Consumed	(8.931)	(3.829)	(12.760)
Reversed	-	(6.500)	(6.500)
<b>Provisions at December 31, 2016</b>	<b>19.444</b>	<b>3.297</b>	<b>22.741</b>
<b>Of which is recognized in the consolidated balance sheet:</b>			
Non-current liabilities	13.657	3.297	16.954
Current liabilities	5.787	-	5.787
<b>Provisions at December 31, 2016</b>	<b>19.444</b>	<b>3.297</b>	<b>22.741</b>

Warranty provisions concern products sold. The warranty provision covers any defects in design, materials and workmanship for a period of 1-2 years from delivery and completion. Other provisions primarily include obligations regarding onerous contracts.

#### § Accounting policies

##### Provisions

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.

#### ! Significant accounting estimates

##### Provisions

Warranty provisions are recognized based on historical and future warranty costs related to the Company's products. Future warranty costs may differ from past practices and the level of costs. The amount recognized as a provision is Management's best estimate of the expenses required to settle the obligation.

Agreement has been made with a number of the suppliers that the suppliers purchase components for the production of headsets based on sales estimates prepared by GN Audio. To the extent that GN Audio's actual purchases from suppliers are lower than sales estimates, GN Audio will be under an obligation to purchase any remaining components from the suppliers. Management assesses sales estimates on an ongoing basis, and to the extent that component inventories at suppliers are not expected to be used, GN Audio recognizes a provision for onerous purchase contracts.

## 3.6 INVENTORIES

DKK '000	2016	2015
Raw materials and consumables	13.730	6.265
Finished goods and merchandise	233.983	215.966
<b>Total</b>	<b>247.713</b>	<b>222.231</b>
The above includes write-downs amounting to	28.590	22.194
Write-downs recognized in the income statement under production costs	7.314	3.241
Production costs include costs of goods sold of	1.435.874	1.538.431

**§ Accounting policies**  
**Inventories**

Inventories are measured at cost in accordance with the FIFO-principle.

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

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.

**! Significant accounting estimates**  
**Measurement of inventories**

The net realizable value of inventories is calculated based on the size of the inventory and decreases in the recoverable amount of purchased raw materials, technical obsolescence (e.g., faulty products), physical obsolescence (e.g. damaged products) and financial obsolescence (e.g., reduced demand or substituting products). GN Audio performs write-downs of inventories based on an individual assessment of products or product groups and expected product sales from 12 to 24 months following the balance sheet date.

## 3.7 TRADE RECEIVABLES

DKK '000	2016	2015
Trade receivables	132.340	142.932
<b>Total</b>	<b>132.340</b>	<b>142.932</b>

Trade receivables have the following maturities:

Not due	122.313	126.694
Due 30 days or less	9.841	13.327
Due more than 30 days but less than 90 days	219	5.278
Due more than 90 days	(33)	3.549
<b>Total</b>	<b>132.340</b>	<b>148.848</b>

Write-downs, which are included in total trade receivables, have developed as follows:

Write-downs at January 1	(5.916)	(1.930)
Write-downs made during the year	(394)	(5.592)
Realized during the year	516	-
Reversed write-downs	4.922	1.606
<b>Write-downs at December 31</b>	<b>(872)</b>	<b>(5.916)</b>

Total write-downs of DKK 0.9 million are included in trade receivables at the end of 2016. In 2016 app. 0,5 MDKK have been recognized regarding individual receivables (2015: no material write-downs have been recognized regarding individual receivables). GN Audio's assessment of credit risk associated with individual receivables depends primarily on aging, change in customer payment behavior, current economic conditions etc. as described in significant accounting estimates. Based on past experience, GN Audio believes that no write-down is necessary in respect of trade receivables not past due.

No security has been pledged to GN Audio for trade receivables.

Trade receivables include the following overdue but not written down receivables:

Due 30 days or less	9.841	13.327
Due more than 30 days but less than 90 days	-	2.509
Due more than 90 days	-	-
<b>Total</b>	<b>9.841</b>	<b>15.836</b>

#### § Accounting policies

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.

## 4.1 FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

## Foreign currency risk

GN Audio has exposure towards several foreign currencies in connection with commercial transactions. The overall objective of hedging GN Audio's currency exposure is to reduce the short-term impact of exchange rate fluctuations on earnings and cash flow, thereby increasing the predictability of the financial results. GN Audio hedges any significant currency risk, which in 2016 has been future income (long positions) in the GBP. Expected cash flows are continually assessed using budget and sales forecasts. GN Audio does not raise loans or place surplus cash in foreign currency unless doing so reduces a currency exposure.

GN Audio has several balance sheet items denominated in USD both to external and internal which can also result in foreign exchange rate gains and losses.

At year-end a hypothetical increase of 5% in the USD/DKK and CNY/DKK exchange rates would affect the Income Statement and Other Comprehensive Income as outlined in the table below:

DKK '000	2016	2015
Income statement	(4.619)	(11.240)
Other Comprehensive Income	-	11.011

The sensitivity analysis comprises cash and cash equivalents, current receivables, trade payables, current and non-current loans, current intercompany balances and derivative exchange rate instruments as of December 31, 2016. The effects of a change in foreign exchange rates related to these items would be included in financial items in the income statement. A change in the derivative exchange rate instruments used for hedging would be included in Other Comprehensive Income.

## Interest rate risk

GN Audio is primarily funded by intercompany balances towards the holding company GN Store Nord A/S. Generally, it is not the company policy to obtain any other external funding in GN Audio, except facilities used for working capital needs. Therefore, all interest rate hedging is done on a GN Store Nord level.

## Funding, liquidity and capital structure

At December 31, 2016, GN Audio had an equity ratio of 67% (2015: 61%). GN Audio A/S is part of the GNSN Group and the capital structure policy is handled on a GN Store Nord level. GN Audio has primarily Intercompany balances as interest bearing balances.

## Financial credit risk

Surplus cash positions in GN Audio's subsidiaries are re-circulated back to the parent company as soon as possible, and cash is mainly held in current accounts or as short-term money market deposits. Cash positions are primarily held with banks through which GN Audio conducts its day-to-day banking business and which have a satisfactory rating with Moody's and Standard & Poor's. GN Audio has a policy of never having an exposure to a single financial counterparty of more than 2.5% of that party's capital and reserves. GN Audio had cash and cash equivalents of DKK (3,361) million at December 31, 2016 (2015: DKK (4,042) million).

GN Audio is through cause of business exposed for financial risk. The financial risk except for the commercial risk, are governed by GN Store Nord. The financial risk are handled in accordance with global policies for financial risk governance, as described by GN Store Nord.

GN Audio has established policies for credit risk management related to customers including the use of credit rating agencies. Assessment of credit risks related to customers is further described in note 3.7 Trade receivables.

## Contractual maturity analysis for financial liabilities

DKK million	Less than one year	Between one and five years	More than five years	Total
<b>2016</b>				
Amounts owed to subsidiaries and group companies	132.175	851.167	-	983.342
Short-term bank loans	3.464	-	-	3.464
Trade payables	354.400	-	-	354.400
Total non-derivative financial liabilities	490.039	851.167	-	1.341.206
Derivative financial liabilities	-	-	-	-
<b>Total financial liabilities</b>	<b>490.039</b>	<b>851.167</b>	<b>-</b>	<b>1.341.206</b>
<b>2015</b>				
Amounts owed to subsidiaries and group companies	292.949	852.233	-	1.145.182
Short-term bank loans	4.070	-	-	4.070
Trade payables	365.864	-	-	365.864
Total non-derivative financial liabilities	662.883	852.233	-	1.515.116
Derivative financial liabilities	-	-	-	-
<b>Total financial liabilities</b>	<b>662.883</b>	<b>852.233</b>	<b>-</b>	<b>1.515.116</b>

The maturity analysis is based on non-discounted cash flows excluding interest payments.

#### 4.1 FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (continued)

##### Categories of financial assets and liabilities

The financial assets and liabilities presented in the balance sheet can be grouped in the following categories:

DKK '000	2016	2015
Trade receivables	132.340	142.932
Amounts owed by subsidiaries and group companies	2.673.622	2.419.331
Other receivables	18.540	52.084
<b>Loans and receivables</b>	<b>2.824.502</b>	<b>2.614.347</b>
Amounts owed to subsidiaries and group companies	983.342	1.145.182
Bank loans	3.464	4.070
Trade payables	354.400	365.864
<b>Financial liabilities measured at amortized cost</b>	<b>1.341.206</b>	<b>1.515.116</b>

For financial assets and liabilities, the fair value is approximately equal to the carrying amount.

##### Derivative financial instruments

###### Exchange rate instruments

DKK '000	2016			2015		
	Contract amount, net	Fair value, assets	Fair value, liabilities	Contract amount, net	Fair value, assets	Fair value, liabilities
USD	-	-	-	175.212	3.585	-
GBP	126.359	5.699	47	106.357	1.531	728
CNY	-	-	-	47.214	1.693	-
<b>Total</b>	<b>126.359</b>	<b>5.699</b>	<b>47</b>	<b>328.783</b>	<b>6.809</b>	<b>728</b>

All exchange rate instruments mature within 12 months from the balance sheet date.

###### Fair value adjustments of cash flow hedges

DKK '000	2016	2015
Fair value adjustment for the year recognized in Other comprehensive income	(18.489)	33.019
Reclassified from equity to revenue during the year	13.452	12.368
Reclassified from equity to production costs during the year	4.608	(43.173)
<b>Adjustment of cash flow hedges in Other comprehensive income</b>	<b>(429)</b>	<b>2.214</b>
Fair value adjustment of cash flow hedges recognized in financial items	-	(13.068)

The gains and losses on cash flow hedges recognized in Other comprehensive income as of December 31, 2016 will be recognized in the income statement in the period during which the hedged forecasted transaction affects the income statement. The fair value of all exchange rate instruments are determined using quoted forward exchange rates at the balance sheet date and can be categorized as level 2 (observable inputs) in the fair value hierarchy.

##### § Accounting policies

###### Derivative Financial Instruments

Derivative financial instruments are initially and subsequently recognized in the balance sheet at fair value. Positive and negative fair values of derivative financial instruments are recognized as other receivables and payables, respectively, and set-off of positive and negative values is only made when GN Audio has the right and the intention to settle several financial instruments net. Fair values of derivative financial instruments are computed on the basis of market data and generally accepted valuation methods.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognized asset or liability are recognized in the income statement together with changes in the value of the hedged asset or liability as far as the hedged portion is concerned. Changes in the portion of the fair value of derivative financial instruments designated as and qualifying as a cash flow hedge that is an effective hedge of changes in the value of the hedged item are recognized in other comprehensive income. If the hedged transaction results in gains or losses, amounts previously recognized in other comprehensive income are transferred from equity to the same item as the hedged item.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognized in the income statement under financial items.

###### Financial Liabilities

Amounts owed to credit institutions, finance lessors and banks are recognized at the date of borrowing at fair value of the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortized cost, corresponding to the capitalized value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognized in the income statement over the term of the loan.

Other liabilities, comprising trade payables, amounts owed to group enterprises and associates as well as other payables, are measured at amortized cost.



## 4.2 FINANCIAL INCOME AND EXPENSES

DKK '000	2016	2015
<b>Financial Income:</b>		
Interest income from subsidiaries*	29.239	25.769
Interest income from bank balances*	2	-
Financial income, other	63	21.080
Received Dividend from subsidiaries	10.847	6.085
Foreign exchange gain	7.716	2.449
<b>Total</b>	<b>47.867</b>	<b>55.383</b>
<b>Financial expenses:</b>		
Interest expense to subsidiaries*	(40.029)	(21.036)
Interest expense on bank balances*	(129)	(497)
Financial expenses, other	(455)	-
Fair value adjustments of derivative financial instruments and impairments	-	(13.068)
Foreign exchange loss, net	(17.523)	(22.825)
<b>Total</b>	<b>(58.136)</b>	<b>(57.426)</b>

GN Audio A/S has not included borrowing costs in the cost price of non-current assets as these are not financed with debt.

\*Interest income and expenses from financial assets and liabilities at amortized cost.

#### § Accounting policies

##### Financial Income and Expenses

Financial income and expenses comprise interest income and expense, costs of permanent loan facilities, gains and losses on securities, receivables, payables and transactions denominated in foreign currencies, credit card fees, amortization and impairment of financial assets and liabilities, etc. Also included are realized and unrealized gains and losses on derivative financial instruments that are not designated as hedges.

Dividend from investments in subsidiaries is recognised in the statement of comprehensive income in year of declaration.

Borrowing costs that are directly attributable to the construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use.

## 5.1 INCENTIVE PLANS

## Warrants programs

GN Store Nord has warrant-based long-term incentive programs whereby the Executive Management and other senior employees are granted warrants, entitling the holder to subscribe shares in GN Audio.

Warrants granted will vest the day after the release of GN Store Nord's annual report in the third year after the grant. Vested warrants may be exercised during a four-week period opening each quarter of each of the third, fourth and fifth year after allocation. The quarterly four-week window will open following the release of a Valuation Report concerning the value of the shares of GN Audio. Warrants vest provided the share value of GN Store Nord has increased and that the share value of GN Audio has outperformed a peer group index of competitors and industry segment indicators as defined by the Board of Directors of GN Audio, respectively by a certain percentage during the same time period. Warrants are granted at no consideration.

The exercise price for the warrants is based on the average share price for GN Store Nord in the five days following the release of the annual report in the year in which the relevant warrants are allocated.

## Warrants program, GN Audio

	Executive Management	Other employees	Total	Average exercise price
Warrants granted at January 1, 2016	702	6.634	7.336	17.884
Warrants granted during the year	627	2.328	2.955	30.600
Warrants exercised during the year	(69)	(2.314)	(2.383)	11.104
Warrants forfeited during the year/corrections	(722)	188	(534)	26.379
<b>Outstanding warrants at December 31, 2015</b>	<b>538</b>	<b>6.836</b>	<b>7.374</b>	<b>24.555</b>
Warrants granted during the year	1.192	2.875	4.067	22.507
Warrants exercised during the year	-	(1.201)	(1.201)	17.211
Warrants forfeited during the year/corrections	-	(533)	(533)	25.596
<b>Outstanding warrants at December 31, 2016</b>	<b>1.730</b>	<b>7.977</b>	<b>9.707</b>	<b>24.549</b>
Grant date market value of warrants granted in 2016 (DKK million)	4	10	14	
Market value of outstanding warrants at December 31, 2016 (DKK million)	6	25	31	

Average share price at exercise: DKK 22,204 (2015: DKK 30,578)

Outstanding warrants in GN Audio by grant date are shown below.

Grant date	Executive Management	Other employees	Total	% of GN Audio A/S	Number of exercisable warrants	Exercise price	Years to expiry	Market value in DKK million
March 2012	-	124	124	0,0%	124	11.234	0,8	2
March 2013	-	837	837	0,2%	837	17.797	1,8	7
November 2013	-	132	132	0,0%	132	23.652	1,8	-
March 2014	-	2.127	2.127	0,6%	-	24.596	2,8	2
July 2014	-	13	13	0,0%	-	28.473	2,8	-
December 2014	-	58	58	0,0%	-	26.178	2,8	-
March 2015	538	1.967	2.505	0,7%	-	30.600	3,8	4
March 2016	1.192	2.661	3.853	1,1%	-	22.495	4,8	16
August 2016	-	58	58	0,0%	-	23.308	4,8	-
<b>Outstanding warrants at December 31, 2016</b>	<b>1.730</b>	<b>7.977</b>	<b>9.707</b>	<b>2,6%</b>	<b>1.093</b>			<b>31</b>

## 5.1 INCENTIVE PLANS (continued)

The market value of the warrants has been calculated using the principles of the Black & Scholes pricing model. The market value of the outstanding warrants at the balance sheet date is calculated on the basis of underlying market prices on the final business day of the year, whereas the market value of warrants granted during the year is based on the underlying market prices at the grant date. The following assumptions were applied for the calculation of the market value at the balance sheet date and at the grant date of warrants:

## Market conditions

	2016 year end GN Audio	Grant date 2016 GN Audio	2015 year end GN Audio	Grant date 2015 GN Audio
Share price GN Store Nord	146	134 142	123	151
Share of GN Store Nord market value	40%	38% 38%	39%	43%
Share price	24.674	22.495 23.308	21.399	30.600
Volatility	30%	27% 29%	23%	24%
Dividend per share	0	0	0	0
Risk-free interest rate	0,00%	0,00% -(0,40%)	0,00%	0,00%
Expected term (years)		0,8 1,8 2,8 3,8 4,8	0,8 1,8 2,8 3,8 4,8	5,7

In the calculation of market value, the share of market value and volatility is estimated by external experts.

## § Accounting policies

## Incentive plans

The Executive Management and a number of key employees are included in share-based payment plans (equity-settled plans). For equity-settled programs, the warrants are measured at the fair value at the grant date and recognized in the income statement as a staff cost of the respective functions over the vesting period. The counter item is recognized in equity. On initial recognition, an estimate is made of the number of warrants expected to vest. This estimate is subsequently revised for changes in the number of warrants expected to vest. Accordingly, recognition is based on the number of warrants that are ultimately vested. The fair value of granted warrants is estimated using the Black-Scholes option pricing model. Vesting conditions are taken into account when estimating the fair value of the warrants.

**5.2 CONTINGENT LIABILITIES, OTHER FINANCIAL LIABILITIES AND CONTINGENT ASSETS****Contingent liabilities*****Outstanding lawsuits***

GN Audio and its subsidiaries are parties to various lawsuits, including various cases involving patent infringements. Apart from the cases described below, the outcome of cases pending is not expected to be of material importance to the Company's financial position.

**Other financial liabilities*****Security***

The company has not pledged any assets as security in the present or prior financial years.

***Purchase obligations***

GN Audio has agreed with a number of suppliers that the suppliers will purchase components for the production of headsets based on sales estimates prepared by GN Audio. To the extent that GN Audio's sales estimates exceed actual purchases from suppliers, GN Audio is under an obligation to purchase any remaining components from the suppliers. Management assesses sales estimates on an ongoing basis. To the extent that component inventories at suppliers exceed the volumes expected to be used, GN Audio recognizes a provision for onerous purchase contracts.

**Contingent assets*****Claim against Plantronics Inc.***

In 2012, GN Audio Inc filed suit against Plantronics for attempted monopolization of the distributors' market in the US. On September 23, 2013, the federal district court in Wilmington, Delaware, dismissed Plantronics' "motion to dismiss" the case in its entirety. The court also stated that GN Audio's allegations were sufficiently substantiated to allow the case to proceed into discovery. During the discovery phase, GN learned of alleged intentional document destruction. A hearing on the matter was held on May 18, 2016, and on July 6, 2016, the Court issued a sanctions motion ordering Plantronics to pay USD 3 million to GN Audio Inc in punitive damages as well as reasonable fees and costs incurred in connection with the discovery dispute. Further, the Court reserved the right to issue additional evidentiary sanctions and it will instruct the jury that it may draw an adverse inference that emails destroyed by Plantronics would have been favorable to GN Audio's case and/or unfavorable to Plantronics' defense. The court has set the jury trial for October 10, 2017.

Apart from the above, management is not aware of any matter that could be of material importance to the Company's financial position.

**! Significant accounting estimates****Provisions, Contingencies and Lawsuits**

GN Audio's Management assesses provisions, contingent assets and contingent liabilities and the likely outcome of pending or threatened lawsuits on an ongoing basis. The outcome depends on future events that are by nature uncertain. In assessing the likely outcome of lawsuits and tax disputes, etc., Management bases its assessment on external legal assistance and decided cases.

## 5.3 OTHER NON-CASH ADJUSTMENTS

DKK '000	2016	2015
Share-based payment (granted)	9.327	8.836
Provision for bad debt, inventory write-downs, etc.	4.717	13.838
Adjustment of provisions	(8.747)	(16.091)
<b>Total</b>	<b>5.297</b>	<b>6.583</b>

## 5.4 LEASE OBLIGATIONS

DKK '000	2016	2015
Future lease obligations are distributed as follows:		
<b>Operating leases:</b>		
Less than one year	25.769	18.985
Between one and five years	29.128	3.211
<b>Total</b>	<b>54.897</b>	<b>22.196</b>

Operating leases primarily relate to lease of property on market terms in Denmark. The remaining lease terms are between one and five years.

Operating leases include rental obligations related to properties in Denmark in the amount of kDKK 7.377 (2015: kDKK 7.388).

Lease payments recognized in the income statement relating to operating leases amount to kDKK 21.263 (2015: kDKK 20.580).

**§ Accounting policies**

**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.

## 5.5 FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

DKK '000	2016	2015
Audit fees	(516)	(455)
<b>Total</b>	<b>(516)</b>	<b>(455)</b>
Other assistance:		
Tax assistance and advice	(51)	(90)
<b>Total</b>	<b>(51)</b>	<b>(90)</b>
<b>Total</b>	<b>(567)</b>	<b>(545)</b>

## 5.6 RELATED PARTY TRANSACTIONS

GN Audio A/S' related parties exercising significant influence comprise members of the Board of Directors and the Executive Management and senior employees and their family members.

In addition, related parties comprise group enterprises over which GN Audio A/S exercises control or significant influence.

Group companies are listed on page 43

### Board of Directors, Executive Management and Senior Employees

Management remuneration and incentive plans are described in notes 2.2 and 5.1.

### Group enterprises

Trade with group enterprises

DKK million	2016	2015
<b>GN Store Nord A/S</b>		
Purchase of services	46	40
Sale of services	4	4
<b>Subsidiaries</b>		
Purchase of services	(213)	(205)
Sale of goods, revenue	2.267	2.003

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, 2016 are recognized in the balance sheet. Interest income and expenses with respect to group enterprises are disclosed in note 4.2. Further, balances with group enterprises comprise trade balances related to the purchase and sale of goods and services.

Purchase of services from group enterprises and GN Store Nord A/S consists of facility services, canteen services, management fee and IT costs. Sales of services from GN Store Nord A/S mainly consists of facility services and canteen services. Furthermore, GN Audio A/S has purchased development services and other services on market terms from subsidiaries.

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.



COMPANIES IN THE GN AUDIO GROUP

	Domicile	Currency	Owner-ship %	Share capital
GN Audio A/S	Denmark	DKK	100	33.394.000
GN Netcom, Inc.	USA	USD	100	35.900.000
VXI Corporation	USA	USD	100	100
GN Netcom (Canada), Inc.	Canada	CAD	100	1.000
GN Audio Brasil Importação & Comércio Ltda.	Brazil	BRL	100	407.820
GN Netcom (China) Ltd.	China	USD	100	8.000.000
GN Netcom Logistic (Xiamen) Ltd.	China	USD	100	500.000
GN Communications (Shanghai) Co., Ltd	China	CNY	100	15.481.000
GN Audio (Japan) Ltd.	Japan	JPY	100	10.000.000
GN Audio Singapore Pte. Ltd.	Singapore	SGD	100	700.000
GN Netcom Asia Ltd.	Hong Kong	HKD	100	2.000.000
GN Audio Australia Pty Ltd.	Australia	AUD	100	2.500.000
GN Audio Spain S.A.	Spain	EUR	100	60.111
GN Netcom (Italia) S.r.l.	Italy	EUR	100	10.200
GN Netcom (UK) Ltd.	Great Britain	GBP	100	100.000
GN Netcom AB	Sweden	SEK	100	5.100.000
GN Netcom Benelux B.V.	Netherlands	EUR	100	18.000
GN Netcom GmbH	Germany	EUR	100	51.129
GN Audio France S.A.	France	EUR	100	80.000