GN Audio A/S

Annual report 2018

Approved at the annual general meeting
/ 2019

Chairman:

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CVR-no. 15 06 95 11
This report contains 45 pages

GN Audio A/S, Lautrupbjerg 7, 2750 Ballerup

Contents

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 2018.

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, 2018 and of the results of the company's operations and cash flows for the financial year January 1 – December 31, 2018.

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 2018 be approved at the annual general meeting.

Ballerup, March 20, 2019

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

Gitte Pugholm Aabo

Martin Arthur de Julienhort Hartvigsen
(Employee elected)

Brian Egholm Andersen
(Employee elected)

Steen Bay Smidt
(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 2018, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including 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 2018 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2018 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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 the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement 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 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.

Independent auditor's report

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and 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 scepticism 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 conclusions are based on the audit evidence obtainwed 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 note 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 20, 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR.no 30700228

Torben Bender
State Authorised
Public Accountant
mne21332

Jens Thordahl Nøhr
State Authorised
Public Accountant
mne32212

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
	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 Gitte Pugholm Aabo Martin Arthur de Julienhort Hartvigsen *(Employee elected member)* Brian Egholm Andersen *(Employee elected member)* Steen Bay Smidt *(Employee elected member)*	
Executive management	René Svendsen-Tune, CEO Peter Gormsen, CFO	
Auditors	Ernst & Young, Godkendt Revisionspartnerselskab Osvald 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	2018	2017[1)]	2016[1)]	2015[1)]	2014[1)]
Highligths					
Revenue	3.781.406	3.075.930	2.787.771	2.522.047	2.317.067
Gross Profit	1.622.629	1.331.367	1.234.877	1.040.224	1.025.909
EBITA *	751.322	578.763	563.648	411.635	440.140
Operating profit (loss)	748.550	577.481	563.648	411.635	440.140
Profit (loss) from financial income and expenses	(28.171)	369	(10.269)	(2.043)	8.824
Profit (loss) for the year	557.161	457.203	431.652	326.953	341.704
Non-current assets	1.778.359	1.638.009	1.608.191	1.488.597	613.686
Current assets	2.280.830	1.738.089	3.052.923	2.831.883	2.400.279
Total Assets	4.059.189	3.376.098	4.661.114	4.320.480	3.013.965
Share capital	34.238	34.103	34.006	33.886	33.648
Total equity	2.209.418	1.586.306	3.103.763	2.641.939	2.274.133
Non-current liabilities	856.547	913.000	912.090	909.591	117.902
Current liabilities	993.224	876.792	645.261	768.950	621.930
Investments in tangible assets	53.299	36.524	22.346	33.886	32.239
Cash flow from operating activities	832.622	548.822	635.097	441.249	601.481
Key ratios in %					
EBITA margin	19,8	18,8	20,2	16,3	19,1
Gross margin	42,9	43,3	44,3	41,2	44,3
ROIC	30,9	20,6	17,0	14,3	15,7
Equity ratio	54,4	47,0	66,6	61,1	76,7
Return on Equity (ROE)	29,4	19,5	15,0	13,3	17,8

* Excluding amortization of acquired intangible assets but including amortization of development projects and software developed in-house.

1) Amounts for period 2014-2017 are not adjusted for changes related to IFRS 9 and IFRS 15.

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 almost three decades, GN Audio manufactures and sells corded and wireless communication and audio solutions that empower individuals and businesses through increased freedom of movement, comfort and functionality. GN Audio employs approximately 1.345 people worldwide.

Development in activities and financial matters
GN Audio's revenue for 2018 ended at DKK 3,781 mill, which is a growth of 23% compared to 2017.

GN Audio continued to execute very strongly on the 2017 – 2019 strategy: Hear More, Do More, Be More. In 2018, GN Audio delivered strong growth in both revenue and EBITA. The development was the result of a leading product portfolio and best-in-class commercialization. Following a very successful 2018, GN Audio is well-positioned to take advantage of the current strong momentum and stay ahead of competition in the years to come.

In the enterprise business targeting the global Call Center & Office (CC&O) market, GN Audio achieved very significant growth throughout 2018. This was particularly driven by the Unified Communications (UC) segment. GN Audio accelerated its market share gains on the back of its leading product portfolio and continued strong execution across the organization.

GN Audio's ongoing repositioning of the consumer business resulted in strong organic revenue growth, driven among other by the very successful Jabra Elite family, which continues to receive outstanding reviews and feedback.

GN Audio's 2017 - 2019 strategy: Hear More, Do More, Be More, as announced in September 2016 continues to be the foundation for GN Audio's strong profitable growth.

During the year, GN Audio continued to invest in the business in order to sustain the attractive growth rates. The investments have been broad-based covering new innovative products, sales and marketing, e.g. an investment in the Indian market with purchase of shares in Innova, a local distributor. In addition hereto, GN Store Nord A/S has made specific smaller acquisitions including audEERING in Germany, which will be beneficial for GN Audio going forward.

Throughout 2018, the CC&O market conditions were favorable and solid as expected, driven in particular by the Unified Communications market. GN Audio expects that the market for UC solutions will continue to expand in the coming years from mostly covering large enterprises to also expanding into small and medium-sized enterprises. In recent years, GN Audio has performed well delivering intelligent audio solutions to larger corporations implementing UC solutions.

GN Audio delivered a gross profit margin of 43%, (43% in 2017). Profit for the year ended at DKK 557 mill. compared to DKK 457 mill. in 2017 and the cash flow from operating and investing activities on DKK 198 mill. compared to DKK 1.833 mill. in 2017.

The result is better than the expectations for 2018, and management assess the result as satisfying.

Market development
The CC&O market showed solid growth rates again in 2018, and the market continues to develop favorably. GN Audio expects that the market trend will continue beyond 2018, creating a solid foundation for continued growth. Long-term growth in the CC&O market is supported by the expected further adoption of Unified Communications, driven by the 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.

GN Audio's addressable parts of the consumer market is expected to develop favorably in 2019, in particular with strong growth in the true wireless market. This is expected to off-set the challenges in the Bluetooth mono market, where GN Audio's relative exposure decreased significantly in 2018.

In total, GN Audio expects that its addressable markets will grow with a least 10% in 2019.

Risk management

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

The global management team in GN Audio evaluates the most significant risks together in order to determine whether any additional or different actions should be taken to reduce such risks or potentially turn them into opportunities.

At least once a year, the risks assessed to be the most material to GN are reported to and discussed with the Audit Committee and subsequently the Board of Directors.

The process is linked to and supports other key planning processes, such as strategy planning, budgeting and ongoing business reviews, in order to ensure that key risks as well as opportunities are proactively managed on an ongoing basis and on different time horizons.

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.

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 policies.

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

Currency exposure risk
GN Audio A/S has commercial activities mainly exposed against fluctuations in USD, GBP, CNY and JPY. The company use hedging to cover all material currency risks on the expected cash flows.

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

For the statutory Statement on Corporate Social Responsibility for 2018, cf. §99a of the Danish Financial Statement Act, please see the 2018 Communication on Progress report by GN Store Nord A/S available on https://www.gn.com/About/Document-download-center#!#responsibility/.

Environment and Climate

GN is committed to integrating considerations of the environment in its planning and performance of activities in order to minimize its environmental and climate impact. GN actively encourages its suppliers to consider the environment in relation to GN’s products.

GN’s products are by nature small. Due to the nature and character of our business, our environmental and climate impact is assessed to be low. Nonetheless, GN continually evaluates the way it creates products to make the most of raw materials and to design more sustainable products of the highest possible quality.

In 2018, we continued our focus on reducing energy consumption at our contract manufacturers manufacturing facilities.

Water consumption at GN’s contract manufacturers manufacturing facilities is very limited and primarily used for sanitation purposes.

For all our contract manufacturers production lines, we have set a threshold for acceptable waste levels. Most of our waste is very small in quantity and all our manufacturing facilities use licensed disposal contractors that remove any waste and properly dispose of it.

People

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

GN has initiated global talent and mentorship programs in 2018. 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 regulations and internal policies is anchored in our Ethics Guide, anti-corruption policies, our Supplier Codes of Conduct and other guidelines, which employees and business partners must adhere to.

To ensure compliance with our Ethics Guide and key policies, employees must on a regular basis take GN’s e-learning courses within anti-corruption and competition compliance and electronically sign off on their compliance within specific areas. In 2018, the allocation of courses was streamlined, and all employees received a minimum of five mandatory compliance campaigns, including business ethics, anti-corruption, information security and personal data.

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 manufacture the comprehensive variety of products in the portfolio.

To optimize lead-time, GN Audio maintains a regional presence at three regional warehouses located in the United States, the Netherlands and Hong Kong. The global logistics for GN Audio’s products is 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 2018, GN Audio's product development focused on bolstering 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 the Jabra Engage family as well as the additions to the Jabra Evolve and Jabra Elite families, the innovation in headsets and earbuds continued at high pace, based on extensive research into customer needs and sharp focus on delivering outstanding user benefits.

In recent years, software and Artificial Intelligence (AI) has become increasingly important in the development of intelligent headsets and earbuds. The distinctive functionalities of directional microphones that eliminate background noise and apps used for sports coaching are examples of software technology that is critically important for delivering user benefits. In today's digitally connected society, noise overload is considered one of the key factors affecting personal wellbeing.

GN's focus on AI builds on years of investments in the Group's dedicated AI research center, the GN Advanced Science unit; the investment in audEERING, the partnerships and ecosystems with other leading technology innovators, such as Apple and Google, and extensive collaboration with other partners and academic research institutes.

GN researchers are working on the next generations of products and software that will set new milestones in the space of AI-enhanced product offerings benefiting from GN's group-wide investments in technology research, product development, and strategic partnerships over the past several years.

Corporate Governance

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

One of GN's diversity goals is, by the end of 2020, to have the Annual General Meeting elect women for three out of six positions in the GN Board of Directors. We have reached this target in 2018, when Gitte Pugholm Aabo joined the GN Board of Directors.

Another focus has been to ensure stronger international representation in our senior management team (GMT) in GN Audio. By the end of 2018, GN Audio's GMT consists of 20% female leaders and 67 % non-Danes.

By the end of 2018, women filled 20% of senior management positions across the GN Group. GN aims for 25% during the implementation of the 2017 - 2019 strategy: Hear More, Do More, Be More. This development is the result of dedicated efforts, since GN's diversity policy was established in 2014, when women filled 14% of the company's senior management positions. GN will continue to strengthen efforts to build a pipeline of future female candidates for senior positions. We have a constant focus to ensure that we attract female candidates for both internal job rotations and for new positions. By the end of 2018, 43% of the newly appointed members of senior management were women.

Furthermore, to achieve our goals, we ensure that diversity – encompassing gender, nationality, competencies, etc. – is an integral part of GN's yearly talent review and succession planning process, of talent development practices, recruitment procedures and leadership development programs. Accordingly, intake in GN's graduate program 2018 was 45% females and 36% non-Danes.

Finally, the wording and visual identity in recruitment activities on social media and other channels are ongoing designed to best attract female candidates and encourage diversity. When external recruiters or headhunters are used, GN requires that viable female candidates are presented for any position.

Events after the balance sheet date

In February 2019, GN Audio signed an agreement to acquire Altia Systems, a California-based innovative developer of professional video communication solutions within the Enterprise segment. The integration of Altia will expand the GN Audio leadership in the Enterprise segment by being able to deliver integrated audio and video communication solutions. Furthermore, this will enable GN Audio to access new segments through Altia's best-in-class expertise within video communication. This supports GN Audio's ambition to continuously offer leading products and services to customers, and to be the leader in intelligent audio solutions, transforming lives through the power of sound.

Outlook 2019

In 2019, GN Audio expects to deliver more than 15% organic revenue growth and to continue the solid growth momentum.

GN Audio expects the EBITA margin to be more than 19% in 2019, reflecting the expected revenue growth and operational leverage, however, partly off-set by investments in future growth opportunities.

Key Ratios

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

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

In this annual report the following financial terms are used:

Operating profit (loss)	Profit (loss) before tax and financial items:
EBITDA	Operating profit (loss) before depreciation and impairment of property, plant and equipment, amortization and impairment of intangible assets, except development projects, impairment of goodwill and gains (losses) on divestment of operations etc. EBITDA therefore include amortization of development projects.
EBITA	Operating profit (loss) before amortization and impairment of acquired intangible assets, impairment of goodwill and gains (losses) on divestment of operations etc. EBITDA therefore include amortization of developments projects and software developed in-house.

INCOME STATEMENT

DKK '000	Note	2018	2017
Revenue	2.1	3,781,406	3,075,930
Production costs	2.2, 3.3, 3.5	(2,158,777)	(1,744,563)
Gross profit		1,622,629	1,331,367
Development costs	2.2, 3.3	(327,091)	(230,628)
Selling and distribution costs	2.2, 3.3	(379,933)	(367,631)
Management and administrative expenses	2.2, 3.3, 5.4	(169,244)	(151,985)
Other operating income and costs, net		4,961	(2,360)
EBITA *)		751,322	578,763
Amortization of acquired intangible assets	2.4, 3.3	(1,282)	(1,282)
Gain (loss) on divestment of operations etc.	5.1	(1,490)	-
Operating profit (loss)		748,550	577,481
Financial income	4.2	31,664	60,088
Financial expenses	4.2	(59,835)	(59,719)
Profit (loss) before tax		720,379	577,850
Tax on profit (loss)	2.3	(163,218)	(120,647)
Profit (loss) for the year		557,161	457,203
Proposed profit appropriation/distribution of loss			
Retained earnings		(454,833)	431,683
Transfer to Reserve for capitalized development projects		11,994	25,520
Proposed dividends for the year		1,000,000	-
		557,161	457,203

STATEMENT OF COMPREHENSIVE INCOME

DKK '000	Note	2018	2017
Profit (loss) for the year		557,161	457,203
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Adjustment of cash flow hedges	4.1	(3,632)	(4,454)
Tax relating to these items of other comprehensive income	2.3	799	980
Other comprehensive income for the year, net of tax		(2,833)	(3,474)
Total comprehensive income for the year		554,328	453,729

*) Excluding amortization of acquired intangible assets but including amortization of development projects and software developed in-house.

BALANCE SHEET AT DECEMBER 31

DKK '000	Note	2018	2017
ASSETS			
Intangible assets	3.1	439,635	380,195
Property, plant and equipment	3.2	84,718	65,325
Investments in subsidiaries	3.4	1,247,518	1,186,301
Amounts owed by subsidiaries and group companies	4.1	6,488	6,188
Total non-current assets		1,778,359	1,638,009
Inventories	3.5	472,210	315,350
Trade receivables	3.6, 4.1	135,814	122,908
Amounts owed by subsidiaries and group companies	4.1	1,517,035	1,205,231
Tax receivables		29,944	15,005
Other receivables	4.1	43,867	11,533
Cash and cash equivalents	4.1	81,960	68,062
Total current assets		2,280,830	1,738,089
Total assets		4,059,189	3,376,098
EQUITY AND LIABILITIES			
Share capital		34,238	34,103
Other reserves		(2,387)	446
Reserve for capitalized development projects		245,973	233,979
Proposed dividend for the year		1,000,000	-
Retained earnings		931,594	1,317,778
Total equity		2,209,418	1,586,306
Provisions	3.7	8,928	22,644
Deferred tax liabilities	2.3	43,475	57,515
Amounts owed to subsidiaries and group companies	4.1	804,144	832,841
Total non-current liabilities		856,547	913,000
Trade payables	4.1	599,090	331,474
Amounts owed to subsidiaries and group companies	4.1	194,126	378,263
Provisions	3.5	42,928	7,045
Other payables		157,080	160,010
Total current liabilities		993,224	876,792
Total equity and liabilities		4,059,189	3,376,098

STATEMENT OF CASH FLOW

DKK '000	Note	2018	2017
Operating activities			
Operating profit (loss)		748,550	577,481
Depreciation, amortization and impairment	3.3	181,854	128,692
Other non-cash adjustments	5.3	31,964	46,306
Cash flow from operating activities before changes in working capital		962,368	752,479
Change in inventories		(167,721)	(92,389)
Change in receivables		(29,989)	15,045
Change in trade payables and other payables		261,056	13,186
Total changes in working capital		63,346	(64,158)
Cash flow from operating activities before financial items and tax		1,025,714	688,321
Interest and dividends, etc., received		-	7,864
Interest and dividends etc. paid		(16,557)	(629)
Tax paid, net		(176,535)	(146,732)
Cash flow from operating activities		832,622	548,824
Investing activities			
Investments in intangible assets, excluding development projects		(48,407)	(5,196)
Development projects		(159,024)	(132,330)
Investments in property, plant and equipment		(53,299)	(36,523)
Amounts owed by subsidiaries, net		(312,104)	1,462,203
Acquisition of companies/operations		(61,468)	(3,950)
Cash flow from investing activities		(634,301)	1,284,203
Cash flow from operating and investing activities (free cash flow)		198,321	1,833,027
Financing activities			
Increase/(decrease) of short-term loans	4.2	-	(3,464)
Paid dividends		-	(2,000,000)
Share-based payment (exercised)		40,025	17,240
Amounts owed to subsidiaries	4.2	(224,448)	221,156
Cash flow from financing activities		(184,423)	(1,765,068)
Net cash flow		13,898	67,959
Cash and cash equivalents, beginning of period		68,062	103
Cash and cash equivalents, end of period		81,960	68,062

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
Balance sheet total at January 1, 2017	34,006	3,920	208,459	2,000,000	857,378	3,103,763
Profit (loss) for the period	-	-	25,520	-	457,203	482,723
Adjustment of cash flow hedges	-	(4,454)	-	-	-	(4,454)
Tax relating to other comprehensive income	-	980	-	-		980
Total comprehensive income for the year	-	(3,474)	25,520	-	457,203	479,249
Increase of share capital	97	-	-		17,143	17,240
Share-based payment (granted)	-	-	-	-	7,192	7,192
Tax related to share-based incentive plans	-	-	-		4,382	4,382
Paid dividend for the year				(2,000,000)		(2,000,000)
Reserve for capitalized development projects					(25,520)	(25,520)
Balance sheet total at December 31, 2017	34,103	446	233,979	-	1,317,778	1,586,306
Profit (loss) for the period	-	-	11,994	1,000,000	(454,833)	557,161
Adjustment of cash flow hedges	-	(3,632)	-	-	-	(3,632)
Tax relating to other comprehensive income	-	799	-	-		799
Total comprehensive income for the year	-	(2,833)	11,994	1,000,000	(454,833)	554,328
Increase of share capital	135	-	-	-	39,890	40,025
Share-based payment (granted)	-	-	-	-	13,896	13,896
Tax related to share-based incentive plans	-	-	-	-	14,863	14,863
Proposed dividend for the year	-	-	-			-
Reserve for capitalized development projects	-	-		-	-	-
Balance sheet total at December 31, 2018	34,238	(2,387)	245,973	1,000,000	931,594	2,209,418

The share capital has increased by kDKK 254 in 2014, kDKK 238 in 2015, kDKK 120 in 2016, kDKK 97 in 2017 and 135 kDKK in 2018.

Reserve for capitalized development costs

The reserve for development costs comprise GN Audio's development costs corresponding to the carrying amount of development cost capitalized since 1 January 2016 net of 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 amortization or write-downs

SECTION 1
Basis of preparation

In the annual report the notes are grouped in sections. Each note include the accounting policies and significant accounting estimates applicable to the relevant notes. The description of the accounting policies in the notes is 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 is part of GN Store Nord's consolidated Annual Report and does therefore not prepare consolidated financial statements for GN Audio A/S - Group.

1.1 GENERAL ACCOUNTING POLICIES

The annual report of GN Audio for 2018 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Danish Financial Statement Act for large enterprises.

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 certain derivative financial instruments at fair value.

New standards, interpretations and amendments adopted by GN Audio A/S

As of January 1, 2018, GN Audio A/S adopted all relevant new or revised International Financial Reporting Standards and IFRIC Interpretations with effective date January 1, 2018 or earlier, including IFRS 9 Financial instruments and IFRS 15 Revenue from Contracts with Customers. Both IFRS 9 and IFRS 15 has been applied retrospectively. It has not been necessary to restate any comparative information or recognize any cumulative effect in retained earnings. Apart from this, the annual report is presented in accordance with the accounting policies applied in previous years' annual reports.

Effect from implementing IFRS 9 Financial instruments
IFRS 9 addresses the classification and measurement of financial assets and liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets. GN Audio A/S has reviewed the company's financial assets and liabilities and concluded that the implementation of IFRS 9 will not have any significant impact on recognition and measurement. GN Audio A/S' use of hedge accounting has not been affected by implementing IFRS 9 and neither has the accounting for financial liabilities. The disclosures regarding classification of certain financial assets has changed as financial assets are classified as measured at either amortized cost or fair value. The changed classification did not result in any changes to measurements.

Effect from implementing IFRS 15 Revenue from Contracts with Customers
IFRS 15 introduces a five-step model for recognizing revenue from contracts with customers. GN Audio A/S has performed an analysis of contracts with customers and concluded that revenue recognition will not be impacted significantly from implementing IFRS 15. GN Audio A/S previously recognized revenue when the risk and rewards of ownership of the products are transferred to the customer. After the implementation of IFRS 15 revenue is recognized when control of the products has been transferred to the customer. Based on the analysis of contracts with customers this has not changed the timing of revenue recognition, which is primarily recognized at a point in time, generally at delivery.

When goods are sold with a right of return, a refund liability and a right to the returned products is recognized as a provision and a current asset, respectively. As this is in line with the previous practice, it did not result in any changes to the balance sheet.

Accounting standards not yet adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018, and have not been applied in preparing this annual report. Those, which may be relevant to GN Audio A/S, are the following:

IFRS 16 Leases
IFRS 16 Leases applies to periods beginning on or after January 1, 2019. IFRS 16 Leases will be applied by using the simplified retrospective method, where the cumulative effect of initial application is recognized as an adjustment to the opening balance of retained earnings at January 1, 2019. Comparative information will not be restated.

At January 1, 2019 a lease liability for leases previously classified as operating leases will be recognized in the balance sheet. The lease liability will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. Likewise, at January 1, 2019 right-of-use assets for leases previously classified as operating leases will be recognized in the balance sheet. The right-of-use assets will be measured at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments already recognized in the balance sheet.

The expected impact on the financial statements from implementing IFRS 16 Leases is not expected to be significant for neither the income statement or the balance sheet.

IFRIC 23 Uncertainty over Income Tax Treatments
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 including whether an entity considers uncertain tax treatments separately and the measurement method to be applied. The interpretation is not expected to have significant impact.

GN Audio A/S will adopt the mentioned standards and interpretations as of the effective dates.

Revenue
Revenue from the sale of audio and headset solutions is recognized in the income statement when the customer obtains control of the goods. When considering at what point in time the customer obtains control of the goods, a number of indicators are considered, including whether:

- GN Audio A/S has a present right to payment for the goods.
- The customer has legal title to the goods.
- The customer has physical possession of the goods.
- The customer has the significant risks and rewards of ownership of the goods.
- The customer has accepted the goods.

In the majority of sales, the customer obtains control of the goods either upon shipment from a distribution hub or upon delivery to the customer.

The amount of revenue recognized varies with discounts and rebates offered to customers. Discounts and rebates are estimated based on the expected amount to be provided to the customers and reduce revenues recognized. Revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

When goods are sold with a right of return, a refund liability and a right to the returned products are recognized as a provision and a current asset, respectively. The refund liability is deducted from revenue and the right to the returned products is offset in cost of sales. The portion of goods sold that is expected to be returned is estimated based on historical product returns data. The estimated amounts of both returns, discounts and rebates are reassessed at each reporting date.

GN Audio A/S typically provides warranties for general repairs of defects that existed at the time of sale, as required by law. These assurance-type warranties are accounted for as described in the accounting policies for warranty provisions.

The typical payment terms for customers is between 30 and 60 days. GN Audio A/S does not expect to have contracts with payment terms exceeding one year. As a consequence the transaction prices are not adjusted for the time value of money. Revenue is measured excluding VAT, taxes and granted cash and quantity discounts in relation to the sale and expected returns of goods.

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, expected losses on trade receivables etc..

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.

GENERAL ACCOUNTING POLICIES

Foreign Currency Translation

Functional Currency and Presentation Currency
The financial statement is presented in Danish kroner (DKK), which is the functional currency and presentation currency of the company.

Translation of Transactions and Balances
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.

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.

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 recquires 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:
2.1 Revenue and geographical information
2.3 Tax
3.1 Intangible assets
3.4 Investment in subsidiaries
3.5 Inventories
3.6 Trade receivables
3.7 Provisions
5.2 Contingent liabilities, other financial liabilities and contingent assets

1.3. NON-IFRS MEASURES

This Annual Report includes financial measures which are not defined by IFRS. These measures are included because they are used to analyse and managed the business and to provide GN Audio A/S's management and stakeholders with useful information on the company's financial position, performance and development. Please refer to Keyratio definitions for a definition of the measures.

2.1 GEOGRAPHICAL INFORMATION

	Revenue		Intangible assets and property, plant	
DKK '000	2018	2017	2018	2017
Denmark	170,844	138,962	445,602	399,497
Rest of Europe	1,826,152	1,459,823	-	-
North America	1,282,546	1,036,706	-	-
Asia and rest of world	501,864	440,439	78,751	46,023
Consolidated Total	3,781,406	3,075,930	524,353	445,520

Revenue is predominantly recognized at a point in time, and revenue recognized over time is not significant. 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. Only the US (included under the headline North America) represents a material single country.

Revenue are in all material aspects related to sale of goods; headsets and other audio solutions which primarily are recognized as revenue at a point in time.

§ Accounting policies
Revenue and Geografical recognition

Certain contracts with customers include a volume rebates that give rise to variable consideration. In estimating the variable consideration GN Audio A/S is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. Significant accounting estimates and judgments involve the amount of discounts and rebates.

In sales, where the customer obtains control of the goods upon delivery to the customer, the significant judgments made in determining when the customer obtains control of promised goods involve determining when a customer has physical possession of the goods and when the customer has accepted the goods due to uncertainty in transportation time

2.2 STAFF COSTS

DKK '000	2018	2017
Wages, salaries and remuneration	(308,211)	(278,677)
Pensions, defined contribution plans	(22,372)	(18,294)
Other social security costs	(3,060)	(3,359)
Share-based payments	(13,896)	(7,192)
Total	(347,539)	(307,522)
Included in:		
Production costs	(37,987)	(29,027)
Development costs	(137,314)	(117,176)
Selling and distribution costs	(128,374)	(112,993)
Management and administrative expenses	(43,864)	(48,326)
Total	(347,539)	(307,522)
Average number of employees	341	313
Number of employees, year-end	392	345
The full-year remuneration of the Board of Directors	1,238	1,125

Executive Management remuneration can be specified as follows:

	2018				2017			
DKK '000	Fixed salary	Bonus	Share-based payments	Total	Fixed salary	Bonus	Share-based payments	Total
René Svendsen-Tune, CEO of GN Audio	(6,372)	(5,855)	(2,747)	(14,974)	(6,036)	(5,350)	(2,305)	(13,691)
Peter Gormsen, CFO of GN Audio	(2,531)	(873)	(417)	(3,821)	(2,210)	(820)	(200)	(3,230)
Total	(8,903)	(6,728)	(3,164)	(18,795)	(8,246)	(6,170)	(2,505)	(16,921)

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. Total salary (Fixed salary & Bonus) of the Executive Management, increased by 8% or DKK 1.2 million from 2017 to 2018.

The remuneration of the Executive Management is based on: A fixed base salary. Participation in GN Store Nord’s warrant-based long-term incen-tive program. A yearly bonus plan with 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 between 0 - 100% of the base salary. The Executive Management´s bonus is based on three parameters in light of the Group's focus areas:

- René Svendsen-Tune’s bonus is subject to the performance of GN Audio’s EBITA, GN Audio’s revenue and individual performance targets.
- Peter Gormsen’s bonus is subject to the performance of GN Audio’s EBITA, GN Audio’s revenue and individual performance targets.

The Group does not make pension contributions for 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 GN Store Nord Annual General Meeting on March 13, 2018. 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.

Group-wide total remuneration to members of the Executive Management and the Board of Directors, who also serve as members of the Executive Management and the Board of Directors of GN Store Nord A/S, is disclosed in note 5.3 in the consolidated financial statements of GN Store Nord A/S.

2.3 TAX

TAX ON PROFIT (LOSS)

DKK '000	2018	2017
Tax on profit (loss)		
Current tax for the year	(156,918)	(113,041)
Deferred tax for the year	(3,393)	(7,295)
Adjustment to current tax with respect to prior years	3,634	9,921
Adjustment to deferred tax with respect to prior years	(6,541)	(10,232)
Total	(163,218)	(120,647)
Reconciliation of effective tax rate		
Danish tax rate	22.00%	22.00%
Non-taxable income	-0.18%	-1.51%
Withholding tax	0.00%	0.00%
Other	-0.08%	0.00%
Adjustment of tax with respect to prior years	0.40%	0.05%
Effective tax rate	22.66%	20.88%
Tax relating to other comprehensive income		
Adjustment of cash flow hedges	799	980
Total	799	980

DEFERRED TAX

DKK '000	2018	2017
Deferred tax, net		
Deferred tax at January 1, net	(57,515)	(43,969)
Adjustment with respect to prior years	3,634	(10,232)
Deferred tax for the year recognized in profit (loss) for the year	(3,393)	(7,294)
Deferred tax for the year recognized in other comprehensive income for the year	799	980
Tax related to share-based incentive plans	13,000	3,000
Deferred tax at December 31, net	(43,475)	(57,515)
Deferred tax, net relates to:		
Intangible assets	(81,933)	(76,387)
Property, plant and equipment	10,458	9,504
Provisions	1,922	6,486
Other	26,078	2,882
Total	(43,475)	(57,515)

Deferred tax, net includes DKK 8 million expected to be utilized within 12 months.

Repatriation of retained earnings from certain foreign subsidiaries, however not planned or expected in the foreseeable future, may trigger withholding tax liabilities up to DKK 2 million (2017: DKK 1 million).

§ 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 it`s 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.

2.4 INCOME STATEMENT CLASSIFIED BY FUNCTION

The Company presents the income statement based on a classfication of costs by function. However, in order to present EBITA in the income statement, which is the measure of profit used by management, amortisation of acquired intangible assets are separated from the individual functions and presented as a separate line item. If amortisation of acquired intangible assets are allocated to the individual line items by function the income statement will present as follows:

DKK '000	2018	2017
Revenue	3,781,406	3,075,930
Production costs	(2,158,777)	(1,744,563)
Gross profit	1,622,629	1,331,367
Development costs	(328,373)	(230,628)
Selling and distribution costs	(379,933)	(367,631)
Management and administrative expenses	(169,244)	(151,985)
Other operating income and costs, net	4,961	(2,360)
Gain (loss) on divestment of operations etc.	(1,490)	-
Operating profit (loss)	748,550	578,763

In the above income statement amortization of acquired intangible assets has been allocated to functions as follows:

Development costs	(1,282)	(1,282)
Amortization of acquired intangible assets	(1,282)	(1,282)

3.1 INTANGIBLE ASSETS

DKK '000	Goodwill	Trademarks	Patents and rights	Development projects, developed in-house	Software	Total
Cost at January 1	106,369	-	9,210	779,647	35,417	930,643
Additions	-	47,592	-	159,024	815	207,431
Disposals	-		(478)	-	(88)	(566)
Transfers	-		-	-	384	384
Foreign exchange adjustments	-		-	-	-	-
Cost at December 31, 2018	106,369	47,592	8,732	938,671	36,528	1,137,892
Amortization and impairment at January 1	(37,418)	-	(6,646)	(479,674)	(26,710)	(550,448)
Amortization	-	-	(1,282)	(133,164)	(3,446)	(137,892)
Impairment	-	-	-	(10,483)	-	(10,483)
Disposals	-	-	478	-	88	566
Amortization and impairment at December 31	(37,418)	-	(7,450)	(623,321)	(30,068)	(698,257)
Carrying amount at December 31, 2018	68,951	47,592	1,282	315,350	6,460	439,635
Cost at January 1	106,369	-	9,496	648,000	48,681	812,546
Additions	-	-	-	132,330	5,196	137,526
Disposals	-	-	(286)	(683)	(18,460)	(19,429)
Cost at December 31, 2017	106,369	-	9,210	779,647	35,417	930,643
Amortization and impairment at January 1	(37,418)	-	(5,650)	(380,745)	(36,915)	(460,728)
Amortization	-	-	(1,282)	(97,688)	(4,676)	(103,646)
Impairment	-	-	-	(1,241)	-	(1,241)
Disposals	-	-	286	-	14,881	15,167
Amortization and impairment at December 31, 2017	(37,418)	-	(6,646)	(479,674)	(26,710)	(550,448)
Carrying amount at December 31, 2017	68,951	-	2,564	299,973	8,707	380,195

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

The carrying amount of development projects and software in progress amount to DKK 78 million (2017: DKK 171 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 2019 and 2020, after which product sales and marketing are expected to 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.On basis of the performed impairment test Management has decided to recognize impairments of DKK 10.5 million. In Management's In Management's assessment, the recoverable amount exceeds the carrying amount after the recognized impairment of DKK 10.5 million.

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 2018, management assessed that the expected useful lives were reflected in the carrying amounts at December 31, 2018.

§ Accounting policies

Goodwill

At the acquisition date goodwill is recognized in the balance sheet at cost. Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized but is tested for impairment at least once a year. The carrying amount of goodwill is allocated to the company's cash-generating units at the acquisition date. Identification of cash-generating units is based on how Management monitor the operation in the Management reporting. As a result of the integration of acquired enterprises in the existing group, Management assesses that the smallest cash-generating units to which the carrying amount of goodwill can be allocated is GN Audio A/S.

Development projects, Trademarks, 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 Goodwill, trademarks and in-process development projects

Goodwill is subject to at least one annual impairment test, initially before the end of the acquisition year. Similarly, trademarks and in-progress development projects are tested for impairment at least annually.

The carrying amount of goodwill is tested for impairment together with the other non-current assets in the cash-generating unit to which the goodwill is allocated. Goodwill is written down to the recoverable amount if the carrying amount is higher than the computed recoverable amount. The recoverable amount is computed as the present value of the expected future net cash flows from the enterprises or activities to which the goodwill is allocated.

Recognition of impairment losses in the income statement

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount of the asset or the cash-generating unit. Impairment of goodwill is recognized in a separate line item in the income statement. Impairment of goodwill is not reversed.

! Significant accounting estimates

Goodwill

Determining whether goodwill is impaired requires a comparison of the recoverable amount with the carrying amount. The recoverable amount is determined as the net present value of the future cash flows expected to arise from the cash generating unit to which goodwill is allocated.

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 continously assess the useful lives of its products to ensure that amortization of development projects reflects the useful lives.

Trademarks

Trademarks consists of acquired rights to usage of trademarks registered in USA. Trademarks are measured at cost less accumulated amortization.

3.2 PROPERTY, PLANT AND EQUIPMENT

DKK '000	Plant and machinery	Operating assets and equipment	Assets under construction	Total
Cost at January 1	140,960	21,701	29,869	192,530
Additions	-	2,647	50,652	53,299
Disposals	(4,549)	(2,251)	-	(6,800)
Transfers	67,259	-	(67,643)	(384)
Cost at December 31	203,670	22,097	12,878	238,645
Depreciation and impairment at January 1	(111,851)	(15,354)	-	(127,205)
Depreciation	(30,786)	(2,693)	-	(33,479)
Impairment	-	-	-	-
Disposals	4,534	2,223	-	6,757
Depreciation and impairment at December 31	(138,103)	(15,824)	-	(153,927)
Carrying amount at December 31, 2018	65,567	6,273	12,878	84,718
Cost at January 1	119,471	28,275	20,215	167,961
Additions	-	4,012	32,512	36,524
Disposals	(1,369)	(10,586)	-	(11,955)
Transfers	22,858	-	(22,858)	-
Cost at December 31	140,960	21,701	29,869	192,530
Depreciation and impairment at January 1	(93,762)	(19,572)	-	(113,334)
Depreciation	(19,458)	(4,347)	-	(23,805)
Impairment	-	-	-	-
Disposals	1,369	8,565	-	9,934
Depreciation and impairment at December 31	(111,851)	(15,354)	-	(127,205)
Carrying amount at December 31, 2017	29,109	6,347	29,869	65,325

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

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	2018	2017
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	(30,860)	(19,560)
Development costs	(146,750)	(101,668)
Selling and distribution costs	(704)	(2,159)
Management and administrative expenses	(2,257)	(4,023)
Amortization of acquired intangible assets	(1,282)	(1,282)
Total	(181,853)	(128,692)
Amortization of intangible assets is recognized in the income statement as follows:		
Production costs	(75)	(102)
Development costs	(133,959)	(98,349)
Selling and distribution costs	(698)	(2,154)
Management and administrative expenses	(1,878)	(1,760)
Amortization of acquired intangible assets	(1,282)	-
Total	(137,892)	(102,365)

Impairment of intangible assets is recognized in the income statement in 2018 with 10,483 MDKK as development costs (none for 2017).

3.4 INVESTMENTS IN SUBSIDIARIES

DKK '000	2018	2017
Cost at January 1	1,186,301	1,182,351
Additions, capital contribution	61,217	3,950
Cost at December 31	1,247,518	1,186,301

Group companies are listed on page 44.

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 2018. Impairment test have therefore not been made of subsidiaries.

3.5 INVENTORIES

DKK '000	2018	2017
Raw materials and consumables	33,875	15,511
Finished goods and merchandise	438,335	299,839
Total	472,210	315,350
The above includes write-downs amounting to	48,402	46,244
Write-downs recognized in the income statement under production costs	9,260	10,240
Production costs include costs of goods sold of	1,996,290	1,621,233

§ 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.

3.6 TRADE RECEIVABLES

DKK million	Current	1-60 days past due	61-90 days past due	91-120 days past due	121-180 days past due	More than 181 days past due	Total
Gross carrying amount - Trade receivables	121,354	15,919	(338)	(913)	(779)	920	136,163
Write-downs at December 31 (expected credit loss model)			(163)	(5)	(33)	(148)	(349)
Trade receivables at December 31, 2018	121,354	15,919	(501)	(918)	(812)	772	135,814
Expected loss rate	0%	0%	(48)%	(1)%	(4)%	16%	0%
Gross carrying amount - Trade receivables	108,842	15,004	325	(56)	333	725	125,173
Write-downs at December 31 (incurred loss model)	-		(40)	(4)	(236)	(1,985)	(2,265)
Trade receivables at December 31, 2017	108,842	15,004	285	(60)	97	(1,260)	122,908

Write-downs, which are included in total trade receivables, based on the above ageing profile and expected loss rates, have developed as follows:

DKK million	2018	2017
Write-downs at January 1	(2,265)	(872)
Write-downs made during the year	-	(1,726)
Realized during the year	647	333
Reversed write-downs	1,269	-
Write-downs at December 31	(349)	(2,265)

Total write-downs of DKK 0,3 million are included in trade receivables at the end of 2018. In 2018 app. 0,6 MDKK have been recognized regarding individual receivables (2017: 0,3 MDKK). 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.

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

§ Accounting policies

Measurement of trade receivables

Trade receivables are measured at amortized cost less expected lifetime credit losses. The expected loss rates are based on days past due and whether a receivable concerns a GN Hearing or a GN Audio customer. Current expectations and estimates of expected credit losses are furthermore based on change in customer behavior and current economic conditions.

Expected credit losses are based on an individual assessment of each receivable and at portfolio level. As mentioned in note 1.1 General accounting policies the comparative figures have not been changed in connection with the implementation of IFRS 9 Financial instruments. The impairment losses in 2017 have therefore been measured using the incurred loss model under the former standard IAS 39 Financial instruments.

! Significant accounting estimates

Measurement of trade receivables

If a customer's financial condition deteriorates, further write-downs may be required in future periods. In assessing the adequacy of expected credit losses, Management specifically analyzes receivables, including doubtful debts, concentrations of credit risk, credit ratings, current economic conditions and changes in customers' payment behavior.

3.7 PROVISIONS

DKK '000	Warranty provisions	Other provisions	Total
Provisions at January 1	22,933	6,756	29,689
Additions	17,086	24,547	41,633
Consumed	(11,466)	(8,000)	(19,466)
Reversed	-	-	-
Provisions at December 31, 2018	28,553	23,303	51,856
Of which is recognized in the consolidated balance sheet:			
Non-current liabilities	8,928	-	8,928
Current liabilities	19,625	23,303	42,928
Provisions at December 31, 2018	28,553	23,303	51,856

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, return obligations related to sold products and an earn-out provision regarding the final acquisition price of investment in the subsidiary Innova. 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.

4.1 FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

GN Audio A/S is exposed to several financial risks arising from its operating, investing and financing activities, comprising currency risk, interest rate risk, liquidity risk and credit risk. Financial risks are managed centrally by Group Treasury, except for commercial credit risk which is managed decentralized by the Group's operating businesses. The Group's Treasury Policy is reviewed by the Audit Committee and approved by the Board of Directors annually.

Cash flow, liquid funds and debt are coordinated centrally to ensure the solvency and liquidity of the Group. Material financial risk are identified, managed and reported adequately. Financial transactions are entered into only to mitigate risks from business activities or financing of the Group.

Foreign currency risk

GN Audio A/S has exposure towards foreign currencies exchange rate risk, mainly arising from the fluctuations of USD in connection with commercial transactions. The general policy is to minimize GN Audio A/S's currency exposure through natural matching of in- and out-flows to mitigate the impact of exchange rate fluctuations on earnings and cash flow, thereby increasing the predictability of the financial results. Additionally, the Group uses approved hedging instruments, including currency derivatives such as FX Spot, FX Forward, FX Swaps and FX Option contracts, to protect the Group's EBITA and Free Cash Flow from adverse currency movements by determining the aggregate of the expected net cash flow 12 months forward and monetary balance sheet items.

Sensitivity analysis for foreign currency risk

Change in GN Audio A/S's profit or loss in response to a weakening / strengthening of the currencies of which GN Audio A/S has significant exposure to at the balance sheet date. This analysis assumes that all other variables, in particular interest rates, remain constant. At year-end an increase of 5% in the USD/DKK and CNY/DKK exchange rates would affect the Income Statement (financial items) and Other Comprehensive income as outlined in the table below.

	Total	
DKK '000	2018	2017
Income statement	(26,638)	(5,641)
Other Comprehensive Income	-	

Interest rate risk

GN Audio is primarily funded by intercompany loans towards the holding company GN Store Nord A/S. Generaly, 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.

Specification of net interest-bearing debt/cash

DKK '000	2018	2017
Cash and cash equivalents	81,960	68,062
Bank loans and issued bonds, non-current liabilities	-	-
Bank loans, current liabilities	-	-
Total	81,960	68,062

Funding, liquidity and capital structure

At December 31, 2018, GN Audio had an equity ratio of 54% (2017: 47%). 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 primarely Intercompany balances as interest bearing balances.

Financial credit risk

GN Audio is through course 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 3.6 Trade receivables.

4.1 FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (continued)

Contractual maturity analysis for financial liabilities

DKK '000	Less than one year	Between one and three years	More than three years	Total
2018				
Amounts owed to subsidiaries and group companies	194,126	804,144		998,270
Trade payables	599,090	-	-	599,090
Total non-derivative financial liabilities	793,216	804,144	-	1,597,360
Derivative financial liabilities	-	2,434	-	2,434
Total financial liabilities	**793,216**	**806,578**	**-**	**1,599,794**
2017				
Amounts owed to subsidiaries and group companies	378,263	832,841		1,211,104
Trade payables	331,474	-	-	331,474
Total non-derivative financial liabilities	709,737	832,841	-	1,542,578
Derivative financial liabilities	-	-	-	-
Total financial liabilities	**709,737**	**832,841**	**-**	**1,542,578**

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

Derivative financial instruments

Exchange rate instruments

	2018			2017		
DKK '000	Contract amount, net	Fair value, assets	Fair value, liabilities	Contract amount, net	Fair value, assets	Fair value, liabilities
USD / DKK	301,948	2,001	-			-
JPY / DKK	28,007	-	1,614			-
GBP / DKK	24,755	-	127	108,935	1,198	-
Other currency	177,369	2,034	693			
Total	**532,079**	**4,035**	**2,434**	**108,935**	**1,198**	**-**

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

Fair value adjustments of cash flow hedges	2018	2017
Fair value adjustment for the year recognized in Other comprehensive income	(4,287)	2,559
Reclassified from equity to revenue during the year	654	(7,013)
Adjustment of cash flow hedges in Other comprehensive income	**(3,633)**	**(4,454)**
Fair value adjustment of cash flow hedges recognized in Other operating income and costs, net	(965)	-
Fair value adjustment of cash flow hedges recognized in financial items	2,767	1,417

The gains and losses on cash flow hedges recognized in Other comprehensive income as of December 31, 2018 will be recognized in the income statement in the period during which the hedged forecasted transaction affects the income statement.

4.1 FINANCIAL RISKS AND FINANCIAL INSTRUMENTS (continued)

Categories of financial assets and liabilities and fair value hierarchy

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

DKK '000	2018 Quoted prices (level 1)	Observable input (level 2)	Unobservable input (level 3)	Carrying value *)	Total
Loans and receivables					
Trade receivables	-	-	-	135,814	135,814
Other receivables	-	4,035	-	41,991	46,026
Amounts owed by subsidiaries and group companies	-	-	-	1,523,523	1,523,523
Cash and cash equivalents	-	-	-	81,960	81,960
Total loans and receivables	-	4,035	-	1,783,288	1,787,323
Financial liabilities					
Amounts owed to subsidiaries and group companies				998,270	998,270
Contingent considerations	-	-	-	14,568	14,568
Trade payables	-	-	-	599,090	599,090
Other payables	-	2,434	-	154,647	157,081
Total financial liabilities	-	2,434	-	1,766,575	1,769,009

DKK million	2017 Quoted prices (level 1)	Observable input (level 2)	Unobservable input (level 3)	Carrying value *)	Total
Loans and receivables					
Trade receivables	-	-	-	122,908	122,908
Other receivables	-	1,198	-	10,335	11,533
Amounts owed by subsidiaries and group companies	-	-	-	1,211,419	1,211,419
Cash and cash equivalents	-	-	-	68,062	68,062
Total loans and receivables	-	1,198	-	1,412,724	1,413,922
Financial liabilities					
Amounts owed to subsidiaries and group companies	-	-	-	1,211,104	1,211,104
Trade payables	-	-	-	331,474	331,474
Other payables	-	-	-	160,010	160,010
Total financial liabilities	-	-	-	1,702,588	1,702,588

*) Due to the short maturity, the carrying value is considered to be an appropriate expression of the fair value

Fair value hierarchy

FX contracts

The fair value of the exchange rate instruments is determined using quoted forward exchange rates and forward interest rates, respectively at

§ 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. 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.

When a hedging instrument expires, or is terminated, or when a hedge no longer meets the criteria for hedge accounting, any gains or losses previously recognized in other comprehensive income remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that were reported in equity are immediately reclassified to the income statement.

For derivative financial instruments, where hedge accounting is not applied, changes in fair value are recognized in the income statement under other income, net (economic hedge) or 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 and other payables, are measured at amortized cost.

4.2 FINANCIAL INCOME AND EXPENSES

DKK '000	2018	2017
Financial Income:		
Interest income from subsidiaries*	28,099	11,137
Interest income from bank balances*	114	6
Financial income, other	16	-
Received Dividend from subsidiaries	-	36,018
Foreign exchange gain	3,435	12,927
Total	31,664	60,088
Financial expenses:		
Interest expense to subsidiaries*	(44,124)	(39,289)
Interest expense on bank balances*	(128)	(178)
Financial expenses, other	(534)	(459)
Fair value adjustments of derivative financial instruments and impairments	-	-
Foreign exchange loss, net	(15,049)	(19,793)
Total	(59,835)	(59,719)

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

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

§ 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.

4.3 LIABILITIES FROM FINANCING ACTIVITIES

DKK '000	Bank loans, current	Amounts owed to Subsidiaries	Total
Liabilities at January 1	-	1,211,104	1,211,104
Cashflows	-	(224,448)	(224,448)
Foreign exchange adjustments	-	11,614	11,614
Liabilities at December 31, 2018	-	998,270	998,270
Liabilities at January 1	3,464	983,342	986,806
Cashflows	(3,464)	221,156	217,692
Foreign exchange adjustments	-	6,604	6,604
Non-cash interest expenses			-
Liabilities at December 31, 2017	-	1,211,102	1,211,102

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 linked to shares in GN Audio A/S. For members of Executive Management the grant size can very between 50-100% of their base salary.

Calculation of share price

On a quarterly basis the share price for GN Audio A/S is calculated, using a top-down approach based on analysis of external broker reports for the allocation of GN Store Nord A/S' share price into GN Hearing, GN Audio and Other. This calculation is also the basis for the Black-Scholes valuation as stated below regarding valuation of warrants. The warrant value for GN Audio A/S warrants is shown in the tables below.

Vesting conditions of warrants

The current warrant programs in GN are incentive programs with a three-year vesting period from the grant date. Warrants vest when a set of criteria are met: The share value of GN Store Nord has increased and the share value of GN Audio A/S has outperformed a peer group index of competitors and industry indices during the same time period, as defined by the Board of Directors of GN Audio.

Vested warrants may be exercised during a four-week period opening each quarter for a three-year period after vesting. The quarterly four-week window will open following the release of an external Valuation Report concerning the value of the shares of GN Audio A/S. Warrants are granted at no consideration.

Valuation model and assumptions

The market value of the warrants are calculated using the principles of the Black-Scholes option pricing model. In addition the model have taken the overperformance criteria into account using Monte Carlo simulation. 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 war-rants 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:

	Executive Management		Other employees	
	2018	2017	2018	2017
Number of warrants awarded in the year	738	666	2,228	2,208
Share price GN Store Nord at ordinary grant date	199	161	199	161
Vesting period	3 years	3 years	3 years	3 years
Life of warrant	6 years	6 years	6 years	6 years
Volatility*	23%	30%	23%	30%
Expected dividend**	-	-	-	-
Risk-free interest rate***	0.30%	(0.10)%	0.30%	(0.10)%
Fair Value per warrant at ordinary grant (DKK)	5,743	5,131	5,743	5,131
Total market value at grant (DKK million)	4	3	13	11
Amortization period of the program	2018 - 2021	2017 - 2020	2018 - 2021	2017 - 2020

* Volatility is estimated by external experts

** No dividends is paid out through GN Audio A/S during the life of the warrants, all dividends are paid out through GN Store Nord A/S

*** Risk-free interest rate is estimated by external experts and based on the zero yield curve derived from Danish government bonds with maturity equal to the expiry

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.

Exercise of warrants

When employees exercise their warrants they are exchanged with shares in GN Store Nord A/S based on relationship between the value of the warrant in the division and the value of the GN Store Nord A/S share at the time of exercise. Hereafter the employee is free to keep the GN Store Nord A/S share or sell it on the open market.

INCENTIVE PLANS (continued)

Warrants program, GN Audio A/S

	DKK	Number		
	Average	Executive	Other	Total
Outstanding warrants at January 1, 2017	24,549	1,730	7,977	9,707
Warrants granted during the year	28,934	666	2,208	2,874
Warrants exercised during the year	17,755	-	(971)	(971)
Warrants forfeited during the year	24,728	-	(2,378)	(2,378)
Outstanding warrants at December 31, 2017	26,587	2,396	6,836	9,232
Warrants granted during the year	33,993	738	2,228	2,966
Warrants exercised during the year	29,670	-	(1,349)	(1,349)
Warrants forfeited during the year	27,418	-	(456)	(456)
Outstanding warrants at December 31, 2018	28,273	3,134	7,259	10,393
Weighted average term to maturity (Years)		3.40	3.61	3.61
Number of exercisable options at December 31, 2017		-	98	98
Number of exercisable options at December 31, 2018		538	573	1,111
Market value of outstanding warrants at December 31, 2018 (DKK million)		83	187	270

Average share price at exercise: DKK 48.323 (2017: DKK 32.134)

Outstanding warrants in GN Audio A/S by grant date are shown below:

	DKK	Number		
Grant date	Exercise price	Executive Management	Other employees	Total
March 2015	30,600	538	573	1,111
March 2016	22,495	1,192	2,370	3,562
August 2016	23,308	-	58	58
March 2017	28,794	666	2,065	2,731
December 2017	35,824	-	47	47
February 2018	33,913	738	2,118	2,856
May 2018	42,338	-	28	28
Outstanding warrants at December 31, 2018		3,134	7,259	10,393

§ 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 Audios 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 filed suit against Plantronics for attempted monopolization of the distributors' market in the United States. 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 in punitive damages as well as reasonable fees and costs incurred in connection with the discovery dispute. Furthermore, the Court reserved the right to issue additional evidentiary sanctions, and to 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. On 18 October 2017, a jury in the Federal District Court, Delaware, ruled in favor of Plantronics and did not find that Plantronics' behavior in the market had been unlawful. GN has appealed the ruling and the case was argued before the Court of Appeals on 11 December 2018. A ruling is expected in first half of 2019.

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

For information on lease obligations, please refer to note 5.4. Lease obligations.

! 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	2018	2017
Share-based payment (granted)	13,896	7,192
Provision for bad debt, inventory write-downs, etc.	8,985	32,167
Adjustment of provisions	9,083	6,947
Total	31,964	46,306

5.4 LEASE OBLIGATIONS

DKK '000	2018	2017
Future lease obligations are distributed as follows:		
Operating leases:		
Less than one year	31,847	29,593
Between one and five years	7,705	23,324
Total	39,552	52,917

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

Lease payments recognized in the income statement relating to operating leases amount to kDKK 29.212 (2017: kDKK 27.785).

§ 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	2018	2017
Audit fees	(690)	(512)
Tax assistance and advice	-	(105)
Total	(690)	(617)

5.6 RELATED PARTY TRANSACTIONS

GN Audio A/S' related parties exercising significant influence comprise the parent company GN Store Nord A/S and 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 42.

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 comprised:

DKK million	2018	2017
GN Store Nord A/S		
Purchase of services	91	80
Sale of services	1	1
Subsidiaries		
Purchase of intangible assets	(47)	
Purchase of services	(274)	(249)
Sale of goods, revenue	3,232	2,254

The company's balances with group enterprises at December 31, 2018 are shown separately 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 or other related parties, apart from ordinary remuneration disclosed in notes 2.2 and 5.1.

5.7 EVENTS AFTER THE REPORTING PERIOD

In February 2019, GN Audio signed an agreement to acquire Altia Systems, a California-based innovative developer of professional video communication solutions within the Enterprise segment. The integration of Altia will expand the GN Audio leadership in the Enterprise segment by being able to deliver integrated audio and video communication solutions. Furthermore, this will enable GN Audio to access new segments through Altia's best-in-class expertise within video communication. This supports GN Audio's ambition to continuously offer leading products and services to customers, and to be the leader in intelligent audio solutions, transforming lives through the power of sound.

The total purchase consideration is up to USD 125 million on a debt and cash free basis. As part hereof around USD 12 million is linked to retention agreements to be expensed by GN Audio during 2019-2021.

INVESTMENTS IN SUBSIDIARIES AT DECEMBER 31, 2018

COMPANIES IN THE GN AUDIO GROUP

	Domicile	Currency	Owner-ship %	Share capital
GN Audio A/S	Denmark	DKK	100	34,237,900
GN Audio Australia Pty Ltd.	Australia	AUD	100	2,500,000
GN Áudio Brasil Importacão & Comércio Ltda.	Brazil	BRL	100	407,821
GN Netcom (Canada), Inc.	Canada	CAD	100	409,800
GN Audio (China) Ltd.	China	USD	100	65,116,155
GN Audio (Shanghai) Co., Ltd.	China	CNY	100	15,481,000
GN Audio Logistic (Xiamen) Ltd.	China	USD	100	4,133,738
GN Audio France SA	France	EUR	100	80,000
GN Audio Germany GmbH	Germany	EUR	100	51,000
GN Audio Hong Kong Limited	Hong Kong	HKD	100	32,500,000
GN Audio India Private Limited	India	INR	100	40,000,000
Jabra Connect India Private Limited.	India	INR	46*	20,000,000
GN Audio Italia s.r.l.	Italy	EUR	100	10,200
GN Audio Japan Ltd.	Japan	JPY	100	10,000,000
GN Audio Benelux B.V.	Netherlands	EUR	100	18,000
GN Audio Singapore Pte. Ltd.	Singapore	SGD	100	700,000
Jabra Connect Singapore Pte.Ltd.	Singapore	USD	100	12,000
GN Audio Spain, S.A.	Spain	EUR	100	60,111
GN Audio Sweden AB	Sweden	SEK	100	5,100,000
GN Audio UK Ltd.	United Kingdom	GBP	100	100,000
GN Audio USA Inc.	USA	USD	100	35,900,000

additional 5 % is owned by GN Audio Singapore Pte (a 100% owned subsidiary of GN Audio A/S)