

# GN Audio A/S Annual Report 2019

**Approved at the annual general meeting 11/ 03/ 2020**

Chairman:

.....  
Daniel Boda

CVR-no. 15 06 95 11

# Contents

## Statements

Statement by the Executive Management and the Board of Directors	3
Independent auditors' report	4

## Management's report

Company Details	6
Financial highlights	7
Management review of GN Audio	8
Key ratio definitions	12

## Financial Statements

Income statement and statement of comprehensive income	13
Balance sheet	14
Statement of cashflow	15
Statement of equity	16

## Notes to the financial statements

### Section 1 Basis of Preparation

1.1 General accounting policies	17
1.2 Significant accounting estimates and judgments	19
1.3 Non-IFRS measures	19

### Section 2 Results for the year

2.1 Revenue and geographical information	20
2.2 Staff Costs	21
2.3 Tax	22
2.4 Income statement classified by function	23

### Section 3 Operating assets and liabilities

3.1 Intangible assets	24
3.2 Property, plant and equipment	26
3.3 Leases	27
3.4 Depreciation, amortization and impairment	29
3.5 Inventories	29
3.6 Provisions	30

### Section 3 Operating assets and liabilities (continued)

3.7 Trade receivables	31
3.8 Investment in subsidiaries	32

### Section 4 Financing Items

4.1 Financial risks	33
4.2 Financial income and expenses	34
4.3 Financial instruments	35

### Section 5 Other disclosures

5.1 Share-based incentive plans	37
5.2 Contingent assets and liabilities	40
5.3 Other non-cash adjustments	40
5.4 Fees to statutory auditors	40
5.5 Related parties	41
Companies in GN Audio Group	42

# Statement by the Executive Management and the Board of Directors

Today, the Executive Management and the Board of Directors have discussed and approved the GN Audio A/S (from here on forward 'GN Audio' or 'the Company') Annual Report 2019.

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

It is our opinion that the financial statements give a true and fair view of the financial position of GN Audio as of 31 December 2019 and of the results of the company's operations and cash flows for the financial year 1 January – 31 December 2019.

Further, in our opinion, the Management's report gives a fair review of the development in GN Audio's activities and financial matters, results of operations, cash flows and financial position as well as a description of material risks and uncertainties that the company faces.

We recommend that the annual report be approved at the Annual General Meeting.

Ballerup, 11 March 2020

## Executive management

**René Svendsen-Tune**  
CEO

**Peter Gormsen**  
CFO

## Board of directors

**Per Wold-Olsen**  
(Chairman)

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

**Wolfgang Reim**

**Hélène Barnekow**

**Ronica Wang**

**Martin Arthur de Julienhort Hartvigsen**

**Brian Egholm Andersen**

**Steen Bay Smidt**

# Independent Auditor's Report

## To the Shareholders of GN Audio A/S

### Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2019, and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

We have audited the Financial Statements of GN Audio A/S for the financial year 1 January - 31 December 2019, which comprise income statement, statement of comprehensive income, balance sheet, statement of cash flow, statement of equity and notes, including a summary of significant accounting policies ("financial statements").

### Basis for Opinion

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

### Statement on Management's Report

Management is responsible for Management's Report.

Our opinion on the financial statements does not cover Management's Report, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Report and, in doing so, consider whether Management's Report 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 Management's Report provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Report 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 in Management's Report.

### 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 further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the 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 these financial statements.

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

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

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

Hellerup, 11 March 2020  
PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
CVR No 33 77 12 31

Mads Melgaard  
State Authorised Public Accountant  
mne34354

Elife Savas  
State Authorised Public Accountant  
mne34453

# 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:	<a href="http://www.jabra.com">www.jabra.com</a>
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) Wolfgang Reim Hélène Barnekow Ronica Wang Martin Arthur de Julienhort Hartvigsen (Employee elected) Brian Egholm Andersen (Employee elected) Steen Bay Smidt (Employee elected)
Executive management	René Svendsen-Tune, CEO Peter Gormsen, CFO
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 2900 Hellerup
Ownership	The company is 100% owned by GN Store Nord A/S, Lautrupbjerg 7, 2750 Ballerup, Denmark.

## Financial highlights

DKK thousand	2019	2018	2017	2016	2015
Revenue	4,900,805	3,781,406	3,075,930	2,787,771	2,522,047
Gross Profit	1,900,201	1,622,629	1,331,367	1,234,877	1,040,224
EBITA *	913,822	751,322	578,763	563,648	411,635
Operating profit (loss)	871,092	748,550	577,481	563,648	411,635
Result from financial items	140,710	(28,171)	369	(10,269)	(2,043)
<b>Profit (loss) for the year</b>	<b>804,648</b>	<b>557,161</b>	<b>457,203</b>	<b>431,652</b>	<b>326,953</b>
Non-current assets	2,389,259	1,778,359	1,638,009	1,608,191	1,488,597
Current assets	1,409,615	2,280,830	1,738,089	3,052,923	2,831,883
Total assets	3,798,874	4,059,189	3,376,098	4,661,114	4,320,480
Share capital	34,545	34,238	34,103	34,006	33,886
Total equity	2,111,896	2,209,418	1,586,306	3,103,763	2,641,939
Non-current liabilities	219,980	856,547	913,000	912,090	909,591
Current liabilities	1,466,998	993,224	876,792	645,261	768,950
Cash flow from operating activities	1,378,194	832,622	548,822	635,097	441,249
Investment in PP&E	102,688	53,299	36,524	22,346	33,886
Key ratios %					
Operating Margin	17.8	19.8	18.8	20.2	16.3
Gross Margin	38.8	42.9	43.3	44.3	41.2
Return on Investment	32.9	30.9	20.6	17.0	14.3
Equity Ratio	55.6	54.4	47.0	66.6	61.1
Return on Equity	37.2	29.4	19.5	15.0	13.3

\*) Please refer to Key Ratio Definitions on page 12

Note: Amounts for period 2015-2017 are not adjusted for changes related to IFRS 9 and IFRS 15. Moreover, amounts for the period 2015-2018 are not adjusted for changes related to IFRS 16.

## Management's review of GN Audio A/S

### 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.

### Development in activities and financial matters

GN Audio A/S's revenue for 2019 ended at DKK 4,901 mill (2018: DKK 3,781 mill), which is a growth of 23% compared to 2018. The revenue growth of 23% translated into an increase in EBITA of 18%, reflecting continuous leverage in the business off-set by investments in future growth opportunities and transaction related costs.

In the enterprise business targeting the global Call Center & Office (CC&O) market, GN Audio achieved exceptional organic revenue growth throughout 2019. This was particularly driven by the Unified Communication & Collaborations (UC&C) segment. GN Audio accelerated its market share gains driven by its leading product portfolio and continued strong execution across the organization.

In the consumer segment, GN Audio delivered very strong organic revenue growth, driven by the highly successful Jabra Elite family, which continues to receive strong reviews and feedback. In January 2019, Jabra announced the Jabra Elite 85h in connection with the annual consumer electronics show (CES) in Las Vegas. In March 2019, GN Audio launched the Jabra Evolve 65e – a second generation wireless earbud with UC-certification for professional sound on the go.

Operating expenses have increased primarily related to investments in future growth opportunities, an adverse development in foreign exchange rates. Operating expenses in percent of revenue have though decreased reflecting leverage in the business.

During the year, GN Audio continued to invest in order to sustain attractive growth rates. Investments have been broad-based covering new innovative products and sales and marketing.

### Events after the balance sheet date

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

### Market projections

GN Audio expects that the very favorable global enterprise (CC&O) market trend will continue in 2020, creating a solid foundation for continued strong performance. GN Audio expects its markets to continue to grow at around 10% in value when assuming a stable macro environment.

### Outlook 2020

The outlook is not prepared for GN Audio A/S stand-alone. The financial outlook is prepared at segment level at GN Store Nord. For 2020, the GN Audio segment expects a continued strong profitable growth as it is operating in attractive markets. Organic revenue growth is expected to be more than 14% and the EBIT margin is expected to be more than 20%.

The financial guidance does not include any impact from the coronavirus.



### **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:

#### *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.

#### *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.

### **Risks associated with distribution**

GN Audio A/S 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 A/S 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 2019, cf. §99a of the Danish Financial Statement Act, please see the Sustainability | ESG report 2019 by GN Store Nord A/S available on <https://www.gn.com/About/Document-download-center#>.

### **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**

Innovation Excellence is a cornerstone in GN Audio's strategy for 2017 - 2019.

During the year, much focus has been directed to the rising importance of Artificial Intelligence (AI) evidenced by the introduction of AI as announced in the beginning of January 2019. 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 the extensive collaboration with other partners and academic research institutes.

GN researchers are working on the next generations of products and software releases 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**

In 2019, we have continued to strengthen leadership development and strategic execution power with a focused leadership program "Leading Strategy".

We want career development in GN Audio to be connected to performance, irrespective of gender, age and nationality, as we firmly believe that diverse teams and leadership have a substantial positive impact on business results and organizational performance. To ensure performance-based career development, all employees engage in dialogues with their leader for performance reviews and development planning, where performance on objectives and values is discussed as well as career ambitions and opportunities.

The individual performance review and development planning dialogue is supplemented by a talent review and succession planning process involving the upper levels of the organization where leaders assess their employees' performance and potential. This provides input for GN Audio's succession planning for key positions and individual development plans.

### **Gender diversity in senior management positions (§99b)**

Diversity in gender, nationality, age and any other relevant dimension is an integral part of GN Audio's yearly talent review and succession planning process, talent development practices, recruitment procedures and leadership development programs. In 2019, GN Audio adopted a new Diversity Policy that sets our direction and actions in this area.

#### *Board of Directors*

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

One of GN Audio's diversity goals is, by the end of 2020, that three of the six members of the Board of Directors elected by the Annual General Meeting be women.

#### *Senior management*

Another focus has been to ensure stronger international representation in our senior management, the Global Management Team (GMT) in GN Audio. By the end of 2019, GN Audio's GMT comprised 30% female leaders and 40% non-Danes.

When GN's diversity policy was established in 2014, women filled 14% of the company's senior management positions. As a result of dedicated efforts women by the end of 2019 filled 20% of senior management positions across the GN Group. GN had aimed for 25% during the 2017 - 2019 strategy period and 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 2019, 30% 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 Audio A/S's yearly talent review and succession planning process, of talent development practices, recruitment procedures and leadership development programs.

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 Audio A/S requires that viable female candidates are presented for any position.

## Key ratio definitions

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. EBITA therefore include amortization of development projects and software developed in-house.

$$\text{Operating Margin} = \frac{\text{Operating profit (loss)} * 100}{\text{Revenue}}$$

$$\text{Gross margin} = \frac{\text{Gross profit(loss)} * 100}{\text{Revenue}}$$

$$\text{EBITA margin} = \frac{\text{EBITA}}{\text{Revenue}}$$

$$\text{Return on Investment} = \frac{\text{Operating profit (loss)} * 100}{\text{Average invested capital}}$$

$$\text{Invested capital} = \text{NWC} + \text{property, plant and equipment and intangible assets} + \text{loans to dispensers of GN Audio products} + \text{pre-paid discounts} + \text{ownership interests} - \text{provisions}$$

$$\text{Return on equity (ROE)} = \frac{\text{Profit (loss)} * 100}{\text{Average equity}}$$

$$\text{Equity ratio} = \frac{\text{Total equity}}{\text{Total assets}}$$

## Income statement

DKK thousand	Note	2019	2018
Revenue	2,1, 2.4, 5.5	4,900,805	3,781,406
Production costs	2,1, 2.4, 5.5, 3.5	(3,000,604)	(2,158,777)
<b>Gross profit</b>		<b>1,900,201</b>	<b>1,622,629</b>
Development costs	2.2, 2.4, 3.4	(388,499)	(327,091)
Selling and distribution costs	2.2, 2.4, 3.4	(430,600)	(379,933)
Management and administrative expenses	2.2, 2.4, 3.3, 3.4	(182,070)	(169,244)
Other operating income and costs, net	4.3	14,790	4,961
<b>EBITA*</b>		<b>913,822</b>	<b>751,322</b>
Amortization of acquired intangible assets	2.2, 2.4, 3.1	(44,220)	(1,282)
Gain (loss) on divestment of operations etc.		1,490	(1,490)
<b>Operating profit (loss)</b>		<b>871,092</b>	<b>748,550</b>
Financial income	4.2	180,541	31,664
Financial expenses	4.2	(39,831)	(59,835)
<b>Profit (loss) before tax</b>		<b>1,011,802</b>	<b>720,379</b>
Tax on profit (loss)	2.3	(207,154)	(163,218)
<b>Profit (loss) for the year</b>		<b>804,648</b>	<b>557,161</b>
<b>Proposed profit appropriation/distribution of loss</b>			
Retained earnings		(230,911)	(454,833)
Transfer to reserve for capitalized development projects		35,559	11,994
Proposed dividends for the year		1,000,000	1,000,000
<b>Profit (loss) for the year</b>		<b>804,648</b>	<b>557,161</b>

Please refer to Key Ratio definitions on page 12

## Statement of comprehensive income

DKK thousand	Note	2019	2018
<b>Profit (loss) for the year</b>		<b>804,648</b>	<b>557,161</b>
<b>Items that may be reclassified subsequently to the income statement</b>			
Adjustment of cash flow hedges	4.3	(4,269)	(3,632)
Foreign exchange adjustments, etc.		225	-
Tax relating to these items of other comprehensive income	2.3	939	799
<b>Other comprehensive income for the year, net of tax</b>		<b>(3,105)</b>	<b>(2,833)</b>
<b>Total comprehensive income for the year</b>		<b>801,543</b>	<b>554,328</b>

## Balance sheet at December 31

DKK thousand	Note	2019	2018
<b>Assets</b>			
Intangible assets	3.1	974,754	439,635
Property, plant and equipment	3.2, 3.3, 3.4	183,594	84,718
Investments in subsidiaries	3.8	1,228,494	1,247,518
Amounts owed by subsidiaries and group companies	4.3	2,417	6,488
<b>Total non-current assets</b>		<b>2,389,259</b>	<b>1,778,359</b>
Inventories	3.5	747,613	472,210
Trade receivables	3.7, 4.3	131,854	135,814
Amounts owed by subsidiaries and group companies, current	4.3	488,885	1,517,035
Tax receivables	2.3	-	29,944
Other receivables		35,655	43,867
Cash and cash equivalents	5.4	5,608	81,960
<b>Total current assets</b>		<b>1,409,615</b>	<b>2,280,830</b>
<b>Total assets</b>		<b>3,798,874</b>	<b>4,059,189</b>
<b>Equity and Liabilities</b>			
Share capital		34,545	34,238
Other reserves		(5,717)	(2,387)
Reserve for capitalized development projects		281,532	245,973
Proposed dividends for the year		1,000,000	1,000,000
Retained earnings		801,536	931,594
<b>Total equity</b>		<b>2,111,896</b>	<b>2,209,418</b>
Lease liabilities, non-current	3.3, 4.2	31,268	-
Provisions, non-current	3.6	23,824	8,928
Deferred tax liabilities	2.3	164,888	43,475
Amounts owed to subsidiaries and group companies, non-current	4.3	-	804,144
<b>Total non-current liabilities</b>		<b>219,980</b>	<b>856,547</b>
Lease liabilities, current	3.3, 4.2	10,064	-
Trade payables	4.3	714,680	599,090
Tax payables	2.3	46,904	-
Amounts owed to subsidiaries and group companies, current	4.3	300,753	194,126
Provisions, current	3.6	8,401	42,928
Other current liabilities	4.3	386,196	157,080
<b>Total current liabilities</b>		<b>1,466,998</b>	<b>993,224</b>
<b>Total equity and liabilities</b>		<b>3,798,874</b>	<b>4,059,189</b>

## Statement of cash flow

DKK thousand	Note	2019	2018
<b>Operating activities</b>			
Operating profit (loss)		871,092	748,550
Depreciation, amortization and impairment	3.4	275,372	181,854
Other non-cash adjustments	5.4	13,783	31,964
<b>Cash flow from operating activities before changes in working capital</b>		<b>1,160,247</b>	<b>962,368</b>
Change in inventories		(275,403)	(167,721)
Change in receivables		12,172	(29,989)
Change in trade payables and other payables		344,706	261,056
<b>Total changes in working capital</b>		<b>81,475</b>	<b>63,346</b>
<b>Cash flow from operating activities before financial items and tax</b>		<b>1,241,722</b>	<b>1,025,714</b>
Interest and dividends received and paid, net		133,501	(16,557)
Change in tax related to equity postings		2,971	-
Tax paid, net		-	(176,535)
<b>Cash flow from operating activities</b>		<b>1,378,194</b>	<b>832,622</b>
<b>Investing activities</b>			
Investments in intangible assets, excluding development projects		(537,144)	(48,407)
Development projects	3.1	(198,903)	(159,024)
Investments in property, plant and equipment	3.2	(102,688)	(53,299)
Disposal of intangible assets and property, plant and equipment		-	1
Increase/(Decrease) of amount owed by and to subsidiaries		(224,920)	(312,104)
Acquisition of companies/operations		-	(61,468)
Divestment of companies/operations		1,490	-
<b>Cash flow from investing activities</b>		<b>(1,062,165)</b>	<b>(634,301)</b>
<b>Cash flow from operating and investing activities (free cash flow)</b>		<b>316,029</b>	<b>198,321</b>
<b>Financing activities</b>			
Increase of short-term loans		(29,300)	-
Paid dividends		(1,000,000)	-
Share-based payments, exercised (capital increase)		71,771	40,025
Increase/(decrease) of amounts owed by and to subsidiaries		584,823	(224,448)
Exchange rate adjustments		(19,675)	-
<b>Cash flow from financing activities</b>		<b>(392,381)</b>	<b>(184,423)</b>
<b>Net cash flow</b>		<b>(76,352)</b>	<b>13,898</b>
Cash and cash equivalents, beginning of period		81,960	68,062
Adjustment foreign currency, cash and cash equivalents		-	-
<b>Cash and cash equivalents, end of period</b>		<b>5,608</b>	<b>81,960</b>

## Statement of equity

DKK thousand	Share Capital	Hedging Reserve	Reserve for capitalized development projects	Proposed dividends for the year	Retained earnings	Total equity
<b>Balance at January 1, 2018</b>	<b>34,103</b>	<b>446</b>	<b>233,979</b>	<b>-</b>	<b>1,317,778</b>	<b>1,586,306</b>
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
Share-based payment (exercised)	-	-	-	-	-	-
Tax related to share-based incentive plans	-	-	-	-	14,863	14,863
<b>Balance at December 31, 2018</b>	<b>34,238</b>	<b>(2,387)</b>	<b>245,973</b>	<b>1,000,000</b>	<b>931,594</b>	<b>2,209,418</b>
Profit (loss) for the period	-	-	35,559	1,000,000	(230,911)	804,648
Adjustment of cash flow hedges	-	(4,269)	-	-	225	(4,044)
Tax relating to other comprehensive income	-	939	-	-	-	939
Total comprehensive income for the year	-	(3,330)	35,559	1,000,000	(230,686)	801,543
Increase of share capital*	307	-	-	-	71,464	71,771
Share-based payment (granted)	-	-	-	-	18,212	18,212
Tax related to share-based incentive plans	-	-	-	-	10,952	10,952
Paid dividends	-	-	-	(1,000,000)	-	(1,000,000)
<b>Balance at December 31, 2019</b>	<b>34,545</b>	<b>(5,717)</b>	<b>281,532</b>	<b>1,000,000</b>	<b>801,536</b>	<b>2,111,896</b>

\*The share capital has increased by tDKK 254 in 2014, tDKK 238 in 2015, tDKK 120 in 2016, tDKK 97 in 2017, 135 tDKK in 2018 and 307 tDKK in 2019

### § Accounting policies

#### Reserve for capitalized development projects

The reserve for development costs comprise GN Audio A/S's development costs corresponding to the carrying amount of development cost capitalized in the balance sheet since January 1, 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 depreciation or write-downs. ●



# Section 1

## Basis of preparation

In the annual report the notes are grouped in sections. Each note includes 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 A/S'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 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 financial statements of GN Audio A/S

GN Audio A/S's is part of GN Store Nord's consolidated Annual Report and does therefore not prepare consolidated financial statements for GN Audio Group.

### 1.1 General accounting policies

The annual report of GN Audio A/S for 2019 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Danish disclosure requirements for annual reports of listed companies.

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 financial instruments (including derivative financial instruments) at fair value.

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

As of January 1, 2019, GN Audio A/S adopted all relevant new or revised International Financial Reporting Standards and IFRIC Interpretations with effective date January 1, 2019 or earlier, including IFRS 16 Leases. Apart from this, the annual report is presented in accordance with the accounting policies applied in previous years' annual reports.

#### **Effect from implementing IFRS 16 Leases**

According to IFRS 16 Leases, a lease liability, for leases previously classified as operating leases, has been recognized in the balance sheet as of January 1, 2019. The lease liability is measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 2.5%. Likewise, at January 1, 2019 right-of-use assets, for leases previously classified as operating leases, has been recognized in the balance sheet. The right-of-use assets has been measured at an amount

equal to the lease liability, adjusted by the amount of any prepaid lease payments already recognized in the balance sheet.

IFRS 16 Leases has been applied using the simplified retrospective method. In accordance with the transitional provisions of the standard, comparative information has not been restated.

GN Audio A/S has used the following practical expedients from IFRS 16 when initially applying the standard:

- A single discount rate is applied to portfolios of leases with reasonably similar characteristics, such as leases with a similar remaining lease term for a similar class of underlying assets in a similar economic environment.
- Leases, for which the lease term ends within 12 months after January 1, 2019, are accounted for in the same way as short-term leases and the lease payments associated with those leases are expensed on a straight-line basis over the lease term.
- Initial direct costs are excluded from the measurement of the right-of-use assets at the date of initial application.
- At the date of initial application, it has not been reassessed whether a contract is, or contains, a lease.

## 1.1 General accounting policies (Continued)

The impact from the adoption of IFRS 16 Leases at January 1, 2019 can be illustrated as follows:

### Impact on the balance sheet as at January 1, 2019:

DKK thousand	Previous accounting policy	Effect of policy changes (IFRS 16)	New accounting policy
<b>Assets</b>			
Property, plant and equipment	84,718	69,416	154,134
<b>Total assets</b>	<b>4,059,189</b>	<b>69,416</b>	<b>4,128,605</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>	<b>2,209,418</b>	<b>-</b>	<b>2,209,418</b>
Lease liabilities, non-current	-	29,300	29,300
Lease liabilities, current	-	40,116	40,116
<b>Total equity and liabilities</b>	<b>4,059,189</b>	<b>69,416</b>	<b>4,128,605</b>

### The recognized right-of-use assets relate to the following types of assets:

DKK thousand	January 1, 2019
Properties	67,237
Cars	2,179
<b>Total right-of-use assets</b>	<b>69,416</b>

### Reconciliation of operating lease commitments disclosed as at December 31, 2018 and lease liabilities recognized in the balance sheet at January 1, 2019:

DKK thousand	January 1, 2019
Operating lease commitments disclosed as at December 31, 2018 (applying IAS 17)	39,552
Discounted using the lessee's incremental borrowing rate at January 1, 2019	(2,051)
Short term and low value leases recognized on a straight-line basis as expense	(16,497)
Adjustments as a result of a different treatment of extension and termination options	48,412
<b>Lease liabilities at January 1, 2019</b>	<b>69,416</b>

### Accounting standards not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2019 and have not been applied in preparing this annual report. None of these new standards, amendments to standards and interpretations are expected to have significant impact on the financial statements of GN Audio A/S.

GN Audio A/S will adopt new 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, inventory write-downs, maintenance and depreciation and impairment of production plant and costs and expenses relating to the operation, administration and management of factories.

### Development Costs

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

## 1.1 General accounting policies (Continued)

### **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, net**

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

### **Foreign Currency Translation**

#### ***Translation of Transactions and Balances***

On initial recognition, transactions denominated in foreign currencies are translated to the functional currency 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.

### **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. The cash flow effect of acquisitions and disposals of enterprises is shown separately in cash flows from investing activities. Cash flow from acquired enterprises is recognized in the cash flow statement from the acquisition date. Cash flow from disposed of enterprises is recognized up until the disposal date.

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, payment of the principal portion of lease liabilities, acquisition and disposal of treasury shares and payment of dividends to shareholders.

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

## 1.2 Significant accounting estimates and judgments

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 deferred tax, computation of amortization, depreciation and impairment, useful lives and remaining useful lives of non-current assets. Furthermore, recognition of inventories, provisions, trade receivables, investment in subsidiaries, contingent assets and liabilities as well as 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.

## 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 by GN Audio A/S's Management to analyze and manage the business and to provide stakeholders with useful information on the company's financial position, performance and development. Please refer to the Key Ratio Definitions on page 12 for a definition of the measures.

# Section 2

## Results for the year

### 2.1 Revenue and geographical information

#### Geographical information on revenue

DKK thousand	Revenue	
	2019	2018
Denmark	161,644	170,844
Europe	2,443,855	1,826,152
North America	1,635,783	1,282,546
Rest of world	659,523	501,864
<b>Total</b>	<b>4,900,805</b>	<b>3,781,406</b>

#### Geographical information on assets

DKK thousand	Intangible and PP&E	
	2019	2018
Denmark	1,022,455	445,602
Europe	-	-
North America	-	-
Rest of world	135,893	78,751
<b>Total</b>	<b>1,158,348</b>	<b>524,353</b>

#### Revenue disaggregation

Revenue is predominantly recognized at a point in time, and revenue recognized over time is not significant. Revenue is attributed to countries on the basis of the customer's location. Only the US represents a material single country and constitutes the vast majority of revenue in North America. 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. ●

#### ! Significant accounting estimates

##### Revenue and Geographical 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 thousand	2019	2018
Wages, salaries and remuneration	(373,582)	(308,211)
Pensions, defined contribution plans	(27,350)	(22,372)
Other social security costs	(3,075)	(3,060)
Share-based payments	(18,212)	(13,896)
<b>Total</b>	<b>(422,219)</b>	<b>(347,539)</b>
Included in:		
Production costs and change in payroll costs included in inventories	(45,319)	(37,987)
Development costs	(170,222)	(137,314)
Selling and distribution costs	(148,282)	(128,374)
Management and administrative expenses	(58,396)	(43,864)
<b>Total</b>	<b>(422,219)</b>	<b>(347,539)</b>
Average number of employees	431	341
Number of employees, year-end	473	392
Full-year remuneration of the Board of Directors	1,210	1,238

The full-year remuneration of the Board of Directors and Executive Management of GN Audio A/S is shown below.

DKK million	2019					2018				
	Fixed salary	Other benefits*	Bonus	Share-based payment	Total	Fixed salary	Other benefits*	Bonus	Share-based payment	Total
René Svendsen-Tune, CEO	(6.7)	(0.2)	(6.5)	(3.8)	(17.2)	(6.4)	-	(5.9)	(2.7)	(15.0)
Peter Gormsen, CFO	(2.2)	(0.3)	(1.2)	(0.4)	(4.1)	(2.5)	-	(0.9)	(0.4)	(3.8)
<b>Total</b>	<b>(8.9)</b>	<b>(0.5)</b>	<b>(7.7)</b>	<b>(4.2)</b>	<b>(21.3)</b>	<b>(8.9)</b>	<b>-</b>	<b>(6.8)</b>	<b>(3.1)</b>	<b>(18.8)</b>
Board of Directors remuneration	(1.2)	-	-	-	(1.2)	(1.2)	-	-	-	(1.2)
<b>Total</b>	<b>(1.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1.2)</b>	<b>(1.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1.2)</b>
<b>Total Executive Management and Board of Directors remuneration</b>	<b>(10.1)</b>	<b>(0.5)</b>	<b>(7.7)</b>	<b>(4.2)</b>	<b>(22.5)</b>	<b>(10.1)</b>	<b>-</b>	<b>(6.8)</b>	<b>(3.1)</b>	<b>(20.0)</b>

\* Other benefits include car allowances, company paid telephone & internet and housing cost

### Incentive plans

GN Audio's share-based long-term incentive program is specified and described in note 5.1 Share-based Incentive plans.

### Executive Management and Board of Directors Remuneration

The total remuneration of the Executive Management is based on the "General Guidelines for Incentive Pay to Management", as adopted at GN's Annual General Meeting.

The remuneration of the Executive Management is based on a fixed base salary and participation in GN Store Nord's option- and warrant-based long-term incentive programs. Furthermore, the remuneration includes 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 GN Audio'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.

GN Audio does not make pension contributions for members of the Executive Management. Executive Management has usual severance agreements and change-of-control agreements.

## 2.3 Tax

DKK thousand	2019	2018
<b>Tax on profit (loss)</b>		
Current tax for the year	(84,644)	(156,918)
Deferred tax for the year	(124,597)	(3,393)
Adjustment to current tax with respect to prior years	2,059	3,634
Adjustment to deferred tax with respect to prior years	28	(6,541)
<b>Total</b>	<b>(207,154)</b>	<b>(163,218)</b>
<b>Reconciliation of effective tax rate</b>		
Danish tax rate	22%	22%
Non-taxable income	(3.95)%	(0.18)%
Non-deductible expenses	0.45%	0.52%
Share of profit in associated	0.00%	0.00%
Adjustment of tax with respect to prior years	(0.21)%	0.40%
Other, including provisions for uncertain tax positions	2.18%	(0.08)%
<b>Effective tax rate</b>	<b>20.47%</b>	<b>22.66%</b>
<b>Deferred tax, net</b>		
Deferred tax, net	(43,475)	(57,515)
Adjustment to deferred tax with respect to prior years	28	3,634
Deferred tax for the year recognized in profit (loss) for the year	(124,597)	(3,393)
Deferred tax related to share-based incentive plans	2,217	13,000
Deferred tax for the year recognized in other comprehensive income for the year	939	799
<b>Deferred tax at December 31, net</b>	<b>(164,888)</b>	<b>(43,475)</b>
<b>Deferred tax, net relates to:</b>		
Intangible assets	(202,139)	(81,933)
Property, plant and equipment	9,154	10,458
Provisions	1,204	1,922
Other	26,893	26,078
<b>Total</b>	<b>(164,888)</b>	<b>(43,475)</b>

Deferred tax includes DKK 12 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 7 million (2018 DKK 2 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 its Danish subsidiaries. The current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income. The jointly taxed companies are taxed under the on-account tax scheme. Tax for the year comprises current tax and changes in deferred tax for the year. The tax expense relating to the profit (loss) for the year is recognized in the income statement, and the tax expense relating to amounts recognized in other comprehensive income is recognized in other comprehensive income. Current tax payable is recognized in current liabilities and deferred tax is recognized in non-current liabilities. Tax receivable is recognized in current assets and deferred tax assets are recognized in non-current assets.

#### Deferred tax

Deferred tax assets, including the tax base of tax loss carryforwards, are recognized at the expected value of their utilization, either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction. Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities.

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

## 2.3 Tax (Continued)

### ! 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

GN Audio A/S presents the income statement based on a classification of costs by function. However, in order to present EBITA\* in the income statement, which is the measure of profit used by Management, amortization and impairment of acquired intangible assets are separated from the individual functions and presented as a separate line item. If amortization and impairment of acquired intangible assets are allocated to the individual line items by function, the income statement will present as follows:

DKK thousand	2019	2018
Revenue	4,900,805	3,781,406
Production costs	(3,000,604)	(2,158,777)
<b>Gross profit</b>	<b>1,900,201</b>	<b>1,622,629</b>
Development costs	(428,816)	(328,373)
Selling and distribution costs	(434,503)	(379,933)
Management and administrative expenses	(182,070)	(169,244)
Other operating income and costs, net	14,790	4,961
Gain (loss) on divestment of operations etc.	1,490	(1,490)
<b>Operating profit (loss)</b>	<b>871,092</b>	<b>748,550</b>
<b>In the above income statement amortization of acquired intangible assets has been allocated to functions as follows:</b>		
Development costs	(40,317)	(1,282)
Selling and distribution costs	(3,903)	-
<b>Amortization of acquired intangible assets</b>	<b>(44,220)</b>	<b>(1,282)</b>

\* Excluding gain (loss) on divestments of operations etc. and amortization of acquired intangible assets, including amortization of development projects and software developed in-house

# Section 3

## Operating assets and liabilities

### 3.1 Intangible assets

DKK thousand	Goodwill	In-house development projects	Software	Patents and rights	Trademarks	Total
Cost at January 1	106,369	938,671	36,528	8,732	47,592	1,137,892
Additions	-	198,903	365	534,484	2,295	736,047
Cost at December 31	106,369	1,137,574	36,893	543,216	49,887	1,873,939
Amortization and impairment at January 1	(37,418)	(623,321)	(30,068)	(7,450)	-	(698,257)
Amortization	-	(149,900)	(3,394)	(40,317)	(3,903)	(197,514)
Impairment	-	(3,414)	-	-	-	(3,414)
Amortization and impairment at December 31	(37,418)	(776,635)	(33,462)	(47,767)	(3,903)	(899,185)
<b>Carrying amount at December 31, 2019</b>	<b>68,951</b>	<b>360,939</b>	<b>3,431</b>	<b>495,449</b>	<b>45,984</b>	<b>974,754</b>
Cost at January 1	106,369	779,647	35,417	9,210	-	106,369
Additions	-	159,024	815	-	47,592	-
Disposals	-	-	(88)	(478)	-	(566)
Transfers	-	-	384	-	-	384
Cost at December 31	106,369	938,671	36,528	8,732	47,592	1,137,892
Amortization and impairment at January 1	(37,418)	(479,674)	(26,710)	(6,646)	-	(550,448)
Amortization	-	(133,164)	(3,446)	(1,282)	-	(137,892)
Disposals	-	(10,483)	-	-	-	(10,483)
Impairment	-	-	88	478	-	566
Amortization and impairment at December 31	(37,418)	(623,321)	(30,068)	(7,450)	-	(698,257)
<b>Carrying amount at December 31, 2018</b>	<b>68,951</b>	<b>315,350</b>	<b>6,460</b>	<b>1,282</b>	<b>47,592</b>	<b>439,635</b>

### § 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 are 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	1-2 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.



### 3.1 Intangible assets (Continued)

#### **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 continuously 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 thousand	Factory and office building	Plant and machinery	Operating assets and equipment	Assets under construction	Total
Cost at January 1	-	203,670	22,097	12,878	238,645
Additions	-	-	2,943	99,745	102,688
Transfers	-	78,195	-	(78,195)	-
Cost at December 31	-	281,865	25,040	34,428	341,333
Depreciation and impairment at January 1	-	(138,103)	(15,824)	-	(153,927)
Depreciation	-	(42,478)	(2,450)	-	(44,928)
Depreciation and impairment at December 31	-	(180,581)	(18,274)	-	(198,855)
<b>Carrying amount at December 31, 2019</b>	-	<b>101,284</b>	<b>6,766</b>	<b>34,428</b>	<b>142,478</b>
<b>Leased assets, c.f. note 3.3</b>	<b>38,687</b>	-	<b>2,429</b>	-	<b>41,116</b>
<b>Total carrying amount at December 31, 2019</b>	<b>38,687</b>	<b>101,284</b>	<b>9,195</b>	<b>34,428</b>	<b>183,594</b>
Cost at January 1, 2018	-	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, 2018	-	203,670	22,097	12,878	238,645
Depreciation and impairment at January 1, 2018	-	(111,851)	(15,354)	-	(127,205)
Depreciation	-	(30,786)	(2,693)	-	(33,479)
Disposals	-	4,534	2,223	-	6,757
Depreciation and impairment at December 31, 2018	-	(138,103)	(15,824)	-	(153,927)
<b>Carrying amount at December 31, 2018</b>	-	<b>65,567</b>	<b>6,273</b>	<b>12,878</b>	<b>84,718</b>

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

### § Accounting policies

#### Property, plant and Equipment

Land and buildings, plant and machinery and fixtures and fittings, other plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and costs of materials, components, suppliers, direct wages and salaries and indirect production costs until the date when the asset is available for use. Liabilities related to dismantling and removing the asset and restoring the site on which the asset is located are added to the cost. 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:

Buildings and installations (land is not depreciated)	10-50 years
Leasehold improvements	5-20 years
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 Leases

The following right-of-use assets are included in property, plant and equipment:

#### Leased assets

DKK thousand	Factory and office buildings	Operating assets and equipment	Total
Carrying amount at January 1	67,237	2,179	69,416
Additions	-	1,344	1,344
Remeasurements	-	(129)	(129)
Depreciation	(28,550)	(965)	(29,515)
<b>Carrying amount at December 31, 2019</b>	<b>38,687</b>	<b>2,429</b>	<b>41,116</b>

#### Lease liabilities

DKK thousand	2019
Contractual maturity analysis of lease liabilities:	
Less than one year	10,431
Between one and three years	24,643
More than three years	7,250
<b>Total</b>	<b>42,324</b>

#### Amounts expensed in the income statement

DKK thousand	2019
Interest expense on lease liabilities	570
Expense relating to low-value assets and short-term leases	289
Total cash outflow for leases	859

GN Audio's leases mainly consist of property leases of e.g. offices but also include cars and office equipment. Rental contracts are typically made for fixed periods but may have extension options. Contracts may contain both lease and non-lease components. In such cases the consideration in the contract is allocated to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

## § Accounting policies

### Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

### 3.3 Leases (Continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise e.g. IT-equipment and small items of office furniture.

#### **Extension and termination options**

Extension and termination options are included in a number of leases across the group. These terms are used to maximize operational flexibility in terms of managing contracts. ●

#### Significant accounting estimates

##### **Leases**

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. ●

### 3.4 Depreciation, amortization and impairment

DKK thousand	2019	2018
Depreciation, amortization and impairment for the year of property, plant and equipment (incl. leased assets) and intangible assets are recognized in the income statement as follows:		
Production costs	42,607	30,860
Development costs	156,439	146,750
Selling and distribution costs	931	704
Management and administrative expenses*	31,175	2,257
Amortization of acquired intangible assets	44,220	1,282
<b>Total</b>	<b>275,372</b>	<b>181,853</b>
*Includes depreciation of leases assets as per note 3.3		
Amortization of intangible assets is recognized in the income statement as follows:		
Production costs	128	75
Development costs	150,610	133,959
Selling and distribution costs	931	698
Management and administrative expenses	1,625	1,878
Amortization of acquired intangible assets	44,220	1,282
<b>Total</b>	<b>197,514</b>	<b>137,892</b>
Impairment of intangible assets is recognized in the income statement as follows:		
Development costs	3,414	10,483
<b>Total</b>	<b>3,414</b>	<b>10,483</b>

### 3.5 Inventories

DKK thousand	2019	2018
Raw materials and consumables	46,617	33,875
Finished goods and merchandise	700,996	438,335
<b>Total</b>	<b>747,613</b>	<b>472,210</b>
The above includes write-downs amounting to	47,950	48,402
Net write-downs recognized in the income statement under production cost	1,877	9,260
Costs of goods sold included in Production Costs	2,799,424	1,996,290

## § 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 and judgments

### 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 6 to 24 months following the balance sheet date ●

### 3.6 Provisions

DKK thousand	Warranty provisions	Other provisions*	Total
Provisions at January 1	28,553	23,303	51,856
Additions	27,332	26,102	53,434
Consumed	(28,526)	(44,539)	(73,065)
<b>Provisions at December 31, 2019</b>	<b>27,359</b>	<b>4,866</b>	<b>32,225</b>
<b>Which is presented in the balance sheet as:</b>			
Non-current liabilities	18,958	4,866	23,824
Current liabilities	8,401	-	8,401
<b>Provisions at December 31, 2019</b>	<b>27,359</b>	<b>4,866</b>	<b>32,225</b>

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

#### Accounting policies

##### Provisions

Warranty provisions are recognized as the underlying goods and services are sold based on warranty costs incurred in previous years and expectations of future costs.

Other provisions primarily comprise onerous contracts. Provisions are recognized when, as a result of events before or at the balance sheet date, GN Audio A/S 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 GN Audio A/S 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 and judgments

##### Provisions

Warranty provisions are recognized based on historical and future warranty costs related to the GN Audio A/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.

In accordance with GN Audio A/S's business policy, some products are supplied with a right of return. Provisions for future returns of goods are recognized based on historical product returns data. The probability of future returns may differ from past practices.

Agreement has been made with a number of the suppliers that the suppliers purchase components for the production of headsets and audio-logic diagnostics equipment based on sales estimates prepared by GN Audio A/S. To the extent that GN Audio A/S's actual purchases from suppliers are lower than sales estimates, GN Audio A/S 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 A/S recognizes a provision for onerous purchase contracts ●

## 3.7 Trade receivables

DKK thousand	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	116,985	15,174	564	-	1,304	368	134,395
Write-downs at December 31	(1,195)	(148)	(297)	-	(769)	(132)	(2,541)
<b>Trade receivables at December 31, 2019</b>	<b>115,790</b>	<b>15,026</b>	<b>267</b>	<b>-</b>	<b>535</b>	<b>236</b>	<b>131,854</b>
Expected loss rate	1%	1%	79%	na	56%	5%	2%
Gross carrying amount - Trade receivables	121,354	15,919	(338)	(913)	(779)	920	136,163
Write-downs at December 31	-	-	(163)	(5)	(33)	(148)	(349)
<b>Trade receivables at December 31, 2018</b>	<b>77,500</b>	<b>25,940</b>	<b>8,364</b>	<b>3,902</b>	<b>7,830</b>	<b>1,061</b>	<b>135,814</b>

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

DKK thousand	2019	2018
Write-downs at January 1	(349)	(2,265)
Write-downs made during the year	(2,541)	-
Realized during the year	244	647
Reversed write-downs	105	1,269
<b>Write-downs at December 31</b>	<b>(2,541)</b>	<b>(349)</b>

GN Audio A/S'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 A/S 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 Audio or 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. ●

### ! 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 ●

### 3.8 Investment in subsidiaries

DKK thousand	2019	2018
Cost at January 1	1,247,518	1,186,301
Additions, capital contribution	-	61,217
Disposals	(19,024)	-
<b>Cost at December 31</b>	<b>1,228,494</b>	<b>1,247,518</b>

Group companies are listed at the end of this report.

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

#### Accounting policies

##### **Measurement of trade receivables**

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

#### Significant accounting estimates and judgments

##### **Measurement of trade receivables**

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 2019. Impairment test have therefore not been made of subsidiaries. ●



# Section 4

## Financing items

### 4.1 Financial risks

GN Audio 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. For information regarding liquidity risk and credit risk. Financial risks are managed centrally by Group Treasury, except for commercial credit risk which is managed decentralized by GN Audio A/S's operating businesses. GN Audio A/S's Treasury Policy has been reviewed by the Audit Committee and approved by the Board of Directors.

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

The areas exposed to financial risks are mainly cash and cash equivalents as well as loans and other financial indebtedness, GN Audio A/S's Income Statement in Financial income and expenses, GN Audio A/S's cash flow through Cash flow from financing activities and GN Audio A/S's Equity in Other Comprehensive Income. GN's objectives, policies and process for measuring and managing the risk exposure to these items are summarized in the table and further explained in the notes below.

#### 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.

DKK thousand	2019	2018
Income statement (Financial items)	10,732	(26,638)
Equity	-	-

For information regarding interest rate risk, liquidity risk and credit risk, please see GN Store Nord Annual Report 2019.

## 4.2 Financial income and expenses

DKK thousand	2019	2018
<b>Financial income:</b>		
Interest income*	64	114
Intercompany Interest income*	11,994	28,099
Gain related to sale of GN Audio Germany	128,911	-
Dividends received	30,702	-
Financial income, other	812	16
Foreign exchange gain	8,058	3,435
<b>Total</b>	<b>180,541</b>	<b>31,664</b>
<b>Financial expenses:</b>		
Interest expenses*	(608)	(128)
Intercompany Interest expense*	(13,645)	(44,124)
Financial expenses, other	(1,999)	(534)
Foreign exchange loss	(23,579)	(15,049)
<b>Total</b>	<b>(39,831)</b>	<b>(59,835)</b>

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

### § Accounting policies

#### Financial income and expenses

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

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 Financial Instruments

### Contractual maturity analysis for financial liabilities

DKK thousand	Less than one year	Between one and three years	More than three years	Total
<b>2019</b>				
Amounts owed to subsidiaries and group companies	300,753	-	-	300,753
Trade payables	714,680	-	-	714,680
Total non-derivative financial liabilities	1,015,433	-	-	1,015,433
Derivative financial liabilities	11,212	-	-	11,212
<b>Total financial liabilities</b>	<b>1,026,645</b>	<b>-</b>	<b>-</b>	<b>1,026,645</b>
<b>2018</b>				
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
<b>Total financial liabilities</b>	<b>793,216</b>	<b>806,578</b>	<b>-</b>	<b>1,599,794</b>

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

### Derivative financial instruments

#### Exchange rate instruments and interest rate swaps

	2019				2018			
	Average rate (DKK)	Contract amount, net	Fair value, assets	Fair value, liabilities	Average rate (DKK)	Contract amount, net	Fair value, assets	Fair value, liabilities
EUR / DKK	745	1,117,179		2,646	745	208,601	-	395
JPY / DKK	6.29	62,949	1,997	-	5.60	28,007	-	1,614
GBP / DKK	836	116,986	-	4,869	825	24,755	-	127
Other currency pairs		526,391	168	3,697		270,716	4,035	298
<b>Total</b>			<b>2,165</b>	<b>11,212</b>			<b>4,035</b>	<b>2,434</b>

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

### Fair value adjustments of cash flow hedges

DKK thousand	2019	2018
Fair value adjustment for the year recognized in Other comprehensive income	(10,000)	(4,287)
Reclassified from equity to revenue during the year	5,731	654
<b>Adjustment of cash flow hedges in Other comprehensive income</b>	<b>(4,269)</b>	<b>(3,633)</b>
Fair value adjustment of cash flow hedges recognized in Other operating income and costs, net	(7,472)	(965)
Fair value adjustment of cash flow hedges recognized in financial items	-	2,767

## 4.3 Financial Instruments (Continued)

## Categories of financial assets and liabilities

DKK thousand	2019	2018
Trade receivables	131,854	135,814
Amounts owed by subsidiaries and group companies	491,302	1,523,523
Other receivables	33,490	41,991
Cash or cash equivalents	5,608	81,960
<b>Financial assets at amortized cost</b>	<b>662,254</b>	<b>1,783,288</b>
Derivative financial instruments included in Other receivables	168	4,035
<b>Financial assets at fair value through profit or loss</b>	<b>168</b>	<b>4,035</b>
Derivative financial instruments included in Other receivables	1,997	-
<b>Financial assets at fair value through Other comprehensive income</b>	<b>1,997</b>	<b>-</b>
Lease liabilities	41,332	-
Amounts owed to subsidiaries and group companies	300,753	998,270
Contingent consideration	-	14,568
Other current liabilities	374,984	154,647
Trade payables	714,680	599,090
<b>Financial liabilities at amortized cost</b>	<b>1,431,749</b>	<b>1,766,575</b>
Derivative financial instruments included in Other payables	2,512	-
<b>Financial liabilities at fair value through profit or loss</b>	<b>2,512</b>	<b>-</b>
Derivative financial instruments included in Other liabilities	8,700	2,434
<b>Financial liabilities at fair value through Other comprehensive income</b>	<b>8,700</b>	<b>2,434</b>

### 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 (economic hedges), changes in fair value are recognized in the Income statement as either Other operating income and costs, net or Financial items.

#### Financial Liabilities

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

Other liabilities, comprising trade payables, amounts owed to associates as well as other payables, are measured at amortized cost ●

# Section 5

## Other disclosures

### 5.1 Share-based incentive plans

#### Warrant and option programs

GN Audio A/S has a warrant-based and an option-based long-term equity-settled incentive program whereby the Executive Management and other employees in key positions are granted warrants and options linked to shares in GN Store Nord A/S and GN Audio A/S. For members of Executive Management, the grant size can vary between 50-100% of their base salary. Warrants and options are granted at no consideration.

#### Calculation of share price

The 2019 option program is based on GN Store Nord A/S shares, whereas warrant programs for 2014-2018 are based on GN Audio A/S shares. 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 Audio. This calculation is also the basis for the Black-Scholes valuation as stated below regarding valuation of warrants.

#### Vesting conditions and exercise of warrants

The 2014-2018 warrant programs 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 has outperformed a peer group index of competitors and industry indices, as defined by the Board of Directors of GN Audio. Vested warrants may be exercised during a four-week exercise window opening each quarter for a three-year period after vesting. The quarterly four-week exercise window will open following the release of an external Valuation Report concerning the value of the shares of GN Audio.

#### Vesting conditions and exercise of options

The 2019 program is a long-term incentive program with a three-year vesting period from the grant date. The program includes a performance multiplier, based on revenue growth and EBITDA improvement relative to a broad peer group of comparable companies. This means that after the three-year vesting period, the initial share option grant can either increase, decrease or stay the same, depending on GN's performance relative to a peer group. The maximum effect of the performance multiplier is to increase the number of options by a factor of 2. For executive management the gross return on each annual grant is capped at a value equal to four times the annual base salary at the time of grant. Vested options may be exercised at any time outside black-out periods for a three-year period after vesting.

#### Valuation model and assumptions

The market value of the warrants and options are calculated using the principles of the Black-Scholes option pricing model. For 2014-2018 warrants the model has taken the overperformance criteria into account using Monte Carlo simulation. The market values of the outstanding warrants and options at the balance sheet date are calculated on the basis of underlying market prices on the final business day of the year, whereas the market values of warrants and options granted during the year are based on the underlying market prices at the grant dates.

	2019		2018	
	GN Store Nord A/S		GN Audio A/S	
	Executive Management	Other employees	Executive Management	Other employees
Number of options / warrants granted in the year****	88,704	276,843	738	2,228
Share price GN Store Nord at ordinary grant date	312	312	199	199
Vesting period	3 years	3 years	3 years	3 years
Life of option / warrant	6 years	6 years	6 years	6 years
Volatility*	27%	27%	23%	23%
Expected dividend**	0,4%	0,4%	-	-
Risk-free interest rate***	0,00%	0,00%	0,30%	0,30%
Fair Value per option / warrant at ordinary grant (DKK)	62	68	5,743	5,743
Total market value at grant (DKK million)	5	19	4	13
Amortization period of the program	2019 - 2022	2019 - 2022	2018 - 2021	2018 - 2021

For 2019 the grants are based on options. For 2018, the grants are based on warrants. The fair value includes any market vesting conditions.

\* Volatility is estimated by external experts, and is calculated based on data from a historical period matching the expected time to expiry of the warrants and options

\*\* No dividends are 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 of the warrants and options

## 5.1 Share-based incentive plans (Continued)

The exercise price for the warrants and options 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 and options are awarded.

### 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 GN Audio 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.

### Warrant and option programs

	DKK Average exercise price	GN Audio A/S		
		Number		
		Executive Management*	Other employees	Total
<b>Outstanding warrants at January 1, 2018</b>	<b>26,587</b>	<b>2,396</b>	<b>6,836</b>	<b>9,232</b>
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)
<b>Outstanding warrants at December 31, 2018</b>	<b>28,273</b>	<b>3,134</b>	<b>7,259</b>	<b>10,393</b>
Warrants exercised during the year	23,401	(496)	(2,571)	(3,067)
Warrants forfeited during the year	32,919	-	(103)	(103)
<b>Outstanding warrants at December 31, 2019</b>	<b>30,275</b>	<b>2,638</b>	<b>4,585</b>	<b>7,223</b>
Weighted average term to maturity		2.6	3.3	3.0
Number of exercisable warrants at December 31, 2018		538	573	1,111
Number of exercisable warrants at December 31, 2019		1,234	430	1,664

	DKK Average exercise price	GN Store Nord A/S		
		Number*		
		Executive Management	Other employees	Total
<b>Outstanding options at January 1, 2019</b>				
Options granted during the year	313	88,704	276,843	365,547
Options exercised during the year	-	-	-	-
Options forfeited during the year	-	-	(3,639)	(3,639)
<b>Outstanding options at December 31, 2019</b>	<b>313</b>	<b>88,704</b>	<b>273,204</b>	<b>361,908</b>
Weighted average term to maturity (Years)		5.2	5.2	5.2
Number of exercisable options at December 31, 2019		-	-	-

\* The performance multiplier can decrease the number of options or as maximum effect increase the number of options by a factor of 2

## 5.1 Share-based incentive plans (Continued)

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

Grant date	DKK	GN Audio A/S		
		Exercise price	Number	
		Executive Management	Other employees	Total
March 2015	30,600	538	236	774
March 2016	22,495	696	194	890
March 2017	28,794	666	2,045	2,711
December 2017	35,824	-	47	47
February 2018	33,913	738	2,035	2,773
May 2018	42,338	-	28	28
<b>Outstanding warrants at December 31, 2019</b>		<b>2,638</b>	<b>4,585</b>	<b>7,223</b>

Outstanding options in GN Store Nord A/S by grant date are shown below:

Grant date	DKK	GN Store Nord A/S		
		Exercise price	Number*	
		Executive Management	Other employees	Total
April 2019	313	88,704	273,204	361,908
<b>Outstanding options at December 31, 2019</b>		<b>88,704</b>	<b>273,204</b>	<b>361,908</b>

\* The performance multiplier can decrease the number of options or as maximum effect increase the number of options by a factor of 2

## § 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 and options 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 and options expected to vest. This estimate is subsequently revised for changes in the number of warrants and options expected to vest. Accordingly, recognition is based on the number of warrants and options that are ultimately vested. The fair value of granted warrants and options is estimated using the Black-Scholes option pricing model. Vesting conditions are taken into account when estimating the fair value of the warrants and options ●

## 5.2 Contingent assets and liabilities

### Security

GN Audio A/S has not pledged any assets as security in the present or prior financial years

### 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. On 10 July 2019 GNA won a reversal of the District Court's decision in the Court of Appeals. The appellate Court found that the District Court abused its discretion when it prohibited GNA from presenting evidence of PLT's spoliation at trial. Consequently, GNA has been granted a new trial at which we can present evidence of the spoliation, rather than simply relying on the District Court's listing of facts. PLT filed a petition for rehearing of the Court of Appeal's decision on 24 July 2019 but on 8 August 2019 we won a unanimous denial of PLT's petition from the Court of Appeals. On 8 October 2019, the retrial Judge convened a status conference to align on the process and initiate time schedule discussions for the retrial. Jury selection has been scheduled for 28 May 2020 and the re-trial dates have been set for 29 May–5 June 2020. During 2020, GN Audio will continue to prepare and build the case.

Apart from the above, Management is not aware of any matter that could be of material importance to GN Audio A/S's financial position.

### Significant accounting estimates and judgments

#### Provisions, Contingencies and Lawsuits

GN Audio A/S'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 thousand	2019	2018
Share-based payment (granted)	18,212	13,896
Provision for bad debt, inventory write-downs, etc.	2,192	8,985
Adjustment of provisions	(5,067)	9,083
Gain/loss on sale of fixed assets	(65)	-
Other non-cash adjustments	(1,489)	-
<b>Total</b>	<b>13,783</b>	<b>31,964</b>

## 5.4 Fees to statutory auditors

DKK thousand	2019	2018
Statutory audit	526	690
<b>Fee to statutory auditors</b>	<b>526</b>	<b>690</b>



## 5.5 Related parties

GN Audio A/S's related parties exercising significant influence comprise the parent company GN Store Nord A/S and its subsidiaries, members of the Board of Directors and the Executive Management and senior employees and their family members.

In addition, related parties comprise group enterprises and associates over which GN Audio exercises control or significant influence.

Group enterprises and associates are listed at the end of the report.

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

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

### Group enterprises and associates

Trade with group enterprises and associates comprised:

DKK million	2019	2018
<b>GN Store Nord A/S</b>		
Sale of services to group enterprises	137	91
Purchase of services from group enterprises	4	1
<b>Subsidiaries</b>		
Purchase of intangible assets	527	47
Purchase of services	319	274
Internal sale of subsidiaries	148	-
Sale of goods to group enterprises, revenue	4,220	3,232

The company's balances with group enterprises at December 31, 2019 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.

Purchases of services from group enterprises and GN Store Nord A/S consists of facility services, canteen services, management fee, R&D services, marketing services and IT services. Sales of services to group enterprises consists of management fee. Sale and purchase of intangible assets consist of sales and purchase of software to and from the parent company.

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.

# Companies in the GN Audio Group

	Domicile	Currency	Ownership %*	Share capital
<b>GN Audio A/S</b>	Denmark	DKK	100	35,544,600
GN Audio Australia Pty Ltd.	Australia	AUD	100	2,500,000
GN Audio Brasil Importação & Comércio Ltda.	Brazil	BRL	100	407,821
GN Audio Canada Inc.	Canada	CAD	100	409,800
GN Audio (China) Ltd.	China	CNY	100	65,116,155
GN Audio (Shanghai) Co., Ltd.	China	CNY	100	15,481,000
GN Audio Logistic (Xiamen) Ltd.	China	CNY	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	33,500,000
GN Audio India Private Limited	India	INR	100	40,000,000
Jabra Connect India Private Limited	India	INR	51	20,000,000
GN Audio Italy s.r.l.	Italy	EUR	100	10,200
GN Audio Japan Ltd.	Japan	JPY	100	16,998,361
GN Audio Benelux B.V.**	Netherlands	EUR	100	18,000
GN Audio Poland Sp. z o.o.	Poland	PLN	100	50,000
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	66,111
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
Altia Systems, Inc.	USA	USD	100	22,980,067

\* Ownership stake by GN Store Nord A/S

\*\* GN Audio UK Ltd. with UK company registration number 02230550, is exempt from audit of its financial statements under s479A of the UK Companies Act 2006.

\*\*\* GN Audio Benelux B.V. (registration number 20113074) applies the group exemption of article 2:403 of the Dutch Civil Code and does not prepare individual financial statements.



GN Audio A/S

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