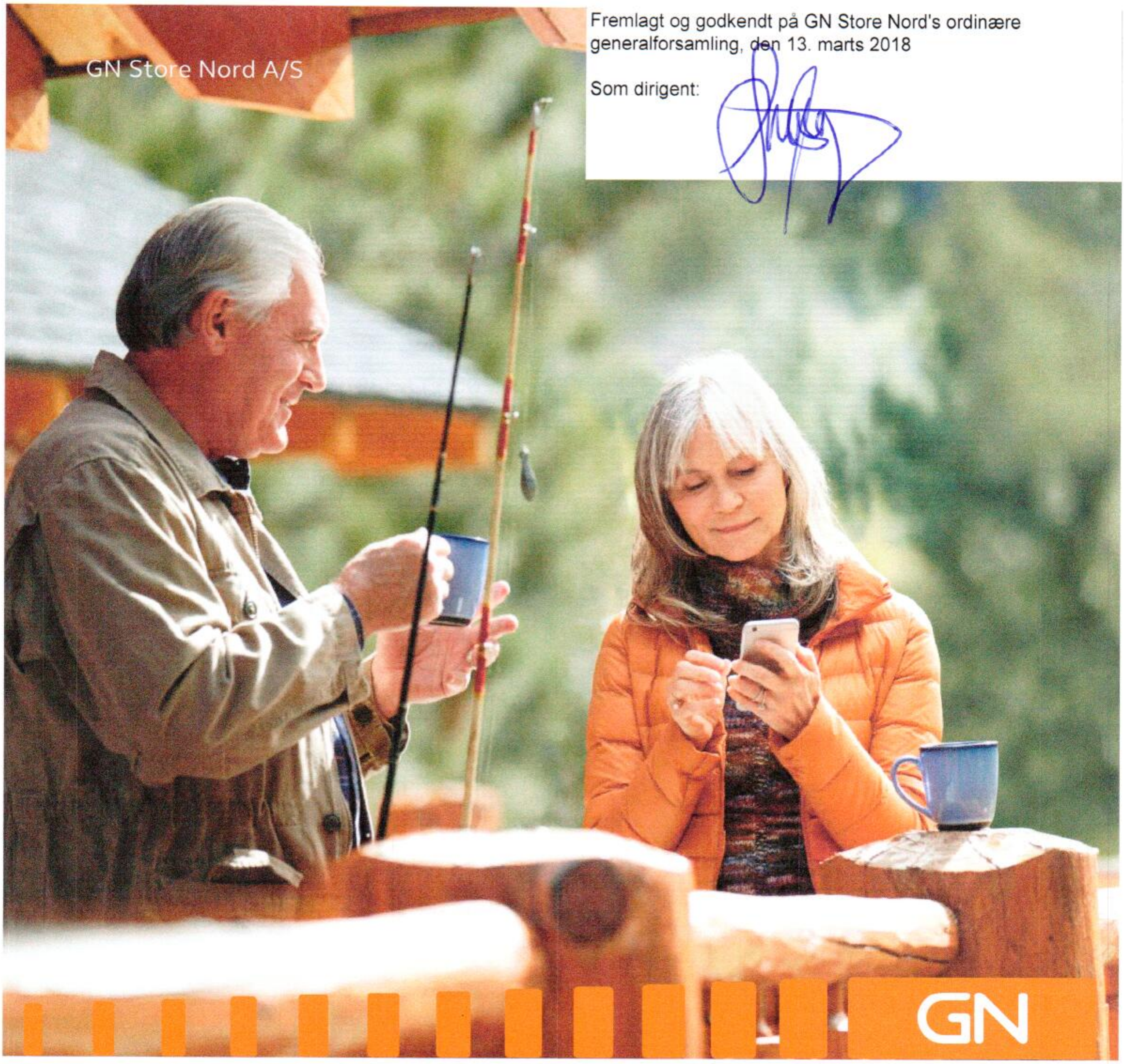
Fremlagt og godkendt på GN Store Nord's ordinære generalforsamling, den 13. marts 2018

Som dirigent:



Hear More, Do More, Be More

GN Group – Annual Report 2017

GN Making Life Sound Better

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Front page:
Via an app on their smartphone, users of ReSound LiNX 3D™ hearing aids can request assistance for remote fine-tuning of their hearing aid settings as they experience a hearing difficulty – wherever they are.

Our investment case

Through relentless execution of our 2017 – 2019 strategy "Hear More, Do More, Be More", we create shareholder value by commercializing our core competencies within sound processing in attractive markets.

GN Hearing

Leader in customer-driven innovation in hearing aids based on unique sound processing systems and leading-edge wireless 2.4 GHz technology

- Focused business model – dedicated wholesale manufacturer, refraining from vertical integration
- Attractive market growth driven by sustainable megatrends in a consolidated industry with attractive profit margins
- Profitability in line with the best manufacturers in the industry

GN Audio

The world's leading supplier of Unified Communications headsets driven by customer-focused commercialization of a state-of-the-art product portfolio

- Double digit mid- to long-term Call Center & Office (CC&O) market growth driven by sustainable market trends
- The core business operates in a consolidated industry with high barriers to entry
- Attractive operating margin and return on invested capital

Contents

2017 at a glance

Revenue of DKK

9.6bn

+11% vs 2016

EBITA of DKK

1.7bn

+10% vs 2016

Cash conversion

65%

In line with industry peers

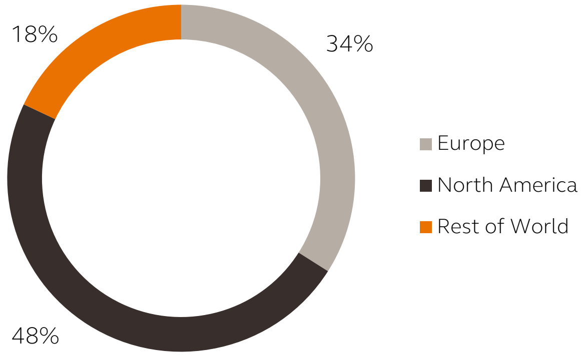
Share buybacks and dividends

DKK

1.4bn

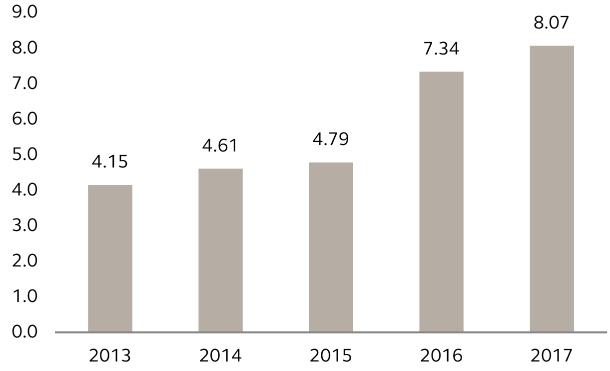
+6% vs 2016

Revenue split by region



EPS development

(DKK)



Global reach, local presence

The GN Group develops and manufactures innovative and intelligent audio solutions that are marketed and sold in around 100 countries across the world

Research & Development

GN has R&D centers in Denmark, the United States, the Netherlands and China.

The Group commands a unique blend of leading expertise in the human ear, sound and speech, wireless technologies, user-friendly software and miniaturization.

GN annually invests more than 8% of its revenue in research and development.

Manufacturing

GN has its central manufacturing sites for hearing aids in China, Malaysia and Denmark. Regional manufacturing centers are located in the United States, Great Britain and Malaysia.

GN's headsets are produced by carefully selected manufacturers in China, and most components are sourced from suppliers in Asia. GN Audio works with a small number of tier-one manufacturers supported by more than 100 sub-suppliers.

Sales and distribution

GN's hearing aids are sold in around 100 countries across the world. GN has its own organization in 30 countries and operates via partners and distributors in another 70 countries.

GN's headsets are sold via distributors and retailers in some 80 countries around the world. One global distribution partner is responsible for optimizing lead-time to the final customer, delivering from three regional warehouses in the United States, the Netherlands and Hong Kong.

Business model and strategy

The GN Group's lean and agile business model – along with its strategic focus on Innovation, Commercial and People Excellence – positions the Group strongly to seize the multiple business opportunities driven by global megatrends

Attractive megatrends

A growing and aging world population as well as personal communication trends offer opportunities for intelligent audio solutions in industries with currently low penetration rates.

Making Life Sound Better

GN is a global leader in intelligent audio solutions that let you hear more, do more and be more than you ever thought possible – with unique R&D competencies within medical, professional and consumer audio solutions.

Strategic agility - attractive shareholder returns

A lean business model, with no owned retail, ensures a strong position in relation to future distribution trends. Resilient cash generation driving attractive shareholder returns.

Synergistic M&A

Merger and acquisition activities to support channel access, commercial excellence and technology leadership as well as to streamline activities.

2017 – 2019 Strategy

Strong partnerships

Strong track record of strategic partnerships with leading channels, customers and adjacent industry leaders.

Innovation Excellence

GN's sound technologies and experience are directed at consistently developing unmatched user benefits. This strict innovation focus has ensured multiple industry firsts by GN.

Commercial Excellence

Commercial execution is continuously improved by expanding in the open market, strengthening partnerships, sharing best practices, going digital and engaging users.

People Excellence

A series of programs strengthens strategy execution, leadership and people development across GN.

Business areas and brands

The GN Group has a unique portfolio of hearing aids and headset solutions. The expertise behind our current range of innovative products gives GN multiple opportunities to develop new attractive intelligent audio solutions for many uses

Medical grade hearing devices and solutions

GN's history of producing industry-first sound solutions and pioneering advancements in technology include: 5th generation 2.4 GHz technology in hearing aids for direct connectivity; 3rd generation Binaural Directionality for leading natural sound; the world's first Made for iPhone hearing aids with direct stereo sound streaming; the world's first cloud-based remote fine-tuning solution; award winning apps providing optimal user experience and satisfaction.

ReSound is the most innovative premium hearing solution on the market, combining innovative design, user experience and leading technology – all based on deep audiological insight and understanding of hearing aid users.

Beltone provides high-quality personalized hearing care along with technically optimal hearing aids and solutions.

Interton delivers essential solutions designed to provide people with hearing impairment with a value based, affordable hearing aid that is easy to use.

Audigy Group offers best-in-class business and performance management solutions to hearing care practices.

Professional and consumer audio solutions

GN's professional headsets and speakerphone solutions are engineered to help businesses to be even more productive and to deliver supreme sound and great battery life to users for whom calls, music and media consumption are important. GN Audio created the world's leading headset solution for office businesses, the world's first active-noise-cancelling microphone, the world's first Bluetooth headset and the world's first wireless sports headphones with integrated heart-rate monitor, to name a few.

Jabra provides the most technically advanced headset and speakerphone solutions, based on unique sound capabilities, engineered to fit the purpose for which they will be used.

VXi and Blueparrott are best-in-class headset solutions delivering value, excellence and innovation to contact centers, offices and mobile professionals.

GN Advanced Science

GN's technology is founded in world-leading expertise in the human ear, sound, wireless technology and miniaturization, linking deep insight and knowledge from the hearing aid and the headset industries – all under one roof.

GN's R&D spans a wide range of disciplines, including acoustics, signal processing, neuroscience, human-computer interaction, artificial intelligence, audiology, and engineering.

Leading major technology shifts

GN Hearing: Another industry-first with remote fine-tuning in hearing aids
GN Audio: Jabra Evolve series is the world's no. 1 in professional headsets

Technology is rapidly changing our world, our businesses, and our everyday lives. The smartphone only just turned ten and life without one is already unthinkable to millions of people. Every fourth online search is now voice initiated. Over 30 million Americans have voice-activated speakers in their homes.

Who would have seriously believed this just a few years ago. Today's reality is that technology develops exponentially, not linearly. This is the reality in which GN must operate.

GN's vision is to be the leader in intelligent audio solutions that transform lives through the power of sound. Within our area of core expertise – sound processing – we intend to continue to take the lead in major technology shifts.

We see opportunities for huge advances in the years ahead. We will seize those opportunities with focused investments in both incremental and radical innovation.

Major technology breakthroughs in 2017

In 2017, GN Hearing launched such a technology shift with the introduction of cloud-based remote fine-tuning in hearing aids. With ReSound LiNX 3D™ and Beltone Trust™ hearing aids, remote fine-tuning takes personalization to a whole new level, greatly benefitting hearing aid users and hearing care professionals. Personalization is a significant technology trend across multiple businesses, and we have only just seen the beginning within intelligent audio solutions.

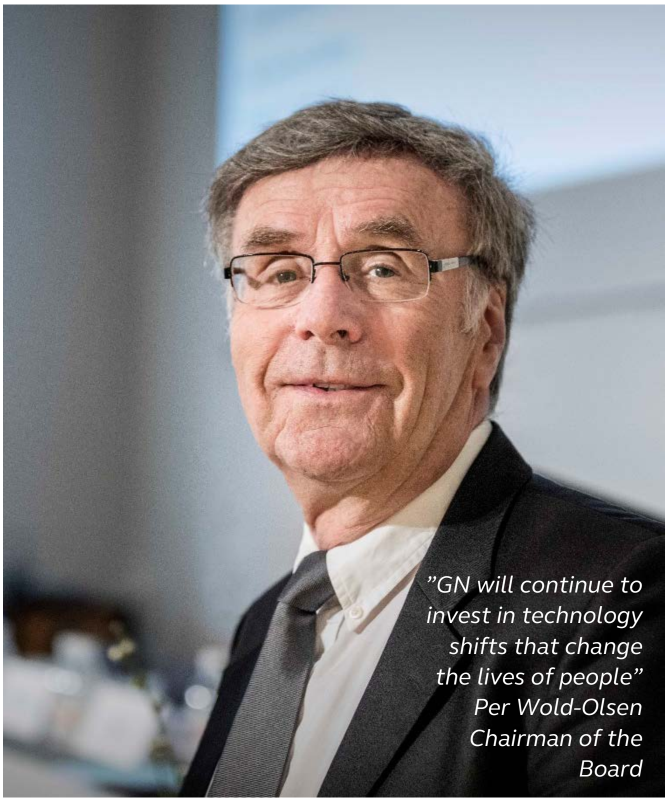
In GN Audio, technology leadership is distinctly demonstrated by the Jabra Evolve series of professional communications headsets. GN Audio has emerged as the world's undisputed no. 1 solution provider for office businesses – more than 85 of the Global Fortune 100 corporations are Jabra customers. In 2017, the portfolio of professional products was further strengthened with the Jabra Speak 710 speakerphone and the Jabra Evolve 75 and 75e headsets – all fortifying GN Audio's leadership in the attractive professional market.

Short-term execution and long-term success

We are approaching half-time in our current strategy period – the Hear More, Do More, Be More Strategy 2017 – 2019. We are very confident that we will deliver as planned and communicated. At the same time, GN's strategy sets up the company for long-term success. The core pillars of the strategy are to continue our leadership in innovation, to propel the company into being a leader in commercial excellence, and to excel in growing a winning organization.

Innovation Excellence: An insistent focus on responding to the true needs of our customers and the users of our products and services permeates our idea and development processes. In 2017, we have further enhanced our product development and innovation processes to deliver an even higher degree of user benefits and uniquely value-adding solutions. This enables us to move faster from prototype to production and to continuously add new features to our products, so we can respond swiftly to trends in the market and to the needs of our customers.

Those needs are also at the core of our collaborative work with external researchers and partners. In these partnerships, we explore the next radical innovation – such as the application of machine learning.



Commercial Excellence: To effectively support our ambitious growth agenda, we are rolling out a new sales methodology backed by a comprehensive hands-on training program for our sales teams, in order to enhance how we engage with customers and drive stronger partner relations and sales performance. Other commercial initiatives aim at tightening relationships and collaboration with business partners, key accounts and key opinion leaders, and streamline brand management. Implementation of these initiatives are well underway.

People Excellence: Our ability to attract, retain and develop talent throughout the world is crucial for our continued success. During 2017, we invested significant resources and efforts in leadership development. In addition, we revitalized our talent management process to provide our leaders with better tools to actively develop our talents, and promote opportunities for moving to new roles within GN.

Financial performance and outlook

In 2017, GN delivered financial results in accordance with our communicated guidance: Organic growth in GN Hearing of more than 6% and an EBITA margin of 20.5%. GN Audio had a particularly strong year with organic growth of 10% - surpassing even the upgraded organic growth guidance set out in our Q3 report - and an EBITA margin of 18.2%.

Our financial targets for the strategy period 2017 – 2019 stand firm.

Geopolitical and technological resilience

GN has established a solid footprint in key countries around the world, not only with sales offices, but also with other core functions. North America accounts for close to half of the Group’s revenue, and we view the United States as a home base with R&D, manufacturing, a large sales force, close to 1,500 branded store fronts, and many strong partnerships.

China has grown to become another important market for GN, which is reflected in our strong local presence with R&D, manufacturing and sales. This enables GN to better seize important opportunities in this attractive market. GN also has a strong local presence throughout Asia and in its core European markets and continues to deepen our positions, ensuring rapid time-to-market with products.

Strategic agility is crucial to GN, also in terms of geographical footprint. Our setup enables us to swiftly adapt to changes in the world political and economic landscapes. This is part of our heritage throughout the past 148 years, managing the company safely through two world wars, several regional wars, revolutions, economic recessions, the Cold War as well as multiple technological, trade and geopolitical changes.

Investing in technology for the future

Looking into the future, we are certain to face even more radical changes, especially in terms of what technology can do for people.

One such change is emerging in the U.S. market for hearing aids, where a new over-the-counter category will be introduced to address the fact that 24 million Americans remain untreated for hearing loss. The precise nature of the new regulations from the U.S. Food and Drug Administration is not yet known, but if it makes business sense, GN will be ready to leverage its competencies within medical devices and consumer electronics synergistically.

Likewise, GN recently announced GN FalCom, a revolutionary intelligent communication solution with unparalleled noise management for defense and security forces. The pioneering and patented hearing protection solution – leveraging GN’s unique leading competencies within intelligent audio solutions in both GN Hearing and GN Audio – offers the user a communication headset which is comfortable, highly durable and protects the user against high volume noise while allowing the user to clearly identify important sound in 360 degrees. This initiative is a successful result of corporate level investments made through GN’s Strategy Committee guided initiatives to explore opportunities outside of, but related to, GN’s existing business areas.

Constantly transforming to seize new opportunities

GN long ago started the transition from being a hardware company to building strong capabilities within software development. We will continue and accelerate this transformation. In a longer perspective, GN will continue to invest in technology shifts that change the lives of the hearing-impaired and of people in need of headsets for convenient communication. Our current core research expertise spans a wide range of disciplines, including sound and signal processing, acoustics, neuroscience, human-computer interaction, artificial intelligence, and audiology.

Today, we all have a computer in our pockets that connects us to anybody and any data, anywhere, anytime. Already now, our hearing aids hold more computing power than it took to land the first man on the moon. Who knows what tomorrow brings?

To reach our ambitious goals – both short-term financial goals and long-term strategic goals – we continue to rely on our more than 5,000 employees and leaders around the world. On behalf of the GN Board of Directors, I sincerely thank all for their great contributions that lay the groundwork for GN’s current and future success.

Per Wold-Olsen
Chairman of the Board

Consolidated financial highlights

DKK million	2013	2014	2015	2016	2017
GN Hearing (excl. GN Otometrics)					
Continuing operations					
Revenue	3,636	3,892	4,526	5,156	5,615
Revenue growth	6%	7%	16%	14%	9%
Organic growth	10%	8%	9%	6%	6%
Gross profit margin*	65.8%	68.8%	67.4%	69.0%	69.4%
EBITA*	775	833	921	1,062	1,153
EBITA margin*	21.3%	21.4%	20.3%	20.6%	20.5%
EBITA reported*	671	833	921	1,062	1,153
ROIC (EBITA/Invested capital)	14%	16%	16%	17%	17%
Free cash flow excl. company acquisitions and divestments	50	368	456	704	866
Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA)	7%	44%	50%	66%	75%
GN Audio					
Revenue	2,612	2,871	3,229	3,495	3,970
Revenue growth	11%	10%	12%	8%	14%
Organic growth	18%	11%	2%	7%	10%
Gross profit margin	52.7%	53.6%	52.6%	52.7%	53.2%
EBITA*	472	521	540	597	721
EBITA margin*	18.1%	18.1%	16.7%	17.1%	18.2%
ROIC (EBITA/Invested capital)	65%	57%	47%	41%	46%
Free cash flow excl. company acquisitions and divestments	178	340	271	523	481
Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA)	38%	65%	50%	88%	67%
GN Store Nord					
Continuing operations					
Revenue	6,248	6,763	7,755	8,651	9,585
Revenue growth	8%	8%	15%	12%	11%
Organic growth	13%	9%	6%	6%	8%
Gross profit margin*	60.3%	62.4%	61.2%	62.4%	62.7%
EBITA*	1,217	1,196	1,383	1,583	1,744
EBITA margin*	19.5%	17.7%	17.8%	18.3%	18.2%
EBITA reported*	1,113	1,196	1,383	1,583	1,744
Operating profit (loss) reported	1,050	1,132	1,149	1,445	1,558
Financial items, net	(81)	(80)	(138)	(52)	(60)
Profit (loss) before tax reported	968	1,057	1,016	1,395	1,504
Effective tax rate	28%	29%	26%	22%	25%
Profit (loss) for the year reported	695	749	747	1,086	1,122
Total assets	8,963	10,229	11,176	12,835	11,737
Consolidated equity	5,330	5,667	5,764	5,620	4,783
ROIC (EBITA/Invested capital)	20%	19%	20%	20%	20%
Earnings per share, basic (EPS) from continuing operations	4.15	4.61	4.79	7.34	8.07
Earnings per share, fully diluted (EPS diluted) from continuing operations	4.11	4.57	4.77	7.32	8.02
Investments in property, plant and equipment	(114)	(95)	(171)	(106)	(103)
Free cash flow excl. company acquisitions and divestments	96	561	607	1,179	1,134
Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA)	9%	47%	44%	74%	65%
Continuing and discontinued operations					
Equity ratio	59.5%	55.4%	51.6%	43.8%	40.8%
Net interest-bearing debt	1,113	1,631	2,212	3,377	3,035
Net interest-bearing debt (period-end)/EBITDA	0.9	1.1	1.4	1.9	1.6
Payout ratio	18%	19%	20%	16%	16%
Share buybacks**	787	877	1,162	1,272	1,372
Outstanding shares, end of period (thousand)	164,740	159,592	152,254	143,471	136,443
Average number of outstanding shares, fully diluted (thousand)	168,891	163,619	156,734	148,361	139,968
Treasury shares, end of period (thousand)	8,589	8,429	9,937	11,317	9,241
Share price at the end of the period	133	135	125	146	201
Market capitalization	21,910	21,513	19,032	20,990	27,357

* EBITA: Excluding Gain (Loss) on divestments of operations, etc. and amortization of acquired intangible assets but including amortization of development projects and software developed in-house. (GH Hearing in 2013 excluding SMART restructuring costs)

** Including buybacks as part of the share based incentive programs

Group performance 2017

GN Store Nord delivered strong performance in the first year of the 2017 - 2019 strategy. Revenue growth was 11% and organic revenue growth was 8%. EBITA improved by 10%, based on strong execution in both GN Hearing and GN Audio. With strong launches and great execution in both GN Hearing and GN Audio, GN aims to continue its strong profitable growth in the years to come

Revenue
In 2017, GN Store Nord increased revenue to DKK 9,585 million from DKK 8,651 million in 2016. Organic growth reached 8%. The foreign exchange contribution was around (3)% and M&A contribution was around 6%. The solid growth reflects a strong development in both GN Hearing and GN Audio, driven by innovative product portfolios and strong commercial execution.

EBITA
In 2017, GN generated EBITA of DKK 1,744 million, which was 10% higher than in 2016. GN's earnings improvement is a reflection of the strong revenue development and was achieved even with significant investments made in future growth opportunities, particularly in the first half of the year.

Net profit
Amortization of acquired intangible assets was DKK (148) million, while gain (loss) on divestment of operations etc. ended at DKK (38) million. Share of profit (loss) in associates was DKK 6 million and financial items ended at DKK (60) million, compared to DKK (52) million in 2016. The effective tax rate was 25.4%, which includes a non-cash impact of 3.1 percentage points from the US tax reform net of related items. The reported net profit reached DKK 1,122 million compared to DKK 1,086 million in 2016.

Other performance indicators
GN's continues to have a strict focus on cash flow generation. Free cash flow, excluding M&A, amounted to DKK 1,134 million, compared to DKK 1,179 million in 2016. The continued strong cash flow generation translates into a cash conversion of 65% for the Group, bringing the levels across GN Hearing and GN Audio on par with/above industry peers.

Reported EPS reached DKK 8.07 compared to DKK 7.34 in 2016. The increase in EPS is primarily explained by the solid earnings improvements in both divisions as well as the ongoing share buyback program. Reported EPS is impacted by the non-cash US tax reform net of related items.

Dividend and share buyback programs
During 2017, GN continued to return capital to shareholders on the back of the solid cash flow generation. GN has distributed more than DKK 1.4 billion to shareholders in 2017 – DKK 178 million as dividend and DKK 1,265 million as part of the share buyback programs.

The current DKK 1,000 million share buyback program, which was initiated in March 2017, will be concluded no later than March 12, 2018. As communicated in the Annual Report 2016, GN Store Nord's Board of Directors intends to buy back

Financial overview FY 2017

	GN Hearing			GN Audio			Group total*		
DKK million	FY 2017	FY 2016	Growth	FY 2017	FY 2016	Growth	FY 2017	FY 2016	Growth
Revenue	5,615	5,156	+9%	3,970	3,495	+14%	9,585	8,651	+11%
Organic growth	6%	6%		10%	7%		8%	6%	
Gross profit	3,895	3,558	+9%	2,113	1,843	+15%	6,008	5,401	+11%
Gross margin	69.4%	69.0%	+0.4%p	53.2%	52.7%	+0.5%p	62.7%	62.4%	+0.3%p
EBITA	1,153	1,062	+9%	721	597	+21%	1,744	1,583	+10%
EBITA margin	20.5%	20.6%	(0.1)%p	18.2%	17.1%	+1.1%p	18.2%	18.3%	(0.1)%p
Earnings per share (EPS) - DKK							8.07	7.34	+10%
Free cash flow, excluding M&A	866	704	+23%	481	523	(8)%	1,134	1,179	(4)%

Note: All numbers are excluding Otometrics *) Including "Other" shares worth DKK 3 billion during GN's 2017 - 2019 strategy period, subject to approvals by Annual General Meetings.

The Board of Directors will propose to pay out DKK 1.25 per share in dividend for the fiscal year 2017 (equivalent to a total dividend of DKK 182 million), compared to DKK 1.15 per share last year and equivalent to an increase of 9%.

Capital structure
As communicated on GN's Capital Markets Day in September 2016, GN is targeting a net interest-bearing debt of one to two times EBITDA. At the end of 2017, the net interest-bearing debt amounted to DKK 3,035 million, corresponding to 1.6 times EBITDA.

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 Audio 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.

On October 18, 2017, a jury in the Federal District Court of Delaware ruled in favor of Plantronics as the jury did not find that Plantronics' behavior in the market had been unlawful. GN has decided to appeal the ruling.

Financial outlook

GN Store Nord is entering the second year of the Hear More, Do More, Be More strategy 2017 - 2019 with the ambition to continue to deliver strong profitable growth. GN continues to be well-positioned, in both GN Hearing and GN Audio, to benefit from attractive market conditions

As part of GN's strategy for 2017 - 2019, GN provided financial targets on various levels of the Group. The financial outlook for 2018 is closely linked to the targets provided in the strategy:

- For GN Hearing, organic growth is expected to be more than 6% and the EBITA margin is expected to be more than 20%
- For GN Audio, organic growth is expected to be more than 7% and the EBITA margin is expected to be more than 17%
- For GN Store Nord, the effective tax rate for 2018 is expected to be around 22%
- EBITA in "Other" is expected to be around DKK (135) million, reflecting continued research activities on a corporate level

In 2018, GN Store Nord targets a double digit increase in earnings per share (EPS).

GN Hearing

Financial guidance 2018
GN Hearing expects continued solid revenue growth in 2018. Organic growth is expected to be more than 6%. As outlined in the strategy for 2017 - 2019, GN Hearing will execute strongly on the three cornerstones of the strategy, Innovation Excellence, Commercial Excellence and People Excellence, which will contribute to solid growth in 2018.

The EBITA margin is expected to be above 20% in 2018. GN Hearing will continue to invest in future growth opportunities in 2018, as described in the strategy for 2017 - 2019.

Market projections
In the 2017 – 2019 strategy, GN Hearing estimates market growth to be around 4 - 6% in volumes with ASP decline of around 1 - 2% annually. For 2018, GN Hearing expects market growth to be within this range and to be broad based across all the three reporting regions: North America, Europe and Rest of World.

GN Audio

Financial guidance 2018
In 2018, GN Audio expects to deliver more than 7% organic growth and to continue the solid growth momentum experienced during 2017, based on strong execution of the initiatives launched under the 2017 – 2019 strategy.

GN Audio expects the EBITA margin to be more than 17% in 2018 and to continue to benefit from operational leverage on the back of expected revenue growth and improved product mix, however partly offset by investments in future growth opportunities.

Market projections
The Call Center & Office (CC&O) market is projected to maintain strong growth rates driven by the increasing penetration of Unified Communications (UC) solutions tailored to the new generations' working culture as well as seamless integration between applications and devices.

The consumer Bluetooth mono headset market is expected to continue to decline. It is expected that the market for Bluetooth stereo headset solutions will show a positive trend again in 2018, including in the important sub segments such as neckband, sport and true wireless.

Financial guidance 2018*

	Organic revenue growth	EBITA margin	Effective tax rate
GN Hearing	> 6%	> 20%	
GN Audio	> 7%	> 17%	
Other (DKK million)		~ (135)	
GN Store Nord			~ 22%

* Based on foreign exchange rates as of February 1, 2018

Other activities and tax

EBITA in “Other” is expected to be around DKK (135) million in 2018 (DKK (130) million in 2017). The costs are primarily related to shared functions servicing both GN Hearing and GN Audio.

Furthermore, GN will also continue to actively research and explore business opportunities with the aim to explore future business opportunities outside the current area of operation in GN Hearing and GN Audio, leveraging on the core knowledge and competencies of the Group. The intelligent communication solution for defense and security forces announced on January 30, 2018 is a successful example of the portfolio of research projects aimed at leveraging GN’s unique, leading competencies within intelligent audio solutions in both hearing aids and headsets.

As announced in the 2017 – 2019 strategy, GN expects an effective tax rate around 22% for the period, which also is expected to be the level in 2018.

Forward-looking statements

The forward-looking statements in this annual report reflect GN Store Nord’s management’s current expectations of certain future events and financial results. Statements regarding the future are inherently subject to risks and uncertainties which may result in material deviations from expectations. Furthermore, some of these expectations are based on assumptions regarding future events which may prove incorrect. Factors that may cause actual results to deviate materially from expectations include – but are not limited to – general economic developments and developments in the financial markets, technological developments, changes and amendments to legislation and regulations governing GN’s markets, changes in the demand for GN's products, competition, fluctuations in sub-contractor supplies and developments in ongoing litigation (including but not limited to class action and patent infringement litigation in the United States). For more information, see the "Management's report" and "Risk management” elsewhere in this annual report. This annual report should not be considered an offer to sell securities in GN.

No limits

Taking hearing care to a whole new level

In April 2017, GN Hearing unveiled the revolutionary ReSound LiNX 3D™ hearing aids, taking Smart Hearing to new levels to enable people with hearing loss to hear more, do more and be more anywhere in life. This enables an entirely new hearing care experience.

Hear more than you ever thought possible: ReSound LiNX 3D is the best for speech recognition, gives a clear and natural sense of the sounds around you and in complex listening situations makes sure you can focus on what you want without being cut off from your surroundings.

Enhanced hearing and fitting experience: ReSound Smart Fit™ software optimizes the way hearing care professionals can provide hearing care, allowing them to spend less time on fitting, so they can spend more time improving client experience and keeping their business running at its best.

Hearing care wherever you are: From an app users have direct access to their hearing care professional. They can request assistance for remote fine-tuning of their hearing aid settings as they experience a hearing difficulty – night or day – no need to remember how to describe the listening situation next time they are at the clinic. The hearing care professional can make the fine-tuning remotely in the office – at any time convenient – and transfer the new settings to the user. This provides a vastly better hearing experience for the user.

These breakthroughs are developed with audiological insights and the latest advancements in technology to bring more convenience and efficiency than ever before to users and hearing care professionals.

GN Hearing

In 2017, GN Hearing executed successfully in the first year of the 2017 – 2019 strategy, continuing its profitable growth based on Innovation Excellence, Commercial Excellence and People Excellence. Driven by the launch of the 5th generation of 2.4 GHz hearing aids, ReSound LiNX 3D, GN Hearing delivered more than 6% organic growth and is strongly positioned for the coming years

5th generation successfully launched:

ReSound LiNX 3D

drives strong growth in revenue and earnings

Revenue growth

9%

>6 % organic revenue growth

Growth in EBITA

9%

vs 2016

Full hearing aid portfolio made for

all aspects of life

all people, all purposes, all types of connection

Continues to

outgrow

the market

8%

of revenue invested in R&D

Highlights 2017

- Revenue growth was 9%, of which organic growth was more than 6%, underlining GN Hearing's very strong momentum with 11% organic growth in Q4 2017. The full year organic growth was in line with the guidance set out at the beginning of the year
- EBITA increased by 9%, compared to 2016, translating into an EBITA margin of 20.5% in line with guidance
- Cash conversion continued to be strong ending at 75%. Free cash flow, excluding M&A, increased by 23%, compared to 2016
- During 2017, Audigy has been successfully integrated, which strengthens GN Hearing's footprint in the important North American market

GN Hearing delivered strong performance in the first year of the strategy period 2017 - 2019. In 2017, GN Hearing strengthened its superior product offering with the launch of ReSound LiNX 3D - the 5th generation 2.4 GHz hearing aids.

GN Hearing's market-leading full hearing aid portfolio, ReSound LiNX 3D and the corresponding Beltone Trust, which addresses all types of hearing loss, form factor preferences and price preferences, was a key driver of revenue and earnings growth in 2017. The products have received praise and recognition from users and customers, as well as organizations both within and outside of the hearing aid industry.

The strong revenue growth of 9% also translated into a strong increase in EBITA of 9%, while investing in growth initiatives as part of the 2017 – 2019 strategy.

In 2017, GN Hearing continued to deliver a substantial increase in free cash flow and the corresponding cash conversion ratio. GN Hearing's achieved level is on par with/above industry peers.

Experience hearing

Highly successful launch for GN Hearing

Since the launch on April 29, GN Hearing has been executing on the global rollout of ReSound LiNX 3D and the corresponding Beltone Trust. These groundbreaking hearing aids are based on GN Hearing's 5th generation 2.4 GHz wireless technology and 3rd generation Binaural Directionality.

The global campaign has been GN Hearing's most successful launch ever. ReSound LiNX 3D is now available in all major countries around the world, and in November 2017 was also launched through the important Veterans Affairs channel in the United States.

A cornerstone in such a campaign is the yearly EUHA International Congress of Hearing Aid Acousticians and trade fair, which in 2017 took place in Nuremberg, Germany. More than 135 companies were represented in the exhibition space, and EUHA attracts hearing care professionals from the entire world.

To enable visitors to experience the vast possibilities of GN Hearing's new family of products, our ReSound exhibition booth at EUHA included a special sound demo experience tour – and it drew long lines of visitors queuing up for this unique hearing experience.

Revenue
Revenue reached DKK 5,615 million in 2017. Revenue growth was 9% with organic growth at more than 6%, which is in line with the guidance for the year. The foreign exchange development had a negative impact on revenue by around (2)%, while the M&A contribution was around 4%.

Earnings and other financial highlights
GN Hearing's gross profit for 2017 reached DKK 3,895 million, which was 9% higher than in 2016. The gross margin increased to 69.4% from 69.0% in 2016.

EBITA increased to DKK 1,153 million in 2017 from DKK 1,062 million in 2016, equivalent to a growth rate of 9%. The EBITA margin ended at 20.5% - in line with the guidance for the year.

Free cash flow, excluding M&A, for 2017 was DKK 866 million, equaling a cash conversion of 75%, compared to DKK 704 million in 2016. This represents an increase of 23% driven by a continued focus on working capital optimization and strict control of balance sheet items.

Business highlights

Product introductions
Staying true to the vision to become the leader in intelligent audio solutions, GN Hearing began shipping the ground-breaking ReSound LiNX 3D in April 2017, starting with the world's largest hearing aid market, the United States.

With the introduction of ReSound LiNX 3D and the ReSound Smart Fit™ software, an entirely new hearing care experience is made possible. These breakthroughs are developed with audiological insights and the latest advancements in technology to provide more convenience and efficiency than ever before.

ReSound LiNX 3D offers unprecedented benefits to hearing aid users and to hearing care professionals across three key dimensions – sound quality, efficient and convenient fitting and ground-breaking remote fine-tuning:

Sound quality – hear more than you ever thought possible
With ReSound LiNX 3D – GN Hearing's 5th generation 2.4 GHz wireless technology and 3rd generation Binaural Directionality – hearing aid users experience excellent sound quality and will hear more than they ever thought possible.

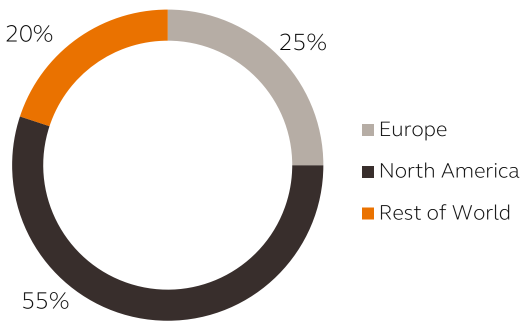
ReSound LiNX 3D delivers clear, natural sound, exceptional speech understanding and the best sense of where sounds are coming from. Users will experience 360-degree audibility and awareness in quiet and speech-only situations, improved hearing in noise when speech is in the front and optimized audibility of surrounding sounds.

Studies show that, compared to premium hearing aids from competing brands, ReSound LiNX 3D:

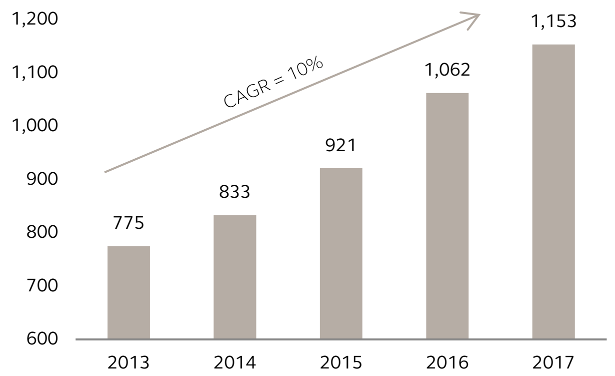
- is up to 50% better at identifying speech across various environments
- enables users to hear up to 80% more of the sounds around them and
- enables users to understand up to 40% more speech in noise

An enhanced fitting experience
Together with audiologists, GN Hearing has developed a more efficient and intuitive fitting software, which simplifies the process where the hearing care professional fits and adjusts the hearing aid to the user's needs. This faster and more convenient wireless fitting saves time for both the user and the hearing care professional. This gives hearing care professionals more time for valuable user counselling. A new Smart app allows users to easily personalize and control their

Revenue distribution



EBITA development
DKK million



Note: Excluding Otometrics and SMART restructuring costs sound at any time on-the-go directly from a smartphone (iPhone, Apple Watch and selected Android models). The Smart app empowers users to take even more control of their hearing experience through a built-in guidance and coaching feature, and gives users direct access to their hearing care professional for efficient optimization without the need for an appointment in a clinic.

Hearing care wherever you are
ReSound LiNX 3D is the only device with complete remote fine-tuning capabilities that allows users to stay in touch with their hearing care professional wherever they are and to receive hearing care and new settings via the cloud without having to schedule and travel for a clinic appointment. The unique cloud integration enables hearing care professionals to stay connected with users no matter where they are. Users can share feedback about any hearing difficulty as the situation occurs, rather than having to remember it and try to describe it at a later visit to the clinic. Hearing care professionals will have the freedom to offer follow-up services remotely – saving time for both themselves and users, thus creating opportunities for even higher user satisfaction.

During the annual AudiologyNow! Convention (AAA) in the United States, GN Hearing conducted the world's first transatlantic remote fine-tuning of a hearing aid. The remote fine-tuning was performed on a user's hearing aid in Denmark from a meeting room in Indianapolis in the United States in front of a live audience of analysts and investors. The remote fine-tuning was made possible with GN Hearing's new ReSound Assist™ remote fine-tuning technology as well as its 5th generation 2.4 GHz wireless technology hearing aids, the new ReSound Smart 3D app™, and the new intuitive and convenient ReSound Smart Fit™ software.

ReSound LiNX 3D – and the corresponding Beltone Trust – has now been launched in all primary markets around the world with a full product family in the Top and Plus performance levels.

New rechargeable and super power solutions
In August 2017, GN Hearing announced a rechargeable solution for ReSound LiNX 3D. This solution has all of the benefits of ReSound LiNX 3D, now combined with the all-day power of a rechargeable battery. With overnight charging, users will experience the advantage of all-day power, without the need to change batteries. In addition, users will save time and effort with less impact on the environment, giving them freedom, convenience and confidence.

In August 2017, GN Hearing also announced ReSound ENZO 3D™, which brings the benefits of ReSound LiNX 3D to people with severe to profound hearing loss. ReSound ENZO 3D is the smallest and most powerful super power hearing aid available. Clinical trials have documented that ReSound ENZO 3D provides 60% more clarity of the sounds around users and 60% better speech understanding in noise. ReSound ENZO 3D can be combined with a Made for iPhone compatible Cochlear system to form the most attractive bimodal hearing solution.

New branded launch in Costco
In the summer of 2017, ReSound Forte™ was launched in the branded category of Costco's hearing aid business. The new, exceptionally strong product offering allows GN Hearing to increase its share in the branded category where there is good potential for profitable growth in years to come. The launch allows GN Hearing to further leverage the strong brand recognition of its main brand, ReSound. In 2015, and in the first part of 2016, GN Hearing was the supplier of the private label brand in Costco (Kirkland Signature).

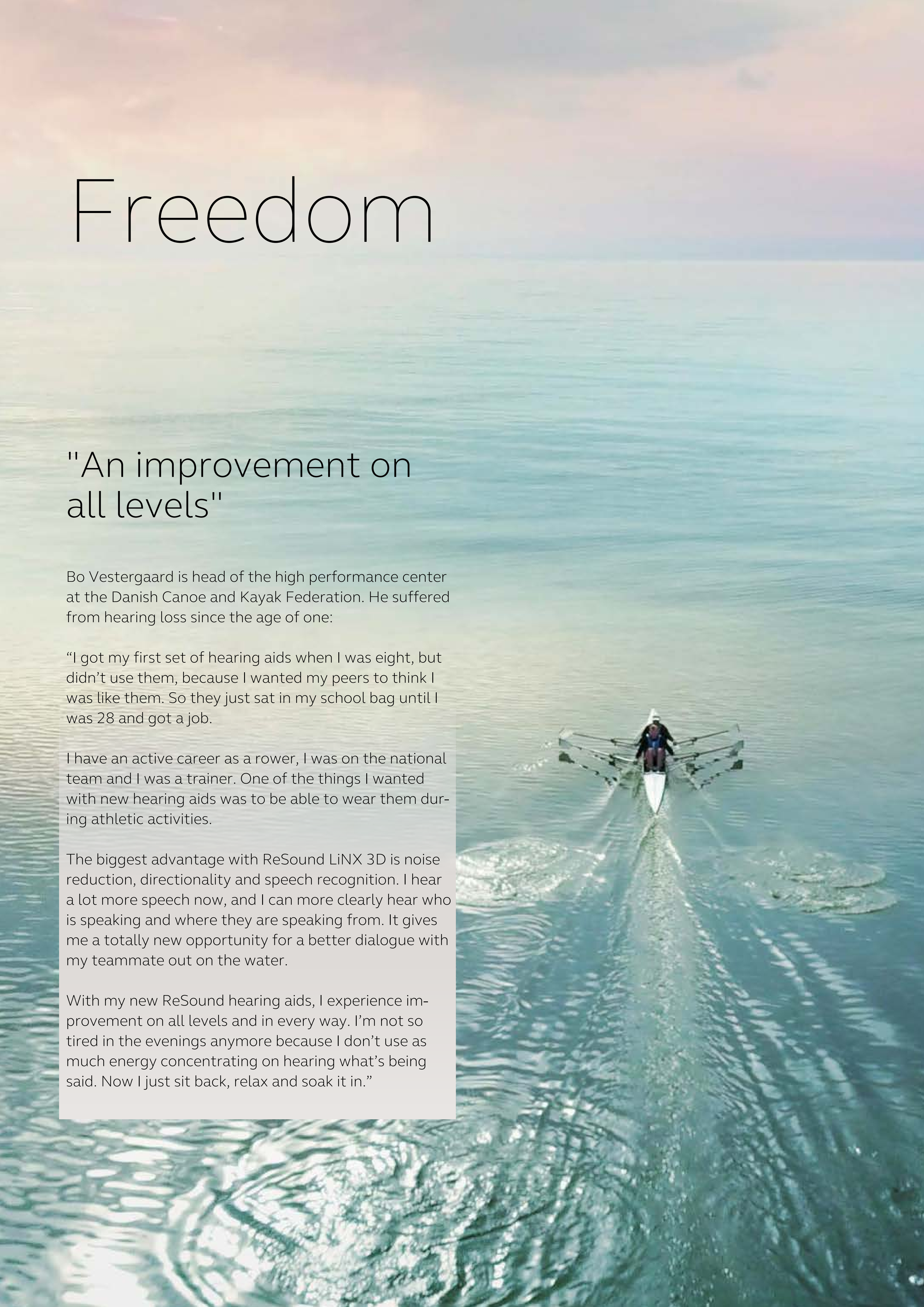
Otometrics divestment completed
On January 3, 2017, the divestment of Otometrics to Natus Medical was completed following the fulfillment and achievement of all necessary conditions and regulatory approvals. The divestment further strengthens GN Hearing's focus and strategic direction.

Audigy successfully integrated
2017 saw the successful integration of Audigy Group, acquired in 2016. Audigy has strengthened GN Hearing's footprint in the important North American market.

Fortified position in Veterans Affairs
GN Hearing has fortified its position as the second-largest supplier in the U.S. Veterans Affairs channel in 2017. GN Hearing continues to benefit from a sustained and focused effort in the channel, supported by a market-leading product portfolio.

In November 2017, GN Hearing introduced ReSound LiNX 3D in the Veterans Affairs channel, providing veterans in the United States with optimum audiological benefits. At the end of 2017, GN Hearing's market share (measured in value) reached 19.4%, which is in line with the level at the end of 2016. In particular, GN Hearing has improved its relative position in the important Receiver-in-Canal (RIC) segment, increasing its market share (measured in units) from 24% by the end of 2016 to 28% by the end of 2017.

Cochlear
The Smart Hearing Alliance, a co-development and co-commercialization partnership between GN Hearing and Cochlear, announced in October 2015, has proven successful again in 2017 with commercial introductions of bimodal hearing solutions combining GN Hearing's hearing aids with Cochlear's implant systems.



Freedom

"An improvement on all levels"

Bo Vestergaard is head of the high performance center at the Danish Canoe and Kayak Federation. He suffered from hearing loss since the age of one:

“I got my first set of hearing aids when I was eight, but didn’t use them, because I wanted my peers to think I was like them. So they just sat in my school bag until I was 28 and got a job.

I have an active career as a rower, I was on the national team and I was a trainer. One of the things I wanted with new hearing aids was to be able to wear them during athletic activities.

The biggest advantage with ReSound LiNX 3D is noise reduction, directionality and speech recognition. I hear a lot more speech now, and I can more clearly hear who is speaking and where they are speaking from. It gives me a totally new opportunity for a better dialogue with my teammate out on the water.

With my new ReSound hearing aids, I experience improvement on all levels and in every way. I’m not so tired in the evenings anymore because I don’t use as much energy concentrating on hearing what’s being said. Now I just sit back, relax and soak it in.”

Beltone network
In 2017, the development of the Beltone network has been encouraging. Beltone is a strong and recognized brand in the United States hearing aid market, and it is GN Hearing's goal, as part of the ambitious strategy for 2017 - 2019, to further strengthen Beltone in order to build the network for the future. This initiative is focused on transformational growth as well as building a culture of continuous improvement and achieving even stronger brand awareness.

Marketing
In the 2017 – 2019 strategy, GN Hearing has declared Commercial Excellence a key driver for success. The focus areas for marketing are to drive significantly increased market share in the open market through innovative new product launches and initiatives, further strengthening of partnerships with key accounts around the world, and to drive successful digital transformation. A disciplined and deepened understanding of customer and consumer needs and behaviors has allowed for differentiated value-driven programs and campaigns. The creation of a separate Digital Transformation organization will enable the necessary development in the area of e-commerce, business management and lead generation.

Operations
GN Hearing is constantly aiming to optimize the production setup and to make it even more cost-efficient. The main manufacturing facilities for GN Hearing are located in Denmark, the United States, China and Malaysia.

Market development
The long-term market growth expectation remain unchanged. In the 2017 – 2019 strategy, GN Hearing estimates market growth to be around 4 - 6% in volumes with ASP decline of around 1 - 2% annually. In 2017, the market growth was estimated to be within this range.

The global hearing aid market size is estimated at around 15 million units in 2017.

ReSound LiNX 3D – an entirely new hearing experience

Hear more than you ever thought possible

ReSound LiNX 3D hearing aids are the best at recognizing voices and use advanced technology to make them heard. Spatial Sense gives users a clear and natural sense of the sounds around them. But in more complex listening situations, Binaural Directionality III enables users to focus on what they want, without being cut off from their surroundings.

ReSound LiNX 3D is
50%
better at identifying speech in various environments*

Users can hear
80%
more of the sounds around them**

Understand
40%
more speech in noise**

Sources: *Groth (2016), **Jespersen et al. (2016)

Tele-audiology helps hearing aid users live in the present

Thumper Johnson is Director of Audiology at Mid-Kansas Ear, Nose & Throat Associates, and an avid user of GN Hearing's new remote fine-tuning feature. She explains how this helps both her patients and her business

"When FaceTime was introduced, all consumers needed was a Wi-Fi or a cellular signal to experience the world of their loved ones, whether they were ten or ten thousand miles away. Few at the time would have associated hearing care with innovation, but it was only a few years later when GN Hearing launched the first Made for iPhone hearing aid.

Recently, GN Hearing took a quantum leap in innovation with the launch of comprehensive remote fine-tuning, or tele-audiology. I have to admit that at first even I was skeptical. How could my patients receive the same level of care remotely as they would if they were present in my office? This hesitation, however, quickly waned. The ReSound Smart Fit software was easy to use, and the ReSound Assist was convenient for both me and my patients, leading to a better hearing care experience and greater patient satisfaction.

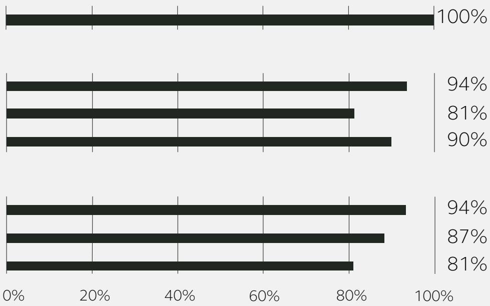
Still, I can understand why other hearing care professionals might remain hesitant to embrace the new technology. As audiologists, we pride ourselves on the personal counselling and relationships we develop with patients through office visits. But in the same way as FaceTime was not an attempt to replace physical interactions, tele-audiology is not an attempt to replace person-to-person contact with patients. Instead, in the way FaceTime connects us to loved ones when we are away, remote fine-tuning provides an opportunity to connect directly with an audiologist when there otherwise would not be one. Moreover, remote fine-tuning is sometimes preferable to office visits as it allows us to fit our patients in real environments, rather than the ones simulated in a clinic.

While today's patients are more and more interested in how technology can give them greater control over their lives, they also still rely on our expertise as trained professionals to achieve optimal hearing outcomes. With tele-audiology, patients get the best of both worlds: They can feel close to their audiologist without having to sacrifice time or convenience. We as professionals can spend our time in the clinic on valuable counselling.

For years, experts have been telling us that tele-medicine is the future of caretaking. GN Hearing brought comprehensive tele-audiology to hearing care and with it the future of our field. ReSound LiNX 3D has proven that remote assistance can increase patient satisfaction, provide real-life feedback, and optimize how we run our businesses."

Audiologist Thumber Johnson (right) is thrilled with the benefits offered by remote-fine-tuning.

Remote fine-tuning is highly appreciated by hearing care professionals



Willingness to recommend the service	
I would recommend using this service to others	100%
Offer a better service and take better care of patients	
The remote service enables me to deliver the best fit within a shorter time frame	94%
The remote service helps me understand my client's sound experience outside the clinic	81%
The client feels more involved in the fitting experience with the remote service than without	90%
Improve the hearing experience and sound quality	
The remote service helps my client get a better hearing experience	94%
The remote service helps me provide a better sound quality for my client	87%
The remote service reduces the amount of in-office appointments	81%

Source: GN Hearing survey among 31 hearing care professionals in the U.S., UK, FR, DE, NL, IN, DK, CH and AUS who have experience fitting patients with ReSound LiNX 3D and have used ReSound Remote Assist.

Contents

GN Audio

During 2017, GN Audio further strengthened its world-leading position in the attractive CC&O market. Strong performance across regions and channels with strong new product launches, a favorable product mix and the successful integration of VXi Corporation led to 10% organic growth, outperforming the updated 2017 guidance of "more than 7%"

Excellent business performance

10%

organic growth vs 2016

Revenue growth

14%

vs 2016

Growth in EBITA

21%

vs 2016

No 1

in Unified Communications

EBITA margin

18.2%

vs 17.1% in 2016

Fastest growing company

in the professional headset market

Highlights 2017

- Revenue growth was 14%, of which organic growth was 10%
- EBITA increased by 21% to DKK 721 million, equivalent to an EBITA margin of 18.2%, compared to 17.1% in 2016
- Continued strong cash conversion of 67%, compared to 88% in 2016
- New product launches in the Jabra Speak and Jabra Evolve families fortify GN Audio's leadership in the attractive CC&O market
- Successful integration of VXi Corporation has strengthened GN Audio's position in the important North American market

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

In the enterprise business targeting the global Call Center & Office (CC&O) market, GN Audio achieved very significant growth throughout 2017 with double-digit organic growth in all regions. This was particularly driven by the Unified Communications (UC) segment. GN Audio gained further market share on the back of its leading product portfolio and continued strong execution across the organization.

In the consumer market, GN Audio continued to take important steps toward repositioning the consumer business. A key milestone in the year was the broad success of Jabra Elite Sport, which has shown a tremendous impact in the market and already positioned Jabra as the second-largest player in the global market for true wireless earbuds.

GN Audio's strategy for 2017 - 2019: Hear More, Do More, Be More was announced in September 2016. It builds on three cornerstones: Innovation Excellence, Commercial Excellence and People Excellence. This will be the foundation for GN Audio's continued strong profitable growth.

Elite

Engineered for purpose

Jabra research shows that daily usage of headphones by frequent users focuses on calls (58%), music (53%) and voice control (35%). With the new Elite family of products, Jabra sets the industry bar for voice and music quality headphones.

Jabra Elite is engineered to meet the needs of users looking not only for outstanding music quality, but also for strong voice capability, whether they are making calls or increasingly using voice assistants, such as Alexa, Siri or Google Now.

In January 2018, Jabra launched at CES, the global consumer electronics trade show that takes place every year in Las Vegas, three new products; Jabra Elite 45e, Jabra Elite 65t and Jabra Elite Active 65t.

Jabra Elite Active 65t (see picture) is engineered for active users who want a true wireless voice and music experience while working out; Jabra Elite 65t is engineered for the best true wireless voice and music experience; Jabra Elite 45e is engineered for the best voice and music experience.

Revenue
In 2017, revenue reached DKK 3,970 million, compared to DKK 3,495 million in 2016. Revenue growth was 14% with organic growth at 10%. The foreign exchange development had an impact of around (2)% on revenue, while the M&A contribution was around 6%. The revenue growth in Q4 2017 was driven by strong performance in the CC&O business across regions and channels.

The continued strong growth reflects the strength of GN Audio's innovative world-leading product portfolio as well as strong execution on its commercial excellence initiatives in all regions. As a result of the strong performance, GN Audio continues to strengthen its leading position in the attractive CC&O market.

The organic growth of 10% in GN Audio exceeded the original guidance of "more than 6%", as communicated in the Annual Report for 2016, as well as the updated financial guidance of "more than 7%", as communicated in the Q3 2017 report.

Earnings and other financial highlights
In 2017, the gross profit increased by 15% to DKK 2,113 million. The gross margin was up from 52.7% in 2016 to 53.2% in 2017. GN Audio's EBITA of DKK 721 million in 2017 represents an increase of 21%.

The EBITA margin reached 18.2%, compared to 17.1% in 2016, thus exceeding the financial guidance of "more than 17%" for 2017.

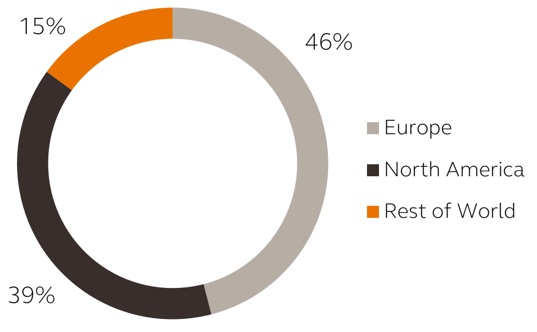
Strict focus on cash conversion continued with a strong cash conversion of 67% for the year. The free cash flow excluding M&A of DKK 481 million in 2017.

Business highlights
During the year, GN Audio has emphasized The Power of Conversation. The campaign was launched to highlight GN Audio's ability to empower people with the right headset technology for their needs, which can significantly boost their productivity, improve customer relations and drive efficiency.

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

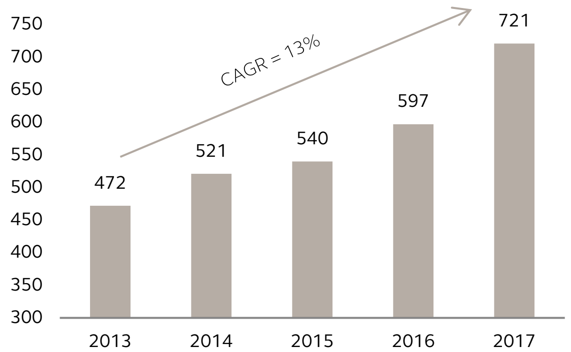
Throughout 2017, the CC&O market conditions were favorable and solid as expected, driven in particular by the Unified Communications market. GN Audio expects that the market for UC solutions will expand in the coming years from mostly covering large enterprises to also reaching small and medium-sized enterprises. In recent years, GN Audio has performed well delivering intelligent audio solutions to larger corporations implementing UC solutions.

Revenue distribution



EBITA development

DKK million



Evolve'd

Engineered for Unified Communications

September 2017 saw the global announcement of the world's first Unified Communications (UC) certified professional wireless earbuds: Jabra Evolve 75e.

Combining Skype for Business certification, active noise cancellation (ANC), a host of the professional features of the Jabra Evolve series, and a wearing style popular with mobile office workers, these earbuds deliver calls and music with battery life that lasts all day long.

This offers our channel partners a new opportunity to acquire and expand their revenue streams in the UC market.

Jabra Evolve 75e has been engineered with all the benefits of the class-leading Evolve series, now in an earbud design to help drive penetration and expand UC adoption.

Product launches in the important office segment

Jabra Speak 710
In March 2017, GN Audio launched Jabra Speak 710, the newest member of the Jabra Speak Series, which has been a highly successful product family for GN Audio.

Jabra Speak 710 is a premium portable speakerphone with amazing sound for conference calls and music, designed for both professional and personal use. Users can now integrate their Apple Siri® and Google Now™ smartphone digital assistants with the push of a button.

Jabra Speak 710 can connect wirelessly with another Jabra Speak 710 device for an immersive sound for stereo music and multimedia presentations, or it can simply expand the room coverage for conference calls.

Jabra Evolve 75
In May 2017, Jabra further strengthened its CC&O UC portfolio with the launch of Jabra Evolve 75. With this product Jabra further extends is most successful product family, Jabra Evolve. Jabra Evolve 75 combines all the most popular features of the series: wireless, active noise cancellation (ANC), busylight, design and sound quality, and has been extremely successful both in terms of sales and user feedback.

Jabra Evolve 75e
In September 2017, GN Audio again extended its Jabra Evolve range of headsets for professional use with the Jabra Evolve 75e, UC-enabled Bluetooth stereo earbuds. With this product GN Audio was the first to introduce an earbud version with ANC and busylight into the office.

Thus, GN Audio brings a familiar consumer design into a professional environment which still includes all the winning characteristics of the Jabra Evolve range: wireless freedom, great sound, UC compatibility, ANC and busylight.

Fortifying UC leadership
Since the launch in 2014, the Jabra Evolve product range has been engineered to enable focus and distraction-free working. Research shows that the majority of today's flexible workers (78%) say that their personal productivity at the office is impacted by noise.

With the launches in the Jabra Speak and Jabra Evolve franchises, Jabra fortifies its leadership in the UC and personal speaker space and has been able to deliver market-leading growth rates. Focusing on key pain points with UC decision-makers, the Jabra Evolve and Jabra Speak series are designed and positioned to meet a demand for higher office productivity and UC adoption.

Announcing Jabra Elite franchise for consumers
In September 2017, GN Audio announced the consumer wireless earbuds Jabra Elite 25e, the newest addition to the audio-on-the-go category, where conversation and media/music consumption is a key driver for purchase. Jabra Elite 25e offers a better design for in-ear stereo neckbands, one charge to last all day and improved core sound quality and voice experience.

In January 2018, Jabra introduced three new products in the Jabra Elite franchise, Jabra Elite 45e, Jabra Elite 65t and Jabra Elite Active 65t, all drawing on GN's long-standing audio, headset and hearing aid expertise. Each new Elite product contains unique microphone configurations to ensure users will always be heard, whether speaking while indoor or out in the street.

Other business highlights

Strategy 2017 - 2019: Hear More, Do More, Be More
In September 2016, at GN's Capital Markets Day, GN Audio announced its strategy for the coming three-year period. To ensure strategy execution – particularly within Commercial and Innovation Excellence – a platform approach is being

2017 saw three new products in the important office segment

Jabra Speak 710

Jabra Evolve 75

Jabra Evolve 75e

implemented across the professional and consumer businesses and products.

A combined product management function covering both the professional and consumer segments and a unified distribution sales organization will enable maximum utilization of technology, product and brand investments, as well as address changing partner and distribution patterns.

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

VXi Corporation

The integration of U.S. based VXi Corporation, which was acquired in October 2016, has progressed as planned, and the company is now fully integrated in GN Audio. The acquisition has strengthened GN Audio's presence in the important North American market, where VXi enables access to new attractive segments, leveraging VXi's best-in-class expertise within communication in high-noise environments.

R&D

Throughout 2017, GN Audio's product development focused on cementing Jabra's position as the world leader within professional headsets through the core competencies of wireless technology and intelligent audio solutions. As exemplified by the recent launches of Jabra Speak 710, Jabra Evolve 75, Jabra Evolve 75e and the upgraded Jabra Elite Sport, the innovation in headsets and earbuds continued with high pace, based on extensive research into customer needs and sharp focus on delivering outstanding user benefits.

In recent years, software has become increasingly important in the development of intelligent headsets and earbuds. The distinctive functionalities of directional microphones that eliminate background noise and apps used for sport coaching are examples of software technology that is critically important for delivering user benefits. Software is also an important contributor in delivering an excellent sound experience as exemplified by products like the Jabra Elite franchise.

Operations

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

Market development

Following significant investments in the further expansion of UC software deployment during 2016, the overall CC&O market showed solid growth rates again in 2017, and the market continues to develop favorably. GN Audio expects that the market trend will continue beyond 2017, creating a solid foundation for continued growth.

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

True wireless

The #1 advanced sports earbuds

Since the launch in late 2016, Jabra Elite Sport has been widely recognized in the media for its market leading position. They are engineered to be the most technically advanced true wireless sports earbuds*

Today, Jabra Elite Sport is still the most technically advanced, true wireless sports earbuds available on the market. They are a true training aid which are waterproof (IP67 rating) and delivers freedom of movement, ground-breaking in-ear fitness analysis, strong battery life and delivers premium audio quality for calls and music for anyone who wants to work out.

The state-of-the-art earbuds without wires have been a hit with consumers world-wide.

Jabra Elite Sport during 2017 became the no 1 selling true wireless sports earbuds in the United States*.

Jabra continue to push the boundaries of what is possible. Mid-year upgrades for Jabra Elite Sport which delivered 50% more battery life along with a fresh new Lime Green Gray color have strengthened our position.

**June 2017. See facts on Jabra.com/commercial-claims dk*

GN accolades and awards

Awards demonstrate GN's excellence and thought leadership regarding intelligent audio solutions. Over the past year, GN Audio and GN Hearing products received recognition for innovative technology, excellence in cloud integration, design, corporate services, and more. Below are a few of the many accolades

CES Innovation Awards
ReSound LiNX 3D and ReSound ENZO 3D honored for best accessible technology, best wearable technology, and best technology for a Better World.

CES Innovation Awards
Jabra Elite 65t True Wireless earbuds with innovative 4-microphone technology and Amazon Alexa integration honored at CES 2018.

UX Design Awards
ReSound LiNX 3D and ReSound Smart 3D recognized for excellent experience qualities in products, services, environments and future oriented concepts in all areas of life.

Wirecutter
Jabra Move over-the-ear wireless headset has been on The Wirecutter's no.1 spot for three consecutive years in the Best Bluetooth Headphones category – in a test of 116 headphones.

Golden Lobe Awards
ReSound LiNX 3D Power Hearing System of the Year, ReSound ENZO 3D Most Innovative Product, and Corrine Walkden Stand Out Individual – non-sales of the Year.

2017 BIG Innovation Award
Beltone myPAL™ accessories awarded BIG Innovation Award winner in the innovative product category.

ZDNet
Jabra Elite Sport True Wireless headphones received a 5-star "spectacular" review with the experts at top tech media ZDNet.

Die Goldene Concha
ReSound LiNX 3D awarded by a jury of German hearing care professionals as the best hearing aid family on the German market.

Runners' World
Jabra Elite Sport won Editor's Choice award in Runner's World for being "the best bet for runners".

IHS Markit Award at IFA
ReSound LiNX 3D selected one of the most innovative technology products in the fitness, wearable and health devices category by an independent panel of experts.

Corporate responsibility

GN is committed to acting in a responsible manner throughout our entire value chain and in all business matters. We consider this crucial to managing a sustainable successful global business and essential for reaching our long-term strategic goals

Human & labor rights

Responsible sourcing
GN requires all its suppliers to comply with GN's Code of Conduct, which covers bribery, human and labor rights (child labor, wages, working hours) and safety. It is essential for GN to ensure that no violations of such rights occur.

GN continually assesses its suppliers and monitors their compliance through supplier self-assessments, performance monitoring, audits and site visits.

In 2017, GN performed 70 audits at suppliers. Most findings were related to CSR and Quality, including working hours, health & safety issues in production and manufacturing process control. GN is in constructive dialogue with suppliers, where a non-conformity case has been raised, in order to ensure implementation of required remedial actions.

Qualification of new suppliers
When we engage with a new supplier, we follow a strict qualification process to ensure that the new supplier can live up to our standards and requirements. This includes:

1. Initial screening
2. Competence screening
3. Evaluation
4. Qualification
5. Performance monitoring

Repetitive work
All jobs in GN's own manufacturing facilities are reviewed and rated for potential health & safety related concerns. Repetitive work is mitigated through task rotation to vary work positions as well as prolonged break times for particularly exposed employees. All sites have managers with direct health & safety responsibility to ensure operator safety.

Occupational health & safety
We acknowledge that suppliers may implement occupational health & safety standards in a less stringent manner than at GN's own sites. Therefore, we have a strong focus on ensuring compliance with our occupational health & safety requirements, both when onboarding new suppliers and partners as well as through regular supplier audits.

Compliance

Business ethics
GN's Ethics Guide, anti-corruption policies, Codes of Conduct and other internal guidelines outline the requirements for how GN operates and describe the responsibilities and ethical standards expected of all employees and relevant business partners. Relevant employees electronically sign off on their compliance within specific areas and take GN's e-learning courses within anti-corruption and competition compliance on a regular basis.

Whistleblower system
GN's whistleblower hotline, Alertline, is available in 27 countries and 21 languages and is independently managed by a third party. In 2017, GN received eight reports within the scope of issues which can be reported through the hotline. The allegations were primarily fraud against GN, conflict of interest/corrupt practices and lack of business integrity. All relevant cases was investigated, and appropriate remediating and disciplinary actions were taken where relevant.

Product safety

Materials and substances
To avoid harmful materials and substances in products, materials and components undergo thorough testing during the development phase. GN complies with the ROHS 2 directive as well as other local and international legislation. In addition, both GN Hearing and GN Audio have implemented the REACH regulation.

GN Hearing's medical devices are developed under a highly regulated quality system complying with ISO 13485 and FDA 21CFR 820 CGMP as well as other national standards, which are used by GN Hearing to control a number of product standards and processes.

Animal testing
Hearing aids are classified as medical devices and all materials and components that are in contact with human skin must fulfil all relevant biocompatibility requirements. This requires testing of the relevant material/components for cytotoxicity, skin sensitization and irritation, and includes animal testing to some extent. GN Hearing's policy is to always try to minimize the amount of testing required by

setting up tests and test schemes in the most efficient way. All animal tests used by GN Hearing are performed by contract laboratories.

Conflict minerals
Conflict minerals (gold, tantalum, tungsten and tin) originating from mines controlled by military groups in the Democratic Republic of Congo and nine adjacent countries have been widely reported to be the major driver of violence in Central Africa. We have, therefore, implemented a group-wide policy to avoid conflict minerals from these mines in GN products. By the end of 2017, GN has achieved 100% data coverage on validating the smelters identified and used in our supply chain as conflict-free.

Environment and climate
GN's products are by nature small. A typical hearing aid weighs between 2 and 6 grams, while headsets, including base station and power supplies, weigh between 10 and 550 grams. Due to the nature and character of our business, our environmental and climate impact is assessed to be low. However, GN is committed to minimizing its impact through responsible planning and execution of activities.

Energy and water consumption
In 2017, several initiatives were taken by our manufacturing facilities to minimize energy consumption, including installation of electrical lighting sensors, conversion of lamps to LED and upgrading of high power equipment, such as exhaust systems and pumps. Water consumption at GN's manufacturing facilities is very limited. Initiatives to reduce water consumption include employee awareness training, water consumption control and installation of water-reducing toilets.

Waste
For all production lines, GN has set a threshold for acceptable waste levels. If waste exceeds this, it triggers a production stop and corrective actions will be implemented.

Most of our waste is very small in quantity. All our manufacturing facilities use licensed disposal contractors that properly dispose waste, which may include plastic, chemicals, paint, scrap parts, etc. Some waste is re-used (e.g. boxes and plastic) via recycling operations. Other waste, such as electronics, is processed for re-use.

Certifications
GN Audio's repair center in China and its suppliers are certified under the ISO 14001 environmental management system. In addition, preliminary work was commenced in 2017 to have GN manufacturing facilities certified under ISO 14001. A number of GN Audio's headsets for professional work environments are TCO Certified (an third-party sustainability certification for IT products), combining requirements for corporate responsibility at the manufacturing facilities, user safety and ergonomic design as well as minimal environmental impact for both the product and its production during its entire life cycle.

Citizenship

Hearing aid project in South Africa
In South Africa, GN in 2017 continued to contribute to the overall hearing health. Under a multi-year program, South Africans with limited financial resources and difficult living conditions are eligible to receive free hearing aids donated by GN. In 2017, a total of 469 new hearing aids were provided to and fitted on eligible patients. All have their new hearing aids professionally fitted by an audiologist. The program initially covered two provinces, but has been extended to cover all nine provinces.

Partnering with HAMAP
In 2017, GN Audio entered into a partnership with HAMAP, a non-governmental organization that works to improve the life and health of some of the world's most vulnerable people. GN Audio contributes in helping close to 90,000 people gain access to clean drinking water, basic sanitation and education, emphasizing GNs commitment to improve living conditions globally.

Supporting research to improve treatment
GN Hearing co-sponsors the research activity of the Centre for Acoustic-Mechanical Micro Systems (CAMM) at the Technical University of Denmark (DTU). The research focuses on optimization of micromechanics and acoustics in hearing aids.

GN Hearing co-sponsors The Centre for Applied Hearing Research (CAHR) with focus on the origin, nature and consequences of hearing impairment. CAHR has more than 45 academics and is recognized as a world-leading research institution

GN Hearing co-sponsors a research project on Better hEAring Rehabilitation (BEAR), which is carried out by a consortium of hospital clinics, universities and hearing aid manufacturers, to document the effect of current clinical practices, develop new diagnostic methods for creating more customized solutions for patients and establish new guidelines for improved clinical practices. So far, approximately 2,000 patients have been enrolled in the project.

More information on GN's responsibility activities
GN's Communication on Progress report to the United Nations Global Compact outlines GN's full corporate responsibility activities and is available on http://www.gn.com/-/media/Files/Document-Download-Center/Corporate-responsibility/COP2017.pdf. The report represents GN's mandatory account for corporate responsibility according to §99a in the Danish Financial Statement Act.

Risk management

Operating in business environments characterized by constant innovation and change, our proactive and systematic approach to risk management is a valuable tool in our continuous efforts to stay ahead of new developments and win in tomorrow's marketplace

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

The global management teams in GN Hearing and GN Audio subsequently evaluate 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 these into opportunities.

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

The process is linked to other key planning processes, such as budgeting and strategy planning, in order to ensure that key risks are proactively managed 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.

Main risks associated with GN's businesses

A Research and development → **B** Operations → **C** Marketing and sales

D Regulatory risk

E Intellectual property rights

F Information security

G Human resources

H Financial risk

Risk	Characteristics	Mitigating actions
A Research and development	In a world where exciting new technologies, such as voice computing and artificial intelligence, continue to develop at an unprecedented speed, the potential for disruptive innovation and transformation within our playing field is greater than ever. While this entails previously unthinkable opportunities for development of new GN products and services, it also entails a key competitive risk in case we fail to turn the application of new technologies into better experiences and tangible benefits for the users of our offerings.	As part of our continuous and relentless focus on Innovation Excellence, we have made important adjustments to our product innovation and development process during 2017. These adjustments enable faster time-to-market, more agility and adaptability to change during the development process, and further enhance our ability to deliver new intelligent audio solutions which are truly driven by our insights into the current and future needs of the users of our products and services. Further, GN's Strategy Committee oversees the technological development and initiates any necessary activities to ensure that GN at all times maintains its technology leadership in relevant areas.
B Operations	GN Hearing and GN Audio both rely on their global supply chains for the timely delivery of critical materials and components, which must meet our high quality standards. Failure of any of our key suppliers to provide agreed deliverables may negatively affect our ability to accommodate demand for GN products or result in safety issues.	To ensure that appropriate risk mitigation plans are always in place for critical materials and components, GN has developed a set of tools to quantify the financial exposure to a long-term interruption of supplies from all key suppliers. This helps us determine whether additional measures must be taken to bring the risk down to the acceptable level. Where possible and feasible, GN targets to pursue a dual sourcing strategy to ensure that GN is able to source the same type of component from at least two different suppliers. For some unique suppliers, other measures are taken to reduce the risk, such as higher inventory buffers, dual sets of production equipment or other initiatives.
C Marketing and sales	**GN Hearing** GN Hearing generates a significant part of its revenue from partnerships with a number of leading channels who occasionally put their business up for tender. This means that GN Hearing is exposed to the risk of losing business as these are re-tendered.	This risk is reduced by working closely with our partners on continuously strengthening these partnerships and integrating our products and services in partners' customer journey. Accordingly, we will stay focused on meeting the needs and demands of our partners and provide them with superior added benefits.

Risk	Characteristics	Mitigating actions
C Marketing and sales (continued)	**GN Audio** GN Audio's professional business continued its strong momentum in 2017 and further consolidated its position as the world's leading supplier of intelligent audio solutions for office businesses. However, the attractive growth rates also entail a risk that new competitors will enter the market and challenge GN Audio's position.	GN Audio continually works to build on and expand its world-leading position by developing new, innovative and unique solutions based on deep insights into new trends and developments in user preferences, purchasing patterns, technology and other key factors shaping customer needs and demands.
D Regulatory risk	In the U.S. market for hearing aids, a new over-the-counter category will be introduced. At present, the precise scope and timing of implementation is not yet known, and it consequently also remains uncertain what overall effect this will have on GN and the hearing aid industry. New players may enter the market in this category, and we may see some downward pressure on prices. On the other hand, it is also likely to help increase the share of hearing-impaired people acquiring a hearing aid and thus increase the total market size.	If it makes business sense, GN will be ready to leverage our unique combination of competencies within medical devices and consumer electronics to develop an over-the-counter offering. Additionally, we firmly believe that our strategy to refrain from owning retail outlets, in combination with our continued development of strong strategic partnerships, makes us less exposed to risks arising from the introduction of an over-the counter category than hearing aid manufacturers who are vertically integrated, as we will be more agile and resilient.
	On May 25, 2018, a new EU regulation governing the protection of personal data (the *General Data Protection Regulation* – or GDPR) comes into effect. Although many countries already have legislation in place requiring companies to handle personal data securely, the new regulation introduces certain new rights for individuals that companies hold data about (data subjects), and new obligations on companies handling such data. Failure to comply could potentially result in significant fines and/or negatively affect trust in GN among data subjects.	Throughout 2017, GN continued and intensified its already ongoing effort to ensure that GN handles all personal and other data in a secure manner and will be ready for the new regulation. We finalized the already initiated GDPR compliance review and identified specific areas where various types of controls around our IT systems, business processes and associated data flows need to be further strengthened. For these areas, a plan for the required activities and mitigating actions was prepared and execution on the plan is well underway.
	In February 2019, the transition period for the Quality System standard EN ISO 13485:2016 expires and quality systems of all R&D and manufacturing sites have to comply with the new standard. The standard is the basis for CE-marking products according to the 93/42/EEC Medical Device Directives giving access to the EU markets, the Canadian market as well as many other countries where the standard is a pre requisition to enter the market.	GN Hearing plans to re-certify the entire organization where applicable to the ISO as well as to the Canadian program during 2018, and prepare for the new Medical Device Regulations that will come into force in 2020.

Risk	Characteristics	Mitigating actions
E Intellectual property rights	As GN operates globally in highly innovative industries and with increased focus on connectivity and software, there is a risk that our freedom to operate is restrained by third-party patents, including patent hold-ups or hold-outs, preventing commercialization of certain products or solutions or forcing GN to pay royalty.	During 2017, GN continued to strengthen its patent portfolio and optimize key processes related to intellectual property rights. The objective is to protect our freedom to operate within current and future innovation spaces and to defend ourselves in case of patent infringement claims being brought against GN.
F Information security	GN's business depends to a large and increasing degree on reliable and secure IT systems. Failure to adequately protect the IT infrastructure and key systems against the risk of security incidents could potentially lead to unavailability of services, unintended disclosure of business-critical confidential data or sensitive personal data, which may negatively affect GN's competitive position, damage its reputation and/or result in fines.	GN continuously minimizes these risks through a wide range of measures, such as technical security controls, various process controls and internal employee awareness campaigns based on its information security policy framework. During 2017, GN further strengthened its information security organization and governance as well as its specific defenses in order to ensure that GN stays on top of the constantly evolving threat landscape.
G Human resources	The competition for talent in our industry has intensified during the past few years. Our ability to deliver strong results, to successfully execute on our strategy and to build a sustainable organization for the future will be at risk if we are not able to attract, retain and grow the right talent on an ongoing basis. In addition, our ability to deliver on our ambitious strategic objectives will be at risk if we fail to ensure that the entire global organization is fully aligned behind our strategy and that this translates into flawless strategy execution.	GN's clearly defined people strategy sets the direction for successfully growing a winning organization. This includes a rigorous talent management process that we further refined and streamlined during 2017. This ensures that we have the right talent in the right positions and clear action plans for our talents, enabling us to create a pipeline of technical and leadership talent for the future. During 2017, the majority of all global leaders across GN have completed our new and ambitious leadership development program, which closely links the development of the individual leader with the implementation of our strategy.

Risk	Characteristics	Mitigating actions
H Financial risk	Due to the nature of the operations, investments and financing activities, GN is exposed to a number of financial risks. GN has centralized the handling of these financial risks except for commercial credit risk, which is managed by the Group's operating businesses. The financial risks are managed in accordance with the overall financial risk management guidelines set out in GN's treasury policy. Based on the current revenue and cost composition, the anticipated primary foreign exchange exposures for GN in 2018 are mainly arising from USD and JPY, where a 5% decrease of the respective currency before any impact from hedging would lead to a EBITA reduction of DKK60m (USD) or DKK 10m (JPY), whereas other currencies on a stand-alone basis would not have a material impact. In addition, GN has a significant exposure to EUR in-flows in both GN Hearing and GN Audio, which historically has been pegged to the DKK. The exposure is, however, largely hedged via bank loans, which are mainly denominated in EUR. GN's net interest-bearing debt has decreased during 2017 to DKK 3,035 million mainly driven by strong cash generation from normal operations. GN's loans are long-term with maturities from 2020 to 2022 with variable interest based on short term EURIBOR and CIBOR reference rates.	GN has hedged a substantial part of the expected EBITA contribution in the material trading currencies for the next 12 months across both GN Hearing and GN Audio. GN is also monitoring the combined impact of minor trading currencies and hedges those on a case-by-case basis. To mitigate the cash-flow risk from rising interest rates on its variable debt, GN has concluded interest rate derivatives to swap a substantial proportion of the floating debt. To mitigate potential liquidity or refinancing risks GN has access to a Revolving Credit Facility, which was largely undrawn as of 31 December 2017. Please refer to note 4.2 for further information about financial risks.

Shareholder information

Through an open and active dialogue, GN strives to provide all stakeholders with timely and relevant information to ensure a fair pricing of the GN share

Share price performance
The price of the GN share ended at DKK 200.5 on December 31, 2017, which is equivalent to an increase of 37% compared to the end of 2016. In comparison, the C20 Cap index increased 12.1%, while the Stoxx Europe 600 index increased 6.5%. The total market value of GN's shares, excluding treasury shares, was DKK 27 billion at the end of 2017.

GN is, among other indices, included in the C20 Cap index, the C25 Cap index and Large Cap index on Nasdaq Copenhagen, as well as the Stoxx Europe 600 index and the Stoxx Europe Sustainability index.

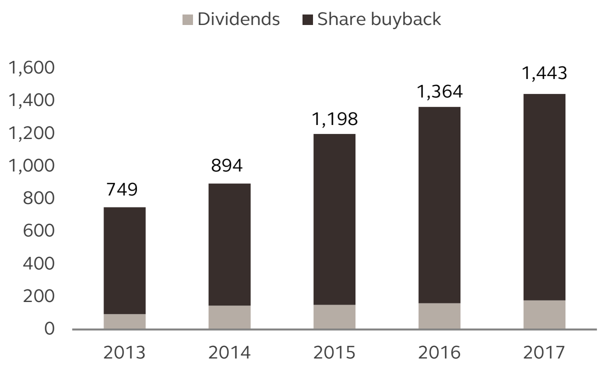
Ownership
The GN stock is 100% free float, and the company has no dominant shareholders. T. Rowe Price Associates Inc., Marathon Asset Management LLP, APG Asset Management N.V. and NN Group N.V. have all reported an ownership interest in excess of 5% of GN's share capital. Foreign ownership of GN is estimated to be around 70%.

At the end of 2017, approximately 25,000 registered shareholders held about 90% of the share capital. The 10 largest registered shareholders held in total about 35% of the GN share capital at the end of 2017 (including GN's holding of treasury shares).

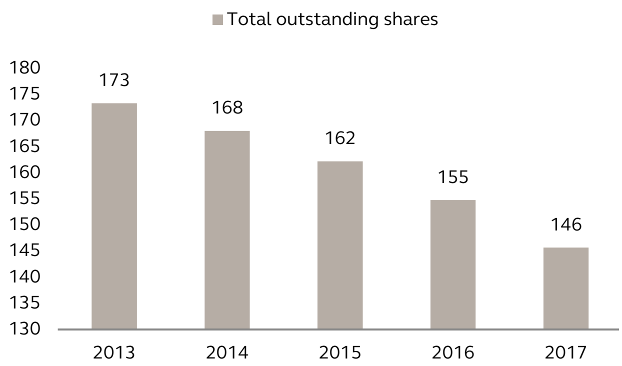
Share capital and voting rights
GN's share capital of DKK 582,736,856 consists of 145,684,214 shares, each carrying four votes. GN has one share class, and there are no restrictions on ownership or voting rights.

Treasury shares
On December 31, 2017, GN held 9,241,315 treasury shares corresponding to 6.3% of the share capital, and the value of the treasury shares was DKK 1,853 million. As part of the EUR 225 million Convertible Bond offering concluded in May 2017, 6,215,744 shares will be kept in Treasury to hedge future obligations of the Convertible Bond. The remaining shares currently held in Treasury is kept for hedging of the long-term incentive programs. Until the Annual General Meeting in March 2018, the Board of Directors is authorized to acquire shares in GN of up to 10% of the company's share capital.

Shareholder return distribution
(DKK million)



Development in total outstanding shares
(Million)



Dividend policy and share buyback programs
GN's overall financial target is to deliver a competitive shareholder return through a combination of dividend payments and share price appreciation. GN aims to pay out a dividend corresponding to 15 - 25% of the annual net profit and to distribute additional excess cash to shareholders through share buyback programs.

Dividend payments and share buybacks are subject to, among other things, cash requirements to support the ongoing operations, strategic opportunities and the company's capital structure. It is GN's target to maintain a capital structure consisting of equity and debt with the net interest-bearing debt amounting to between one to two times EBITDA.

At the Annual General Meeting in 2018, the Board of Directors will propose to pay out a total dividend of DKK 182 million (equivalent to DKK 1.25 per share and 16% of the 2017 net profit) in respect of the 2017 financial year, compared to DKK 178 million in 2016 (equivalent to DKK 1.15 per share and 16% of the 2016 net profit).

Incentive programs
By the end of 2017, the total number of outstanding warrants in GN Hearing was 15,193 (2.4% of the share capital in GN Hearing equivalent to approximately 1.9% of the share capital in GN Store Nord). The total number of outstanding warrants in GN Audio was 9,232 (2.6% of the share capital in GN Audio equivalent to approximately 1.1% of the share capital in GN Store Nord).

Investor relations policy
As part of GN's investor relations activities, an active dialogue is pursued with existing and potential shareholders as well as with financial analysts. GN ensures that relevant and timely information is provided to the financial community to ensure that the GN share is fairly priced. This is accomplished through information continually announced to the market as company announcements, combined with investor meetings, conferences and presentations of the company's interim and annual results.

Following the release of interim and annual results, GN conducts roadshows where the Executive Management and the investor relations team inform investors and financial analysts about the recent developments in the company. GN is currently covered by 28 sell-side analysts who continually release analyst research reports on GN and the industry dynamics. A full list of the analysts covering GN can be found on the website www.gn.com/Investor

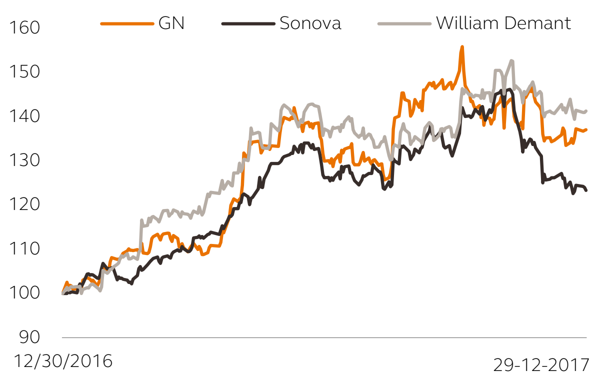
GN has a four-week silent period prior to publication of a financial report. During these silent periods, which can be found on www.gn.com/Investor, any communication with stakeholders is restricted.

GN's website – www.gn.com – contains historic and current information about GN, including company announcements, current and historic share price data, investor presentations and annual and interim reports.

In 2017, the finance magazine Institutional Investor awarded GN as the best IR team across European Medtech. The rankings are based on 1,622 investors and 971 sell-side analyst votes across 31 sectors. Among other things, the companies are evaluated on their company and business knowledge, their quality of written material as well timely responses to requests.

The investor relations team can be contacted at:
Investor@gn.com

Share price development vs peers*



* Index : 30-12-2016 = 100

Financial calendar for 2018

Event	Date
Annual General Meeting	March 13, 2018 at GN headquarters
Interim Report Q1 2018	May 2, 2018
Interim Report Q2 2018	August 22, 2018
Interim Report Q3 2018	November 15, 2018

Read company announcements on www.gn.com

Corporate governance

GN Store Nord maintains a strong focus on corporate governance through policies, processes and control systems as well as training and follow-up activities

Corporate governance refers to the way a company is managed and controlled through ownership, management structure, incentive schemes, etc. GN strives to build trusted relationships with customers, shareholders, suppliers, employees and the community. We also aim to increase transparency and active ownership, including sharing information and engaging in ongoing dialogue with all of our stakeholders.

The Board of Directors follows all recommendations on corporate governance aimed at companies listed on Nasdaq Copenhagen. On its website, GN provides a statutory report on corporate governance. This overview, as well as the risk management and internal control systems related to financial reporting described in the risk management section in this report, forms the statutory report on corporate governance that is required under Section 107b of the Danish Financial Statements Act: http://www.gn.com/-/media/Files/Document-Download-Center/Corporate-governance/Statutoryreport2017.pdf.

Board of Directors

Composition and responsibilities of the Board of Directors
GN's Board of Directors consists of six directors elected by the shareholders at the Annual General Meeting and three employee representatives elected by the employees based in Denmark. Members of the Board of Directors, elected by the shareholders at the Annual General Meeting, are elected for an annual term until GN's next Annual General Meeting. GN's 2018 Annual General Meeting will be held on March 13.

Employee representatives are elected in accordance with the Danish Companies Act for terms of four years.

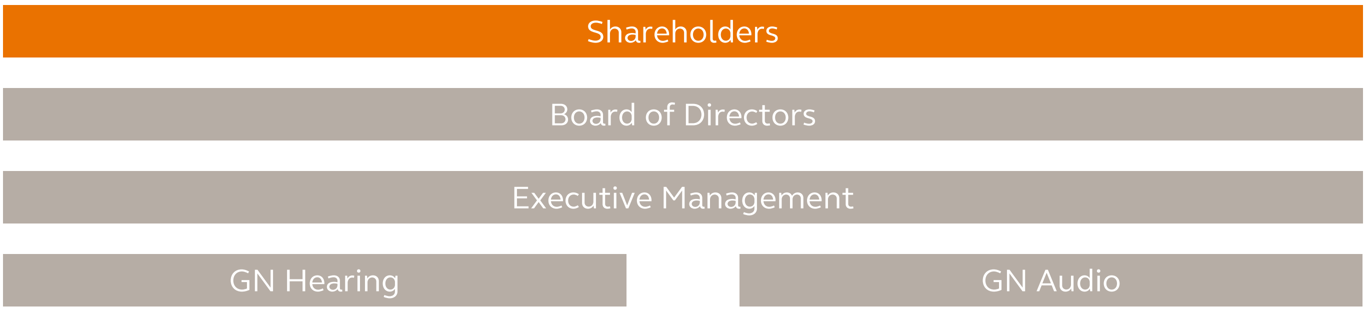
The Board of Directors is responsible for safeguarding the interests of the shareholders while at the same time considering all other stakeholders. At least once a year, the Board of Directors assesses the most important tasks based on the overall strategic direction of the company, including the financial and managerial supervision of the company. As part of the supervision, the Board of Directors evaluates the performance of the Executive Management on a continuous basis.

In 2017 the Board of Directors held 12 meetings and conference calls.

Competencies of the Board of Directors
GN's Board of Directors strives to recruit board members with a diversified range of mutually complementary competencies. When the Board of Directors proposes new board members, a CV, as well as a thorough description of the candidate's qualifications, will be available to the shareholders. GN is a

GN Store Nord's framework for corporate governance

GN's structure is built to support its two main businesses focusing on the hearing aid and headset segments. The CFO of GN Store Nord, the CEO of GN Hearing and the CEO of GN Audio constitute the Group's Executive Management. The Board members of GN Store Nord are elected at GN's Annual General Meeting.



global company and to successfully develop and maintain this position in the marketplace, GN is dependent upon global expertise and experience at the board level. The Board of Directors is a diversified group in terms of global experience, functional competencies and industry background, which ensures that it can fulfill its obligations. Board members possess expertise within medtech, innovation, product development, online marketing and commercialization, as well as thorough understanding of financial and human resource matters and in-depth knowledge of GN's business.

The composition of the Board is a mix of board members with executive positions and professional board members of both genders, as well as Danish and international profiles. This composition is deemed to provide a good balance between knowledge, competencies, experience and availability for a substantial workload.

At the end of 2017, the Board of Directors carried out its annual self-evaluation. This encompassed the achievements of the Board as well as those of the chairman and the individual Board members. The evaluation is carried out in a systematic way and is based on well-defined criteria.

The key area of continued focus for the Board of Directors' self-evaluation is the identification of necessary updates of the organizational development, the recruiting, training and education of staff in line with the company's new strategy.

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

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

Currently, women fill 19% of the company's senior management positions. This development is the result of dedicated efforts since GN's diversity policy was established in 2014, when women filled 14% of the company's senior management positions – an increase in actual numbers of 31%.

At the top leadership level – called the Global Management Teams – women leaders now constitute 14% in GN Audio (11% in 2014) and 25% in GN Hearing (0% in 2014).

GN had aimed for 25% women in senior management positions in 2017. It is still management's firm goal to reach this target during the implementation of the 2017 - 2019 strategy, and GN will continue to strengthen efforts to build a pipeline of future female candidates. For members of the Global Management Teams, it will be part of their personal bonus programs in 2018 to achieve a goal of one third of their senior leaders being women.

Furthermore, to achieve our goals, we ensure that diversity – encompassing gender, nationality, competencies, etc. – is an integral part of GN's yearly talent review and succession planning process, of talent development practices, recruitment procedures, leadership development programs and mentor programs. Accordingly, in GN's graduate program more than half are women, and in GN's mentor program 47% of the mentees are women – both constituting an over-representation of women compared to the gender distribution in the company as a whole.

Finally, the wording and visual identity in recruitment activities on social media and other channels are ongoing designed to best attract female candidates, and when external recruiters or headhunters are used, it is GN's requirement that viable female candidates are presented for any position.

Remuneration
GN pursues a policy of offering the Board of Directors and the Executive Management remuneration that is competitive with industry peers and other global companies to attract and retain competent professional leaders of the businesses and members of the Board of Directors. Remuneration of the Executive Management is based on a fixed base salary plus a target bonus of 50% of the base salary with a potential to underperform or outperform the target leading to an effective potential bonus range of 0 - 100% of the base salary. In addition, Executive Management is offered to be part of GN Store Nord's Long-Term Incentive Program. The grant range is between 50-100% with a target grant of 75% of their base salary in Black-Scholes value.

The company does not make pension contributions for members of the Executive Management, and the Executive Management has severance and change-of-control agreements in line with Danish market practice. The company has a fixed termination notice of 12 months if given by the company and six months if given by a member of the Executive Management.

Members of the Board of Directors receive fixed remuneration. They are not awarded share options, nor do they participate in other incentive programs. Board members, Executive Management and senior management are encouraged to buy and own shares in GN.

Board committees

Chairmanship
The Chairman and the Deputy Chairman form the chairmanship of the Board. The chairmanship prepares and organizes the work of the Board of Directors with a view to

ensure that the Board performs its tasks, duties and responsibilities in an efficient and responsible manner. The chairmanship also performs preparatory tasks for and advise the Board in relation to inter alia: business strategy, implementation of strategy, business development, budget and projects, and performs in-depth business reviews of selected areas.

Audit Committee
According to its charter, the Audit Committee, among other things, assists the Board of Directors in relation to the accounting and control environment, the integrity of the company's financial reports and engagements with external auditors. The Audit Committee also carries out ongoing assessments of the company's financial and business risks.

In 2017, the Committee continued to deploy GN's internal controls framework which, among other things, build on increased education and financial reporting process tracking. In addition, the committee reviewed the whistleblower reporting system, main accounting principles, tax strategy and compliance and key risks (including identified supplier risks), etc.

In 2017, the Audit Committee held five meetings.

Remuneration Committee
According to its charter, the Remuneration Committee assists the Board of Directors in matters and decisions concerning remuneration of the Executive Management and senior employees, and in ensuring that the general remuneration policies reflect an appropriate balance. Resolutions on remuneration recommended by the Remuneration Committee and adopted by the Board of Directors are in line with the guidelines for incentive pay, as approved by the Annual General Meeting and by the Board.

The 2017 remuneration policy for the Executive Management is based on the remuneration guidelines and takes into account the corporate governance recommendations of Nasdaq Copenhagen and the requirements of the Danish Companies Act. In 2017, the Remuneration Committee supervised and reviewed the remuneration policy, salary, bonus, long-term incentive process and results. It also reviewed warrant grants, talent development and succession planning process and results. Moreover, a set of new GN company values and leadership principles were revised and approved by the Board.

In 2017, the Remuneration Committee held seven meetings.

Strategy Committee
As an innovation-driven company, it is vital for GN to maintain and further enhance the technological core capabilities of the Group of today, and even more importantly of tomorrow. Investments in a number of exploratory research projects aim at discovering potential future business opportunities that are outside GN Hearing's and GN Audio's immediate areas of operation, leveraging core knowledge and competencies of GN.

In 2017, the Strategy Committee supervised a series of existing projects as well as new projects to explore technological innovations within the broader technology space.

In 2017, the Strategy Committee held nine meetings.

Nomination Committee
According to its charter, the Nomination Committee advises and makes recommendations to the Board of Directors in relation to the skills that the Board of Directors and the Executive Management must have to best perform their tasks.

In 2017, primary activities included a review of the general competencies necessary to be represented on the Board. Based on this analysis and a review of the competency profiles of the individual Board members, the committee concluded that all necessary competencies are represented in the current composition of the Board. The structure, size and diversity of the Board was also reviewed and found to meet all governance requirements as well as the requirements of GN. The committee also reviewed the latest developments in good corporate governance and performed succession planning for the Board.

In 2017, the Nomination Committee held two meetings.

Internal audit function
In accordance with its charter, the Audit Committee annually considers the need for an internal audit function. Based on the recommendations of the Audit Committee, the Board of Directors determines whether the internal control environment is adequate.

During 2017, GN's financial control department continued the strengthening of its internal procedures for controller visits, including implementation of financial reporting tracking, which further supports the financial compliance and internal control environment.

The Board of Directors' assessment, which is based on the company's size and the organization of the finance department, is that there is no need to establish an internal audit function at this time.

Compliance

Business ethics
GN's commitment to business ethics and compliance with international regulation and internal policies is anchored in our Ethics Guide, our Code of Conducts and other internal policies and guidelines. These outline the fundamental

requirements for how GN operates and describe the responsibilities and ethical standards expected of all employees and relevant business partners.

To ensure and document employees' familiarity with the Ethics Guide and key policies at all times, relevant employees electronically sign off on their compliance within specific areas and take GN's e-learning courses within anti-corruption and competition compliance on a regular basis. This is supplemented with face-to-face compliance training for selected groups of employees conducted based on needs and requests.

Whistleblower system
GN's whistleblower hotline, the GN Alertline, is available in 27 countries and 21 languages and is independently managed by a third party. The hotline can be used by employees as well as external parties to report a concern or perceived misconduct via the internet (at gnstorenord.alertline.eu) or via one of the local Alertline phone numbers. The system is an important tool to ensure that allegations of illegal or unethical conduct can be reported in a confidential and easy way. It also ensures that concerns or issues can be immediately addressed. All complaints are treated with confidentiality, and GN will not discharge, demote, suspend, threaten, harass or in any other way discriminate against an employee due to any lawful action(s) taken by the employee with respect to good faith reporting of complaints or participation in a related investigation, as outlined in our non-retaliation policy.

In 2017, GN received eight reports within the scope of issues which can be reported through the hotline. The allegations were primarily fraud against GN, business integrity, conflict of interest/corrupt practices and lack of business integrity. All relevant cases have been investigated, and appropriate remediating as well as disciplinary actions were taken where relevant

Shareholders

GN aims for transparency and active ownership toward shareholders through an open and active dialogue by ongoing communication with our shareholders at the Annual General Meeting and through investor presentations, newsletters, conference calls, the company website, webcasts, interim reports, the annual report, company announcements and media outreach activities.

GN services national, as well as international investors, and ensures a continuous dialogue with shareholders, whether existing or potential, as well as equity analysts. On the company's website, www.gn.com, detailed material on the interests of the shareholders can be found. GN's shares are 100% free float, and shareholders have the ultimate authority over the company and exercise their right to make decisions at the Annual General Meeting where they also approve the annual report and elect board members and the independent auditor. For more information, please see the shareholder section on pages 37-38.

Notices for the Annual General Meeting
GN sends notices to convene Annual General Meetings by email. Thus, we encourage all registered shareholders to sign up at the investor portal with their email addresses and check the box labeled "subscribe/unsubscribe" in the field "Notice for the Annual General Meeting". Shareholders will then receive the notice by email in the future.

Board of Directors




	Per Wold-Olsen (Chairman)	**William E. Hoover, Jr.** (Deputy Chairman)	**Wolfgang Reim**	**Carsten Krogsgaard Thomsen**
	MBA. Formerly president with Merck & Co., Inc., Inter-continental Division, USA. Chairman since 2008.	MBA. Formerly with McKinsey & Company for 30 years. Deputy chairman since 2008.	Ph.D. in physics. Professional board member and self-employed consultant within the medical industry.	M.Sc. (Economics). CFO, NNIT A/S.
Board positions	Chairman of the Boards of GN Audio A/S and GN Hearing A/S. Chairman of the Board of Medicines for Malaria Venture and member of the Boards of Gilead Sciences Inc. and Novo A/S.	Chairman of the Boards of ReD Associates and the GN Store Nord Foundation. Deputy chairman of the Boards of GN Audio A/S and GN Hearing A/S. Member of the Boards of Danfoss A/S, Lego Foundation and Neopost SA.	Chairman of the boards of D.O.R.C. B.V. and Ondal Medical Systems GmbH. Member of the boards of Elekta AB, GN Audio A/S, GN Hearing A/S and Dermalumics S.L.	Member of the Boards of GN Audio A/S, GN Hearing A/S and SKAKO A/S.
Special competencies	Extensive global leadership expertise and knowledge of the healthcare industry. Brings a unique set of capa-bilities and values to the Board of GN Store Nord within marketing and product development as well as com-mercialization of innovation. Also possesses in-depth knowledge of the U.S. market as well as emerging markets.	In-depth knowledge from working with the largest in-dustrial and high-tech com-panies in the Nordic region within strategy, organization and M&A. Experienced with supply chain/operations and has practical experience in helping Nordic multinationals rapidly scale up in emerging markets, especially in China and India.	Global leadership experience from the healthcare industry and special knowledge in the areas of business process reengineering, innovation management, global sourcing and supply chain management. Contributes to the Board with extensive M&A understanding.	Extensive expertise within finance, accounting, auditing, risk management, IT, M&A, post-merger integration and initial public offerings (IPO), as well as bond and hybrid capital financing from executive positions in both the public and private sectors.
Board member since	2008	2007	2008	2008
Term	2017/2018	2017/2018	2017/2018	2017/2018
Considered independent	Yes	Yes	Yes	Yes
Nationality	Norwegian	American	German	Danish
Year of birth	1947	1949	1956	1957
No. of GN shares	224,884	156,500	51,000	18,387
Total remuneration 2017 (DKK)	1,850,000	1,225,000	900,000	750,000
Chairmanship	●	●		
Audit Committee			●	C
Nomination Committee	C	●		
Remuneration Committee	C	●		
Strategy Committee	●	●	C	
GN Hearing A/S Board	C	DC	●	●
GN Audio A/S Board	C	DC	●	●

Employee elected members

				
Hélène Barnekow	**Ronica Wang**	**Leo Larsen**	**Morten Andersen**	**Nikolai Bisgaard**
M.Sc. (International Business). CEO, Telia Sweden.	MBA (Business Administration), B.A.Sc. (Industrial Engineering). Co-founder & Global Managing Director, The InnoGrowth Group Ltd.	M.Sc. (Electrical Engineering) and a diploma in business administration and international trade. Senior Director, Audio Research, GN Audio.	B.Sc. (Mechanical Engineering). VP, Component Manufacturing in Operations, GN Hearing.	M.Sc. (Electrical Engineering). VP, External Relations, GN Hearing.
Member of the Boards of GN Audio A/S and GN Hearing A/S.	Member of the Boards of GN Audio A/S and GN Hearing A/S. Member of the Boards of Pandora A/S and Hotelbeds Group.			
Unique capabilities within general commercial management and marketing, including go-to-market, branding, communications, product management and channel management from the mobile communications and IT sector.	In-depth experience in building global brands, business transformation, distribution and sales channel management, digital strategy and ecommerce platforms in B2C and professional B2B2C industries especially in Asia region and in the FMCG, consumer health, electronics, affordable luxury, and retail sectors .			
2013	2015	2007	2011	2006
2017/2018	2017/2018	2014/2018	2014/2018	2014/2018
Yes	Yes			
Swedish	Hong Kong	Danish	Danish	Danish
1964	1962	1959	1963	1951
8,900	4,850	1,137	1,230	570
600,000	600,000	250,000	250,000	250,000
	●			
●				
●	●			
●	●			

Please visit www.gn.com for more elaborate descriptions of the board members' competencies and management duties.

- C Chairman
- DC Deputy chairman
- ● Board member

Executive Management

	Anders Hedegaard President & CEO, GN Store Nord & GN Hearing	**Marcus Desimoni** CFO, GN Store Nord & GN Hearing	**René Svendsen-Tune** President & CEO, GN Store Nord & GN Audio
Member of the Executive Management since	2014	2016	2015
Year of birth	1960	1968	1955
No. of GN shares	12,190	5,000	73,000
Board positions	Member of the Board of Orphazyme A/S.	-	Deputy Chairman of the Board of NKT Holding A/S. Member of the Board of Nil-fisk Danmark A/S.

Additional financial information 2017

Additional financial information

Q4 financial highlights

GN Hearing

Revenue
In Q4 2017, GN Hearing delivered 8% revenue growth. Organic growth was 11%. The foreign exchange development contributed negatively with around 4% and M&A contribution was around 1%. The revenue in Q4 2017 reached DKK 1,497 million, compared to DKK 1,389 million in Q4 2016.

The organic growth in Q4 2017 reflects the strong momentum generated by ReSound LiNX 3D across regions and channels. Geographically, North America was a significant growth driver primarily driven by strong performance in the US commercial market, but also important market share gains in Veterans Affairs driven by ReSound LiNX 3D. Rest of World continued to perform strongly, yet again with strong double digit growth in several important markets including China and Distributor Sales. In Europe, GN Hearing continued to gain market share in several important markets, including Spain and the Benelux region.

Earnings and other financial highlights
GN Hearing's gross profit increased by 8% to DKK 1,074 million in Q4 2017. The gross margin reached 71.7%, versus 71.6% in Q4 2016, primarily explained by the strong business execution and launch momentum, but to some degree off set by country mix exemplified by the strong revenue growth in China.

EBITA in Q4 2017 for GN Hearing was DKK 396 million. versus DKK 361 million in Q4 2016. The reported EBITA margin in Q4 2017 reached 26.5%, versus 26.0% in Q4 2016. The strong earnings growth is driven by the positive revenue development and solid control of cost development.

In Q4 2017, free cash flow excl. M&A reached DKK 260 million equal to a cash conversion of 66% compared to free cash flow excl. M&A of DKK 107 million (30% cash conversion) in Q4 2016.

GN Audio

Revenue
In Q4 2017, GN Audio delivered 6% revenue growth. Organic growth was 12%. The foreign exchange development contributed negatively with around 6% and M&A contribution was negligible. The revenue in Q4 2017 was DKK 1,180 million compared to DKK 1,118 million in Q4 2016.

In Q4 2017, GN Audio's CC&O business continued to deliver double digit organic growth and market share gains across regions and channels. The market-leading organic growth reflects GN Audio's ability to seize current market opportunities with its world-leading product portfolio, reallocate resources and execute on its Commercial Excellence initiatives.

Earnings and other financial highlights
In Q4 2017, GN Audio's gross profit increased by 7% to DKK 640 million. This translated into a gross margin of 54.2%, which was around 1 percentage point higher than Q4 2016. A favorable divisional mix drove the solid development as CC&O continued the solid growth.

In Q4 2017, GN Audio's EBITA reached DKK 271 million equivalent to an EBITA margin of 23.0%. This is an increase of 0.4 percentage points versus Q4 2016. The margin improvement reflects the gross margin improvement.

GN Audio's free cash flow excl. M&A was DKK 108 million in Q4 2017, compared to DKK 206 million in Q4 2016. The cash conversion in Q4 2017 ended at 40%, versus 81% in Q4 2016.

Quarterly financial highlights

DKK million	Q4 2017 (unaud.)	Q4 2016 (unaud.)	Full year 2017	Full year 2016
GN Hearing (excl. GN Otometrics)				
Continuing operations				
Revenue	1,497	1,389	5,615	5,156
Revenue growth	8%	10%	9%	14%
Organic growth	11%	1%	6%	6%
Gross profit margin	71.7%	71.6%	69.4%	69.0%
EBITA*	396	361	1,153	1,062
EBITA margin	26.5%	26.0%	20.5%	20.6%
ROIC (EBITA/Average invested capital)	17%	17%	17%	17%
Free cash flow excl. company acquisitions and divestments	260	107	866	704
Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA)	66%	30%	75%	66%
GN Audio				
Revenue	1,180	1,118	3,970	3,495
Revenue growth	6%	11%	14%	8%
Organic growth	12%	6%	10%	7%
Gross profit margin	54.2%	53.3%	53.2%	52.7%
EBITA*	271	253	721	597
EBITA margin	23.0%	22.6%	18.2%	17.1%
ROIC (EBITA/Average invested capital)	46%	41%	46%	41%
Free cash flow excl. company acquisitions and divestments	108	206	481	523
Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA)	40%	81%	67%	88%
GN Store Nord				
Continuing operations				
Revenue	2,677	2,507	9,585	8,651
Revenue growth	7%	10%	11%	12%
Organic growth	11%	3%	8%	6%
Gross profit margin	64.0%	63.4%	62.7%	62.4%
EBITA*	632	593	1,744	1,583
EBITA margin	23.6%	23.7%	18.2%	18.3%
Profit (loss) before tax	539	545	1,504	1,395
Effective tax rate	31.0%	20.6%	25.4%	22.2%
ROIC (EBITA/Average invested capital)	20%	20%	20%	20%
Earnings per share (EPS) from continuing operations	2.71	2.99	8.07	7.34
Earnings per share from continuing operations, fully diluted (EPS diluted)	2.69	2.98	8.02	7.32
Free cash flow excl. company acquisitions and divestments	291	363	1,134	1,179
Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA)	46%	61%	65%	74%
Equity ratio	40.8%	43.8%	40.8%	43.8%
Net interest-bearing debt	3,035	3,377	3,035	3,377
Net interest-bearing debt (period-end)/EBITDA	1.6	1.9	1.6	1.9
Payout ratio	0%	0%	16%	16%
Share buybacks**	254	493	1,372	1,272
Outstanding shares, end of period (thousand)	136,443	143,471	136,443	143,471
Average number of outstanding shares, fully diluted (thousand)	138,223	145,385	139,968	148,361
Share price at the end of the period	201	146	201	146
Market capitalization	27,357	20,990	27,357	20,990

ROIC and NIBD/EBITDA are calculated based on reported EBITA and EBITDA for the latest four quarters

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

** Incl. buybacks as part of share based incentive programs

Quarterly reporting by segment

DKK million	Q1 2016 (unaud.)	Q2 2016 (unaud.)	Q3 2016 (unaud.)	Q4 2016 (unaud.)	Q1 2017 (unaud.)	Q2 2017 (unaud.)	Q3 2017 (unaud.)	Q4 2017 (unaud.)	2016 Total	2017 Total
Income statement										
Revenue										
GN Hearing	1,218	1,265	1,284	1,389	1,376	1,415	1,327	1,497	5,156	5,615
GN Audio	720	824	833	1,118	857	978	955	1,180	3,495	3,970
Total	**1,938**	**2,089**	**2,117**	**2,507**	**2,233**	**2,393**	**2,282**	**2,677**	**8,651**	**9,585**
Organic growth										
GN Hearing	11%	10%	5%	1%	4%	5%	6%	11%	6%	6%
GN Audio	4%	9%	9%	6%	8%	12%	9%	12%	7%	10%
Total	**8%**	**9%**	**6%**	**3%**	**5%**	**7%**	**7%**	**11%**	**6%**	**8%**
Gross profit										
GN Hearing	818	840	906	994	938	975	908	1,074	3,558	3,895
GN Audio	371	435	441	596	441	519	513	640	1,843	2,113
Total	**1,189**	**1,275**	**1,347**	**1,590**	**1,379**	**1,494**	**1,421**	**1,714**	**5,401**	**6,008**
Gross profit margin										
GN Hearing	67.2%	66.4%	70.6%	71.6%	68.2%	68.9%	68.4%	71.7%	69.0%	69.4%
GN Audio	51.5%	52.8%	52.9%	53.3%	51.5%	53.1%	53.7%	54.2%	52.7%	53.2%
Total	**61.4%**	**61.0%**	**63.6%**	**63.4%**	**61.8%**	**62.4%**	**62.3%**	**64.0%**	**62.4%**	**62.7%**
Expensed development costs										
GN Hearing	(116)	(118)	(117)	(103)	(103)	(107)	(104)	(99)	(454)	(413)
GN Audio	(50)	(68)	(55)	(44)	(64)	(59)	(61)	(57)	(217)	(241)
Other *	(3)	-	(1)	(2)	(8)	(17)	(14)	(17)	(6)	(56)
Total	**(169)**	**(186)**	**(173)**	**(149)**	**(175)**	**(183)**	**(179)**	**(173)**	**(677)**	**(710)**
Selling and distribution costs and administrative expenses etc.										
GN Hearing	(477)	(483)	(552)	(530)	(590)	(613)	(547)	(579)	(2,042)	(2,329)
GN Audio	(231)	(252)	(247)	(299)	(274)	(292)	(273)	(312)	(1,029)	(1,151)
Other *	(15)	(18)	(18)	(19)	(20)	(20)	(16)	(18)	(70)	(74)
Total	**(723)**	**(753)**	**(817)**	**(848)**	**(884)**	**(925)**	**(836)**	**(909)**	**(3,141)**	**(3,554)**
EBITA										
GN Hearing	225	239	237	361	245	255	257	396	1,062	1,153
GN Audio	90	115	139	253	103	168	179	271	597	721
Other *	(18)	(18)	(19)	(21)	(28)	(37)	(30)	(35)	(76)	(130)
Total	**297**	**336**	**357**	**593**	**320**	**386**	**406**	**632**	**1,583**	**1,744**
EBITA margin										
GN Hearing	18.5%	18.9%	18.5%	26.0%	17.8%	18.0%	19.4%	26.5%	20.6%	20.5%
GN Audio	12.5%	14.0%	16.7%	22.6%	12.0%	17.2%	18.7%	23.0%	17.1%	18.2%
Total	**15.3%**	**16.1%**	**16.9%**	**23.7%**	**14.3%**	**16.1%**	**17.8%**	**23.6%**	**18.3%**	**18.2%**
Depreciation and software amortization										
GN Hearing	(25)	(26)	(29)	(29)	(28)	(28)	(28)	(28)	(109)	(112)
GN Audio	(9)	(9)	(10)	(9)	(9)	(9)	(9)	(8)	(37)	(35)
Other *	(8)	(8)	(7)	(8)	(7)	(8)	(9)	(10)	(31)	(34)
Total	**(42)**	**(43)**	**(46)**	**(46)**	**(44)**	**(45)**	**(46)**	**(46)**	**(177)**	**(181)**
EBITDA										
GN Hearing	250	265	266	390	273	283	285	424	1,171	1,265
GN Audio	99	124	149	262	112	177	188	279	634	756
Other *	(10)	(10)	(12)	(13)	(21)	(29)	(21)	(25)	(45)	(96)
Total	**339**	**379**	**403**	**639**	**364**	**431**	**452**	**678**	**1,760**	**1,925**
EBITA	**297**	**336**	**357**	**593**	**320**	**386**	**406**	**632**	**1,583**	**1,744**
Amortization of acquired intangible assets	(22)	(25)	(30)	(32)	(35)	(40)	(34)	(39)	(109)	(148)
Gain (loss) on divestment of operations etc.	(1)	(1)	-	(27)	1	-	(1)	(38)	(29)	(38)
Operating profit (loss)	**274**	**310**	**327**	**534**	**286**	**346**	**371**	**555**	**1,445**	**1,558**
Share of profit (loss) in associates	-	-	-	2	-	-	6	-	2	6
Financial items, net	(5)	(7)	(49)	9	(31)	-	(13)	(16)	(52)	(60)
Profit (loss) before tax	**269**	**303**	**278**	**545**	**255**	**346**	**364**	**539**	**1,395**	**1,504**
Tax on profit (loss)	(66)	(75)	(56)	(112)	(56)	(78)	(81)	(167)	(309)	(382)
Profit (loss)	**203**	**228**	**222**	**433**	**199**	**268**	**283**	**372**	**1,086**	**1,122**
Balance sheet Development projects										
GN Hearing	754	759	769	798	816	833	834	859	798	859
GN Audio	233	238	251	267	273	274	279	300	267	300
Total	**987**	**997**	**1,020**	**1,065**	**1,089**	**1,107**	**1,113**	**1,159**	**1,065**	**1,159**
Inventories										
GN Hearing	378	396	435	425	412	394	392	382	425	382
GN Audio	224	237	260	290	291	314	384	329	290	329
Total	**602**	**633**	**695**	**715**	**703**	**708**	**776**	**711**	**715**	**711**
Trade receivables										
GN Hearing	1,219	1,207	1,142	1,177	1,176	1,138	1,063	1,121	1,177	1,121
GN Audio	690	758	814	1,005	781	906	881	990	1,005	990
Other *	1	-	-	1	-	-	1	-	1	-
Total	**1,910**	**1,965**	**1,956**	**2,183**	**1,957**	**2,044**	**1,945**	**2,111**	**2,183**	**2,111**
Net working capital										
GN Hearing	943	834	739	726	841	793	704	671	726	671
GN Audio	485	463	454	500	465	496	514	469	500	469
Other *	(93)	(68)	(84)	(88)	(113)	(117)	(78)	(55)	(88)	(55)
Total	**1,335**	**1,229**	**1,109**	**1,138**	**1,193**	**1,172**	**1,140**	**1,085**	**1,138**	**1,085**
Free cash flow excl. company acquisitions and divestments										
GN Hearing	47	279	271	107	86	267	253	260	704	866
GN Audio	29	160	128	206	78	131	164	108	523	481
Other *	(49)	(25)	(24)	50	(22)	(53)	(61)	(77)	(48)	(213)
Total	**27**	**414**	**375**	**363**	**142**	**345**	**356**	**291**	**1,179**	**1,134**
Acquisitions and divestments of companies	**(33)**	**(54)**	**(606)**	**(187)**	**683**	**(11)**	**(5)**	**(9)**	**(880)**	**658**
Free cash flow	**(6)**	**360**	**(231)**	**176**	**825**	**334**	**351**	**282**	**299**	**1,792**

* "Other" comprises Group Functions, GN Ejendomme and eliminations. All numbers excluding Otometrics

Q4 segment disclosures

Income statements

(DKK million)	GN Hearing Q4 2017 (unaud.)	GN Hearing Q4 2016 (unaud.)	GN Audio Q4 2017 (unaud.)	GN Audio Q4 2016 (unaud.)	Other** Q4 2017 (unaud.)	Other** Q4 2016 (unaud.)	Consolidated total Q4 2017 (unaud.)	Consolidated total Q4 2016 (unaud.)
Continuing operations								
Revenue	1,497	1,389	1,180	1,118	-	-	2,677	2,507
Production costs	(423)	(395)	(540)	(522)	-	-	(963)	(917)
Gross profit	**1,074**	**994**	**640**	**596**	**-**	**-**	**1,714**	**1,590**
Expensed development costs	(99)	(103)	(57)	(44)	(17)	(2)	(173)	(149)
Selling and distribution costs	(479)	(476)	(273)	(239)	-	-	(752)	(715)
Management and administrative expenses	(102)	(54)	(33)	(56)	(18)	(19)	(153)	(129)
Other operating income and costs, net	2	-	(6)	(4)	-	-	(4)	(4)
EBITA*	**396**	**361**	**271**	**253**	**(35)**	**(21)**	**632**	**593**
Amortization of acquired intangible assets	(35)	(29)	(4)	(3)	-	-	(39)	(32)
Gain (loss) on divestment of operations etc.	-	(27)	(38)	-	-	-	(38)	(27)
Operating profit (loss)	**361**	**305**	**229**	**250**	**(35)**	**(21)**	**555**	**534**
Share of profit(loss) in associates	-	2	-	-	-	-	-	2
Financial items	(3)	22	(4)	(7)	(9)	(6)	(16)	9
Profit (loss) before tax	**358**	**329**	**225**	**243**	**(44)**	**(27)**	**539**	**545**
Tax on profit (loss)	(76)	(76)	(108)	(47)	17	11	(167)	(112)
Profit (loss) for the period from continuing operations	**282**	**253**	**117**	**196**	**(27)**	**(16)**	**372**	**433**
Discontinued operations								
Profit (loss) for the period from discontinued operations	(8)	(59)	-	-	-	-	(8)	(59)
Profit (loss) for the period	**274**	**194**	**117**	**196**	**(27)**	**(16)**	**364**	**374**

Cash flow statement

(DKK million)	GN Hearing Q4 2017 (unaud.)	GN Hearing Q4 2016 (unaud.)	GN Audio Q4 2017 (unaud.)	GN Audio Q4 2016 (unaud.)	Other** Q4 2017 (unaud.)	Other** Q4 2016 (unaud.)	Consolidated total Q4 2017 (unaud.)	Consolidated total Q4 2016 (unaud.)
Operating activities before changes in working capital	**507**	**387**	**253**	**269**	**(25)**	**(13)**	**735**	**643**
Cash flow from changes in working capital	1	(22)	39	19	(27)	22	13	19
Cash flow from operating activities excluding financial items and tax	**508**	**365**	**292**	**288**	**(52)**	**9**	**748**	**662**
Cash flow from investing activities:								
Development projects	(75)	(83)	(45)	(34)	-	-	(120)	(117)
Other	(94)	(120)	(14)	(186)	(33)	10	(141)	(296)
Cash flow from operating and investing activities before financial items and tax	**339**	**162**	**233**	**68**	**(85)**	**19**	**487**	**249**
Tax and financial items	(88)	(76)	(125)	(45)	8	31	(205)	(90)
Cash flow from operating and investing activities (free cash flow)	**251**	**86**	**108**	**23**	**(77)**	**50**	**282**	**159**
Free cash flow excl. company acquisitions and divestments	**260**	**90**	**108**	**206**	**(77)**	**50**	**291**	**346**

2016 figures incl. GN Otometrics

Additional information

(DKK million)	GN Hearing Q4 2017 (unaud.)	GN Hearing Q4 2016 (unaud.)	GN Audio Q4 2017 (unaud.)	GN Audio Q4 2016 (unaud.)	Other** Q4 2017 (unaud.)	Other** Q4 2016 (unaud.)	Consolidated total Q4 2017 (unaud.)	Consolidated total Q4 2016 (unaud.)
Revenue distributed geographically								
Europe	24%	28%	46%	46%	0%	0%	34%	36%
North America	55%	52%	40%	40%	0%	0%	48%	46%
Rest of World	21%	20%	14%	14%	0%	0%	18%	18%
Incurred development costs	(122)	(137)	(76)	(56)	(17)	(2)	(215)	(195)
Capitalized development costs	75	83	45	34	-	-	120	117
Amortization and depreciation of development costs***	(52)	(49)	(26)	(22)	-	-	(78)	(71)
Expensed development costs	**(99)**	**(103)**	**(57)**	**(44)**	**(17)**	**(2)**	**(173)**	**(149)**
EBITDA	424	390	279	262	(25)	(13)	678	639
Depreciation and software amortization	(28)	(29)	(8)	(9)	(10)	(8)	(46)	(46)
EBITA*	**396**	**361**	**271**	**253**	**(35)**	**(21)**	**632**	**593**
EBITA margin*	26.5%	26.0%	23.0%	22.6%	N/A	N/A	23.6%	23.7%
Number of employees, end of period	~4.350	~4.275	~1.075	~1.050	~150	~75	~5.575	~5.400

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

** "Other" comprises Group Functions, GN Ejendomme and eliminations

*** Does not include amortization of acquired intangible assets, cf. the definition of EBITA

2016 figures excluding GN Otometrics

Financial statements 2017 Content

Consolidated income statement

DKK million	Note	2017	2016
Continuing operations			
Revenue	2.2	9,585	8,651
Production costs	2.3, 3.3, 3.5	(3,577)	(3,250)
Gross profit		**6,008**	**5,401**
Development costs	2.3, 3.3	(710)	(677)
Selling and distribution costs	2.3, 3.3	(2,913)	(2,564)
Management and administrative expenses	2.3, 3.3, 5.10	(635)	(579)
Other operating income and costs, net		(6)	2
EBITA*)		**1,744**	**1,583**
Amortization of acquired intangible assets	2.5, 3.3	(148)	(109)
Gain (loss) on divestment of operations etc.	5.1	(38)	(29)
Operating profit (loss)		**1,558**	**1,445**
Share of profit (loss) in associates	5.7	6	2
Financial income	4.4	159	184
Financial expenses	4.4	(219)	(236)
Profit (loss) before tax		**1,504**	**1,395**
Tax on profit (loss)	2.4	(382)	(309)
Profit (loss) for the year from continuing operations		**1,122**	**1,086**
Discontinued operations			
Profit (loss) for the year from discontinued operations	5.2	61	(53)
Profit (loss) for the year		**1,183**	**1,033**
Earnings per share (EPS)	4.1		
Earnings per share (EPS)		8.51	6.98
Earnings per share, fully diluted (EPS diluted)		8.45	6.96
Earnings per share (EPS) from continuing operations			
Earnings per share (EPS) from continuing operations		8.07	7.34
Earnings per share from continuing operations, fully diluted (EPS diluted)		8.02	7.32

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

Consolidated statement of comprehensive income

DKK million	Note	2017	2016
Profit (loss) for the year		**1,183**	**1,033**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial gains (losses)		15	(5)
Tax relating to this item of other comprehensive income	2.4	(4)	1
Items that may be reclassified subsequently to profit or loss			
Adjustment of cash flow hedges	4.2	110	(42)
Foreign exchange adjustments, etc.		(802)	198
Tax relating to these items of other comprehensive income	2.4	7	(3)
Other comprehensive income for the year, net of tax		**(674)**	**149**
Total comprehensive income for the year		**509**	**1,182**

Consolidated balance sheet at December 31

DKK million	Note	2017	2016
Assets			
Intangible assets	3.1	6,244	6,521
Property, plant and equipment	3.2	486	508
Investments in associates	5.7	17	27
Deferred tax assets	2.4	344	443
Other non-current assets	3.4, 4.2	984	1,094
Total non-current assets		**8,075**	**8,593**
Inventories	3.5	711	715
Trade receivables	3.6, 4.2	2,111	2,183
Tax receivables		57	14
Other receivables	4.2	257	231
Cash and cash equivalents		526	178
Total current assets		**3,662**	**3,321**
Assets held for sale	5.2	-	921
Total assets		**11,737**	**12,835**
Equity and Liabilities			
Share capital		583	619
Other reserves		(2,871)	(2,097)
Proposed dividends for the year		182	178
Retained earnings		6,889	6,920
Total equity		**4,783**	**5,620**
Bank loans and issued bonds	4.2, 4.3	3,508	3,527
Pension obligations	5.5	45	66
Provisions	3.7	183	248
Deferred tax liabilities	2.4	440	430
Other non-current liabilities	4.2, 4.3	315	325
Total non-current liabilities		**4,491**	**4,596**
Bank loans	4.2, 4.3	53	55
Trade payables	4.2	605	642
Tax payables		84	72
Provisions	3.7	332	289
Other payables	3.8	1,389	1,350
Total current liabilities		**2,463**	**2,408**
Liabilities directly associated with assets held for sale	5.2	-	211
Total equity and liabilities		**11,737**	**12,835**

Consolidated statement of cash flow

DKK million	Note	2017	2016
Operating activities			
Operating profit (loss) from continuing operations		1,558	1,445
Operating profit (loss) from discontinued operations		-	(55)
Operating profit (loss)		1,558	1,390
Depreciation, amortization and impairment		632	666
Other non-cash adjustments	5.8	106	1
Cash flow from operating activities before changes in working capital		**2,296**	**2,057**
Change in inventories		(8)	(92)
Change in receivables		(159)	12
Change in trade payables and other payables		193	94
Total changes in working capital		**26**	**14**
Cash flow from operating activities before financial items and tax		**2,322**	**2,071**
Interest and dividends, etc., received		27	32
Interest etc. paid		(114)	(115)
Tax paid, net		(350)	(185)
Cash flow from operating activities		**1,885**	**1,803**
Investing activities			
Investments in intangible assets, excluding development projects	3.1	(181)	(127)
Development projects	3.1	(396)	(481)
Investments in property, plant and equipment	3.2	(103)	(115)
Investments in other non-current assets		(229)	(201)
Disposal of intangible assets and property, plant and equipment		1	25
Disposal/repayment of other non-current assets		157	214
Acquisition of companies/operations	5.1	(94)	(880)
Divestment of companies/operations	5.2	752	-
Cash flow from investing activities		**(93)**	**(1,565)**
Cash flow from operating and investing activities (free cash flow)		**1,792**	**238**
Financing activities			
Increase of long-term loans		-	1,228
Increase/(decrease) of short-term loans	4.3	(2)	11
Decrease of long-term loans	4.3	(1,616)	-
Net proceeds from issue of bond-with-warrant units (convertible bond)	4.3	1,560	-
Net proceeds from warrant units issued with bonds	4.3	76	-
Paid dividends		(161)	(149)
Share-based payment (exercised)		70	67
Purchase/sale of treasury shares		(1,372)	(1,272)
Other adjustments		(13)	(50)
Cash flow from financing activities		**(1,458)**	**(165)**
Net cash flow		**334**	**73**
Cash and cash equivalents, beginning of period		207	132
Adjustment foreign currency, cash and cash equivalents		(15)	2
Cash and cash equivalents, end of period	5.8	**526**	**207**

Consolidated statement of equity

-

DKK million	Share capital*	Other reserves: Foreign exchange adjustments	Other reserves: Hedging reserve	Other reserves: Treasury shares	Proposed dividends for the year	Retained earnings	Total equity
Balance sheet total at December 31, 2015	**649**	**(726)**	**(27)**	**(1,360)**	**161**	**7,067**	**5,764**
Profit (loss) for the period	-	-	-	-	-	1,033	1,033
Actuarial gains (losses)	-	-	-	-	-	(5)	(5)
Adjustment of cash flow hedges	-	-	(42)	-	-	-	(42)
Foreign exchange adjustments, etc.	-	198	-	-	-	-	198
Tax relating to other comprehensive income	-	(12)	9	-	-	1	(2)
Total comprehensive income for the year	-	186	(33)	-	-	1,029	1,182
Reduction of share capital	(30)	-	-	1,036	-	(1,006)	-
Share-based payment (granted)	-	-	-	-	-	22	22
Share-based payment (exercised)	-	-	-	99	-	(32)	67
Tax related to share-based incentive plans	-	-	-	-	-	6	6
Purchase/sale of treasury shares	-	-	-	(1,272)	-	-	(1,272)
Proposed dividends for the year*	-	-	-	-	178	(178)	-
Paid dividends	-	-	-	-	(149)	-	(149)
Dividends, treasury shares	-	-	-	-	(12)	12	-
Balance sheet total at December 31, 2016	**619**	**(540)**	**(60)**	**(1,497)**	**178**	**6,920**	**5,620**
Profit (loss) for the period	-	-	-	-	-	1,183	1,183
Actuarial gains (losses)	-	-	-	-	-	15	15
Adjustment of cash flow hedges	-	-	110	-	-	-	110
Foreign exchange adjustments, etc.	-	(802)	-	-	-	-	(802)
Tax relating to other comprehensive income	-	31	(24)	-	-	(4)	3
Total comprehensive income for the year	-	(771)	86	-	-	1,194	509
Reduction of share capital	(36)	-	-	1,193	-	(1,157)	-
Fair value of warrants issued with bonds (proceeds)	-	-	-	-	-	76	76
Share-based payment (granted)	-	-	-	-	-	22	22
Share-based payment (exercised)	-	-	-	90	-	(20)	70
Tax related to share-based incentive plans	-	-	-	-	-	19	19
Purchase/sale of treasury shares	-	-	-	(1,372)	-	-	(1,372)
Proposed dividends for the year**	-	-	-	-	182	(182)	-
Paid dividends	-	-	-	-	(161)	-	(161)
Dividends, treasury shares	-	-	-	-	(17)	17	-
Balance sheet total at December 31, 2017	**583**	**(1,311)**	**26**	**(1,586)**	**182**	**6,889**	**4,783**

* The nominal value of all shares outstanding is DKK 4.00 (2016 DKK 4.00) per share

**Equivalent to DKK 1.25 per share (2016: DKK 1.15 per share)

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 Store Nord's accounting policies. The notes are grouped in these five sections:

Section 1 Basis of preparation
Section 2 Results for the year
Section 3 Operating assets and liabilities
Section 4 Capital structure and financing items
Section 5 Other disclosures

New or revised EU endorsed accounting standards and interpretations are described in addition to how these changes are expected to impact the financial performance and reporting of the GN Store Nord Group.

1.1 General accounting policies

The annual report of GN Store Nord for 2017 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 annual report has been prepared in accordance with the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments at fair value.

Adoption of new and revised accounting standards
GN Store Nord has adopted all the relevant new and revised International Financial Reporting Standards and IFRIC Interpretations effective as of January 1, 2017. The new and revised Standards and Interpretations did not affect recognition and measurement materially nor did they result in any material changes to disclosures in the notes. Apart from these minor changes, the annual report is presented in accordance with the accounting policies applied in previous years' annual reports.

Accounting standards not yet adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, or have not yet been adopted by the EU, and have not been applied in preparing this annual report. Those, which may be relevant to GN Store Nord, are the following:

IFRS 16 Leases
IFRS 16 applies to periods beginning on or after January 1, 2019. The effects of the standard have not yet been analyzed in detail and the financial impact of the new standard will depend on the lease agreements in effect at the time of adoption. However, it is expected that EBITA will increase with the so-called implicit lease interest rate. This is due to lease payments from operating leases that will be replaced by depreciation included above EBITA and a calculated interest included in financial items. EBITDA is therefore also expected to increase with an amount equal to the operating lease payments.

Net Interest Bearing Debt is expected to increase with the present value of recognized lease liabilities. Invested capital is expected to increase with the value of the lease assets measured initially as the present value of the recognized leasing liabilities. Return on invested capital is expected to be affected slightly negative as the return on the leased assets to be included in invested capital, in the form of an increase in EBITA with the implicit lease interest rate, are expected to be lower than GN Store Nord's ROIC. The ratio NIBD/EBITDA is expected to increase slightly as NIBD is expected to increase more than EBITDA compared to the current ratio between NIBD and EBITDA.

Free cash flow is expected to increase as the major part of the lease payments will be included under financing activities instead of under operating activities.

IFRS 9 - Financial Instruments
IFRS 9 applies to annual periods beginning on or after January 1, 2018. IFRS 9 addresses the classification and measurement of financial assets and liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets. GN Store Nord has reviewed the group's financial assets and liabilities which resulted in a minor impact on recognition and measurement from implementing IFRS 9. As described below the total effect as of January 1, 2018 will be that Loans to dispensers and ownership interests will increase DKK 10 million and, due to a related effect on deferred tax, equity will increase DKK 7 million. GN Store Nord's use of hedge accounting will not be affected by implementing IFRS 9 and neither will the ac-

counting for financial liabilities. The disclosures regarding classification of certain financial assets will change as financial assets will be classified as measured at either cost or fair value.

Ownership interests in unlisted enterprises in which GN Store Nord does not exercise significant influence, and derivative financial instruments related to such, are currently measured at cost. After the implementation of IFRS 9, ownership interests will be measured at fair value. It will be decided upon initial recognition on an instrument-by-instrument basis whether the ownership interests will be measured at fair value through profit or loss or at fair value through other comprehensive income. Derivative financial instruments on ownership interests will be measured at fair value through profit or loss. Going forward the income statement will be affected by changes in the fair value of the derivative financial instruments and by changes in the fair value of selected ownership interests. As of January 1, 2018 the value of ownership interests and derivative financial instruments related to such will increase by DKK 22 million. Dispenser loans and trade receivables will continue to be measured at amortized cost.

When measuring loss allowances, GN Store Nord will apply the simplified approach on trade receivables and record lifetime expected credit losses on all trade receivables. GN Store Nord will measure loss allowances on dispenser loans equal to 12-month expected credit losses, if the credit risk has not increased significantly since initial recognition. If the credit risk has increased significantly, the loss allowance will be measured at an amount equal to lifetime expected credit losses. As of January 1, 2018 the loss allowances on Loans to dispensers will increase DKK 12 million. IFRS 7 will require additional disclosures in the Annual Report 2018.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 applies to annual periods beginning on or after January 1, 2018. IFRS 15 introduces a five-step model for recognizing revenue from contracts with customers. During 2017, GN Store Nord has performed an analysis of contracts with customers and concluded, that revenue recognition will not be impacted significantly from implementing IFRS 15. GN Store Nord currently recognizes revenue when the risk and rewards of ownership of the products are transferred to the customer. After the implementation of IFRS 15 revenue will be recognized when control of the products has been transferred to the customer. Based on the analysis of contracts with customers this will not change the timing of revenue recognition.

According to current practice the value of extended warranties are recognized over the extended warranty period. After the implementation of IFRS 15 the transaction price in a sales transaction will be allocated to the promised goods and services based on stand-alone selling prices and revenue will be recognized when (or as) GN Store Nord satisfies the performance obligations. This will not affect the revenue recognition of extended warranties. When goods are sold with a right of return, a refund liability (contract liability) and a right to the returned products (contract asset) will be recognized as a provision and a current asset, respectively. As this is in line with current practice, it will not result in any changes to the balance sheet.

The new standard will require additional disclosures regarding revenue recognition in the Annual Report and i.e. opening and closing balances of contract liabilities, as well as revenue recognized during the year from changes in contract liabilities, are expected to be disclosed in a new note. GN Store Nord's current disaggregation of revenue in segments and geography will not change due to the implementation of IFRS 15.

GN Store Nord will adopt the mentioned standards and interpretations as of the effective dates.

Consolidated Financial Statements

The consolidated financial statements relate to the parent company, GN Store Nord, and the enterprises in which GN Store Nord directly or indirectly holds more than 50% of the voting rights or where it, in some other way, has the power to govern the financial and operating policies of an enterprise. GN Store Nord and its subsidiaries are referred to as the Group. Group companies are listed on page 99. Enterprises that are not subsidiaries, but where GN Store Nord holds between 20% and 50% of the voting rights and over which it exercises significant influence, but where it does not have power to govern the financial and operating policies, are considered associates. When assessing whether GN Store Nord exercises control or significant influence, potential voting rights that are substantive and options on acquisition of additional ownership interests are taken into account.

The consolidated financial statements are prepared as a consolidation of the financial statements of the parent company and those of the individual subsidiaries, all of which are presented in accordance with the Group's accounting policies. Intra-group income and expenses, shareholdings, intra-group balances and dividends, and realized and unrealized gains and losses on intra-group transactions are eliminated. On consolidation, the carrying amount of shares held by the parent company in subsidiaries is set off against the subsidiaries' equity.

Foreign Currency Translation

Functional Currency and Presentation Currency

Financial statement items for each of the reporting enterprises in the Group are measured using the currency used in the primary financial environment in which the reporting enterprise operates. Transactions denominated in other currencies than the functional currency are considered transactions denominated in foreign currencies. The consolidated financial statements are presented in Danish kroner (DKK), which is the functional currency and presentation currency of the parent company.

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.

Translation of Subsidiaries
On recognition in the consolidated financial statements of foreign entities with another functional currency than GN Store Nord's presentation currency, the income statements are translated at the exchange rates at the transaction date, and the balance sheet items are translated at the exchange rates at the balance sheet date. An average exchange rate for the month is used as the exchange rate at the transaction date to the extent that this does not significantly distort the presentation of the underlying transactions. Foreign exchange differences arising on translation of the opening balance of equity of such enterprises at the exchange rates at the balance sheet date and on translation of the income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date are recognized in other comprehensive income.

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

Cash Flow Statement
The cash flow statement is presented using the indirect method based on the operating profit (loss). The cash flow statement shows the cash flow from operating, investing and financing activities for the year and the year's changes in cash and cash equivalents as well as the cash and cash equivalents at the beginning and end of the year. 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, 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 amortization, depreciation and impairment, useful lives and remaining useful lives of non-current assets. Furthermore, recognition of pension obligations and similar non-current obligations, provisions, contingent assets and liabilities as well as measurement of investment in associates requires significant accounting estimates and judgments.

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

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

Estimate/Judgment	Section
Revenue recognition	2.1 Segment disclosures
Measurement of deferred tax	2.4 Tax
Recognition and measurement of goodwill and development projects	3.1 Intangible assets
Loans to dispensers and ownership interests	3.4 Other non-current assets
Measurement of inventories	3.5 Inventories
Measurement of trade receivables	3.6 Trade receivables
Measurement of provisions	3.7 Provisions
Recognition of contingent assets and liabilities	5.5 Contingent liabilities, other financial liabilities and contingent assets

1.3 Non-IFRS measures

This Annual Report includes financial measures which are not defined by IFRS. These measures are included because they are used to analyze and manage the business and to provide GN Store Nord's management and stakeholders with useful information on the group's financial position, performance and development. Please refer to Key ratio definitions for a definition of the measures.

Section 2 Results of the year

2.1 Segment disclosures

Income statement 2017

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Continuing operations					
External revenue	5,615	3,970	-	-	9,585
Internal revenue	-	-	171	(171)	-
Revenue	**5,615**	**3,970**	**171**	**(171)**	**9,585**
Production costs	(1,720)	(1,857)	-	-	(3,577)
Gross profit	**3,895**	**2,113**	**171**	**(171)**	**6,008**
Expensed development costs	(413)	(241)	(56)	-	(710)
Selling and distribution costs	(1,953)	(960)	-	-	(2,913)
Management and administrative expenses	(377)	(184)	(245)	171	(635)
Other operating income and costs, net	1	(7)	-	-	(6)
EBITA*	**1,153**	**721**	**(130)**	**-**	**1,744**
Amortization of acquired intangible assets	(132)	(16)	-	-	(148)
Gain (loss) on divestment of operations etc.	-	(38)	-	-	(38)
Operating profit (loss)	**1,021**	**667**	**(130)**	**-**	**1,558**
Share of profit (loss) in associates	6	-	-	-	6
Financial income	206	68	127	(242)	159
Financial expenses	(232)	(75)	(154)	242	(219)
Profit (loss) before tax	**1,001**	**660**	**(157)**	**-**	**1,504**
Tax on profit (loss)	(234)	(190)	42	-	(382)
Profit (loss) for the year from continuing operations	**767**	**470**	**(115)**	**-**	**1,122**
Discontinued operations					
Profit (loss) for the year from discontinued operations	61	-	-	-	61
Profit (loss) for the year	**828**	**470**	**(115)**	**-**	**1,183**
Impairment losses and reversals regarding intangible assets and property, plant and equipment recognized in the income statement	(3)	(1)	-	-	(4)

Transactions between segments are based on market terms. Eliminations in the income statement concern internal revenue, intersegment rent, management fee and interest.

Other segment disclosures 2017

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Incurred development costs	(468)	(269)	(56)	-	(793)
Capitalized development costs	264	132	-	-	396
Amortization and depreciation	(209)	(104)	-	-	(313)
Expensed development costs	**(413)**	**(241)**	**(56)**	**-**	**(710)**
EBITDA**	**1,265**	**756**	**(96)**	**-**	**1,925**
Depreciation and software amortization	(112)	(35)	(34)	-	(181)
EBITA*	**1,153**	**721**	**(130)**	**-**	**1,744**

* Excluding Gain (Loss) on divestments of operations etc. and Amortization of acquired intangible assets but including amortization of development projects and software developed in-house.

** Excluding Gain (Loss) on divestments of operations etc. but including Amortization of development projects.

2.1 Segment disclosures (Continued)

Income statement 2016

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Continuing operations					
External revenue	5,156	3,495	-	-	8,651
Internal revenue	-	-	59	(59)	-
Revenue	**5,156**	**3,495**	**59**	**(59)**	**8,651**
Production costs	(1,598)	(1,652)	-	-	(3,250)
Gross profit	**3,558**	**1,843**	**59**	**(59)**	**5,401**
Expensed development costs	(454)	(217)	(6)	-	(677)
Selling and distribution costs	(1,706)	(858)	-	-	(2,564)
Management and administrative expenses	(341)	(168)	(129)	59	(579)
Other operating income and costs, net	5	(3)	-	-	2
EBITA*	**1,062**	**597**	**(76)**	**-**	**1,583**
Amortization of acquired intangible assets	(103)	(6)	-	-	(109)
Gain (loss) on divestment of operations etc.	(29)	-	-	-	(29)
Operating profit (loss)	**930**	**591**	**(76)**	**-**	**1,445**
Share of profit (loss) in associates	2	-	-	-	2
Financial income	257	72	123	(268)	184
Financial expenses	(274)	(59)	(171)	268	(236)
Profit (loss) before tax	**915**	**604**	**(124)**	**-**	**1,395**
Tax on profit (loss)	(224)	(113)	28	-	(309)
Profit (loss) for the year from continuing operations	**691**	**491**	**(96)**	**-**	**1,086**
Discontinued operations					
Profit (loss) for the year from discontinued operations	(53)	-	-	-	(53)
Profit (loss) for the year	**638**	**491**	**(96)**	**-**	**1,033**
Impairment losses and reversals regarding intangible assets and property, plant and equipment recognized in the income statement	(27)	(1)	-	-	(28)

Transactions between segments are based on market terms. Eliminations in the income statement concern internal revenue, intersegment rent, management fee and interest.

Other segment disclosures 2016

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Incurred development costs	(503)	(254)	(6)	-	(763)
Capitalized development costs	269	126	-	-	395
Amortization and depreciation	(220)	(89)	-	-	(309)
Expensed development costs	**(454)**	**(217)**	**(6)**	**-**	**(677)**
EBITDA**	**1,171**	**634**	**(45)**	**-**	**1,760**
Depreciation and software amortization	(109)	(37)	(31)	-	(177)
EBITA*	**1,062**	**597**	**(76)**	**-**	**1,583**

* Excluding Gain (Loss) on divestments of operations etc. and Amortization of acquired intangible assets but including amortization of development projects and software developed in-house.

** Excluding Gain (Loss) on divestments of operations etc. but including Amortization of development projects.

2.1 Segment disclosures (Continued)

Balance sheet 2017

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Assets					
Goodwill	3,339	640	-	-	3,979
Development projects	859	300	-	-	1,159
Other intangible assets	797	116	193	-	1,106
Property, plant and equipment	235	78	173	-	486
Loans to dispensers and ownership interests	755	-	-	-	755
Other non-current assets	490	101	1	(2)	590
Total non-current assets	**6,475**	**1,235**	**367**	**(2)**	**8,075**
Inventories	382	329	-	-	711
Trade receivables	1,121	990	-	-	2,111
Receivables from subsidiaries*	-	578	423	(1,001)	-
Tax receivables	67	19	-	(29)	57
Other receivables	178	30	49	-	257
Cash and cash equivalents	157	104	265	-	526
Total current assets	**1,905**	**2,050**	**737**	**(1,030)**	**3,662**
Total assets	**8,380**	**3,285**	**1,104**	**(1,032)**	**11,737**
Equity and Liabilities					
Equity	**5,254**	**2,228**	**(2,699)**	**-**	**4,783**
Bank loans and issued bonds	-	-	3,508	-	3,508
Pension obligations and deferred tax	233	77	177	(2)	485
Provisions	171	12	-	-	183
Other non-current liabilities	315	-	-	-	315
Total non-current liabilities	**719**	**89**	**3,685**	**(2)**	**4,491**
Bank loans	38	4	11	-	53
Trade payables	222	350	33	-	605
Amounts owed to subsidiaries*	1,001	-	-	(1,001)	-
Tax payables	101	9	3	(29)	84
Provisions	257	75	-	-	332
Other current liabilities	788	530	71	-	1,389
Total current liabilities	**2,407**	**968**	**118**	**(1,030)**	**2,463**
Total equity and liabilities	**8,380**	**3,285**	**1,104**	**(1,032)**	**11,737**

*Net amount

Eliminations in the balance sheet concern tax and intercompany balances.

2.1 Segment disclosures (Continued)

Cash flow statement 2017

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Cash flow from operating activities before changes in working capital	**1,541**	**851**	**(96)**	**-**	**2,296**
Cash flow from changes in working capital	47	(12)	(9)	-	26
Cash flow from operating activities before financial items and tax	**1,588**	**839**	**(105)**	**-**	**2,322**
Cash flow from investing activities:					
Development projects	(264)	(132)	-	-	(396)
Other investing activities	428	(43)	(82)	-	303
Cash flow from operating and investing activities before financial items and tax	**1,752**	**664**	**(187)**	**-**	**2,229**
Tax and financial items	(228)	(183)	(26)	-	(437)
Cash flow from operating and investing activities (free cash flow)	**1,524**	**481**	**(213)**	**-**	**1,792**

Revenues are in all material respects related to sale of goods; hearing aid instruments, DKK 5,615 million (2016 DKK 5,156 million) and headsets and other audio solutions, DKK 3,970 million (2016 DKK 3,495 million)

2.1 Segment disclosures (Continued)

Balance sheet 2016

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Assets					
Goodwill	3,661	711	-	-	4,372
Development projects	798	267	-	-	1,065
Other intangible assets	854	149	81	-	1,084
Property, plant and equipment	262	71	175	-	508
Loans to dispensers and ownership interests	865	-	-	-	865
Other non-current assets	567	209	-	(77)	699
Total non-current assets	**7,007**	**1,407**	**256**	**(77)**	**8,593**
Inventories	425	290	-	-	715
Trade receivables	1,177	1,005	1	-	2,183
Receivables from subsidiaries*	-	2,229	-	(2,229)	-
Tax receivables	49	8	-	(43)	14
Other receivables	171	51	9	-	231
Cash and cash equivalents	114	64	-	-	178
Total current assets	**1,936**	**3,647**	**10**	**(2,272)**	**3,321**
Assets held for sale	921	-	-	-	921
Total assets	**9,864**	**5,054**	**266**	**(2,349)**	**12,835**
Equity and Liabilities					
Equity	**6,802**	**3,961**	**(5,143)**	**-**	**5,620**
Bank loans	-	-	3,527	-	3,527
Pension obligations and deferred tax	293	101	179	(77)	496
Provisions	238	9	1	-	248
Other non-current liabilities	325	-	-	-	325
Total non-current liabilities	**856**	**110**	**3,707**	**(77)**	**4,596**
Bank loans	-	8	47	-	55
Trade payables	245	380	17	-	642
Amounts owed to subsidiaries*	681	-	1,548	(2,229)	-
Tax payables	43	63	9	(43)	72
Provisions	222	67	-	-	289
Other current liabilities	804	465	81	-	1,350
Total current liabilities	**1,995**	**983**	**1,702**	**(2,272)**	**2,408**
Liabilities directly associated with assets held for sale	211	-	-	-	211
Total equity and liabilities	**9,864**	**5,054**	**266**	**(2,349)**	**12,835**

*Net amount

Eliminations in the balance sheet concern tax and intercompany balances.

2.1 Segment disclosures (Continued)

Cash flow statement 2016

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Cash flow from operating activities before changes in working capital	**1,397**	**712**	**(52)**	**-**	**2,057**
Cash flow from changes in working capital	(32)	36	10	-	14
Cash flow from operating activities before financial items and tax	**1,365**	**748**	**(42)**	**-**	**2,071**
Cash flow from investing activities:					
Development projects	(355)	(126)	-	-	(481)
Other investing activities	(878)	(207)	1	-	(1,084)
Cash flow from operating and investing activities before financial items and tax	**132**	**415**	**(41)**	**-**	**506**
Tax and financial items	(186)	(75)	(7)	-	(268)
Cash flow from operating and investing activities (free cash flow)	**(54)**	**340**	**(48)**	**-**	**238**

§ Accounting policies

Segment Information

GN Store Nord's management has identified GN Hearing and GN Audio as the reportable segments in the Group. GN Hearing is operating within the hearing instrument industry, primarily producing and selling hearing instruments and products related hereto. GN Audio a leading supplier of headsets and speakerphone solutions for professional use, and consumer headsets and earbuds for calls, music and media consumption.

Segment information is based on the Group's Accounting Policies. In the Group, segment performance is evaluated on the basis of EBITA as defined under key ratio definitions. Segment revenue and expense and segment assets and liabilities comprise items directly attributable to a segment and items that can be allocated to a segment on a reasonable basis.

Other GN primarily reflects cost from Group Functions, including new business opportunities and research projects under the supervision of the GN Store Nord Strategy Committee, which are outside the reportable segments in the Group. Furthermore, unallocated balance sheet items are included.

Revenue

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

Production Costs

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

Development Costs

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

Selling and Distribution Costs

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

2.1 Segment disclosures (Continued)

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

Significant accounting estimates

Revenue Recognition
Significant accounting estimates and judgments involve determining the portion of expected returns of goods as well as the amount of discounts and rebates. The portion of goods sold that is expected to be returned is estimated based on historical product returns data

2.2 Geographical information

	Revenue		Intangible assets and property, plant and equipment	
DKK million	2017	2016	2017	2016
Denmark	227	225	2,111	2,039
Rest of Europe	2,982	2,777	358	367
North America	4,615	4,045	4,029	4,378
Rest of World	1,761	1,604	232	245
Consolidated Total	**9,585**	**8,651**	**6,730**	**7,029**

Revenues are attributed to countries on the basis of the customers location. Intangible assets and property, plant and equipment are attributed based on the physical location of the assets. Only the US (included under the headline North America) represents a material single country.

2.3 Staff Costs

DKK million	2017	2016
Wages, salaries and remuneration	(2,478)	(2,271)
Pensions	(108)	(93)
Other social security costs	(302)	(260)
Share-based payments	(22)	(22)
Total	**(2,910)**	**(2,646)**
Included in:		
Production costs and change in payroll costs included in inventories	(470)	(403)
Development costs	(443)	(453)
Selling and distribution costs	(1,612)	(1,414)
Management and administrative expenses	(385)	(376)
Total	**(2,910)**	**(2,646)**
Average number of employees	5,500	5,225
Number of employees, year-end	5,575	5,400

For information regarding the remuneration of the Board of Directors and Executive Management, please refer to note 5.3 Remuneration of the Board of Directors and Executive Management.

2.4 Tax

Tax on profit (Loss)

DKK million	2017	2016
Tax on profit (loss)		
Current tax for the year	(306)	(315)
Deferred tax for the year	10	(2)
Effect of change in income tax rates	(102)	5
Withholding tax	-	(1)
Adjustment to current tax with respect to prior years	(6)	14
Adjustment to deferred tax with respect to prior years	22	(10)
Total	**(382)**	**(309)**
Reconciliation of effective tax rate		
Danish tax rate	22.0%	22.0%
Effect of tax rates in foreign jurisdictions	1.0%	4.1%
Non-taxable income	(0.6)%	(0.4)%
Non-deductible expenses	0.9%	2.2%
Utilization of previously not recognized tax assets	(1.5)%	(5.4)%
Unrecognized tax assets	0.0%	0.1%
Withholding tax	0.0%	0.1%
Effect of change in income tax rates	6.8%	(0.4)%
Share of profit (loss) in associates	(0.1)%	(0.1)%
Adjustment of tax with respect to prior years	(1.1)%	(0.3)%
Other	(2.0)%	0.5%
Effective tax rate	**25.4%**	**22.4%**
Effective tax rate, continuing operations	25.4%	22.2%
Effective tax rate, discontinued operations	12.6%	15.9%
Tax relating to other comprehensive income		
Actuarial gains (losses)	(4)	1
Adjustment of cash flow hedges	(24)	9
Foreign exchange adjustments, etc.	31	(12)
Total	**3**	**(2)**

2.4 Tax (Continued)

Deferred Tax

DKK million	2017	2016
Deferred tax, net		
Deferred tax at January 1, net	13	11
Adjustment with respect to prior years	22	(10)
Effect of change in income tax rates	(102)	5
Addition of deferred tax on acquisition of enterprises	(7)	(60)
Deferred tax for the year recognized in profit (loss) for the year	10	(2)
Deferred tax for the year recognized in other comprehensive income for the year	7	(8)
Tax related to share-based incentive plans	10	-
Foreign exchange adjustments	(49)	15
Deferred tax for the year recognized in assets and liabilities held for sale	-	62
Deferred tax at December 31, net	**(96)**	**13**
Deferred tax is recognized in the balance sheet as follows:		
Deferred tax assets	344	448
Deferred tax liabilities	(440)	(497)
Assets held for sale	-	(5)
Liabilities directly associated with assets held for sale	-	67
Deferred tax at December 31, net	**(96)**	**13**
Deferred tax, net relates to:		
Intangible assets	(420)	(443)
Property, plant and equipment	26	26
Other securities	11	105
Current assets	57	66
Current liabilities	6	4
Intercompany liabilities	7	(1)
Tax loss carryforwards	189	224
Retaxation	(127)	(152)
Provisions	78	200
Other	77	(16)
Total	**(96)**	**13**
Tax value of unrecognized tax assets		
Tax loss carryforwards	78	149
Other tax assets	31	34
Unrecognized tax assets at December 31	**109**	**183**

Unrecognized tax assets are based on the Group's expectations to the future utilization of the tax assets. A number of tax loss carryforwards expire between 2018-2033.

Deferred tax, net includes DKK 30 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 23 million.

§ Accounting policies

Tax on Profit (Loss) for the year

The parent company is jointly taxed with all 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.

2.4 Tax (Continued)

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 in the respective countries 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 in Denmark or in foreign jurisdictions is obtained as a result of share-based payment programs, the tax benefit for the deduction is recognized directly in the balance sheet. Deferred tax assets are subject to annual impairment tests and are recognized only to the extent that it is probable that the assets will be utilized

Significant accounting estimates

Deferred tax
Management has made judgments in determining the Company's valuation of tax, deferred tax assets and deferred tax liabilities and the extent to which deferred tax assets are recognized. GN Store Nord 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

2.5 Income statement classified by function

The group 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 of acquired intangible assets are separated from the individual functions and presented as a separate line item. If amortization of acquired intangible assets are allocated to the individual line items by function the income statement will present as follows:

DKK million	2017	2016
Revenue	9,585	8,651
Production costs	(3,577)	(3,250)
Gross profit	**6,008**	**5,401**
Development costs	(738)	(703)
Selling and distribution costs	(3,033)	(2,647)
Management and administrative expenses	(635)	(579)
Other operating income and costs, net	(6)	2
Gain (loss) on divestment of operations etc.	(38)	(29)
Operating profit (loss)	**1,558**	**1,445**
In the above income statement amortization of acquired intangible assets has been allocated to functions as follows:		
Development costs	(28)	(26)
Selling and distribution costs	(120)	(83)
Amortization of acquired intangible assets	**(148)**	**(109)**

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

Section 3
Operating assets and liabilities

3.1 Intangible assets

DKK million	Goodwill	Development projects, developed in-house	Software	Patents and rights	Other	Total
Cost at January 1	4,372	2,773	632	417	1,331	9,525
Additions on company acquisitions	64	-	-	-	149	213
Additions	-	396	93	-	88	577
Disposals	(2)	(1)	(19)	-	(18)	(40)
Foreign exchange adjustments	(455)	-	(15)	(20)	(137)	(627)
Cost at December 31	3,979	3,168	691	397	1,413	9,648
Amortization and impairment at January 1	-	(1,708)	(418)	(293)	(585)	(3,004)
Amortization	-	(302)	(58)	(28)	(117)	(505)
Disposals	-	2	15	-	6	23
Impairment	-	(1)	-	-	(3)	(4)
Foreign exchange adjustments	-	-	14	20	52	86
Amortization and impairment at December 31	-	(2,009)	(447)	(301)	(647)	(3,404)
Carrying amount at December 31, 2017	**3,979**	**1,159**	**244**	**96**	**766**	**6,244**
Cost at January 1	3,606	3,312	581	389	824	8,712
Additions on company acquisitions	788	2	5	4	463	1,262
Additions	-	481	72	106	84	743
Disposals	(4)	(467)	(13)	-	(66)	(550)
Transferred to assets held for sale	(149)	(555)	(19)	(86)	(16)	(825)
Foreign exchange adjustments	131	-	6	4	42	183
Cost at December 31	4,372	2,773	632	417	1,331	9,525
Amortization and impairment at January 1	-	(2,128)	(355)	(266)	(494)	(3,243)
Amortization	-	(340)	(63)	(27)	(82)	(512)
Disposals	-	460	9	-	3	472
Impairment	-	(9)	(18)	-	(1)	(28)
Transferred to assets held for sale	-	309	13	5	3	330
Foreign exchange adjustments	-	-	(4)	(5)	(14)	(23)
Amortization and impairment at December 31	-	(1,708)	(418)	(293)	(585)	(3,004)
Carrying amount at December 31, 2016	**4,372**	**1,065**	**214**	**124**	**746**	**6,521**

GN Store Nord has not capitalized any borrowing costs in the current or preceding periods as non-current assets are not financed with debt. Impairment of development projects relates to projects for which the sales forecasts cannot justify the capitalized value.

The carrying amount of development projects and software in progress amount to DKK 774 million (2016: DKK 918 million).

GN has a contractual commitment to invest DKK 28 million in intangible assets at December 31, 2017.

Goodwill
Additions during the year of DKK 64 million mainly relate to the acquisition of equity shares in hearing instrument chains and distributors cf. note 5.1 Acquisition and divestment of companies and operations.

Management has performed an impairment test of the carrying amount of goodwill at December 31, 2017. The impairment test covered the Group's cash-generating units (CGU) to which the carrying amount of goodwill is allocated. Due to changes in GN Audio's organization and management reporting in 2017, including an increasingly joint organizational set-up throughout the value chain and increased cross selling, the cash flows of the former CGUs Mobile Headsets and Contact Center & Office Headsets are no longer considered independent and GN Audio is considered one CGU.

3.1 Intangible assets (Continued)

	Carrying amount of goodwill		Pre-tax discount rate		Weighted average cost of capital	
	2017	2016	2017	2016	2017	2016
Cash-generating units:						
GN Hearing	3,339	3,661	8	7	7	6
GN Audio	640	-	11	-	9	-
Contact Center & Office Headsets	-	486	-	11	-	9
Mobile Headsets	-	225	-	13	-	11
Total	**3,979**	**4,372**				

In the impairment test, the discounted future cash flows of each CGU (the value in use) were compared with the carrying amounts. Future cash flows are based on the budget for 2018, market forecasts for 2019 - 2022, strategy plans, etc. approved by the Board of Directors. Budgets and strategy plans are based on specific assumptions for the individual CGU regarding sales, operating profit, working capital, investments in non-current assets, etc. The calculations apply expected growth in the terminal period of 2.5% p.a.

GN Hearing constitutes the vast majority of the carrying amount of the goodwill. From 2018 – 2022 the annual growth in the hearing aid market is expected to be around 4-6% in volumes with ASP decline of around 1-2% annually. The GN Hearing segment expects to deliver organic growth above the market growth. The market growth in the hearing aid industry is driven by four main factors:

- The demographic trends including the increased number of elderly people,
- Increased prevalence of hearing loss due to the increasing noise in the environment,
- Increased penetration rates as more people with a hearing loss will use hearing aids in the future, and
- Increased use of two hearing aids instead of only one, which is relatively common today.

The expected revenue growth in the GN Hearing segment is based on the current differentiated product offering with unique wireless technology as well as future product launches. The EBITA margin is expected to be maintained at a competitive level based on continued efficiencies in manufacturing as well as a strict approach to operating costs. Based on the impairment test and related assumptions, management has not identified any goodwill impairment at December 31, 2017.

Development projects and software
In-progress and completed development projects comprise development and design of hearing instruments, headsets and other hands free audio solutions. Most development projects are expected to be completed in 2018 and 2019, after which product sales and marketing can be commenced. Management performs at least one annual impairment test of the carrying amount of recognized development costs. The recoverable amount is assessed based on sales forecasts. In Management's assessments, the recoverable amount exceeds the carrying amount at December 31, 2017.

Software comprises development, design and test of production and planning software and reporting systems, business intelligence etc. Implementation of these systems is expected to optimize internal procedures and processes. In 2017, management assessed that the expected useful lives were reflected in the carrying amounts at December 31, 2017.

Patents and rights
Patents and rights primarily comprise acquired patents and rights. The most significant patents and rights relate to technologies for the development of new hearing instruments for GN Hearing and rights to the use of certain technologies for development of headsets.

Other
The Group's other intangible assets comprise DKK 487 million (2016: DKK 466 million) related to customer lists, DKK 105 million (2016: DKK 127 million) related to trademarks and DKK 173 million (2016: DKK 153 million) related to supply agreements.

3.1 Intangible assets (Continued)

Accounting policies

Goodwill

At the acquisition date goodwill is recognized in the balance sheet at cost as described under Business combinations. 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 Group'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 are: GN Hearing and GN Audio.

Development projects, Software, Patents, Licenses and Other Intangible Assets

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

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

Development projects that are clearly defined and identifiable, where the technical utilization degree, sufficient resources and a potential future market or development opportunities in the Company is evidenced, and where GN Store Nord intends to produce, market or use the project, are recognized as intangible assets if it is probable that costs incurred will be covered by future earnings. The cost of such development projects includes direct wages, salaries, materials and other direct and indirect costs attributable to the development projects. Amortization and write-down of such capitalized development projects are started at the date of completion and are included in development costs. Other development costs are recognized in the income statement as incurred.

Gains or losses on the disposal of intangible assets are determined as the difference between the selling price less selling costs and the carrying amount at the disposal date, and are recognized in the income statement as other operating income or other operating costs, respectively.

Impairment of Goodwill and in-progress development projects

Goodwill is subject to at least one annual impairment test, initially before the end of the acquisition year. Similarly, 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.

3.1 Intangible assets (Continued)

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

3.2 Property, plant and equipment

DKK million	Factory and office buildings	Leasehold improve-ments	Plant and machinery	Operating assets and equipment	Leased plant and equipment	Assets under construc-tion	Total
Cost at January 1	418	160	688	369	6	21	1,662
Additions on company acquisitions	-	-	-	9	-	-	9
Additions	8	14	29	16	-	36	103
Disposals	-	(10)	(15)	(26)	(1)	-	(52)
Transfers	-	-	25	-	-	(25)	-
Foreign exchange adjustments	(4)	(10)	(13)	(27)	(1)	(1)	(56)
Cost at December 31	422	154	714	341	4	31	1,666
Depreciation and impairment at January 1	(167)	(122)	(557)	(305)	(2)	-	(1,153)
Depreciation	(16)	(13)	(68)	(25)	(1)	-	(123)
Disposals	1	10	11	26	1	-	49
Foreign exchange adjustments	2	9	12	24	-	-	47
Depreciation and impairment at December 31	(180)	(116)	(602)	(280)	(2)	-	(1,180)
Carrying amount at December 31, 2017	**242**	**38**	**112**	**61**	**2**	**31**	**486**
Cost at January 1	410	160	744	367	6	12	1,699
Additions on company acquisitions	-	2	3	9	-	-	14
Additions	11	8	48	25	1	22	115
Disposals	(1)	(5)	(78)	(14)	(2)	-	(100)
Transfers	-	5	5	3	-	(13)	-
Discontinued operations	-	(11)	(35)	(24)	-	-	(70)
Foreign exchange adjustments	(2)	1	1	3	-	-	3
Cost at December 31	418	160	688	369	5	21	1,661
Depreciation and impairment at January 1	(154)	(121)	(586)	(301)	(3)	-	(1,165)
Depreciation	(15)	(11)	(69)	(30)	(1)	-	(126)
Disposals	1	4	76	10	2	-	93
Discontinued operations	-	7	23	18	-	-	48
Foreign exchange adjustments	1	(1)	(1)	(2)	-	-	(3)
Depreciation and impairment at December 31	(167)	(122)	(557)	(305)	(2)	-	(1,153)
Carrying amount at December 31, 2016	**251**	**38**	**131**	**64**	**3**	**21**	**508**

GN Store Nord 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.

3.2 Property, plant and equipment (Continued)

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 Depreciation, amortization and impairment

DKK million	2017	2016
Depreciation, amortization and impairment for the year of property, plant and equipment and intangible assets are recognized in the income statement as follows:		
Production costs	(72)	(71)
Development costs	(313)	(309)
Selling and distribution costs	(25)	(31)
Management and administrative expenses	(74)	(65)
Amortization of acquired intangible assets	(148)	(109)
Discontinued operations	-	(81)
Total	**(632)**	**(666)**
Amortization of intangible assets is recognized in the income statement as follows:		
Production costs	(1)	(2)
Development costs	(303)	(299)
Selling and distribution costs	(8)	(15)
Management and administrative expenses	(48)	(39)
Amortization of acquired intangible assets	(145)	(109)
Discontinued operations	-	(48)
Total	**(505)**	**(512)**
Impairment of intangible assets is recognized in the income statement as follows:		
Development costs	(1)	(2)
Amortization of acquired intangible assets	(3)	-
Discontinued operations	-	(26)
Total	**(4)**	**(28)**

3.4 Other non-current assets

DKK million	2017	2016
Loans to dispensers of GN Hearing products	613	635
Ownership interests	142	230
RAP, SIP and DCP*	219	208
Owed by associates	1	2
Other	9	19
Total	**984**	**1,094**

GN Hearing's assessment of credit risk associated with non-current loans to dispensers depends primarily on change in payment behavior and current economic conditions. Before a loan is extended the creditworthiness of the individual dispenser is analyzed. No individual dispenser accounts for more than 10% of total non-current loans to dispensers.

*RAP (Retirement Advantage Plan) and SIP (Savings and Investment Plan) are programs in which customers earn funds based on purchases made. DCP (Deferred Compensation Plan) is a program in which management in certain foreign subsidiaries may choose to defer compensation. The amounts invested by the Group on behalf of customers and management are recognized in Other non-current assets. The Group’s liabilities related to the programs are recognized in Other non-current liabilities at DKK 227 million (2016: DKK 230 million).

§ Accounting policies

Loans to dispensers

Loans to dispensers and other receivables are measured at amortized cost less write-down for foreseen bad debt losses.

Ownership Interests and savings plans

Ownership interests between 20% and 50% in unlisted enterprises in which GN Hearing does not exercise significant influence on the financial and operating policies are recognized under non-current assets at cost and are subsequently measured at cost if a reliable measurement of the fair value cannot be made. The savings plans RAP, SIP and DCP are measured at fair value.

Impairment of Other non-current assets

The carrying amount of Other non-current assets is subject to an annual impairment test for indications of impairment. When there is an indication that assets may be impaired, the recoverable amount of the asset is determined. The recoverable amount is the higher of an asset's fair value less expected costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or the cash-generating unit to which the asset belongs.

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 losses are recognized in the income statement under the respective functions. Impairment losses of Ownership interests are recognized under financial expenses in the income statement.

Impairment of other assets is reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation. Impairment is only reversed to the extent that the asset’s new carrying amount does not exceed the carrying amount of the asset after amortization had the asset not been impaired

! Significant accounting estimates

Financial support arrangements

GN Store Nord grants loans to dispensers and acquires ownership interests in dispensers. The agreements are typically comprehensive, complex and cover several aspects of the relationship between the parties. Management assesses the recognition and classification of income and expenses for each of these agreements, including whether the agreement has an embedded supply agreement or represent a discount on future sales. Management also assesses whether current economic conditions and changes in customers' payment behavior could indicate impairment of the outstanding balances.

Ownership interest which are not measured at fair value are subject to an annual impairment test for indications of impairment. When there is an indication that assets may be impaired, the recoverable amount of the asset is determined

3.5 Inventories

DKK million	2017	2016
Raw materials and consumables	202	262
Work in progress	11	7
Finished goods and merchandise	498	446
Total	**711**	**715**
The above includes write-downs amounting to	(108)	(100)
Write-downs recognized in the income statement under production costs	30	30
Reversed write-downs recognized under production costs	-	2
Production costs include costs of goods sold of	3,127	2,820

Accounting policies

Inventories

Inventories are measured at cost in accordance with the FIFO-principle. Inventories in GN Hearing are measured at cost using the standard cost method. Standard costs take into account normal levels of raw materials and consumables, staff costs, efficiency and capacity utilization. Standard costs are reviewed regularly and adjusted in accordance with the FIFO-principle.

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

Work in progress and finished goods are measured at cost, comprising the cost of direct materials, wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials, wages and salaries, maintenance and depreciation of production machinery, buildings and equipment as well as factory administration and management.

Where the net realizable value is lower than cost, inventories are written down to this lower value. The net realizable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale

Significant accounting estimates

Measurement of inventories

The net realizable value of inventories is calculated based on the size of the inventory and decreases in the recoverable amount of purchased raw materials, technical obsolescence (e.g., faulty products), physical obsolescence (e.g. damaged products) and financial obsolescence (e.g., reduced demand or substituting products). GN Store Nord 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 Trade receivables

DKK million	2017	2016
Trade receivables	2,111	2,183
Total	**2,111**	**2,183**
Trade receivables have the following maturities:		
Nor due, nor impaired	1,749	1,751
Overdue, but not impaired:		
Due 30 days or less	175	136
Due more than 30 days but less than 90 days	90	124
Due more than 90 days	97	172
Total	**2,111**	**2,183**
Write-downs, which are included in total trade receivables, have developed as follows:		
Write-downs at January 1	(97)	(112)
Write-downs made during the year	(38)	(60)
Realized during the year	10	30
Reversed write-downs	3	32
Transferred to assets held for sale	-	14
Foreign exchange adjustments	4	(1)
Write-downs at December 31	**(118)**	**(97)**

Total write-downs of DKK 118 million are included in trade receivables at the end of 2017 (2016: DKK 97 million). In 2017 no material write-downs have been recognized regarding individual receivables (2016: no material write-downs have been recognized regarding individual receivables). GN Store Nord's assessment of credit risk associated with individual receivables depends primarily on aging, change in customer payment behavior, current economic conditions etc. as described in significant accounting estimates. Based on past experience, GN Store Nord believes that no write-down is necessary in respect of trade receivables not past due.

No security has been pledged to GN Store Nord for trade receivables.

§ Accounting policies

Trade receivables are measured at amortized cost less write-down for foreseen bad debt losses. Write-down for bad debt losses is based on an individual assessment of each receivable and at portfolio level

! 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 write-downs for bad debt losses, Management specifically analyzes receivables, including doubtful debts, concentrations of credit risk, credit ratings, current economic conditions and changes in customers' payment behavior

3.7 Other payables

DKK million	2017	2016
Employee costs payable	490	427
Bonuses and discounts to customers	447	377
Other	452	546
Total	**1,389**	**1,350**

3.8 Provisions

DKK million	Warranty provisions	Other provisions	Total
Provisions at January 1	132	405	537
Additions	117	255	372
Consumed	(89)	(230)	(319)
Reversed	(2)	(31)	(33)
Foreign exchange adjustments	(10)	(32)	(42)
Provisions at December 31, 2017	**148**	**367**	**515**
Which is presented in the consolidated balance sheet as:			
Non-current liabilities	53	130	183
Current liabilities	95	237	332
Provisions at December 31, 2017	**148**	**367**	**515**

Warranty provisions concern products sold. The warranty provision covers any defects in design, materials and workmanship for a period of 1-4 years from delivery and completion. Other provisions primarily include earn-outs of DKK 123 million (2016: DKK 178 million). The remaining items in other provisions primarily include obligations to take back hearing aids and headsets sold, obligations regarding onerous contracts and property leases and provisions for legal disputes.

§ Accounting policies

Provisions

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

Other provisions primarily comprise onerous contracts and return obligations related to sold products. Provisions are recognized when, as a result of events before or at the balance sheet date, the Group has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation. On measurement of provisions, the costs required to settle the liability are discounted if the effect is material to the measurement of the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract (onerous contracts). A provision for onerous contracts is recognized e.g. when the Company has entered a binding legal agreement for the purchase of components from suppliers that exceeds the benefits from the expected future use of the components and the Company can only sell the components at a loss

! Significant accounting estimates

Provisions

Warranty provisions are recognized based on historical and future warranty costs related to the Group'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 Store Nord'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. At December 31, 2017, the carrying amount of provisions with respect to obligations to take back goods was DKK 125 million (2016: DKK 115 million).

Agreement has been made with a number of the suppliers that the suppliers purchase components for the production of hearing instruments, headsets and audiologic diagnostics equipment based on sales estimates prepared by GN Store Nord. To the extent that GN Store Nord's actual purchases from suppliers are lower than sales estimates, GN Store Nord 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 Store Nord recognizes a provision for onerous purchase contracts

Section 4 Capital structure and financing items

4.1 Outstanding shares and treasury shares

	Outstanding shares (thousands)	Treasury shares (thousands)	Total number of shares (thousands)	Nominal value of outstanding shares (DKK thousands)	Nominal value of treasury shares (DKK thousands)	Nominal value of total shares (DKK thousands)	Treasury shares as a percentage of share capital
Number/value of shares at January 1, 2017	143,471	11,317	154,788	573,884	45,269	619,153	7.3%
Purchase of ownership interest in subsidiaries	681	(681)	-	2,724	(2,724)	-	
Shares acquired/sold by GN Store Nord A/S	(7,709)	7,709	-	(30,836)	30,836	-	
Shares cancelled	-	(9,104)	(9,104)	-	(36,416)	(36,416)	
Number/value of shares at December 31, 2017	**136,443**	**9,241**	**145,684**	**545,772**	**36,965**	**582,737**	**6.3%**

The treasury shares had a market value of DKK 1,853 million at December 31, 2017 (2016: DKK 1,656 million). The total cost of acquired treasury shares in 2017 was DKK 1,372 million (2016: DKK 1,272 million).

Treasury shares have been acquired under the share buyback program and in order to hedge the warrant based long-term incentive program as well as obligation under the warrant units issued during the year.

Shares thousand	2017	2016
Weighted average number of outstanding shares	138,980	147,967
Dilutive effect of share based payment with positive intrinsic value – average for the period	988	394
Diluted weighted average number of shares	**139,968**	**148,361**
DKK million		
Profit (loss) for the year used for the calculation of earnings per share	1,183	1,033
Dilutive effect of profit (loss) for the year	-	-
Profit (loss) for the year used for the calculation of diluted earnings per share	**1,183**	**1,033**

§ Accounting policies

Earnings per Share and Diluted Earnings per Share

Earnings per share (EPS) is calculated by dividing the profit for the year after tax by the weighted average number of shares outstanding in the year. Diluted earnings per share is calculated by increasing the weighted average number of shares outstanding by the number of additional ordinary shares that would be outstanding if potentially dilutive shares were issued. The dilutive effect of outstanding share based payment is calculated using the Treasury Stock method.

Equity

Dividends

The expected dividend payment for the year is disclosed as a separate item in equity. Proposed dividends are recognized as a liability at the date they are adopted by the Annual General Meeting (declaration date).

Additional paid-in capital

Additional paid-in capital includes amounts exceeding the nominal share capital paid in by shareholders in relation to capital increases and gains/losses on the sale of treasury shares. This reserve forms part of GN's distributable reserves.

Hedging reserve

The hedging reserve includes the accumulated net change in the fair value of hedging transactions qualifying for hedge accounting.

4.1 Outstanding shares and treasury shares (Continued)

Treasury Shares
Treasury shares are recognized at cost. Gains and losses on disposal of own shares are calculated as the difference between the purchase price measured in accordance with the FIFO-principle and the selling price. Gains or losses are recognized directly in retained earnings. Dividends received from treasury shares are recognized directly in retained earnings. Capital reductions from the cancellation of treasury shares are deducted from the share capital at an amount corresponding to the nominal value of the shares.

Foreign exchange adjustments
The translation reserve in the consolidated financial statements comprises foreign exchange differences arising on translation of financial statements of foreign subsidiaries from their functional currencies into the presentation currency used by GN Store Nord (DKK) and foreign exchange adjustments of balances considered to be part of the total net investment in foreign entities

4.2 Financial risks and financial instruments

Foreign currency risk
GN Store Nord has exposure towards foreign currencies in connection with commercial transactions. The overall objective of hedging GN Store Nord's currency exposure is to reduce the short-term impact of exchange rate fluctuations on earnings and cash flow, thereby increasing the predictability of the financial results. GN Store Nord hedges significant currency risk, which in 2017 has been future income (long positions) in the USD, GBP, CAD and JPY and future expenses in the CNY. Expected cash flows are continually assessed using budget and sales forecasts. GN Store Nord has not raised loans or placed surplus cash in foreign currency unless it has mitigated currency exposure.

GN Store Nord has balance sheet items denominated in USD, including most of its goodwill. Those balance sheet items can result in foreign exchange rate gains and losses from the revaluation.

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

DKK million	2017	2016
Income statement	(52)	(29)
Other Comprehensive Income	(41)	(44)

The sensitivity analysis comprises cash and cash equivalents, current receivables, trade payables, current and non-current loans, current intercompany balances and derivative exchange rate instruments as of December 31, 2017. The effects of a change in foreign exchange rates related to these items would be included in financial items in the income statement. A change in the derivative exchange rate instruments used for hedging would be included in Other Comprehensive Income if Hedge Accounting is applied in accordance with IAS39, otherwise in Financial income.

Interest rate risk
GN Store Nord has swapped a large part of the variable interest rate exposure on bank loans into fixed rates through interest rate swaps. The fair value of the interest rate swaps are determined using forward interest rates and can be categorized as level 2 (observable inputs) in the fair value hierarchy. Currently, 50% of the drawn debt as of December 31, 2017 is fixed with a majority of the loans having more than one year to maturity. The market value of the interest rate swaps will increase with DKK 42 million for every 100 bps parallel increase in the underlying fixed interest rates.

An increase of variable interest rates on the bank loans of 1 percentage point increase before considering the mitigating effect of the interest rate swaps would result in a net increase in the annual interest expenses of DKK 17.2 million.

The interest rate on the issued bonds is fixed with a zero coupon. As the bonds are subsequently measured at amortized cost the value of the bonds and the effective interest rate does not change after initial recognition despite changes in the market interest rate.

Funding, liquidity and capital structure
In May 2017 GN Store Nord issued EUR 225 million convertible bonds consisting of Bond-with-Warrant Units. The Bond-with-Warrant Units consists of senior unsecured zero coupon bonds due 2022 with detachable unsecured warrants expiring 2022. The bonds have a denomination of EUR 100,000 per Bond.

4.2 Financial risks and financial instruments (Continued)

Initially 6,215,744 treasury shares are underlying the warrant units and those treasury shares will be kept to hedge the future obligations of GN Store Nord under the warrant units. The bonds carry no interest and will be redeemed at par at maturity, unless redeemed or purchased and cancelled earlier under their terms.

Any Unit holder may, at any time until 2022, exercise a warrant unit and require GN to redeem the corresponding bond at its principal amount. GN does not expect to issue any new shares upon exercise of warrant units, but will deliver up to 6,215,744 shares currently held in treasury, based on the initial strike price (DKK 269.4609), which is subject to adjustment from time to time upon certain customary events (anti-dilution clauses). The proceeds from the sale of these treasury shares at the initial strike price will amount to DKK 1,675 million corresponding to the nominal amount of the issued bonds of EUR 225 million at the exchange rate at the time of pricing of DKK/EUR 7.444.

The proceeds from the issued bond with warrant units has been used for general corporate purposes including refinancing of existing debt facilities, repurchase of shares and for financing of growth opportunities.

At December 31, 2017, GN Store Nord had an equity ratio of 40.8% (2016: 43.8%) and net interest-bearing debt of DKK 3,035 million (2016: DKK 3,404 million). GN Store Nord's long term capital structure policy (net debt up to a maximum of two times EBITDA) remains unchanged. As of December 31, 2017 GN Store Nord had undrawn borrowing facilities of DKK 1,776 million (2016: DKK 1,576 million).

GN Store Nord aims to pay out a dividend corresponding to 15-25% of the annual net results and will initiate share buyback programs when deemed appropriate subject to the authorization by the shareholders at the Annual General Meeting.

Retained earnings, which are available for distribution from the GN Store Nord Parent company amount to DKK 2,617 million (2016 DKK 4,059 million)

Financial credit risk

Surplus cash positions in GN Store Nord's subsidiaries are re-circulated back to the parent company as soon as possible, and cash is mainly held in current accounts or as short-term money market deposits. Cash positions are primarily held with banks through which GN Store Nord conducts its day-to-day banking business and which have a satisfactory rating with Moody's and Standard & Poor's. GN Store Nord has a policy of never having an exposure to a single financial counterparty of more than 2.5% of that party's capital and reserves. GN Store Nord had cash and cash equivalents of DKK 526 million at December 31, 2017 (2016: DKK 178 million).

GN Store Nord has established policies for credit risk management related to customers including the use of credit rating agencies. Assessment of credit risks related to customers is further described in note 3.6 Trade receivables and note 3.4 Other non-current assets.

Specification of net interest-bearing debt

DKK million	2017	2016
Cash and cash equivalents	526	178
Bank loans and issued bonds, non-current liabilities	(3,508)	(3,527)
Bank loans, current liabilities	(53)	(55)
Total	**(3,035)**	**(3,404)**

4.2 Financial risks and financial instruments (Continued)

Contractual maturity analysis for financial liabilities

DKK million	Less than one year	Between one and five years	More than five years	Total
2017				
Issued bonds	-	1,577	-	1,577
Long-term bank loans	74	1,857	-	1,931
Other long-term payables	-	240	-	240
Short-term bank loans	53	-	-	53
Trade payables	605	-	-	605
Total non-derivative financial liabilities	732	3,674	-	4,406
Derivative financial liabilities	-	25	-	25
Total financial liabilities	**732**	**3,699**	**-**	**4,431**
2016				
Long-term bank loans	74	3,453	-	3,527
Other long-term payables	-	247	-	247
Short-term bank loans	55	-	-	55
Trade payables	642	-	-	642
Total non-derivative financial liabilities	771	3,700	-	4,471
Derivative financial liabilities	42	38	-	80
Total financial liabilities	**813**	**3,738**	**-**	**4,551**

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

Categories of financial assets and liabilities

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

DKK million	2017	2016
Derivative financial instruments included in Other receivables	49	-
Derivative financial instruments included in ownership interests, cf. note 3.4	-	33
Financial assets held for trading	**49**	**33**
Ownership interests and RAP, SIP, DCP, cf. note 3.4	361	405
Financial assets available-for-sale	**361**	**405**
Trade receivables	2,111	2,183
Other receivables	257	231
Other receivables, non-current	614	637
Loans and receivables	**2,982**	**3,051**
Issued bonds	1,577	-
Bank loans, non-current	1,931	3,527
Other long-term payables	240	247
Bank loans	53	55
Trade payables	605	642
Financial liabilities measured at amortized cost	**4,406**	**4,471**
Derivative financial instruments included in Other payables	25	80
Financial liabilities measured at fair value	**25**	**80**

The fair value of issued bonds (zero coupon) amounted to DKK 1,603 million at December 31, 2017. For other financial assets and liabilities, the fair value is approximately equal to the carrying amount. GN Store Nord's bank loans carry floating interest rates and are primarily funded based on short term EURIBOR rates.

4.2 Financial risks and financial instruments (Continued)

Derivative financial instruments
Exchange rate instruments and interest rate swaps

DKK million	2017 Contract amount, net	2017 Fair value, assets	2017 Fair value, liabilities	2016 Contract amount, net	2016 Fair value, assets	2016 Fair value, liabilities
USD	920	38	-	1,017	-	54
JPY	121	8	-	170	5	1
GBP	109	1	-	234	12	-
CAD	75	1	-	101	-	4
CNY	98	1	-	136	-	-
EUR*	1,741	-	25	2,409	-	38
Total	**3,064**	**49**	**25**	**4,067**	**17**	**97**

* Interest rate swaps denominated in EUR.

All exchange rate instruments mature within 12 months from the balance sheet date. The interest rate swaps mature between 2 and 3 years from the balance sheet date.

Fair value adjustments of cash flow hedges

DKK million	2017	2016
Fair value adjustment for the year recognized in Other comprehensive income	142	(39)
Reclassified from equity to revenue during the year	(32)	(5)
Reclassified from equity to production costs during the year	-	3
Reclassified from equity to selling and distribution costs during the year	-	(1)
Adjustment of cash flow hedges in Other comprehensive income	**110**	**(42)**
Fair value adjustment of cash flow hedges recognized in financial items	(12)	-

The gains and losses on cash flow hedges recognized in Other comprehensive income as of December 31, 2017 will be recognized in the income statement in the period during which the hedged forecasted transaction affects the income statement.

In 2017 net gains on derivative financial instruments related to ownership interests of DKK 0 million were recognized in financial items (2016: DKK 87 million). At the end of 2017 the fair value of the derivative financial instruments related to ownership interests were estimated to DKK 0 million (2016: DKK 33 million).

Fair value hierarchy
The fair value of the exchange rate instruments and interest rate swaps are determined using quoted forward exchange rates and forward interest rates, respectively at the balance sheet date and can be categorized as level 2 (observable inputs) in the fair value hierarchy. When measuring the fair value of the derivative financial instruments related to ownership interests, as described below, this is determined by calculating the difference between the fair value of the dispensers and the agreed purchase price of the dispensers. The fair value of the dispensers are determined using cash flow projections from financial forecasts covering a five year period. The key inputs used are sales growth in units, average selling prices and expected growth in the terminal period. The fair value is sensitive to the assumed key inputs and can be categorized as level 3 (unobservable inputs) in the fair value hierarchy.

§ Accounting policies

Derivative Financial Instruments
Derivative financial instruments are initially and subsequently recognized in the balance sheet at fair value, except for derivative financial instruments related to ownership interests in dispensers of GN Hearing products. Such instruments are only measured at fair value when exercise is considered highly probable and sufficient information for a fair value measurement is available. In other instances, the cost of the derivative financial instruments related to unquoted ownership interests is considered the best estimate of the fair value. Positive and negative fair values of derivative financial instruments are recognized as other receivables and payables, respectively, and set-off of positive and negative values is only made when GN Store Nord has the right and the intention to settle several financial instruments net. Fair values of derivative financial instruments are computed on the basis of market data and generally accepted valuation methods.

4.2 Financial risks and financial instruments (Continued)

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

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

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

Issued bond with warrant units are initially recognized at fair value less related transaction costs. The fair value of the bonds is estimated by calculating the present value of all contractual future cash flows using an interest rate for a bond with similar credit risk and duration as the issued bonds, but without the attached warrants. The difference between the fair value and the proceeds is considered to be the value of the warrants and is recognized in equity. The equity component is not re-measured subsequently. After initial recognition the bonds are measured at amortized cost using the effective interest method. In case the bonds are redeemed before maturity, the difference between the carrying amount at amortized cost and the principal amount will be recognized as a loss in financial expenses.

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

4.3 Liabilities from financing activities

DKK million	Bank loans	Issued bonds	Other non-current liabilities	Bank loans, current	Total
Liabilities at January 1	3,527	-	325	55	3,907
Cash flows	(1,599)	1,560	(17)	(2)	(58)
Foreign exchange adjustments	3	4	7	-	14
Non-cash interest expenses	-	13	-	-	13
Liabilities at December 31, 2017	**1,931**	**1,577**	**315**	**53**	**3,876**

The total cash proceeds from the issue of bonds of DKK 1,636 million include DKK 76 million recognized in equity as fair value of warrant units issued (proceeds).

4.4 Financial income and expenses

DKK million	2017	2016
Financial Income:		
Interest income*	17	26
Financial income, other	37	29
Fair value adjustments of derivative financial instruments	-	87
Foreign exchange gain	105	42
Total	**159**	**184**
Financial expenses:		
Interest expenses*	(59)	(59)
Financial expenses, other	(71)	(81)
Fair value adjustments of derivative financial instruments and impairments	(39)	(75)
Foreign exchange loss	(50)	(21)
Total	**(219)**	**(236)**

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

GN Store Nord has not included borrowing costs in the cost price of non-current assets as these are not financed with debt.

Fair value adjustments of derivative financial instruments and impairments include an impairment loss of DKK 27 million related to Loans to dispensers of GN Hearing products (2016: DKK 75 million) and fair value adjustments at DKK 12 million related to interest rate swap transferred from other comprehensive income.

§ 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

Section 5 Other disclosures

5.1 Acquisition and divestment of companies and operations

Acquisitions
During 2017, GN Hearing acquired a number of minor hearing instrument chains and distributors, primarily in the US. These acquisitions all strengthen GN Hearing's sales and distribution channels and the goodwill related to the acquisitions are mainly attributable to this.

In July 2016, GN Hearing acquired 100% of the US based company Audigy, a leading provider of business and performance management solutions to independent hearing care practices, and in October 2016, GN Audio acquired the US based company VXi Corporation, a leading innovative US based manufacturer of professional headset solutions.

		Fair value at acquisition date			
DKK million	2017	Audigy	VXi	Other	2016
Identifiable assets acquired, liabilities assumed and consideration transferred					
Non-current assets	9	22	10	7	39
Current assets	6	47	40	1	88
Non-current liabilities	(11)	(14)	(12)	(18)	(44)
Current liabilities	(5)	(57)	(99)	-	(156)
Fair value of identified net assets	**(1)**	**(2)**	**(61)**	**(10)**	**(73)**
Goodwill	64	614	124	50	788
Other intangible assets	149	146	120	208	474
Consideration transferred	**212**	**758**	**183**	**248**	**1,189**
Fair value of assets transferred	(116)	-	-	(175)	(175)
Payable consideration	(13)				
Contingent consideration	-	(158)	-	(1)	(159)
Cash consideration paid	**83**	**600**	**183**	**72**	**855**

Goodwill relating to the above transactions is allocated to the cash-generating units GN Hearing with DKK 64 million (2016: DKK 664 million) and GN Audio DKK 0 million (2016: DKK 124 million).

In 2017, GN Hearing paid out DKK 11 million (2016: DKK 25 million) in contingent considerations related to prior years' acquisitions. The payments were mainly related to the acquisition of Audigy Group. An adjustment of DKK 21 million has been recognized as financial income in the income statement, mainly related to Audigy acquisition.

DKK million	2017	2016
The share of revenue and profit (loss) for the year from the acquisition date can be specified as follows:		
Revenue	105	310
EBIT	5	12
Profit (loss) for the year	3	6
Acquired operations if they had been owned throughout the year:		
Revenue	129	630
EBIT	6	38
Profit (loss) for the year	4	27

5.1 Acquisition and divestment of companies and operations (Continued)

Divestments etc.
In 2017 GN Hearing divested a number of minor hearing instrument distributors primarily in the US. Other adjustments relate to a legal dispute. In 2017 this relates to the Plantronics legal case.

DKK million	2017	2016
Non-current assets	(3)	(3)
Current assets	-	(2)
Disposed net assets	**(3)**	**(5)**
Fair value of assets received	3	2
Gain (loss) on divestment of operations	**-**	**(3)**
Other adjustments	(38)	(26)
Gain (loss) on divestment of operations etc.	**(38)**	**(29)**

§ Accounting policies

Business Combinations
Enterprises acquired or formed during the year are recognized in the consolidated financial statements from the date of acquisition or formation. The acquisition date is the date when the parent company effectively obtains control of the acquired enterprise. Enterprises disposed of are recognized in the consolidated income statement until the disposal date. The comparative figures are not restated for acquisitions.

For acquisitions of new enterprises in which the parent company is able to exercise control over the acquired enterprise, the purchase method is used. The acquired enterprises' identifiable assets, liabilities and contingent liabilities are measured at fair value at the acquisition date. Identifiable intangible assets are recognized if they are separable or arise from a contractual right. Deferred tax on revaluations is recognized.

Any excess of the cost over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill under intangible assets. Goodwill is not amortized but is tested at least annually for impairment. The first impairment test is performed within the end of the acquisition year. Upon acquisition, goodwill is allocated to the cash-generating units, which subsequently form the basis for the impairment test. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with another functional currency than the presentation currency used by GN Store Nord are treated as assets and liabilities belonging to the foreign entity and translated into the foreign entity's functional currency at the exchange rate at the transaction date.

The cost of a business combination comprises the fair value of the consideration agreed upon. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the amount of that adjustment is included in the cost of the combination if the adjustment is probable and can be measured in a reliable manner. Subsequent changes to contingent considerations are recognized in the income statement. If uncertainties regarding measurement of identifiable assets, liabilities and contingent liabilities exist at the acquisition date, initial recognition will take place on the basis of preliminary fair values. If identifiable assets, liabilities and contingent liabilities are subsequently determined to have different fair value at the acquisition date than first assumed, goodwill is adjusted up until twelve months after the acquisition. The effect of the adjustments is recognized in the opening balance of equity and the comparative figures are restated accordingly

When acquiring a controlling interest in steps, GN Store Nord assesses the fair value of the acquired net assets at the time control is obtained. At such time, interests acquired previously are also adjusted to fair value. The difference between the fair value and the carrying amount is recognized in the income statement.

Acquisition of additional equity interest after a business combination is not accounted for using the acquisition method, but rather as equity transactions. Disposals of equity interest while retaining control are also accounted for as equity transactions. Transactions resulting in a loss of control result in a gain or loss being recognized in the income statement.

When acquiring less than 100% of the shares in a company, GN Store Nord recognizes the goodwill on a transaction-by-transaction basis or as a proportion of goodwill in accordance with GN Store Nord's ownership interest

5.2 Discontinued operations

On September 25, 2016 GN Hearing and Natus Medical Incorporated (hereafter "Natus") entered into an agreement whereby ownership of GN Otometrics is transferred from GN Hearing to Natus. The divestment will further strengthen GN Hearing's focus and strategic direction as a dedicated hearing instrument company, with GN Hearing being in a unique position to continue to deliver industry leading growth and profitability. The total consideration payable by Natus was USD 145 million which has been settled in cash on a debt and cash free basis. Closing of the transaction took place on January 3, 2017.

GN Otometrics develops, manufactures and markets computer-based audiological, otoneurologic, vestibular instrumentation and sound rooms under the Madsen, Aurical, Hortmann and ICS brand names. GN Otometrics was part of the reportable segment GN Hearing. Since September 30, 2016 GN Otometrics has been classified as a disposal group held for sale and as discontinued operations.

As of January 1, 2017 GN Otometrics is no longer included in the consolidated financial statements of the GN Group. The carrying amounts of assets and liabilities disposed of and the gain on divestment were:

DKK million	2017
Intangible assets	(494)
Property, plant & equipment	(22)
Receivables	(665)
Inventories	(142)
Cash and cash equivalents	(30)
Payables	624
Deferred tax	62
Interest-bearing liabilities	2
Disposed net assets	**(665)**
Directly attributable transaction related costs	(57)
Cash consideration received	1,065
Paid capital increase in divested associated company of GN Otometrics	(288)
Gain on divestment of GN Otometrics before tax and reclassifications from equity	**55**
Reclassification of reserve for foreign exchange adjustments	15
Income tax expense on gain from the sale of GN Otometrics	(9)
Gain on divestment of GN Otometrics	**61**
Profit (loss) for the year from discontinued operations	**61**

The net cash flow effect of the divestment of GN Otometrics can be specified as follows:

DKK million	2017
Cash consideration received	1,065
Paid capital increase in divested associated company of GN Otometrics	(288)
Received payment of receivables from GN Otometrics associated company	61
Directly attributable transaction related costs	(57)
Cash and cash equivalents disposed of	(29)
Net cash flow from divestment of GN Otometrics	**752**

As part of the divestment of GN Otometrics a capital increase of DKK 288 million has been paid to GN Otometrics' associated company Audiology Systems Inc.

Earnings per share (EPS) from discontinued operations	2017	2016
Earnings per share (EPS) from discontinued operations	0.44	(0.36)
Earnings per share from discontinued operations, fully diluted (EPS diluted)	0.43	(0.36)

DKK million	2016
GN Otometrics	
Revenue	686
Expenses	(749)
Profit/(loss) before tax from discontinued operations	**(63)**
Tax	10
Profit/(loss) for the period from discontinued operations	**(53)**

5.2 Discontinued operations (Continued)

Accounting policies

Discontinued operations

Assets and liabilities classified as held for sale are presented separately as items in the balance sheet. A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

5.3 Remuneration of the Board of Directors and Executive Management

Remuneration to Executive Management and other key management personnel can be specified as follows:

	2017				2016			
DKK million	Fixed salary	Bonus	Share-based payments	Total	Fixed salary	Bonus	Share-based payments	Total
Anders Hedegaard, CEO of GN Hearing	(6.4)	(4.0)	(2.3)	(12.7)	(6.2)	(5.1)	(2.1)	(13.4)
René Svendsen-Tune, CEO of GN Audio	(6.0)	(5.4)	(2.3)	(13.7)	(5.7)	(3.3)	(1.4)	(10.4)
Marcus Desimoni, CFO of GN Store Nord from February 15, 2016	(4.6)	(2.8)	(1.8)	(9.2)	(5.4)	(2.6)	(1.0)	(9.0)
Anders Boyer, CFO of GN Store Nord until February 14, 2016	-	-	-	-	(0.6)	(0.5)	-	(1.1)
Total	**(17.0)**	**(12.2)**	**(6.4)**	**(35.6)**	**(17.9)**	**(11.5)**	**(4.5)**	**(33.9)**
Other key management personnel	(2.2)	(0.8)	(0.2)	(3.2)	(3.3)	(0.4)	(0.1)	(3.8)
Total	**(2.2)**	**(0.8)**	**(0.2)**	**(3.2)**	**(3.3)**	**(0.4)**	**(0.1)**	**(3.8)**

Incentive plans

The Group's warrant-based long-term incentive program is specified and described in note 5.4 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. Total salary (Fixed salary & Bonus) of the Executive Management, excluding a sign-on bonus of DKK 1.9 to the CFO of GN Store Nord in 2016, increased by 6% or DKK 1.7 million from 2016 to 2017.

The remuneration of the Executive Management is based on: A fixed base salary. Participation in GN Store Nord’s warrant-based long-term incentive program. A yearly bonus plan with a target bonus of 50% of the base salary with a potential to underperform or outperform the target leading to an effective potential bonus range between 0 - 100% of the base salary. The Executive Management´s bonus is based on three parameters in light of the Group's focus areas:

- Anders Hedegaard’s bonus is subject to the performance of GN Hearing’s EBITA, GN Hearing’s revenue and individual performance targets.
- René Svendsen-Tune’s bonus is subject to the performance of GN Audio’s EBITA, GN Audio’s revenue and individual performance targets.
- Marcus Desimoni’s bonus is subject to the performance of GN Store Nord’s EBITA, GN Store Nord’s revenue and individual performance targets.

5.3 Remuneration of the Board of Directors and Executive Management (Continued)

The Group does not make pension contributions for members of the Executive Management. Executive Management has severance agreements and change-of-control agreements on market terms.

Members of the Board of Directors receive a fixed remuneration as approved by the shareholders at the Annual General Meeting on March 14, 2017. The fixed remuneration is based on GN Store Nord´s corporate governance structure in which an audit committee, a strategy committee, a remuneration committee and a nomination committee have been established. Further, the appointed board members of GN Store Nord also serve on the Board of Directors of GN Hearing A/S and GN Audio A/S.

GN Store Nord A/S	
Chairman	750
Deputy Chairman	500
Other Board members	250
Remuneration Committee Chairman	300
Remuneration Committee, other members	150
Audit Committee Chairman	300
Audit Committee, other members	150
Strategy Commitee Chairman	300
Strategy Commitee other members	150
Nomination Commitee Chairman	150
Nomination Commitee other members	75

GN Hearing A/S	
Chairman	250
Deputy Chairman	175
Other Board members	100

GN Audio A/S	
Chairman	250
Deputy Chairman	175
Other Board members	100

DKK thousand	2017	2016
Per Wold-Olsen (Chairman)	1,850	1,850
William E. Hoover, Jr. (Deputy chairman)	1,225	1,225
Wolfgang Reim	900	900
Carsten Krogsgaard Thomsen	750	750
Helene Barnekow	600	600
Ronica Wang	600	600
Leo Larsen	250	250
Morten Andersen	250	250
Nikolai Bisgaard	250	250
Total Board of Directors remuneration	**6,675**	**6,675**

In addition to the remuneration, members of the Board of Directors who are not Danish residents are entitled to a fixed travel allowance in connection with participation in board meetings in Denmark. For European-based board members the allowance amounts to DKK 22,000 per meeting and for Non-European based board members the allowance amounts to DKK 45,000 per meeting. In 2016, a company owned by a member of the Board of Directors received a fee of DKK 4.7 million for consultancy work related to a specific project. The project was finalized in 2016, and the company has not been contracted for any projects in 2017.

5.4 Incentive plans

Warrants programs
GN Store Nord has a warrant-based long-term incentive program whereby the Executive Management and other senior employees are granted warrants linked to shares in GN Hearing or GN Audio. For members of Executive Management the grant size can vary between 50-100% of their base salary.

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

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

Warrants program, GN Hearing

	Executive Management	Other employees	Total	Average exercise price
Outstanding warrants at January 1, 2016	**929**	**12,604**	**13,533**	**21,901**
Warrants granted during the year	1,276	4,908	6,184	26,945
Warrants exercised during the year	-	(2,875)	(2,875)	16,045
Warrants forfeited during the year/corrections	-	(1,892)	(1,892)	25,569
Outstanding warrants at December 31, 2016	**2,205**	**12,745**	**14,950**	**24,649**
Warrants granted during the year	968	4,428	5,396	30,624
Warrants exercised during the year	(118)	(2,680)	(2,798)	18,957
Warrants forfeited during the year/corrections	(117)	(2,238)	(2,355)	26,452
Outstanding warrants at December 31, 2017	**2,938**	**12,255**	**15,193**	**27,540**
Grant date market value of warrants granted in 2017	4	18	22	
Market value of outstanding warrants at December 31, 2017	20	95	115	

Average share price at exercise: DKK 33,784 (2016: DKK 26,453)

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

Grant date	Executive Management	Other employees	Total	% of GN Hearing A/S	Number of exercisable warrants	Exercise price	Years to expiry	Market value in DKK million
March 2012	-	69	69	0.0%	69	11,084	0.0	2
March 2013	-	742	742	0.1%	742	19,270	0.9	13
November 2013	-	65	65	0.0%	65	24,290	0.9	1
March 2014	-	505	505	0.1%	505	24,711	1.9	6
March 2015	694	2,836	3,530	0.6%	-	26,729	2.9	23
August 2015	-	50	50	0.0%	-	23,807	2.9	-
November 2015	-	125	125	0.0%	-	24,896	2.9	1
March 2016	1,276	3,600	4,876	0.8%	-	26,936	3.9	36
August 2016	-	68	68	0.0%	-	27,797	3.9	-
November 2016	-	211	211	0.0%	-	26,932	3.9	2
March 2017	968	3,837	4,805	0.8%	-	30,451	4.9	31
May 2017	-	69	69	0.0%	-	35,873	4.9	-
August 2017	-	35	35	0.0%	-	39,391	4.9	-
December 2017	-	43	43	0.0%	-	36,177	4.9	-
Outstanding warrants at December 31, 2017	**2,938**	**12,255**	**15,193**	**2.4%**	**1,381**			**115**

5.4 Incentive plans (Continued)

Warrants program, GN Audio

	Executive Management	Other employees	Total	Average exercise price
Outstanding warrants at January 1, 2016	**538**	**6,836**	**7,374**	**24,555**
Warrants granted during the year	1,192	2,875	4,067	22,507
Warrants exercised during the year	-	(1,201)	(1,201)	17,211
Warrants forfeited during the year/corrections	-	(533)	(533)	25,596
Outstanding warrants at December 31, 2016	**1,730**	**7,977**	**9,707**	**24,549**
Warrants granted during the year	666	2,208	2,874	28,934
Warrants exercised during the year	-	(971)	(971)	17,755
Warrants forfeited during the year/corrections	-	(2,378)	(2,378)	24,728
Outstanding warrants at December 31, 2017	**2,396**	**6,836**	**9,232**	**26,587**
Grant date market value of warrants granted in 2017	3	11	14	
Market value of outstanding warrants at December 31, 2017	26	73	99	

Average share price at exercise: DKK 32,134 (2016: DKK 22,204)

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

Grant date	Executive Management	Other employees	Total	% of GN Audio A/S	Number of exercisable warrants	Exercise price	Years to expiry	Market value in DKK million
March 2013	-	98	98	0.0%	98	17,797	0.8	2
March 2015	538	1,902	2,440	0.7%	-	30,600	2.8	18
March 2016	1,192	2,570	3,762	1.1%	-	22,495	3.8	49
August 2016	-	58	58	0.0%	-	23,308	3.8	1
March 2017	666	2,152	2,818	0.8%	-	28,794	4.8	29
May 2017	-	9	9	0.0%	-	36,781	4.8	-
December 2017	-	47	47	0.0%	-	35,824	4.8	-
Outstanding warrants at December 31, 2017	**2,396**	**6,836**	**9,232**	**2.6%**	**98**			**99**

5.4 Incentive plans (Continued)

Valuation model and assumptions

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

Assumptions

	2017 year end		Grant date 2017		2016 year end		Grant date 2016	
	GN Hearing	GN Audio	GN Hearing	GN Audio	GN Hearing	GN Audio	GN Hearing	GN Audio
Share price GN Store Nord	 200	 200	161 195 209 198	161 195 198	 146	 146	134 142 137	134 142
Share of GN Store Nord market value	 85%	 45%	85% 84% 87% 85%	43% 46% 45%	 86%	 40%	85% 84% 86%	38% 38%
Share price	 36,256	 36,219	30,451 35,873 39,391 36,177	28,794 36,781 35,824	 28,471	 24,674	26,936 27,797 26,932	22,495 23,308
Volatility	 20%	 31%	20% 21% 21% 21%	30% 28% 30%	 20%	 30%	22% 22% 21%	27% 29%
Dividend per share	-	-	-	-	-	-	-	-
Risk-free interest rate	 0.00%	 0.00%	(0.10)% (0.10)% (0.20)% (0.30)%	(0.10)% (0.10)% (0.30)%	 0.00%	 0.00%	0.00% (0.40)% (0.20)%	0.00% (0.40)%
Expected term (years)	0.9 1.9 2.9 3,9 4.9	0.9 2.9 3.9 4.9	 5.7 5.5 5.2 4.9	 5.7 5.5 4.9	0.8 1.8 2.8 3.8 4.8	0.8 1.8 2.8 3.8 4.8	 5.7 5.2 5.0	 5.7

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

§ Accounting policies

Incentive plans

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

5.5 Pension obligations

DKK million	2017	2016
Present value of defined benefit obligations	(338)	(366)
Fair value of plan assets	293	300
Net obligations	**(45)**	**(66)**

The present value of defined benefit obligations includes unfunded pension obligations not covered by payments to insurance company of DKK 18 million (2016: DKK 17 million).

Development in present value of defined benefit obligations		
Obligations at January 1	(366)	(345)
Foreign exchange adjustments	39	(12)
Costs for the year	(4)	(4)
Interest expense	(11)	(13)
Actuarial gains (losses) regarding demographic assumptions	2	5
Actuarial gains (losses) regarding financial assumptions	(13)	(17)
Discontinued operations	-	2
Pension payments, unfunded	-	1
Pension payments	15	17
Obligations at December 31	**(338)**	**(366)**
Maturity of pension obligations		
Less than one year	(16)	(18)
Between one and five years	(70)	(77)
More than five years	(252)	(271)
Total	**(338)**	**(366)**
Development in fair value of plan assets		
Plan assets at January 1	300	281
Foreign exchange adjustments	(33)	9
Interest income	8	11
Return on plan assets in excess of interest income	26	7
Payment by GN Store Nord	7	9
Pension payments	(15)	(17)
Plan assets at December 31	**293**	**300**
Pension costs recognized in the income statement		
Costs for the year	(4)	(4)
Interest expense	(11)	(13)
Interest income from plan assets	8	11
Defined benefit plans total	(7)	(6)
Defined contribution plans total	(101)	(89)
Total pension costs recognized in the income statement	**(108)**	**(95)**
The costs are recognized in the following income statement items:		
Production costs	(13)	(12)
Development costs	(24)	(22)
Selling and distribution costs	(39)	(33)
Management and administrative expenses	(30)	(26)
Financial expenses	(2)	(2)
Total	**(108)**	**(95)**
The following accumulated actuarial gains (losses) since January 1, 2005 are recognized in the Statement of other Comprehensive Income:		
Accumulated actuarial gains (losses)	(65)	(80)
Breakdown of plan assets:		
Shares	60%	61%
Bonds	37%	36%
Cash and cash equivalents	3%	3%
Total	**100%**	**100%**

5.5 Pension obligations (Continued)

At the balance sheet date the actuarial calculations for the prevailing American defined benefit plan are based on a discount rate of 4% (2016: 4%).

A 25 basis point decrease in the discount rate will result in a DKK 7 million increase in the defined benefit obligation and a 25 basis point increase will result in a DKK 8 million decrease in the defined benefit obligation.

Defined contribution plans
The Group has pension commitments regarding certain groups of employees in Denmark and abroad. Pension plans are generally defined contribution plans. The pension plans are funded by current payments to independent pension funds and insurance companies, which are responsible for payment of the pension benefits. When contributions to defined contribution plans have been paid, the Group has no further commitments to present or former employees. Contributions to defined contribution plans are recognized in the income statement when they are due.

Defined benefit plans
The Group has an American pension plan, which is not covered by payments to insurance companies but is partly off-set by the fair value of reserved pension funds. At July 1, 2003, the pension plan was frozen, meaning that employees covered by the plan will continue to be entitled to the pension payments earned up to this date. However, employees will not earn further pension payments.

Other plans
The Group has no other pension obligations or similar obligations to its employees.

§ Accounting policies

Pensions
Contributions to defined contribution plans are recognized in the income statement in the period to which they relate and any contributions outstanding are recognized in the balance sheet as other payables.

Defined benefit plans are subject to an annual actuarial estimate of the present value of future benefits under the defined benefit plan. The present value is determined on the basis of assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. The present value is determined only for benefits earned by employees from their employment with the Group. The actuarial present value less the fair value of any plan assets is recognized in the balance sheet under pension obligations. Pension costs for the year are recognized in the income statement based on actuarial estimates and financial expectations at the beginning of the year. Any difference between the expected development in plan assets and the defined benefit obligation and actual amounts results in actuarial gains or losses. Actuarial gains or losses are recognized in other comprehensive income

5.6 Contingent assets and liabilities

DKK million	2017	2016
Guarantees	**72**	**15**

Outstanding Lawsuits and disputes
GN Store Nord and its subsidiaries and associates are parties to various lawsuits, including various cases involving patent infringements. The outcome of cases pending is not expected to be of material importance to the Group's financial position.

Guarantees
The majority of guarantee's is related to an associated company's bank credit facility.

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

Purchase obligations
GN Store Nord has agreed with a number of suppliers that the suppliers will purchase components for the production of hearing instruments and headsets based on sales estimates prepared by GN Store Nord. To the extent that GN Store Nord's sales estimates exceed actual purchases from suppliers, GN Store Nord is under an obligation to purchase any remaining components from the suppliers.

5.6 Contingent assets and liabilities (Continued)

Management assesses sales estimates on an ongoing basis. To the extent that component inventories at suppliers exceed the volumes expected to be used, GN Store Nord recognizes a provision for onerous purchase contracts.

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 decided to appeal the ruling.

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

For information on lease obligations, please refer to note 5.9 Lease obligations

Significant accounting estimates

Provisions, Contingencies and Lawsuits
GN Store Nord'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

5.7 Associates

Investments in associates

DKK million	2017	2016
Aggregated financial information for associates is provided below:		
Revenue	146	119
Profit (loss) for the year after tax	(11)	6
Total assets	160	97
Total liabilities	124	48
Total share of profit (loss) for the year after tax	6	2
Total share of net assets	10	15

Transactions with associates comprise sale of goods of DKK 19 million (2016: DKK 61 million) and sale of services of DKK 0 million (2016: DKK 22 million) on normal commercial terms and conditions.

Group companies are listed on page 99.

Accounting policies

Investments in Associates in the Consolidated Financial Statements
On acquisition of investments in associates, the purchase method is used, cf. Business Combinations.
In the consolidated financial statements investments in associates are recognized according to the equity method. Investments in associates are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the Group's accounting policies minus or plus the proportionate share of unrealized intra-group profits and losses and plus the carrying amount of goodwill.

Profit (Loss) from Investments in Associates
The proportionate share of the profit (loss) after tax of the individual associates is recognized in the income statement of the Group after elimination of the proportionate share of intra-group profits (losses)

5.8 Other non-cash adjustments and reconciliation of cash and cash equivalents

DKK million	2017	2016
Share-based payment (granted)	22	22
(Gain) loss on divestment of operations	-	3
Provision for bad debt, inventory write-downs, etc.	36	18
Adjustment of provisions	48	(42)
Total	**106**	**1**

Reconciliation of cash and cash equivalents, end of period

DKK million	2017	2016
Cash and cash equivalents, continuing operations	526	178
Cash and cash equivalents, discontinued operations	-	29
Total	**526**	**207**

5.9 Lease obligations

DKK million	2017	2016
Future lease obligations are distributed as follows:		
Operating leases:		
Less than one year	141	132
Between one and five years	212	241
More than five years	71	89
Total	**424**	**462**

Operating leases primarily relate to lease of property on market terms in Denmark, the United States and the United Kingdom. The remaining lease terms are between one and fifteen years.

Operating leases include rental obligations related to properties in Denmark in the amount of DKK 14 million (2016: DKK 9 million). DKK 0 million (2016: DKK 1 million) of the rental obligation in Denmark is provided for in the balance sheet in connection with vacating the premises.

Lease payments recognized in the income statement relating to operating leases amount to DKK 165 million (2016: DKK 140 million).

§ Accounting policies

Rental and Lease Matters

Leases that do not meet the criteria for classification as a financial asset are treated as operating leases. Operating lease payments are recognized in the income statement over the term of the lease

5.10 Fees to auditors appointed at the annual general meeting

DKK million	2017	2016
Audit fees	(7)	(6)
Total	**(7)**	**(6)**
Other assistance:		
Other assurance related services	(5)	(6)
Tax assistance and advice	(2)	(2)
Other services	(1)	-
Total	**(8)**	**(8)**
Total	**(15)**	**(14)**

Consolidated audit fees include DKK 3 million (2016: DKK 3 million) to Ernst & Young P/S. Consolidated other assistance includes DKK 7 million (2016: DKK 6 million) to Ernst & Young P/S, primarily related to other assurance related services in connection with the divestment of GN Otometrics, tax and accounting advisory services related to bonds issued as well as financial due diligence work.

5.11 Related parties

Please refer to note 12 Related party transactions in the parent company financial statements.

Companies in the GN Group

	Domicile	Currency	Ownership %	Share capital
GN Store Nord A/S	Denmark	DKK		582,736,856
GN Ejendomme A/S	Denmark	DKK	100	10,625,000
GN Audio A/S	Denmark	DKK	100	34,103,000
GN Audio Australia Pty Ltd.	Australia	AUD	100	2,500,000
GN Áudio Brasil Importacão & Comércio Ltda.	Brazil	BRL	100	407,820
GN Netcom (Canada), Inc.	Canada	CAD	100	1,000
GN Audio (China) Ltd.	China	USD	100	8,000,000
GN Audio Logistic (Xiamen) Ltd.	China	USD	100	500,000
GN Audio (Shanghai) Co., Ltd.	China	CNY	100	15,481,000
GN Audio France SA	France	EUR	100	80,000
GN Audio Germany GmbH	Germany	EUR	100	51,129
GN Audio Hong Kong Limited	Hong Kong	HKD	100	2,000,000
GN Audio India Private Limited	India	INR	100	40,000,000
GN Audio Italia s.r.l.	Italy	EUR	100	10,200
GN Audio Japan Ltd.	Japan	JPY	100	10,000,000
GN Audio Benelux B.V.	Netherlands	EUR	100	18,000
GN Audio Singapore Pte. Ltd.	Singapore	SGD	100	700,000
GN Audio Spain, S.A.	Spain	EUR	100	60,111
GN Audio Sweden AB	Sweden	SEK	100	5,100,000
GN Audio UK Ltd.	United Kingdom	GBP	100	100,000
GN Audio USA Inc.	USA	USD	100	35,900,000
GN Hearing A/S	Denmark	DKK	100	63,787,900
GN Hearing Australia Pty. Ltd.	Australia	AUD	100	4,000,002
GN Hearing Austria GmbH	Austria	EUR	100	500,000
GN Hearing Brazil	Brazil	BRL	100	1,019,327
GN Hearing Care Canada Ltd.	Canada	CAD	100	8,435,000
5837946 Manitoba, Ltd.	Canada	CAD	100	10,000
810720 Alberta, Ltd.	Canada	CAD	100	50,000
GN ReSound Shanghai Ltd.	China	CNY	100	20,491,300
GN ReSound China Ltd.	China	CNY	100	34,000,000
GN GROC Ltd.	China	CNY	100	4,138,493
GN Hearing Czech Republic spol. s r.o	Czech Republic	CZK	100	102,000
Interton Danmark A/S	Denmark	DKK	100	500,000
Beltone Europe Holdings ApS	Denmark	DKK	100	200,000
Dansk Hørecenter ApS	Denmark	DKK	100	130,000
GN Hearing Finland Oy/Ab	Finland	EUR	100	55,502
GN Hearing SAS	France	EUR	100	285,957
GN Hearing GmbH	Germany	EUR	100	296,549
GN ReSound GmbH Hörtechnologie	Germany	EUR	100	2,162,253
GN Hearing India Private Limited	India	INR	100	20,983,210
GN Hearing S.r.l.	Italy	EUR	100	181,190
GN Hearing Japan K.K	Japan	JPY	100	499,000,000
GN Hearing Korea., Ltd	Korea	KRW	100	205,030,000
GN Hearing (Malaysia) Sdn Bhd	Malaysia	RM	100	500,000
GN Hearing Benelux B.V.	Netherlands	EUR	100	680,670
GN Hearing New Zealand Limited	New Zealand	NZD	100	2,000,000
GN Hearing Norway AS	Norway	NOK	100	2,000,000
GN Hearing RUS LLC	Russia	RUB	100	10,000
GN Hearing Pte. Ltd.	Singapore	SGD	100	1,740,000
Interton Slovakia S.R.O	Slovakia	SLK	85	170,000
GN Hearing Care S.A.	Spain	EUR	100	66,110
GN Hearing Sverige AB	Sweden	SEK	100	100,000
GN Hearing Switzerland AG	Switzerland	CHF	100	500,000
GN Hearing UK Ltd	United Kingdom	GBP	100	7,376,000
GN US Holdings Inc.	USA	USD	100	34,000,000
GN Hearing Care Corporation	USA	USD	100	190,000
GN ReSound Holdings, Inc.	USA	USD	100	0
Beltone Holdings II Inc.	USA	USD	100	30
Beltone Holdings III, Inc.	USA	USD	100	30
Beltone Holdings IV, Inc.	USA	USD	100	30
Beltone Holdings V, Inc.	USA	USD	100	30
Beltone Hearing Care Foundation	USA	USD	100	0
Beltone Corporation	USA	USD	100	30
American Hearing Systems, LLC	USA	USD	100	1,000
Audio Electronics Inc.	USA	USD	100	0
Audigy Group, LLC	USA	USD	100	0
Audigy Medical LLC	USA	USD	100	0
Audigy Venture LLC	USA	USD	100	0
Associates				
Audio Nova S.R.L.	Romania	RON	49	1,000
Himpp A/S	Denmark	DKK	11	1,800,000
HIMSA A/S	Denmark	DKK	25	1,000,000
HIMSA II A/S	Denmark	DKK	17	600,000
Himsa II K/S	Denmark	DKK	15	3,250,000
K/S Himpp	Denmark	DKK	9	140,703,360

Note: A few minor companies have been omitted from the list.

In this annual report the following financial terms are used:

Operating profit (loss)		Profit (loss) before tax and financial items.
EBITDA		Operating profit (loss) before depreciation and impairment of property, plant and equipment, amortization and impairment of intangible assets, except development projects, impairment of goodwill and gains (losses) on divestment of operations etc. but includes 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. but includes amortization of development projects.
Convertible Bond		EUR 225 million senior unsecured zero coupon bonds due 2022 with detachable unsecured warrant units expiring 2022, refer to note 4.2 Financial Risk.
Non-IFRS measures		The use of non-IFRS measures is explained in note 1.3 Non-IFRS measures and 2.5 Income statement classified by function.

Key Ratio Definitions

Organic growth	=	$\frac{\text{Absolute organic sales growth}}{\text{Sales in comparative period}}$
		Organic growth is a measure of growth excluding the impact of acquisitions, divestments and foreign exchange adjustments from year-on-year comparisons.
Net working capital (NWC)	=	Inventories + receivables + other operating current assets - trade payables - other operating current liabilities
Net interest bearing debt (NIBD)	=	Bank loans and issued bonds - Cash and cash equivalents
Dividend payout ratio	=	$\frac{\text{Total dividend}}{\text{Profit (loss) for the year}}$
Gross margin	=	$\frac{\text{Gross profit}}{\text{Revenue}}$
EBITA margin	=	$\frac{\text{EBITA}}{\text{Revenue}}$
ROIC (Return on invested capital including goodwill)	=	$\frac{\text{EBITA}}{\text{Average invested capital including goodwill}}$
Invested capital	=	NWC + property, plant and equipment and intangible assets + loans to dispensers of GN Hearing products + ownership interests – provisions
Cash conversion	=	$\frac{\text{Free cash flow excl. company acquisitions and divestments}}{\text{EBITA}}$
Return on equity (ROE)	=	$\frac{\text{Profit (loss) for the year}}{\text{Average equity of the Group}}$
Equity ratio	=	$\frac{\text{Equity of the Group}}{\text{Total assets}}$
Earnings per share, basic (EPS)	=	$\frac{\text{Profit (loss) for the year}}{\text{Average number of shares outstanding}}$
Earnings per share, fully diluted (EPS diluted)	=	$\frac{\text{Profit (loss) for the year}}{\text{Average number of shares outstanding, fully diluted}}$
Market capitalization		Number of shares outstanding x share price at the end of the period
Outstanding shares		Number of shares listed - treasury shares

Parent company Financial statements 2017

Financial statements

Notes to the parent financial statements

Notes – Income statement

Notes – Balance sheet

Notes – Other disclosures

Income statement

DKK million	Note	2017	2016
Revenue		129	20
Gross profit		**129**	**20**
Development costs		(56)	(6)
Management and administrative expenses	1,2,3	(194)	(79)
Operating profit (loss)		**(121)**	**(65)**
Share of profit after tax in subsidiaries	7	1,290	1,120
Financial income	4	122	114
Financial expenses	4	(148)	(162)
Profit (loss) before tax		**1,143**	**1,007**
Tax on profit (loss)	5	40	26
Profit (loss) for the year		**1,183**	**1,033**
Proposed profit appropriation/distribution of loss			
Transferred to reserve for net revaluation according to the equity method		1,290	(2,880)
Retained earnings		(289)	3,735
Proposed dividends for the year		182	178
		1,183	**1,033**

Statement of comprehensive income

DKK million	2017	2016
Profit (loss) for the year	**1,183**	**1,033**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Other changes in equity in subsidiaries	11	(4)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Adjustment of cash flow hedges	19	(19)
Tax relating to this item of other comprehensive income	(3)	4
Foreign exchange adjustments, etc.	(802)	198
Other changes in equity in subsidiaries	101	(30)
Comprehensive income for the year	**509**	**1,182**

Balance sheet at December 31

DKK million	Note	2017	2016
Assets			
Intangible assets	6	192	81
Investments in subsidiaries	7	7,542	10,833
Amounts owed by subsidiaries	10	1,191	766
Total non-current assets		**8,925**	**11,680**
Other receivables	10	47	7
Cash and cash equivalents		265	-
Total current assets		**312**	**7**
Total assets		**9,237**	**11,687**
Equity and liabilities			
Share capital		583	619
Other reserves		(15)	(583)
Proposed dividends for the year		182	178
Retained earnings		4,033	5,406
Total equity		**4,783**	**5,620**
Bank loans and issued bonds	10, 14	3,508	3,527
Deferred tax liabilities	8	171	174
Total non-current liabilities		**3,679**	**3,701**
Bank loans	10, 14	11	47
Trade payables	10	30	13
Tax payables		2	9
Amounts owed to subsidiaries	10, 14	665	2,218
Other payables		67	79
Total current liabilities		**775**	**2,366**
Total equity and liabilities		**9,237**	**11,687**

Statement of cash flow

DKK million	Note	2017	2016
Operating activities			
Operating profit (loss)		(121)	(65)
Depreciation, amortization and impairment		23	20
Other non-cash adjustments	13	-	(6)
Cash flow from operating activities before changes in working capital		**(98)**	**(51)**
Change in receivables		(39)	1
Change in trade payables and other payables		21	7
Total changes in working capital		**(18)**	**8**
Cash flow from operating activities before financial items and tax		**(116)**	**(43)**
Interest and dividends, etc. received		4,010	102
Interest paid		(68)	(156)
Tax paid, net		28	46
Cash flow from operating activities		**3,854**	**(51)**
Investing activities			
Investments in intangible assets		(134)	(5)
Disposal of intangible assets		-	13
Amounts owed by subsidiaries		(425)	-
Cash flow from investing activities		**(559)**	**8**
Cash flow from operating and investing activities (free cash flow)		**3,295**	**(43)**
Financing activities			
Increase of long-term loans		-	1,231
Increase of short-term loans		-	233
Decrease of long-term loans	14	(1,599)	-
Decrease of short-term loans and amounts owed to subsidiaries	14	(1,534)	-
Net proceeds from issue of bond-with-warrant units (convertible bonds)	14	1,636	-
Paid dividends		(161)	(149)
Purchase/sale of treasury shares		(1,372)	(1,272)
Cash flow from financing activities		**(3,030)**	**43**
Net cash flow		**265**	**-**
Cash and cash equivalents, beginning of period		-	-
Cash and cash equivalents, end of period		**265**	**-**

Statement of equity

DKK million	Share capital*	Additional paid-in capital (Other reserves)	Hedging reserve (Other reserves)	Treasury shares (Other reserves)	Reserve according to the equity method (Other reserves)	Proposed dividends for the year	Retained earnings	Total equity
Balance sheet total at December 31, 2015	**649**	**207**	**(13)**	**(1,360)**	**3,630**	**161**	**2,490**	**5,764**
Profit (loss) for the period	-	-	-	-	(2,880)	-	3,913	1,033
Adjustment of cash flow hedges	-	-	(19)	-	-	-	-	(19)
Other changes in equity in subsidiaries	-	-	-	-	(28)	-	-	(28)
Foreign currency translation adjustments of investments in subsidiaries etc.	-	-	-	-	198	-	-	198
Tax relating to other comprehensive income	-	-	4	-	(6)	-	-	(2)
Total comprehensive income for the year	**-**	**-**	**(15)**	**-**	**(2,716)**	**-**	**3,913**	**1,182**
Reduction of the share capital	(30)	(207)	-	1,036	-	-	(799)	-
Other changes in equity in subsidiaries	-	-	-	-	22	-	-	22
Purchase of ownership interests in subsidiaries by payment in treasury shares	-	-	-	99	-	-	(32)	67
Tax related to share-based incentive plans	-	-	-	-	6	-	-	6
Purchase/sale of treasury shares	-	-	-	(1,272)	-	-	-	(1,272)
Proposed dividends for the year*	-	-	-	-	-	178	(178)	-
Paid dividends	-	-	-	-	-	(149)	-	(149)
Dividends, treasury shares	-	-	-	-	-	(12)	12	-
Balance sheet total at December 31, 2016	**619**	**-**	**(28)**	**(1,497)**	**942**	**178**	**5,406**	**5,620**
Profit (loss) for the period	-	-	-	-	1,290	-	(107)	1,183
Adjustment of cash flow hedges	-	-	19	-	-	-	-	19
Other changes in equity in subsidiaries	-	-	-	-	106	-	-	106
Foreign currency translation adjustments of investments in subsidiaries etc.	-	-	-	-	(802)	-	-	(802)
Tax relating to other comprehensive income	-	-	(3)	-	6	-	-	3
Total comprehensive income for the year	**-**	**-**	**16**	**-**	**600**	**-**	**(107)**	**509**
Reduction of the share capital	(36)	-	-	1,193	-	-	(1,157)	-
Value of warrants issued with bonds	-	-	-	-	-	-	76	76
Other changes in equity in subsidiaries	-	-	-	-	22	-	-	22
Purchase of ownership interests in subsidiaries by payment in treasury shares	-	-	-	90	-	-	(20)	70
Tax related to share-based incentive plans	-	-	-	-	19	-	-	19
Purchase/sale of treasury shares	-	-	-	(1,372)	-	-	-	(1,372)
Proposed dividends for the year*	-	-	-	-	-	182	(182)	-
Paid dividends	-	-	-	-	-	(161)	-	(161)
Dividends, treasury shares	-	-	-	-	-	(17)	17	-
Balance sheet total at December 31, 2017	**583**	**-**	**(12)**	**(1,586)**	**1,583**	**182**	**4,033**	**4,783**

* The nominal value of all shares outstanding is DKK 4.00 (2016 DKK 4.00) per share

**Equivalent to DKK 1.25 per share (2016: DKK 1.15 per share)

The reserve according to the equity method includes foreign exchange adjustments of DKK (1,311) million (2016 DKK (540) million).

Retained earnings, which are available for distribution from the Parent Company amounts to DKK 2,617 million (2016 DKK 4,059 million).

1 Staff costs

DKK million	2017	2016
Wages, salaries and remuneration	(94)	(62)
Pensions	(9)	(5)
Total	**(103)**	**(67)**
Executive Management remuneration can be specified as follows:		
Marcus Desimoni, CFO of GN Store Nord*	(7.4)	(8.0)
Anders Boyer, CFO of GN Store Nord until February 14, 2016*	-	(1.1)
Total	**(7.4)**	**(9.1)**
Staff costs are included in Management and administrative expenses.		
Board of Directors remuneration	(5.0)	(5.0)
Average number of employees	144	79
Number of employees, year-end	148	82

*) Does not include share based payments.

For information regarding Executive Management and Board of Directors remuneration please refer to note 5.3 in the consolidated financial statements.

2 Depreciation, amortization and impairment

Amortization and impairment of intangible assets of DKK 23 million, are recognized in the Income Statement as Management and administrative expenses (2016: DKK 20 million).

3 Fees to auditors appointed at the annual general meeting

DKK million	2017	2016
Audit fees	(1)	(1)
Total	**(1)**	**(1)**
Other assistance:		
Other assurance related services	(5)	(5)
Tax assistance and advice	(1)	(1)
Other services	(1)	-
Total	**(7)**	**(6)**
Total	**(8)**	**(7)**

Other assistance is described in note 5.10 in the consolidated financial statements.

4 Financial income and expenses

DKK million	2017	2016
Financial income		
Interest income from subsidiaries*	51	75
Interest income from bank balances*	12	25
Financial income, other	3	2
Foreign exchange gain	56	12
Total	**122**	**114**
Financial expenses		
Interest expense to subsidiaries*	(60)	(86)
Interest expenses on bank loans and issued bonds	(52)	(56)
Financial expenses, other	(18)	(14)
Fair value adjustments of derivative financial instruments and impairments	(12)	-
Foreign exchange loss	(6)	(6)
Total	**(148)**	**(162)**

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

5 Tax

DKK million	2017	2016
Tax on profit (loss)		
Current tax for the year	39	18
Deferred tax for the year	(7)	5
Adjustment to current tax in respect of prior years	(2)	2
Adjustment to deferred tax in respect of prior years	10	1
Total	**40**	**26**
Reconciliation of effective tax rate		
Danish tax rate	22.0%	22.0%
Non-deductible expenses	0.1%	0.1%
Adjustment of tax with respect to prior years	(0.8)%	0.0%
Share of profits (loss) in subsidiaries	(24.8)%	(24.5)%
Other	0.0%	(0.2)%
Effective tax rate	**(3.5)%**	**(2.6)%**

In 2017, the parent company paid preliminary taxes of DKK 218 million in Danish corporation tax for the year (2016 DKK 166 million).

6 Intangible assets

DKK million	Development projects, developed in-house	Software	Total
Cost at January 1	-	168	168
Additions	74	60	134
Cost at December 31	74	228	302
Amortization and impairment at January 1	-	(87)	(87)
Amortization	-	(23)	(23)
Amortization and impairment at December 31	-	(110)	(110)
Carrying amount at December 31, 2017	**74**	**118**	**192**
Cost at January 1	-	188	188
Additions	-	5	5
Disposals	-	(25)	(25)
Cost at December 31	-	168	168
Amortization and impairment at January 1	-	(79)	(79)
Amortization	-	(20)	(20)
Disposals	-	12	12
Amortization and impairment at December 31	-	(87)	(87)
Carrying amount at December 31, 2016	**-**	**81**	**81**

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

7 Investments in subsidiaries

DKK million	2017	2016
Cost at January 1	5,891	5,824
Additions, capital contribution	70	67
Other adjustments	(2)	-
Cost at December 31	**5,959**	**5,891**
Value adjustment at January 1	4,942	3,630
Share of profit after tax in subsidiaries	1,290	1,120
Foreign currency translation adjustments	(802)	198
Direct equity postings in subsidiaries	153	(6)
Dividends received	(4,000)	-
Value adjustments at December 31	**1,583**	**4,942**
Carrying amount at December 31	**7,542**	**10,833**

Group companies are listed on page 99.

8 Deferred tax

DKK million	2017	2016
Deferred tax, net		
Deferred tax at January 1, net	(174)	(180)
Adjustment in respect of prior years	10	1
Deferred tax for the year recognized in profit (loss) for the year	(7)	5
Deferred tax at December 31, net	**(171)**	**(174)**
Deferred tax, net relates to:		
Intangible assets	(26)	(18)
Retaxation	(127)	(152)
Provisions	(20)	(5)
Other	2	1
Total	**(171)**	**(174)**

9 Contingent assets and liabilities

Please refer to note 5.6 Contingent liabilities in the consolidated financial statements.

The company is jointly taxed with all Danish subsidiaries. The company is jointly and severally liable with the other companies in the joint taxation for Danish corporate taxes and withholding taxes on dividend, interests and royalties within the joint taxation.

10 Financial instruments and financial risk

Contractual maturity analysis for financial liabilities

DKK million	Less than one year	Between one and five years	More than five years	Total
2017				
Issued bonds	-	1,577	-	1,577
Long-term bank loans	74	1,857	-	1,931
Short-term bank loans	11	-	-	11
Trade payables	30	-	-	30
Amounts owed to subsidiaries	-	665	-	665
Total non-derivative financial liabilities	115	4,099	-	**4,214**
Derivative financial liabilities	-	25	-	25
Total financial liabilities	**115**	**4,124**	**-**	**4,239**
2016				
Long-term bank loans	74	3,453	-	3,527
Short-term bank loans	47	-	-	47
Trade payables	13	-	-	13
Amounts owed to subsidiaries	-	2,218	-	2,218
Total non-derivative financial liabilities	134	5,671	-	5,805
Derivative financial liabilities	-	38	-	38
Total financial liabilities	**134**	**5,709**	**-**	**5,843**

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

10 Financial instruments and financial risk (Continued)

Categories of financial assets and liabilities

DKK million	2017	2016
Other receivables	47	7
Receivables from subsidiaries	1,191	766
Loans and receivables	**1,238**	**773**
Issued bonds	1,577	-
Bank loans, non-current	1,931	3,453
Bank loans	11	121
Trade payables	30	13
Amounts owed to subsidiaries	665	2,218
Financial liabilities measured at amortized cost	**4,214**	**5,805**
Derivative financial instruments included in Other payables	25	38
Financial liabilities measured at fair value	**25**	**38**

The fair value of issued bonds (zero coupon) amounted to DKK 1,603 million at December 31, 2017. For other financial assets and liabilities, the fair value is approximately equal to the carrying amount. GN Store Nord's bank loans carry floating interest rates and are primarily funded based on short term EURIBOR rates.

Derivative financial instruments
Cash flow hedges, interest rate swap

	2017			2016		
	Contract amount, net	Fair value, assets	Fair value, liabilities	Contract amount, net	Fair value, assets	Fair value, liabilities
EUR*	1,741	-	25	2,409	-	38
Total	**1,741**	**-**	**25**	**2,409**	**-**	**38**

* Interest rate swaps denominated in EUR

GN has hedged future interest rates with interest rate swaps. The fair value of the interest rate swaps is determined using forward interest rates and can be categorized as level 2 (observable inputs) in the fair value hierarchy.

DKK million	2017	2016
Fair value adjustment for the year recognized in Other comprehensive income	19	(19)

11 Outstanding shares and treasury shares

For information regarding outstanding shares and treasury shares please refer to note 4.1 Outstanding shares and treasury shares in the consolidated financial statements.

Funding, liquidity and capital structure is managed at Group level, please refer to note 4.2 Financial risk and financial instruments in the consolidated financial statements.

12 Related party transactions

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

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

Group companies are listed on page 99.

Board of Directors, Executive Management and Senior Employees
Management remuneration and incentive plans are described in notes 5.3 Remuneration of the board of directors and executive management and 5.4 Incentive plans in the consolidated financial statements.

Group enterprises and associates
Trade with group enterprises and associates comprised:

DKK million	2017	2016
Sale of services to group enterprises	227	133
Lease income from group enterprises	13	14
Sale of intangible assets	-	13
Purchase of services from group enterprises	(58)	(27)
Lease costs paid to group enterprises	(16)	(15)
Purchase of intangible assets	-	(5)

Transactions with group enterprises are eliminated in the consolidated financial statements in accordance with GN Store Nord's Accounting Policies. Purchase of products and services are bought from group enterprises on normal commercial terms and conditions.

The parent company's balances with group enterprises at December 31, 2017 are recognized in the balance sheet. Interest income and expenses with respect to group enterprises are disclosed in note 4. Further, balances with group enterprises comprise trade balances related to the purchase and sale of goods and services.

Sale of services to group enterprises consists of facility services, canteen services, management fee and IT costs. Purchase of services from group enterprises mainly consists of facility services and canteen services. Furthermore, the parent company has purchased development services on market terms from subsidiaries related to the exploring research projects undertaken in GN Other.

No transactions have been carried out with the Board of Directors, the Executive Management, senior employees, major shareholders or other related parties, apart from remuneration disclosed in notes 5.3 Remuneration of the Board of Directors and Executive Management and 5.4 Incentive plans in the consolidated financial statements.

13 Other non-cash adjustments

DKK million	2017	2016
Adjustment of provisions	-	(6)
Total	**-**	**(6)**

14 Liabilities from financing activities

DKK million	Bank loans	Issued bonds	Bank loans, current	Amounts owed to subsidiaries	Total
Liabilities at January 1	3,527	-	47	2,218	5,792
Cash flows	(1,599)	1,560	(36)	(1,498)	(1,573)
Foreign exchange adjustments	3	4	-	(55)	(48)
Non-cash interest expenses	-	13	-	-	13
Liabilities at December 31, 2017	**1,931**	**1,577**	**11**	**665**	**4,184**

The total cash proceeds from the issue of bonds of DKK 1,636 million include DKK 76 million posted to equity as value of warrants.

15 Accounting policies

The financial statements for 2017 of the parent company, GN Store Nord A/S have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for annual reports of listed companies. The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments at fair value.

The accounting policies for the financial statements of the parent company are unchanged from the last financial year and are the same as for the consolidated financial statements with the following additions.

Supplementary accounting policies for the parent company
Investments in subsidiaries

Revenue in the parent company primarily relates to services rendered to GN Group companies during the year.

Investments in subsidiaries are accounted for using the equity method whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the share of the subsidiaries net assets. The share of the subsidiaries profit or loss, less unrealized intra-Group profits, is included in the income statement of the parent company and the share of the subsidiaries other comprehensive income is included in other comprehensive income of the parent company. Received dividends reduce the carrying amount of the investments in subsidiaries.

To the extent net profit in subsidiaries exceeds declared or proposed dividends from such companies, net revaluation of investments in subsidiaries is transferred to Net revaluation reserve under Equity according to the equity method.

Managements report Parent company

The GN Parent Company reports GN Corporate level activities and investments into GN Hearing and GN Audio. Revenue in 2017 grew DKK 109 million, primarily due to changes in Group Functions. Costs increased during the year due to the increased activities related to research initiatives at Corporate level and changes in Group Functions. The GN Parent Company applies the equity method for recognizing share of profit and investments in subsidiaries and profit for the year and total equity developed in line with the Group's overall development. Cash flow from operations was positively impacted by dividends received in the total amount of DKK 4,010 million in 2017 (2016: DKK 102 million).

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 Store Nord A/S Annual Report 2017.

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

In our opinion the consolidated financial statements and the parent company financial statements give a true and fair view of the group's and the parent company's assets, liabilities and financial position on December 31, 2017 and of the results of the group's and the parent company's operations and cash flows for the financial year January 1 - December 31, 2017.

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

We recommend that the annual report for 2017 be approved at the Annual General Meeting.

Ballerup, February 7, 2018

Executive Management

Anders Hedegaard
CEO, GN Store Nord & GN Hearing

René Svendsen-Tune
CEO, GN Store Nord & GN Audio

Marcus Desimoni
CFO, GN Store Nord & GN Hearing

Board of Directors

Per Wold-Olsen
Chairman

William E. Hoover, Jr.
Deputy chairman

Wolfgang Reim

Ronica Wang

Hélène Barnekow

Carsten Krogsgaard Thomsen

Leo Larsen

Nikolai Bisgaard

Morten Andersen

Independent auditor’s report

To the shareholders of GN Store Nord A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of GN Store Nord A/S for the financial year 1 January – 31 December 2017, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2017 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

Appointment of auditor

We were initially appointed as auditor of GN Store Nord A/S before 1995, and accordingly, we have to resign as auditor of the company at the general meeting in 2021 at the latest. We have been re-appointed annually at the general meeting for a total consecutive period of more than 23 years up to and including the financial year 2017.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2017. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Accordingly, our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Accounting for financial support arrangements

The Group has entered into financial support arrangements with certain of its dispensers, primarily in the US. The arrangements include providing financial support through loans and acquiring ownership interests.

Financial support arrangements were significant to our audit as the total carrying amount of DKK 755 million in loans and ownership interests at 31 December 2017 is material to the consolidated financial statements and because the accounting treatment includes judgements based on facts, circumstances and management assumptions. The arrangements are complex by nature as they often combine or link multiple elements of the commercial relationship with the dispenser. Areas of judgement include assessing the individual components of the arrangements, the classification of the investments and the recoverability of assets (impairment testing).

Additional details on financial support arrangements are provided in section 3.4 of the consolidated financial statements.

Our procedures in relation to the audit of financial support arrangements included:

- Assessing group accounting policies for compliance with IFRS.

- Evaluating Management's classification of investments and of the individual components of the financial support arrangements against a sample of underlying contracts and supporting documentation.
- Examining the principles for amortisation of supply agreements classified as intangible rights and recognition of any prepaid discounts against revenue against a sample of underlying contracts and supporting documentation.
- In respect of recoverability of the financial support arrangements, we examined payment histories and impairment tests prepared by Management as well as obtained external confirmations of the outstanding balances for selected loan arrangements.

Recognition and measurement of capitalised development costs

The Group capitalises development costs in accordance with IFRS, which prescribes capitalisation when certain criteria are met. Recognition and measurement of capitalised development costs were significant to our audit because the balance of DKK 1,159 million at 31 December 2017 is material to the consolidated financial statements and because the criteria for capitalisation and impairment testing are subject to judgement and estimates based on Management's assumptions, including consideration of anticipated technological developments within the audio and hearing care industry.

Additional details on capitalised development costs are provided in section 3.1 of the consolidated financial statements.

Our procedures in relation to the audit of recognition and measurement of capitalised development costs included:

- Assessing group accounting policies for compliance with IFRS and on a sample basis testing available documentation to consider whether the criteria for capitalisation were met.
- Testing on a sample basis the effectiveness of the Group's controls over capitalisation of development costs.
- Testing of the key assumptions applied by Management by means of comparison with business plans, historic performance and Management's assumptions regarding strategy, product life cycle, anticipated technological developments, market expectations and discount rates for selected development projects.

Revenue recognition

Revenue is recognised when the risks and rewards of the underlying products have been transferred to the customer and is measured taking account of incentives, returns and rebates earned by dispensers and customers. Due to the multitude and variety of contractual terms across the Group's markets, the estimation of incentives, returns and rebates is considered complex and therefore significant to our audit.

Additional details on revenue recognition are provided in section 2.1 of the consolidated financial statements.

Our procedures in relation to revenue recognition included:

- Considering the appropriateness of the Group's revenue recognition accounting policies, including those relating to incentives, returns and rebates and assessing compliance with IFRS.
- Testing on a sample basis the effectiveness of the Group's controls over correct timing of revenue recognition.
- Testing on a sample basis that incentives, returns and rebates have been recognised in the consolidated income statement in the correct period.
- Verifying selected sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the year-end date to supporting documentation and assessing whether those transactions were recognised in the correct period and in accordance with the applicable sales contracts.
- Applying data analytics to identify and test revenue journal entries on a sample basis.

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Management's responsibilities for the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent 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 Group's and the Parent 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 Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, February 7, 2018

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

Torben Bender	Jens Thordahl Nøhr
State Authorised	State Authorised
Public Accountant	Public Accountant
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