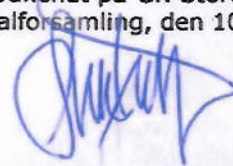


Fremlagt og godkendt på GN Store Nord's  
ordinær generalforsamling, den 10. marts 2016

Som dirigent:



GN

# Making Life Sound Better

Annual Report 2015

GN Store Nord A/S

# Contents

## 2

### MANAGEMENT'S REPORT

#### GROUP DEVELOPMENT 2015

2015 in figures	3
Foreword by the chairman	4
Making life sound better	6
Execution of strategy in 2015	9
Consolidated financial highlights	10
Group performance 2015	11
Financial outlook	13

## 16

### BUSINESS DEVELOPMENT

GN ReSound	16
GN Netcom	24
Corporate responsibility	32
Risk management	33

## 36

### SHAREHOLDER INFORMATION & GOVERNANCE

Shareholder information	36
Corporate governance	38
Board of directors	42
Executive management	44

## 45

### ADDITIONAL FINANCIAL INFORMATION

Quarterly financial highlights	46
Quarterly reporting by segment	47
Q4 segment disclosures	48
Foreign exchange impact	49

## 50

### FINANCIAL STATEMENTS

Consolidated - Financial statements 2015	51
Parent company - Financial statements 2015	97
Statement by the executive management and the board of directors	108
Independent auditors' report	109

# Our investment case

Through relentless execution of our strategy: **INNOVATION & GROWTH**, we create shareholder value based on our core competency within sound processing

### GN RESOUND

- Leader in customer-driven innovations based on differentiated 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

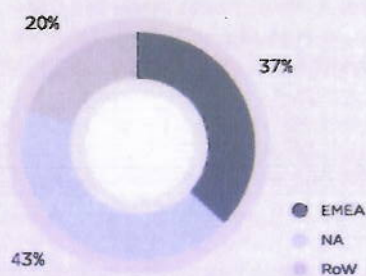
### GN NETCOM

- 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 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

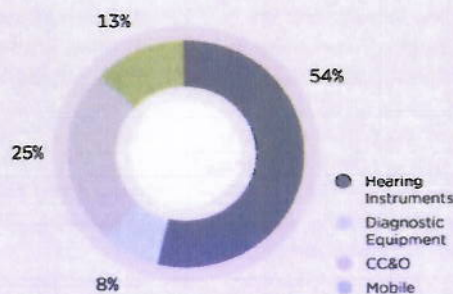
# 2015 in figures



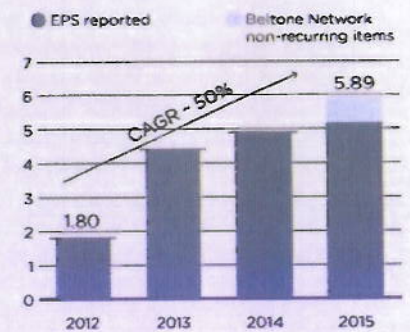
Revenue split by region



Revenue split on business units



EPS development (DKK)



# Foreword by the chairman

Relentless focus on commercialization of innovation delivered strong fundamental results in 2015 – and provides a solid platform for growth in 2016 and beyond

## MAKING LIFE SOUND BETTER

In recent years, we have transformed GN from a company in restructuring to a leader in innovation and growth. Our focus is to continuously improve our commercialization of innovation, including the way we do sales and marketing. We want to continue to change our company as well as our industries. Today we have a joint purpose across the GN group: MAKING LIFE SOUND BETTER. By combining knowledge in medical hearing instruments with professional and consumer headset competencies, GN is uniquely positioned to develop intelligent audio solutions that allow our users to "hear more, do more and be more" than they ever thought possible.

## THE YEAR 2015

2015 was a year with strong execution on our strategy for 2014 – 2016: INNOVATION & GROWTH. We have, both in GN ReSound and in GN Netcom, made significant progress in our quest to become more professional at commercializing innovation, thereby further strengthening our platform for continued growth in the coming years. 2015 was also a year with some unexpected factors, particularly the Beltone fraud case and the soft market conditions for GN Netcom in the first half of the year. While these circumstances were disturbing, both matters are now well behind us. Our fundamentals are good, and we have entered 2016 stronger than ever.

During 2015 we have – as planned – significantly upgraded our commercialization skillset with new hires in key positions, adding specific experience and knowhow in important functions. With our high ambition level, people changes were deliberate and an explicit part of our strategy for 2014 – 2016 under the enabler "enhancing organizational capabilities". The fact that we want to and need to be better at commercialization is why we have hired people from outside our industries into key management positions in sales and marketing. It is also the reason why we at the board level have added further commercialization, digital and APAC experience through last year's new board appointment of Ronica Wang.

GN ReSound's momentum is exceptionally strong – perhaps better than ever. This success is in part the result of new marketing and sales initiatives centered on a number

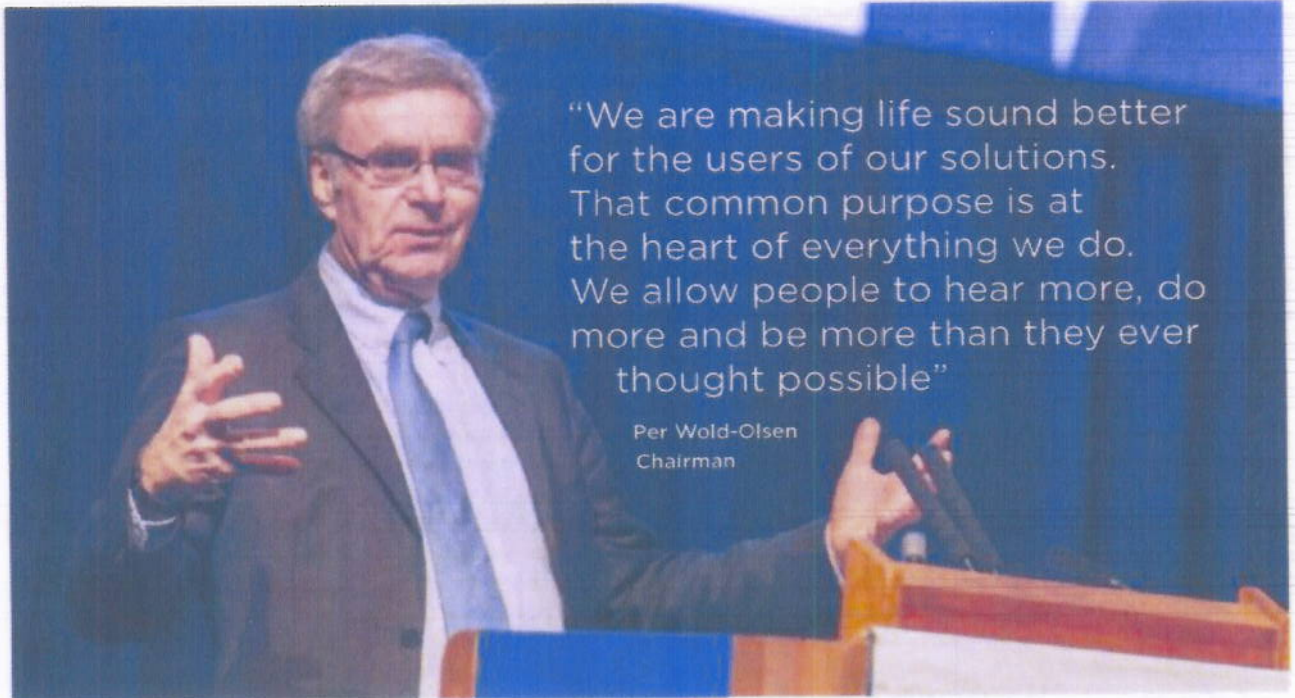
of important product launches. The growth in 2015 was broad-based across regions, channels and customers. The three largest markets in the world are all examples of our remarkable success in 2015: North America – including in the highly competitive Veterans Affairs channel – as well as Japan and Germany.

The product launches during 2015 – including the launch of our fourth generation of hearing aids based on the 2.4 GHz technology, ReSound LiNX<sup>2</sup>™ – clearly show that GN ReSound's innovation machine continues to run at full speed. We are determined to make sure that GN ReSound maintains its edge in product offerings – also in face of anticipated 2.4 GHz-based products from our competitors in 2016 – and we are truly excited about the successor of ReSound LiNX<sup>2</sup>, which will offer unprecedented user benefits and will be launched in line with GN ReSound's normal launch cycle.

During 2015, GN Netcom, like GN ReSound, made significant improvements in its approach to commercializing innovation. And, while 2015 proved to be a challenging year for GN Netcom, these improvements allowed us to achieve market share gains in the core parts of GN Netcom's business. Among other things, GN Netcom established a global marketing organization covering both the CC&O and Mobile divisions with significantly upgraded competencies and a higher degree of specialization, including digital marketing.

After very soft market conditions in the first half of the year for our Unified Communications (UC) business we returned, as projected, to normal growth rates in the second half. For 2016 and beyond, the growth of the UC market is supported by the significant investments made by the UC software providers, including Microsoft's upgrade from Lync to Skype for Business, with new cloud capabilities, further expanding the reach of UC into Small and Medium-sized Enterprises.

During 2015, GN Netcom launched new innovative Mobile products, including Jabra Sport Pace™ Wireless, an affordable sports headset. With this, GN Netcom took an important step in the re-positioning of the product offering in the Mobile segment towards products where music and voice converge beyond the traditional mono-segment, which faced significant challenges and negative growth in 2015.



Reflecting the continued strong business performance by GN ReSound and GN Netcom, and reflecting our strategy to distribute excess cash flow to our shareholders, GN has during 2015 distributed DKK 1.2 billion to its shareholders – an increase of more than 30% compared to 2014 – through share buyback programs and dividend.

In 2015, we have made significant progress within human resources (HR) and we are becoming truly professional in several areas. We are now in a much stronger position to attract and retain some of the best people and competencies available in the market.

While the share price performance over the last few years is very strong – with an increase of more than 50% during the last three years – we cannot be pleased with the negative share price development during 2015. The Beltone fraud case, the uncertainty caused by the soft market conditions for GN Netcom during first half of the year, as well as the significant attention surrounding patent litigations, were not predictable – and investors and analysts do not like negative surprises. These specific circumstances were, however, temporary in nature and they are now well behind us.

#### 2016 AND BEYOND

We are well positioned to continue to deliver on our financial targets for 2016 as set out in the strategy for 2014 – 2016 – just as we delivered on the ambitious targets in our

strategy for 2011 – 2013. In GN ReSound, we aim to continue to grow at least double the speed of the market, and in GN Netcom we aim to continue to grow with double digit rates in the core CC&O business. While continuing to invest in growth, we will – as previously communicated – ensure that the EBITA margin in both businesses continues to be in line with top-tier competitors.

Late this year, we will communicate our strategy for 2017 – 2019. But make no mistake: Profitable growth driven by innovation and commercialization will continue to be the core of our business also going forward. We will leverage the full end-to-end potential of GN and start to capture digital opportunities in order to take a leading position in our industries.

Our achievements in 2015, and our ability to deliver on our strategic plans for 2016 and beyond, are the product of the hard and dedicated work of our more than 5,000 employees throughout the world. On behalf of the board of directors, I want to congratulate and thank all employees for their contributions and success in efficiently changing the focus and priorities of GN.

Per Wold-Olsen  
Chairman

# Making life sound better

GN is uniquely positioned to combine knowledge in medical hearing instruments with professional and consumer headset competencies. With world leading expertise in the human ear, sound, wireless technologies, software and miniaturization, GN develops intelligent audio solutions allowing users to "hear more, do more and be more"

## UNITED BEHIND A COMMON PURPOSE AND VISION

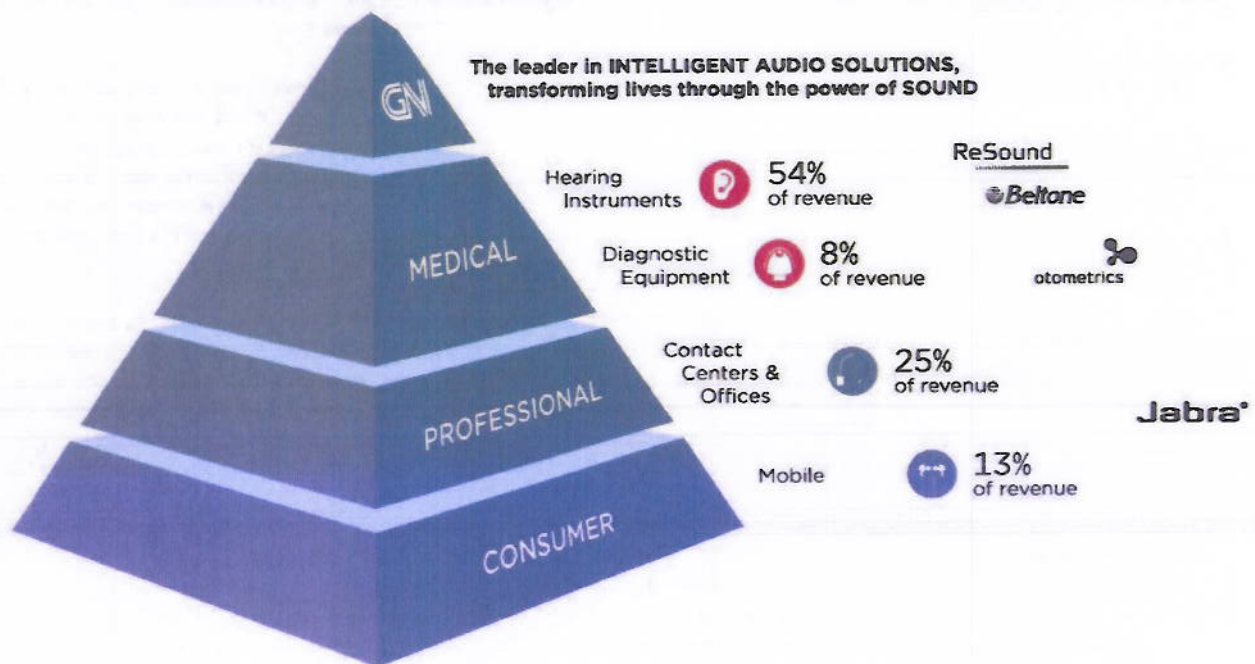
GN uniquely incorporates world-leading expertise in the human auditory system, sound and speech, wireless technologies, and software development, linking deep insight and knowledge from both the hearing aid and the headset industries - all under one roof.

By bringing the GN group of brands even closer together than today, sharing knowledge and expertise, GN can develop stronger intelligent audio solutions. This will give GN a resilient presence in the market as the group will further increase desirability, trust and credibility and thereby offer more appealing brands to our users.

In support of this GN has articulated a new purpose and vision that encapsulates the entire group and all its brands. GN's purpose is to **MAKE LIFE SOUND BETTER** and its newly articulated vision is to be **THE LEADER IN INTELLIGENT AUDIO SOLUTIONS, TRANSFORMING LIVES THROUGH THE POWER OF SOUND**. This marks a new chapter in the company's 146 years of history tying the group's divisions and activities closer together towards a common goal.

As a result, now more than ever, GN's leaders and employees are thinking and acting as one company, uniting behind this common vision and purpose. This will further strengthen GN's position as the only company with intelligent audio

## WORLD LEADING AUDIO SOLUTIONS EXPERTISE - ALL UNDER ONE ROOF



solutions expertise across consumer, professional and medical solutions under one roof, that let people hear more, do more and be more, thus spearheading the development of the "hearables" of the future.

**PIONEERING INTELLIGENT AUDIO SOLUTIONS**

Leading the way and pioneering bold innovations has always been embedded in GN's DNA. Supreme understanding of high quality sound in all its forms has helped GN pioneer new communication experiences, from wired to wireless - from the continental telegraph connections of the 19<sup>th</sup> century to the technologically advanced and user-friendly headsets and hearing aids of the 21<sup>st</sup> century.

In 1870, GN first connected the Far East, China and Japan, with the rest of the world via telegraphic cables. And, in this process, invented the code that to this day enables computerization of Chinese characters.

GN was first to market a mobile Bluetooth headset and pioneered hearing aids with digital sound processing. GN was first to utilize 2.4 GHz technology in hearing aids for direct connectivity and introduced the world's first Made for iPhone hearing aid with direct stereo sound streaming. For the first time, hearing aid users were provided with supreme spatial sound alongside seamless connectivity to a full range of accessories, including smartphones and tablets. GN launched the world's first professional active noise cancelation headphone certified for all leading Unified Communications (UC) platforms and launched the world's first wireless Dolby sports earbuds with integrated heart rate monitor.

**THE TRANSFORMATIONAL POWER OF SOUND**

Sound impacts human beings both physiologically and psychologically. For the hearing impaired, being unable to

communicate is debilitating. For the office worker, being unable to concentrate or take phone calls because of too much noise severely reduces productivity and can cause stress.

GN's Smart Hearing aids transform the lives of the hearing impaired: letting them rediscover the pleasure of gathering with friends and family, taking a phone call, feeling more confident at work and enjoying movies, music and TV programs.

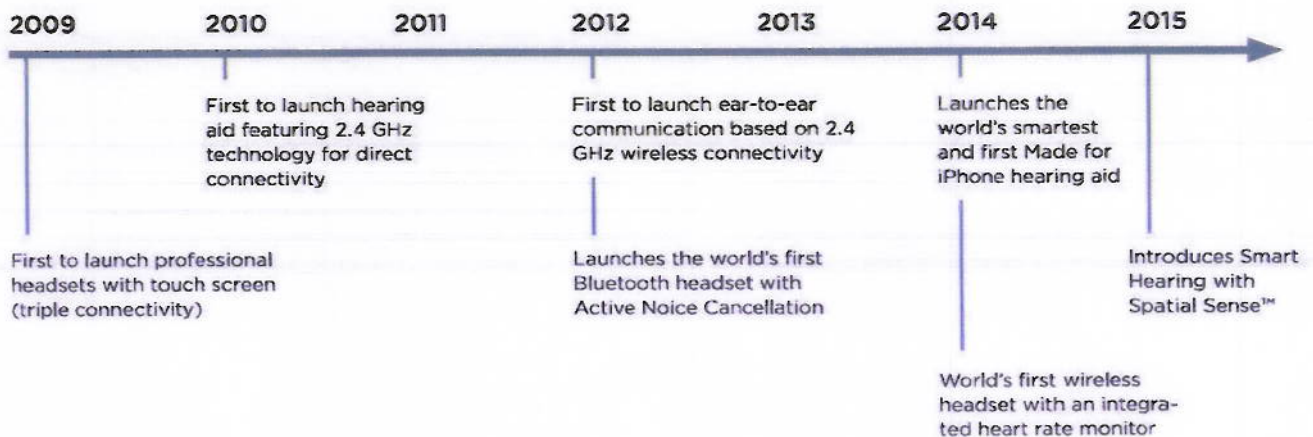
GN's headsets, for professional and personal use and earbuds for an active life style, have the capability to improve work productivity, optimize training to increase well-being and fitness levels or enhance the pleasure of listening to music.

**UTILIZING SOUND FOR MORE**

GN's unique combination of competencies enables the group to develop truly intelligent audio solutions, where a hearing aid or a headset does much more than just amplify speech and sound. They are comprehensive solutions that support the user in a variety of ways.

A hearing aid should obviously deliver a high-quality sound experience. But sublime audio is far from enough. Today's hearing aids should be simple and easy to use and offer a broad range of advantages for the user. A premium hearing aid should be able to connect directly to an iPhone so the user can easily get phone calls - or music - directly in their ear. It should be easy to adjust the hearing aid to different sound environments. At home, at work or on the go, the user should be able to wirelessly connect the hearing aids to any sound source - phone, TV, radio, computer etc. This and much more is already addressed with GN's comprehensive portfolio of Smart Hearing aids.

**GN INNOVATION BREAKTHROUGHS THAT HELP PEOPLE DO MORE**



The same pertains to a headset: high-quality sound is just not enough to satisfy today's consumer – at work, during sports or when enjoying music. GN's headsets all offer amazing sound quality for playing music, plus more. "More" can be solutions for noise reduction and increased concentration in open offices – and connecting to your mobile or PC phone. Or it could be sports earbuds with heart rate monitoring or in-ear coaching, which allow you to monitor your fitness progress.

#### THE INNOVATION POWERHOUSE

Today, GN is the only audio solutions company with world-leading expertise in ears, sound, wireless and miniaturization, linking deep insight and knowledge from both the hearing aid and the headset industries – all under one roof.

Researchers and scientists from across GN's R&D departments within headsets and hearing aids collaborate on new technology concepts. Sharing knowledge and ideas between different research groups, clusters and disciplines such as software, hardware, hearing science, neuroscience and psycholinguistics across the group is an integral element of GN's innovation powerhouse.

Additionally, GN sponsors external research centers and universities, and GN researchers work closely with scientists from across the world to stay at the forefront of scientific breakthroughs. World-leading scientists participate in the GN Scientific Advisory Board to provide GN with deep and forward-looking insight and valuable guidance from global state of the art research within current GN technology areas as well as potential new technologies in adjacent areas.

#### VAST GLOBAL FOOTPRINT

GN markets its intelligent audio solutions in more than 90 countries. The group has research centers in Denmark, USA, the Netherlands and China. Its main hearing aid manufacturing plants are located in Denmark, China and Malaysia. The group outsources the manufacturing of its headsets as part of cost optimization.

GN commands a vast and fine-meshed system of channels to reach target consumers. The Contact Centers & Offices business (CC&O) markets its professional solutions via regional distributors and value added resellers to corporate customers. A dedicated sales team works with the top 1,000 global enterprises, and fulfillment is handled via value added resellers. GN enters into close strategic alliances with large IT integration and communication solutions providers to continually expand its reach with corporate customers.

#### TOWARDS A FUTURE OF HEARABLES

At the International CES in Las Vegas, we were again reminded that the human ear is a crucial entry point that used intelligently can support a person with many more tasks than merely hearing sound. For people living with sight loss an intelligent headset solution from GN with compass, gyroscope, and GPS can let wearers know exactly where they are – e.g. which stores are nearby. And the ear is also a unique and precise source of multiple human data – such as heart rate, temperature, cadence or gravitational force.

Today, GN already utilizes much of this "ear data" to deliver a range of added benefits to users of sports earbuds with integrated in-ear heart rate monitor, motion sensors, etc. In the future, a variety of applications can be incorporated in both headsets and hearing aids for various performance, health or safety purposes.

Thus, "hearables" are hybrid devices that e.g. merge health tracking capabilities with high quality audio. Tomorrow's "hearables" will offer users an ever increasing range of features and functionalities. When, for instance, combining accurate heart rate readings and core body temperature levels from the ear with movement sensors and GPS readings, the possibilities for providing innovative and important new products, services and solutions are literally endless.

GN's ability to continue to develop revolutionizing new technology and transform these innovations into commercial solutions that solve real challenges for human beings is the foundation for the group's continued quest to provide people with intelligent audio solutions that let them hear more, do more and be more than they ever thought possible.

The mobile business sells via close partnerships with consumer electronics chains online and in brick-and-mortar stores as well as increasing e-commerce. PR, social media and online marketing are important tools to raise awareness among these consumers.

The hearing aid business predominantly sells business-to-business. The primary customer categories are independent hearing clinicians, larger hearing aid chains and public health organizations. GN's strategy is to enter into strategic partnership with these customers and not to engage directly in retail activities. These types of customers also buy the group's diagnostic equipment.



# Execution of strategy in 2015

## GN ReSound

### Increase marketing & sales efforts

- Achieved significant growth in key markets and channels worldwide, including Germany, Japan, and Veteran Affairs
- Enhanced marketing and sales initiatives centered around product launches during the year, including the launch of ReSound LiNX<sup>2</sup> - the 4<sup>th</sup> generation of hearing aids based on 2.4 GHz - as well as ReSound Enya in the essentials segment and ReSound ENZO<sup>2</sup> in the super power segment
- Established a Smart Hearing Alliance with Cochlear to develop and commercialize bimodal solutions for people using both implants and hearing aids



### Gain preferred supplier status

- Continued to strengthen the position as preferred partner by offering leading technology and by refraining from vertical integration
- Won Costco's Kirkland Signature 6 contract, underlining the leading technology and superior customer service provided by GN ReSound
- Continued to exploit the demand for long-term partnerships through financial support arrangements



### Accelerate innovative R&D

- Continued to develop innovative products with distinctive user benefits, fortifying GN ReSound's long-term technology advantage with a highly attractive and competitive product pipeline in 2016 and beyond
- Developed a full family of new and superior hearing aid offerings, ReSound LiNX<sup>2</sup> and Beltone Legend, as well as a 2<sup>nd</sup> generation of superior super power hearing aids, ReSound ENZO<sup>2</sup>
- Expanded its renowned sound expertise and innovative wireless technologies into lower priced solutions for the first time, with the launch of ReSound Enya

### Grow GN Otometrics into new channels and offerings

- Launched new features and enhancements in AURICAL that help hearing care professionals boost efficiency throughout the fitting process so there is more time for quality counseling and care
- Acquired Biomedica from Amplifon, strengthening GN Otometric's position in Italy

## GN Netcom

### Increase marketing and sales efforts

- New global marketing organisation with significantly upgraded competencies, including online marketing knowhow
- Increased investments in co-marketing with channel and retail partners to extend reach and impact, more than doubling the point of sale marketing display presence



### Key market initiatives

- Leveraged the strong CC&O product portfolio and improved sales execution to gain market share, for example, in North America and with global accounts
- Further strengthened its position as the world's leading supplier of UC headsets, for example, with the successful Jabra Evolve
- Maintained its leading position in the personal speaker category, for example, with the announcement of Jabra Speak 810 for mid-large sized meeting rooms
- Strengthened its partnerships with key US retailers in the consumer space, including Best Buy and Target



### Deeper and broader customer focus

- Continued to develop and commercialize innovative solutions with distinctive customer benefits, for example, with Jabra Evolve and with Jabra Speak 810

### Stronger online presence

- Further strengthened focus on digital as a key marketing platform with increased digital presence and uplift in digitally generated revenue

### Refine music portfolio

- Extended its product range with the Launch of Jabra Sports Coach and Jabra Sports Pace. Together with the already successful Jabra Sports Pulse, Jabra now offers a full portfolio of sports products addressing a market segment with very high growth
- Significantly outperformed the voice market in all key markets, fuelled by the launch of three new strong products: Jabra Eclipse, Jabra Boost and Jabra Steel

# Consolidated financial highlights

DKK million	2011	2012	2013	2014	2015
<b>GN ReSound</b>					
Revenue	3,450	3,896	4,179	4,469	5,175
- Hearing Instruments	3,060	3,423	3,636	3,892	4,526
- Otometrics	390	473	543	577	649
Organic growth	9%	6%	10%	8%	8%
- Hearing Instruments	9%	5%	10%	8%	9%
- Otometrics	5%	13%	10%	6%	2%
Gross profit margin*	60.8%	63.0%	65.5%	67.1%	65.8%
EBITA*	426	551	842	897	995
EBITA margin*	12.3%	14.1%	20.1%	20.1%	19.2%
EBITA reported	426	321	738	897	995
ROIC (EBITA/Invested capital)	9.2%	6.6%	14.6%	15.9%	15.8%
Free cash flow excl. company acquisitions and divestments	81	99	47	287	592
Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA)	19%	31%	6%	32%	59%
<b>GN Netcom</b>					
Revenue	2,106	2,355	2,612	2,871	3,229
- CC&O	1,400	1,530	1,591	1,854	2,148
- Mobile	706	825	1,021	1,017	1,081
Organic growth	9%	7%	18%	11%	2%
- CC&O	12%	5%	12%	18%	6%
- Mobile	3%	11%	27%	(1)%	(5)%
Gross profit margin	56.4%	54.2%	52.7%	53.6%	52.6%
EBITA	310	362	472	521	540
EBITA margin	14.7%	15.4%	18.1%	18.1%	16.7%
EBITA reported	310	362	472	521	540
ROIC (EBITA/Invested capital)	48.8%	57.1%	64.7%	56.5%	46.9%
Free cash flow excl. company acquisitions and divestments	358	235	178	340	271
Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA)	115%	65%	38%	65%	50%
<b>GN Store Nord</b>					
Revenue	5,564	6,251	6,791	7,340	8,404
Organic growth	9%	6%	13%	9%	6%
Gross profit margin*	59.2%	59.7%	60.6%	61.8%	60.7%
EBITA*	1,284	846	1,284	1,260	1,457
EBITA margin*	23.1%	13.5%	18.9%	17.2%	17.3%
EBITA reported	1,284	616	1,180	1,260	1,457
Operating profit (loss) reported	1,247	528	1,118	1,195	1,220
Financial items, net	(28)	(69)	(91)	(84)	(133)
Profit (loss) before tax reported	1,225	461	1,023	1,116	1,092
Effective tax rate	29%	30%	28%	29%	26%
Profit (loss) for the year reported	865	321	735	793	805
Total assets	11,181	8,199	8,963	10,229	11,176
Consolidated equity	6,878	5,542	5,330	5,667	5,764
Parent company equity	4,653	5,680	4,914	3,933	2,684
ROIC (EBITA/Invested capital)	16.1%	8.7%	19.6%	18.5%	19.0%
Earnings per share, basic (EPS)	4.31	1.80	4.40	4.89	5.16
Earnings per share, fully diluted (EPS diluted)	4.27	1.78	4.35	4.85	5.14
Investments in property, plant and equipment	(82)	(103)	(120)	(106)	(179)
Free cash flow excl. company acquisitions and divestments	297	2,756	93	480	743
Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA)	23%	447%	8%	38%	51%
Equity ratio	61.5%	67.6%	59.5%	55.4%	51.6%
Net interest-bearing debt	1,269	230	1,113	1,631	2,212
Net interest-bearing debt (period-end)/EBITDA	0.9	0.3	0.9	1.1	1.4
Payout ratio	16%	17%	18%	19%	20%
Share buybacks**	641	1,614	787	877	1,162
Outstanding shares, end of period (thousand)	192,974	170,486	164,740	159,592	152,254
Average number of outstanding shares, fully diluted (thousand)	202,604	180,613	168,891	163,619	156,734
Treasury shares, end of period (thousand)	15,386	23,211	8,589	8,429	9,937
Share price at the end of the period	48	82	133	135	125
Market capitalization	9,634	13,980	21,910	21,513	19,032

\* Excluding SMART restructuring costs

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

# Group performance 2015

In 2015, GN Store Nord continued to execute on the strategy for 2014 – 2016. Highly successful product launches and improved commercial excellence generated 14% revenue growth and further underlying margin expansion. GN enters 2016 in a very strong position for accelerated growth

## REVENUE

Based on highly successful product launches as well as further investments in marketing and sales, GN increased revenue to DKK 8,404 million – an increase of 14% compared to 2014. Excluding the development in foreign exchange rates the growth was 6%, with M&A having limited impact. Compared to 2014 GN increased revenue by more than DKK 1 billion.

## EBITA

Reported EBITA ended at DKK 1,457 million, an increase of 16% compared to 2014. The group EBITA in constant currencies increased by 7% (excluding the costs related to the abandoned M&A opportunity in 2014). In constant currencies the EBITA margin thereby ended at 18.7%, compared to 18.5% in 2014 (excluding the costs related to the abandoned M&A opportunity) – on track to deliver the guided underlying margin improvement from 2014 to 2016.

## NET PROFIT

Amortization of acquired intangible assets was DKK (77) million, while gain (loss) on divestment of operations etc. ended at DKK (10) million, in line with 2014. In Q2 2015, it was discovered that the VP of Finance in the Beltone

distribution network had committed accounting fraud. As a result of this discovery and the investigations conducted, a one-off loss of DKK 150 million related to 2012 – 2014 has been booked by GN ReSound in Q2 2015 in the line "Beltone Network non-recurring items" (no cash effect). Financial items ended at DKK (133) million. The effective tax rate was 26.3%, and the net profit thereby ended at DKK 805 million in line with indicated guidance.

## OTHER PERFORMANCE INDICATORS

The group cash conversion ended at 51% in 2015, reflecting an improvement of 13 percentage points compared to 2014. As expected and previously communicated, the improved cash conversion is primarily driven by GN ReSound. The improvement in GN ReSound was even stronger than expected, and management is pleased to see that GN ReSound already in 2015 generated a cash conversion in line with industry peers.

The return on invested capital (ROIC) was 19.0% in 2015 corresponding to an increase of 0.5 percentage points compared to 2014, which is however primarily explained by the abandoned M&A opportunity in 2014. ROIC is negatively impacted by the strengthening of the USD against DKK as

## Financial overview Q4 2015

DKK million	GN ReSound				GN Netcom				Group total*			
	Q4 2014	Constant currency growth	FX effect	Q4 2015	Q4 2014	Constant currency growth	FX effect	Q4 2015	Q4 2014	Constant currency growth	FX effect	Q4 2015
Revenue	1,226	+10%	+8%	1,453	894	+3%	+9%	1,005	2,120	+7%	+9%	2,458
Organic growth	8%			9%	20%			3%	13%			7%
Gross profit	833	+10%	+7%	974	491	+4%	+1%	518	1,324	+8%	+5%	1,492
Gross margin	67.9%	(0.1)%-p	(0.8)%-p	67.0%	54.9%	+0.5%-p	(3.9)%-p	51.5%	62.5%	+0.4%-p	(2.2)%-p	60.7%
EBITA	291	+10%	+7%	340	201	+7%	(3)%	210	477	+6%	+3%	522
EBITA margin	23.7%	(0.2)%-p	(0.1)%-p	23.4%	22.5%	+0.8%-p	(2.4)%-p	20.9%	22.5%	(0.3)%-p	(1.0)%-p	21.2%
Free cash flow excl. M&A	113			248	43			68	158			340

\* Including "Other"

the majority of the goodwill is denominated in USD, while the positive effect on EBITA is essentially postponed one year due to the group's hedging policy.

Earnings per share (EPS) ended at DKK 5.16 reflecting a 6% improvement compared to 2014. Excluding the one-off related to the Beltone accounting fraud, EPS increased 21%. Since the beginning of the current strategy period, EPS has increased with a CAGR of 16%, when excluding the one-off related to the Beltone accounting fraud. This is primarily based on the strong increase in net profit, but also due to the decrease in the average number of outstanding shares and the ongoing share buyback programs.

#### DIVIDEND AND SHARE BUYBACK PROGRAMS

Based on the relentless focus to deliver shareholder value, and in line with GN's capital structure policy, GN has distributed around DKK 1.2 billion to shareholders in 2015 with DKK 151 million as dividend and DKK 1,047 million in three different share buyback programs. As of February 12, 2016, GN has repurchased shares for an amount of DKK 179 million in 2016. The board of directors will propose to pay out DKK 0.99 per share in dividend for the fiscal year 2015 (equivalent to a total dividend of DKK 161 million) compared to DKK 0.90 per share last year, up 10%.

#### CAPITAL STRUCTURE

As previously communicated, GN's long-term capital structure policy is to have net interest-bearing debt of up to a maximum of two times EBITDA. Based on the solid financial development in GN as well as the favorable capital markets, GN now targets a net interest-bearing debt of around 1.7 times EBITDA by the end of 2016. The current share buyback program will be concluded no later than March 9, 2016. As of December 31, 2015, the net interest-

bearing debt amounted to DKK 2,212 million – equivalent to 1.4 times EBITDA. As of February 12, 2016, GN holds 11,403,340 treasury shares equivalent to 7.0% of the share capital. At the annual general meeting to be held in March 2016, the board of directors will propose to cancel 7,403,340 shares.

#### CLAIM AGAINST PLANTRONICS INC.

In 2012, GN Netcom filed suit against Plantronics for attempted monopolization of the distributors' market in the US. On September 23, 2013, the federal district court in Wilmington, Delaware, dismissed Plantronics' "motion to dismiss" the case in its entirety. The court also stated that GN Netcom's allegations were sufficiently substantiated to allow the case to proceed into discovery. During the discovery phase, GN learned of alleged intentional document destruction and has submitted a motion for sanctions asking the Court to determine the appropriate remedy for Plantronics' alleged misconduct. It is expected that the court will schedule a hearing on the matter in Q1 2016.

#### PATENT DISPUTES WITH WILLIAM DEMANT HOLDING

On January 7, 2016 GN and William Demant Holding reached an agreement to settle all patent disputes between the two companies, thereby terminating all patent litigations – both in Europe, including Denmark, and in North America – with immediate effect.

The settlement includes broad-based cross-licensing of 15 different patents related to historic, pending as well as some potential future disputes. The details of the financial arrangement are undisclosed. However, the settlement of the 15 patents includes an annual net license payment to William Demant, which will have no material financial impact on the results of either party.

## Financial overview FY 2015

DKK million	GN ReSound				GN Netcom				Group total*			
	FY 2014	Constant currency growth	FX effect	FY 2015	FY 2014	Constant currency growth	FX effect	FY 2015	FY 2014	Constant currency growth	FX effect	FY 2015
Revenue	4,469	+9%	+7%	5,175	2,871	+2%	+10%	3,229	7,340	+6%	+8%	8,404
Organic growth	8%			8%	11%			2%	9%			6%
Gross profit	2,998	+9%	+5%	3,406	1,538	+6%	+4%	1,697	4,536	+8%	+5%	5,103
Gross margin	67.1%	(0.1)%-p	(1.2)%-p	65.8%	53.6%	+1.9%-p	(2.9)%-p	52.6%	61.8%	+0.9%-p	(2.0)%-p	60.7%
EBITA	897	+11%	0%	995	521	+4%	0%	540	1,260	+16%	0%	1,457
EBITA margin	20.1%	+0.4%-p	(1.3)%-p	19.2%	18.1%	+0.4%-p	(1.8)%-p	16.7%	17.2%	+1.5%-p	(1.4)%-p	17.3%
Free cash flow excl. M&A	287			592	340			271	480			743

\* Including "Other"

# Financial outlook

In 2016, GN will continue to execute on the 2014 - 2016 strategy, INNOVATION & GROWTH, leading to continued revenue growth and improved profitability

## Financial guidance 2016

DKK million	Organic revenue growth	EBITA	Profit before tax	Effective tax rate
GN ReSound	Around 6%	Around 1,200		
GN Netcom	7 - 10%	Around 590		
- CC&O	More than 10%			
- Mobile	0 - 6%			
Other		Around (70)		
<b>GN Store Nord</b>	<b>Around 7%</b>	<b>Around 1,720</b>	<b>Around 1,520</b>	<b>25 - 26%</b>

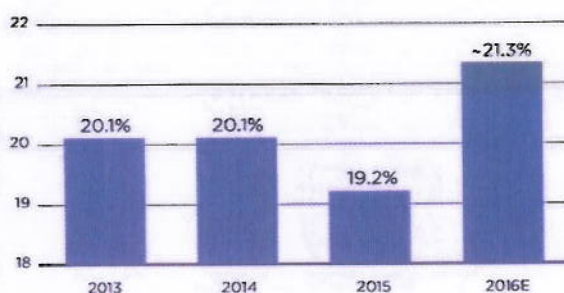
GN has entered the last year of the strategy 2014 - 2016, INNOVATION & GROWTH, in a strong shape and will continue to execute on the key initiatives of the strategy. 2016 is expected to be a strong finish of the strategy period:

- Increased organic revenue growth from 6% in 2015 to "around 7%" in 2016
- EBITA margin to be visibly above the level before entering the strategy period in 2014 (constant currencies)
- Effective tax rate of "25-26%" down from 26% in 2015 and a material improvement from "26-27%" previously communicated

- Guidance on Financial items, Amortizations etc down from DKK (365) million in 2015 to "around DKK (200) million" in 2016
- All - combined with continued share buy backs - leading to a further increase in EPS in 2016

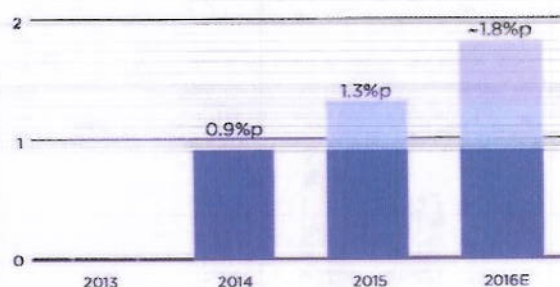
The foreign exchange development will positively impact the financial outlook in 2016. Due to GN's rolling 12 months hedging of the EBITA exposure in the main currencies, the impact on EBITA of any change in the main exchange rates is essentially postponed one year while the majority of the revenue impact will be seen immediately for both GN

## GN ReSound EBITA margin reported\* (%)



\* Based on foreign exchange rates as of February 1, 2016

## GN ReSound EBITA margin improvement in constant currencies compared to 2013 (%-points)



ReSound and GN Netcom. In 2015, GN had hedging losses of around DKK 130 million in particular due to appreciation of the USD versus the DKK. This loss will be significantly lower at around DKK 20 million in 2016 (based on foreign exchange rates as of February 1, 2016). Overall, GN is positively exposed to appreciations in larger foreign currencies such as USD, GBP and JPY.

## GN RESOUND

### Guidance 2016

GN ReSound expects to gain further market share in 2016 in line with the financial targets outlined in the strategy 2014 - 2016, INNOVATION & GROWTH. Based on continued strong execution of the strategy, GN ReSound expects to deliver organic revenue growth of "around 6%" in 2016. This is estimated to be at least 3 percentage points above expected market growth.

Due to the appreciation of a number of foreign currencies and non-recurring hedging losses the reported revenue growth in 2016 is expected to be "around 9%" (based on foreign exchange rates as of February 1, 2016).

The solid revenue growth is expected to have a visible positive impact on EBITA. In absolute terms, GN ReSound's EBITA is expected to be "around DKK 1,200 million". This is equivalent to a margin expansion of around 2 percentage points compared to 2015, of which the larger part is driven by foreign exchange tailwind and around 0.5 percentage points are organically driven margin expansion - in continuation of the 0.4 percentage points EBITA-margin expansion in 2015. In 2016, GN ReSound will further accelerate sales and marketing activities and also increase activities and investments related to innovative R&D.

As part of the strategy 2014 - 2016, INNOVATION & GROWTH, GN ReSound targeted that ROIC in constant

currencies improved by more than 4 percentage points compared to the level in 2013 (14.6%). The sustainable and profitable growth delivered by GN ReSound during the strategy period means that the target is expected to be achieved in 2016. Based on current foreign exchange rates this means that the reported ROIC will be around 18% in 2016, significantly up from 15.8% in 2015. The slightly lower reported target is primarily due to the continued appreciation of the USD compared to DKK, as the EBITA effect for 2016 is postponed due to hedging, while the effect on invested capital impacts ROIC immediately.

### Market projections

In the mid- to long term, the value of the global hearing aid market is expected to grow 1 - 4% per year. This reflects annual unit growth of 3 - 5% and a modest ASP erosion of 1 - 2% per year. GN ReSound expects that the hearing aid market growth will be within this range again in 2016.

All regions are projected to show market growth in value within the 1 - 4% range in 2016. However, Europe is expected to be in the low end of the range due to, among other factors, reimbursement changes in the Netherlands.

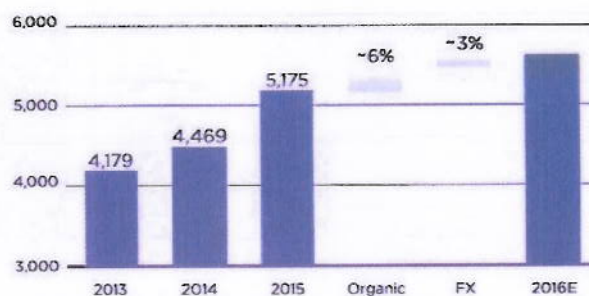
## GN NETCOM

### Guidance 2016

Based on continued strategy execution and attractive market conditions, GN Netcom expects organic revenue growth of "7 - 10%" in 2016. The expected organic revenue growth will be driven by "more than 10%" organic growth in the high margin CC&O business and with "0 - 6%" organic growth in the Mobile division.

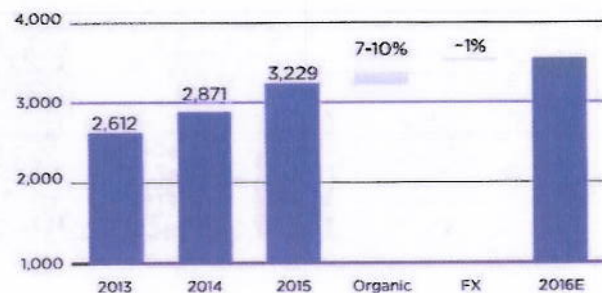
In reported terms, GN Netcom's revenue growth is expected to be "8 - 11%" primarily due to a slight appreciation of a number foreign currencies (based on foreign exchange rates as of February 1, 2016).

**GN ReSound revenue\***  
(DKK million)



\* Based on foreign exchange rates as of February 1, 2016

**GN Netcom revenue\***  
(DKK million)



GN Netcom's strong revenue growth is expected to lead to EBITA of "around DKK 590 million" in 2016. In constant currencies, the EBITA margin is estimated to grow by around one percentage point in 2016 compared to 2015. GN Netcom's strong execution on the strategy 2014 - 2016, INNOVATION & GROWTH, is driving the profitable growth.

GN Netcom expects to maintain a high ROIC level again in 2016, which has been an important financial ambition as part of the strategy 2014 - 2016, INNOVATION & GROWTH. In 2016, GN Netcom expects ROIC to be around 45% in reported currencies, which is slightly down from 47% in 2015, primarily related to the continued appreciation of the USD against the DKK, which has a slightly negative effect on EBITA, but moves invested capital up. However, the guidance is in line with the previously communicated target for 2016 adjusted for the movements in foreign currencies.

**Market projections**

Following unusually soft CC&O market conditions in the first half of 2015, GN Netcom expects normalized growth levels in 2016. In CC&O, the market is projected to return to double-digit growth rates again driven by the continued increased penetration of UC solutions. According to Frost & Sullivan, the overall CC&O market is expected to grow on average 12% per year from 2014 - 2021 (CAGR), of which the UC market is expected to grow annually by 19% on average in the period.

The markets in which the Mobile division is operating are still expected to show different growth trends in 2016 and the outlook contains some degree of uncertainty due to rapidly changing consumer trends. However, the recent trends are expected to continue into 2016 with strong growth in the Sports Audio, and further market declines in the traditional Mobile market with the large Bluetooth mono category.

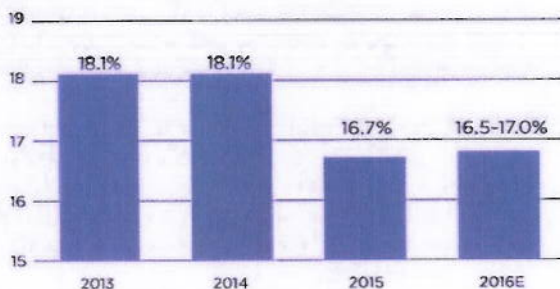
**OTHER ACTIVITIES, FINANCIAL ITEMS AND TAX**

EBITA in Other is expected to be "around DKK (70) million" in 2016 (DKK (78) million in 2015). The costs in Other primarily reflect operating costs for the functions shared across GN ReSound and GN Netcom. Additionally, the board of directors has decided to invest in certain strategic initiatives in the Strategy Committee, including new concrete products and business opportunities being pursued in 2016. These projects are aimed at discovering potential future business opportunities outside the immediate area of where GN ReSound and GN Netcom operate today, but leveraging on the core knowledge and competencies of GN.

Amortizations, financial items, etc. is expected to be "around DKK (200) million", which is lower than the realized level of DKK (365) million in 2015. The lower amount is primarily due to the non-recurring loss related to the Beltone accounting fraud in 2015.

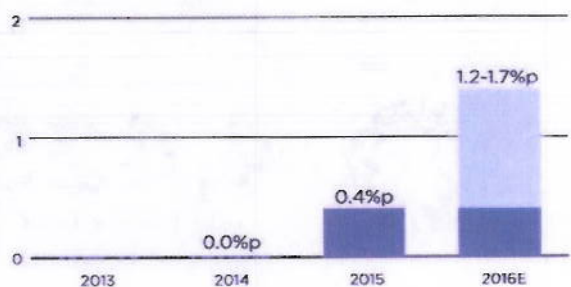
As the corporate tax rate in Denmark is gradually lowered, GN also expects to see a further decrease in the effective tax rate. In 2015, the rate was 26% and is expected to improve to "25 - 26% in 2016. This is below the previous 2016 target of "26 - 27%".

**GN Netcom EBITA margin reported\* (%)**



\* Based on foreign exchange rates as of February 1, 2016

**GN Netcom EBITA margin improvement in constant currencies compared to 2013 (%-points)**



# GN ReSound

In 2015, GN ReSound strengthened its innovation leadership and continued to improve commercialization in line with the strategy 2014 – 2016: INNOVATION & GROWTH. The result was strong growth, significantly above market growth



Hearing aids & ear related  
diagnostic equipment



ReSound

INTERTON

Belton



otometrics

## HIGHLIGHTS 2015

- 16% revenue growth for 2015 - organic full year growth of 8%. In Q4 2015, organic growth in Hearing Instruments accelerated to 10%
- EBITA increased by 11% in constant currencies as well as in reported terms
- Significant increase in cash conversion to 59% in 2015, compared to 32% in 2014
- The launch of ReSound LiNX<sup>2</sup>™ in March 2015 underlines GN ReSound's ability to continuously bring unparalleled user benefits to the market

In 2015, GN ReSound delivered sustainable and profitable growth through the two strategic focus areas: commercialization and innovative product development.



**17%**  
unit market share  
in Hearing Instruments



**10.3%**  
spent on R&D as  
percentage of revenue



**4,425**  
employees worldwide

Continued improvements in the approach to commercialization were made during 2015, leading to strong performance across markets and channels. A number of experiments have been made in selected markets, with successful experiments to be leveraged across markets and channels. Major efforts have been put into obtaining continuously improved market understanding and into securing even stronger and closer relationships with the customers.

GN ReSound's position as a leader in user-driven innovation was, again, a cornerstone in the profitable growth generated in 2015. The highly efficient R&D machine delivered a visible upgrade of the hearing aid portfolio based on 2.4 GHz technology with ReSound LiNX<sup>2</sup> – the fourth generation of hearing aids using 2.4 GHz technology – as the most prominent launch.

GN ReSound also showed progress on other key financial metrics in 2015 as ROIC increased by 0.3 percentage points in constant currencies reflecting the solid growth in earnings and decline in net working capital. The reported ROIC was 15.8%. Additionally, cash conversion increased to 59% in 2015 from 32% in 2014.



# ReSound ENZO™

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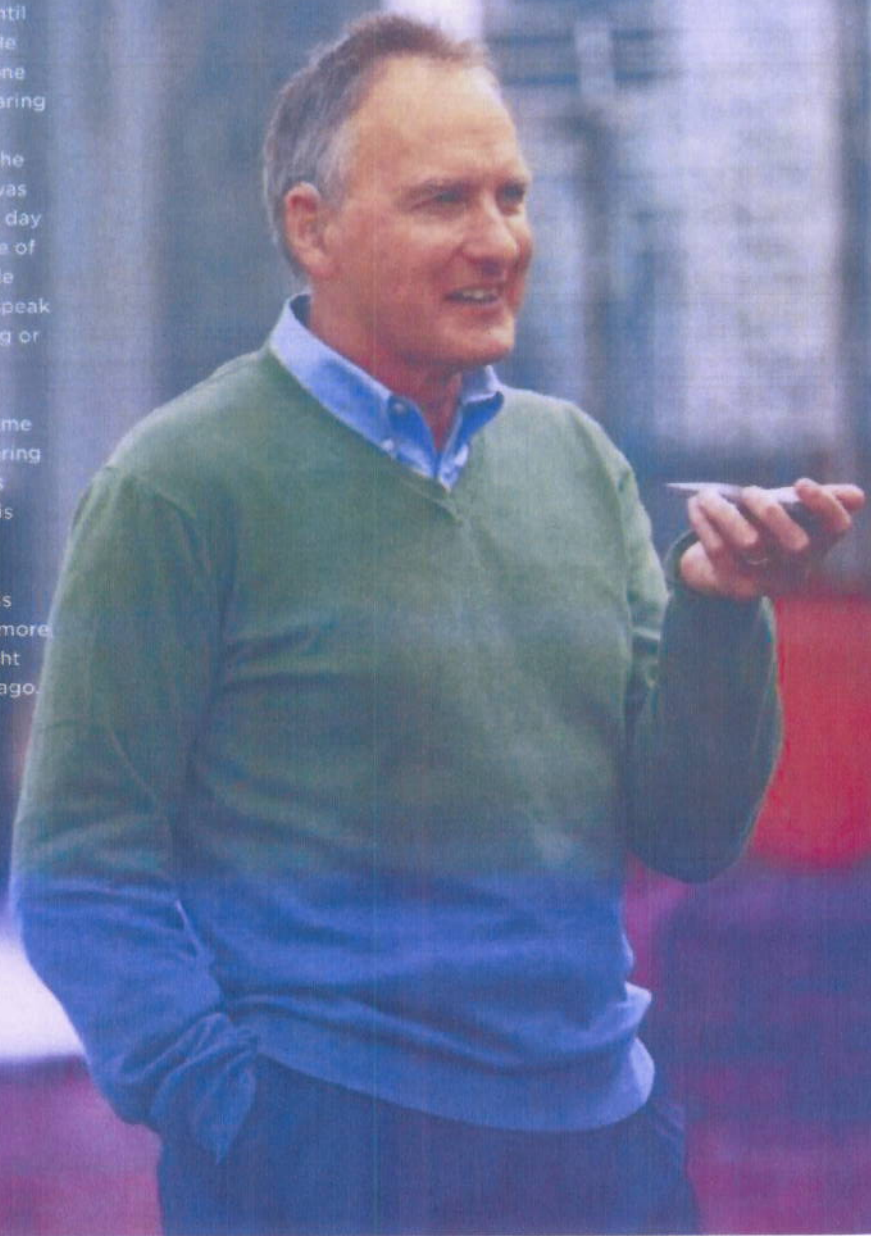
"This is just  
revolutionary"

James Faath was a business consultant until nine years ago when he lost his hearing. He literally woke up one morning and had gone almost completely deaf overnight. His hearing loss was accompanied by severe vertigo attacks and constant fatigue, so much so he could not continue with the business he was involved with. He used to work 12 hours a day and run marathons. He loved every minute of it. Overnight that lifestyle was not possible any longer. Suddenly he was not able to speak on the phone and was restricted to texting or emailing his wife.

When James called his wife for the first time in nine years wearing ReSound ENZO hearing aids that were wirelessly connected to his iPhone, he now feels that his confidence is coming back.

Today, he can think of work, family, friends and socializing - thus being able to hear more, do more and be more than he ever thought possible after that fateful day nine years ago.

Watch the full story



## REVENUE

GN ReSound delivered strong revenue growth in Q4 2015 of 19% of which organic growth constitutes 9%. The development in foreign exchange rates impacted revenue positively by around 8%, whereas M&A activities had an impact of around 1%. The revenue for the quarter was DKK 1,453 million.

Hearing Instruments showed a very strong organic growth of 10% in Q4 2015. This achievement was accomplished despite the Q4 2014 comparison base being inflated by the accounting fraud discovered in the Beltone distribution network – an adjustment of the comparison base would add to the organic growth.

The strong organic growth in Hearing Instruments was fueled by continued improvements in the approach to commercializing innovation. In Europe, GN ReSound's organic growth even exceeded 20% in Q4 2015. Germany again grew at significant double digit rates. In the USA, the ReSound wholesale business delivered strong double digit organic growth with solid contribution from all channels. In APAC, the important Japanese market was again a visible growth contributor as GN ReSound delivered double digit organic growth in the country in Q4 2015.

GN Otometrics delivered 1% organic growth in Q4 2015 despite a challenging comparison base in Q4 2014 where organic growth was 21%. For the full year, GN Otometrics' revenue was DKK 649 million leading to 2% organic growth. While this was in line with the diagnostics market growth it is not satisfactory.

For the full year 2015, GN ReSound's revenue grew 16%, of which 8% was organic growth. This was visibly above the market growth estimated to be around 3%. The development in foreign exchange rates impacted revenue with around 7%, while M&A activities accounted for around 1%. Net cash flow from financials support arrangements during

2015 was DKK (46) million – compared to DKK (229) million in 2014 – with a net cash inflow of DKK 24 million during the second half of 2015. In absolute terms, revenue ended at DKK 5,175 million in 2015.

## EARNINGS AND OTHER FINANCIAL HIGHLIGHTS

For the first time in GN ReSound's history, quarterly EBITA surpassed the DKK 300 million mark as EBITA reached DKK 340 million in Q4 2015. In constant currencies, this is equivalent to 10% growth. The reported EBITA includes a hedging loss of DKK 31 million.

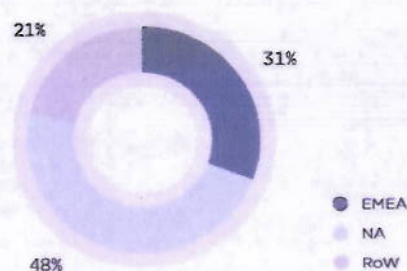
For the full year, EBITA ended at DKK 995 million, which is in line with the guidance for 2015. EBITA grew 11% in constant currencies as well as in reported figures. Thereby, GN ReSound further improved the EBITA margin by 0.4 percentage points in constant currencies compared to 2014.

The gross profit in Q4 2015 ended at DKK 974 million. GN ReSound is continuously focusing on optimizing production efficiency, which was underlined by the establishment of the Malaysian production facility during 2015. The gross margin in constant currencies was relatively flat compared to 67.9% in Q4 2014, which reflects a return to normal levels following a slight decline in Q3 2015 related, among others, to the startup of the production facility in Malaysia.

The operating expenses amounted to DKK 634 million in Q4 2015 compared to DKK 542 million in Q4 2014, where around half of the increase is due to the foreign exchange development. The operating expenses as a percentage of revenue thereby decreased slightly. For the full year, operating expenses ended at DKK 2,411 million, equivalent to an increase in constant currencies of around 7.5%.

In Q4 2015, GN ReSound delivered strong cash flow. The cash conversion in Q4 2015 reached 73% – visibly higher than 39% in Q4 2014. The strong development was driven

### 2015 revenue split by region



### 2015 revenue split by brand



## Product launches 2015

In 2015, GN ReSound set the new benchmark in Smart Hearing with ReSound LiNX<sup>2</sup>™ and introduced new apps for users looking to connect to the world like people without hearing loss



ReSound LiNX<sup>2</sup>™

The latest in Smart Hearing. It provides effortless hearing just as nature intended. Spatial Sense™ gives the user a natural sense of where sounds are coming from and helps form a detailed sound picture of the surroundings. It is offered in a complete product family and includes a built-in tinnitus therapy sound generator to achieve relief from tinnitus. It offers direct stereo streaming from iPhone, iPad and iPod touch giving the user the same opportunities to connect, interact and engage as everyone else



ReSound ENZO<sup>2</sup>™

The next step in Smart Hearing for Super Power users. It lets users hear more of what they want because every part of it is designed to give a better hearing experience with a rich, balanced sound in all situations. It offers direct connection to iPhone, iPad and iPod touch devices



ReSound Enya™

Delivers excellent sound quality and speech understanding at an affordable price in a discreet, durable design to meet the challenges of a rich and active lifestyle. It is wireless and streams sound directly to the hearing aids with the 2.4 GHz wireless accessories and can be controlled with the ReSound Control™ app



ReSound apps

With ReSound apps the wearer of ReSound's Smart Hearing aids is able to intuitively adapt the listening experience. In April, GN ReSound launched the first ever hearing aid app for Apple Watch allowing users to personalize their hearing experience straight from their wrist. In addition, GN ReSound also launched the industry's first direct smart app for Android

by, among others, a significant 16% reduction in working capital compared to end Q3 2015. The cash conversion for the full year 2015 ended at 59%, which is in line with comparable companies and significantly up compared to 32% in 2014. The significantly improved cash conversion for the full year is also driven by a lower level of financial support arrangements in 2015 than in 2014.

The return on invested capital (ROIC) ended the year at 15.8%. As expected, ROIC was relatively flat compared to 15.9% by the end of 2014, primarily based on the fact that a large part of the invested capital is denominated in USD, while the foreign exchange impact on EBITA is essentially postponed one year due to hedging. In constant currencies ROIC thereby increased by 0.3 percentage points.

## BUSINESS HIGHLIGHTS

### ReSound LiNX<sup>2</sup>

In March 2015, GN ReSound launched the fourth generation of 2.4 GHz hearing aids with ReSound LiNX<sup>2</sup> and the corresponding Beltone Legend. The product families have been strong contributors to revenue growth in 2015, and underline GN ReSound's position as the innovation leader in the hearing aid industry.

ReSound LiNX<sup>2</sup> has received excellent feedback from users and dispensers with regard to the impressive sound experience with Spatial Sense, improving the ability to locate sounds, and the value of providing Made for iPhone connectivity in additional form factors.

### Other smart hearing product launches

The Smart Hearing family has been strengthened further during 2015, and GN ReSound has an industry leading and fully updated product portfolio based on 2.4 GHz technology covering all types of hearing losses and price preferences.

At the EUHA Congress in October 2015, GN ReSound demonstrated ReSound Enya™ and the corresponding Beltone Ally™, offering advanced hearing solutions including 2.4 GHz technology at affordable prices. Additionally, GN ReSound demonstrated its second generation super power hearing aid, ReSound ENZO<sup>2</sup>, based on 2.4 GHz technology. ReSound ENZO<sup>2</sup> is designed for people with a severe hearing loss, making it an important product for example in the Veterans Affairs, and delivers top-rated sound experience with Spatial Sense and direct connectivity with smartphones.

### Veterans Affairs

In 2015, GN ReSound continued the success in the attractive VA channel in the USA. GN ReSound entered 2015 with a market share of 12% in the channel. In December 2015, the market share reached 20% and GN ReSound reached a milestone as it became the second largest supplier to the VA.

The significant market share gains achieved in the VA reflects GN ReSound's continued focused efforts in the channel, which were initiated at the end of 2013. Furthermore, GN ReSound has also launched the market leading product families ReSound LiNX<sup>2</sup> and ReSound ENZO<sup>2</sup> in the channel during 2015.

### Costco

GN ReSound and Costco, one of the fastest growing global hearing aid retailers, further strengthened their partnership in early 2015 when GN ReSound again won Costco's Kirkland Signature contract. The transition from Kirkland Signature 5 to Kirkland Signature 6 was conducted in the first part of the year in all Costco stores. The partnership is a testimony to GN ReSound's premium hearing aid technology and best-in-class service level.

### Cochlear

At the EUHA congress in October 2015, GN ReSound and Cochlear jointly announced the establishment of the Smart Hearing Alliance. This is a commercial expansion of the successful technology collaboration initiated in 2011. With the strategic alliance, GN ReSound will develop and commercialize the world's smartest bimodal hearing solutions together with Cochlear, the undisputed global leader in the market for implantable hearing solutions. Bimodal hearing solutions allow hearing impaired users to combine the benefits of hearing aids and cochlear implants. The Smart Hearing Alliance was commercially launched in the beginning of 2016 and will allow GN ReSound to participate further in the medical channel.

### Beltone network

In the Interim Report Q2 2015, it was announced that the former VP of Finance in the Beltone network had committed accounting fraud from 2012 - 2014. This led to a one-off loss of DKK 150 million (non-cash effect). The employment of the VP of Finance was terminated for cause.

During the second half of 2015, a plan to create an even stronger Beltone business in North America was crafted. The ambitious plan aims to fully exploit the business opportunities in the strong network and brand, including capturing digital opportunities. In the beginning of 2016, Corrine Perritano was hired as the new president of the Beltone network.

### Apps

GN ReSound continues to be at the forefront in terms of apps designed for the hearing aid users. Early 2015, the ReSound Smart App was also made available for the Android platform. Initially compatible with the Samsung Galaxy S5, the app was also made compatible with another handful of Samsung devices during 2015. This gave millions of additional users access to the personalized control of ReSound Smart hearing aids through their smartphones.

## Veterans Affairs

Veterans Affairs (VA) represents around 21% of the total US hearing aid market. US veterans with a hearing loss that are eligible for a hearing aid through the program are provided hearing aids without any charge

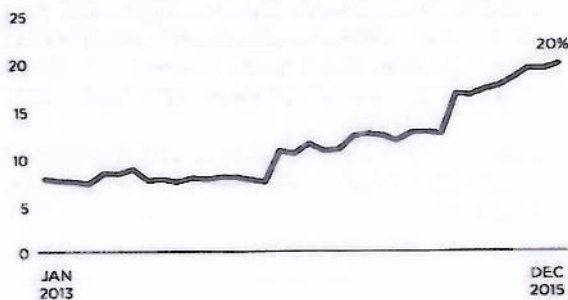
GN ReSound entered 2015 with a market share in VA of 12% and has increased the share throughout the year ending at 20% in December 2015. This is an unusually strong achievement in a highly competitive environment where all hearing aid manufacturers are present with their premium technology.

The impressive market share gains in the VA is made possible by GN ReSound's leading technology, including ReSound LINX<sup>2</sup>™ and ReSound ENZO<sup>2</sup>™. However, the market share gains had not been possible without GN ReSound's

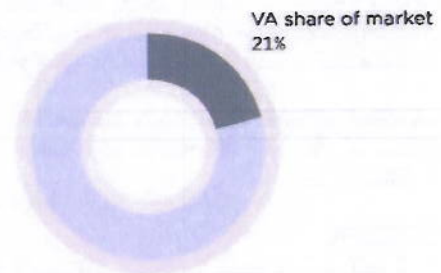
significantly improved commercialization capabilities. At the end of 2013, when GN ReSound's market share in the VA was around 7%, several investments were made in the business to create a more customer-centric organization with a deep understanding of the needs of the VA dispensers.

As part of GN ReSound's commercial excellence initiatives in the strategy for 2014 - 2016, the experiences and success of among other the VA team is systematically leveraged to other countries and channels in order to ensure optimal commercial impact of GN ReSound's leading technologies.

**Monthly VA market share development 2013 - 2015 (value)**  
(%)



**Total US hearing aid market 2015 - 3.4m units**



With Apple's launch of the Apple Watch, GN ReSound introduced the ReSound Smart App for the Apple Watch. The ReSound Smart App for the Apple Watch puts the most-used features of the ReSound Smart App straight on the wrist of people with hearing loss. The ReSound Smart App for the Apple Watch was recognized as a best-practice example of convenience, functionality and user interface at Apple's Worldwide Developer Conference.

#### **GN Otometrics**

In 2015, GN Otometrics delivered revenue growth in line with the market. Investments in the North American sales channel and other key markets create the foundation for renewed growth above the market in the years to come. During early 2015, GN Otometrics gained a market leading position in Italy after the acquisition of Amplifon's Italian biomedical business.

The development of the innovative 3D ear-scanner, OTO-scan, is still progressing, although certain technological challenges have occurred during 2015. As a consequence, product development efforts were insourced during the year. The commercial launch is now expected to be in 2017.

#### **R&D**

GN ReSound's innovation machine is running full speed, as illustrated by the important product launches in 2015, including the launch of ReSound LINX<sup>2</sup>. The ability of GN ReSound's R&D department to continuously deliver truly unique user benefits has been an important driver of GN ReSound's growth in recent years. During 2015, GN ReSound has further strengthened the basis for future innovations allowing GN ReSound to maintain its edge also in the years to come. Part of this will be the successor of ReSound LINX<sup>2</sup>, which will offer new significant user benefits and be launched in line with GN ReSound's normal launch cycle.

GN ReSound's R&D department is based in four locations: Ballerup (Denmark), Chicago (USA), Eindhoven (Holland) and Xiamen (China).

#### **MARKETING**

In line with the strategy for 2014 - 2016, continued improvements in the approach to commercializing innovation were made during 2015. As part hereof, a new SVP of Marketing was appointed during 2015 to drive the new ambitious marketing agenda. Among the focus areas during the year was the way market insights, including hearing aid user input, are used to drive the product development agenda. A specific focus is also placed on optimization of global execution of product launches and campaigns. Moreover, it is a focus to gradually engage users in more ways in order to build up desire for and loyalty to GN ReSound's brands, among others making use of digital opportunities.

#### **OPERATIONS**

As part of GN ReSound's relentless focus on optimizing productivity, the new manufacturing and distribution facility in Malaysia was officially opened in September 2015. In addition to the cost benefits, the Malaysian facility provides logistical advantages due to the proximity to the efficient distribution hub in Singapore, and furthermore the facility will mitigate risks through the possibility of moving production from one facility to another.

The expected future sales growth also lead GN ReSound to increase its hybrid circuit board production capacity during 2015. In January 2016, GN ReSound officially opened its expanded hybrids factory in Praestoe, Denmark, with increased capacity for the production of the fifth generation of hearing aids based on 2.4 GHz technology.

#### **MARKET DEVELOPMENT**

The hearing aid market grew around 4% in units in 2015, which is in line with GN ReSound's mid-term expectations of 3 - 5% annual unit growth. The development was driven by solid unit growth in North America, especially in the first half of the year. The North American hearing aid market's unit growth was 7% in 2015 comprised by 8% in the private market and 5% growth in VA. As expected, due to the reimbursement change at the end of 2013, the German market showed negative unit growth in 2015. This meant that the European hearing aid market showed 2% unit growth in 2015.

As the North America market grew faster than the European market and Rest of the World, this had a slight positive impact on the average selling price (ASP) in the global hearing aid market. On the other hand, the larger retailers continued to grow faster than the independent channel in 2015. Overall, the ASP development is estimated to have been slightly negative in 2015. This leads to a value growth of around 3% in the global hearing aid market in 2015.

The estimated market size is around 13 million hearing aids in 2015. GN ReSound's unit market share is estimated to be around 17%.



# Smart Hearing

## Building a hearing aid brand

Historically, hearing aids have not had much brand recognition. Users most often accepted their hearing care professionals' choice and were unaware of which brand they used. This is changing. Today, hearing aid users are becoming increasingly engaged. They stop being patients and become consumers asking for a specific hearing aid.

Our marketing, brand and PR activities support this trend to build genuine brand awareness. In 2015, GN ReSound joined IFA in Berlin, Germany, and International CES in Las Vegas, USA, the world's largest consumer electronics tradeshow. The purpose was to maximize attention to the Smart Hearing range and excite current and potential consumers and customers as well as journalists and bloggers. GN ReSound engaged in customer conferences, panel events, large scale press events and one-to-one meetings with journalists.

# GN Netcom

During 2015, GN Netcom strengthened its platform for profitable growth in 2016 and beyond benefitting, among others, from the position as the world's leading Unified Communications supplier



**Intelligent audio solutions**



**No. 1**

The world's leading Unified Communications supplier



**8.1%**

spent on R&D as percentage of revenue



**1,000**

employees worldwide

## HIGHLIGHTS 2015

- Following an expected return to normal growth in the CC&O market during second half of 2015, GN Netcom exited 2015 with a strong platform for profitable growth in 2016 and beyond
- In total, revenue grew 12% in 2015. Full year organic growth was 2%, reflecting 6% growth in CC&O – driven by 16% growth in Unified Communications (UC) headsets – and (5)% growth in Mobile
- EBITA of DKK 540 million, in line with guidance and corresponding to an improvement of 4% in constant currencies as well as in reported numbers
- Continued attractive cash conversion of 50% for the year

The first half of 2015 saw unusually soft CC&O market conditions but, as projected, a return to normal market conditions in the second half of 2015. The growth prospects of the UC market remain highly attractive, supported by significant investments made by the UC infrastructure vendors during 2015. This includes Microsoft's transition from Microsoft Lync to Microsoft Skype for Business with cloud capabilities decreasing the need for investments in server hardware etc., thus promoting further adoption of UC by making UC even more accessible to Small- and Medium-sized Enterprises. During 2015, GN Netcom strengthened its position as the world's leading UC supplier – delivering an organic growth in UC of 16% for the year, including 23% growth during each of the third and fourth quarter of the year.

The Mobile market saw a significant double digit decline in the Bluetooth mono segment and very high growth in the Sports Audio market segment.

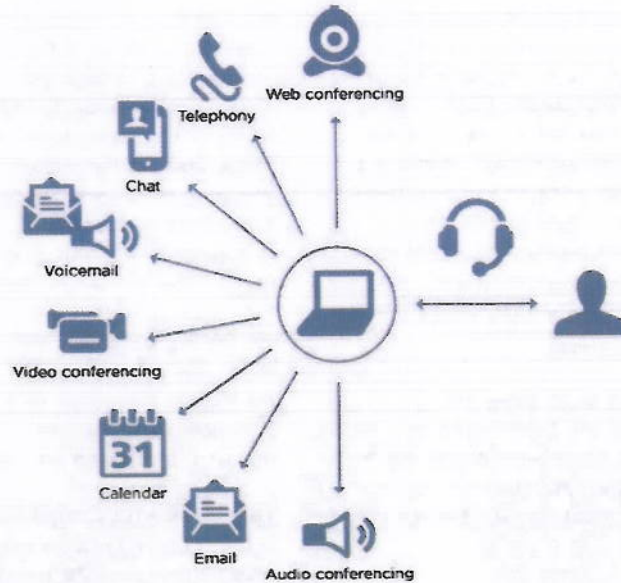
In line with the strategy 2014 – 2016: INNOVATION & GROWTH, GN Netcom continued to invest in future growth opportunities, and during the year GN Netcom launched several innovative products that will fuel growth in both CC&O and Mobile in 2016 and beyond.

The performance in the UC segment demonstrated the strength of GN Netcom's innovative product portfolio. Among other, the recently launched Jabra Evolve™ product series was a major contributor to the growth. Especially



# Unified Communications

- the growth driver of GN Netcom's business solutions (CC&O)



## THE OFFICE OF THE FUTURE

In short, Unified Communications (UC) makes it easier for people to connect, communicate and collaborate. UC brings together all office communication devices and interfaces into one single integrated application and user experience, including replacing the traditional telephone with a soft-phone based on the same platform.

UC significantly increases office productivity by integrating instant messaging, presence information, voice, mobility features, audio, web and video conferencing, fixed mobile convergence, desktop sharing and many other real-time features and provides a consistent unified user interface, e.g. Skype for Business, across multiple devices and media types.

In addition to increased office productivity, UC delivers tangible cost reductions. The investment related to the implementation of software licenses, server hardware and voice equipment is modest compared to the ongoing cost reductions from replacement of the traditional telephone systems and cost reductions from web and teleconferencing as well as less travelling expenses. Further development of the UC offering will increase the cost reductions. Microsoft's launch in 2015 of Skype for Business (the successor of Microsoft Lync) is an example of this development, with Skype for Business' cloud capabilities decreasing the need

for investments in server hardware etc., thus promoting further adoption of UC by making UC even more accessible to Small and Medium-sized Enterprises.

## GN NETCOM - THE GLOBAL LEADER IN UC HEADSETS

As the global leader in UC headsets, GN Netcom is uniquely exposed to a highly attractive market with currently around half a billion office workers worldwide.

The UC market is expected to grow by 19% p.a. during 2014-21, assuming an adoption rate in the Office space of 24% in 2021, from an adoption rate of approximately 10% in 2014 (Frost & Sullivan, September 2015). The number of UC users is expected to grow from currently around 50 million to 177 million in 2021. Key drivers of the expected growth are: continued proliferation of software-based desktop communications clients; productivity benefits associated with business headsets, including hands-free communications and an efficient work environment with a growing number of open work spaces; and an influx of Gen Y workers (i.e., the generation of people born during the 1980s and early 1990s) favoring modern means of working and communicating. Reflecting barriers to entry, no material changes to the current competitive landscape with regard to the headset manufacturers is expected (Frost & Sullivan, September 2015).

the high-end Jabra Evolve 80 proved its relevance and allowed GN Netcom to establish a new price point in the UC segment. The product portfolio was expanded during the year with the introduction of the Jabra Speak™ 810, extending the Jabra speakerphones into medium-sized meeting rooms. This new category is expected to generate solid growth like its personal speakerphone family members have done in recent years.

In 2015, the Mobile business launched two additional products in the fast-growing Sports Audio segment. The two new products, Jabra Sport Coach™ Wireless and Jabra Sport Pace™ Wireless, follow Jabra Sport Pulse™ Wireless (launched in 2014), and Jabra now offers the strongest Sports Audio headset portfolio in the market. The focus on Sports Audio solutions is part of the continued efforts to position the Mobile division towards faster growing segments of the market. Overall, the impact of the Jabra Sport Wireless family of products combined with increased investments in in-store marketing have delivered very good results in 2015.

GN Netcom has continued to increase investments into marketing and sales – particularly on the North American market, which remains the most important growth opportunity for GN Netcom. GN Netcom has again increased its market share in North America and is strongly positioned going into 2016.

#### REVENUE

In Q4 2015, GN Netcom delivered 8% organic growth in CC&O and (4)% organic growth in Mobile. In total, GN Netcom delivered overall organic growth of 3% in Q4 2015 despite a difficult comparison base of 20% organic growth in Q4 2014. The revenue for the quarter ended at DKK 1,005 million with the development in foreign exchange rates affecting revenue by 9%. M&A activities did not have any impact on revenue.

The CC&O business generated revenue of DKK 645 million in the fourth quarter – an increase of 17% including development in foreign exchange rates compared to Q4 2014. The UC business continued to perform well in the quarter,

reflecting significant improvements in commercialization of innovation and reflecting the strong product portfolio, including the Jabra Evolve series and the recent introduction of the Jabra Speak 810. In Q4 2015, the UC business delivered organic growth of 23% leading to full year organic growth for the UC business of 16%.

The revenue in the Mobile business in Q4 2015 increased to DKK 360 million, compared to DKK 344 million in Q4 2014, representing organic growth of (4)% and a 9% positive impact from the development in foreign exchange rates. The development reflects the continued decline in the traditional mono Bluetooth headset market, however, to some degree offset by the strong performance in the Sport Audio segment, which continued to deliver double digit growth rates. The quarter was also supported by a strong launch of the new product Jabra Halo Fusion™ – a direct result of the repositioning of Mobile, which is starting to show encouraging results. The full year organic growth in Mobile ended at (5)%.

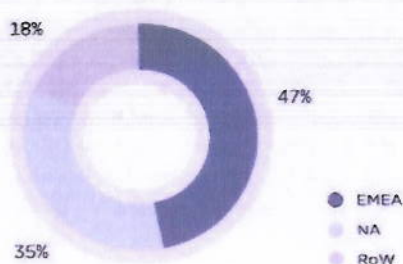
For the full year 2015, GN Netcom's group revenue ended at DKK 3,229 million, up 12% compared to 2014, corresponding to an organic growth of 2% and with an impact from the development in the foreign exchange rates of 10%. M&A did not have any impact on the revenue.

#### EARNINGS AND OTHER FINANCIAL HIGHLIGHTS

In Q4 2015, GN Netcom delivered an increase in EBITA in constant currencies of 7%, translating into a 0.8 percentage points increase in the underlying EBITA margin. The strong development reflects a better product mix as the high-margin CC&O business grew stronger than the low-margin Mobile business. In reported terms, EBITA increased to DKK 210 million, which is 4% higher than the EBITA realized in Q4 2014. In reported terms, the EBITA margin ended at 20.9% for the quarter.

For the full year, EBITA ended at DKK 540 million compared to DKK 521 million in 2014, equivalent to a 4% increase in both reported numbers and constant currencies. The EBITA margin for the year ended at 16.7% in reported numbers, but 18.5% in constant currencies compared to a 18.1% EBITA margin in 2014. Thus, during 2015 GN Netcom increased the underlying

2015 revenue split by region

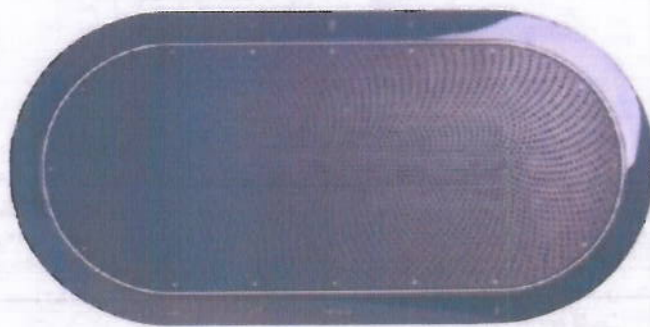


2015 revenue split by business



## Product launches 2015

In 2015, GN Netcom continued to innovate the CC&O and Mobile categories. These are some of the best examples of how sound, user friendliness and functionality are optimized in the office space, the voice category and within sports audio



### Jabra Speak™ 810

Jabra Speak 810 is designed for mid-size meeting rooms and acoustically optimized for up to 15 people. Jabra Speak 810 is UC-focused, easy to use, has a competitive price and great sound. This new speaker is an attractive addition to the highly popular Jabra Speak 410 and 510



### Jabra Sport Coach™ Wireless

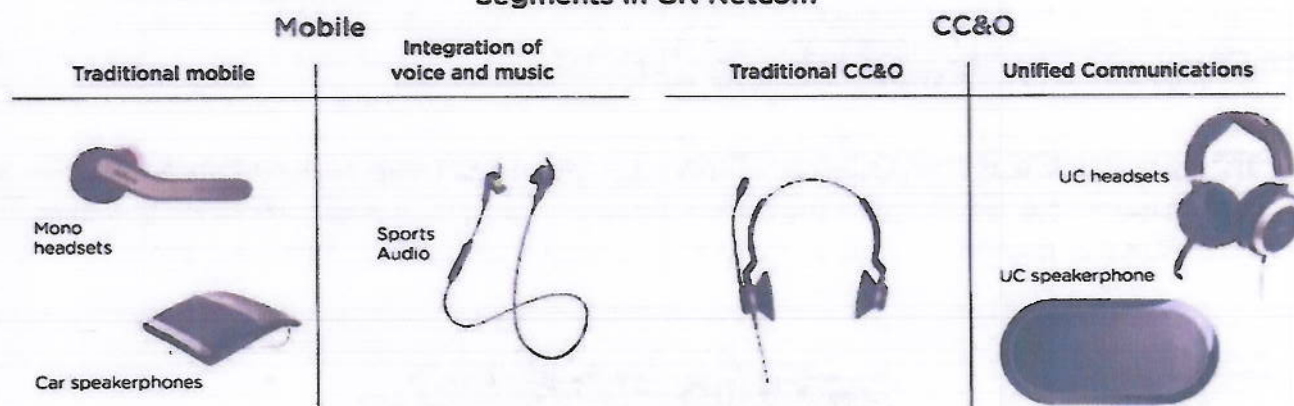
Jabra Sport Coach Wireless is part of the world's first complete range of wireless sports earbuds. With intelligent audio coaching and optimized for cross training, Jabra Sport Coach Wireless has in-ear coaching and is data compatible with third party apps



### Jabra Sport Pace™ Wireless

Jabra Sport Pace Wireless are wireless earbuds optimized for fitness. The earbuds are an affordable solution to take the next step on a fitness journey. Jabra Sport Pace Wireless features premium sound and ergonomic design. The earbuds are sweat and weather resistant. As with the other products in the range, the Sport Life app can help plan, track and analyze workouts

## Segments in GN Netcom



EBITA margin while investing, as part of the current strategy, in continued growth and margin expansion in 2016 and beyond.

In Q4 2015, the gross margin in constant currencies ended at 55.4%, compared to 54.9% in Q4 2014. The positive underlying development is primarily reflecting a better product mix as well as the fact that CC&O grew faster than Mobile. Including the impact from the development in foreign exchange rates, the gross margin ended at 51.5%.

For the full year 2015, the gross margin in constant currencies ended at 55.5% (reported gross margin of 52.6%), which is an improvement of around two percentage points, reflecting better overall product mix, and the stronger growth in the high-margin CC&O business.

The operating expenses as a percentage of revenue were practically flat at 35.8% in 2015 compared to 35.4% in 2014. In absolute terms, the operating expenses ended at DKK 1,157 million in 2015 – an increase of 14% compared to 2014, primarily driven by the development in the foreign exchange rates but also reflecting the investments into strategic growth initiatives as part of the 2014 – 2016 strategy.

Inventories as a percentage of revenue have remained rather constant. Trade receivables amounted to DKK 909 million by the end of 2015, compared to DKK 761 million by the end of 2014, partially due to the stronger USD but also to an increase in Days Sales Outstanding (DSO). The DSO level peaked in Q1 2015 and has gradually decreased throughout the year. Trade payables ended at DKK 379 million, compared to DKK 326 million by the end of 2014. As a result of the above movements, the net working capital as a percentage of revenue increased from 12% in 2014 to 15% in 2015.

The return on invested capital (ROIC) ended the year at 46.9%. As expected, ROIC declined compared to 56.5% by the end of 2014, primarily due to the increase in net working capital. Moreover, a large part of the invested capital is denominated in USD, why ROIC in constant currencies ended at 49%.

For the full year 2015, GN Netcom's free cash flow ended at DKK 271 million, compared to DKK 340 million in 2014. The decrease is primarily caused by the increase in net working capital as well as investments in product development. For the full year, GN Netcom's cash conversion remained at an attractive level of 50%.

**BUSINESS HIGHLIGHTS**

On March 13, 2015, GN appointed René Svendsen-Tune as CEO of GN Netcom and member of GN Store Nord's executive management with effect as of April 1, 2015. René Svendsen-Tune has more than 25 years of management experience in the technology sector and in-depth knowledge of GN Netcom's key business areas, including information technologies and telecommunications. He also has significant understanding and insight into the business of GN Store Nord, where he had served as a valued board member since 2007.

**Marketing**

During 2015, GN Netcom made significant improvements in its approach to commercializing innovation. Among others, GN Netcom established a global marketing organization covering both the CC&O and Mobile divisions with significantly upgraded competencies and higher degree of specialization. As one result, the digital marketing activities were significantly increased during the year. Also, the level of investments into co-marketing with selected channel and retail partners was increased considerably during the year.

**CC&O**

GN Netcom further strengthened its portfolio of UC products during 2015. In October 2015, GN Netcom fortified its world-leading position within the market for USB-enabled speakerphones with the launch of Jabra Speak™ 810, a promising extension of the product portfolio already consisting of Jabra Speak 410 and Jabra Speak 510. With premium sound quality in meeting rooms designed for up to 15 people, Jabra Speak 810 meets the demands of today's office workers. The Jabra Speak family is a testimony to GN Netcom's commercialization capabilities as the speaker phone family passed the 1,000,000 units sold in August 2015.

# Jabra Evolve™

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- an essential  
part of the  
office of the  
future

Based on its customer-focused value proposition and innovative features including concentration zone and advanced noise cancellation benefits, the Jabra Evolve™ product family continued its success in helping to alleviate some of the key challenges experienced by office workers today.

Whether working in an open office, working from home, taking a Skype call on the go or at the airport, the Jabra Evolve family enhances communication, concentration, collaboration and productivity.

In 2015, the innovative Jabra Evolve family contributed to growth and underpinned GN Netcom's world-leading position in the UC segment. Especially the high-end Jabra Evolve 40, Jabra Evolve 65 and Jabra Evolve 80 proved their relevance and allowed GN Netcom to establish a new price point in the UC-segment.



The Jabra Evolve™ series, launched in late 2014, continued to drive growth based on its customer-focused value proposition and innovative features including concentration zone and advanced noise cancellation benefits. In a customer study, 90% responded that Jabra Evolve increased productivity, and 95% responded that Jabra Evolve had a positive influence on the adoption of UC. The study clearly indicates that Jabra Evolve is fulfilling its intended value proposition of solving the key challenges experienced by office workers today.

#### Mobile

In June 2015, GN Netcom launched a new high-end product in the Sports Audio headset portfolio, Jabra Sport Coach Wireless, the world's first wireless headset optimized for cross training. The headset has an integrated motion sensor, and the advanced Sport Life app provides real-time, in-ear coaching. Furthermore, premium Dolby sound quality secures a state-of-the-art music experience. During the IFA international consumer electronics trade show in Berlin in September 2015, GN Netcom added the Jabra Sport Pace Wireless to the Sports Audio portfolio.

In 2015, GN Netcom took an important step in the re-positioning of the product offering in the Mobile segment toward products where music and voice converge. During the IFA trade show, GN Netcom launched Jabra Halo Fusion – a neck-worn headset designed to meet the demands of daily audio and media consumption as well as voice communication.

At the International CES in Las Vegas, USA, GN Netcom demonstrated the latest Jabra product innovations to its most important customers, and feedback was very positive emphasizing Jabra's clear strategic focus and enhanced brand proposition.

#### R&D

GN Netcom has two R&D facilities, one based in Ballerup, Denmark and one based in Xiamen, China. Throughout 2015, GN Netcom'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 810, Jabra Sport Coach Wireless, Jabra Sport Pace Wireless and Jabra Eclipse™, the innovation in headsets and earbuds continued with high pace based on extensive research into customer needs and focused on delivering outstanding user benefits.

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

#### OPERATIONS

Carefully selected subcontractors in China manufacture all of GN Netcom's hardware and most components are sourced from Asian suppliers. GN Netcom is working with approximately 10 tier-one manufacturers supported by more than 100 sub-suppliers in order to produce the comprehensive variety of products in the product portfolio.

To optimize lead-time, the CC&O division maintains a regional presence at three regional warehouses located in the USA, the Netherlands and Hong Kong. The global distribution of GN Netcom'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.

The Mobile division is mainly operating as a configure-to-order business where customers in North America, Europe and Asia are supplied through a single Asia-based center. This set-up enables the Mobile division to operate with low inventories and to be more responsive to changes in demand at a lower risk.

#### MARKET DEVELOPMENT

##### CC&O

GN Netcom is estimated to have maintained its market share in the global CC&O market in 2015. The market grew slower than anticipated when entering the year. The unusual market conditions during the first half of the year reflected a number of factors, including Microsoft's introduction of Skype for Business, which appeared to have created some short-term uncertainty around the UC solution and led corporations to slow down UC deployments temporarily. Additionally, the IT industry generally reported temporarily weak market conditions in the first half of the year.

The total CC&O market size is estimated to be around USD 1.3 billion in 2015. 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. Details on UC can be found on page 25 in this report.

##### Mobile

The Bluetooth stereo market has grown at double digit rates in 2015 fueled by more than 100% growth in Sports Audio, where GN Netcom has a strong competitive product portfolio.

The Bluetooth mono headset showed a significantly weaker than expected development in 2015. It is estimated that around a quarter of the market disappeared from 2014 to 2015 as consumers traded away from this headset category.

# Jabra Sport Pulse™ Wireless

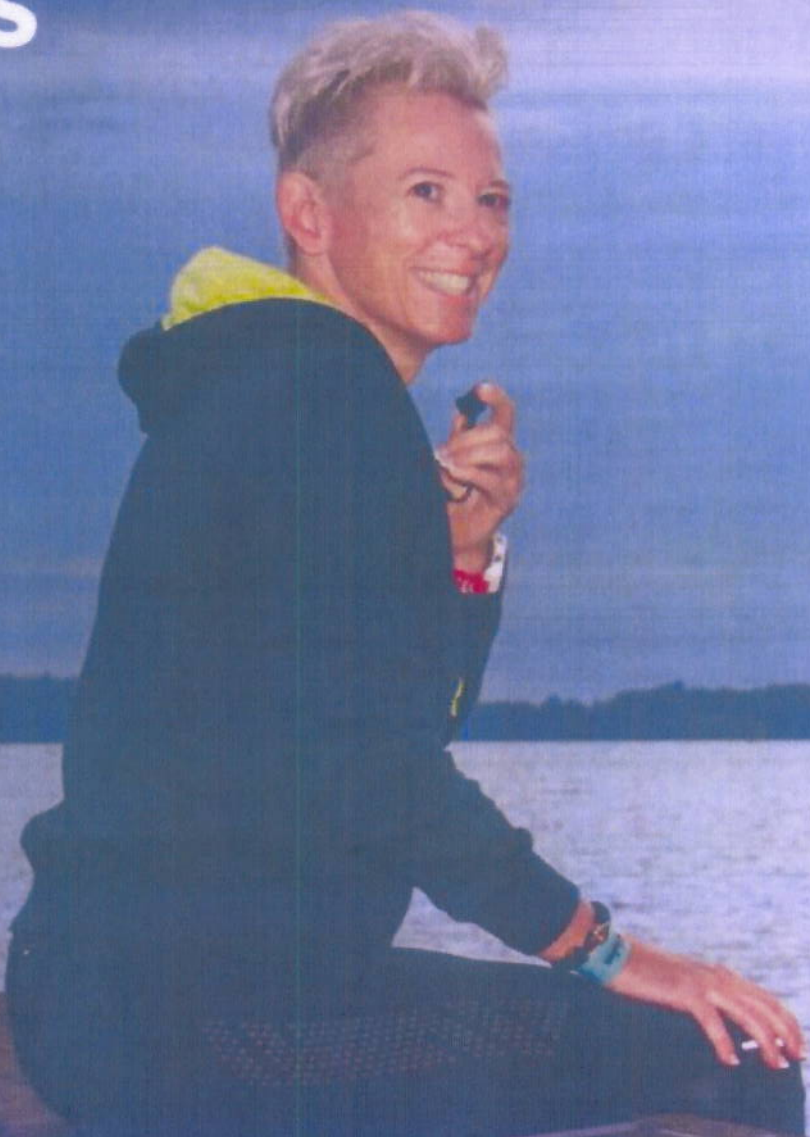
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“To be more  
than I was  
yesterday”

When Marianne Hüche was involved in a traffic accident and suffered a severe back injury she almost gave up on life. She embraced the role of a victim and overindulged in food to an extent that left her weighing 137 kilos. After a painful realization that only she could change this, she started training.

The training progressed slowly until one day her trainer told her that she was training too close to her maximum pulse zone. This is when she started training with Jabra Sport Pulse Wireless earbuds with a built-in heartrate monitor. Marianne feels it safer to get information about her pulse level with one tap on the earbuds than by looking at a monitor during a para-triathlon. Audio cues during interval training mean hitting the correct pulse in her peak and restitution zones. In her own words, pulse training has changed her life and let her do more than she ever thought possible. Marianne's next goal is to qualify for the Paralympic Games in Rio in 2016.

Watch the full story



# Corporate responsibility

GN Store Nord considers acting in a responsible manner to be crucial to managing a long-term sustainable successful global business. Examples of GN's corporate responsibility activities in 2015 are extracted below



## HUMAN AND LABOR RIGHTS

### People

Employees are GN's most valuable asset, and an engaged workforce is key to achieve GN's ambitions as a company. To measure the engagement, GN regularly conducts a global Engagement Survey for the group. In 2015, the response rate was 95%. Results from this survey show that employees are highly motivated and committed. In GN, strong emphasis is put on following up on the survey results, and managers and teams at all levels work to identify and execute on action plans to constantly improve GN as a workplace.

### Supplier audits

Each year, GN conducts a number of audits at its suppliers among others with the focus on ensuring that GN's standards on corporate responsibility are reflected in the suppliers' business conduct. Findings in 2015 were primarily related to excess working hours as well as health and safety issues. These findings were all mitigated through action plans provided by the individual supplier.



## ENVIRONMENT

### Climate partnership

In 2013, GN established a climate partnership with DONG Energy. The climate partnership will ensure that GN continues to decrease its electricity spending while investing in sustainable initiatives.



## ANTI-CORRUPTION

### Whistleblower system

GN has implemented the Alertline, which is a global whistleblower system. This system allows, in multiple languages, all employees and external stakeholders to confidentially report illegal or unethical conduct via the internet or via one of the local Alertline phone numbers. In 2015, the Alertline was revitalized through a global internal information campaign.

### Business ethics and compliance

GN's commitment to business ethics and compliance with international regulation and internal policies is anchored in the corporate ethics guide, the code of conduct and other internal corporate guidelines. To ensure and document employees' familiarity with the code of ethics and key policies at all times, relevant employees electronically sign off on their compliance within specific areas and take GN's new e-learning courses within anti-corruption and competition compliance on a regular basis.



## CITIZENSHIP

### South African hearing aid donation program

GN's hearing aid donation program in South Africa continues to improve quality of life for many impoverished South Africans. The donation program provides recipients with new hearing aids along with professional fitting by a GN-educated audiologist at the local hospital, which ensures a high level of user satisfaction.

### INTERESTED IN LEARNING MORE ABOUT 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 [www.gn.com/-/media/Documents/CSR/COP-2015.pdf](http://www.gn.com/-/media/Documents/CSR/COP-2015.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 where the pace of innovation and change keeps increasing, GN's executive management considers its proactive and systematic approach to risk management a valuable tool in our continuous efforts to stay ahead of new developments and compete in tomorrow's marketplace

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

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

At least once a year, the risks that are assessed to be the most material are reported to and discussed with the audit committee and subsequently the board.

This process is also used to identify specific risk areas to be analyzed in further detail. To exemplify, GN has undertaken a deep-dive analysis into key supply chain and information security risks during 2015, both of which have been evaluated with the audit committee and led to specific initiatives to further reduce the risk level.

The overall aim of this integrated approach to risk management is to enable GN to reap the rewards of more coordinated, controlled and intelligent risk-taking.

The main risks associated with GN's business and the main measures taken to manage them are outlined below.

## Main risks associated with GN's business



RISK	CHARACTERISTICS	MITIGATING ACTIONS
<b>1</b> <b>RESEARCH AND DEVELOPMENT</b>	Both GN ReSound and GN Netcom operate in markets with relatively short product life cycles and intense competition. The ability to deliver continued innovation and growth, therefore, increasingly depends on the ability to anticipate the needs of the customers and users and develop new solutions and services, which truly meet those needs on a timely basis.	During 2015, GN initiated several initiatives aimed at enhancing the ability to understand, anticipate and shape customer and user needs, including a number of organizational and process changes. These initiatives enable GN to further strengthen the development of new intelligent audio solutions.

RISK	CHARACTERISTICS	MITIGATING ACTIONS
<p>2</p> <p><b>OPERATIONS</b></p>	<p><b>MANUFACTURING - GN RESOUND</b></p> <p>Some of the key components for the hearing instruments commercialized by GN ReSound are produced at GN ReSound's own facility in Denmark. The main hearing aid manufacturing and distribution sites are located in China and Malaysia. Operating these facilities comes with an unlikely risk of fire or other types of disaster events, which could negatively affect the ability to supply the market.</p>	<p>Through the past few years, GN has significantly reduced its exposure to such risks at production and distribution sites. At the Danish site, GN initiated the construction of a new building further away from the existing one in 2015, which significantly reduces the exposure. In 2015, the official opening of a new manufacturing and distribution site in Malaysia took place, which significantly reduces the risk of business interruption by complementing the existing site in China.</p>
	<p><b>MANUFACTURING - GN NETCOM</b></p> <p>The manufacturing of all GN Netcom's products is outsourced to a number of carefully selected contract manufacturers. While this setup is highly flexible and makes GN Netcom capable of quickly adapting its production level to fluctuations in market demand, it also entails a number of inherent risks related to the dependence on timely deliveries and consistent product quality from GN's manufacturing partners.</p>	<p>Thanks to a strong business relationship at top management level, GN Netcom is in a position to entertain ongoing discussions with its main contract manufacturers on their business continuity plans in order to ensure that business interruption risks are minimized. During 2015, the analysis of key manufacturing risks showed a potential for further reducing the exposure through physical separation of certain manufacturing activities. The relevant contract manufacturers are now implementing this.</p>
	<p><b>SUPPLY CHAIN</b></p> <p>GN ReSound and GN Netcom both depend on their supply chains for the timely delivery of critical materials and components, which must meet their high quality standards. Failure of any of the key suppliers to meet agreed deliverables may negatively affect the ability to accommodate demand for GN products or result in safety issues.</p>	<p>To ensure that GN always has appropriate risk mitigation plans in place for the most critical materials and components, GN has developed a tool to quantify the financial exposure to a long-term interruption of supplies from all key suppliers. This provides an informed basis for deciding whether additional measures must be taken to bring the risk down to the desired level. Where possible and feasible, GN pursues a dual sourcing strategy aimed at ensuring that GN is able to source the same type of component from at least two different suppliers. For some unique suppliers, other measures are considered to reduce the risk, such as higher inventory buffers, dual sets of production equipment or other initiatives.</p>
<p>3</p> <p><b>MARKETING AND SALES</b></p>	<p><b>GN RESOUND</b></p> <p>GN ReSound generates part of its revenue from public tenders and a number of large retailers who occasionally put their business up for tender. This means that GN ReSound is exposed to the risk of losing business as these are re-tendered.</p>	<p>This risk is reduced through continuous efforts to develop new superior solutions and services in alignment with their specific needs and by developing strong and close partnerships with the customers to help them further enhance their value proposition.</p>
	<p><b>GN NETCOM</b></p> <p>GN Netcom remains well established and positioned as one of the world's two leading players in the fast-growing market for Unified Communications (UC) headsets. However, the very attractive growth rates also entail a risk that new competitors enter the market and challenge GN's position in this segment.</p>	<p>GN Netcom continually works to maintain and expand its leading position by developing innovative and unique solutions based on deep insights into new trends and developments in user preferences, purchasing behavior, technology and other key trends shaping future customer needs.</p>