GN Otometrics A/S

Hørskætten 9, DK-2630 Taastrup

CVR-no. 25 38 46 87

Annual report 2016

Approved at the annual general meeting

Date 2017

Chairman……………………….
Kim Harding Wellendorph Lehmann

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Statement by Management on the annual report

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of GN Otometrics A/S for the financial year 1 January – 31 December 2016.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January – 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

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

Taastrup, 31 May 2017
Executive Board:

Kim Harding Wellendorph Lehmann
CEO

Board of Directors:

James Barry Hawkins
Chairman

Jonathan Abbott Kennedy

Kim Harding Wellendorph Lehmann

Marianne Wehner Klausen

Peter Estrup Nielsen

Independent auditor's report

To the shareholder of GN Otometrics A/S

Opinion

We have audited the financial statements of GN Otometrics A/S for the financial year 1 January – 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Independent auditor's report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Copenhagen, 31 May 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Anders Stig Lauritsen
State Authorised
Public Accountant

Management's review

Company details

Company	GN Otometrics A/S Hørskætten 9 Klovtofte DK-2630 Taastrup

Phone	45 755 555
Webpage:	www.otometrics.com
E-mail:	info@gnotometrics.dk
CVR.no.:	25 38 46 87
Started:	20. maj 2000
Location:	Høje-Taastrup
Accounting year	1 January – 31 December

Board of Directors	James Barry Hawkins (Chairman) Jonathan Abbott Kennedy Kim Harding Wellendorph Lehmann Marianne Wehner Klausen Peter Estrup Nielsen
Executive management	Kim Lehmann
Revision	ERNST & YOUNG Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4 Postboks 250 DK-2000 Frederiksberg
Ownership	The Company is 100% owned by GN Store Nord A/S, Lautrupbjerg 7, 2750 Ballerup, Denmark

Management's review

Financial highlights

In DKK millions, except for per share data	2016	2015	2014	2013	2012
Key figures					
Revenue	319,453	299,206	294,016	275,217	288,142
Ordinary operating profit/loss	-27,323	31,713	5,583	4,363	28,381
Profit/loss from financial income and expenses	-5,428	-377	-4,696	-11,494	-6,082
Profit for the year	-25,415	16,886	1,581	22,048	20,888
Non-current assets	375,616	354,785	333,107	270,382	231,610
Current assets	170,446	284,597	197,749	183,858	183,662
Total assets	546,062	639,382	530,856	460,401	415,199
Equity	417,125	162,383	144,751	140,000	107,566
Non-current liabilities	63,099	53,297	48,959	39,165	63,164
Current liabilities	65,838	423,702	337,146	281,236	244,469
Investment in property, plant & Equipment	4,405	5,283	2,912	3,260	2,810
Financial ratios					
Operating margin	-8.8	9.5	0.6	0.3	9.8
Return on investment	-4.7	4.9	0.4	0.2	7.6
Gross margin	40.6	52.6	48.1	47.2	49.5
Current ratio	258.9	67.2	58.7	65.4	75.1
Equity ratio	76.4	25.4	27.3	30.4	25.9
Return on equity	-8.8	11.0	1.1	18.3	21.5
Average number of full-time employees	155	148	151	145	128

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios, "Recommendations and Financial Ratios 2015". For terms and definitions, please see the accounting policies.

Management's review

Management commentary

Main activities

GN Otometrics develops, manufactures and markets computer-based audiological, otoneurologic, vestibular instrumentation and sound rooms to hearing and balance care professionals in more than 80 countries under the MADSEN, AURICAL, HORTMANN and ICS brand names.

GN Otometrics was part of the division GN Hearing in GN Store Nord management report for 2016.

Activities and financials

Annual result

Revenue was 319,453 kDKK against 299,206 kDKK last year as expected due to increased revenue from both direct sales entities and distribution business.

Operating profit was -27,323 kDKK against 31,713 kDKK last year, which was lower than expected. The negative operating profit was mainly due to an extraordinary fee for services provided by the parent company, reversal of capitalized cost related to a non-finalized development project and M&A activities.

Profit after tax was -25,415 kDKK aginst 16,886 kDKK last year mainly due to an extraordinary fee for GN Hearing services, reversal of capitalized cost related to the non-finalized development project and M&A activities.
Revenue and profit is acceptable as the underlying profit was at a satisfactory level.

As of 3 January 2017 GN Otometrics is part of Natus Medical, Incorporated.

Investments

Investments in tangible and intangible fixed assets was 97,370 kDKK mainly covering investments in development projects 85,942 kDKK of which 77,537 kDKK was finalized in 2016. New launched products was mainly the Zodiac family, which is an advanced tympanometer that gives an easier way to a reliable seal. In addition, minor launches of replacement of expired products and further development of existing product portfolio.

Risks

General risks

GN Otometrics A/S main operating risk is the ability to stay positioned in the main markets. Further, it is substantially that the company is ahead of the technological development in audiological diagnostic and fitting equipment, which are the key business area of GN Otometrics.

Financial risks

GN Otometrics A/S was part of GN Store Nord in 2016 was primarily funded through GN Store Nord. As of 3 January 2017 GN Otometrics is part of Natus Medical, Incorporated and will primarily be funded through Natus Medical, Incorporated. The main financial risks are:

Currency risk

GN Otometrics currency exposure is through commercial transactions. GN Otometrics does not obtain loan nor invests in foreign currency. GN Otometrics is to a lesser extent exposed to currency rate changes as revenue and costs match for the main currencies.

Interest risk

GN Otometrics interest risks were mainly linked to the GN Store Nord loan and in the future to Natus Medical, Incorporated loans.

Environment

GN Otometrics production is not polluting and the material and energy consumption are limited. The production involves very limited in-house soldering (ROHS compliant) and efficient ventilation and air cleaning ensures a healthy work environment. Our customers demand for lighter products continuously decreased GN Otometrics material consumption per product.

As the majority of GN Otometrics production has been moved to Asia the supplier selection has been systemized including being in compliance with local environmental and labor rules. GN Otometrics production has been customized to the EU directive of amending on the restriction of the use of certain hazardous substances in electrical and electronic equipment. The directive was effective from 2014.

Management's review

Management commentary (continued)

CSR and minorities
I compliance with the Danish Financial Statements Act §99a, stk. 7 GN Otometrics has not created a presentation of the CSR report for 2016 as GN Store Nord has created a CSR report, please see the link:
http://www.gn.com/-/media/files/Document-Download-Center/Corporate-responsibility/COP2016.pdf

GN Otometrics' management believes diversity strengthens the company, and has a policy to improve diversity and share of females in the board and management team.

The board has five members of which four members are men. The company has a goal to include an additional female in the board. No change to female share in 2016.

GN Otometrics has a plan to increase share of women in the management team and in 2016, the share of female has been unchanged. Beginning of 2017 Birgitte Krarup Sonne-Schmidt entered the GN Otometrics management team. GN Otometrics is against discrimination in hiring and promotions of the company's managers and actively develops female talents.

Knowledge management
GN Otometrics's strong position within the market for audiological and fitting equipment focusing on being in front of technological development contributes to a dynamic knowledge-based work environment. The employee's skills and competences are important and GN Otometrics focuses on continuous employee development.

In 2016, GN Otometrics had a specific focus on management training and the annual management seminar had a special session on management and leadership development. Additionally in 2016, GN Otometrics introduced the concept QBR (quarterly business reviews), focusing on increasing performance and raise the level of the performance management skills in both head quarter and in the main sales offices.

Research and development activities
The research and development activities are concentrated in Denmark due to strong university focus within acoustics, digital signaling (DSP) and communication technology and the presence of multiple international companies with similar activities in the greater Copenhagen area.

The launch rates in GN Otometrics markets has increased and requires an increased focus on innovation and prioritization within all business areas.

Expectations for 2017
GN Otometrics expects an increased revenue and an improved profit before tax compared to 2016. The expected improvements are based on the GN Otometrics strategy plan developed early 2016. The initiatives include increased revenue from both direct sales entities and distributor business as well as profitability improvement based on both the revenue growth and on strategic initiatives restructuring low-profit areas of the GN Otometrics business.

Financial statements 1 January – 31 December

Income statement

Note	DKK'000	2016	2015
2	**Revenue**	319,453	299,206
3	Production costs	-189,903	-141,686
	Gross margin	**129,550**	**157,520**
3	Research- and development costs	-66,781	-55,814
3	Distribution costs	-45,916	-38,306
3.4	Administrative expenses	-44,176	-31,687
	Operating profit/loss	**-27,323**	**31,713**
	Other operating expenses	-689	-3,207
	Profit/loss before net financials	**-28,012**	**28,506**
10	Result from investment in group enterprises	961	-7,401
5	Financial income	13	5,709
6	Financial expenses	-5,441	-6,086
	Profit/loss before tax	**-32,479**	**20,728**
7	Tax for the year	7,064	-3,842
	Profit/loss for the year	**-25,415**	**16,886**

Financial statements 1 January – 31 December

Balance sheet

Note	DKK'000	2016	2015
	ASSETS		
	Non-current assets		
8	**Intangible assets**		
	Rights	81,228	75,108
	Software	253	36
	Completed development projects	133,385	98,617
	Development projects in progress	112,438	111,642
		327,304	285,403
9	**Property, plant and equipment**		
	Leasehold improvements	790	1,417
	Plant and machinery	8,377	5,816
	Other fixtures and fittings, plant and equipment	0	184
		9,167	7,417
10	**Financial assets**		
	Investment in group entities	39,145	61,965
		39,145	61,965
	Total non-current assets	**375,616**	**354,785**
	Current assets		
	Inventories		
	Raw materials and consumables	62,451	56,726
	Work in progress	39	96
	Finished goods and goods for resale	4,590	4,232
		67,080	61,054
	Receivables		
	Trade receivables	24,461	21,921
	Receivables from group entities	60,602	193,278
11	Income tax receivable	4,746	0
	Other receivables	12,200	7,714
12	Prepayments	1,173	630
		103,182	223,543
	Cash	184	0
	Total current assets	**170,446**	**284,597**
	TOTAL ASSETS	**546,062**	**639,382**

Financial statements 1 January – 31 December

Balance sheet

Note	DKK'000	2016	2015
	EQUITY AND LIABILITIES		
	Equity		
13	Share capital	24,000	23,240
	Reserve for development costs	191,742	0
	Retained earnings	201,383	139,143
	Total equity	417,125	162,383
	Non-current liabilities		
14	Deferred tax	61,495	51,214
15	Other provisions	0	694
	Liability of the guarantor	1,604	1,389
	Total non-current liabilities	63,099	53,297
	Current liabilities		
	Bank debt	0	251
	Trade payables	31,912	27,327
	Payables to group entities	5,743	371,656
11	Income tax payable	0	3,759
	Other payables	28,183	20,709
	Total current liabilities	65,838	423,702
	Total liabilities	**128,937**	**476,999**
	TOTAL EQUITY AND LIABILITIES	**546,062**	**639,382**

1 Accounting policies
16 Contractual obligations and contingencies, etc.
17 Related parties
18 Appropriation of profit/loss
19 Events after the balance sheet date

Financial statements 1 January – 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Reserve for development costs	Retained earnings	Total
	Equity at 1 January 2015	23,240	0	121,511	144,751
	Foreign exchange adjustments, etc.		0	761	761
	Equity movement in group entities	0	0	-15	-15
	Transfer, see "Appropriation of profit/loss"	0	0	16,886	16,886
	Equity at 1 January 2016	23,240	0	139,143	162,383
	Foreign exchange adjustments, etc.	0	0	245	245
	Equity movement in group entities	0	0	-88	-88
	issue of share capital	760	0	279,240	280,000
	Transfer to reserve for capitalized development projects	0	191,742	-191,742	0
18	Transfer, see "Appropriation of profit/loss"	0	0	-25,415	-25,415
	Equity at 31 December 2016	24,000	191,742	201,383	417,125

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of GN Otometrics A/S for 2016 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

According to the Danish Financial Statements Act § 112 paragraph. 2, there is not prepared consolidated financial statements. The financial statements of GN Otometrics A/S and its subsidiary are consolidated for GN Store Nord A/S.

Effective 1 January 2016, the Company has adopted act no. 738 of 1 June 2015. This implies changes in the recognition and measurement in the following areas:

1. Yearly reassessment of residual values of property, plant and equipment
2. Reserve for development costs

Re 1: In future, residual values of property, plant and equipment are subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions[1] with future effect only as a change in accounting estimates with no impact on equity.

Re 2: An amount corresponding to development costs recognised are in future tied up in a special reserve under equity called "Reserve for development costs". The amount is tied up in a special reserve, which cannot be used to distribute dividend or cover losses. If the development costs recognised are sold or in some other way no longer form part of the Company's operations, the reserve will be dissolved or reduced by a transfer directly to distributable reserves under equity. If the recognised development costs are written down, part of the reserve for development costs must be reversed. If a write-down of the development costs is subsequently reversed, the reserve for development costs must be re-established. The reserve for development costs is also reduced by amortisation charges. In doing so, the equity reserve will not exceed the amount recognised in the balance sheet as development costs.

None of the above changes affects the income statement or the balance sheet for 2016 or the comparative figures.

In addition, the Company has decided to present its balance sheet in horizontal format where non-current and current assets and liabilities are broken down and comparative figures for 2015 are restated.

Apart from the above changes as well as new and changed presentation and disclosure requirements, which follow from act no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

Omission to present a cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The entity's cash flows are part of the consolidated cash flow statement for the parent company, GN Store Nord A/S

Recognition and measurement

Revenues are recognized in the income statementas earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortized cost is recognized. Moreover, all expenses incurred to achieve the earnings for the year are recognized in the income statement, including depreciation, amortization, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognized in the income statement.

Assets are recognized in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the company, and the value of the asset can be measured reliably.

Liabilities are recognized in the balance sheet when it is probable that future economic benefits will flow out of the company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Certain financial assets and liabilities are measured at amortized cost, which involves the recognition of constant effective interest rate over the maturity period. Amortized cost is calculated as original cost less any repayments and with addition/deduction of cumulative amortization of any difference between cost and the nominal amount.

[1] The executive order on transitional provisions based in connection with the application of certain provisions in the Danish Financial Statements Act, as amended by act no. 738 of 1 June 2015 regarding amendments to the Danish Financial Statements Act and a number of other acts.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Recognition and measurement take into account predictable losses and risks occurring before presentation of annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Danish kroner are used as the measurement currency. All other currencies are regarded as foreign currencies.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rate at the transaction date and the rate at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at closing rates. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Revenue

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

Production costs

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

Development costs

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

Distribution costs

Distribution costs comprise costs related to the distribution of goods sold in the year and to sales campaigns, etc. carried out in the year, including costs related to sales staff, sales commissions, advertising, exhibitions and amortisation/depreciation.

Administrative expenses

Administrative expenses comprise expenses paid in the year to manage and administer the Company, including expenses related to administrative staff, management, office premises, office expenses and amortisation/depreciation. Also included are loss on receivables.

Other operating income

Other operating income comprises items secondary to the Company's activities, including gains on disposal of intangible assets and items of property, plant and equipment.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Other operating expenses

Other operating expenses comprise items secondary to the Company's activities, including losses on disposal of intangible assets and items of property, plant and equipment.

Financial income and expenses

Financial income and expenses comprise interest income and expenses, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax for the year

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

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

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

Balance sheet

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

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

Completed development projects	2-5 years
Software	3-5 years
Patents, licenses, trademarks and other intellectual property rights	5 years

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

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

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Property, plant and equipment

Leaseholds improvements, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers, and wages and salaries.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight-line basis over the expected useful life. The expected useful lives of the assets are as follows:

Leaseholds and improvement	5 years
Plant and machinery	3 - 5 years
Other fixtures and fittings plant and equipment	3 - 5 years

Depreciation and impairment is recognized in the income statement as production costs, distribution costs and administrative expenses.

The basis of depreciation is based on the residual value of the asset reduced by impairment losses. The residual value is determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount, depreciation is discontinued. When changing the depreciation period or the residual value, the effect on the depreciation is recognized prospectively as a change in accounting estimates.

Gains and losses on the disposal of items of property, plant and equipment are calculated as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. The gains or losses are recognised in the income statement as other operating income/-expenses.

Investment in subsidiaries

Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity plus or minus unamortised positive, or negative, goodwill and plus or minus unrealised intra-group profits or losses.

Group enterprises with negative equity are measured at DKK 0, and any receivables from these enterprises are written down by the Parent's share of such negative equity value if it is deemed irrecoverable.

If the negative equity value exceeds the amount receivable, the remaining amount is recognised under provisions if the parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to reserve for net revaluation according to the equity method under equity. Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Impairment of non-current assets

The carrying amount of intangible assets and property, plant and equipment is tested annually for evidence of impairment other than the decrease in value reflected by amortisation/depreciation.

Impairment tests are conducted on individual assets or groups of assets when there is evidence of impairment. Assets are written down to the lower of the carrying amount and the recoverable amount.

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the net present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists.

Inventories

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

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

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

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

Receivables

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

Prepayments

Prepayments recognised under "Current assets" comprise expenses incurred concerning subsequent financial years.

Equity

Reserve for development costs

The reserve for development costs comprises recognised development costs. The reserve cannot be used to distribute dividend or cover losses. The reserve will be reduced or dissolved if the recognised development costs are amortised or if they are no more part of the Company's operations by a transfer directly to distributable reserves under equity.

Dividend

Dividend proposed for the year is recognised as a liability at the date when it is adopted at the annual general meeting (declaration date). Dividend expected to be distributed for the financial year is presented as a separate line item under "Equity".

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1 **Accounting policies (continued)**

Income tax and deferred tax

Current tax payables and receivables are recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on prior-year taxable income and tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes or on office premises and other items where temporary differences arise at the date of acquisition without affecting neither the profit/loss for the year nor the taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carry-forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Adjustment is made to deferred tax resulting from elimination of unrealised intra-group profits and losses.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Provisions

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

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

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

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities are measured at net realisable value.

Rental and Lease Matters

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

Segment information

Information is disclosed by geographical market. Segment information is based on the Company's accounting policies, risks and internal financial management.

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1 **Accounting policies (continued)**

Financial ratios

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

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Operating margin	$\frac{\text{Operating profit (EBIT) x 100}}{\text{Revenue}}$
Gross margin	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$
Current ratio	$\frac{\text{Current assets x 100}}{\text{Current liabilities}}$
Equity ratio	$\frac{\text{Equity, year-end x 100}}{\text{Total equity and liabilities, year-end}}$
Return on Equity (ROE)	$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$

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2 Segment information

DKK'000	2016	2015
Denmark	14,542	19,315
Nordic	5,142	3,566
Germany	47,031	41,937
Other Europa	92,165	77,736
USA	40,462	48,954
Other north- and south America	18,835	8,625
China	42,524	48,698
Other Asia	33,499	23,131
Other	25,253	27,244
	319,453	299,206

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DKK'000		2016	2015
3	**Expenses**		
	Staff costs		
	Remuneration too Executive Board*	3,454	3,540
	Wages and salaries	89,167	76,734
	Pensions	6,661	6,280
	Other social security costs	1,245	1,320
		100,527	87,874
	Staff costs are recognised the financial statements under the following line items:		
	Production costs	34,971	23,966
	Research and development costs	32,221	27,288
	Distribution costs	21,780	20,193
	Administrative expenses	11,555	16,427
		100,527	87,874
	Average number of full-time employees	155	148

Staff costs include remuneration to the Executive Board, totalling DKK 3,243 thousand (2015: DKK 3,330 thousand), and pensions totalling DKK 171 thousand (2015: DKK 210 thousand) and directors' fees to the members of the Board of Directors, totalling DKK 40 thousand (2015: DKK 40 thousand).

*Furthermore warrants has been issued in GN Resound to the management. Total 458 shares with a market value as of DKK 2,232K as of December 31st 2016. (2015: 125 shares with a market value of DKK 261K)

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

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

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

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DKK'000		2016	2015
3	**Expenses (continued)**		
	Amortisation/depreciation and impairment losses		
	Intangible assets	43,455	40,481
	Property, plant and equipment	2,655	2,251
		46,110	42,732

Amortisation/depreciation charges and impairment losses are recognised in the financial statements under the following line items:

	2016	2015
Production costs	1,928	624
Research and development costs	44,138	41,128
Distribution costs	44	304
Administrative expenses	0	676
	46,110	42,732

		2016	2015
4	**Fees paid to auditors appointed at the annual general meeting**		
	Total fee to EY		
	Fee for statutory audit	115	115
	Other assistance	261	195
		376	310

		2016	2015
5	**Financial income**		
	Income from non-current securities and other investments	11	0
	Other financial income	2	5,709
		13	5,709

		2016	2015
6	**Financial expenses**		
	Intercompany Interest expenses	3,783	3,937
	Foreign exchange losses	0	1,868
	Other interest expenses	1,658	281
		5,441	6,086

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	DKK'000	2016	2015
7	**Tax for the year**		
	Current tax for the year	19,152	2,810
	Adjustment of the deferred tax charge for the year	-11,854	-10,146
	Prior-year adjustments	-234	3,494
		7,064	-3,842

8 **Intangible assets**

DKK'000	Rights*	Software
Cost at 1 January 2016	76,849	6,686
Additions	6,756	267
Cost at 31 December 2016	83,605	6,953
Amortisation and impairment losses at 1 January 2016	1,741	6,650
Amortisation	636	50
Amortisation and impairment losses at 31 December 2016	2,377	6,700
Carrying amount at 31 December 2016	**81,228**	**253**
Amortised over	5 years	3-5 years

* Amortisation starts in connection with the launch of a product in which the right is used. Rights that have not started amortisations amounts to 80,423K DKK.

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8 Intangible assets (continued)

DKK'000	Total Development projects	Hereof Completed development projects	Hereof Development projects in progress
Cost at 1 January 2016	476,889	365,247	111,642
Additions	85,942	2,534	83,408
Disposals	-7,609	0	-7,609
Transferred	0	75,003	-75,003
Cost at 31 December 2016	555,222	442,784	112,438
Amortisation and impairment losses at 1 January 2016	266,630	266,630	0
Amortisation	42,769	42,769	0
Amortisation and impairment losses at 31 December 2016	309,399	309,399	0
Carrying amount at 31 December 2016	**245,823**	**133,385**	**112,438**
Amortised over	3-5 years	3-5 years	

Development projects and software

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

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

Patens and Rights

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

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9 Property, plant and equipment

DKK'000	Leaseholds improvements	Plant and machinery	Other fixtures and fittings, plant and equipment
Cost at 1 January 2016	3,641	20,565	3,769
Additions	0	4,405	0
Disposals	0	0	0
Cost at 31 December 2016	3,641	24,970	3,769
Depreciation and impairment losses at 1 January 2016	2,224	14,749	3,585
Depreciation	627	1,844	184
Disposals	0	0	0
Depreciation and impairment losses at 31 December 2016	2,851	16,593	3,769
Carrying amount at 31 December 2016	790	8,377	0

10 Financial assets

DKK'000	Investments in group entities
Cost at 1 January 2016	81,181
Additions	0
Disposals	0
Cost at 31 December 2016	81,181
Value adjustments at 1 January 2016	-28,741
Equity movement in group entities	-88
Dividend from group entities	-24,000
Foreign exchange adjustments	245
Result from investment in subsidiaries	961
Value adjustments at 31 December 2016	-51,623
Carrying amount at 31 December 2016	29,558
Thereof offset in IC trade receivables	9,587
Recognized under Financial Assets	39,145

Group entities	Domicile	Interest %	Equity DKKt	Profit/loss DKKt
GN Otometrics Holding GMBH	Germany	100%	-10,327	-270
Inmedico A/S	Denmark	100%	7,798	7,355
Genie Audio Inc.	Canada	100%	3,524	-4,455
Otometrics Shanghai Co. Ltd.	China	100%	22,730	5,699

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	DKK'000	2016	2015
11	**Income taxes receivable/payable**		
	Income taxes payable at 1 January	-3,759	-7,759
	Adjustment in respect to prior years	-1,807	-487
	Payment relating to prior years	3,451	4,852
	Addition of current tax on acquisition of enterprises	0	3,395
	Current tax for the year	19,152	2,736
	Tax related to share-based incentive plans	0	754
	Income taxes paid during the year	-12,291	-7,250
	Income taxes receivable/payable at 31 December	4,746	-3,759
12	**Prepayments**		
	Other prepaid expenses	1,173	630
		1,173	630

13 **Share capital**

The share capital comprises 24,000 shares of 1 DKK nominal value each. All shares rank equally. The share capital has remained unchanged from 2012 through 2015, whereas a capital increase of norminal DKK 760K took place in 2016

The change in share capital the last five years can be specified as following:

DKK'000	2016	2015	2014	2013	2012
Equity at 1 January	23,240	23,240	23,240	23,240	23,2400
Issue of Share Capital	760	0	0	0	0
Equity at 31 December	24,000	23,240	23,240	23,240	23,240

	DKK'000	2016	2015
14	**Deferred tax**		
	Deferred tax at 1 January	-51,214	-45,050
	Deferred tax for the year recognized in profit (loss) for the year	-11,854	-10,1463
	Adjustment with respect to prior years	1,573	3,982
	Deferred tax at 31 December	**-61,495**	**-51,214**
	The deferred tax charge relates to:		
	Intangible assets	-63,958	-53,763
	Property, plant and equipment	980	793
	Current assets	1,483	1,756
		-61,495	**-51,214**

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	DKK'000	2016	2015
15	**Other provisions**		
	Other provisions at 1 January	694	3,400
	Reversal	-694	-2,706
	Other provisions at 31 December	0	694
	Other provisions are expected to mature within:		
	0-1 year	0	694
	1-5 years	0	0
	> 5 years	0	0
		0	694

16 Contractual obligations and contingencies, etc.

Contingent liabilities

The Company is jointly taxed with all Danish companies in GN Store Nord A/S Group. The company is jointly and severally liable with the other companies in the joint taxation for Danish corporate taxes and withholding taxes on dividend, interests and royalties within the joint taxation. The jointly taxed companies known tax obligations against the TAX authorizes are shown in the statutory accounts for the parent company GN Store Nord A/S, company reg. no. 24257843.

Operating lease liabilities

The company has entered into an operating lease agreement concerning the property located on Hørskætten 9, DK-2630 Taastrup. The lease payments of 2017 amounts to DKK 3,434K. The remaining period of the lease agreement is 5 years and the remaining lease payments amounts to DKK 17,2M

The Company has entered into operating lease agreements concerning printers. The lease payments of 2017 amounts to DKK 418K. The remaining period of the lease agreement is 21 months and the remaining lease payments amounts to DKK 868K

Furthermore, the company has also entered into operating lease agreements concerning cars. The lease payments of 2017 amounts to DKK 483K. The remaining period of the leasing agreements are in average 16 months and the remaining lease payments amounts to DKK 692K

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17 Related parties

GN Otometrics A/S' related parties comprise the following:

Parties exercising control

GN Resound A/S

Lautrupbjerg 7

2750 Ballerup

The Annual Report for GN Otometrisc is included in the Group Annual Report of GN Store Nord and may be obtained from the address mentioned below:

GN Store Nord

Lautrupbjerg 7

2750 Ballerup

Related party transactions

Remuneration/fees to members of the Executive Board and the Board of Directors are reflected in note 3.

DKK'000	2016	2015
Purchase of services from group enterprises	-53,278	-37,317
Sale of services sold to group enterprises	3,511	3,972
Sale of good to group enterprises, revenue	223,708	184,287
Sale of goods to group enterprises, cost of goods	-117,819	-83,935
	56,122	67,007

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

The company's balances with group enterprises at December 31, 2016 are recognized in the balance sheet. Interest income and expenses with respect to group enterprises are disclosed in note 6. Further, balances with group enterprises comprise trade balances related to the purchase and sale of goods and services.

Purchases of services from group enterprises consists of facility services, canteen services, management fee, R&D services and marketing services.

No transactions have been carried out with the Board of Directors, the Executive Management, senior employees, major shareholders or other related parties, apart from ordinary remuneration.

DKK'000	2016	2015
18 Appropriation of profit/loss		
Recommended appropriation of profit/loss		
Transferred to reserves under equity	-25,415	16,886
	-25,415	16,886

19 Events after the reporting period

On September 25, 2016 GN Hearing and Natus Medical Incorporated (hearafter "Natus") entered into an agreement whereby ownership of GN Otometrics is transferred from GN Hearing to Natus. Closing of the transaction took place on January 3, 2017.