GN Hearing A/S

Annual report 2017

Approved at the annual general meeting
13 /3 2018

Chairman:

....

CVR-no. 55 08 27 15
This report contains 46 pages

GN Hearing A/S, Lautrupbjerg 7, 2750 Ballerup

Contents

Statements

Statement by the Board of Directors and the Executive Management 3

Independent auditors' report 4

Management's report

Company details 6

Financial highlights 7

Management review of GN Hearing A/S 8

Financial statements for the period 1 January – 31 December

Income statement and statement of comprehensive income 13

Balance sheet 14

Statement of cash flow 15

Statement of equity 16

Basis of preparation 17

Notes to the financial statement 20

Statements

Statement by the Board of Directors and the Executive Management

Today, the executive management and the board of directors have discussed and approved the GN Hearing A/S Annual Report for 2017.

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

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

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

We recommend that the annual report for 2017 be approved at the annual general meeting.

Ballerup, March 13, 2018

Executive management

Anders Hedegaard CEO	Marcus Desimoni CFO

Board of directors

Per Wold-Olsen *(Chairman)*	William E Hoover Jr *(Deputy chairman)*	Hélène Barnekow
Wolfgang Reim	Ronica Wang	Carsten Krogsgaard Thomsen
Christian Bonnez *(Employee elected)*	Hans Freddy Larsen *(Employee elected)*	Thomas Olsgaard *(Employee elected)*

Independent auditors' report

To the shareholder of GN Hearing A/S

Opinion

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

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

Basis for opinion

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

Independence

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

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence 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 note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Copenhagen, March 13, 2018

Ernst & Young
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Torben Bender State Authorised Public Accountant MNE no.: mne21332	Jens Thordahl Nøhr State Authorised Public Accountant MNE no.: mne32212

Management's report

Company details

Company	GN Hearing A/S Lautrupbjerg 7 2750 Ballerup
	Phone: 45 75 11 11 E-mail: info@gnresound.com Webpage: www.gn.com
	CVR.no.: 55 08 27 15 Started: 31 January 1957 Location: Ballerup Accounting year: 1 January – 31 December
Board of Directors	Per Wold-Olsen (Chairman) William E. Hoover Jr. *(Deputy Chairman)* Hélène Barnekow Wolfgang Reim Ronica Wang Carsten Krogsgaard Thomsen Christian Bonnez *(Employee elected member)* Hans Freddy Larsen *(Employee elected member)* Thomas Olsgaard *(Employee elected member)*
Executive management	Anders Hedegaard, CEO Marcus Desimoni, CFO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4 2000 Frederiksberg
Ownership	The company is 100% owned by GN Store Nord A/S, Lautrupbjerg 7, 2750 Ballerup, Denmark.

Management's report

Financial highlights

Highlights and key ratios

in '000	2017	2016	2015	2014	2013 *
Revenue	3.225.263	2.768.785	2.527.177	2.366.422	2.093.738
Gross Profit	1.726.137	1.302.100	1.102.275	1.345.695	1.015.195
EBITA **	806.852	331.986	325.661	650.564	335.514
Operating profit (loss)	773.750	299.229	312.573	634.214	339.354
Result from financial items	253.190	167.102	911.528	16.765	-55.405
Profit (loss) for the year	**857.263**	**362.873**	**1.143.380**	**512.878**	**199.406**
Non-current assets	5.590.411	6.021.739	5.409.513	4.574.199	4.035.186
Current assets	678.607	1.026.354	727.242	586.207	616.097
Total assets	**6.269.018**	**7.048.093**	**6.136.755**	**5.160.406**	**4.651.283**
Share capital	63.788	63.508	63.221	62.867	62.397
Total equity	**3.838.796**	**4.828.103**	**4.422.378**	**3.179.883**	**2.648.684**
Non-current liabilities	313.692	322.724	338.435	230.945	282.024
Current liabilities	2.116.530	1.879.213	1.375.942	1.749.578	1.720.575
Cash flow from operating activities	1.094.673	548.560	1.409.717	883.441	-
Investment in tangible assets	23.697	38.123	81.071	39.810	55.194

Key ratios

Operating Margin	24,0	10,8	12,4	26,8	16,2
Gross Margin	53,5	47,0	43,6	56,9	48,5
Return on Investment	19,5	7,8	11,0	30,2	18,1
Current Ratio	32,1	54,6	52,9	33,5	35,8
Equity Ratio	61,2	68,5	72,1	61,6	56,9
Return on Equity	19,8	7,8	30,1	17,6	7,8

*) Key ratios for 2013 have not been restated in accordance with IFRS.
**) Excluding amortization of acquired intangible assets but including amortization of development projects and software developed in-house

Management's review of GN Hearing A/S

Operating review

Principal activities of the Company

GN Hearing A/S offer advanced hearing aids, that improves the life's of people with hearing loses.

Development in activities and financial matters

GN Hearing A/S's revenue for 2017 ended at DKK 3,225 mill (2016: DKK 2,769 mill), which is a growth of 16,0 % compared to 2016.

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

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

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

With the introduction of ReSound LiNX 3D and the ReSound Smart Fit™ software, an entirely new hearing care experience is made possible. These breakthroughs are developed with audiological insights and the latest advancements in technology to provide more convenience and efficiency than ever before.
ReSound LiNX 3D offers unprecedented benefits to hearing aid users and to hearing care professionals across three key dimensions – sound quality, efficient and convenient fitting and ground-breaking remote fine-tuning:
Sound quality – hear more than you ever thought possible
With ReSound LiNX 3D – GN Hearing's 5th generation 2.4 GHz wireless technology and 3rd generation Binaural Directionality – hearing aid users experience excellent sound quality and will hear more than they ever thought possible.

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

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

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

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

The Audigy Group, acquired in 2016, was successfully integrated during 2017. Audigy has strengthened GN Hearing's footprint in the important North American market.

On January 3, 2017, the divestment of Otometrics to Natus Medical was completed following the fulfillment and achievement of all necessary conditions and regulatory approvals. The divestment further strengthens GN Hearing's focus and strategic direction. The gain on disposal amounted to DKK 279,2 mill, which is recognized in financial income.

Management's review of GN Hearing A/S

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

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

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

GN Hearing A/S delivered a gross profit margin of 53,5%, (47,0% in 2016). Profit for the year ended at DKK 857 mill. compared to DKK 363 mill. in 2016, impacted by the gain on divestment of Otometrics, and the cash flow from operating and investing activities on DKK 1.688 mill. compared to DKK (65) mill. in 2016.

The result is in alignment with the expectations for 2017, and management assess the result as satisfying.

Market projections

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

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

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 team in GN Hearing A/S subsequently meet to evaluate the most significant risks identified across the 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.

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 initiatives taken to manage them are outlined below.

Management's review of GN Hearing A/S

General risks
GN Hearing A/S' significant operating risk is linked to its ability to develop innovative new products in a cost effective platform and the ability to sell these products in key markets.

Financial risk
As result of its operating, investing and financing activities, GN Hearing A/S are exposed to various financial risks. GN Group has centralized the management of financial risks.

The financial risks are handled in accordance with the general guidelines for financial risk management, as set out in GN Store Nord's fiscal policy.

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

Interest rate risk
GN Hearing's interest rate risk is primarily connected to intercompany loans within the GN-Group.

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

Risks associated with distribution
GN Hearing A/S constantly seeks to maintain an optimal inventory level that balances the desire for low working capital with the risk that the company cannot meet market demand.

GN Hearing A/S closely monitor the credit risks relating to receivables and thus the customers' payment behavior and assesses not to have significant credit risks concerning individual customers or business partners.

Corporate Social Responsibility
For the statutory Statement on Corporate Social Responsibility for 2017, cf. §99a of the Danish Financial Statement Act, please see the 2017 Communication on Progress report by GN Store Nord A/S available on http://www.gn.com/-/media/Files/Document-Download-Center/Corporate-responsibility/COP2017.pdf.

Environment
As a part of GN Store Nord, GN Hearing A/S follows the guidelines of the group. GN continues to decrease its electricity spending while investing in sustainable initiatives.

People
On a yearly basis a survey is conducted on employee's wellbeing with response rates around 95%. The results show an engaged and committed workforce. Strong emphasis is put on managers and teams at all levels work to identify and execute action plans to constantly improve GN as a workplace.

Supplier audit
Each year, a number of audits is conducted from GN Store Nord at its suppliers among others with the focus on ensuring that GN's standards on corporate responsibility are reflected in the suppliers' business conduct. Any findings are mitigated through action plans provided by the individual supplier.

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

Management's review of GN Hearing A/S

Research and development activities

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

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

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

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

Corporate governance

The board of directors fundamentally believes that diversity strengthens any governing body and acknowledges the importance of diversity in general, including diversity of gender, nationality and competencies. In 2012 the board of directors declared a goal to see one to two women elected for the board by the end of 2017. Since then, Hélène Barnekow was elected for the board at the annual general meeting in 2013, and Ronica Wang was elected in 2015. Now the board of directors aims to have three female board members by the end of 2020.

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

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

To achieve this goal, we ensure that diversity is an integral part of GN's yearly talent review and succession planning process, of talent development practices, of recruitment procedures, of leadership development programs, and of mentor programs. Also, recently the wording and visual identity in recruitment activities on social media and other channels has been changed to better attract female candidates.

Events after the balance sheet date

GN Hearing has established a new business area with the presentation of a fully fledged hearing protection system for defense and security forces. The new product line will, under the name GN FalCom, include best-in class features for comfort, clarity and noise protection. The launch is not expected to have a significant influence in 2018.

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

Outlook 2018

Based on continued strategy execution and attractive market conditions, GN Hearing A/S expects organic revenue growth on >6% in 2018.

GN Hearing's strong revenue growth are expected to lead to an EBITA margin of >20% in 2018. GN Hearing's strong execution on the strategy 2017 – 2019: Hear More, Do More, Be More, is driving the profitable growth.

Key ratios

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

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

In this annual report the following financial terms are used:

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

INCOME STATEMENT

DKK '000	Note	2017	2016
Revenue	2.1	3,225,263	2,768,785
Production costs	2.4, 3.3, 3.5	(1,499,126)	(1,466,685)
Gross profit		**1,726,137**	**1,302,100**
Development costs	2.4, 3.3	(416,840)	(471,386)
Selling and distribution costs	2.4, 3.3	(276,067)	(258,546)
Management and administrative expenses	2.4, 3.3, 5.5, 5.7	(232,690)	(260,986)
Other operating income and costs, net		6,312	20,804
EBITA *)		**806,852**	**331,986**
Amortization of acquired intangible assets	2.4, 3.3	(33,102)	(32,757)
Operating profit (loss)		**773,750**	**299,229**
Share of profit (loss) in associates	5.3	4,046	4,140
Financial income	4.2	358,552	188,987
Financial expenses	4.2	(109,408)	(26,025)
Profit (loss) before tax		**1,026,940**	**466,331**
Tax on profit (loss)	2.3	(169,677)	(103,458)
Profit (loss) for the year		**857,263**	**362,873**
Proposed profit appropriation/distribution of loss			
Retained earnings		809,970	(1,014,238)
Transfer to reserve for capitalized development projects		47,293	(622,889)
Proposed dividends for the year		-	2,000,000
		857,263	**362,873**

STATEMENT OF COMPREHENSIVE INCOME

DKK '000	Note	2017	2016
Profit (loss) for the year		**857,263**	**362,873**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Adjustment of cash flow hedges		95,693	(23,035)
Foreign exchange adjustments, etc.		(203)	(1,286)
Tax relating to these items of other comprehensive income	2.3	(21,052)	5,068
Other comprehensive income for the year, net of tax		**74,438**	**(19,253)**
Total comprehensive income for the year		**931,701**	**343,620**

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

BALANCE SHEET AT DECEMBER 31

DKK '000	Note	2017	2016
ASSETS			
Intangible assets	3.1	993,461	1,040,149
Property, plant and equipment	3.2	100,430	120,272
Investments in associates	5.3	3,096	13,469
Other non-current assets	4.1	17,971	23,737
Investments in subsidiaries	3.7	2,657,920	2,657,762
Amounts owed by subsidiaries and group companies	4.1	1,817,533	2,166,350
Total non-current assets		**5,590,411**	**6,021,739**
Inventories	3.5	158,662	225,770
Trade receivables	3.6, 4.1	103,664	90,285
Amounts owed by subsidiaries and group companies	4.1	300,064	219,416
Tax receivables		-	36,463
Other receivables	4.1	80,534	34,960
Cash and cash equivalents		35,683	2,803
Total current assets		**678,607**	**609,697**
Assets held for sale	5.6	-	416,657
Total assets		**6,269,018**	**7,048,093**
EQUITY AND LIABILITIES			
Share capital		63,788	63,508
Other reserves		38,003	(36,638)
Reserve for capitalized development projects		670,182	622,889
Proposed dividends for the year		-	2,000,000
Retained earnings		3,066,823	2,178,344
Total equity		**3,838,796**	**4,828,103**
Provisions	3.4	1,695	1,599
Deferred tax liabilities	2.3	169,536	184,259
Other non-current liabilities	4.1	4,391	5,593
Amounts owed to subsidiaries and group companies	4.1	138,070	131,273
Total non-current liabilities		**313,692**	**322,724**
Bank loans	4.1	42,823	820
Trade payables	4.1	63,106	92,108
Tax payables		65,162	-
Amounts owed to subsidiaries and group companies	4.1	1,699,112	1,499,352
Provisions	3.4	20,452	31,381
Other payables		225,875	255,552
Total current liabilities		**2,116,530**	**1,879,213**
Liabilities directly associated with assets held for sale	5.6	-	18,053
Total equity and liabilities		**6,269,018**	**7,048,093**

STATEMENT OF CASH FLOW

DKK '000	Note	2017	2016
Operating activities			
Operating profit (loss)		773,750	299,229
Depreciation, amortization and impairment	3.3	303,433	314,180
Other non-cash adjustments	5.4	(7,851)	190
Cash flow from operating activities before changes in working capital		**1,069,332**	**613,599**
Change in inventories		78,156	(52,396)
Change in receivables		(58,328)	9,153
Change in trade payables and other payables		37,009	(23,278)
Total changes in working capital		**56,837**	**(66,521)**
Cash flow from operating activities before financial items and tax		**1,126,169**	**547,078**
Interest and dividends, etc., net		66,436	92,320
Tax paid, net		(97,932)	(90,838)
Cash flow from operating activities		**1,094,673**	**548,560**
Investing activities			
Investments in intangible assets, excluding development projects		(11,115)	(101,028)
Development projects		(264,148)	(266,501)
Investments in property, plant and equipment		(23,697)	(38,123)
Investments in other non-current assets		(422)	(3,097)
Disposal of intangible assets		61,696	23,076
Disposal of property, plant and equipment		55	6,544
Disposal/repayment of other non-current assets		5,747	46,438
Increase/(Decrease) of amount owed by subsidiaries		120,807	-
Disposal of companies/operations		704,476	-
Acquisition of companies/operations		(158)	(281,185)
Cash flow from investing activities		**593,241**	**(613,876)**
Cash flow from operating and investing activities (free cash flow)		**1,687,914**	**(65,316)**
Financing activities			
Increase/(decrease) of long-term loans	4.3	(1,201)	743
Increase/(decrease) of short-term loans	4.3	42,003	(2,326)
Paid dividends		(2,000,000)	-
Share-based payment (exercised)		53,042	46,131
Increase/(decrease) of amounts owed to subsidiaries	4.3	251,122	23,108
Cash flow from financing activities		**(1,655,034)**	**67,656**
Net cash flow		**32,880**	**2,340**
Cash and cash equivalents, beginning of period		2,803	463
Cash and cash equivalents, end of period		**35,683**	**2,803**

STATEMENT OF EQUITY

DKK '000	**Share capital (shares of DKK 100 each)**	**Hedging reserve**	**Reserve for capitalized developmen t projects**	**Proposed dividends for the year**	**Retained earnings**	**Total equity**
Balance sheet total at December 31, 2015	**63,221**	**(18,671)**	**-**	**-**	**4,377,828**	**4,422,378**
Profit (loss) for the period	-	-	-	-	362,873	362,873
Adjustment of cash flow hedges	-	(23,035)	-	-	-	(23,035)
Foreign exchange adjustments, etc.	-	-	-	-	(1,286)	(1,286)
Tax relating to other comprehensive income	-	5,068	-	-	-	5,068
Total comprehensive income for the year	-	(17,967)	-	-	361,587	343,620
Increase of share capital	287	-	-	-	45,843	46,130
Share-based payment (granted)	-	-	-	-	12,674	12,674
Tax related to share-based incentive plans	-	-	-	-	3,301	3,301
Transfer to reserve for capitalized development projects	-	-	622,889	-	(622,889)	-
Proposed dividends for the year	-	-	-	2,000,000	(2,000,000)	-
Balance sheet total at December 31, 2016	**63,508**	**(36,638)**	**622,889**	**2,000,000**	**2,178,344**	**4,828,103**
Profit (loss) for the period	-	-	47,293	-	809,970	857,263
Adjustment of cash flow hedges	-	95,693	-	-	-	95,693
Foreign exchange adjustments, etc.	-	-	-	-	(203)	(203)
Tax relating to other comprehensive income	-	(21,052)	-	-	-	(21,052)
Total comprehensive income for the year	-	74,641	47,293	-	809,767	931,701
Increase of share capital	280	-	-	-	52,763	53,043
Share-based payment (granted)	-	-	-	-	14,655	14,655
Tax related to share-based incentive plans	-	-	-	-	11,294	11,294
Paid dividends	-	-	-	(2,000,000)	-	(2,000,000)
Balance sheet total at December 31, 2017	**63,788**	**38,003**	**670,182**	**-**	**3,066,823**	**3,838,796**

The share capital has increased, in 2013 by kDKK 665, in 2014 by kDKK 470, in 2015 by kDKK 354, in 2016 by kDKK 287 and in 2017 by kDKK 280.

§ Accounting policies

Reserve for capitalized development costs

The reserve for development costs comprise GN Hearing A/S's development costs corresponding to the carrying amount of development cost capitalized in the balance sheet since January 1, 2016 net of tax. The reserve is non distributable and cannot be used to cover deficit. The reserve is dissolved upon disposal of the development cost either by sale or if the development cost is no longer part of the entity's operation. The reserve will then be transferred to the distributable reserves. The reserve will be reduced and the distributable reserves increased concurrently with either depreciation or write-downs.

SECTION 1
Basis of preparation

In order to make the annual report more reader friendly the notes have been grouped in sections. Furthermore, each note include the accounting policies and significant accounting estimates applicable to the relevant notes. The description of the accounting policies in the notes are part of the complete description of GN Hearing A/S's accounting policies. The notes are grouped in these five sections:

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

Included in Section 1 are required disclosures and general accounting policies, including management's judgments and estimates under International Financial Reporting Standards (IFRS), relevant for the understanding of the basis of preparation of the financial statements of GN Hearing A/S.

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

1.1 GENERAL ACCOUNTING POLICIES

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

The financial statements are presented in Danish kroner (DKK), rounded to the nearest DKK 1,000. The Company's functional currency is DKK.

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

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.

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

Management and Administrative Expenses
Management and administrative expenses comprise expenses incurred for management and administration. Administrative expenses include office expenses, depreciation and impairment, etc.

Other Operating Income and Costs
Other operating income and costs comprise items secondary to the principal activities of the enterprises.

! Significant accounting estimates
Revenue Recognition

Significant accounting estimates and judgments involve determining the portion of expected returns of goods. The portion of goods sold that is expected to be returned is estimated based on historical product returns data.

Foreign Currency Translation

Translation of Transactions and Amounts

On initial recognition, transactions denominated in foreign currencies are translated to DKK at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognized in the income statement as financial income or financial expenses. Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognized in the latest annual report is recognized in the income statement as financial income or financial expenses.

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

Statement of cash flow

The cash flow statement is presented using the indirect method based on the operating profit (loss). The cash flow statement shows the cash flow from operating, investing and financing activities for the year and the year's changes in cash and cash equivalents as well as the cash and cash equivalents at the beginning and end of the year.

Cash flow from operating activities comprises cash flow from the year's operations adjusted for non-cash operating items and changes in working capital. Working capital comprises current assets excluding items stated as cash and cash equivalents and excluding tax receivable, as well as current liabilities excluding bank loans, tax payable and provisions.

Cash flow from investing activities comprises payments in connection with acquisitions and disposals of enterprises and activities, acquisitions and disposals of intangible assets, property, plant and equipment and other non-current assets and acquisitions and disposals of securities that are not included in cash and cash equivalents.

Cash flow from financing activities comprises changes in the size or composition of the share capital and related costs as well as the raising of loans, repayment of interest-bearing debt, acquisition and disposal of treasury shares and payment of dividends to shareholders.

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

Adoption of new and revised accounting standards

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

Accounting standards not yet adopted

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

• IFRS 9 applies to annual periods beginning on or after January 1, 2018. IFRS 9 addresses the classification and measurement of financial assets and liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets. GN Hearing A/S has reviewed the group's financial assets and liabilities which resulted in an immaterial impact on recognition and measurement from implementing IFRS 9. GN Hearing A/S' use of hedge accounting will not be affected by implementing IFRS 9 and neither will the accounting for financial liabilities. The disclosures regarding classification of certain financial assets will change as financial assets will be classified as measured at either cost or fair value. Dispenser loans and trade receivables will continue to be measured at amortized cost.

When measuring loss allowances, GN Hearing A/S will apply the simplified approach on trade receivables and record lifetime expected credit losses on all trade receivables. GN Hearing A/S will measure loss allowances on dispenser loans equal to 12-month expected credit losses, if the credit risk has not increased significantly since initial recognition. If the credit risk has increased significantly, the loss allowance will be measured at an amount equal to lifetime expected credit losses. IFRS 7 will require additional disclosures in the Annual Report 2018.

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

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

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

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

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

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

GN Hearing A/S expects to adapt the mentioned standards and interpretations as of the effective dates.

1.2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The recognition of certain items of income and expenses and the determination of the carrying amount of certain assets and liabilities implies making accounting estimates and judgments. Significant accounting estimates and judgments comprise revenue recognition, computation of amortization, depreciation and impairment, useful lives and remaining useful lives of non-current assets. Furthermore, non-current obligations, provisions, contingent assets and liabilities as well as measurement of investment in associates recquires significant accounting estimates and judgments.

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

A description of significant accounting estimates and judgements is included in the relevants notes:
2.4 Tax
3.1 Intangible assets
3.4 Provisions
3.5 Inventories
3.6 Trade receivables
3.7 Investments in subsidiaries
5.2 Contingent liabilities, other financial liabilities and contingent assets

1.3 NON-IFRS MEASURES

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

SECTION 2

2.1 GEOGRAPHICAL INFORMATION

DKK '000	Revenue 2017	Revenue 2016	Intangible assets and property, plant and equipment 2017	Intangible assets and property, plant and equipment 2016
Denmark	44,075	40,308	1,093,816	1,160,282
Scandinavia	171,885	148,426	0	0
Europe	691,248	645,170	0	0
North- and South America	1,422,237	1,138,113	0	0
Asia	697,539	614,381	75	139
Other	198,279	182,387	0	0
Total Revenue	**3,225,263**	**2,768,785**	**1,093,891**	**1,160,421**

Revenues are attributed to countries on the basis of the customer's location. Intangible assets and property, plant and equipment are attributed based on the physical location of the assets. Only the US (included under the headline North- and South America) represents a material single country. Revenues are in all material respects related to sale of goods: hearing aid instruments.

2.2 STAFF COSTS

DKK '000	2017	2016
Wages, salaries and remuneration	369,243	395,595
Pensions	28,788	26,502
Other social security costs	4,323	5,294
Share-based payments	14,655	12,674
Total	**417,009**	**440,065**
Included in:		
Production costs and change in payroll costs included in inventories	64,429	57,449
Development costs	175,604	194,756
Selling and distribution costs	118,415	87,360
Management and administrative expenses	58,560	100,500
Total	**417,008**	**440,065**
Average number of employees	510	554
Number of employees, year-end	536	541
The full-year remuneration of the Board of Directors	1,125	1,125

Executive Management remuneration can be specified as follows:

	2017				2016			
DKK '000	**Fixed salary**	**Bonus**	**Share-based payments**	**Total**	**Fixed salary**	**Bonus**	**Share-based payments**	**Total**
Anders Hedegaard, CEO of GN Hearing	(6,384)	(3,970)	(2,257)	**(12,611)**	(6,187)	(5,072)	(2,077)	**(13,336)**
Marcus Desimoni, CFO of GN Hearing from February 15, 2016	(2,288)	(1,388)	(878)	**(4,554)**	(2,676)	(1,313)	(488)	**(4,477)**
Anders Boyer, CFO of GN Hearing until February 14, 2016	-	-	-	**-**	(280)	(232)	-	**(512)**
Total	**(8,672)**	**(5,358)**	**(3,135)**	**(17,165)**	**(9,143)**	**(6,617)**	**(2,565)**	**(18,325)**

The total remuneration of the Executive Management is based on the “General Guidelines for Incentive Pay to Management”, as adopted at GN´s Annual General Meeting. The total remuneration of the Executive Management decreased by 6% or kDKK 1,160 from 2016 to 2017.

Remuneration of the Executive Management is based on a fixed base salary, participation in GN Store Nord's warrant-based long-term incentive program and a target bonus of up to 50% of the base salary with a potential bonus earned ranging from 0-100% of the base salary. The Executive Management´s bonus is based on three parameters in light of the Group's focus areas. Anders Hedegaard's and Marcus Desimoni's bonuses are subject to the performance of GN Hearing’s EBITA, GN Hearing’s revenue and individual performance targets. The Group does not make pension contributions in respect of members of the Executive Management. Executive Management has severance agreements and change-of-control agreements on market terms.

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

2.3 TAX

Taxation - Income statement

TAX ON PROFIT (LOSS)

DKK '000	2017	2016
Tax on profit (loss)		
Current tax for the year	(198,113)	(101,792)
Deferred tax for the year	19,677	(7,500)
Withholding tax	-	(479)
Adjustment to current tax with respect to prior years	(2,339)	12,001
Adjustment to deferred tax with respect to prior years	11,098	(5,688)
Total	**(169,677)**	**(103,458)**
Reconciliation of effective tax rate		
Danish tax rate	22.00%	22.00%
Non-taxable income	-4.92%	-2.00%
Non-deductable expenses	0.38%	3.64%
Withholding tax	0.00%	0.10%
Share of profit (loss) in associates	-0.09%	-0.20%
Adjustment of tax with respect to prior years	-0.85%	-1.35%
Effective tax rate	**16.52%**	**22.19%**
Tax relating to other comprehensive income		
Adjustment of cash flow hedges	(21,052)	5,068
Foreign exchange adjustments, etc.	-	-
Total	**(21,052)**	**5,068**

Taxation - Balance sheet

DEFERRED TAX

DKK '000	2017	2016
Deferred tax, net		
Deferred tax at January 1, net	(184,259)	(176,139)
Adjustment with respect to prior years	11,098	(5,688)
Deferred tax for the year recognized in profit (loss) for the year	19,677	(7,500)
Deferred tax related to share-based incentive plans	5,000	-
Deferred tax for the year recognized in other comprehensive income for the year	(21,052)	5,068
Deferred tax at December 31, net	**(169,536)**	**(184,259)**
Deferred tax is recognized in the balance sheet as follows:		
Deferred tax, net relates to:		
Intangible assets	(204,341)	(213,971)
Property, plant and equipment	10,287	10,180
Financial assets	3,805	-
Current assets	3,440	3,439
Intercompany liabilities	7,230	(18,693)
Provisions	23,344	21,283
Other	(13,301)	13,503
Total	**(169,536)**	**(184,259)**

Deferred tax, net includes DKK 15 million expected to be utilized within 12 months.

§ Accounting policies

Tax on Profit (Loss) for the year

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

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

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

Deferred tax

Deferred tax assets, including the tax base of tax loss carryforwards, are recognized at the expected value of their utilization, either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction. Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. Deferred tax is not recognized on goodwill unless this is deductible for tax purposes. Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallize as current tax. The change in deferred tax as a result of changes in tax rates is recognized in the income statement. If a tax deduction on computation of the taxable income is obtained as a result of share-based payment programs, the tax benefit for the deduction is recognized directly in the balance sheet. Deferred tax assets are subject to annual impairment tests and are recognized only to the extent that it is probable that the assets will be utilized.

! Significant accounting estimates

Deferred tax

Management has made judgments in determining the Company's provisions for tax, deferred tax assets and deferred tax liabilities and the extent to which deferred tax assets are recognized. GN Hearing recognizes deferred tax assets only to the extent that it is probable that taxable profit will be available against which the temporary differences and unused tax losses can be utilized.

2.4 INCOME STATEMENT CLASSIFIED BY FUNCTION

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

DKK '000	2017	2016
Revenue	3,225,263	2,768,785
Production costs	(1,499,126)	(1,466,685)
Gross profit	**1,726,137**	**1,302,100**
Development costs	(443,200)	(497,951)
Selling and distribution costs	(282,809)	(264,738)
Management and administrative expenses	(232,690)	(260,986)
Other operating income and costs, net	6,312	20,804
Operating profit (loss)	**773,750**	**299,229**

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

Development costs	(26,360)	(26,565)
Selling and distribution costs	(6,742)	(6,192)
Amortization of acquired intangible assets	**(33,102)**	**(32,757)**

Management and administrative expenses have in 2017 been affected by cost related to the divestment of Otometric on DKK 59,4 million. (2016: DKK 68,6 million)

2.5 RELATED PARTY TRANSACTIONS

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

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

Group enterprises and associates are listed on page 46.

Board of Directors, Executive Management and Senior Employees
Management remuneration and incentive plans are described in note 2.2.

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

DKK million	2017	2016
Sale of services to group enterprises	36	25
Purchase of services from group enterprises	(313)	(238)
Sale of intangible assets	62	5
Sale of Inventory	3	-
Purchase of intangible assets	-	(13)
Sale of goods to group enterprises, revenue	2,766	2,447
Sale of goods to group enterprises, cost of goods	(1,207)	(1,206)

The company's balances with group enterprises at December 31, 2017 are shown seperatly in the balance sheet. Interest income and expenses with respect to group enterprises are disclosed in note 4.2. Further, balances with group enterprises comprise trade balances related to the purchase and sale of goods and services.

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

No transactions have been carried out with the Board of Directors, the Executive Management, senior employees or other related parties, apart from ordinary remuneration disclosed in notes 2.2 and 5.1.

3.1 INTANGIBLE ASSETS

DKK '000	Development projects, developed in-house	Software	Patents and rights	Other	Total
Cost at January 1	2,146,358	243,190	251,260	92,904	2,733,712
Additions	264,149	138	-	10,977	275,264
Disposals	-	(61,696)	-	(5,440)	(67,136)
Foreign exchange adjustments	-	-	-	-	-
Cost at December 31	2,410,507	181,632	251,260	98,441	2,941,840
Amortization and impairment at January 1	(1,347,783)	(133,092)	(131,783)	(80,905)	(1,693,563)
Amortization	(203,517)	(23,636)	(26,360)	(6,743)	(260,256)
Disposals	-	-	-	5,440	5,440
Amortization and impairment at December 31	(1,551,300)	(156,728)	(158,143)	(82,208)	(1,948,379)
Carrying amount at December 31, 2017	**859,207**	**24,904**	**93,117**	**16,233**	**993,461**
Cost at January 1	2,319,666	193,365	151,603	90,408	2,755,042
Additions	266,500	68,672	99,657	-	434,829
Disposals	(439,808)	(18,847)	-	-	(458,655)
Transfers	-	-	-	2,496	2,496
Cost at December 31	2,146,358	243,190	251,260	92,904	2,733,712
Amortization and impairment at January 1	(1,568,673)	(108,303)	(105,581)	(74,350)	(1,856,907)
Amortization	(214,133)	(25,345)	(26,202)	(6,555)	(272,235)
Disposals	435,023	556	-	-	435,579
Amortization and impairment at December 31	(1,347,783)	(133,092)	(131,783)	(80,905)	(1,693,563)
Carrying amount at December 31, 2016	**798,575**	**110,098**	**119,477**	**11,999**	**1,040,149**

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

The carrying amount of development projects and software in progress amount to DKK 498 million (2016: DKK 613 million).

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

Development projects and software

In-progress and completed development projects comprise development and design of hearing instruments, audiologic diagnostics equipment. Most development projects are expected to be completed in 2018 and 2019, after which product sales and marketing are expected to be commenced. Management performs at least one annual impairment test of the carrying amount of recognized development costs. The recoverable amount is assessed based on sales forecasts. 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 2017, management assessed that the expected useful lives were reflected in the carrying amounts at December 31, 2017.

Patents and rights

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

Other

GN Hearing's other intangible assets comprise DKK 16 million (2016: DKK 12 million) related to supply agreements and other capitalized projects.

§ Accounting policies

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

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

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

Development projects that are clearly defined and identifiable, where the technical utilization degree, sufficient resources and a potential future market or development opportunities in the Company is evidenced, and where GN Hearing 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.

Recognition of impairment losses in the income statement

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount of the asset or the cash-generating unit.

! Significant accounting estimates

Development projects

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

3.2 PROPERTY, PLANT AND EQUIPMENT

DKK '000	Factory and office buildings	Leasehold improve-ments	Plant and machinery	Operating assets and equipment	Total
Cost at January 1	44,613	246	329,886	43,105	417,850
Additions	-	-	19,243	4,454	23,697
Disposals	-	-	(6,666)	-	(6,666)
Cost at December 31	44,613	246	342,463	47,559	434,881
Depreciation and impairment at January 1	(7,909)	(246)	(251,925)	(37,498)	(297,578)
Depreciation	(2,272)	-	(36,937)	(3,968)	(43,177)
Disposals	-	-	6,304	-	6,304
Depreciation and impairment at December 31	(10,181)	(246)	(282,558)	(41,466)	(334,451)
Carrying amount at December 31, 2017	**34,432**	**-**	**59,905**	**6,093**	**100,430**
Cost at January 1	39,132	246	309,558	41,425	390,361
Additions	5,781	-	29,784	2,558	38,123
Disposals	(300)	-	(9,456)	(878)	(10,634)
Cost at December 31	44,613	246	329,886	43,105	417,850
Depreciation and impairment at January 1	(5,536)	(246)	(218,314)	(34,130)	(258,226)
Depreciation	(2,403)	-	(35,296)	(4,246)	(41,945)
Disposals	30	-	1,685	878	2,593
Depreciation and impairment at December 31	(7,909)	(246)	(251,925)	(37,498)	(297,578)
Carrying amount at December 31, 2016	**36,704**	**-**	**77,961**	**5,607**	**120,272**

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

§ Accounting policies
Property, plant and Equipment

Land and buildings, plant and machinery and fixtures and fittings, other plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and costs of materials, components, suppliers, direct wages and salaries and indirect production costs until the date when the asset is available for use. Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately. Depreciation is provided on a straight-line basis over the expected useful lives of property, plant and equipment. The expected useful lives are as follows:

Buildings and installations (land is not depreciated)	10-50 years
Leasehold improvements	5-20 years
Plant and machinery	1-7 years
Operating assets and equipment	2-7 years

The basis of depreciation is calculated as the residual value of the asset less impairment losses. The residual value is determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount, depreciation is discontinued. When changing the depreciation period or the residual value, the effect on the depreciation is recognized prospectively as a change in accounting estimates. Depreciation and impairment is recognized in the income statement as production costs, development costs, distribution costs and administrative expenses.

Expenses for repairs and maintenance of property, plant and equipment are included in the income statement. Gains or losses on disposal or scrapping of an item of property, plant and equipment are determined as the difference between the sales price reduced by costs related to dismantling and removing the asset, selling costs and costs related to restoring the site on which the asset is located and the carrying amount. Gains or losses are recognized in the income statement as Other operating income or Other operating costs, respectively.

3.3 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

DKK '000	2017	2016
Depreciation, amortization and impairment for the year of property, plant and equipment and intangible assets are recognized in the income statement as follows:		
Production costs	(36,545)	(36,461)
Development costs	(208,176)	(218,585)
Selling and distribution costs	(1,155)	(6,153)
Management and administrative expenses	(24,454)	(20,224)
Amortization of acquired intangible assets	(33,103)	(32,757)
Total	**(303,433)**	**(314,180)**
Amortization of intangible assets is recognized in the income statement as follows:		
Production costs	(243)	(1,853)
Development costs	(203,861)	(214,897)
Selling and distribution costs	(1,057)	(5,837)
Management and administrative expenses	(21,992)	(16,891)
Amortization of acquired intangible assets	(33,103)	(32,757)
Total	**(260,256)**	**(272,235)**

No impairment of intangible assets is recognized in the income statement in 2017 or 2016.

3.4 PROVISIONS

DKK '000	Warranty provisions	Other provisions	Total
Provisions at January 1	3,541	29,439	32,980
Additions	1,128	70,128	71,256
Consumed	(183)	(81,252)	(81,435)
Reversed	(654)	-	(654)
Provisions at December 31, 2017	**3,832**	**18,315**	**22,147**
Of which is recognized in the balance sheet:			
Non-current liabilities	1,695	-	1,695
Current liabilities	2,137	18,315	20,452
Provisions at December 31, 2017	**3,832**	**18,315**	**22,147**

Warranty provisions concern products sold. The warranty provision covers any defects in design, materials and workmanship for a period of 1-4 years from delivery and completion. Other provisions primarily include obligations to take back hearing aids sold, obligations regarding onerous contracts and property leases and provisions for legal disputes.

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

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

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

! Significant accounting estimates
Provisions
Warranty provisions are recognized based on historical and future warranty costs related to the Company’s products. Future warranty costs may differ from past practices and the level of costs. The amount recognized as a provision is Management’s best estimate of the expenses required to settle the obligation.

In accordance with GN Hearing’s business policy, some products are supplied with a right of return. Provisions for future returns of goods are recognized based on historical product returns data. The probability of future returns may differ from past practices. At December 31, 2017, the carrying amount of provisions with respect to obligations to take back goods was DKK 4 million (2016: DKK 5 million).

Agreement has been made with a number of the suppliers that the suppliers purchase components for the production of hearing instruments, based on sales estimates prepared by GN Hearing. To the extent that GN Hearing's actual purchases from suppliers are lower than sales estimates, GN Hearing will be under an obligation to purchase any remaining components from the suppliers. Management assesses sales estimates on an ongoing basis, and to the extent that component inventories at suppliers are not expected to be used, GN Hearing recognizes a provision for onerous purchase contracts.

3.5 INVENTORIES

DKK '000	2017	2016
Raw materials and consumables	97,682	144,086
Work in progress	4,703	1,783
Finished goods and merchandise	56,277	79,901
Total	**158,662**	**225,770**
The above includes write-downs amounting to	(8,498)	(19,546)
Write-downs recognized in the income statement under production costs	(1,391)	-
Reversed write-downs recognized under production costs	-	3,325
Production costs include costs of goods sold of	(1,344,265)	(1,324,251)

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

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

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

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

! Significant accounting estimates
Measurement of inventories
The net realizable value of inventories is calculated based on the size of the inventory and decreases in the recoverable amount of purchased raw materials, technical obsolescence (e.g., faulty products), physical obsolescence (e.g. damaged products) and financial obsolescence (e.g., reduced demand or substituting products). GN Hearing performs write-downs of inventories based on an individual assessment of products or product groups and expected product sales from 12 to 24 months following the balance sheet date.

3.6 TRADE RECEIVABLES

DKK '000	2017	2016
Trade receivables	103,664	90,285
Total	**103,664**	**90,285**

Trade receivables have the following maturities:

Not due, nor impaired	82,320	71,664
Overdue, but not impaired:		
Due 30 days or less	8,244	12,246
Due more than 30 days but less than 90 days	7,090	4,899
Due more than 90 days	6,010	4,845
Total	**103,664**	**93,654**

Write-downs, which are included in total trade receivables, have developed as follows:

Write-downs at January 1	(3,369)	(4,294)
Write-downs made during the year	625	925
Write-downs at December 31	**(2,744)**	**(3,369)**

In 2017 no material write-downs have been recognized regarding individual receivables (2016: no material write-downs have been recognized regarding individual receivables). GN Hearing A/S's assessment of credit risk associated with individual receivables depends primarily on aging, change in customer payment behavior, current economic conditions etc. as described in significant accounting estimates. Based on past experience, GN Hearing A/S believes that no write-down is necessary in respect of trade receivables not past due.

No security has been pledged to GN Hearing A/S for trade receivables.

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

! Significant accounting estimates
Measurement of trade receivables
If a customer’s financial condition deteriorates, further write-downs may be required in future periods. In assessing the adequacy of write-downs for bad debt losses, Management specifically analyzes receivables, including doubtful debts, concentrations of credit risk, credit ratings, current economic conditions and changes in customers’ payment behavior.

3.7 INVESTMENTS IN SUBSIDIARIES

DKK '000	2017	2016
Cost at January 1	2,657,762	2,793,235
Additions, capital contribution	158	281,184
Transfer to assets held for sale	-	(416,657)
Cost at December 31	**2,657,920**	**2,657,762**

Group companies are listed on page 46.

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

§ Accounting policies
Investments in subsidiaries and associates in the parent company financial statements
Investments in subsidiaries are measured at cost. Investments are written down to the lower of cost and recoverable amount.

! Significant accounting estimates
Investments in subsidiaries
Management performs an annual test for indications of impairment of investments in subsidiaries. It is Management’s assessment that no indications of impairment existed at year-end 2017. Impairment test have therefore not been made of subsidiaries.

4.1 FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

Foreign currency risk

GN Hearing has exposure towards several foreign currencies in connection with commercial transactions. The overall objective of hedging GN Hearing's currency exposure is to reduce the short-term impact of exchange rate fluctuations on earnings and cash flow, thereby increasing the predictability of the financial results. GN Hearing uses forward exchange contracts to hedge any significant currency risk, which in 2017 has been future income (long positions) in the USD, CNY, CAD and JPY and future costs (short positions) in the CAD and CNY. Expected cash flows are continually assessed using budget and sales forecasts.

GN Hearing has several balance sheet items denominated in USD.

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

DKK '000	2017	2016
Income statement	(56,847)	(51,103)
Other Comprehensive Income	-	-

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

Interest rate risk

GN Hearing is primarily funded by intercompany loans towards the holding company GN Store Nord A/S. Generaly, it is not the company policy to obtain any other external funding in GN Hearing, except facilities used for working capital needs. Therefore, all interest rate hedging is done on a GN Store Nord level.

Funding, liquidity and capital structure

At December 31, 2017, GN Hearing had an equity ratio of 61,2% (2016: 68,5%) and external net interest-bearing debt of DKK 1,2 million (2016: DKK 1,7 million). Net Interest bearing intercompany receivables amounts to DKK 1.679 million (2016: DKK 2.035 million) . The capital structure policy is handled on a GN Store Nord level.

Financial credit risk

GN Hearing is through cause of business exposed for financial risk. The financial risk except for the commercial risk, are governed by GN Store Nord. The financial risk are handled in accordance with global policies for financial risk governance, as described by GN Store Nord.

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

Contractual maturity analysis for financial liabilities

DKK '000	Less than one year	Between one and five years	More than five years	Total
2017				
Other long-term payables	-	4,391	-	4,391
Amounts owed to subsidiaries and group companies	1,699,112	138,070	-	1,837,182
Short-term bank loans	42,823	-	-	42,823
Trade payables	63,106	-	-	63,106
Total non-derivative financial liabilities	1,805,041	142,461	-	1,947,502
Derivative financial liabilities	-	-	-	-
Total financial liabilities	**1,805,041**	**142,461**	-	**1,947,502**
2016				
Other long-term payables	-	5,593	-	5,593
Amounts owed to subsidiaries and group companies	1,499,352	131,273	-	1,630,625
Short-term bank loans	820	-	-	820
Trade payables	92,108	-	-	92,108
Total non-derivative financial liabilities	1,592,280	136,866	-	1,729,146
Derivative financial liabilities	48,076			48,076
Total financial liabilities	**1,640,356**	**136,866**	**-**	**1,777,222**

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

SECTION 4: CAPITAL STRUCTURE AND FINANCING

Categories of financial assets and liabilities

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

DKK '000	2017	2016
Trade receivables	103,664	90,285
Other receivables	80,534	34,960
Amounts owed by subsidiaries an group companies	300,064	219,415
Other receivables, non-current	17,971	23,737
Amounts owed by subsidiaries and group companies	1,817,533	2,166,350
Loans and receivables	**2,319,766**	**2,534,747**
Other long-term payables	4,391	5,593
Amounts owed to Subsidiaries and group companies	138,070	131,273
Bank loans	42,823	820
Amounts owed to Subsidiaries and group companies	1,699,112	1,499,352
Trade payables	63,106	92,108
Financial liabilities measured at amortized cost	**1,947,502**	**1,729,146**
Derivative financial instruments included in Other payables	-	48,076
Financial liabilities measured at fair value	**1,947,502**	**1,777,222**

For financial assets and liabilities, the fair value is approximately equal to the carrying amount.

Derivative financial instruments

Exchange rate instruments	**2017**			**2016**		
DKK '000	**Contract amount, net**	**Fair value, assets**	**Fair value, liabilities**	**Contract amount, net**	**Fair value, assets**	**Fair value, liabilities**
USD	913,209	38,265	-	1,017,354	-	54,686
JPY	120,856	7,958	-	170,051	5,499	950
GBP	-	-	-	107,806	6,336	-
CAD	74,502	1,445	-	100,893	-	3,944
CNY	97,951	553	604	135,541	-	331
Total	**1,206,518**	**48,221**	**604**	**1,531,645**	**11,835**	**59,911**

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

Fair value adjustments of cash flow hedges

DKK '000	2017	2016
Fair value adjustment for the year recognized in Other comprehensive income	70,967	(1,494)
Reclassified from equity to revenue during the year	24,432	(18,807)
Reclassified from equity to production costs during the year	147	(1,367)
Reclassified from equity to selling and distribution costs during the year	147	(1,367)
Adjustment of cash flow hedges in Other comprehensive income	**95,693**	**(23,035)**
Fair value adjustment of cash flow hedges recognized in financial items.	-	-

The gains and losses on cash flow hedges recognized in Other comprehensive income as of December 31, 2017 will be recognized in the income statement in the period during which the hedged forecasted transaction affects the income statement. The fair value of all exchange rate instruments are determined using quoted forward exchange rates at the balance sheet date and can be categorized as level 2 (observable inputs) in the fair value hierarchy.

Fair value hierarchy

The fair value of the exchange rate instruments and interest rate swaps are determined using quoted forward exchange rates and forward interest rates, respectively at the balance sheet date and can be categorized as level 2 (observable inputs) in the fair value hierarchy.

SECTION 4: CAPITAL STRUCTURE AND FINANCING

§ Accounting policies

Derivative Financial Instruments

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

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

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

Financial Liabilities

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

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

SECTION 4: CAPITAL STRUCTURE AND FINANCING

4.2 FINANCIAL INCOME AND EXPENSES

DKK '000	2017	2016
Financial Income:		
Interest income*	542	1,760
Intercompany Interest income*	74,489	67,622
Dividends received	2,041	42,310
Financial income, other	868	137
Fair value adjustments of derivative financial instruments	1,417	-
Gain on sale of subsidiaries	279,195	-
Foreign exchange gain	-	77,158
Total	**358,552**	**188,987**
Financial expenses:		
Interest expenses*	(2,215)	(2,815)
Intercompany Interest expense*	(4,796)	(12,851)
Financial expenses, other	(3,110)	(2,400)
Fair value adjustments of derivative financial instruments and impairments	(112)	(7,959)
Foreign exchange loss	(99,175)	-
Total	**(109,408)**	**(26,025)**

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

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

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

Dividend from investments in subsidiaries is recognised in the statement of comprehensive income in year of declaration.

Borrowing costs that are directly attributable to the construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use.

4.3 LIABILITIES FROM FINANCING ACTIVITIES

DKK '000	Bank loans, current	Amounts owed to subsidiaries	Total
Liabilities at January 1	820	1,630,625	**1,631,445**
Cash flows	42,003	251,122	**293,125**
Foreign exchange adjustments	-	(44,565)	**(44,565)**
Liabilities at December 31, 2017	**42,823**	**1,837,182**	**1,880,005**

5.1 INCENTIVE PLANS

Warrants programs

GN Store Nord has warrant-based long-term incentive programs whereby the Executive Management and other senior employees are granted warrants, entitling the holder to subscribe shares in GN Hearing A/S. For members of Executive Management the grant size can very between 50-100% of their base salary.

Warrants granted will vest the day after the release of GN Store Nord's annual report in the third year after the grant. Vested warrants may be exercised during a four-week period opening each quarter of 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.

Warrants program, GN Hearing A/S

DKK '000	Executive Management	Other employees	Total	Average exercise price
Warrants granted at January 1, 2016	**929**	**12,604**	**13,533**	**21,901**
Warrants granted during the year	1,276	4,908	6,184	26,945
Warrants exercised during the year	0	-2,875	-2,875	16,045
Warrants forfeited during the year/corrections	0	-1,892	-1,892	25,569
Outstanding warrants at December 31, 2016	**2,205**	**12,745**	**14,950**	**24,649**
Warrants granted during the year	968	4,428	5,396	30,624
Warrants exercised during the year	-118	-2,680	-2,798	18,957
Warrants forfeited during the year/corrections	-117	-2,238	-2,355	26,452
Outstanding warrants at December 31, 2017	**2,938**	**12,255**	**15,193**	**27,540**
Grant date market value of warrants granted in 2017	4	18	22	
Market value of outstanding warrants at December 31, 2017	20	95	115	

Average share price at exercise: DKK 33.784 (2016: DKK 26.453)

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

Grant date	Executive Management	Other employees	Total	% of GN Hearing A/S	Number of exercisable warrants	Exercise price	Years to expiry	Market value in DKK million
March 2012	-	69	69	0.0%	69	11,084	0.0	2
March 2013	-	742	742	0.1%	742	19,270	0.9	13
November 2013	-	65	65	0.0%	65	24,290	0.9	1
March 2014	-	505	505	0.1%	505	24,711	1.9	6
March 2015	694	2,836	3,530	0.6%	-	26,729	2.9	23
August 2015	-	50	50	0.0%	-	23,807	2.9	0
November 2015	-	125	125	0.0%	-	24,896	2.9	1
March 2016	1,276	3,600	4,876	0.8%	-	26,936	3.9	36
August 2016	-	68	68	0.0%	-	27,797	3.9	0
November 2016	-	211	211	0.0%	-	26,932	3.9	2
March 2017	968	3,837	4,805	0.8%	-	30,451	4.9	31
May 2017	-	69	69	0.0%	-	35,873	4.9	0
August 2017	-	35	35	0.0%	-	39,391	4.9	0
December 2017	-	43	43	0.0%	-	36,177	4.9	0
Outstanding warrants at December 31, 2017	**2,938**	**12,255**	**15,193**	**2.4%**	**1,381**			**115**

5.1 INCENTIVE PLANS (continued)

Valuation model and assumptions

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

Assumptions

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

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

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

5.2 CONTINGENT LIABILITIES, OTHER FINANCIAL LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities

Guarantees
On behalf of the subsidiaries GN Hearing A/S has provided gurantees related to credit facilities and customs offices in the amount of DKK 0,6 mill.

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.

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

Purchase obligations
GN Hearing has agreed with a number of suppliers that the suppliers will purchase components for the production of hearing instruments, headsets and audiologic diagnostics equipment based on sales estimates prepared by GN Hearing. To the extent that GN Hearing's sales estimates exceed actual purchases from suppliers, GN Hearing is under an obligation to purchase any remaining components from the suppliers. Management assesses sales estimates on an ongoing basis. To the extent that component inventories at suppliers exceed the volumes expected to be used, GN Hearing recognizes a provision for onerous purchase contracts.

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

! Significant accounting estimates
Provisions, Contingencies and Lawsuits
GN Hearing’s Management assesses provisions, contingent assets and contingent liabilities and the likely outcome of pending or threatened lawsuits on an ongoing basis. The outcome depends on future events that are by nature uncertain. In assessing the likely outcome of lawsuits and tax disputes, etc., Management bases its assessment on external legal assistance and decided cases.

5.3 ASSOCIATES

Investments in associates

DKK million	2017	2016
Aggregated financial information for associates is provided below:		
Revenue	141	119
Profit (loss) for the year after tax	8	10
Total assets	127	80
Total liabilities	75	29
Total share of profit (loss) for the year after tax	4	4
Total share of net assets	12	17

Transactions with associates comprise sale of goods and services in the amount of DKK 17,2 million (2016: DKK 12,4 million) and sale of intangible assets of DKK 0 million (2016: DKK 8,0 million) on normal commercial terms and conditions.

Associates are listed on page 46.

§ Accounting policies

Investments in Associates in the Separate Financial Statements

On acquisition of investments in associates, the purchase method is used.

In the separate financial statements investments in associates are recognized according to the equity method. Investments in associates are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the Company's accounting policies minus or plus the proportionate share of unrealized intra-group profits and losses and plus the carrying amount of goodwill.

Profit (Loss) from Investments in Associates

The proportionate share of the profit (loss) after tax of the individual associates is recognized in the income statement of the Company after elimination of the proportionate share of intra-group profits (losses).

5.4 OTHER NON-CASH ADJUSTMENTS

DKK '000	2017	2016
Share-based payment (granted)	14,655	12,674
Provision for bad debt, inventory write-downs, etc.	(11,673)	(15,554)
Adjustment of provisions	(10,833)	3,070
Total	**(7,851)**	**190**

5.5 LEASE OBLIGATIONS

DKK '000	2017	2016
Future lease obligations are distributed as follows:		
Operating leases:		
Less than one year	14,063	12,835
Between one and five years	4,574	6,761
More than five years	-	-
Total	**18,637**	**19,596**

Lease payments recognized in the income statement relating to operating leases amount to tDKK 23.604 (2016: tDKK 23.059).

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

5.6 ASSETS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS HELD FOR SALE

DKK '000	2017	2016
Investment in subsidiaries	-	**416,657**
Assets held for sale	**-**	416,657
Amounts owed to subsidiaries	-	18,053
Liabilities directly associated with assets held for sale	**-**	**18,053**

On January 3, 2017, the divestment of Otometrics to Natus Medical was completed following the fulfillment and achievement of all necessary conditions and regulatory approvals. The divestment further strengthens GN Hearing's focus and strategic direction. The gain on disposal amounted to DKK 279,2 mill, which is recognized in financial income.

§ Accounting policies
Non-current assets and disposal group's classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management
has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

5.7 FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

DKK '000	2017	2016
Audit fees	(535)	(476)
Other audit related services	(31)	(695)
Total	**(566)**	**(1,171)**

COMPANIES OWNED BY GN HEARING A/S AT DECEMBER 31, 2017

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

Associates

A few minor companies have been omitted from the list.