

GN Hearing A/S

Annual report 2016

Approved at the annual general meeting

14/3 2017

Chairman:



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This report contains 46 pages

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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 2016.

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, 2016 and of the results of the company's operations and cash flows for the financial year January 1 – December 31, 2016.

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 2016 be approved at the annual general meeting.

Ballerup, March 13, 2017

Executive management




Anders Hedegaard
CEO



Marcus Desimoni
CFO

Board of directors



Per Wold-Olsen
(Chairman)



William E Hoover Jr.
(Deputy chairman)



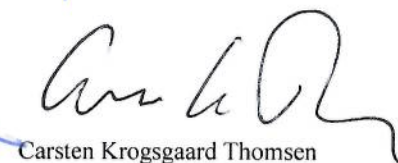
Hélène Barnekow



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 2016, which comprise an income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flow and notes, including a summary of significant 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 2016 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2016 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 are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

GN Hearing A/S – Annual report 2016

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

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

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


Copenhagen, March 13, 2017

ERNST & YOUNG

Godkendt Revisionspartnerselskab
CVR no. 30 70 02 25



Torben Bender
State Authorised
Public Accountant



Anders Stig Lauritsen
State Authorised
Public Accountant

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	2016	2015	2014	2013 *	2012 *
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Revenue	2.768.785	2.527.177	2.366.422	2.093.738	1.964.259
Gross Profit	1.302.100	1.102.275	1.345.695	1.015.195	816.441
EBITA	331.986	325.661	650.564	335.514	125.767
Operating profit (loss)	299.229	312.573	634.214	339.354	134.004
Result from financial items	167.102	911.528	16.765	-55.405	-86.041
Profit (loss) for the year	362.873	1.143.380	512.878	199.406	-94.458

Non-current assets	6.021.739	5.409.513	4.574.199	4.035.186	3.987.255
Current assets	1.026.354	727.242	586.207	616.097	932.910
Total assets	7.048.093	6.136.755	5.160.406	4.651.283	4.920.165
Share capital	63.508	63.221	62.867	62.397	61.732
Total equity	4.828.103	4.422.378	3.179.883	2.648.684	2.470.476
Non-current liabilities	322.724	338.435	230.945	282.024	317.859
Current liabilities	1.879.213	1.375.942	1.749.578	1.720.575	2.131.830
Investment in tangible assets	38.123	81.071	39.810	55.194	36.684

Key ratios

Operating Margin	10,8	12,4	26,8	16,2	6,8
Return on Investment	7,8	11,0	30,2	18,1	6,9
Gross Margin	47,0	43,6	56,9	48,5	41,6
Current Ratio	54,6	52,9	33,5	35,8	43,8
Equity Ratio	68,5	72,1	61,6	56,9	50,2
Return on Equity	7,8	30,1	17,6	7,8	-3,8

*) Key ratios for 2012 - 2013 have not been restated in accordance with IFRS.

Management's review of GN Hearing A/S

Operating review

Principal activities of the Company

GN Hearing A/S offer advanced hearing aids and advanced tools to measuring loss of hearing capability, that improves the life's of people with hearing losses.

Development in activities and financial matters

GN Hearing A/S's revenue for 2016 ended at DKK 2.769 mill (2015: DKK 2,527 mill), which is a growth of 9,6 % compared to 2015.

GN Hearing delivered a strong performance also in the last year of the strategy period 2014-2016. Commercial execution and superior product offering, led by the flagship product ReSound LiNX², drove the strong growth in revenue and earnings.

GN Hearing's leading, full hearing aid portfolio – addressing all types of hearing loss, form factor preference and price preference – has been a key driver for growth and further market share gains. The products have received praise and recognition from users and customers, as well as organizations both within and outside of the hearing aid industry.

In 2016, GN Hearing launched the new strategy for 2017-2019: Hear More, Do More, Be More, focusing on Innovation Excellence, Commercial Excellence and People Excellence. This will be the foundation for GN Hearing's target of continued leading profitable growth in the coming strategy period.

As part of GN's new company and brand platform announced in May 2016, GN ReSound changed its name to GN Hearing. ReSound remains the flagship hearing aid brand and will be operated together with other focused brands such as Beltone and Interton.

During 2016, GN Hearing further strengthened its market leading hearing aid product portfolio based on 2.4 GHz technology and continues to bring innovative solutions to the market.

In March 2016, ReSound ENZO² was launched globally, building on the successful US launch in the fall of 2015. ReSound ENZO² brings the unique benefits of ReSound LiNX² to people with severe to profound hearing loss. ReSound ENZO² is the only Smart Hearing aid for Super Power users that offers Made for iPhone connectivity, an exceptional hearing experience with greater audibility, better speech understanding and improved spatial awareness.

In September 2016, a new mini-BTE – the world's only mini-BTE hearing aid to feature Made for iPhone and telecoil capabilities – was added to the innovative 4th generation 2.4 GHz, ReSound LiNX², product portfolio.

During 2017, GN Hearing's 5th generation of hearing aids based on 2.4 GHz wireless technology will be launched. The product family will include innovative improvements to increase user satisfaction through a better restoration of natural hearing as well as a more active user involvement in the fitting process of the hearing aids. This next breakthrough will strengthen GN Hearing's audiological footprint by providing the best sound quality and solidify its position as the industry's undisputed leader in 2.4 GHz solutions by bringing connectivity to a completely new level.

In July 2016, GN Hearing completed the acquisition of the US based company Audigy Group, a leading provider of business and performance management solutions to independent hearing care practices. The acquisition of Audigy Group will further support GN Hearing's strong momentum allowing GN Hearing to be an even better partner to its customers and it further strengthens GN Hearing's position in the important US hearing market. In addition to the acquisition, GN Hearing has signed a long-term supply agreement with Audigy Group.

On August 1, 2016, ReSound Cala was launched in the branded category of Costco's hearing aid business. The new, exceptionally strong product offering allows GN Hearing to increase its share in the branded category where there is good potential for profitable growth in years to come. Also, the launch allows GN Hearing to further leverage the strong brand recognition of its main brand, ReSound. Since it was introduced in Costco, ReSound Cala has performed strongly. In 2015, and in the first part of 2016, GN Hearing was the supplier of the private label brand in Costco (Kirkland Signature).

Management's review of GN Hearing A/S

GN Hearing has fortified its position as the second largest supplier in the VA channel in 2016. GN Hearing continues to benefit from continued focused efforts in the channel combined with a market-leading product portfolio. During 2016, GN Hearing's market share (value) in VA increased from 16% in 2015 to 20% in 2016.

The Smart Hearing Alliance with Cochlear, a co-development and co-commercialization partnership announced in October 2015, has proven successful in 2016 with the commercial introduction of a bimodal hearing solution combining GN Hearing's hearing aids with Cochlear's implants. In early 2016, the Smart Hearing Alliance was introduced in the US and has subsequently been introduced in key markets throughout 2016. The cooperation with Cochlear, which was established in 2011 as a technology partnership, reflects GN's ambition to enter into strategic partnerships, as most recently seen with Audigy Group and with Natus Medical. The strategic partnerships allow GN to leverage its technology leadership while ensuring that GN remains focused on its core businesses and competencies.

Apps are becoming increasingly important and are today an integrated part of a successful hearing aid experience. GN Hearing is at the forefront of this development and has developed a number of market-leading apps available to hearing aid users. During 2016, GN Hearing updated the ReSound Relief app with new functionalities, which is an important tool for people with tinnitus. The app offers a combination of sound therapy and relaxing exercises that aim to distract people from focusing on their tinnitus, which is, for example, important in the VA segment. In 2017, GN Hearing will launch its 5th generation of 2.4 GHz hearing aids taking the hearing aid user experience to a new level and the app functionalities will be an important part of this journey.

GN Hearing A/S delivered a gross profit margin of 47,0%, (43,6% in 2015). Profit for the year ended at DKK 363 mill. compared to DKK 1.143 mill. in 2015 and the cash flow from operating and investing activities on DKK (65) mill. compared to DKK 1.063 mill. in 2015.

The result is in alignment with the expectations for 2016, and management assess the result as satisfying.

Market projections

GN Hearing estimates that the market has grown 3 -4% in value in 2016, with a slightly negative average selling price (ASP) development.

The global hearing aid market size is estimated to be around 14 million units in 2016.

Risk management

Operating in business environments where the pace of innovation and change keeps increasing, GN's executive management considers its proactive and systematic approach to risk management a valuable tool in our continuous efforts to stay ahead of new developments and compete in tomorrow's marketplace.

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

The global management teams in GN 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.

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 2016, cf. §99a of the Danish Financial Statement Act, please see the 2016 Communication on Progress report by GN Store Nord A/S available on www.gn.com/-/media/Files/Document-Download-Center/Corporate-responsibility/COP2016.pdf.

Environment

As a part of GN Store Nord, GN Hearing A/S follow 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

In the beginning of 2016, GN Hearing officially opened its expanded hybrid plant in Praestoe, Denmark, with the participation of the Danish Prime Minister. The plant has delivered improved facilities and lowered the risk profile. With the expansion of available space, GN Hearing is ready to meet the continued increase in demand in the years to come.

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 now in Denmark, the USA, China and Malaysia, with a successful ramp-up in Malaysia during 2016.

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. GN Hearing is committed to maintaining its technology leadership and continues to move the boundaries for the benefits achievable with hearing aids. This relentless R&D focus resulted in the world's first 2.4 GHz hearing aids, launched in 2010, and has resulted in new, continuously improved generations, with the 2nd generation in 2012, the 3rd generation in 2014 and the 4th generation – ReSound LiNX² – in 2015. During 2016, GN Hearing has worked on future hearing aid technologies both within hardware and software components and, in 2017, GN Hearing will bring a new innovative hearing aid family to the market based on the 5th generation of 2.4 GHz technology.

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 over 16% of the company's senior management positions. GN had aimed for 25% 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.

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

In September 2016, GN Hearing announced the divestment of Otometrics to Natus Medical. Following the divestment, GN Hearing and Natus Medical will work together as strategic partners to jointly leverage the strengths of GN Hearing and Natus Medical. The divestment will further strengthen GN Hearing's focus and strategic direction. The strategic partnership will, among other things, include a collaboration on the world's first complete digital 3D ear scanning solution, OTOSCAN. On January 3, 2017, all necessary conditions and regulatory approvals were met and the divestment completed.

No events has 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 2017

Based on continued strategy execution and attractive market conditions, GN Hearing A/S expects organic revenue growth on >6% in 2017.

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

Key ratios

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

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

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

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 and gains (losses) on divestment of operations etc.

FINANCIAL STATEMENTS

INCOME STATEMENT

DKK '000	Note	2016	2015
Revenue	2.1	2.768.785	2.527.177
Production costs	2.4, 3.3, 3.5	(1.466.685)	(1.424.902)
Gross profit		1.302.100	1.102.275
Development costs	2.4, 3.3	(471.386)	(439.230)
Selling and distribution costs	2.4, 3.3	(258.546)	(227.673)
Management and administrative expenses	2.4, 3.3, 5.5, 5.7	(260.986)	(133.035)
Other operating income and costs, net		20.804	23.324
EBITA		331.986	325.661
Amortization of acquired intangible assets	2.4, 3.3	(32.757)	(13.088)
Operating profit (loss)		299.229	312.573
Share of profit (loss) in associates	5.3	4.140	4.536
Financial income	4.2	188.987	929.090
Financial expenses	4.2	(26.025)	(22.098)
Profit (loss) before tax		466.331	1.224.101
Tax on profit (loss)	2.3	(103.458)	(80.721)
Profit (loss) for the year		362.873	1.143.380
Proposed profit appropriation/distribution of loss			
Retained earnings		(1.637.127)	1.143.380
Proposed dividends for the year		2.000.000	-
		362.873	1.143.380

STATEMENT OF COMPREHENSIVE INCOME

DKK '000	Note	2016	2015
Profit (loss) for the year		362.873	1.143.380
<i>Items that will be reclassified subsequently to profit or loss</i>			
Adjustment of cash flow hedges		(23.035)	38.997
Foreign exchange adjustments, etc.		(1.286)	17.788
Tax relating to these items of other comprehensive income	2.3	5.068	(13.361)
Other comprehensive income for the year, net of tax		(19.253)	43.424
Total comprehensive income for the year		343.620	1.186.804

FINANCIAL STATEMENTS

BALANCE SHEET AT DECEMBER 31

DKK '000	Note	2016	2015
ASSETS			
Intangible assets	3.1	1.040.149	898.135
Property, plant and equipment	3.2	120.272	132.135
Investments in associates	5.3	13.469	14.411
Other non-current assets	4.1	23.737	70.158
Investments in subsidiaries	3.7	2.657.762	2.793.235
Amounts owed by subsidiaries and group companies	4.1	2.166.350	1.501.439
Total non-current assets		6.021.739	5.409.513
Inventories	3.5	225.770	158.745
Trade receivables	3.6, 4.1	90.285	106.702
Amounts owed by subsidiaries and group companies	4.1	219.416	401.964
Tax receivables	2.3	36.463	32.594
Other receivables	4.1	34.960	26.774
Cash and cash equivalents		2.803	463
Total current assets		609.697	727.242
Assets held for sale	5.6	416.657	-
Total assets		7.048.093	6.136.755
EQUITY AND LIABILITIES			
Share capital		63.508	63.221
Other reserves		(36.638)	(18.671)
Proposed dividends for the year		2.000.000	-
Reserve for capitalized development projects		622.889	-
Retained earnings		2.178.344	4.377.828
Total equity		4.828.103	4.422.378
Provisions	3.4	1.599	1.913
Deferred tax liabilities	2.3	184.259	176.139
Other non-current liabilities	4.1	5.593	4.850
Amounts owed to subsidiaries and group companies	4.1	131.273	155.533
Total non-current liabilities		322.724	338.435
Bank loans	4.1	820	3.146
Trade payables	4.1	92.108	124.935
Amounts owed to subsidiaries and group companies	4.1	1.499.352	1.064.210
Provisions	3.4	31.381	27.997
Other payables		255.552	155.654
Total current liabilities		1.879.213	1.375.942
Liabilities directly associated with assets held for sale	5.6	18.053	-
Total equity and liabilities		7.048.093	6.136.755

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOW

DKK '000	Note	2016	2015
Operating activities			
Operating profit (loss)		299.229	312.573
Depreciation, amortization and impairment		314.180	295.503
Other non-cash adjustments	5.4	190	(94)
Cash flow from operating activities before changes in working capital		613.599	607.983
Change in inventories		(52.396)	301
Change in receivables		9.153	20.424
Change in trade payables and other payables		(23.278)	55.976
Total changes in working capital		(66.521)	76.702
Cash flow from operating activities before financial items and tax		547.078	684.685
Interest and dividends, etc., net		92.320	867.695
Tax paid, net		(90.838)	(142.663)
Cash flow from operating activities		548.560	1.409.717
Investing activities			
Investments in intangible assets, excluding development projects		(101.028)	(77.235)
Investments in development projects		(266.501)	(250.210)
Investments in property, plant and equipment		(38.123)	(81.071)
Investments in other non-current assets		(3.097)	(1.699)
Disposal of intangible assets		23.076	849
Disposal of property, plant and equipment		6.544	10.449
Disposal/repayment of other non-current assets		46.438	51.989
Acquisition of companies/operations		(281.185)	-
Cash flow from investing activities		(613.876)	(346.928)
Cash flow from operating and investing activities (free cash flow)		(65.316)	1.062.789
Financing activities			
Increase/(decrease) of long-term loans		743	4.850
Increase/(decrease) of short-term loans		(2.326)	(449)
Share-based payment (exercised)		46.131	38.453
Increase/(decrease) of Intercompany balances		23.108	(1.105.207)
Cash flow from financing activities		67.656	(1.062.353)
Net cash flow		2.340	436
Cash and cash equivalents, beginning of period		463	27
Cash and cash equivalents, end of period		2.803	463

FINANCIAL STATEMENTS

STATEMENT OF EQUITY

DKK '000	Share capital (shares of DKK 10 each)	Hedging reserve	Reserve for capitalized development projects	Proposed dividends for the year	Retained earnings	Total equity
Balance sheet total at December 31, 2014	62.867	(48.504)	-	-	3.165.520	3.179.883
Profit (loss) for the period	-	-	-	-	1.143.380	1.143.380
Adjustment of cash flow hedges	-	38.997	-	-	-	38.997
Foreign exchange adjustments, etc.	-	-	-	-	17.790	17.790
Tax relating to other comprehensive income	-	(9.164)	-	-	(4.197)	(13.361)
Total comprehensive income for the year	-	29.833	-	-	1.156.973	1.186.806
 Increase of share capital	 354	 -	 -	 -	 38.099	 38.453
Share-based payment (granted)	-	-	-	-	10.330	10.330
Tax related to share-based incentive plans	-	-	-	-	6.906	6.906
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

The share capital has increased, in 2012 with kDKK 690, in 2013 with kDKK 665, in 2014 with kDKK 470, in 2015 with kDKK 354 and in 2016 with kDKK 287.

§ Accounting policies

Reserve for capitalized development costs

The reserve for development costs comprise GN Hearing A/S's development costs corresponding to the capitalized development cost in the balance sheet adjusted for deferred 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 depreciations 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 Account and do therefor not prepare a consolidated account for GN Hearing A/S - Group.

New or revised EU endorsed accounting standards and interpretations are described in addition to how these changes are expected to impact the financial performance and reporting of the GN Hearing A/S.

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.

1.1 GENERAL ACCOUNTING POLICIES

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

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, 2016. 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, 2016, 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 Financial Instruments applies to annual periods beginning on or after January 1, 2018. IFRS 9 contains reviewed requirements for recognizing and measuring financial instruments, including handling of expected credit losses when calculating impairment of financial instruments as well as principles for accounting for hedging transactions. The preliminary assessment of how the standard will affect the recognition and measurement of financial instruments shows, that it will most likely have an effect on recognition and measurement of financial instruments such as ownership interests in unlisted enterprises and derivative financial instruments related to such. As sufficient and recent information to measure fair value is not always available for investments in unlisted enterprises the effect has not been quantified yet. Disclosure in the financial statements will change slightly as the classification of financial assets will be simplified to include only two categories: Financial assets measured at either subject to annual impairment test

- IFRS 15 Revenue from Contracts with Customers applies to annual periods beginning on or after January 1, 2018. IFRS 15 establishes a comprehensive framework for determining whether, to what extent and at what point in time revenue is recognized. The preliminary assessment of how the standard will affect the recognition and measurement of revenue shows, that it will most likely only have a limited effect on the revenue recognition in GN Hearing A/S. GN Hearing A/S's existing accounting policy for revenue recognition is based on transfer of risk to the buyer whereas revenue recognition according to IFRS 15 will be based on transfer of control to the buyer. Based on reviews of selected contracts with customers this change is not expected to affect the timing of revenue recognition in GN Hearing A/S. The new standard will require additional disclosures regarding revenue recognition.

- IFRS 16 Leases 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 depreciations 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.

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

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

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

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

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

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

1.2 SIGNIFICANT ACCOUNTING ESTIMATES AND 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 requires significant accounting estimates and judgments.

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

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		Intangible assets and property, plant and equipment	
	2016	2015	2016	2015
Denmark	40.308	60.441	1.160.282	1.028.328
Scandinavia	148.426	101.175	-	-
Europe	645.170	567.897	-	-
North- and South America	1.138.113	1.045.091	-	-
Asia	614.381	597.218	139	1.942
Other	182.387	155.355	-	-
Total Revenue	2.768.785	2.527.177	1.160.421	1.030.270

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. All revenue are related to sale of Hearing Instruments.

SECTION 2: RESULTS FOR THE YEAR

2.2 STAFF COSTS

DKK '000	2016	2015
Wages, salaries and remuneration	395.595	410.538
Pensions	26.502	26.806
Other social security costs	5.294	4.787
Share-based payments	12.674	10.331
Total	440.065	452.462
Included in:		
Production costs and change in payroll costs included in inventories	57.449	67.002
Development costs	194.756	195.733
Selling and distribution costs	87.360	93.250
Management and administrative expenses	100.500	96.476
Total	440.065	452.461
Average number of employees	554	549
Number of employees, year-end	541	543
The full-year remuneration of the Board of Directors is as follows:	1.125	1.125

DKK '000	2016				2015			
	Fixed salary	Bonus	Share-based payments	Total	Fixed salary	Bonus	Share-based payments	Total
Anders Hedegaard, CEO of GN Hearing	(6.187)	(5.072)	(2.077)	(13.336)	(5.866)	(5.104)	(1.126)	(12.096)
Marcus Desimoni, CFO of GN Hearing from February 15, 2016	(2.676)	(1.313)	(488)	(4.477)	-	-	-	-
Anders Boyer, CFO of GN Hearing until February 14, 2016	(280)	(232)	-	(512)	(2.204)	(1.630)	589	(3.245)
Total	(9.143)	(6.617)	(2.565)	(18.325)	(8.070)	(6.734)	(537)	(15.341)

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 increased by 19% or kDKK 2,984 from 2015 to 2016.

Remuneration of the Executive Management is based on a fixed base salary plus 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 Annual General Meeting on March 30, 2016. 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 Netcom A/S.

2.3 TAX

Taxation - Income statement

TAX ON PROFIT (LOSS)

DKK '000	2016	2015
Tax on profit (loss)		
Current tax for the year	(101.792)	(54.129)
Deferred tax for the year	(7.500)	(32.049)
Withholding tax	(479)	(2.551)
Adjustment to current tax with respect to prior years	12.001	6.222
Adjustment to deferred tax with respect to prior years	(5.688)	1.786
Total	(103.458)	(80.721)
Reconciliation of effective tax rate		
Danish tax rate	22,00%	23,50%
Non-taxable income	-2,00%	-16,67%
Non-deductible expenses	3,64%	0,30%
Withholding tax	0,10%	0,21%
Share of profit (loss) in associates	-0,20%	-0,09%
Adjustment of tax with respect to prior years	-1,35%	-0,66%
Effective tax rate	22,19%	6,59%
Tax relating to other comprehensive income		
Adjustment of cash flow hedges	5.068	(9.164)
Foreign exchange adjustments, etc.	-	(4.197)
Total	5.068	(13.361)

Taxation - Balance sheet

CURRENT TAX

DKK '000	2016	2015
Tax payable and tax receivable		
Tax receivable (payable) at January 1, net	32.594	(62.321)
Adjustment with respect to prior years	12.002	6.223
Payment relating to prior years	(44.596)	56.099
Current tax for the year	(101.792)	(54.129)
Current tax for the year recognized in other comprehensive income for the year	-	(4.197)
Withholding tax for the year	(479)	(2.551)
Payment of withholding tax for the year	479	2.551
Tax related to share-based incentive plans	3.301	6.906
Payments relating to the current year	134.954	84.013
Tax receivable (payable) at December 31, net	36.463	32.594
Current tax is recognized as follows in the balance sheet:		
Tax receivable (assets)	36.463	32.594
Tax payable (liabilities)	-	-
Tax receivable (payable) at December 31, net	36.463	32.594

DEFERRED TAX

DKK '000	2016	2015
Deferred tax, net		
Deferred tax at January 1, net	(176.139)	(136.712)
Adjustment with respect to prior years	(5.688)	1.786
Deferred tax for the year recognized in profit (loss) for the year	(7.500)	(32.049)
Deferred tax for the year recognized in other comprehensive income for the year	5.068	(9.164)
Deferred tax at December 31, net	(184.259)	(176.139)
Deferred tax is recognized in the balance sheet as follows:		
Deferred tax, net relates to:		
Intangible assets	(213.971)	(192.814)
Property, plant and equipment	10.180	8.883
Current assets	3.439	(1.254)
Intercompany liabilities	(18.693)	(167)
Provisions	21.283	3.328
Other	13.503	5.885
Total	(184.259)	(176.139)

Deferred tax, net includes DKK 9 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 its Danish subsidiaries. The current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income. The jointly taxed companies are taxed under the on-account tax scheme.

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

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

Deferred tax

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

! 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 classification 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	2016	2015
Revenue	2.768.785	2.527.177
Production costs	(1.466.685)	(1.424.902)
Gross profit	1.302.100	1.102.275
Development costs	(497.951)	(445.837)
Selling and distribution costs	(264.738)	(234.154)
Management and administrative expenses	(260.986)	(133.035)
Other operating income and costs, net	20.804	23.324
Operating profit (loss)	299.229	312.573

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

Development costs	(26.565)	(6.607)
Selling and distribution costs	(6.192)	(6.481)
Amortization of acquired intangible assets	(32.757)	(13.088)

Management and administrative expenses have i 2016 been affected of cost related to the divestment of Otometric on DKK 68.6 million.

2.5 RELATED PARTY TRANSACTIONS

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

In addition, related parties comprise group enterprises and associates over which GN 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	2016	2015
Sale of services to group enterprises	25	6
Purchase of services from group enterprises	(238)	(212)
Sale of intangible assets	5	30
Purchase of intangible assets	(13)	-
Sale of goods to group enterprises, revenue	2.447	2.344
Sale of goods to group enterprises, cost of goods	(1.206)	(1.130)

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

The company's balances with group enterprises at December 31, 2016 are recognized in the balance sheet. Interest income and expenses with respect to group enterprises are disclosed in note 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 consists of facility services, canteen services, management fee, R&D services and marketing 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. The assets were traded at net book values.

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

3.1 INTANGIBLE ASSETS

DKK '000	Development projects, developed in-house	Software	Patents and rights	Other	Total
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
Cost at January 1	2.086.009	150.568	118.360	89.213	2.444.150
Additions	250.210	42.797	33.243	1.195	327.445
Disposals	(16.553)	-	-	-	(16.553)
Cost at December 31	2.319.666	193.365	151.603	90.408	2.755.042
Amortization and impairment at January 1	(1.360.167)	(88.987)	(98.975)	(67.869)	(1.615.998)
Amortization	(225.364)	(19.316)	(6.606)	(6.481)	(257.767)
Disposals	16.552	-	-	-	16.552
Transfers	306	-	-	-	306
Amortization and impairment at December 31	(1.568.673)	(108.303)	(105.581)	(74.350)	(1.856.907)
Carrying amount at December 31, 2015	750.993	85.062	46.022	16.058	898.135

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

Impairment of development projects relates to projects for which the sales forecasts cannot justify the capitalized value.

The carrying amount of development projects and software in progress amount to DKK 613 million (2015: DKK 352 million).

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 2017 and 2018, after which product sales and marketing can be commenced. Management performs at least one annual impairment test of the carrying amount of recognized development costs. The recoverable amount is assessed based on sales forecasts. In Management's assessment, the recoverable amount exceeds the carrying amount.

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

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 12 million (2015: DKK 16 million) related to supply agreements.

§ 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. Impairment of goodwill is recognized in a separate line item in the income statement. Impairment of goodwill is not reversed.

! 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 continuously assess the useful lives of its products to ensure that amortization of development projects reflects the useful lives.

3.2 PROPERTY, PLANT AND EQUIPMENT

DKK '000	Factory and office buildings	Leasehold improvements	Plant and machinery	Operating assets and equipment	Total
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
Cost at January 1	-	11.664	278.270	38.680	328.614
Additions	29.397	-	47.122	4.552	81.071
Disposals	-	(1.683)	(16.234)	(1.407)	(19.324)
Transfers	9.735	(9.735)	400	(400)	-
Cost at December 31	39.132	246	309.558	41.425	390.361
Depreciation and impairment at January 1	-	(5.576)	(194.401)	(29.389)	(229.366)
Depreciation	(1.212)	(429)	(30.717)	(5.377)	(37.735)
Disposals	-	1.435	6.804	636	8.875
Transfers	(4.324)	4.324	-	-	-
Depreciation and impairment at December 31	(5.536)	(246)	(218.314)	(34.130)	(258.226)
Carrying amount at December 31, 2015	33.596	-	91.244	7.295	132.135

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	2016	2015
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	(36.461)	(29.874)
Development costs	(218.585)	(232.107)
Selling and distribution costs	(6.153)	(8.215)
Management and administrative expenses	(20.224)	(12.218)
Amortization of acquired intangible assets	(32.757)	(13.088)
Total	(314.180)	(295.502)

Amortization of intangible assets is recognized in the income statement as follows:

Production costs	(1.853)	(2.580)
Development costs	(214.897)	(227.765)
Selling and distribution costs	(5.837)	(5.877)
Management and administrative expenses	(16.891)	(8.458)
Amortization of acquired intangible assets	(32.757)	(13.088)
Total	(272.235)	(257.768)

No impairment of intangible assets is recognized in the income statement in 2016 or 2015.

3.4 PROVISIONS

DKK '000	Warranty provisions	Other provisions	Total
Provisions at January 1	4.279	25.631	29.910
Additions	495	24.935	25.430
Consumed	(445)	(21.127)	(21.572)
Reversed	(788)	-	(788)
Provisions at December 31, 2016	3.541	29.439	32.980
Of which is recognized in the consolidated balance sheet:			
Non-current liabilities	1.599	-	1.599
Current liabilities	1.942	29.439	31.381
Provisions at December 31, 2016	3.541	29.439	32.980

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 defence.

§ 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, 2016, the carrying amount of provisions with respect to obligations to take back goods was DKK 5 million (2015: DKK 6 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	2016	2015
Raw materials and consumables	144.086	87.537
Work in progress	1.783	4.325
Finished goods and merchandise	79.901	66.883
Total	225.770	158.745
The above includes write-downs amounting to	(19.546)	(34.175)
Write-downs recognized in the income statement under production costs	-	(18.695)
Reversed write-downs recognized under production costs	3.325	-
Production costs include costs of goods sold of	(1.324.251)	(1.254.025)

§ 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.

SECTION 3: OPERATING ASSETS AND LIABILITIES

3.6 TRADE RECEIVABLES

DKK '000	2016	2015
Trade receivables	90.285	106.703
Total	90.285	106.703
Trade receivables have the following maturities:		
Not due	71.664	75.559
Due 30 days or less	12.246	15.507
Due more than 30 days but less than 90 days	4.899	10.243
Due more than 90 days	4.845	9.688
Total	93.654	110.997
Write-downs, which are included in total trade receivables, have developed as follows:		
Write-downs at January 1	(4.294)	(5.983)
Write-downs made during the year	925	1.689
Write-downs at December 31	(3.369)	(4.294)

In 2016 no material write-downs have been recognized regarding individual receivables (2015: 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.

Trade receivables include the following overdue but not written down receivables:

Due 30 days or less	12.115	15.277
Due more than 30 days but less than 90 days	4.708	9.794
Due more than 90 days	1.798	6.073
Total	18.621	31.144

§ 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	2016	2015
Cost at January 1	2.793.235	2.793.235
Additions, capital contribution	281.184	-
Transfer to assets held for sale	(416.657)	-
Cost at December 31	2.657.762	2.793.235

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 2016. Impairment test have therefore not been made of subsidiaries.

SECTION 4: CAPITAL STRUCTURE AND FINANCING

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 2016 has been future income (long positions) in the USD, GBP, CAD and JPY and future costs (short positions) in the 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	2016	2015
Income statement	(51.103)	9.581
Other Comprehensive Income	-	(45.866)

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, 2016. 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. Generally, 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, 2016, GN Hearing had an equity ratio of 68.5% (2015: 72.1%) and external net interest-bearing debt of DKK 1,7 million (2015: DKK 2,1 million). Net Interest bearing intercompany receivables amounts to DKK 2.035 million (2015: DKK 1.346 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
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
2015				
Other long-term payables	-	4.850	-	4.850
Amounts owed to Subsidiaries and group companies	1.064.210	155.533	-	1.219.743
Short-term bank loans	3.146	-	-	3.146
Trade payables	124.935	-	-	124.935
Total non-derivative financial liabilities	1.192.291	160.383	-	1.352.674
Derivative financial liabilities	25.041	-	-	25.041
Total financial liabilities	1.217.332	160.383	-	1.377.715

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

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	2016	2015
Trade receivables	90.285	106.702
Other receivables	34.960	26.774
Amounts owed by subsidiaries an group companies	219.415	401.964
Other receivables, non-current	23.737	70.158
Amounts owed by subsidiaries and group companies	2.166.350	1.501.439
Loans and receivables	2.534.747	2.107.037
Other long-term payables	5.593	4.850
Amounts owed to Subsidiaries and group companies	131.273	155.533
Bank loans	820	3.146
Amounts owed to Subsidiaries and group companies	1.499.352	1.064.210
Trade payables	92.108	124.935
Financial liabilities measured at amortized cost	1.729.146	1.352.674
Derivative financial instruments included in Other payables	48.076	25.041
Financial liabilities measured at fair value	1.777.222	1.377.715

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

Derivative financial instruments

Exchange rate instruments	2016			2015		
DKK '000	Contract amount, net	Fair value, assets	Fair value, liabilities	Contract amount, net	Fair value, assets	Fair value, liabilities
USD	1.017.354	-	54.686	1.062.073	-	23.507
JPY	170.051	5.499	950	144.225	-	3.226
GBP	107.806	6.336	-	122.234	2.018	630
CAD	100.893	-	3.944	80.957	4.215	-
CNY	135.541	-	331	144.746	-	3.950
Total	1.531.645	11.835	59.911	1.554.235	6.233	31.313

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

Fair value adjustments of cash flow hedges

DKK '000	2016	2015
Fair value adjustment for the year recognized in Other comprehensive income	(1.494)	(123.319)
Reclassified from equity to revenue during the year	(18.807)	179.004
Reclassified from equity to production costs during the year	(1.367)	(8.344)
Reclassified from equity to selling and distribution costs during the year	(1.367)	(8.344)
Adjustment of cash flow hedges in Other comprehensive income	(23.035)	38.997

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, 2016 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. At the date of acquisition the fair value of the derivative financial instruments related to ownership interests are determined by calculating the difference between the fair value of the dispensers and the agreed purchase price of the dispensers. The fair value of the dispensers are determined using cash flow projections from financial forecasts covering a five year period. The key inputs used are sales growth in units, average selling prices and expected growth in the terminal period. The fair value is sensitive to the assumed values of these key inputs and can be categorized as level 3 (unobservable inputs) in the fair value hierarchy.

SECTION 4: CAPITAL STRUCTURE AND FINANCING

4.2 FINANCIAL INCOME AND EXPENSES

DKK '000	2016	2015
Financial Income:		
Interest income*	1.760	51.391
Intercompany Interest income	67.622	30.322
Dividends received	42.310	839.880
Financial income, other	137	1.905
Foreign exchange gain	77.158	5.592
Total	188.987	929.090
Financial expenses:		
Interest expenses*	(2.815)	(11.644)
Intercompany Interest expense	(12.851)	(9.712)
Financial expenses, other	(2.400)	(742)
Fair value adjustments of derivative financial instruments and impairments	(7.959)	-
Total	(26.025)	(22.098)

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

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

§ Accounting policies

Financial Income and Expenses

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

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.

SECTION 5: OTHER DISCLOSURES

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.

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, 2015	1.215	12.848	14.063	17.550
Warrants granted during the year	1.014	4.280	5.294	26.551
Warrants exercised during the year	(217)	(3.319)	(3.536)	10.875
Warrants forfeited during the year/corrections	(1.083)	(1.205)	(2.288)	22.961
Outstanding warrants at December 31, 2015	929	12.604	13.533	21.901
Warrants granted during the year	1.276	4.908	6.184	26.945
Warrants exercised during the year	-	(2.875)	(2.875)	16.045
Warrants forfeited during the year/corrections	-	(1.892)	(1.892)	25.569
Outstanding warrants at December 31, 2016	2.205	12.745	14.950	24.649
Grant date market value of warrants granted in 2016	5	18	23	
Market value of outstanding warrants at December 31, 2016	8	66	74	

Average share price at exercise: DKK 26,453 (2015: DKK 26,705)

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	-	923	923	0,1%	923	11.084	0,8	16
March 2013	-	1.677	1.677	0,3%	1.677	19.270	1,8	16
November 2013	-	80	80	0,0%	80	24.290	1,8	1
March 2014	-	2.753	2.753	0,4%	-	24.711	2,8	8
July 2014	235	-	235	0,0%	-	30.064	2,8	-
March 2015	694	2.901	3.595	0,6%	-	26.729	3,8	11
August 2015	-	50	50	0,0%	-	23.807	3,8	-
November 2015	-	125	125	0,0%	-	24.896	3,8	1
March 2016	1.276	3.957	5.233	0,8%	-	26.936	4,8	20
August 2016	-	68	68	0,0%	-	27.797	4,8	-
November 2016	-	211	211	0,0%	-	26.932	4,8	1
Outstanding warrants at December 31, 2016	2.205	12.745	14.950	2,2%	2.680			74

SECTION 5: OTHER DISCLOSURES

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:

Market conditions

	2016 year end GN Hearing	Grant date 2016 GN Hearing	2015 year end GN Hearing	Grant date 2015 GN Hearing
Share price GN Store Nord	146	134 142 137	123	151 124 127
Share of GN Store Nord market value	86%	85% 84% 86%	81%	70% 78% 80%
Share price	28.471	26.936 27.797 26.932	23.968	26.729 23.807 24.896
Volatility	20%	22% 22% 21%	24%	23% 24% 25%
Dividend per share			0	0
Risk-free interest rate	0,00%	0,00% 0,40% 0,20%	0,00%	0,00% 0,08% 0,18%
Expected term (years)		0,8 1,8 2,8 3,8 4,8	0,8 1,8 2,8 3,8 4,8	5,7 5,2 5,2 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 guarantees related to credit facilities and customs offices in the amount of DKK 7,2mill.

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 authorities 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	2016	2015
Aggregated financial information for associates is provided below:		
Revenue	119	112
Profit (loss) for the year after tax	10	10
Total assets	80	70
Total liabilities	29	25
Total share of profit (loss) for the year after tax	4	5
Total share of net assets	17	14

Transactions with associates comprise sale of goods and services in the amount of DKK 7,5 million (2015: DKK 6,4 million) and sale of intangible assets of 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	2016	2015
Share-based payment (granted)	12.674	10.330
Provision for bad debt, inventory write-downs, etc.	(15.554)	(2.228)
Adjustment of provisions	3.070	(8.196)
Total	190	(94)

5.5 LEASE OBLIGATIONS

DKK '000	2016	2015
Future lease obligations are distributed as follows:		
Operating leases:		
Less than one year	12.835	13.670
Between one and five years	6.761	8.927
More than five years	-	-
Total	19.596	22.597

Lease payments recognized in the income statement relating to operating leases amount to tDKK 23.059 (2015: tDKK 25.477).

§ 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.

SECTION 5: OTHER DISCLOSURES

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

DKK '000	2016	2015
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	-

§ 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.

SECTION 5: OTHER DISCLOSURES

5.7 FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

DKK '000	2016	2015
Audit fees	(476)	(475)
Other audit related services	(695)	(459)
Total	(1.171)	(934)

5.8 EVENTS AFTER THE REPORTING PERIOD

On September 25, 2016 GN Hearing and Natus Medical Incorporated (hereafter "Natus") entered into an agreement whereby ownership of GN Otometrics is transferred from GN Hearing to Natus. The divestment will further strengthen GN Hearing's focus and strategic direction as a dedicated hearing instrument company, with GN Hearing being in a unique position to continue to deliver industry leading growth and profitability.

The total consideration payable by Natus is USD 145 million and will be settled in cash on a debt and cash free basis. Closing of the transaction took place on January 3, 2017. The gain/loss resulting from divestment has not yet been determined, but will be recognized in discontinued operations in 2017.

COMPANIES OWNED BY GN HEARING A/S AT DECEMBER 31, 2016

	Domicile	Currency	Owner-ship %	Share capital
GN ReSound Pty. Ltd.	Australia	AUD	100	4.000.002
GN ReSound Shanghai Ltd.	China	CNY	100	3.000.000
GN ReSound China Ltd.	China	CNY	100	34.000.000
GN GROC Ltd	China	CNY	100	500.000
GN ReSound India Private Limited	India	INR	100	7.352.000
GN Resound Japan K.K.	Japan	JPY	100	499.000.000
GN ReSound (NZ) Ltd.	New Zealand	NZD	100	2.000.000
GN Hearing Pte. Ltd.	Singapore	SGD	100	1.740.000
GN ReSound Hörtechnologie GmbH	Austria	EUR	100	500.000
Sluchadlova Akustika spol. S.R.O.	Czech Republic	CZK	100	102.000
Interton Danmark A/S	Denmark	DKK	100	200.000
Beltone Europe Holdings ApS	Denmark	DKK	100	200.000
Dansk Hørecenter ApS	Denmark	DKK	100	125.000
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 S.r.l.	Italy	EUR	100	181.190
GN Hearing Benelux bv	Netherlands	EUR	100	680.670
GN ReSound Norge AS	Norway	NOK	100	2.000.000
Interton Slovakia s.r.o.	Slovakia	SLK	100	170.000
GN Hearing Care S.A.	Spain	EUR	100	1.562.631
GN Hearing Sverige AB	Sweden	SEK	100	100.000
GN ReSound AG	Switzerland	CHF	100	420.000
Beltone Schweiz GmbH	Switzerland	CHF	100	20.000
GN ReSound Ltd.	United Kingdom	GBP	100	7.376.000
GN ReSound Produtos Médicos Ltda.	Brazil	BRL	100	1.019.327
GN ReSound Korea Co. Ltd. *	Korea	KRW	90	136.700.000
Beltone Hearing Korea Co. Ltd *	Korea	KRW	90	50.000.000
GN ReSound LLC	Russia	RUB	100	10.000
GN ReSound Finland Oy/Ab	Finland	EUR	100	100.913
GN US Holdings, Inc.	USA	USD	100	34.000.000
GN Hearing Care Corporation	USA	USD	100	180.000
GN ReSound Holdings, Inc.	USA	USD	100	10
Beltone Holdings II Inc.	USA	USD	100	1
Beltone Holdings III Inc.	USA	USD	100	10
Beltone Holdings IV Inc.	USA	USD	100	30
Beltone Holdings V Inc.	USA	USD	100	30
Beltone Foundation	USA	USD	100	10
Beltone Corporation	USA	USD	100	10
American Hearing Systems Inc.	USA	USD	100	10
Audio Electronics, Inc.	USA	USD	100	198.890
Audigy Group LLC	USA	USD	100	0
Audigy medical LLC	USA	USD	100	0
Audigy Venture LLC	USA	USD	100	0
DB Special Instruments Inc.	Canada	CAD	100	137
GN Hearing Care Canada Ltd.	Canada	CAD	100	10.000
5837946 Manitoba, Ltd.	Canada	CAD	100	10.000
810720 Alberta, Ltd.	Canada	CAD	100	50.000
GN ReSound (Malaysia) Sdn Bhd	Malaysia	RM	100	100
Audio Nova S.R.L.	Romania	ROL	49	10.000.000
Audiology Systems Inc.	USA	USD	40	1.724.000
Himpp A/S	Denmark	DKK	11	2.400.000
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	114.782.415
GN Otometrics A/S	Denmark	DKK	100	24.000.000
Inmedico A/S	Denmark	DKK	100	500.000
GN Otometrics GmbH	Germany	EUR	100	1.800.000
Genie Audio Inc.	Canada	CAD	100	232
GN Otometrics Shanghai Ltd	China	USD	100	800.000
GN Otometrics S.a.S	France	EUR	100	1.200.000

Associates