GN Hearing A/S

Annual report 2018

Approved at the annual general meeting
/ 2019

Chairman:

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

GN Hearing A/S, Lautrupbjerg 7, 2750 Ballerup

Contents

Statements

Statement by the Board of Directors and the Executive Management

Today, the executive management and the board of directors have discussed and approved the GN Hearing A/S Annual Report for 2018.

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, 2018 and of the results of the company's operations and cash flows for the financial year January 1 – December 31, 2018.

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 2018 be approved at the annual general meeting.

Ballerup, March 20, 2019

Executive management

Jakob Gudbrand
CEO

Marcus Desimoni
CFO

Board of directors

Per Wold-Olsen
(Chairman)

William E Hoover Jr.
(Deputy chairman)

Hélène Barnekow

Wolfgang Reim

Ronica Wang

Gitte Pugholm Aabo

Christian Bonnez
(Employee elected)

Martin Kristian Grønbæk
(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 2018, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

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

Independence

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

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Copenhagen, March 20, 2019

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

Torben Bender State Authorised Public Accountant mne21332	Jens Thordahl Nøhr State Authorised Public Accountant mne32212

Management's report

Company details

Company	GN Hearing A/S Lautrupbjerg 7 2750 Ballerup	
	Phone:	45 75 11 11
	E-mail:	info@gnresound.com
	Webpage:	www.gn.com
	CVR.no.:	55 08 27 15
	Started:	31 January 1957
	Location:	Ballerup
	Accounting year:	1 January – 31 December
Board of Directors	Per Wold-Olsen (Chairman) William E. Hoover Jr. *(Deputy Chairman)* Hélène Barnekow Wolfgang Reim Ronica Wang Gitte Pugholm Aabo Christian Bonnez *(Employee elected member)* Martin Kristian Grønbæk *(Employee elected member)* Thomas Olsgaard *(Employee elected member)*	
Executive management	Jakob Gudbrand, 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	2018	2017**	2016**	2015**	2014**
Revenue	3.586.654	3.225.263	2.768.785	2.527.177	2.366.422
Gross Profit	1.724.501	1.726.137	1.302.100	1.102.275	1.345.695
EBITA *	771.641	806.852	331.986	325.661	650.564
Operating profit (loss)	743.147	773.750	299.229	312.573	634.214
Result from financial items	310.371	253.190	167.102	911.528	16.765
Profit (loss) for the year	**838.515**	**857.263**	**362.873**	**1.143.380**	**512.878**
Non-current assets	5.748.756	5.590.411	6.021.739	5.409.513	4.574.199
Current assets	864.945	678.607	1.026.354	727.242	586.207
Total assets	**6.613.701**	**6.269.018**	**7.048.093**	**6.136.755**	**5.160.406**
Share capital	63.905	63.788	63.508	63.221	62.867
Total equity	**4.665.693**	**3.838.796**	**4.828.103**	**4.422.378**	**3.179.883**
Non-current liabilities	250.233	313.692	322.724	338.435	230.945
Current liabilities	1.697.775	2.116.530	1.879.213	1.375.942	1.749.578
Cash flow from operating activities	1.172.854	1.094.673	548.560	1.409.717	883.441
Investment in tangible assets	47.501	23.697	38.123	81.071	39.810

Key ratios

Operating Margin	20,7	24,0	10,8	12,4	26,8
Gross Margin	48,1	53,5	47,0	43,6	56,9
Return on Investment	19,9	19,5	7,8	11,0	30,2
Current Ratio	50,9	32,1	54,6	52,9	33,5
Equity Ratio	70,5	61,2	68,5	72,1	61,6
Return on Equity	19,7	19,8	7,8	30,1	17,6

*) Excluding amortization of acquired intangible assets but including amortization of development projects and software developed in-house
**) Amounts for period 2014-2017 are not adjusted for changes related to IFRS 9 and IFRS 15.

Management's review of GN Hearing A/S

Operating review

Principal activities of the Company

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

Development in activities and financial matters

GN Hearing A/S's revenue for 2018 ended at DKK 3,587 mill (2017: DKK 3,225 mill), which is a growth of 11,0 % compared to 2017.

GN Hearing A/S continued to deliver strong performance in the second year of the strategy period 2017 – 2019. During 2018, GN Hearing continued to execute on the global rollout of the ReSound LiNX 3D full family of premium products.

Also, GN Hearing A/S strengthened its superior product offering with the launch of ReSound LiNX Quattro: the world's first Premium-Plus hearing aid – designed for people who want the very best that technology has to offer. A new chip platform allows ReSound LiNX Quattro users to benefit from brilliant sound experience and the world's most advanced rechargeable solution.

ReSound LiNX Quattro offers a new category of hearing solution and enlarges GN Hearing's product portfolio, which already includes the premium ReSound LiNX 3D product family. With a new chip platform, a completely rewritten sound processing package, a redesigned wireless radio with extra signal strength and a unique utilization of microphones, sounds are passed to the amplifier without being altered. Compared to ReSound LiNX 3D, the new chip enables 100% faster processing, 100% additional memory, 35% increase in frequency bandwidth and the highest input dynamic range in the industry:

Sound quality: A brilliant sound experience, with clearer, fuller and richer Layers of Sound powered by the new chip platform. With the highest input dynamic range available and extended high frequencies, sounds are processed in increased detail at all input levels, leading to superior sound quality where softer sounds are clearer and louder sounds are fuller and distortion-free

Rechargeability: The longest rechargeable battery life available in the market. With 25% less power consumption when streaming, ReSound LiNX Quattro is the only hearing aid that offers 24 hours of use even when streaming 50% of the time and 30 hours of use on a fully charged battery without streaming

In addition to the improvements within sound quality and rechargeability, ReSound LiNX Quattro further expands GN Hearing's leadership within remote fine-tuning and wireless connectivity – with GN Hearing's 6th generation 2.4 GHz technology.

Following the announcement on August 13, ReSound LiNX Quattro was first shipped on August 31, starting with the United States, and was by the end of 2018 shipped in close to 50 countries, including UK, Germany, France, Spain, Italy, Japan and Australia.

On August 16, GN Hearing A/S and Google announced a new technology partnership that will enable a full spectrum of direct audio streaming from Android devices to hearing aids. Based on the partnership, GN Hearing A/S will take advantage of the new Android connection, which will be fully compatible with ReSound LiNX Quattro and Beltone Amaze and will be implemented when Google releases the firmware update. GN Hearing A/S is expected to be the first manufacturer to take advantage of the new Android connection.

GN Hearing has fortified its position as the second-largest supplier in the U.S. Veterans Affairs (VA) channel in 2018, which represents roughly 20% of the U.S. market.

During the year, GN Hearing lost market share in the VA as the rechargeable category continued to gain momentum – a category where GN Hearing did not participate until November, with the introduction of ReSound LiNX Quattro.

Following GN Hearing A/S's launch of ReSound LiNX Quattro in the VA in November, its market share has jumped from 13% in October to 23% by the end of December – back then the largest value share ever for GN Hearing in the VA. With this significant market share gain, GN Hearing is once again the second-largest

Management's review of GN Hearing A/S

supplier in the VA significantly narrowing the gap to the largest supplier.

The Smart Hearing Alliance, a co-development and co-commercialization partnership between GN Hearing A/S and Cochlear, first announced in October 2015, was further expanded and deepened in 2018.

Recognizing their successful collaboration to date, Cochlear and GN Hearing A/S are now strengthening their focus on integrated product offerings and expanding their global footprint and presence in the clinical hearing aid and implantable hearing solutions markets. The vision for this new collaboration will include a focus on fast-moving connectivity and wireless technology to allow for closer integration between Cochlear and GN Hearing A/S technologies. The two companies will leverage research and development investments to jointly develop firmware and software technologies.

In addition to technology sharing, the two companies will strengthen the commercial collaboration and work together to enable clinicians to deliver a more seamless solution and best-in-class hearing experience to their patients.

GN Hearing A/S delivered a gross profit margin of 48,1%, (53,5% in 2017). Profit for the year ended at DKK 839 mill. compared to DKK 857 mill. in 2017, and the cash flow from operating and investing activities on DKK 695 mill. compared to DKK 1.688 mill. in 2017.

The result is in alignment with the expectations for 2018, and management assess the result as satisfying.

Market projections

The long-term market growth expectation remains unchanged. In the 2017 - 2019 strategy: Hear More, Do More, Be More, GN Hearing estimates market growth to be around 4 - 6% in volumes with ASP decline of around 1 - 2% annually. In 2018, the market growth was estimated to be within this range.

The global hearing aid market size is estimated to almost 16 million units in 2018.

Risk management

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

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

The global management team in GN Hearing A/S meet to evaluate the most significant risks identified across the businesses and to determine whether any additional or different actions should be taken in order to mitigate them or turn them into opportunities.

At least once a year, the risks that are assessed to be the most material are reported to and discussed with the audit committee and subsequently the board. This process is also used to identify specific risk areas to be analyzed in further detail.

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

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

Management's review of GN Hearing A/S

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

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

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

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

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

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

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

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

Corporate Social Responsibility
For the statutory Statement on Corporate Social Responsibility for 2018, cf. §99a of the Danish Financial Statement Act, please see the 2018 Communication on Progress report by GN Store Nord A/S available on https://www.gn.com/About/Document-download-center#.

Environment
As a part of GN Store Nord, GN Hearing A/S follows the guidelines of the group. GN continues to focus on reducing energy consumption at our manufacturing facilities.

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
In 2018, GN performed 34 audits at suppliers. Most findings were related to CSR and Quality. GN is in constructive dialogue with suppliers where a non-conformity case has been raised to ensure remedial actions.

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

Management's review of GN Hearing A/S

Research and development activities

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

During the year, much focus has been directed to the rising importance of Artificial Intelligence (AI) evidenced by the introduction of AI in the hearing aids as announced in the beginning of January 2019. GN's focus on AI builds on years of investments in the Group's dedicated AI research center, the GN Advanced Science unit; the investment in audEERING, the partnerships and ecosystems with other leading technology innovators, such as Apple and Google, and the extensive collaboration with other partners and academic research institutes.

GN researchers are working on the next generations of products and software releases that will set new milestones in the space of AI-enhanced product offerings benefiting from GN's group-wide investments in technology research, product development, and strategic partnerships over the past several years.

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 is dedicated to the belief that diversity strengthens any governing body and acknowledges the importance of diversity in general, including diversity of gender, nationality and competencies.
One of GN's diversity goals is, by the end of 2020, to have the Annual General Meeting elect women for three out of six positions in the GN Board of Directors. We have reached this target in 2018, when Gitte Pugholm Aabo joined the GN Board of Directors.

Another focus has been to ensure stronger international representation in our senior management team (GMT) in GN Hearing. By the end of 2018, GN Hearing's GMT consists of 25% female leaders and 50% non-Danes.

By the end of 2018, women filled 20% of senior management positions across the GN Group. GN aims for 25% during the implementation of the 2017 - 2019 strategy: Hear More, Do More, Be More. This development is the result of dedicated efforts, since GN's diversity policy was established in 2014, when women filled 14% of the company's senior management positions. GN will continue to strengthen efforts to build a pipeline of future female candidates for senior positions. We have a constant focus to ensure that we attract female candidates for both internal job rotations and for new positions. By the end of 2018, 43% of the newly appointed members of senior management were women.

Furthermore, to achieve our goals, we ensure that diversity – encompassing gender, nationality, competencies, etc. – is an integral part of GN's yearly talent review and succession planning process, of talent development practices, recruitment procedures and leadership development programs. Accordingly, intake in GN's graduate program 2018 was 45% females and 36% non-Danes.

Finally, the wording and visual identity in recruitment activities on social media and other channels are ongoing designed to best attract female candidates and encourage diversity. When external recruiters or headhunters are used, GN requires that viable female candidates are presented for any position.

Events after the balance sheet date

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

Outlook 2019

Based on continued strategy execution and attractive market conditions, GN Hearing A/S expects organic revenue growth around 7% in 2019.

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

Key ratios

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

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

In this annual report the following financial terms are used:

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

INCOME STATEMENT

DKK '000	Note	2018	2017
Revenue	2.1	3,586,654	3,225,263
Production costs	2.4, 3.3, 3.5	(1,862,153)	(1,499,126)
Gross profit		**1,724,501**	**1,726,137**
Development costs	2.4, 3.3	(454,537)	(416,840)
Selling and distribution costs	2.4, 3.3	(288,578)	(276,067)
Management and administrative expenses	2.4, 3.3, 5.5, 5.6	(208,227)	(232,690)
Other operating income and costs, net		(1,518)	6,312
EBITA *)		**771,641**	**806,852**
Amortization of acquired intangible assets	2.4, 3.3	(28,494)	(33,102)
Operating profit (loss)		**743,147**	**773,750**
Share of profit (loss) in associates	5.3	12,500	4,046
Financial income	4.2	311,737	358,552
Financial expenses	4.2	(13,866)	(109,408)
Profit (loss) before tax		**1,053,518**	**1,026,940**
Tax on profit (loss)	2.3	(215,003)	(169,677)
Profit (loss) for the year		**838,515**	**857,263**
Proposed profit appropriation/distribution of loss			
Retained earnings		(201,387)	809,970
Transfer to reserve for capitalized development projects		39,902	47,293
Proposed dividends for the year		1,000,000	-
		838,515	**857,263**

STATEMENT OF COMPREHENSIVE INCOME

DKK '000	Note	2018	2017
Profit (loss) for the year		**838,515**	**857,263**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Adjustment of cash flow hedges	4.1	(71,696)	95,693
Other equity movements in associated companies		377	(203)
Tax relating to these items of other comprehensive income	2.3	15,773	(21,052)
Other comprehensive income for the year, net of tax		**(55,546)**	**74,438**
Total comprehensive income for the year		**782,969**	**931,701**

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

BALANCE SHEET AT DECEMBER 31

DKK '000	Note	2018	2017
ASSETS			
Intangible assets	3.1	1,072,889	993,461
Property, plant and equipment	3.2	108,328	100,430
Investments in associates	5.3	7,239	3,096
Other non-current assets	4.1	80,504	17,971
Investments in subsidiaries	3.7	2,657,182	2,657,920
Amounts owed by subsidiaries and group companies	4.1	1,822,614	1,817,533
Total non-current assets		**5,748,756**	**5,590,411**
Inventories	3.5	166,808	158,662
Trade receivables	3.6, 4.1	124,597	103,664
Amounts owed by subsidiaries and group companies	4.1	469,926	300,064
Other receivables	4.1	37,849	80,534
Cash and cash equivalents	4.1	65,765	35,683
Total current assets		**864,945**	**678,607**
Total assets		**6,613,701**	**6,269,018**
EQUITY AND LIABILITIES			
Share capital		63,905	63,788
Other reserves		(12,577)	38,003
Reserve for capitalized development projects		662,791	670,182
Proposed dividends for the year		1,000,000	-
Retained earnings		2,951,574	3,066,823
Total equity		**4,665,693**	**3,838,796**
Provisions	3.4	2,244	1,695
Deferred tax liabilities	2.3	169,471	169,536
Other non-current liabilities	4.1	618	4,391
Amounts owed to subsidiaries and group companies	4.1	77,900	138,070
Total non-current liabilities		**250,233**	**313,692**
Bank loans	4.1	14,141	42,823
Trade payables	4.1	56,323	63,106
Tax payables		167,302	65,162
Amounts owed to subsidiaries and group companies	4.1	1,204,823	1,699,112
Provisions	3.4	17,227	20,452
Other payables		237,959	225,875
Total current liabilities		**1,697,775**	**2,116,530**
Total equity and liabilities		**6,613,701**	**6,269,018**

STATEMENT OF CASH FLOW

DKK '000	Note	2018	2017
Operating activities			
Operating profit (loss)		743,147	773,750
Depreciation, amortization and impairment	3.3	279,679	303,433
Other non-cash adjustments	5.4	18,402	(7,851)
Cash flow from operating activities before changes in working capital		**1,041,228**	**1,069,332**
Change in inventories		(8,418)	78,156
Change in receivables		14,994	(58,328)
Change in trade payables and other payables		(49,697)	37,009
Total changes in working capital		**(43,121)**	**56,837**
Cash flow from operating activities before financial items and tax		**998,107**	**1,126,169**
Interest and dividends, etc., net		266,561	66,436
Tax paid, net		(91,812)	(97,932)
Cash flow from operating activities		**1,172,856**	**1,094,673**
Investing activities			
Investments in intangible assets, excluding development projects		(70,544)	(11,115)
Development projects		(249,174)	(264,148)
Investments in property, plant and equipment		(47,501)	(23,697)
Investments in other non-current assets		(2,119)	(422)
Disposal of intangible assets		146	61,696
Disposal of property, plant and equipment		70	55
Disposal/repayment of other non-current assets		3,212	5,747
Increase/(Decrease) of amount owed by and to subsidiaries		(111,111)	120,807
Disposal of companies/operations		-	704,476
Acquisition of companies/operations		(500)	(158)
Cash flow from investing activities		**(477,521)**	**593,241**
Cash flow from operating and investing activities (free cash flow)		**695,335**	**1,687,914**
Financing activities			
Increase/(decrease) of long-term loans	4.3	(3,773)	(1,201)
Increase/(decrease) of short-term loans	4.3	(28,682)	42,003
Paid dividends		-	(2,000,000)
Share-based payment (exercised)		24,537	53,042
Increase/(decrease) of amounts owed by and to subsidiaries	4.3	(657,333)	251,122
Cash flow from financing activities		**(665,251)**	**(1,655,034)**
Net cash flow		**30,084**	**32,880**
Cash and cash equivalents, beginning of period		35,683	2,803
Cash and cash equivalents, end of period		**65,767**	**35,683**

STATEMENT OF EQUITY

DKK '000	Share capital (shares of DKK 100 each)	Hedging reserve	Reserve for capitalized developmen t projects	Proposed dividends for the year	Retained earnings	Total equity
Balance sheet total at December 31, 2016	**63,508**	**(36,638)**	**622,889**	**2,000,000**	**2,178,344**	**4,828,103**
Profit (loss) for the period	-	-	47,293	-	809,970	857,263
Adjustment of cash flow hedges	-	95,693	-	-	-	95,693
Other equity movements in associated companies	-	-	-	-	(203)	(203)
Tax relating to other comprehensive income	-	(21,052)	-	-	-	(21,052)
Total comprehensive income for the year	-	74,641	47,293	-	809,767	931,701
Increase of share capital	280	-	-	-	52,763	53,043
Share-based payment (granted)	-	-	-	-	14,655	14,655
Tax related to share-based incentive plans	-	-	-	-	11,294	11,294
Paid dividends	-	-	-	(2,000,000)	-	(2,000,000)
Balance sheet total at December 31, 2017	**63,788**	**38,003**	**670,182**	**-**	**3,066,823**	**3,838,796**
Profit (loss) for the period	-	-	39,902	1,000,000	(201,387)	838,515
Adjustment of cash flow hedges	-	(71,696)	-	-	-	(71,696)
Other equity movements in associated companies	-	-	-	-	377	377
Tax relating to other comprehensive income	-	15,773	-	-	-	15,773
Total comprehensive income for the year	-	(55,923)	39,902	1,000,000	(201,010)	782,969
Increase of share capital	117	-	-	-	24,420	24,537
Share-based payment (granted)	-	-	-	-	14,048	14,048
Tax related to share-based incentive plans	-	-	-	-	5,343	5,343
Balance sheet total at December 31, 2018	**63,905**	**(17,920)**	**710,084**	**1,000,000**	**2,909,624**	**4,665,693**

The share capital has increased, in 2014 by kDKK 470, in 2015 by kDKK 354, in 2016 by kDKK 287, in 2017 by kDKK 280 and in 2018 by kDKK 117

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

SECTION 1
Basis of preparation

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

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

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

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

1.1 GENERAL ACCOUNTING POLICIES

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

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

The annual report has been prepared in accordance with the historical cost convention, as modified by the revaluation of certain derivative financial instruments at fair value.

New standards, interpretations and amendments adopted by GN Hearing A/S
As of January 1, 2018, GN Hearing A/S adopted all relevant new or revised International Financial Reporting Standards and IFRIC Interpretations with effective date January 1, 2018 or earlier, including IFRS 9 Financial instruments and IFRS 15 Revenue from Contracts with Customers. Both IFRS 9 and IFRS 15 has been applied retrospectively. It has not been necessary to restate any comparative information or recognize any cumulative effect in retained earnings. Apart from this, the annual report is presented in accordance with the accounting policies applied in previous years' annual reports.

Effect from implementing IFRS 9 Financial instruments
IFRS 9 addresses the classification and measurement of financial assets and liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets. GN Hearing A/S has reviewed the company's financial assets and liabilities and concluded that the implementation of IFRS 9 will not have any significant impact on recognition and measurement. GN Hearing A/S' use of hedge accounting has not been affected by implementing IFRS 9 and neither has the accounting for financial liabilities. The disclosures regarding classification of certain financial assets has changed as financial assets are classified as measured at either amortized cost or fair value. The changed classification did not result in any changes to measurements.

Ownership interests in unlisted enterprises in which GN Hearing A/S does not exercise significant influence, and derivative financial instruments related to such, were previously measured at cost. After the implementation of IFRS 9, ownership interests are measured at fair value. Upon initial recognition of future investments it will be decided, on an instrument-by-instrument basis, whether the ownership interests will be measured at fair value through profit or loss or at fair value through other comprehensive income. Dispenser loans and trade receivables will continue to be measured at amortized cost.

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

Effect from implementing IFRS 15 Revenue from Contracts with Customers
IFRS 15 introduces a five-step model for recognizing revenue from contracts with customers. GN Hearing A/S has performed an analysis of contracts with customers and concluded that revenue recognition will not be impacted significantly from implementing IFRS 15. GN Hearing A/S previously recognized revenue when the risk and rewards of ownership of the products are transferred to the customer. After the implementation of IFRS 15 revenue is recognized when control of the products has been transferred to the customer. Based on the analysis of contracts with customers this has not changed the timing of revenue recognition, which is primarily recognized at a point in time, generally at delivery.

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

Accounting standards not yet adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018, and have not been applied in preparing this annual report. Those, which may be relevant to GN Hearing A/S, are the following:

IFRS 16 Leases
IFRS 16 Leases applies to periods beginning on or after January 1, 2019. IFRS 16 Leases will be applied by using the simplified retrospective method, where the cumulative effect of initial application is recognized as an adjustment to the opening balance of retained earnings at January 1, 2019. Comparative information will not be restated.

At January 1, 2019 a lease liability for leases previously classified as operating leases will be recognized in the balance sheet. The lease liability will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. Likewise, at January 1, 2019 right-of-use assets for leases previously classified as operating leases will be recognized in the balance sheet. The right-of-use assets will be measured at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments already recognized in the balance sheet.

The expected impact on the financial statements from implementing IFRS 16 Leases is not expected to be significant for neither the income statement or the balance sheet.

IFRIC 23 Uncertainty over Income Tax Treatments
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 including whether an entity considers uncertain tax treatments separately and the measurement method to be applied. The interpretation is not expected to have significant impact.

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

Revenue
Revenue from the sale of hearing aids is recognized in the income statement when the customer obtains control of the goods. When considering at what point in time the customer obtains control of the goods, a number of indicators are considered, including whether:

- GN Hearing A/S has a present right to payment for the goods.
- The customer has legal title to the goods.
- The customer has physical possession of the goods.
- The customer has the significant risks and rewards of ownership of the goods.
- The customer has accepted the goods.

In the majority of sales, the customer obtains control of the goods either upon shipment from a distribution hub or upon delivery to the customer.

The amount of revenue recognized varies with discounts and rebates offered to customers. Discounts and rebates are estimated based on the expected amount to be provided to the customers and reduce revenues recognized. Revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. Revenue from contracts in which GN Hearing A/S provides on-going access to research against a fee and in which the counterparty reasonably expects that GN Hearing A/S will continue to perform research, is recognized over the access period.

When goods are sold with a right of return, a refund liability and a right to the returned products are recognized as a provision and a current asset, respectively. The refund liability is deducted from revenue and the right to the returned products is offset in cost of sales. The portion of goods sold that is expected to be returned is estimated based on historical product returns data. The estimated amounts of both returns, discounts and rebates are reassessed at each reporting date.

GN Hearing A/S typically provides warranties for general repairs of defects that existed at the time of sale, as required by law. These assurance-type warranties are accounted for as described in the accounting policies for warranty provisions.

The typical payment terms for customers is between 30 and 60 days. GN Hearing A/S does not expect to have contracts with payment terms exceeding one year. As a consequence the transaction prices are not adjusted for the time value of money. Revenue is measured excluding VAT, taxes and granted cash and quantity discounts in relation to the sale and expected returns of goods.

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.

Foreign Currency Translation

Functional Currency and Presentation Currency
The financial statement are presented in Danish kroner (DKK), which is the functional currency and presentation currency of the company.

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

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

Statement of cash flow
The cash flow statement is presented using the indirect method based on the operating profit (loss). The cash flow statement shows the cash flow from operating, investing and financing activities for the year and the year's changes in cash and cash equivalents as well as the cash and cash equivalents at the beginning and end of the year.
Cash flow from operating activities comprises cash flow from the year's operations adjusted for non-cash operating items and changes in working capital. Working capital comprises current assets excluding items stated as cash and cash equivalents and excluding tax receivable, as well as current liabilities excluding bank loans, tax payable and provisions.

Cash flow from investing activities comprises payments in connection with acquisitions and disposals of enterprises and activities, acquisitions and disposals of intangible assets, property, plant and equipment and other non-current assets and acquisitions and disposals of securities that are not included in cash and cash equivalents.
Cash flow from financing activities comprises changes in the size or composition of the share capital and related costs as well as the raising of loans, repayment of interest-bearing debt, acquisition and disposal of treasury shares and payment of dividends to shareholders.
Cash and cash equivalents 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 recquires significant accounting estimates and judgments.

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

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

1.3 NON-IFRS MEASURES

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

SECTION 2

2.1 REVENUE AND GEOGRAPHICAL INFORMATION

DKK '000	Revenue 2018	Revenue 2017	Intangible assets and property, plant and equipment 2018	Intangible assets and property, plant and equipment 2017
Denmark	45,623	44,075	1,181,217	1,093,816
Europe	876,561	863,133	0	0
North- and South America	1,397,651	1,422,237	0	0
Asia and rest of the world	1,266,819	895,818	0	75
Total Revenue	**3,586,654**	**3,225,263**	**1,181,217**	**1,093,891**

Revenue is predominantly recognized at a point in time, and revenue recognized over time is not significant. Revenues are attributed to countries on the basis of the customer's location. Only the US represents a material single country. Intangible assets and property, plant and equipment are attributed based on the physical location of the assets.

Revenue are in all material aspects related to sale of goods; hearing instruments, which orimarily are recognized as revenues at a point in time.

§ Accounting policies

Revenue recognition

Certain contracts with customers include a right of return and volume rebates that give rise to variable consideration. In estimating the variable consideration GN Hearing A/S is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. Significant accounting estimates and judgments involve determining the portion of expected returns of goods as well as the amount of discounts and rebates. The portion of goods sold that is expected to be returned is estimated based on historical product returns data.

In sales, where the customer obtains control of the goods upon delivery to the customer, the significant judgments made in determining when the customer obtains control of promised goods involve determining when a customer has physical possession of the goods and when the customer has accepted the goods due to uncertainty in transportation time

2.2 STAFF COSTS

DKK '000	2018	2017
Wages, salaries and remuneration	359,076	369,243
Pensions (defined contribution plans)	35,326	28,788
Other social security costs	4,420	4,323
Share-based payments	14,048	14,655
Total	**412,870**	**417,009**
Included in:		
Production costs and change in payroll costs included in inventories	75,251	64,429
Development costs	154,997	175,604
Selling and distribution costs	123,438	118,415
Management and administrative expenses	59,184	58,561
Total	**412,870**	**417,009**
Average number of employees	545	510
Number of employees, year-end	591	536
The full-year remuneration of the Board of Directors	1,238	1,125

Executive Management remuneration can be specified as follows:

	2018				2017			
DKK '000	**Fixed salary**	**Bonus**	**Share-based payments**	**Total**	**Fixed salary**	**Bonus**	**Share-based payments**	**Total**
Anders Hedegaard, CEO of GN Hearing	(5,722)	(5,177)	(372)	**(11,271)**	(6,384)	(3,970)	(2,257)	**(12,611)**
Marcus Desimoni, CFO of GN Hearing	(2,431)	(2,076)	(1,245)	**(5,752)**	(2,288)	(1,388)	(878)	**(4,554)**
Total	**(8,153)**	**(7,253)**	**(1,617)**	**(17,023)**	**(8,672)**	**(5,358)**	**(3,135)**	**(17,165)**

The total remuneration of the Executive Management is based on the “General Guidelines for Incentive Pay to Management”, as adopted at GN´s Annual General Meeting. Total salary (Fixed salary & Bonus) of the Executive Management, increased by 10% or DKK 1,4 million from 2017 to 2018. As Announced, Anders Hedegaard stepped down as CEO of GN Hearing as of October 31, 2018. Due to this, non-vested share based incentives for Anders Hedegaard have been terminated.

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

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

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

Members of the Board of Directors receive a fixed remuneration as approved by the shareholders at the GN Store Nord Annual General Meeting on March 13, 2018. The fixed remuneration is based on GN Store Nord´s corporate governance structure in which an audit committee, a strategy committee, a remuneration committee and a nomination committee have been established. Further, the appointed board members of GN Store Nord also serve on the Board of Directors of GN Hearing A/S and GN Audio A/S.

Group-wide total remuneration to members of the Executive Management and the Board of Directors, who also serve as members of the Executive Management and the Board of Directors of GN Store Nord A/S, is disclosed in note 5.3 in the consolidated financial statements of GN Store Nord A/S.

2.3 TAX

Taxation - Income statement

TAX ON PROFIT (LOSS)

DKK '000	2018	2017
Tax on profit (loss)		
Current tax for the year	(167,645)	(198,113)
Deferred tax for the year	(19,770)	19,677
Withholding tax	(11,627)	-
Adjustment to current tax with respect to prior years	(15,023)	(2,339)
Adjustment to deferred tax with respect to prior years	(938)	11,098
Total	**(215,003)**	**(169,677)**
Reconciliation of effective tax rate		
Danish tax rate	22.00%	22.00%
Non-taxable income	-3.97%	-4.92%
Non-deductable expenses	0.32%	0.38%
Withholding tax	1.10%	0.00%
Share of profit (loss) in associates	-0.26%	-0.09%
Adjustment of tax with respect to prior years	1.52%	-0.85%
Other	-0.30%	0.00%
Effective tax rate	**20.41%**	**16.52%**
Tax relating to other comprehensive income		
Adjustment of cash flow hedges	15,773	(21,052)
Foreign exchange adjustments, etc.	-	-
Total	**15,773**	**(21,052)**

Taxation - Balance sheet

DEFERRED TAX

DKK '000	2018	2017
Deferred tax, net		
Deferred tax at January 1, net	(169,536)	(184,259)
Adjustment with respect to prior years	(938)	11,098
Deferred tax for the year recognized in profit (loss) for the year	(19,770)	19,677
Deferred tax related to share-based incentive plans	5,000	5,000
Deferred tax for the year recognized in other comprehensive income for the year	15,773	(21,052)
Deferred tax at December 31, net	**(169,471)**	**(169,536)**
Deferred tax is recognized in the balance sheet as follows:		
Deferred tax, net relates to:		
Intangible assets	(213,780)	(204,341)
Property, plant and equipment	10,669	10,287
Financial assets	4,500	3,805
Current assets	59	3,440
Intercompany liabilities	2,566	7,230
Provisions	12,216	23,344
Other	14,299	(13,301)
Total	**(169,471)**	**(169,536)**

Deferred tax, net includes DKK 2 million expected to be utilized within 12 months.

Repatriation of retained earnings from certain foreign subsidiaries, however not planned or expected in the foreseeable future, may trigger withholding tax liabilities up to DKK 16 million (2017: DKK 22 million)

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

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

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

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

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

2.4 INCOME STATEMENT CLASSIFIED BY FUNCTION

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

DKK '000	2018	2017
Revenue	3,586,654	3,255,263
Production costs	(1,862,153)	(1,499,126)
Gross profit	**1,724,501**	**1,756,137**
Development costs	(480,999)	(443,200)
Selling and distribution costs	(290,610)	(282,809)
Management and administrative expenses	(208,227)	(232,690)
Other operating income and costs, net	(1,518)	6,312
Operating profit (loss)	**743,147**	**803,750**

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

Development costs	(26,462)	(26,360)
Selling and distribution costs	(2,032)	(6,742)
Amortization of acquired intangible assets	**(28,494)**	**(33,102)**

Management and administrative expenses have in 2018 been affected by cost related to the divestment of Otometric on DKK 0 million. (2017: DKK 59,4 million)

2.5 RELATED PARTY TRANSACTIONS

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

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

Group enterprises and associates are listed on page 45.

Board of Directors, Executive Management and Senior Employees
Management remuneration and incentive plans are described in note 2.2 and 5.1.

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

DKK million	2018	2017
Sale of services to group enterprises	29	36
Purchase of services from group enterprises	(363)	(313)
Sale of intangible assets	-	62
Sale of Inventory	-	3
Purchase of intangible assets	43	-
Sale of goods to group enterprises, revenue	3,095	2,766
Sale of goods to group enterprises, cost of goods	(1,541)	(1,207)

The company's balances with group enterprises at December 31, 2018 are shown seperatly in the balance sheet. Interest income and expenses with respect to group enterprises are disclosed in note 4.2. Further, balances with group enterprises comprise trade balances related to the purchase and sale of goods and services.

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

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

3.1 INTANGIBLE ASSETS

DKK '000	Development projects, developed in-house	Software	Patents and rights	Trademarks	Other	Total
Cost at January 1	2,410,507	181,632	251,260	-	98,441	2,941,840
Additions	249,174	-	1,192	42,562	26,792	319,720
Disposals	-	(468)	-	-	(17)	(485)
Cost at December 31	2,659,681	181,164	252,452	42,562	125,216	3,261,075
Amortization and impairment at January 1	(1,551,300)	(156,728)	(158,143)	-	(82,208)	(1,948,379)
Amortization	(198,017)	(13,635)	(26,462)	-	(2,032)	(240,146)
Disposals	-	339	-	-	-	339
Amortization and impairment at December 31	(1,749,317)	(170,024)	(184,605)	-	(84,240)	(2,188,186)
Carrying amount at December 31, 2018	**910,364**	**11,140**	**67,847**	**42,562**	**40,976**	**1,072,889**
Cost at January 1	2,146,358	243,190	251,260	-	92,904	2,733,712
Additions	264,149	138	-	-	10,977	275,264
Disposals	-	(61,696)	-	-	(5,440)	(67,136)
Cost at December 31	2,410,507	181,632	251,260	-	98,441	2,941,840
Amortization and impairment at January 1	(1,347,783)	(133,092)	(131,783)	-	(80,905)	(1,693,563)
Amortization	(203,517)	(23,636)	(26,360)	-	(6,743)	(260,256)
Disposals	-	-	-	-	5,440	5,440
Amortization and impairment at December 31	(1,551,300)	(156,728)	(158,143)	-	(82,208)	(1,948,379)
Carrying amount at December 31, 2017	**859,207**	**24,904**	**93,117**	**-**	**16,233**	**993,461**

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

The carrying amount of development projects and software in progress amount to DKK 352 million (2017: DKK 498 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 2019 and 2020, after which product sales and marketing are expected to be commenced. Management performs at least one annual impairment test of the carrying amount of recognized development costs. The recoverable amount is assessed based on sales forecasts. In Management's assessment, the recoverable amount exceeds the carrying amount.

Software comprises development, design and test of production and planning software and reporting systems, business intelligence etc. Implementation of these systems is expected to optimize internal procedures and processes. In 2018, management assessed that the expected useful lives were reflected in the carrying amounts at December 31, 2018.

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.

Trademarks

Trademarks relates to the Interton brand.

Other

GN Hearing's other intangible assets comprise DKK 41 million (2017: DKK 16 million) related to supply agreements and other capitalized projects.

§ Accounting policies

Development projects, Software, Patents, Licenses, Trademarks 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 and other intellectual property rights	up to 20 years
Trademarks	up to 20 years

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

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

Recognition of impairment losses in the income statement

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

! Significant accounting estimates

Development projects

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

3.2 PROPERTY, PLANT AND EQUIPMENT

DKK '000	Factory and office buildings	Leasehold improve- ments	Plant and machinery	Operating assets and equipment	Total
Cost at January 1	44,613	246	342,463	47,559	434,881
Additions	-	-	29,621	17,880	47,501
Disposals	-	-	(1,767)	-	(1,767)
Cost at December 31	44,613	246	370,317	65,439	480,615
Depreciation and impairment at January 1	(10,181)	(246)	(282,558)	(41,466)	(334,451)
Depreciation	(2,159)	-	(34,192)	(3,182)	(39,533)
Disposals	-	-	1,697	-	1,697
Depreciation and impairment at December 31	(12,340)	(246)	(315,053)	(44,648)	(372,287)
Carrying amount at December 31, 2018	**32,273**	**-**	**55,264**	**20,791**	**108,328**
Cost at January 1	44,613	246	329,886	43,105	417,850
Additions	-	-	19,243	4,454	23,697
Disposals	-	-	(6,666)	-	(6,666)
Cost at December 31	44,613	246	342,463	47,559	434,881
Depreciation and impairment at January 1	(7,909)	(246)	(251,925)	(37,498)	(297,578)
Depreciation	(2,272)	-	(36,937)	(3,968)	(43,177)
Disposals	-	-	6,304	-	6,304
Depreciation and impairment at December 31	(10,181)	(246)	(282,558)	(41,466)	(334,451)
Carrying amount at December 31, 2017	**34,432**	**-**	**59,905**	**6,093**	**100,430**

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

Factory and office buildings, plant and machinery and other operating assets 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	2018	2017
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	(35,260)	(36,545)
Development costs	(201,894)	(208,176)
Selling and distribution costs	(22)	(1,155)
Management and administrative expenses	(14,009)	(24,454)
Amortization of acquired intangible assets	(28,494)	(33,103)
Total	**(279,679)**	**(303,433)**

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

Production costs	(48)	(243)
Development costs	(198,117)	(203,861)
Selling and distribution costs	-	(1,057)
Management and administrative expenses	(13,487)	(21,992)
Amortization of acquired intangible assets	(28,494)	(33,103)
Total	**(240,146)**	**(260,256)**

No impairment of intangible assets is recognized in the income statement in 2018 or 2017.

3.4 PROVISIONS

DKK '000	Warranty provisions	Other provisions	Total
Provisions at January 1	3,832	18,315	22,147
Additions	1,811	4,044	5,855
Consumed	(146)	(7,599)	(7,745)
Reversed	(786)	-	(786)
Provisions at December 31, 2018	**4,711**	**14,760**	**19,471**
Of which is recognized in the balance sheet:			
Non-current liabilities	2,244	-	2,244
Current liabilities	2,467	14,760	17,227
Provisions at December 31, 2018	**4,711**	**14,760**	**19,471**

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

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

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

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

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

In accordance with GN Hearing’s business policy, some products are supplied with a right of return. Provisions for future returns of goods are recognized based on historical product returns data. The probability of future returns may differ from past practices. At December 31, 2018, the carrying amount of provisions with respect to obligations to take back goods was DKK 4 million (2017: DKK 4 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	2018	2017
Raw materials and consumables	113,446	97,682
Work in progress	8,173	4,703
Finished goods and merchandise	45,189	56,277
Total	**166,808**	**158,662**
The above includes write-downs amounting to	(8,769)	(8,498)
Write-downs recognized in the income statement under production costs	(6,622)	(1,391)
Reversed write-downs recognized under production costs	-	-
Production costs include costs of goods sold of	(1,699,696)	(1,344,265)

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

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

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

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

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

3.6 TRADE RECEIVABLES

DKK '000	Current	1-60 days past due	61-90 days past due	91-120 days past due	121-180 days past due	More than 181 days past due	Total
Gross carrying amount - Trade receivables	77,500	25,940	8,364	3,902	7,830	10,563	134,099
Write-downs at December 31 (expected credit loss model)	-	-	-	-	-	(9,502)	(9,502)
Trade receivables at December 31, 2018	**77,500**	**25,940**	**8,364**	**3,902**	**7,830**	**1,061**	**124,597**
Expected loss rate	0%	0%	0%	0%	0%	90%	7%
Gross carrying amount - Trade receivables	82,320	14,260	1,074	4,024	1,986	2,744	106,408
Write-downs at December 31 (incurred loss model)	-	-	-	-	-	(2,744)	(2,744)
Trade receivables at December 31, 2017	**82,320**	**14,260**	**1,074**	**4,024**	**1,986**	**-**	**103,664**

Write-downs, included in total trade receivables, based on the above ageing profile and expected loss rates, have developed as follows:

DKK '000	2018	2017
Write-downs, which are included in total trade receivables, have developed as follows:		
Write-downs at January 1	(2,744)	(3,369)
Write-downs made during the year, net	(6,758)	625
Write-downs at December 31	**(9,502)**	**(2,744)**

In 2018 no material write-downs have been recognized regarding individual receivables (2017: no material write-downs have been recognized regarding individual receivables). GN Hearing A/S's assessment of credit risk associated with individual receivables depends primarily on aging, change in customer payment behavior, current economic conditions etc. as described in significant accounting estimates. Based on past experience, GN Hearing A/S believes that no write-down is necessary in respect of trade receivables not past due.

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

§ Accounting policies
Trade receivables are measured at amortized cost less expected lifetime credit losses. The expected loss rates are based on days past due. Current expectations and estimates of expected credit losses are furthermore based on change in customer behavior and current economic conditions.

Expected credit losses are based on an individual assessment of each receivable and at portfolio level. As mentioned in note 1.1 General accounting policies the comparative figures have not been changed in connection with the implementation of IFRS 9 Financial instruments. The impairment losses in 2017 have therefore been measured using the incurred loss model under the former standard IAS 39 Financial instruments.

! 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 expected credit 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	2018	2017
Cost at January 1	2,657,920	2,657,762
Additions, capital contribution	500	158
Disposals	(1,238)	-
Cost at December 31	**2,657,182**	**2,657,920**

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 2018. Impairment test have therefore not been made of subsidiaries.

4.1 FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

GN Hearing A/S is exposed to several financial risks arising from its operating, investing and financing activities, comprising currency risk, interest rate risk, liquidity risk and credit risk. Financial risks are managed centrally by Group Treasury, except for commercial credit risk which is managed decentralized by the Group's operating businesses. The Group's Treasury Policy is reviewed by the Audit Committee and approved by the Board of Directors annually.

Cash flow, liquid funds and debt are coordinated centrally to ensure the solvency and liquidity of the Group. Material financial risk are identified, managed and reported adequately. Financial transactions are entered into only to mitigate risks from business activities or financing of the Group.

Foreign currency risk

GN Hearing A/S has exposure towards foreign currencies exchange rate risk, mainly arising from the fluctuations of USD and CNY, in connection with commercial transactions. The general policy is to minimize GN Hearing A/S's currency exposure through natural matching of in- and out-flows to mitigate the impact of exchange rate fluctuations on earnings and cash flow, thereby increasing the predictability of the financial results. Additionally, the Group uses approved hedging instruments, including currency derivatives such as FX Spot, FX Forward, FX Swaps and FX Option contracts, to protect the Group's EBITA and Free Cash Flow from adverse currency movements by determining the aggregate of the expected net cash flow 12 months forward and monetary balance sheet items.

Sensitivity analysis for foreign currency risk

Change in GN Hearing A/S's profit or loss in response to a weakening / strengthening of the currencies of which GN Hearing A/S has significant exposure to at the balance sheet date. This analysis assumes that all other variables, in particular interest rates, remain constant. At year-end an increase of 5% in the USD/DKK and CNY/DKK exchange rates would affect the Income Statement (financial items) and Other Comprehensive income as outlined in the table below.

	Total	
DKK '000	**2018**	**2017**
Income statement	(6,440)	(16,084)
Other Comprehensive Income	(21,472)	(40,763)

Interest rate risk

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

Specification of net interest-bearing debt/cash

DKK '000	2018	2017
Cash and cash equivalents	65,765	35,683
Bank loans and issued bonds, non-current liabilities	(618)	(1,168)
Bank loans, current liabilities	(14,141)	(42,823)
Total	**51,006**	**(8,308)**

Funding, liquidity and capital structure

At December 31, 2018, GN Hearing had an equity ratio of 70,5% (2017: 61,2%). Net Interest bearing intercompany receivables amounts to DKK 1.745 million (2017: DKK 1.679 million) . The capital structure policy is handled on a GN Store Nord level.

Financial credit risk

GN Hearing is through course 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.

Contractual maturity analysis for financial liabilities

DKK '000	Less than one year	Between one and three years	More than three years	Total
2018				
Long-term bank loans	-	-	-	-
Other long-term payables	-	618	-	618
Amounts owed to subsidiaries and group companies	1,204,823	77,900		1,282,723
Short-term bank loans	14,141	-	-	14,141
Trade payables	56,323	-	-	56,323
Total non-derivative financial liabilities	1,275,287	78,518	-	1,353,805
Derivative financial liabilities	-	27,123	-	27,123
Total financial liabilities	**1,275,287**	**105,641**	**-**	**1,380,928**
2017				
Long-term bank loans	-	-	-	-
Other long-term payables	-	4,391	-	4,391
Amounts owed to subsidiaries and group companies	1,699,112	138,070		1,837,182
Short-term bank loans	42,823	-	-	42,823
Trade payables	63,106	-	-	63,106
Total non-derivative financial liabilities	1,805,041	142,461	-	1,947,502
Derivative financial liabilities	-	604	-	604
Total financial liabilities	**1,805,041**	**143,065**	**-**	**1,948,106**

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

Derivative financial instruments

Exchange rate instruments

	2018			2017		
DKK '000	Contract amount, net	Fair value, assets	Fair value, liabilities	Contract amount, net	Fair value, assets	Fair value, liabilities
USD / DKK	697,085	2,466	18,472	913,209	38,265	-
JPY / DKK	84,940	-	3,884	120,856	7,958	-
GBP / DKK	16,504	-	85	-	-	-
CAD / DKK	66,707	1,152	-	74,502	1,445	-
CNY / DKK	-	-	-	97,951	553	604
Other currency	238,310	812	4,682	-	-	-
Total	**1,103,546**	**4,430**	**27,123**	**1,206,518**	**48,221**	**604**

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

Fair value adjustments of cash flow hedges

DKK '000	2018	2017
Fair value adjustment for the year recognized in Other comprehensive income	(50,372)	70,967
Reclassified from equity to revenue during the year	(18,259)	24,432
Reclassified from equity to production costs during the year	(1,532)	147
Reclassified from equity to selling and distribution costs during the year	(1,532)	147
Adjustment of cash flow hedges in Other comprehensive income	**(71,695)**	**95,693**
Fair value adjustment of cash flow hedges recognized in Other operating income and costs, net	(4,978)	-
Fair value adjustment of cash flow hedges recognized in financial items	1,414	1,417

The gains and losses on cash flow hedges recognized in Other comprehensive income as of December 31, 2018 will be recognized in the income statement in the period during which the hedged forecasted transaction affects the income statement.

Categories of financial assets and liabilities and fair value hierarchy

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

	2018				
DKK '000	Quoted prices (level 1)	Observable input (level 2)	Unobservable input (level 3)	Carrying value *)	Total
Loans and receivables					
Trade receivables	-	-	-	124,597	124,597
Amounts owed by subsidiaries and group companies	-	-	-	2,292,540	2,292,540
Other receivables	-	4,430	-	33,550	37,980
Other non-current assets	-	-	40,027	40,477	80,504
Cash and cash equivalents	-	-	-	65,765	65,765
Total loans and receivables	**-**	**4,430**	**40,027**	**2,556,929**	**2,601,386**
Financial liabilities					
Pension obligations	-	-	-	-	-
Amounts owed to subsidiaries and group companies	-	-	-	1,282,723	1,282,723
Bank loans	-	-	-	14,141	14,141
Other non-current liabilities	-	-	-	618	618
Contingent considerations	-	-	-	-	-
Trade payables	-	-	-	56,323	56,323
Other payables	-	(27,123)	-	231,243	204,120
Total financial liabilities	**-**	**(27,123)**	**-**	**1,585,048**	**1,557,925**

	2017				
DKK '000	Quoted prices (level 1)	Observable input (level 2)	Unobservable input (level 3)	Carrying value *)	Total
Loans and receivables					
Trade receivables	-	-	-	103,664	103,664
Amounts owed by subsidiaries and group companies	-	-	-	2,117,597	2,117,597
Other receivables	-	48,221	-	32,313	80,534
Other non-current assets	-	-	-	17,971	17,971
Cash and cash equivalents	-	-	-	35,683	35,683
Total loans and receivables	**-**	**48,221**	**-**	**2,307,228**	**2,355,449**
Financial liabilities					
Pension obligations	-	-	-	-	-
Amounts owed to subsidiaries and group companies	-	-	-	1,837,182	1,837,182
Bank loans	-	-	-	42,823	42,823
Other non-current liabilities	-	-	-	4,391	4,391
Contingent considerations	-	-	-	-	-
Trade payables	-	-	-	63,106	63,106
Other payables	-	604	-	245,723	246,327
Total financial liabilities	**-**	**604**	**-**	**2,193,225**	**2,193,829**

*) Due to the short maturity, the carrying value is considered to be an appropriate expression of the fair value

Fair value hierarchy

FX contracts

The fair value of the exchange rate instruments is 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.

Ownership interests

The fair value of the ownership interests is based on a market approach model. The key input is market observations of sales prices of comparable retail entities, combined with internal GN data such as number of sold hearing aids and the financial statements in which GN holds an interest. In the model, the ownership interests are divided into four groups of revenue multiple, according to the relative size and profitability of the dispensers. Since most of the data is based on non-observable data, the model is categorized as level 3 in the fair value hierarchy. The model is updated on a quarterly basis and any changes are reflected in the income statement or in other comprehensive income as applicable. The fair value models are sensitive to the dispenser's financial performance for the last twenty four months rolling on a quarterly basis.

Derivative financial instruments (supply agreement / options)

Derivative financial instruments related to ownership interests in dispensers of GN Hearing products, are recognized in the balance sheet at fair value. The fair value model is based in a market approach model, using market observations of sales prices of comparable retail entities. The key inputs used are the number of hearing aid units sold by customer, average selling prices, and the estimated probability that the instruments will be exercised, combined with the contractual terms of the supply agreements. The fair value model is categorized as level 3 in the fair value hierarchy, and is updated on a quarterly basis, and any material changes is reflected in the profit loss statement. The fair value models are sensitive to the customers financial performance the last twelve months of any quarter and the probability of the instruments being exercised.

§ Accounting policies

Derivative Financial Instruments

Derivative financial instruments are initially and subsequently recognized in the balance sheet at fair value. Positive and negative fair values of derivative financial instruments are recognized as other receivables and payables, respectively. Fair values of derivative financial instruments are computed on the basis of market data and generally accepted valuation methods.

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

When a hedging instrument expires, or is terminated, or when a hedge no longer meets the criteria for hedge accounting, any gains or losses previously recognized in other comprehensive income remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that were reported in equity are immediately reclassified to the income statement.

For derivative financial instruments, where hedge accounting is not applied, changes in fair value are recognized in the income statement under other income, net (economic hedge) or financial items.

Financial Liabilities

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

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

4.2 FINANCIAL INCOME AND EXPENSES

DKK '000	2018	2017
Financial Income:		
Interest income*	2,902	542
Intercompany Interest income*	88,613	74,489
Dividends received	186,379	2,041
Financial income, other	621	868
Fair value adjustments of derivative financial instruments and impaiments	504	1,417
Gain on sale of subsidaries	-	279,195
Foreign exchange gain	32,718	-
Total	**311,737**	**358,552**
Financial expenses:		
Interest expenses*	(3,091)	(2,215)
Intercompany Interest expense*	(3,422)	(4,796)
Financial expenses, other	(3,505)	(3,110)
Fair value adjustments of derivative financial instruments and impairments	(3,848)	(112)
Foreign exchange loss	-	(99,175)
Total	**(13,866)**	**(109,408)**

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

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

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

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

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

4.3 LIABILITIES FROM FINANCING ACTIVITIES

DKK '000	Long-term loans	Bank loans, current	Amounts owed to subsidiaries	Total
Liabilities at January 1	4,391	42,823	1,837,182	**1,884,396**
Cash flows	(3,772)	(28,682)	(657,333)	**(689,787)**
Foreign exchange adjustments	-	-	102,874	**102,874**
Liabilities at December 31, 2018	**619**	**14,141**	**1,282,723**	**1,297,483**
Liabilities at January 1	5,593	820	1,630,625	**1,637,038**
Cash flows	(1,202)	42,003	251,122	**291,923**
Foreign exchange adjustments		-	(44,565)	**(44,565)**
Liabilities at December 31, 2017	**4,391**	**42,823**	**1,837,182**	**1,884,396**

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 linked to shares in GN Hearing A/S. For members of Executive Management the grant size can very between 50-100% of their base salary.

Calculation of share price

On a quarterly basis the share price for GN Hearing A/S is calculated, using a top-down approach based on analysis of external broker reports for the allocation of GN Store Nord A/S' share price into GN Hearing, GN Audio and Other. This calculation is also the basis for the Black-Scholes valuation as stated below regarding valuation of warrants. The warrant value for GN Hearing A/S warrants is shown in the tables below.

Vesting conditions of warrants

The current warrant programs in GN are incentive programs with a three-year vesting period from the grant date. Warrants vest when a set of criteria are met: The share value of GN Store Nord has increased and the share value of GN Hearing A/S has outperformed a peer group index of competitors and industry indices during the same time period, as defined by the Board of Directors of GN Hearing.

Vested warrants may be exercised during a four-week period opening each quarter for a three-year period after vesting. The quarterly four-week window will open following the release of an external Valuation Report concerning the value of the shares of GN Hearing A/S. Warrants are granted at no consideration.

Valuation model and assumptions

The market value of the warrants are calculated using the principles of the Black-Scholes option pricing model. In addition the model have taken the overperformance criteria into account using Monte Carlo simulation. 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 war-rants 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:

	Executive Management		Other employees	
	2018	2017	2018	2017
Number of warrants awarded in the year	1,056	968	4,482	4,428
Share price GN Store Nord at ordinary grant date	199	161	199	161
Vesting period	3 years	3 years	3 years	3 years
Life of warrant	6 years	6 years	6 years	6 years
Volatility*	19%	20%	19%	20%
Expected dividend**	-	-	-	-
Risk-free interest rate***	0.30%	(0.10)%	0.30%	(0.10)%
Fair Value per warrant at ordinary grant (DKK)	5,000	3,986	5,000	3,986
Total market value at grant (DKK million)	5	4	23	18
Amortization period of the program	2018 - 2021	2017 - 2020	2018 - 2021	2017 - 2020

* Volatility is estimated by external experts
** No dividends is paid out through GN Hearing A/S during the life of the warrants, all dividends are paid out through GN Store Nord A/S
*** Risk-free interest rate is estimated by external experts and based on the zero yield curve derived from Danish government bonds with maturity equal

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.

Exercise of warrants

When employees exercise their warrants they are exchanged with shares in GN Store Nord A/S based on relationship between the value of the warrant in the division and the value of the GN Store Nord A/S share at the time of exercise. Hereafter the employee is free to keep the GN Store Nord A/S share or sell it on the open market.

5.1 INCENTIVE PLANS (continued)

Warrants program, GN Hearing A/S

	DKK	Number		
	Average exercise price	Executive Management	Other employees	Total
Outstanding warrants at January 1, 2017	**24,649**	**2,205**	**12,745**	**14,950**
Warrants granted during the year	30,624	968	4,428	5,396
Warrants exercised during the year	18,957	(118)	(2,680)	(2,798)
Warrants forfeited during the year	26,452	(117)	(2,238)	(2,355)
Outstanding warrants at December 31, 2017	**27,540**	**2,938**	**12,255**	**15,193**
Warrants granted during the year	32,278	1,056	4,482	5,538
Warrants exercised during the year	20,901	-	(1,174)	(1,174)
Warrants forfeited during the year	30,723	(1,551)	(1,882)	(3,433)
Outstanding warrants at December 31, 2018	**29,021**	**2,443**	**13,681**	**16,124**
Weighted average term to maturity (Years)		3.40	3.37	3.37
Number of exercisable options at December 31, 2017		-	1,381	1,381
Number of exercisable options at December 31, 2018		694	3,013	3,707
Market value of outstanding warrants at December 31, 2018 (DKK million)		20	107	127

Average share price at exercise: DKK 36.163 (2017: DKK 33.784)

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

	DKK	Number		
Grant date	Exercise price	Executive Management	Other employees	Total
March 2014	24,711	-	168	168
March 2015	26,729	694	2,670	3,364
August 2015	23,807	-	50	50
November 2015	24,896	-	125	125
March 2016	26,936	1,276	3,120	4,396
August 2016	27,797	-	68	68
November 2016	26,932	-	211	211
March 2017	30,451	240	3,242	3,482
May 2017	35,873	-	56	56
August 2017	39,391	-	35	35
December 2017	36,177	-	43	43
February 2018	31,792	233	3,631	3,864
August 2018	46,342	-	49	49
September 2018	44,817	-	22	22
December 2018	34,047	-	191	191
Outstanding warrants at December 31, 2018		**2,443**	**13,681**	**16,124**

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

5.2 CONTINGENT LIABILITIES, OTHER FINANCIAL LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities

Guarantees
On behalf of the subsidiaries GN Hearing A/S has provided gurantees related to credit facilities and customs offices in the amount of DKK 80,1 mill. (2017: DKK 0,6 mill.). The majority of guarantees is related to an associated company's bank credit facility.

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

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

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

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

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

5.3 ASSOCIATES

Investments in associates

DKK '000	2018	2017
Aggregated financial information for associates is provided below:		
Total share of profit (loss) for the year after tax	12,500	3,598
Total unrecognised profit/loss in associates for the year	-	-
Total share of net assets in associates	7,239	3,096
Cummulative unrecognized profit/loss in associates	-	-
Carrying amount of associates	7,239	3,096

Transactions with associates comprise sale of goods and services in the amount of DKK 22,6 million (2017: DKK 17,2 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	2018	2017
Share-based payment (granted)	14,048	14,655
Provision for bad debt, inventory write-downs, etc.	7,030	(11,673)
Adjustment of provisions	(2,676)	(10,833)
Total	**18,402**	**(7,851)**

5.5 LEASE OBLIGATIONS

DKK '000	2018	2017
Future lease obligations are distributed as follows:		
Operating leases:		
Less than one year	16,203	14,063
Between one and five years	1,819	4,574
More than five years	-	-
Total	**18,022**	**18,637**

Lease payments recognized in the income statement relating to operating leases amount to tDKK 25.778 (2017: tDKK 23.604).

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

5.6 FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

DKK '000	2018	2017
Audit fees	(561)	(535)
Other audit related services	(24)	(31)
Total	**(585)**	**(566)**

COMPANIES OWNED BY GN HEARING A/S AT DECEMBER 31, 2018

	Domicile	Currency	Owner-ship %	Share capital
GN Hearing Australia Pty. Ltd.	Australia	AUD	100	4,000,002
GN Hearing Austria GmbH	Austria	EUR	100	500,000
GN Hearing Brazil	Brazil	BRL	100	1,019,327
GN Hearing Care Canada Ltd.	Canada	CAD	100	8,435,000
5837946 Manitoba, Ltd.	Canada	CAD	100	10,000
810720 Alberta, Ltd.	Canada	CAD	100	50,000
Golden Hearing Ltd.	Canada	CAD	100	1,039
GN ReSound Shanghai Ltd.	China	CNY	100	20,491,300
GN ReSound China Ltd.	China	CNY	100	34,000,000
GN Hearing Czech Republic spol. s r.o	Czech Republ	CZK	100	102,000
Beltone Europe Holdings ApS	Denmark	DKK	100	200,000
Dansk Hørecenter ApS	Denmark	DKK	100	130,000
GN Advanced Hearing Protection A/S	Denmark	DKK	100	500,000
GN Hearing Finland Oy/Ab	Finland	EUR	100	55,502
GN Hearing SAS	France	EUR	100	762,269
GN Hearing GmbH	Germany	EUR	100	296,549
GN ReSound GmbH Hörtechnologie	Germany	EUR	100	2,162,253
GN Hearing India Private Limited	India	INR	100	20,983,210
GN Hearing S.r.l.	Italy	EUR	100	181,190
GN Hearing Japan K.K	Japan	JPY	100	499,000,000
GN Hearing Korea., Ltd	Korea	KRW	100	136,700,000
GN Hearing (Malaysia) Sdn Bhd	Malaysia	RM	100	500,000
GN Hearing Benelux B.V.	Netherlands	EUR	100	680,670
GN Hearing New Zealand Limited	New Zealand	NZD	100	2,000,000
GN Hearing Norway AS	Norway	NOK	100	2,000,000
GN Hearing RUS LLC	Russia	RUB	100	10,000
GN Hearing Pte. Ltd.	Singapore	SGD	100	1,740,000
Interton Slovakia S.R.O	Slovakia	SLK	85	6,639
GN Hearing Care S.A.	Spain	EUR	100	66,110
GN Hearing Sverige AB	Sweden	SEK	100	100,000
GN Hearing Switzerland AG	Switzerland	CHF	100	500,000
GN Hearing UK Ltd	United Kingdo	GBP	100	7,376,000
GN US Holdings Inc.	USA	USD	100	36,000,000
GN Advanced Hearing Protection, LLC*	USA	USD	100	0
GN Hearing Care Corporation	USA	USD	100	190,000
GN ReSound Holdings, Inc.*	USA	USD	100	0
ReSound Holdings, Inc.	USA	USD	100	10,000
Beltone Holdings II Inc.	USA	USD	100	3,000
Beltone Holdings III, Inc.	USA	USD	100	3,000
Beltone Holdings IV, Inc.	USA	USD	100	3,000
Beltone Hearing Care Foundation*	USA	USD	100	0
Audigy Group, LLC*	USA	USD	100	0
Audigy Medical LLC*	USA	USD	100	0
Audigy Venture LLC*	USA	USD	100	0
Audio Nova S.R.L.	Romania	RON	49	1,000
Himpp A/S	Denmark	DKK	11	1,800,000
HIMSA A/S	Denmark	DKK	25	1,000,000
HIMSA II A/S	Denmark	DKK	17	600,000
Himsa II K/S	Denmark	DKK	15	3,250,000
K/S Himpp	Denmark	DKK	9	140,703,360
Hearing Center of the East Bay, LLC	USA	USD	50	25,000

Associates
* without par value
A few minor companies have been omitted from the list.