

GN ReSound A/S

Annual report 2015

Approved at the annual general meeting
30/3 2016

Chairman:



VAT-no. 55 08 27 15
This report contains 47 pages

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Statements

Statement by the Board of Directors and the Executive Management

Today, the executive management and the board of directors have discussed and approved the GN ReSound A/S Annual Report 2015.

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


In our opinion the financial statements give a true and fair view of the company's assets, liabilities and financial position on December 31, 2015 and of the results of the company's operations and cash flows for the financial year January 1 – December 31, 2015.

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 profit/loss 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 2015 be approved at the annual general meeting.

Ballerup, March 9, 2016

Executive management




Anders Hedegaard
CEO



Marcus Desimoni
CFO

Board of directors



Per Wold-Olsen
(Chairman)



William E Hoover Jr.
(Deputy chairman)



Hélène Barnekow



Wolfgang Reim



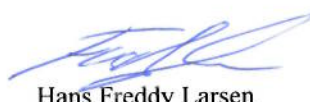
Ronica Wang




Carsten Krogsgaard Thomsen



Barbara Le Batteux
(Employee elected)



Hans Freddy Larsen
(Employee elected)



Thomas Olsgaard
(Employee elected)

Independent auditors' report

To the shareholder of GN ReSound A/S

Independent auditors' report on the financial statements

We have audited the financial statements of GN ReSound A/S for the financial year 1 January – 31 December 2015, which comprise income statement, statement of comprehensive income, balance sheet, statement of equity, statement of cash flow and notes, including a summary of significant accounting policies for the company. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

Management's responsibility 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 disclosure requirements in the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2015 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2015 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Copenhagen, 9 March 2016

ERNST & YOUNG

Godkendt Revisionspartnerselskab

CVR nr. 30 70 02 28



Torben Bender
State Authorised
Public Accountant



Anders Stig Lauritsen
State Authorised
Public Accountant

Management's report

Company details

Company	GN ReSound 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. (<i>Deputy Chairman</i>) Hélène Barnekow Wolfgang Reim Ronica Wang Carsten Krogsgaard Thomsen Barbara Le Batteux (<i>Employee elected member</i>) Hans Freddy Larsen (<i>Employee elected member</i>) Thomas Olsgaard (<i>Employee elected member</i>)
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Executive management	Anders Hedegaard, CEO Marcus Desimoni, CFO
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Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4 2000 Frederiksberg
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Ownership	The company is 100% owned by GN Store Nord A/S, Lautrupbjerg 7, 2750 Ballerup, Denmark.
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Management's report

Financial highlights

Highlights and key ratios

in '000	2015	2014	2013 *	2012 *	2011 *
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Revenue	2.527.177	2.366.422	2.093.738	1.964.259	1.740.671
Gross Profit	1.102.275	1.345.695	1.015.195	816.441	780.998
EBITA	325.661	650.564	335.514	125.767	234.688
Operating profit (loss)	312.573	634.214	339.354	134.004	252.066
Result from financial items	911.528	16.765	-55.405	-86.041	-4.614
Profit (loss) for the year	1.143.380	512.878	199.406	-94.458	57.026

Non-current assets	5.409.513	4.574.199	4.035.186	3.987.255	4.275.750
Current assets	727.242	586.207	616.097	932.910	1.462.723
Total assets	6.136.755	5.160.406	4.651.283	4.920.165	5.738.473
Share capital	63.221	62.867	62.397	61.732	61.042
Total equity	4.422.378	3.179.883	2.648.684	2.470.476	2.508.341
Non-current liabilities	338.435	230.945	282.024	317.859	225.851
Current liabilities	1.375.942	1.749.578	1.720.575	2.131.830	3.004.281
Investment in tangible assets	81.071	39.810	55.194	36.684	23.596

Key ratios

Operating Margin	12,4	26,8	16,2	6,8	14,5
Return on Investment	11,0	30,2	18,1	6,9	11,5
Gross Margin	43,6	56,9	48,5	41,6	44,9
Current Ratio	52,9	33,5	35,8	43,8	48,7
Equity Ratio	72,1	61,6	56,9	50,2	43,7
Return on Equity	30,1	17,6	7,8	-3,8	2,3

*) Key ratios for 2011 - 2013 have not been restated in accordance with IFRS.

Management's review of GN ReSound A/S

Operating review

Principal activities of the Company

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

Development in activities and financial matters

GN ReSound's revenue for 2015 ended at DKK 2,527 mill (2014: DKK 2,366 mill), which is a growth of 7 % compared to 2014.

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

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

GN ReSound's position as a leader in user-driven innovation was, again, a cornerstone in the profitable growth generated in 2015. The highly efficient R&D machine delivered a visible upgrade of the hearing aid portfolio based on 2.4 GHz technology with ReSound LiNX² – the fourth generation of hearing aids using 2.4 GHz technology – as the most prominent launch.

In March 2015, GN ReSound launched the fourth generation of 2.4 GHz hearing aids with ReSound LiNX² and the corresponding Beltone Legend. The product families have been strong contributors to revenue growth in 2015, and underline GN ReSound's position as the innovation leader in the hearing aid industry.

ReSound LiNX² has received excellent feedback from users and dispensers with regard to the impressive sound experience with Spatial Sense, improving the ability to locate sounds, and the value of providing Made for iPhone connectivity in additional form factors.

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

At the EUHA Congress in October 2015, GN ReSound demonstrated ReSound Enya™ and the corresponding Beltone Ally™, offering advanced hearing solutions including 2.4 GHz technology at affordable prices. Additionally, GN ReSound demonstrated its second generation super power hearing aid, ReSound ENZO², based on 2.4 GHz technology. ReSound ENZO² is designed for people with a severe hearing loss, making it an important product for example in the Veterans Affairs, and delivers top-rated sound experience with Spatial Sense and direct connectivity with smartphones.

In 2015, GN ReSound continued the success in the attractive VA channel in the USA. In December 2015, the market share reached 20% and GN ReSound reached a milestone as it became the second largest supplier to the VA. The significant market share gains achieved in the VA reflects GN ReSound's continued focused efforts in the channel, which were initiated at the end of 2013. Furthermore, GN ReSound has also launched the market leading product families ReSound LiNX² and ReSound ENZO² in the channel during 2015.

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

At the EUHA congress in October 2015, GN ReSound and Cochlear jointly announced the establishment of the Smart Hearing Alliance. This is a commercial expansion of the successful technology collaboration initiated in 2011. With the strategic alliance, GN ReSound will develop and commercialize the world's smartest bimodal

Management's review of GN ReSound A/S

hearing solutions together with Cochlear, the undisputed global leader in the market for implantable hearing solutions. Bimodal hearing solutions allow hearing impaired users to combine the benefits of hearing aids and cochlear implants. The Smart Hearing Alliance was commercially launched in the beginning of 2016 and will allow GN ReSound to participate further in the medical channel.

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

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

GN ReSound A/S delivered a gross profit margin of 43,6%, (56,9% in 2014). Profit for the year ended at DKK 1.143 mill. compared to DKK 513 mill. in 2014 and the cash flow from operating and investing activities on DKK 1.063 mill. compared to DKK 549 mill. in 2014.

The result is in alignment with the expectations for 2015, and management assess the result as satisfying.

Market projections

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

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

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

Risk management

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

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

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

At least once a year, the risks that are assessed to be the most material are reported to and discussed with the audit committee and subsequently the board. This process is also used to identify specific risk areas to be analyzed in further detail. To exemplify, GN has undertaken a deep-dive analysis into key supply chain and information security risks during 2015, both of which have been evaluated with the audit committee and led to specific initiatives to further reduce the risk level.

Management's review of GN ReSound A/S

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

General risks

GN ReSound 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 ReSound 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 ReSound A/S can be outline as follows:

Interest rate risk

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

Currency exposure risk

GN ReSound 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 ReSound 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 ReSound 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

Environment

As a part of GN Store Nord, GN ReSound A/S follow the guidelines of the group. In 2013, GN established a climate partnership with Dong Energy to ensure that GN continues to decrease its electricity spending while investing in sustainable initiatives.

People

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

Supplier audit

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

Operations

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

The expected future sales growth also lead GN ReSound to increase its hybrid circuit board production capacity during 2015. In January 2016, GN ReSound officially opened its expanded hybrid factory in Praestoe, Denmark, with increased capacity.

Management's review of GN ReSound A/S

Research and development activities

GN ReSound's innovation machine is running full speed, as illustrated by the important product launches in 2015, including the launch of ReSound LiNX². The ability of GN ReSound's R&D department to continuously deliver truly unique user benefits has been an important driver of GN ReSound's growth in recent years. During 2015, GN ReSound has further strengthened the basis for future innovations allowing GN ReSound to maintain its edge also in the years to come. Part of this will be the successor of ReSound LiNX², which will offer new significant user benefits and be launched in line with GN ReSound's normal launch cycle.

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

Corporate governance

According to the Danish Financial Statements Act paragraph §99 a, section 7 the company has not prepared statement on social responsibility in the annual report for 2015, as the statement is contained in the consolidated financial statements of GN Store Nord A/S.

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

Moreover, the company follows an action plan to increase the number of women in senior management positions. Special attention to this area is given in GN's yearly talent review and successor planning process, in talent development practices, recruitment procedures and leadership development.

Events after the balance sheet date

On January 7, 2016 GN ReSound and William Demant Holding reached an agreement to settle all patent disputes between the two companies, thereby terminating all patent litigations – both in Europe, including Denmark, and in North America – with immediate effect. The settlement include an annual net license payment to William Demant, which will have no material financial impact on the results.

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

Outlook 2016

Based on continued strategy execution and attractive market conditions, GN ReSound A/S expects organic revenue growth on 6% in 2016.

GN ReSound's strong revenue growth are expected to lead to improved EBITA in 2016 compared to 2015. GN ReSound's strong execution on the strategy 2014 – 2016, INNOVATION & GROWTH, is driving the profitable growth.

Key ratios

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

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

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

INCOME STATEMENT

DKK '000	Note	2015	2014
Revenue	2.1	2.527.177	2.366.422
Production costs	2.4, 3.3, 3.5	(1.424.902)	(1.020.727)
Gross profit		1.102.275	1.345.695
Development costs	2.4, 3.3	(439.230)	(359.178)
Selling and distribution costs	2.4, 3.3	(227.673)	(230.057)
Management and administrative expenses	2.4, 3.3, 5.5, 5.6	(133.035)	(135.364)
Other operating income and costs, net		23.324	29.468
EBITA		325.661	650.564
Amortization of acquired intangible assets	2.4, 3.3	(13.088)	(16.350)
Operating profit (loss)		312.573	634.214
Share of profit (loss) in associates	5.3	4.536	4.554
Financial income	4.2	929.090	53.414
Financial expenses	4.2	(22.098)	(41.203)
Profit (loss) before tax		1.224.101	650.979
Tax on profit (loss)	2.3	(80.721)	(138.101)
Profit (loss) for the year		1.143.380	512.878
Proposed profit appropriation/distribution of loss			
Retained earnings		1.143.380	512.878
Proposed dividends for the year		-	-
		1.143.380	512.878

STATEMENT OF COMPREHENSIVE INCOME

DKK '000	Note	2015	2014
Profit (loss) for the year		1.143.380	512.878
<i>Items that may be reclassified subsequently to profit or loss</i>			
Adjustment of cash flow hedges		38.997	(94.970)
Foreign exchange adjustments, etc.		17.788	38.686
Tax relating to these items of other comprehensive income	2.3	(13.361)	13.790
Other comprehensive income for the year, net of tax		43.424	(42.494)
Total comprehensive income for the year		1.186.804	470.384

BALANCE SHEET AT DECEMBER 31

DKK '000	Note	2015	2014	01.01.2014
ASSETS				
Intangible assets	3.1	898.135	828.152	778.557
Property, plant and equipment	3.2	132.135	99.248	91.242
Investments in associates	5.3	14.411	11.390	8.096
Other non-current assets	4.1	70.158	82.841	64.594
Investments in subsidiaries	3.7	2.793.235	2.793.233	2.791.409
Amounts owed by subsidiaries and group companies	4.1	1.501.439	759.335	301.288
Total non-current assets		5.409.513	4.574.199	4.035.186
Inventories	3.5	158.745	158.508	146.730
Trade receivables	3.6, 4.1	106.702	102.169	103.757
Amounts owed by subsidiaries and group companies	4.1	401.964	276.003	239.666
Tax receivables	2.3	32.594	-	48.013
Other receivables	4.1	26.774	49.500	77.306
Cash and cash equivalents		463	27	625
Total current assets		727.242	586.207	616.097
Total assets		6.136.755	5.160.406	4.651.283
EQUITY AND LIABILITIES				
Share capital		63.221	62.867	62.397
Other reserves		(18.671)	(48.504)	23.198
Proposed dividends for the year		-	-	-
Retained earnings		4.377.828	3.165.520	2.563.089
Total equity		4.422.378	3.179.883	2.648.684
Bank loans	4.1			
Provisions	3.4	1.913	7.046	38.195
Deferred tax liabilities	2.3	176.139	136.712	137.209
Other non-current liabilities	4.1	4.850	-	3.299
Amounts owed to subsidiaries and group companies	4.1	155.533	87.187	94.768
Total non-current liabilities		338.435	230.945	273.471
Bank loans	4.1	3.146	3.056	1.475
Trade payables	4.1	124.935	83.999	75.959
Tax payables	2.3	-	62.321	-
Amounts owed to subsidiaries and group companies	4.1	1.064.210	1.390.334	1.528.779
Provisions	3.4	27.997	31.060	8.553
Other payables		155.654	178.808	114.362
Total current liabilities		1.375.942	1.749.578	1.729.128
Total equity and liabilities		6.136.755	5.160.406	4.651.283

STATEMENT OF CASH FLOW

DKK '000	Note	2015	2014
Operating activities			
Operating profit (loss)		312.573	634.214
Depreciation, amortization and impairment		295.503	257.011
Other non-cash adjustments	5.4	(94)	(7.124)
Cash flow from operating activities before changes in working capital		607.983	884.101
Change in inventories		301	(1.624)
Change in receivables		20.424	20.582
Change in trade payables and other payables		55.976	(33.696)
Total changes in working capital		76.702	(14.738)
Restructuring/non-recurring costs, paid		-	-
Cash flow from operating activities before financial items and tax		684.685	869.363
Interest and dividends, etc., net		867.695	18.915
Tax paid, net		(142.663)	(4.838)
Cash flow from operating activities		1.409.717	883.441
Investing activities			
Investments in intangible assets, excluding development projects		(77.235)	(36.236)
Investments in development projects		(250.210)	(237.895)
Investments in property, plant and equipment		(81.071)	(39.810)
Investments in other non-current assets		(1.699)	(26.610)
Disposal of intangible assets		849	(575)
Disposal of property, plant and equipment		10.449	(96)
Disposal/repayment of other non-current assets		51.989	6.455
Acquisition of companies/operations		-	-
Cash flow from investing activities		(346.928)	(334.766)
Cash flow from operating and investing activities (free cash flow)		1.062.789	548.674
Financing activities			
Increase/(decrease) of long-term loans		4.850	(3.299)
Increase/(decrease) of short-term loans		(449)	2.200
Paid dividends		-	-
Share-based payment (exercised)		38.453	40.990
Increase/(decrease) of Intercompany transactions		(1.128.593)	(619.167)
Other adjustments		23.386	30.004
Cash flow from financing activities		(1.062.353)	(549.272)
Net cash flow		436	(598)
Cash and cash equivalents, beginning of period		27	625
Adjustment foreign currency, cash and cash equivalents		-	-
Cash and cash equivalents, end of period		463	27

STATEMENT OF EQUITY

DKK '000	Share capital (shares of DKK 10 each)	Hedging reserve	Retained earnings	Total equity
Balance sheet total at December 31, 2013	62.397	23.198	2.563.089	2.648.684
Profit (loss) for the period	-	-	512.879	512.879
Adjustment of cash flow hedges	-	(94.970)	-	(94.970)
Foreign exchange adjustments, etc.	-	-	38.686	38.686
Tax relating to other comprehensive income	-	23.268	(9.478)	13.790
Total comprehensive income for the year	-	(71.702)	542.087	470.385
Increase of share capital	470	-	40.519	40.989
Share-based payment (granted)	-	-	9.114	9.114
Tax related to share-based incentive plans	-	-	9.636	9.636
Capital grants	-	-	1.075	1.075
Proposed dividends for the year	-	-	-	-
Paid dividends	-	-	-	-
Balance sheet total at December 31, 2014	62.867	(48.504)	3.165.520	3.179.883
Profit (loss) for the period	-	-	1.143.380	1.143.380
Adjustment of cash flow hedges	-	38.997	-	38.997
Foreign exchange adjustments, etc.	-	-	17.788	17.788
Tax relating to other comprehensive income	-	(9.164)	(4.197)	(13.361)
Total comprehensive income for the year	-	29.833	1.156.971	1.186.804
Increase of share capital	354	-	38.099	38.453
Share-based payment (granted)	-	-	10.330	10.330
Tax related to share-based incentive plans	-	-	6.906	6.906
Proposed dividends for the year	-	-	-	-
Paid dividends	-	-	-	-
Balance sheet total at December 31, 2015	63.221	(18.671)	4.377.826	4.422.376

The share capital has increased in 2011 with kDKK 863, in 2012 with kDKK 690, in 2013 with kDKK 665, in 2014 with kDKK 470 and in 2015 with kDKK 354.

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 ReSound 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 ReSound A/S.

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

Revenue

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

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.

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.

Selling and Distribution Costs

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

Management and Administrative Expenses

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

Other Operating Income and Costs

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

! Significant accounting estimates

Revenue Recognition

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

1.1 GENERAL ACCOUNTING POLICIES

The annual report of GN ReSound for 2015 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Danish disclosure requirements for annual reports of listed companies. In addition, the annual report has been prepared in compliance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

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

These financial statements are the first to be presented in accordance with IFRS. On transition, IFRS 1, First-time Adoption of IFRS has been applied. The accounting impact from transition to IFRS is detailed in section 1

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

Adoption of new and revised accounting standards

GN ReSound A/S has adopted all the relevant new and revised International Financial Reporting Standards and IFRIC Interpretations effective as of January 1, 2015. The new and revised Standards and Interpretations did not affect recognition and measurement materially nor did they result in any material changes to disclosures in the notes. Apart from these minor changes, the annual report is presented in accordance with the accounting policies applied in previous years' annual reports.

Accounting standards not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2015, or have not yet been adopted by the EU, and have not been applied in preparing this annual report. Those, which may be relevant to GN ReSound A/S, are the following:

- IFRS 16 Leases applies to periods beginning on or after January 1, 2019. The effects of the standard have not yet been analyzed in detail and the financial impact of the new standard will depend on the lease agreements in effect at the time of adoption. However, as the company does not have any material lease agreements the standard is only expected to have limited effect on recognition and measurement.
- IFRS 9 Financial Instruments applies to annual periods beginning on or after January 1, 2018. The standard is only expected to have a limited effect on recognition and measurement of financial assets. Disclosure in the financial statements will change slightly as the classification of financial assets will be simplified to include only two categories: Financial assets measured at either amortized cost or fair value. The additions to IFRS 9 regarding financial liability accounting are not expected to affect the financial reporting.
- IFRS 15 Revenue from Contracts with Customers applies to annual periods beginning on or after January 1, 2018. The standard is only expected to have a very limited effect on the revenue recognition in GN ReSound A/S. GN ReSound A/S's existing accounting policy for revenue recognition is based on transfer of risk to the buyer whereas revenue recognition according to IFRS 15 will be based on transfer of control to the buyer. This change is not expected to affect the timing of revenue recognition in GN ReSound A/S.

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

Foreign Currency Translation

Translation of Transactions and Amounts

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

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

Statement of cash flow

The cash flow statement is presented using the indirect method based on the operating profit (loss). The cash flow statement shows the cash flow from operating, investing and financing activities for the year and the year's changes in cash and cash equivalents as well as the cash and cash equivalents at the beginning and end of the year. The cash flow effect of acquisitions and disposals of enterprises is shown separately in cash flows from investing activities. Cash flow from acquired enterprises is recognized in the cash flow statement from the acquisition date. Cash flow from disposed of enterprises is recognized up until the disposal date.

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

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

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

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

1.2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

1.3 FIRST-TIME ADOPTION OF IFRS

GN ReSound A/S presents its financial statements in accordance with International Financial Reporting Standard (IFRS) as adopted by the EU.

According to IFRS 1, the opening balance sheet at 1 January 2014 and comparatives for 2014 have been prepared in accordance with the IFRSs/IASs and IFRICs/SICs that were in force and effect at 31 December 2015. The opening balance sheet at 1 January 2014 has been prepared as if said standards and interpretations had always been applied.

The transition to IFRS has implied the following changes for the company:

Investments in subsidiaries are measured at cost. These were previously measured at net asset value. The effects for the company are as follows:

From 2014, dividends received from subsidiaries are recognised in the company's statement of comprehensive income as financial income.

Reclassifications

The following reclassifications and changes in the layout have been made, including restatement of comparatives for 2014.

The assets are presented as either long-term or short-term assets, whereas they were previously presented as non-current and current assets.

The reclassifications have not impacted the profit for the year or equity.

Statement of cash flow

No separate cash flow statement has previously been prepared for the company. The cash flow statement presented in accordance with IFRS corresponds to a cash flow statement for the company under Danish accounting regulations, had it been prepared

Reconciliation of equity as at 1 January 2014 (date of transition to IFRS).

DKK '000	Note	2013 Danish GAAP	Remeasurement	IFRS as at 1 January 2014
ASSETS				
Intangible assets		778.557		778.557
Property, plant and equipment		91.242		91.242
Investments in associates		8.096		8.096
Other non-current assets		64.594		64.594
Investments in subsidiaries		2.791.409	-	2.791.409
Amounts owed by subsidiaries and group companies		301.288		301.288
Total non-current assets		4.035.186	-	4.035.186
Inventories		146.730		146.730
Trade receivables		103.757		103.757
Amounts owed by subsidiaries and group companies (st)		239.666	-	239.666
Tax receivables		48.013		48.013
Other receivables		77.306		77.306
Cash and cash equivalents		625		625
Total current assets		616.097	-	616.097
Total assets		4.651.283	-	4.651.283
EQUITY AND LIABILITIES				
Share capital		62.397		62.397
Other reserves		-		-
Proposed dividends for the year		-		-
Retained earnings		2.586.287	-	2.586.287
Total equity		2.648.684	-	2.648.684
Bank loans				-
Provisions		38.195		38.195
Deferred tax liabilities		137.209		137.209
Other non-current liabilities		3.299		3.299
Amounts owed to Subsidiaries and group companies		94.768		94.768
Total non-current liabilities		273.471	-	273.471
Bank loans		1.475		1.475
Trade payables		75.959		75.959
Tax payables		-		-
Amounts owed to Subsidiaries and group companies (St.)		1.528.779		1.528.779
Provisions		8.553		8.553
Other payables		114.362		114.362
Total current liabilities		1.729.128	-	1.729.128
Total equity and liabilities		4.651.283	-	4.651.283

Reconciliation of equity as at 31 December 2014.

DKK '000	Note	2014 Danish GAAP	Remeasurement	IFRS as at 31 December 2014
ASSETS				
Intangible assets		828.152	-	828.152
Property, plant and equipment		99.248	-	99.248
Investments in associates		11.390	-	11.390
Other non-current assets		82.841	-	82.841
Investments in subsidiaries		3.088.891	(295.658)	2.793.233
Amounts owed by subsidiaries and group companies		759.335	-	759.335
Total non-current assets		4.869.857	(295.658)	4.574.199
Inventories		158.508	-	158.508
Trade receivables		102.169	-	102.169
Amounts owed by subsidiaries and group companies (st)		245.064	30.939	276.003
Tax receivables		-	-	-
Other receivables		49.500	-	49.500
Cash and cash equivalents		27	-	27
Total current assets		555.268	30.939	586.207
Total assets		5.425.125	(264.719)	5.160.406
EQUITY AND LIABILITIES				
Share capital		62.867	-	62.867
Other reserves		-	-	-
Proposed dividends for the year		-	-	-
Retained earnings		3.381.735	(264.719)	3.117.016
Total equity		3.444.602	(264.719)	3.179.883
Bank loans		-	-	-
Provisions		7.046	-	7.046
Deferred tax liabilities		136.712	-	136.712
Other non-current liabilities		-	-	-
Amounts owed to Subsidiaries and group companies		87.187	-	87.187
Total non-current liabilities		230.945	-	230.945
Bank loans		3.056	-	3.056
Trade payables		83.999	-	83.999
Tax payables		62.321	-	62.321
Amounts owed to Subsidiaries and group companies (St.)		1.390.334	-	1.390.334
Provisions		31.060	-	31.060
Other payables		178.808	-	178.808
Total current liabilities		1.749.578	-	1.749.578
Total equity and liabilities		5.425.125	(264.719)	5.160.406

Reconciliation of total comprehensive income for the year ended 31 December 2014.

DKK '000	Note	2014 Danish GAAP	Remeasurement	2014 IFRS
Revenue		2.366.422	-	2.366.422
Production costs		(1.020.727)	-	(1.020.727)
Gross profit		1.345.695	-	1.345.695
Development costs		(365.785)	6.607	(359.178)
Selling and distribution costs		(239.800)	9.743	(230.057)
Management and administrative expenses		(131.832)	(3.532)	(135.364)
Other operating income and costs, net		29.468	-	29.468
EBITA		637.746	12.818	650.564
Amortization of acquired intangible assets		-	(16.350)	(16.350)
Gain (loss) on divestment of operations etc.		-	-	-
Operating profit (loss)		637.746	(3.532)	634.214
Share of profit (loss) in associates		(115.293)	119.847	4.554
Financial income		16.933	36.481	53.414
Financial expenses		(41.203)	-	(41.203)
Profit (loss) before tax		498.183	152.796	650.979
Tax on profit (loss)		(138.101)	-	(138.101)
Profit (loss) for the year		360.082	152.796	512.878

SECTION 2

2.1 GEOGRAPHICAL INFORMATION

DKK '000	Revenue		Intangible assets and property, plant and equipment	
	2015	2014	2015	2014
Denmark	60.441	69.136	1.028.328	914.757
Scandinavia	101.175	100.964	-	0
Europe	567.897	516.902	-	0
North- and South America	1.045.091	1.133.451	-	0
Asien	597.218	389.585	1.942	12.643
Other	155.355	156.384	0	0
Total Revenue	2.527.177	2.366.422	1.030.270	927.400

Revenues are attributed to countries on the basis of the customer's location. Intangible assets and property, plant and equipment are attributed based on the physical location of the assets. Only the US (included under the headline North America) represents a material single country.

§ Accounting policies

Segment Information

GN Store Nord's management has identified GN Netcom and GN ReSound as the reportable segments in the Group. GN Netcom is selling hands-free communications solutions in the form of headsets for mobile phones and traditional phones. GN ReSound is operating within the hearing instrument industry, primarily producing and selling hearing instruments and products related hereto. Therefore separate segment disclosure is not relevant in the local GN ReSound A/S accounts.

Segment information is based on the Group's Accounting Policies. In the Group, segment performance is evaluated on the basis of EBITA as defined under key ratio definitions. Segment revenue and expense and segment assets and liabilities comprise items directly attributable to a segment and items that can be allocated to a segment on a reasonable basis.

2.2 STAFF COSTS

DKK '000	2015	2014
Wages, salaries and remuneration	410.538	399.853
Pensions	26.806	25.972
Other social security costs	4.787	5.536
Share-based payments	10.331	9.114
Total	452.462	440.475
Included in:		
Production costs and change in payroll costs included in inventories	67.002	73.818
Development costs	195.733	179.265
Selling and distribution costs	93.250	79.694
Management and administrative expenses	96.476	107.698
Total	452.461	440.475
Average number of employees	549	558
Number of employees, year-end	543	571
The full-year remuneration of the Board of Directors is as follows:	1.125	1.125

DKK '000	2015				2014			
	Fixed salary	Bonus	Share-based payments	Total	Fixed salary	Bonus	Share-based payments	Total
Anders Hedegaard, CEO of GN ReSound from August 1, 2014	(5.866)	(5.104)	(1.126)	(12.096)	(2.301)	(1.270)	(191)	(3.762)
Lars Viksmoen, CEO of GN ReSound until July 31, 2014	-	-	-	-	(2.892)	(1.722)	(1.467)	(6.081)
Anders Boyer, CFO of GN ReSound	(2.204)	(1.630)	589	(3.245)	(2.028)	(1.250)	(457)	(3.735)
Total	(8.070)	(6.734)	(537)	(15.341)	(7.221)	(4.242)	(2.115)	(13.578)

The total remuneration of the Executive Management is based on the "General Guidelines for Incentive Pay to Management", as adopted at GN's Annual General Meeting. The total remuneration of the Executive Management increased by 13% or kDKK 1,763 from 2014 to 2015.

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

Members of the Board of Directors receive a fixed remuneration as approved by the shareholders at the Annual General Meeting on March 19, 2015. 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 ReSound A/S and GN Netcom A/S.

2.3 TAX

Taxation - Income statement

TAX ON PROFIT (LOSS)

DKK '000	2015	2014
Tax on profit (loss)		
Current tax for the year	(54.129)	(133.704)
Deferred tax for the year	(32.049)	(16.186)
Withholding tax	(2.551)	-
Adjustment to current tax with respect to prior years	6.222	11.346
Adjustment to deferred tax with respect to prior years	1.786	443
Total	(80.721)	(138.101)
Reconciliation of effective tax rate		
Danish tax rate	23,50%	24,50%
Non-taxable income	-16,67%	-2,59%
Non-deductible expenses	0,30%	1,28%
Withholding tax	0,21%	-
Share of profit (loss) in associates	-0,09%	-0,17%
Adjustment of tax with respect to prior years	-0,66%	-1,81%
Effective tax rate	6,59%	21,21%
Tax relating to other comprehensive income		
Adjustment of cash flow hedges	(9.164)	23.268
Foreign exchange adjustments, etc.	(4.197)	(9.478)
Total	(13.361)	13.790

Taxation - Balance sheet

CURRENT TAX

DKK '000	2015	2014
Tax payable and tax receivable		
Tax payable at January 1, net	(62.321)	48.013
Addition of current tax on acquisition of enterprises	-	-
Adjustment with respect to prior years	6.223	11.346
Payment relating to prior years	58.099	(59.359)
Current tax for the year	(54.129)	(133.704)
Current tax for the year recognized in other comprehensive income for the year	(4.197)	(2.450)
Withholding tax for the year	(2.551)	-
Payment of withholding tax for the year	2.551	-
Tax related to share-based incentive plans	6.906	9.636
Payments relating to the current year	84.013	64.197
Tax receivable (payable) at December 31, net	32.594	(62.321)
Current tax is recognized as follows in the balance sheet:		
Tax receivable (assets)	32.594	-
Tax payable (liabilities)	-	(62.321)
Tax receivable (payable) at December 31, net	32.594	(62.321)

DEFERRED TAX

DKK '000	2015	2014
Deferred tax, net		
Deferred tax at January 1, net	(136.712)	(137.209)
Adjustment with respect to prior years	1.786	443
Disposal of deferred tax on sale of enterprises	-	-
Deferred tax for the year recognized in profit (loss) for the year	(32.049)	(16.186)
Deferred tax transferred to/from assets classified as held sale	-	-
Deferred tax for the year recognized in other comprehensive income for the year	(9.164)	16.240
Deferred tax at December 31, net	(176.139)	(136.712)
Deferred tax is recognized in the balance sheet as follows:		
Deferred tax, net relates to:		
Intangible assets	(192.814)	(180.617)
Property, plant and equipment	8.883	8.708
Current assets	(1.254)	7.090
Intercompany liabilities	(167)	(1.841)
Provisions	3.328	6.680
Other	5.885	23.268
Total	(176.139)	(136.712)

Deferred tax, net includes DKK 4 million expected to be utilized within 12 months.

§ Accounting policies**Tax on Profit (Loss) for the year**

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

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

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

Deferred tax

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

! Significant accounting estimates**Deferred tax**

Management has made judgments in determining the Company's provisions for tax, deferred tax assets and deferred tax liabilities and the extent to which deferred tax assets are recognized. GN ReSound 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 group presents the income statement based on a classification of costs by function. However, in order to present EBITA in the income statement, which is the measure of profit used by management, amortisation of acquired intangible assets are separated from the individual functions and presented as a separate line item. If amortisation of acquired intangible assets are allocated to the individual line items by function the income statement will present as follows:

DKK '000	2015	2014
Revenue	2.527.177	2.366.422
Production costs	(1.424.902)	(1.020.727)
Gross profit	1.102.275	1.345.695
Development costs	(445.837)	(365.785)
Selling and distribution costs	(234.154)	(239.800)
Management and administrative expenses	(133.035)	(135.364)
Other operating income and costs, net	23.324	29.468
Gain (loss) on divestment of operations etc.	-	-
Operating profit (loss)	312.573	634.214

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

Development costs	(6.607)	(6.607)
Selling and distribution costs	(6.481)	(9.743)
Amortization of acquired intangible assets	(13.088)	(16.350)

2.5 RELATED PARTY TRANSACTIONS

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

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

Group enterprises and associates are listed on page 47.

Board of Directors, Executive Management and Senior Employees

Management remuneration and incentive plans are described in note 2.2.

Group enterprises and associates

Trade with group enterprises and associates comprised:

DKK million	2015	2014
Sale of services to group enterprises	6	5
Purchase of services from group enterprises	(212)	(169)
Sale of intangible assets	30	32
Sale of goods to group enterprises, revenue	2.344	2.071
Sale of goods to group enterprises, cost of goods	(1.130)	(794)

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

The parent company's balances with group enterprises at December 31, 2015 are recognized in the balance sheet. Interest income and expenses with respect to group enterprises are disclosed in note 4.2. Further, balances with group enterprises comprise trade balances related to the purchase and sale of goods and services.

Purchases of services from group enterprises consists of facility services, canteen services, management fee, R&D services and marketing services. Sales of services to group enterprises consists of management fee. Sale of intangible assets consist of sales of software to the parent company. The transactions were carried out in preparation for the implementation of a new ERP platform for the entire Group. The assets were traded at net book values.

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

3.1 INTANGIBLE ASSETS

DKK '000	Goodwill	Development projects, developed in-house	Software	Patents and rights	Other	Total
Cost at January 1	-	2.086.009	150.568	118.360	89.213	2.444.150
Additions on company acquisitions	-	-	-	-	-	-
Additions	-	250.210	42.797	33.243	1.195	327.445
Disposals	-	(16.552)	-	-	-	(16.552)
Transfers	-	(1)	-	-	-	(1)
Cost at December 31	-	2.319.666	193.365	151.603	90.408	2.755.042
Amortization and impairment at January 1	-	(1.360.167)	(88.987)	(98.975)	(67.869)	(1.615.998)
Amortization	-	(225.364)	(19.316)	(6.606)	(6.481)	(257.767)
Disposals	-	16.552	-	-	-	16.552
Transfers	-	306	-	-	-	306
Amortization and impairment at December 31	-	(1.568.673)	(108.303)	(105.581)	(74.350)	(1.856.907)
Carrying amount at December 31, 2015	-	750.993	85.062	46.022	16.058	898.135
Cost at January 1	-	1.848.542	111.165	118.360	84.673	2.162.740
Additions on company acquisitions	-	-	-	-	-	-
Additions	-	237.895	31.696	-	4.540	274.131
Disposals	-	-	(12.984)	-	-	(12.984)
Transfers	-	(428)	20.691	-	-	20.263
Cost at December 31	-	2.086.009	150.568	118.360	89.213	2.444.150
Amortization and impairment at January 1	-	(1.172.869)	(60.819)	(92.369)	(58.126)	(1.384.183)
Amortization	-	(187.726)	(20.461)	(6.606)	(9.743)	(224.536)
Disposals	-	-	12.984	-	-	12.984
Impairment	-	-	-	-	-	-
Transfers	-	428	(20.691)	-	-	(20.263)
Amortization and impairment at December 31	-	(1.360.167)	(88.987)	(98.975)	(67.869)	(1.615.998)
Carrying amount at December 31, 2014	-	725.842	61.581	19.385	21.344	828.152

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

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

The carrying amount of development projects and software in progress amount to DKK 352 million (2014: DKK 361 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 2016 and 2017, after which product sales and marketing can be commenced. Management performs at least one annual impairment test of the carrying amount of recognized development costs. The recoverable amount is assessed based on sales forecasts. In Management's assessment, the recoverable amount exceeds the carrying amount.

Software comprises development, design and test of production and planning software and reporting systems, business intelligence etc. Implementation of these systems is expected to optimize internal procedures and processes. In 2015, management assessed that the expected useful lives were reflected in the carrying amounts at December 31, 2015.

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 ReSound, manufacturing and distribution rights regarding ear scanner technology in GN ReSound and rights to the use of certain technologies for development of headsets.

Other

GN ReSound's other intangible assets comprise DKK 16 million (2014: DKK 21 million) related to supply agreements.

§ Accounting policies

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

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

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

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

Impairment of Goodwill and in-process development projects

Goodwill is subject to at least one annual impairment test, initially before the end of the acquisition year. Similarly, in-process development projects are tested for impairment at least annually.

The carrying amount of goodwill is tested for impairment together with the other non-current assets in the cash-generating unit to which the goodwill is allocated. Goodwill is written down to the recoverable amount if the carrying amount is higher than the computed recoverable amount. The recoverable amount is computed as the present value of the expected future net cash flows from the enterprises or activities to which the goodwill is allocated.

Recognition of impairment losses in the income statement

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount of the asset or the cash-generating unit. Impairment of goodwill is recognized in a separate line item in the income statement. Impairment of goodwill is not reversed.

! Significant accounting estimates

Development projects

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

3.2 PROPERTY, PLANT AND EQUIPMENT

DKK '000	Factory and office buildings	Leasehold improvements	Plant and machinery	Operating assets and equipment	Total
Cost at January 1	-	11.664	278.270	38.680	328.614
Additions on company acquisitions	-	-	-	-	-
Additions	29.397	-	47.122	4.552	81.071
Disposals	-	(1.683)	(16.234)	(1.407)	(19.324)
Transfers	9.735	(9.735)	400	(400)	-
Cost at December 31	39.132	246	309.558	41.425	390.361
Depreciation and impairment at January 1	-	(5.576)	(194.401)	(29.389)	(229.366)
Depreciation	(1.212)	(429)	(30.717)	(5.377)	(37.735)
Disposals	-	1.435	6.804	636	8.875
Transfers	(4.324)	4.324	-	-	-
Depreciation and impairment at December 31	(5.536)	(246)	(218.314)	(34.130)	(258.226)
Carrying amount at December 31, 2015	33.596	-	91.244	7.295	132.135
Cost at January 1	-	12.341	249.087	40.405	301.833
Additions on company acquisitions	-	-	-	-	-
Additions	-	633	35.370	3.807	39.810
Disposals	-	(1.310)	(6.187)	(5.532)	(13.029)
Transfers	-	-	-	-	-
Cost at December 31	-	11.664	278.270	38.680	328.614
Depreciation and impairment at January 1	-	(5.826)	(174.275)	(30.490)	(210.591)
Depreciation	-	(1.060)	(25.783)	(4.431)	(31.274)
Disposals	-	1.310	5.657	5.532	12.499
Transfers	-	-	-	-	-
Depreciation and impairment at December 31	-	(5.576)	(194.401)	(29.389)	(229.366)
Carrying amount at December 31, 2014	-	6.088	83.869	9.291	99.248

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

\$ Accounting policies

Property, plant and Equipment

Land and buildings, plant and machinery and fixtures and fittings, other plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and costs of materials, components, suppliers, direct wages and salaries and indirect production costs until the date when the asset is available for use. Liabilities related to dismantling and removing the asset and restoring the site on which the asset is located are added to the cost. 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	2015	2014
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	(29.874)	(24.586)
Development costs	(232.107)	(195.922)
Selling and distribution costs	(8.215)	(9.753)
Management and administrative expenses	(12.218)	(9.199)
Amortization of acquired intangible assets	(13.088)	(16.350)
Total	(295.502)	(255.810)

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

Production costs	(2.580)	(3.695)
Development costs	(227.765)	(191.812)
Selling and distribution costs	(5.877)	(6.032)
Management and administrative expenses	(8.458)	(6.648)
Amortization of acquired intangible assets	(13.088)	(16.350)
Total	(257.768)	(224.537)

No impairment of intangible assets is recognized in the income statement in 2015 or 2014.

3.4 PROVISIONS

DKK '000	Warranty provisions	Other provisions	Total
Provisions at January 1	3.747	34.359	38.106
Additions	(270)	15.340	15.070
Consumed	1.354	(24.068)	(22.714)
Reversed	(552)	-	(552)
Provisions at December 31, 2015	4.279	25.631	29.910
Of which is recognized in the consolidated balance sheet:			
Non-current liabilities	1.913	-	1.913
Current liabilities	2.366	25.631	27.997
Provisions at December 31, 2015	4.279	25.631	29.910

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 and headsets sold, obligations regarding onerous contracts and property leases and provisions for legal defence.

§ Accounting policies

Provisions

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

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

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

! Significant accounting estimates

Provisions

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

In accordance with GN Store Nord'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, 2015, the carrying amount of provisions with respect to obligations to take back goods was DKK 6 million (2014: DKK 5 million).

Agreement has been made with a number of the suppliers that the suppliers purchase components for the production of hearing instruments, headsets and audiologic diagnostics equipment based on sales estimates prepared by GN Store Nord. To the extent that GN Store Nord's actual purchases from suppliers are lower than sales estimates, GN Store Nord 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 Store Nord recognizes a provision for onerous purchase contracts.

3.5 INVENTORIES

DKK '000	2015	2014
Raw materials and consumables	87.537	82.003
Work in progress	4.325	3.925
Finished goods and merchandise	66.883	72.580
Total	158.745	158.508
The above includes write-downs amounting to	(34.175)	(34.712)
Write-downs recognized in the income statement under production costs	(18.695)	(17.190)
Reversed write-downs recognized under production costs	-	-
Production costs include costs of goods sold of	(1.254.025)	(907.028)

§ Accounting policies**Inventories**

Inventories are measured at cost in accordance with the FIFO-principle. Inventories in GN ReSound 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 ReSound 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	2015	2014
Trade receivables	106.703	102.170
Total	106.703	102.170
Trade receivables have the following maturities:		
Not due	75.559	74.220
Due 30 days or less	15.507	16.983
Due more than 30 days but less than 90 days	10.243	5.962
Due more than 90 days	9.688	10.988
Total	110.997	108.153
Write-downs, which are included in total trade receivables, have developed as follows:		
Write-downs at January 1	(5.983)	(3.423)
Write-downs made during the year	1.689	(2.560)
Write-downs at December 31	(4.294)	(5.983)

In 2015 no material write-downs have been recognized regarding individual receivables (2014: no material write-downs have been recognized regarding individual receivables). GN ReSound AS'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 ReSound AS believes that no write-down is necessary in respect of trade receivables not past due.

No security has been pledged to GN Store Nord for trade receivables.

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

Due 30 days or less	15.277	15.107
Due more than 30 days but less than 90 days	9.794	5.151
Due more than 90 days	6.073	5.012
Total	31.144	25.270

§ Accounting policies

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

! Significant accounting estimates

Measurement of trade receivables

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

3.7 INVESTMENTS IN SUBSIDIARIES

DKK '000	2015	2014
Cost at January 1	2.793.235	2.791.409
Additions, capital contribution	-	1.826
Cost at December 31	2.793.235	2.793.235

Group companies are listed on page 47.

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

4.1 FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

Foreign currency risk

GN ReSound has exposure towards several foreign currencies in connection with commercial transactions. The overall objective of hedging GN ReSound's currency exposure is to reduce the short-term impact of exchange rate fluctuations on earnings and cash flow, thereby increasing the predictability of the financial results. GN ReSound uses forward exchange contracts to hedge any significant currency risk, which in 2015 has been future income (long positions) in the USD, GBP, CAD and JPY and future costs (short positions) in the CNY. Expected cash flows are continually assessed using budget and sales forecasts.

GN ReSound has several balance sheet items denominated in USD.

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

DKK '000	2015	2014
Income statement	9.581	23.101
Other Comprehensive Income	(45.866)	(36.787)

The sensitivity analysis comprises cash and cash equivalents, current receivables, trade payables, current and non-current loans, current intercompany balances and derivative exchange rate instruments as of December 31, 2015. The effects of a change in foreign exchange rates related to these items would be included in financial items in the income statement. A change in the derivative exchange rate instruments used for hedging would be included in Other Comprehensive Income.

Interest rate risk

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

Funding, liquidity and capital structure

At December 31, 2015, GN ReSound had an equity ratio of 72.0% (2014: 61.5%) and net interest-bearing debt of DKK 2,7 million (2014: DKK 3,0 million). The capital structure policy is handled on a GN Store Nord level.

Financial credit risk

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

GN ReSound 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 3.7 Trade receivables and note 3.4 Other non-current assets.

Contractual maturity analysis for financial liabilities

DKK '000	Less than one year	Between one and five years	More than five years	Total
2015				
Long-term bank loans	-	-	-	-
Other long-term payables	-	4.850	-	4.850
Amounts owed to Subsidiaries and group companies	1.064.210	155.533	-	1.219.743
Short-term bank loans	3.146	-	-	3.146
Trade payables	124.935	-	-	124.935
Total non-derivative financial liabilities	1.192.291	160.383	-	1.352.674
Derivative financial liabilities	25.041	-	-	25.041
Total financial liabilities	1.217.332	160.383	-	1.377.715
2014				
Long-term bank loans	-	-	-	-
Other long-term payables	-	-	-	-
Amounts owed to Subsidiaries and group companies	1.390.334	87.187	-	1.477.521
Short-term bank loans	3.056	-	-	3.056
Trade payables	83.999	-	-	83.999
Total non-derivative financial liabilities	1.477.389	87.187	-	1.564.576
Derivative financial liabilities	64.039	-	-	64.039
Total financial liabilities	1.541.428	87.187	-	1.628.615

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

GNR / SECTION 4: CAPITAL STRUCTURE AND FINANCING

Categories of financial assets and liabilities

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

DKK '000	2015	2014
Trade receivables	106.702	102.169
Other receivables	26.774	49.500
Amounts owed by subsidiaries and group companies	401.964	287.716
Other receivables, non-current	70.158	82.841
Amounts owed by subsidiaries and group companies	1.501.439	759.335
Loans and receivables	2.107.037	1.281.561
Bank loans, non-current	-	-
Other long-term payables	4.850	-
Amounts owed to Subsidiaries and group companies	155.533	87.187
Bank loans	3.146	3.056
Amounts owed to Subsidiaries and group companies	1.064.210	1.390.334
Trade payables	124.935	83.999
Financial liabilities measured at amortized cost	1.352.674	1.564.576
Derivative financial instruments included in Other payables	-	-
Financial liabilities measured at fair value	-	-

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

Derivative financial instruments

DKK '000	2015			2014		
	Contract amount, net	Fair value, assets	Fair value, liabilities	Contract amount, net	Fair value, assets	Fair value, liabilities
USD	1.062.073	-	23.507	823.188	-	68.291
JPY	144.225	-	3.226	123.451	3.422	-
GBP	122.234	2.018	630	92.637	-	2.538
CAD	80.957	4.215	-	78.850	-	2.653
CNY	144.746	-	3.950	87.453	6.021	-
Total	1.554.235	6.233	31.313	1.205.579	9.443	73.482

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

Fair value adjustments of cash flow hedges

DKK '000	2015	2014
Fair value adjustment for the year recognized in Other comprehensive income	(123.319)	(101.681)
Reclassified from equity to revenue during the year	179.004	9.795
Reclassified from equity to production costs during the year	(8.344)	(1.542)
Reclassified from equity to selling and distribution costs during the year	(8.344)	(1.542)
Adjustment of cash flow hedges in Other comprehensive income	38.997	(94.970)

Fair value adjustment of cash flow hedges recognized in financial items

- -

The gains and losses on cash flow hedges recognized in Other comprehensive income as of December 31, 2015 will be recognized in the income statement in the period during which the hedged forecasted transaction affects the income statement. The fair value of all exchange rate instruments are determined using quoted forward exchange rates at the balance sheet date and can be categorized as level 2 (observable inputs) in the fair value hierarchy.

Fair value hierarchy

The fair value of the exchange rate instruments and interest rate swaps are determined using quoted forward exchange rates and forward interest rates, respectively at the balance sheet date and can be categorized as level 2 (observable inputs) in the fair value hierarchy. At the date of acquisition the fair value of the derivative financial instruments related to ownership interests are determined by calculating the difference between the fair value of the dispensers and the agreed purchase price of the dispensers. The fair value of the dispensers are determined using cash flow projections from financial forecasts covering a five year period. The key inputs used are sales growth in units, average selling prices and expected growth in the terminal period. The fair value is sensitive to the assumed values of these key inputs and can be categorized as level 3 (unobservable inputs) in the fair value hierarchy.

4.2 FINANCIAL INCOME AND EXPENSES

DKK '000	2015	2014
Financial income:		
Interest income*	51.391	3.156
Intercompany Interest income	30.322	13.444
Dividends received	839.880	36.481
Financial income, other	1.905	333
Fair value adjustments of derivative financial instruments	-	-
Foreign exchange gain	5.592	-
Total	929.090	53.414
Financial expenses:		
Interest expenses*	(11.644)	(1.770)
Intercompany Interest expense	(9.712)	(31.307)
Financial expenses, other	(742)	(252)
Fair value adjustments of derivative financial instruments and impairments	-	-
Foreign exchange loss, net	-	(7.874)
Total	(22.098)	(41.203)

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

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

§ Accounting policies

Financial Income and Expenses

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

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

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

5.1 INCENTIVE PLANS

Warrants programs

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

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

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

Warrants program, GN ReSound

DKK '000	Executive Management	Other employees	Total	exercise price
Warrants granted at January 1, 2014	3.356	11.791	15.147	12.691
Warrants granted during the year	954	3.092	4.046	25.019
Warrants exercised during the year	(423)	(4.281)	(4.704)	8.714
Warrants forfeited during the year/corrections	(2.672)	2.246	(426)	13.288
Outstanding warrants at December 31, 2014	1.215	12.848	14.063	17.550
Warrants granted during the year	1.014	4.280	5.294	26.551
Warrants exercised during the year	(217)	(3.319)	(3.536)	10.875
Warrants forfeited during the year/corrections	(1.083)	(1.205)	(2.288)	22.961
Outstanding warrants at December 31, 2015	929	12.604	13.533	21.901
Grant date market value of warrants granted in 2015	4	17	21	
Market value of outstanding warrants at December 31, 2015	2	48	50	

Average share price at exercise: DKK 26,705 (2014: DKK 24,801)

Outstanding warrants in GN ReSound by grant date are shown below.

Grant date	Executive Management	Other employees	Total	% of GN ReSound A/S	Number of exercisable warrants	Exercise price	Years to expiry	Market value in DKK million
March 2011	-	809	809	0,1%	809	8.836	0,8	12
March 2012	-	1.139	1.139	0,2%	1.139	11.084	1,8	15
March 2013	-	3.508	3.508	0,6%	-	19.270	2,8	9
November 2013	-	195	195	0,0%	-	24.290	2,8	-
March 2014	-	2.965	2.965	0,5%	-	24.711	3,8	5
June 2014	-	71	71	0,0%	-	24.711	3,8	-
July 2014	235	-	235	0,0%	-	30.064	3,8	-
September 2014	-	53	53	0,0%	-	24.489	3,8	-
March 2015	694	3.495	4.189	0,7%	-	26.729	4,8	8
August 2015	-	244	244	0,0%	-	23.807	4,8	1
November 2015	-	125	125	0,0%	-	24.896	4,8	-
Outstanding warrants at December 31, 2015	929	12.604	13.533	2,1%	1.948			50

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

Market conditions

	2015 year end GN ReSound	Grant date 2015 GN ReSound	2014 year end GN ReSound	Grant date 2014 GN ReSound
				134
				134
				160
		151		
		124		
Share price GN Store Nord	123	127	134	132
				70%
				70%
				73%
		70%		
		78%		
Share of GN Store Nord market value	81%	80%	72%	72%
				24.711
				24.711
				30.064
		26,729		
		23,807		
Share price	23.968	24,896	24.588	24.489
				20%
				20%
				18%
		23%		
		24%		
Volatility	24%	25%	19%	18%
Dividend per share	0	0	0	0
			0,00%	
			0,00%	
			0,00%	1,03%
			0,04%	0,57%
		0,00%		
		0,08%		
Risk-free interest rate	0,00%	0,18%	0,12%	0,51%
	0,8		0,8	
	1,8		1,8	5,7
	2,8		2,8	5,7
	3,8		3,8	5,4
		5,7		
		5,2		
Expected term (years)	4,8	5,0	4,8	5,2

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

§ Accounting policies

Incentive plans

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

5.2 CONTINGENT LIABILITIES, OTHER FINANCIAL LIABILITIES AND CONTINGENT ASSETS**Contingent liabilities****Guarantees**

On behalf of the subsidiaries GN ReSound A/S has provided guarantees related to credit facilities and customs offices in the amount of DKK 7,2mill.

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

Security

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

Purchase obligations

GN ReSound 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 ReSound. To the extent that GN ReSound's sales estimates exceed actual purchases from suppliers, GN ReSound 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 ReSound 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 ReSound's Management assesses provisions, contingent assets and contingent liabilities and the likely outcome of pending or threatened lawsuits on an ongoing basis. The outcome depends on future events that are by nature uncertain. In assessing the likely outcome of lawsuits and tax disputes, etc., Management bases its assessment on external legal assistance and decided cases.

5.3 ASSOCIATES**Investments in associates**

DKK million	2015	2014
Aggregated financial information for associates is provided below:		
Revenue	112	113
Profit (loss) for the year after tax	10	11
Total assets	70	58
Total liabilities	25	21
	-	-
Total share of profit (loss) for the year after tax	5	5
Total share of net assets	14	11

Transactions with associates comprise sale of goods and services in the amount of DKK 0,8 million (2014: DKK 0,9 million) on normal commercial terms and conditions.

Associates are listed on page 47.

§ Accounting policies**Investments in Associates in the Consolidated Financial Statements**

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

In the consolidated 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 Group'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 Group after elimination of the proportionate share of intra-group profits (losses).

5.4 OTHER NON-CASH ADJUSTMENTS

DKK '000	2015	2014
Share-based payment (granted)	10.330	9.114
Provision for bad debt, inventory write-downs, etc.	(2.228)	(7.594)
Adjustment of provisions	(8.196)	(8.644)
Total	(94)	(7.124)

5.5 LEASE OBLIGATIONS

DKK '000	2015	2014
Future lease obligations are distributed as follows:		
Operating leases:		
Less than one year	13.670	14.618
Between one and five years	8.927	14.936
More than five years	-	12.311
Total	22.597	41.865

Lease payments recognized in the income statement relating to operating leases amount to DKK 25.477 tdkk (2014: DKK 25.046).

\$ 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	2015	2014
Audit fees	(475)	(400)
Other audit related services	(459)	(522)
Total	(934)	(922)

5.7 EVENTS AFTER THE REPORTING PERIOD

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

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

	Domicile	Currency	Owner-ship %	Share capital
GN Store Nord A/S	Denmark	DKK	N/A	672.083.012
GN Ejendomme A/S	Denmark	DKK	100	10.600.000
GN Netcom A/S	Denmark	DKK	100	33.647.500
GN Netcom, Inc.	USA	USD	100	35.900.000
GN Netcom (Canada), Inc.	Canada	CAD	100	1.000
GN Communications, Equipamentos e Solucoes de Comunicacao Ltda.	Brazil	BRL	100	407.820
GN Netcom (China) Ltd.	China	USD	100	8.000.000
GN Netcom Logistic (Xiamen) Ltd.	China	USD	100	500.000
GN Communications (Shanghai) Co., Ltd	China	CNY	100	15.481.000
GN Netcom (Japan) Ltd.	Japan	JPY	100	10.000.000
GN Netcom (Singapore) Pte Ltd.	Singapore	SGD	100	700.000
GN Netcom Asia Ltd.	Hong Kong	HKD	100	2.000.000
GN Netcom Australia Pty. Ltd.	Australia	AUD	100	2.500.000
GN Netcom (Spain) S.A.	Spain	EUR	100	60.111
GN Netcom (Italia) S.r.l.	Italy	EUR	100	10.200
GN Netcom (UK) Ltd.	Great Britain	GBP	100	100.000
GN Netcom AB	Sweden	SEK	100	5.100.000
GN Netcom Benelux B.V.	Netherlands	EUR	100	18.000
GN Netcom GmbH	Germany	EUR	100	51.129
GN Netcom S.A.	France	EUR	100	80.000
GN ReSound A/S	Denmark	DKK	100	62.867.000
GN ReSound Pty. Ltd.	Australia	AUD	100	4.000.002
GN ReSound Shanghai Ltd.	China	CNY	100	3.000.000
GN ReSound China Ltd.	China	CNY	100	34.000.000
GN GROC Ltd	China	CNY	100	500.000
GN ReSound India Private Limited	India	INR	100	7.352.000
GN Resound Japan K.K.	Japan	JPY	100	499.000.000
GN ReSound (NZ) Ltd.	New Zealand	NZD	100	2.000.000
GN Hearing Pte. Ltd.	Singapore	SGD	100	1.500.000
GN ReSound Hörtechnologie GmbH	Austria	EUR	100	500.000
Sluchadliva Akustika spol. S.R.O.	Czech Republic	CZK	100	102.000
Interton Danmark A/S	Denmark	DKK	100	200.000
Belton Europe Holdings ApS	Denmark	DKK	100	200.000
Dansk Hørcenter ApS	Denmark	DKK	100	125.000
GN Hearing SAS	France	EUR	100	285.957
GN Hearing GmbH	Germany	EUR	100	296.549
GN Resound GmbH Hörtechnologie	Germany	EUR	100	2.162.253
GN Hearing S.r.l.	Italy	EUR	100	181.190
GN Hearing Benelux bv	Netherlands	EUR	100	680.670
GN ReSound Norge AS	Norway	NOK	100	2.000.000
Interton Slovakia s.r.o.	Slovakia	SLK	100	170.000
GN Hearing Care S.A.	Spain	EUR	100	1.562.631
GN Hearing Sverige AB	Sweden	SEK	100	100.000
GN ReSound AG	Switzerland	CHF	100	420.000
Belton Schweiz GmbH	Switzerland	CHF	100	20.000
GN ReSound Ltd.	United Kingdom	GBP	100	7.376.000
GN ReSound Produtos Médicos Ltda.	Brazil	BRL	100	1.019.327
GN ReSound Korea Co. Ltd. *	Korea	KRW	90	136.700.000
GN ReSound LLC	Russia	RUB	100	10.000
GN ReSound Finland Oy/Ab	Finland	EUR	100	100.913
GN US Holdings, Inc.	USA	USD	100	34.000.000
GN Hearing Care Corporation	USA	USD	100	180.000
GN ReSound Holdings, Inc.	USA	USD	100	10
Belton Holdings II Inc.	USA	USD	100	1
Belton Holdings III Inc.	USA	USD	100	10
Belton Holdings IV Inc.	USA	USD	100	30
Belton Holdings V Inc.	USA	USD	100	30
Belton Foundation	USA	USD	100	10
Belton Corporation	USA	USD	100	10
American Hearing Systems Inc.	USA	USD	100	10
Audio Electronics, Inc.	USA	USD	100	198.890
DB Special Instruments Inc.	Canada	CAD	100	137
GN Hearing Care Canada Ltd.	Canada	CAD	100	10.000
5837946 Manitoba, Ltd.	Canada	CAD	100	10.000
810720 Alberta, Ltd.	Canada	CAD	100	50.000
GN ReSound (Malaysia) Sdn Bhd	Malaysia	RM	100	100
Audio Nova S.R.L.	Romania	ROL	49	10.000.000
Audiology Systems Inc.	USA	USD	40	1.724.000
Himpp A/S	Denmark	DKK	11	2.400.000
HIMSA A/S	Denmark	DKK	25	1.000.000
HIMSA II A/S	Denmark	DKK	17	600.000
Himsa II K/S	Denmark	DKK	15	3.250.000
K/S Himpp	Denmark	DKK	9	114.782.415
GN Otometrics A/S	Denmark	DKK	100	23.240.000
Inmedico A/S	Denmark	DKK	100	500.000
GN Otometrics GmbH	Germany	EUR	100	1.800.000
Genie Audio Inc.	Canada	CAD	100	232
GN Otometrics Shanghai Ltd	China	USD	100	800.000
GN Otometrics S.a.S	France	EUR	100	1.200.000

Associates

* GN Store Nord currently hold 90% ownership but consolidates 100%, as the anticipated acquisition method is applied.

A few minor companies have been omitted from the list.