GN Store Nord A/S

150 years of making life sound better

Hear more, Do more, Be more

GN Group – Annual Report 2018

GN Making Life Sound Better
FOR 150 YEARS

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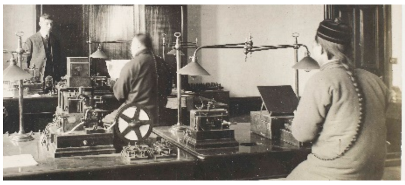
150 years of innovation

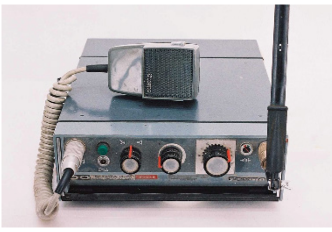
2019 marks GN's 150-year anniversary. The company's story is one of constant change and progression – first connecting the world through telegraph in the 19th century, then taking a leap into radio communications in the 1940s, until the 21st century opened a new era of digital technology and sound engineering

1871



World's first internet, the telegraph, cuts transcontinental communication time from months to hours

1947



GN's Storno replaced the telegraph with more agile radio communication

1960s

Long before modern mobile phones, GN was first to engineer two-way radio-telephones – making Bobby much more efficient

1977

Moving into hearing aids with renowned Danish Danavox expertise – Royal integrated hearing glasses

1979

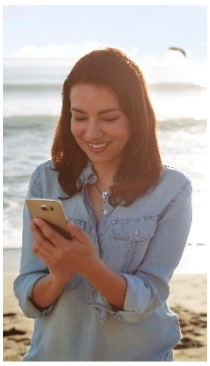
World's first headset for call centers, Stetomike, with a lasting design became a blockbuster

2000

GN introduces the world's first mobile Bluetooth headset – no strings attached.

2014

World's first Made for Apple hearing aids introduce direct smartphone connectivity – making life sound better

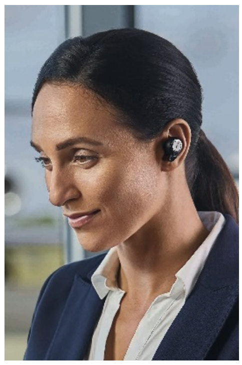


2018

Communication headset with innovative hearing protection designed for defense and security forces

2018

World's first true wireless earbuds certified for Skype for Business – a true "prosumer" product



Built on resilience and agility

As a company that has changed its course throughout our 150-year history, GN has had to continuously adapt. As we follow unexpected paths, we use our courage and agility to build new solutions and stay ahead of the curve

1800s

Forging new paths

Beginning in Denmark, GN ventured bravely into new territory to change worldwide communication. From trekking through freezing temperatures in Siberia to laying intricate underwater cables in Hong Kong, GN established a pioneering telegraph line in China that endured conflicts, and even wars, along its path.

1900s

Growing our connections

As several revolutions and two major World Wars caused global upheaval, GN was determined to persevere. As telegraph lines were temporarily interrupted, GN made plans for a post-telegraph future. This led to GN's pioneering role in communications and our expansion into FM radio transmission, intelligent audio and hearing solutions.

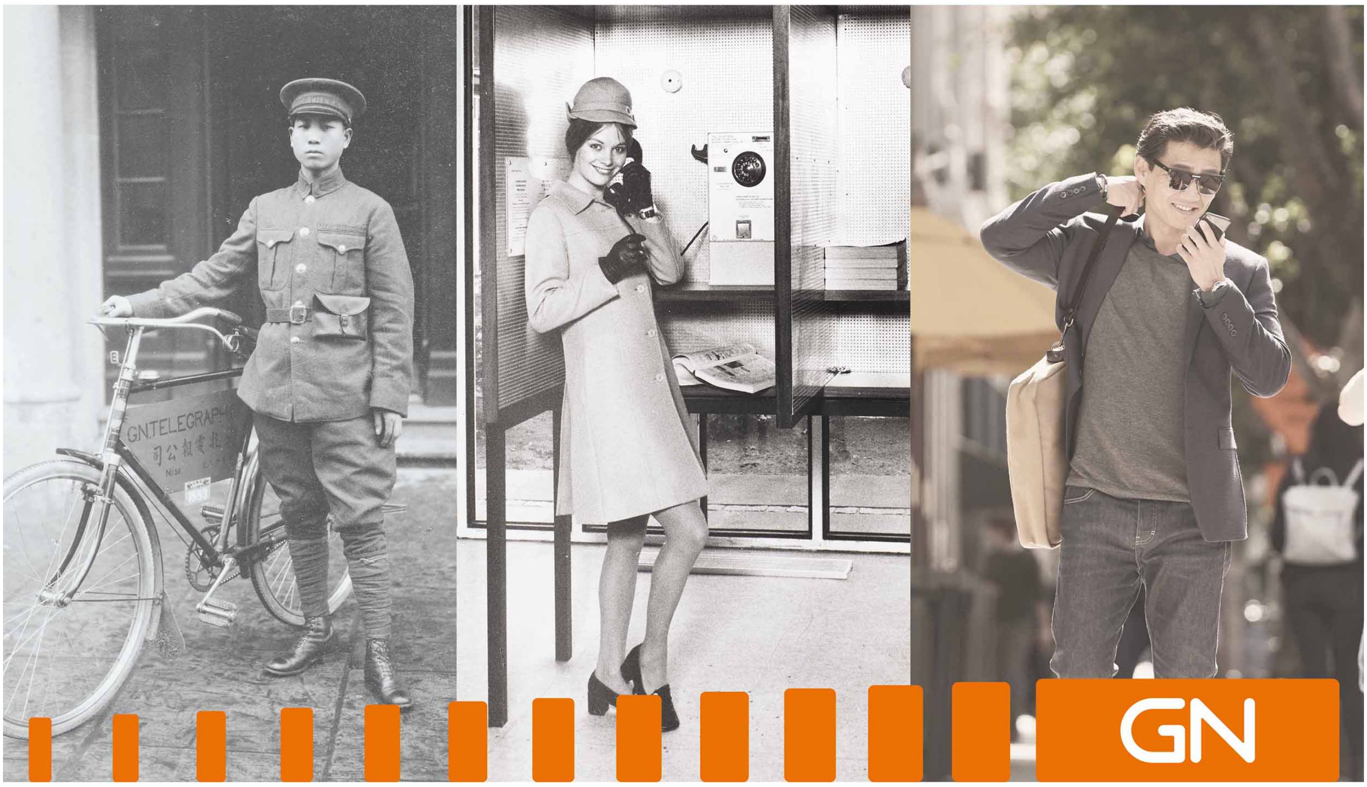
2000s

The speed of change

GN has remained agile for 150 years – and the 21st century is no different. Innovation is increasing, business models are changing, and the world is moving rapidly toward a more digital future. At GN, we remain industry leaders as we continue to listen to users, challenge the status quo and transform possibilities that make life sound better.

Connecting the world

Our ambitious 150-year journey has taken us from telegraph cables to radio waves and intelligent audio engineering. Today, our global mindset continues to facilitate communication for people worldwide



1869

The first to reach China

C.F. Tietgen founded the Great Northern Telegraph Company and used the Danish royal connection with Russia to build a telegraph through Siberia to the East. By 1871, GN opens the world's first telegraph connection from Northern Europe to China – transforming international communication and trade.

1960s

Keeping people in touch

Before the era of mobile phones, GN made it easier to make calls with the drop of a coin. Payphones began to line city streets around the world and by 1991, GN had exported nearly 250,000 payphones to more than 35 countries worldwide – bringing people closer together.

2019

Still connecting people

Today, GN continues to transform communication by providing intelligent audio solutions to millions of people worldwide. With over 6,000 employees and sales in 100 countries, we are helping people around the world Hear more, Do more and Be more than they ever thought possible.

World-changing innovations

150 years ago, we were the first to lay revolutionary cable connections between the West and the East. Today, our entrepreneurial spirit has led to countless innovations and global firsts in sound and intelligent audio solutions

1871

World's first internet

Previously, it took 6 to 8 weeks to send letters by ship. In a pioneering journey through new territory, GN built a new telegraph connection from Northern Europe to China. Messages could now be transmitted in a matter of minutes, as this 'inter-net' made global communication faster than ever before.

1979

World's first headset

Call centers were popping up worldwide, and employees needed functionality and comfort while making calls in crowded spaces. With our expertise in microspeakers and microphones, GN introduced the first headset for call centers, Stetomike, with a design that remained virtually unchanged over time.

2014

World's first Made for Apple hearing aids

With our combined expertise in sound, audio and hearing aid technology, GN's ReSound LiNX™ were the first Made for Apple hearing aids in the industry, providing direct iPhone connectivity without an extra device. Finally, direct high-quality audio streaming was a reality for people with hearing loss.

150 YEARS OF MAKING LIFE SOUND BETTER

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Transforming at every turn

We have succeeded for over 150 years by seeing new potential around every corner. Today, our start-up mindset makes sure we stay agile and ready for the future

1940s

Reaching new wavelengths

After World War II, the world was changing, and GN was ready to take the lead. Moving beyond cable networks to wireless signals, GN invested in the development and production of a promising new system, FM radio communication – a massive leap into the future of global communications.

1970s

Playing a bigger role

Not just a telegraph and radio company, by the 1970s GN played an even bigger role in sound and telecommunications. The expertise at GN now included radio telephone producer Storno, telephone manufacturer GNT Automatic and the high-quality portable battery company Hellesens.

2019

Leading change

As the world continues to change, so will GN. Today, our solutions continue to transform global communication for the workplace, the medtech industry and the consumer. To remain at the cutting-edge of sound processing and connectivity, we look ahead at how we can continue to make life sound better for everyone.

Engineering sound for daily life

For 150 years, we have engineered technology by listening to people's true needs. Today, our intelligent audio solutions continue to bring people together in meaningful ways

1871

Cracking the code

Previously, there was no telegraphic code for Chinese characters. GN's focus on innovation and entrepreneurship produced the first Chinese Telegraphic Code Book, uniquely identifying Chinese characters by four digits and paving the way for modern computerization.

1960s

First mobile phones

Long before modern mobile phones, GN's Storno was the first to engineer radio-telephones. By the 1960s, Storno was engineering radio-telephones for the police, hospitals, fire brigade and for use in the Munich Olympics in 1972. John Lennon even had a special Storno telephone in his Rolls Royce.

2003

More natural sound

Continuing to break new ground, GN introduced ReSound Air™, the first hearing aid with 'open fitting'. For the very first time, there was no blocking of the ear canal, so sound could enter the ear naturally. This made hearing aids feel more comfortable and sound more natural to users.

Forming powerful connections

Ways of connecting the world are always evolving. After 150 years, we continue to find new ways to transform technology and improve connections through the power of sound

1871

Connecting people worldwide

From the beginning, GN has created connections that bring people together. As our revolutionary telegraph cable brought the West and East closer, our new system for coding Chinese characters made it possible for everyone to find a common language.

2000

High-quality wireless sound

Before, high-performance headsets were limited by cords and wires. With the launch of the world's first mobile Bluetooth headset, high-quality audio streaming made it easier for people to stay connected to calls, music and information from anywhere – no strings attached.

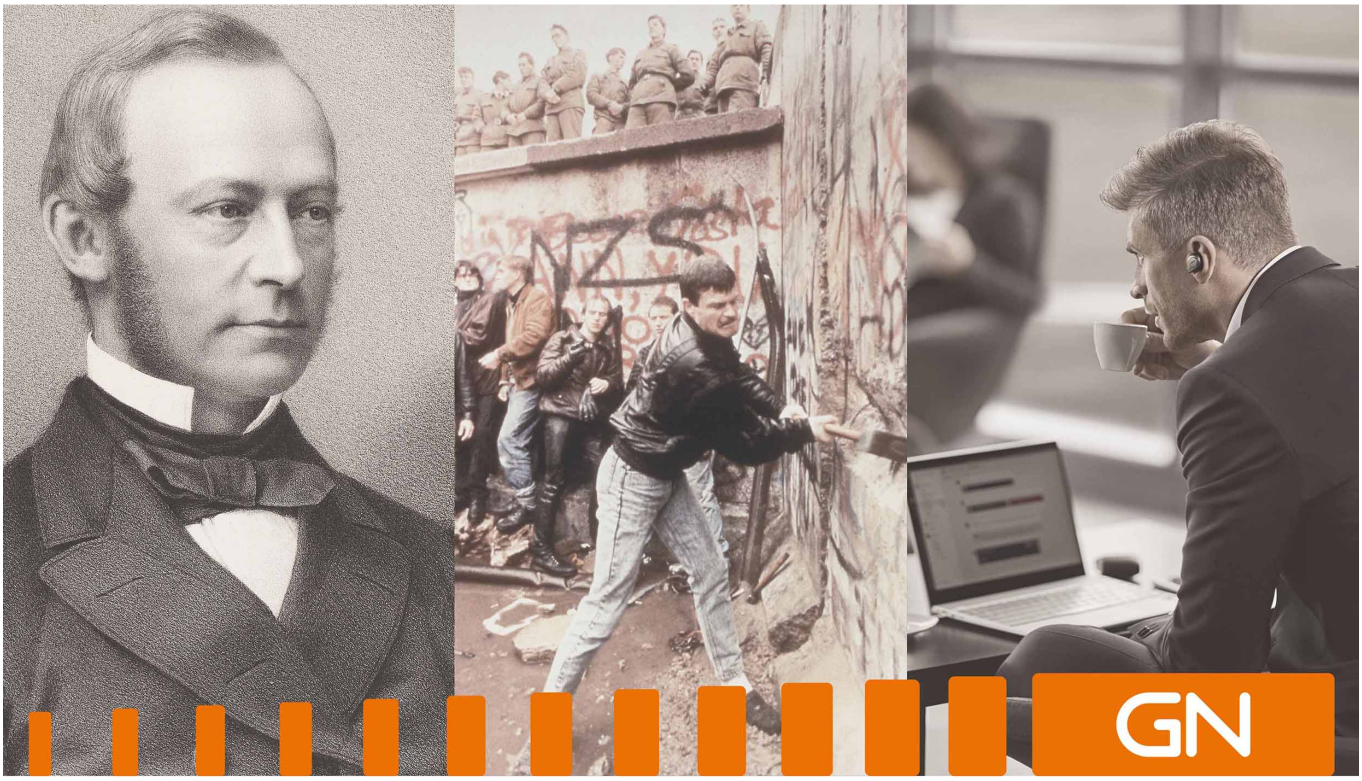
2017

Ground-breaking cloud technology

Using audiological insights and the latest advancements in technology, GN made hearing care more convenient with ReSound LiNX 3D™ and ReSound Assist. From anywhere, users could now use cloud technology to securely send a request for care from the ReSound Smart 3D™ app straight to their hearing care professional.

150 years of partnerships

As we create new connections, advance our technology and expand distribution worldwide, we rely on our partnerships to add more value to our solutions and make us even stronger



1869

Built on diplomacy

GN's founder C.F. Tietgen used his diplomatic skills to gain permission to build a telegraph through Siberia to Asia. Thanks to this crucial connection, GN was able to introduce the world's first 'internet', a telegraph connection from Northern Europe to China, and later to the USA.

1989

Making modern connections

After the end of the Cold War and the fall of the Berlin Wall, authorities in Eastern Europe and Russia needed help re-establishing communication. They trusted GN to build a new Trans-Siberian fiber-optic transmission line. Opened in 1993, this cable was a huge step for the region and for GN, successfully linking Eastern Russia with the West.

2019

Combining expertise

GN has always been focused on partnerships. Today, this means collaborating with customers and partnering with distributors, start-ups and other industry leaders. This provides a wide range of expertise and means we can focus on what we do best – intelligent engineering that makes life sound better.

150 YEARS OF MAKING LIFE SOUND BETTER

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2018 at a glance

Revenue (DKK)

10.6bn

+13% organic growth vs 2017

EBITA (DKK)

2.0bn

+12% vs 2017

Cash conversion

57%

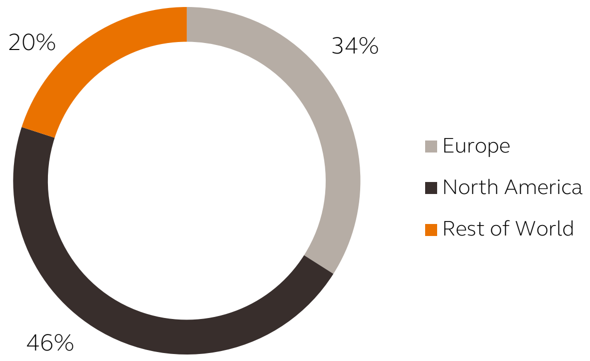
in line with industry peers

Shareholder returns (DKK)

1.2bn

via share-buybacks and dividends

Revenue split by region



Earnings per share (DKK)

9.25

+15% vs 2017

Our investment case

We create shareholder value by commercializing our core competencies within sound processing in attractive markets

GN Hearing

Innovation leader in hearing aids based on customer insights, unique sound processing systems and leading-edge connectivity and wireless 2.4 GHz technology

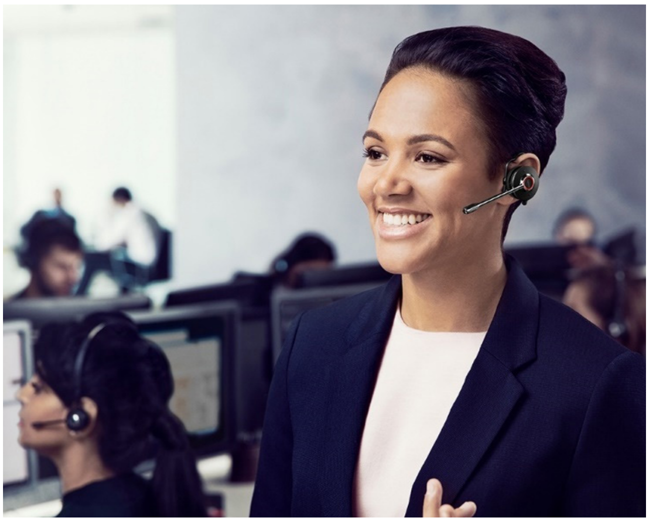
- Focused business model – dedicated wholesale manufacturer, refraining from vertical integration
- Attractive market growth driven by sustainable megatrends in a consolidated industry with attractive profit margins
- Profitability in line with the best manufacturers in the industry

GN Audio

World leader in Unified Communications headsets driven by customer-focused commercialization of a state-of-the-art product portfolio

- Attractive Call Center & Office (CC&O) market growth driven primarily by sustainable Unified Communications market trends
- The core business operates in a consolidated industry with high barriers to entry
- Attractive operating margin and return on invested capital

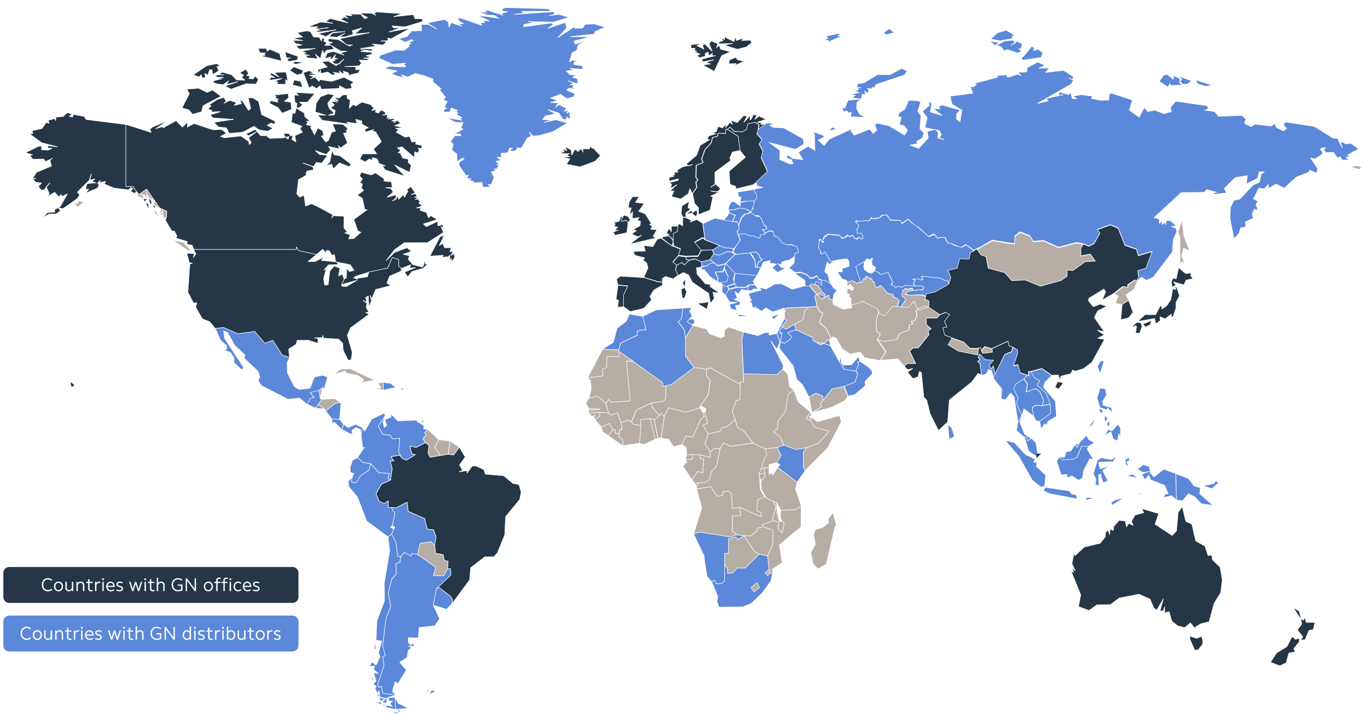
In August, GN Hearing announced the world's first Premium-Plus hearing aid: ReSound LiNX Quattro™ – and the corresponding Beltone Amaze™ – designed for people who want the very best that technology has to offer. These hearing aids offer a new category of hearing solutions and enlarge GN Hearing's product portfolio. Powered by a new chip platform, ReSound LiNX Quattro offers a combination of brilliant sound quality with unprecedented Layers of Sound™ and the world's most advanced rechargeable solution. Users benefit from an integrated Li-ion battery with 24 hours of use even when streaming 50% of the time.



In April, GN Audio launched Jabra Engage, a new family of professional headsets that sets new standards for call quality, security, and the number of staff who can simultaneously use wireless headsets in a given office space. Jabra Engage is an entirely new class of DECT wireless headset that has been designed following extensive research into the challenges facing call-centric businesses. Providing industry-leading wireless performance, Jabra Engage provides excellent call quality, improves customer satisfaction and employee productivity, while providing the highest level of security of any wireless headset on the market.

Global reach, local presence

The GN Group develops and manufactures innovative and intelligent audio solutions that are marketed and sold in around 100 countries across the world



Research & Development

GN has R&D centers in Denmark, the United States, the Netherlands and China.

The Group commands a unique blend of leading expertise in the human ear, sound and speech, wireless technologies, user-friendly software and miniaturization.

In 2018, GN invested 9% of its revenue in research and development.

Manufacturing

GN has its central manufacturing sites for hearing aids in Denmark, China and Malaysia. Regional manufacturing centers are located in the United States and Great Britain.

GN's audio products are produced by carefully selected manufacturers in China, and most components are sourced from suppliers in Asia. GN Audio works with a small number of tier-one manufacturers supported by more than 100 sub-suppliers.

Sales and distribution

GN's hearing aids are sold in around 100 countries across the world. GN has its own organization in 30 countries and operates via partners and distributors in another 70 countries.

GN's audio products are sold via distributors and retailers in some 80 countries around the world. One global logistics partner is responsible for optimizing lead-time to the final customer, delivering from three regional warehouses in the United States, the Netherlands and Hong Kong.

Business model and strategy

The GN Group's lean and agile business model – along with its strategic focus on Innovation, Commercial and People Excellence – positions the Group strongly to seize the multiple business opportunities driven by global megatrends

Attractive megatrends

A growing and aging world population as well as personal communication trends offer opportunities for intelligent audio solutions in industries with currently low penetration rates.

Making Life Sound Better

GN is a global leader in intelligent audio solutions that let you hear more, do more and be more than you ever thought possible – with unique R&D competencies within medical, professional and consumer audio solutions.

Strategic agility - attractive shareholder returns

A lean business model, refraining from vertical integration, ensures a strong position in relation to future business models. Resilient cash generation driving attractive shareholder returns.

Synergistic M&A

Merger and acquisition activities to support channel access and technology leadership as well as to streamline activities.

Strong partnerships

Strong track record of strategic partnerships with leading channels, customers and adjacent industry leaders.

Innovation Excellence

GN's sound technologies and experience are directed at consistently developing unmatched user benefits. This strict innovation focus has ensured multiple industry firsts by GN.

Commercial Excellence

Commercial execution is continuously improved by expanding in the open market, strengthening partnerships, sharing best practices, going digital and engaging users.

People Excellence

A series of programs strengthens strategy execution, leadership and people development across GN.

Business areas and brands

The purpose of the GN Group is Making Life Sound Better. With our innovative portfolio of intelligent audio solutions, people are enabled to Hear more, so they can Do more, which ultimately helps them Be more in life

Leading intelligent audio technology

GN's technology is founded in world-leading expertise in the human ear, sound, wireless technology and miniaturization, linking deep insight and knowledge from the hearing aid and the headset industries – all under one roof.

GN's R&D spans a wide range of disciplines, including acoustics, signal processing, neuroscience, human-computer interaction, artificial intelligence, audiology, and engineering.

Medical grade hearing devices and solutions

GN's history of producing industry-first sound solutions and pioneering advancements in technology include:

The most premium hearing solution on the market based on 6th generation 2.4 GHz technology which combines brilliant sound quality, full spectrum of streaming, support and optimization from anywhere and the world's most advanced rechargeable solution. Other cutting-edge innovations include 3rd generation Binaural Directionality for leading natural sound; the world's first Made for Apple hearing aids with direct stereo sound streaming; the world's first cloud-based remote fine-tuning solution; AI-powered apps providing optimal user experience and satisfaction; and a technology partnership with Google to bring the full spectrum of direct audio streaming from Android devices to hearing aids.

ReSound GN

ReSound's innovative hearing solutions combine original thinking and design with solid technology based on deep audiological insight and understanding of hearing aid users.

Beltone

Beltone provides high-quality personalized hearing care along with technically optimal hearing aids and solutions.

Interton GN

Interton delivers essential solutions designed to provide people with hearing impairment with a value based, affordable hearing aid that is easy to use.

Professional and consumer audio solutions

GN's professional headsets and speakerphone solutions are engineered to help businesses to be even more productive and to deliver supreme sound and great battery life to users for whom calls, music and media consumption are important.

GN Audio created the world's leading headset solution for office businesses, industry-leading wireless performance with the highest level of security of any wireless headset on the market, the world's first active-noise-canceling microphone, the world's first Bluetooth headset and the world's first wireless sports headphones with integrated heart-rate monitor, to name a few.

Jabra GN

Jabra provides the most technically advanced headset and speakerphone solutions, based on unique sound capabilities, engineered to fit the purpose for which they will be used.

blueparrott GN

BlueParrott engineers the world's best microphones and combine them with unrivaled noise-canceling technology to deliver superior call quality in high-noise environments.

Other GN brands and solutions

GN constantly strives to innovate products and solutions based on the Group's core competencies within intelligent audio solutions, and to explore opportunities outside of, but related to GN's existing business areas.

AUDIGY

Audigy Group offers best-in-class business and performance management solutions to hearing care practices.

FALCOM GN

Advanced in-ear communications and hearing protection system for defense and security forces.

Getting GN ready for the next 150 years

Our mantra going forward is to take our current GN businesses to the next level while further exploring the many new opportunities provided by our leading expertise in sound processing

On June 1, 1869, the Danish industrialist Carl Frederik Tietgen founded GN with a vision to create a more connected world. Since then, GN's ambitious journey has taken us from telegraph cables via radio communication equipment to intelligent audio engineering. As the fundamentals of modern communication rapidly changed, we remained agile and saw new opportunities at every turn. In 2019, after 150 years and countless innovations over the years, we celebrate our accomplishments and remain ready for the tomorrow.

Throughout these 150 years, GN has reinvented itself again and again. And we aim to do so for the next 150 years as we explore how our sound processing expertise and innovative technologies can Make Life Sound Better for people in new attractive ways.

Building on the core

Today, our core competencies derive from sound processing and developing truly intelligent audio solutions, enabling our two main business areas to do exceptionally well.

GN Hearing continues to lead innovation in the hearing aid industry – most recently with the ReSound LiNX Quattro™ and Beltone Amaze™ hearing aids that set new standards in sound quality and rechargeability. Also, we have set new standards with GN's cloud solution that allows for all types of remote communication between a user and a hearing care professional. This has opened for unprecedented user empowerment leading to significantly improved sound experience and allowing for data from user preferences to go directly into our continued product development.

Likewise, GN Audio leads its industry with product innovation that defines the professional headset and conference speaker markets. In early 2018, we launched Jabra Engage, a new family of wireless professional headsets that set new standards for call quality, security, and the number of employees who can simultaneously use wireless headsets in a given office space – particularly asked for by call-centric businesses, such as bank trading floors, service and customer call centers. The Jabra Evolve range of headsets, which is engineered to enhance productivity in the open office, has been very successful for several years. In this segment, we are the clear market leader based on constantly bringing relevant and innovative products to the market. In 2018, we further expanded the Evolve range with the Jabra Evolve 65t, the first true wireless earbuds certified for Unified Communications – making office headsets just as versatile and attractive as the modern consumer demands for leisure use. A true "prosumer" product. The Jabra Evolve 65t combines the best from professional and consumer headsets and has borrowed its attractive design from the highly successful Jabra Elite true wireless headsets. In this true wireless consumer market, where Apple is leading the market, GN Audio is currently the number three supplier and widely recognized as the innovation leader with best-in-class, high quality products.

Preparing the next strategy

Clearly, our current strategy for 2017 – 2019: Hear More, Do More, Be More Strategy, has brought us far. And the well-

"When we look further into the future, we see significant attractive business opportunities."
Per Wold-Olsen, Chairman of the Board

oiled machinery in our two businesses will also deliver strong business and financial performance during the remainder of 2019, aligned with the targets we set three years back. Delivering on our promises is – as always – a primary focus for us at GN today.

We have already initiated preparatory work for our strategy beyond this year. Still work in progress, but we can safely say that our going-forward strategy will not just be a prolongation of the status quo. It will, naturally, focus on further pursuing the opportunities that our core competencies make available, as such will continue to grow our core businesses within the hearing aid and headset space, where we are technology leaders today. Beyond that we will continue our research and long-term strategy work to explore and become engaged with adjacent business opportunities.

Looking further ahead

When we look further into the future, we see significant attractive business opportunities, where we can leverage our deep sound processing and engineering capabilities to make life better for people around the world.

Consider one of the many megatrends we as a company can explore: For the first time in the history of mankind, there are more people living in cities than rural areas – 4.2 billion out of the total world population of 7.7 billion. Rapid urbanization is expected to continue with 1.5 million people added to the total every week, according to the UN Department of Economic and Social Affairs.

The social and economic advantages of city-living are many, but there are also drawbacks. One such negative is sound pollution – the unwanted noise generated by your immediate environment. Not being able to control your personal soundscape – the ability to filter what you want and need to hear – has been proven to have a detrimental effect on our health and wellbeing, causing hypertension, increased stress levels, tinnitus, hearing loss, sleep disturbances, and other harmful effects, according to the World Health Organization.

Another key challenge in today's lifestyle is our dependence on the smartphone screen. Multiple activities at work and in our free time are tied to reading and writing commands on a screen. This is often ineffective, a hassle and can even be a safety issue as we move around in traffic and other busy environments. This can be solved by voice commands, which require the very sophisticated sound processing that GN masters – in order for the machine to always understand what you say.

These are but a few examples of modern day challenges that GN can address with truly intelligent audio solutions. There are many more opportunities for GN to expand into new business segments with the audio expertise we have from our hearing aid and headset businesses.

GN's core competencies within sound processing – increasingly based on software and technologies within artificial intelligence, machine learning, human-computer interaction, sensor integration, etc. – enable us to develop intelligent solutions to address the challenges of sound pollution, voice control and health in today's and tomorrow's world.

Also, in the United States, a new class for over-the-counter hearing aids is currently being prepared by the U.S. Food and Drug Administration. This may be another future opportunity to utilize our combined medical, professional and consumer audio expertise – if we so decide.

Smart partnering

Over the past many years, our business model has proven highly successful. For 150 years, GN has always been a smaller company than many of its competitors – but also more innovative and agile. While we will continue to explore opportunities for relevant acquisitive growth – such as our recent conditional acquisition of Altia Systems, a leading innovative developer of premium unified video communications solutions – we will also continue to focus on what we do best and partner with leading technology experts, channels, customers, start-up entrepreneurs and adjacent industry and technology leaders to leverage what they do best.

In 2018, our investment in and strategic partnership with audEERING, the recognized world leader within intelligent audio analysis and emotional artificial intelligence; our expanded and deepened alliance with Cochlear, the global leader in implantable hearing solutions; our long-standing partnerships with Apple and Microsoft; our new technology partnership with Google – and even our partnership with Red Bull Media House to deliver superior audio quality in extreme conditions. These were all a testimony to this smart partnering business model that allows GN to punch above its weight.

Making Life Sound Better – every day

For 150 years, GN has built its success on always thinking global while maintaining our agile Scandinavian mindset. With our vision to be the "Leader in Intelligent Audio Solutions, Transforming Lives through the Power of Sound" we continue to rely on our more than 6,000 experienced and talented employees and leaders around the world.

In 2018, our employees and leaders have again excelled to the benefit of millions of users of our products – and made life sound better. This is our common purpose and on behalf of GN's Board of Directors, I wish to thank them all for their hard work and ingenuity. This is what GN will build on – our foundation, our people – for the next 150 years.

Per Wold-Olsen
Chairman of the Board

Consolidated financial highlights

DKK million	2014	2015	2016	2017	2018
GN Hearing					
Revenue	3,892	4,526	5,156	5,615	5,833
Revenue growth	7%	16%	14%	9%	4%
Organic growth	8%	9%	6%	6%	7%
Gross profit margin*	68.8%	67.4%	69.0%	69.4%	69.2%
EBITA*	833	921	1,062	1,153	1,194
EBITA margin*	21.4%	20.3%	20.6%	20.5%	20.5%
ROIC (EBITA/Invested capital)	16%	16%	17%	18%	19%
Free cash flow excl. company acquisitions and divestments	368	456	704	866	574
Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA)	44%	50%	66%	75%	48%
GN Audio					
Revenue	2,871	3,229	3,495	3,970	4,774
Revenue growth	10%	12%	8%	14%	20%
Organic growth	11%	2%	7%	10%	21%
Gross profit margin	53.6%	52.6%	52.7%	53.2%	53.2%
EBITA*	521	540	597	721	905
EBITA margin*	18.1%	16.7%	17.1%	18.2%	19.0%
ROIC (EBITA/Invested capital)	57%	47%	41%	46%	59%
Free cash flow excl. company acquisitions and divestments	340	271	523	481	798
Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA)	65%	50%	88%	67%	88%
GN Store Nord					
Revenue	6,763	7,755	8,651	9,585	10,607
Revenue growth	8%	15%	12%	11%	11%
Organic growth	9%	6%	6%	8%	13%
Gross profit margin*	62.4%	61.2%	62.4%	62.7%	62.0%
EBITA*	1,196	1,383	1,583	1,744	1,956
EBITA margin*	17.7%	17.8%	18.3%	18.2%	18.4%
Operating profit (loss) reported	1,132	1,149	1,445	1,558	1,796
Financial items, net	(80)	(138)	(52)	(60)	(203)
Profit (loss) before tax	1,057	1,016	1,395	1,504	1,606
Effective tax rate	29%	26%	22%	25%	22%
Profit (loss) for the year	749	747	1,086	1,122	1,247
Total assets	10,229	11,176	12,835	11,737	13,017
Consolidated equity	5,667	5,764	5,620	4,783	5,096
ROIC (EBITA/Invested capital)	19%	20%	20%	21%	24%
Earnings per share, basic (EPS)	4.61	4.79	7.34	8.07	9.25
Earnings per share, fully diluted (EPS diluted)	4.57	4.77	7.32	8.02	9.13
Investments in property, plant and equipment	(95)	(171)	(106)	(103)	(160)
Free cash flow excl. company acquisitions and divestments	561	607	1,179	1,134	1,110
Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA)	47%	44%	74%	65%	57%
Equity ratio	55.4%	51.6%	43.8%	40.8%	39.1%
Net interest-bearing debt	1,631	2,212	3,377	3,035	3,234
Net interest-bearing debt (period-end)/EBITDA	1.1	1.4	1.9	1.6	1.5
Payout ratio	19%	20%	16%	16%	16%
Share buybacks**	877	1,162	1,272	1,372	1,061
Outstanding shares, end of period (thousand)	159,592	152,254	143,471	136,443	132,576
Average number of outstanding shares (thousand)	162,238	156,013	147,967	138,980	134,114
Average number of outstanding shares, fully diluted (thousand)	163,619	156,734	148,361	139,968	135,864
Treasury shares, end of period (thousand)	8,429	9,937	11,317	9,241	13,108
Share price at the end of the period	135	125	146	201	243
Market capitalization	21,513	19,032	20,990	27,357	32,256

* EBITA: Excluding gain (loss) on divestments of operations and amortization of acquired intangible assets, including amortization of development projects and software developed in-house

** Including buybacks as part of the share based incentive programs

Note: 2014 - 2017 are not adjusted for changes related to IFRS 9 and IFRS 15

Group performance 2018

In 2018, GN Store Nord continued to deliver strongly on the 2017 - 2019 strategy. Organic revenue growth was 13% based on strong execution in both GN Hearing and GN Audio. EPS increased 15%. With important product launches during the year, GN is well positioned for 2019 and beyond

Revenue

In 2018, GN Store Nord increased revenue to DKK 10,607 million from DKK 9,585 million in 2017. Organic revenue growth was 13%, compared to 8% in 2017. The foreign exchange contribution was around (3)% and M&A contribution was around 1%. The solid growth reflects a strong development in both GN Hearing and GN Audio, driven by innovative product portfolios and strong commercial execution.

EBITA

In 2018, GN increased EBITA to DKK 1,956 million, which was 12% higher than in 2017. GN's earnings improvement reflects the strong revenue development and was achieved on top of significant investments made in future growth opportunities across the business. The EBITA margin ended at 18.4%, compared to 18.2% in 2017.

Net profit

Amortization of acquired intangible assets was DKK (155) million, compared to DKK (148) in 2017. Gain (loss) on divestment of operations etc. ended at DKK (5) million. Share of profit (loss) in associates was DKK 13 million, and financial items ended at DKK (203) million, compared to DKK (60) million in 2017. The increase in financial items is primarily due to positive contribution from foreign exchange adjustments of certain balance sheet items in 2017 with negative contribution in 2018. The effective tax rate was 22%. The net profit reached DKK 1,247 million, compared to DKK 1,122 million in 2017, translating into an increase of 11%.

Other performance indicators

GN continues to have a strict focus on cash flow generation. Free cash flow excl. M&A amounted to DKK 1,110 million, equal to a cash conversion of 57% for the Group.

Earnings per share (EPS) increased 15% to DKK 9.25, compared to DKK 8.07 in 2017. This reflects the increase in net profits as well as the ongoing share buyback program.

The return on invested capital (ROIC) increased to 24% in 2018, compared to 21% in 2017. The strong development is a result of the EBITA growth and a more moderate increase in the invested capital.

By the end of 2018, equity in GN Store Nord amounted to DKK 5,096 million, compared to DKK 4,783 million in 2017. The increase is primarily driven by strong net profits during the period, but to some extent off-set by the share buyback program as well as the annual dividend payment.

Financial overview 2018

	GN Hearing			GN Audio			Group total*		
DKK million	2018	2017	Growth	2018	2017	Growth	2018	2017	Growth
Revenue	**5,833**	**5,615**	**4%**	**4,774**	**3,970**	**20%**	**10,607**	**9,585**	**11%**
Organic growth	*7%*	*6%*		*21%*	*10%*		*13%*	*8%*	
Gross profit	**4,034**	**3,895**	**4%**	**2,540**	**2,113**	**20%**	**6,574**	**6,008**	**9%**
Gross margin	*69.2%*	*69.4%*	*(0.2)%p*	*53.2%*	*53.2%*	*0.0%p*	*62.0%*	*62.7%*	*(0.7)%p*
EBITA	**1,194**	**1,153**	**4%**	**905**	**721**	**26%**	**1,956**	**1,744**	**12%**
EBITA margin	*20.5%*	*20.5%*	*0.0%p*	*19.0%*	*18.2%*	*+0.8%p*	*18.4%*	*18.2%*	*+0.2%p*
Earnings per share (EPS) - DKK							**9.25**	**8.07**	**15%**
Free cash flow, excluding M&A	574	866	(34)%	798	481	66%	1,110	1,134	(2)%

* Including "Other"

Dividend and share buyback programs

During 2018, GN continued to return capital to shareholders on the back of the solid cash flow generation. GN distributed around DKK 1.2 billion to shareholders in 2018, hereof DKK 182 million as dividend and DKK 986 million as part of the share buyback programs.

The current DKK 1,000 million share buyback program, which was initiated in March 2018, will be concluded no later than March 14, 2019. As communicated in the Annual Report 2016, GN Store Nord's Board of Directors intends to buy back shares worth DKK 1,000 million annually during GN's 2017 - 2019 strategy: Hear More, Do More, Be More, subject to approvals by Annual General Meetings.

The Board of Directors will propose to pay out DKK 1.35 per share in dividend for the fiscal year 2018 (equivalent to a total dividend of DKK 197 million), compared to DKK 1.25 per share last year and equivalent to an increase of 8%.

Capital structure

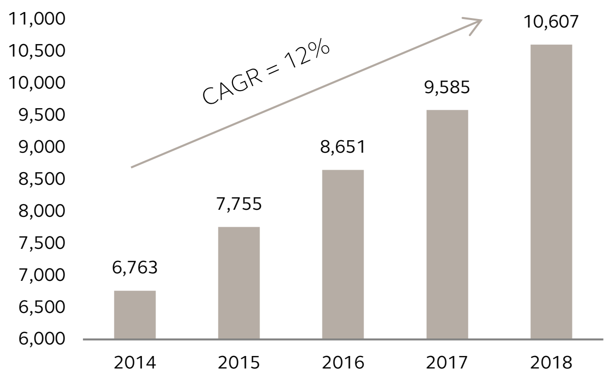
As previously communicated, GN targets a net interest-bearing debt of one to two times EBITDA. By the end of 2018, the net interest-bearing debt amounted to DKK 3,234 million, corresponding to 1.5 times EBITDA.

Claim against Plantronics Inc.

In 2012, GN Audio filed suit against Plantronics for attempted monopolization of the distributors' market in the United States. On October 18, 2017, a jury in the Federal District Court of Delaware ruled in favor of Plantronics as the jury did not find that Plantronics' behavior in the market had been unlawful. GN has appealed the ruling and the case was argued before the Court of Appeals on December 11, 2018. A ruling is expected in the first half of 2019.

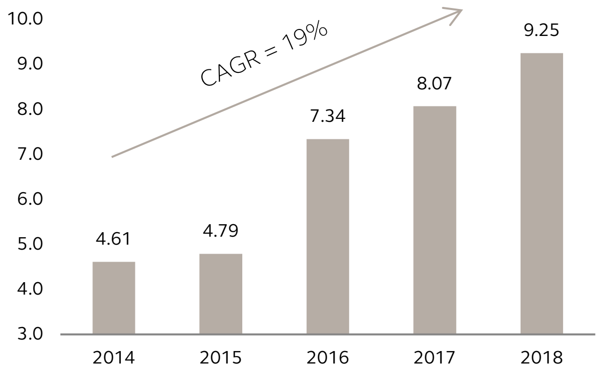
Revenue development

DKK million



EPS development

DKK



Financial outlook

GN Store Nord is entering the last year of the strategy 2017 – 2019: Hear More, Do More, Be More. Based on strong current momentum in both GN Hearing and GN Audio and industry-leading product portfolios, GN is strongly positioned for 2019 and beyond

The financial outlook for 2019 assumes continued strong profitable growth:

- For GN Hearing, organic revenue growth is expected to be around 7% and the EBITA margin is expected to be more than 20%
- For GN Audio, organic revenue growth is expected to be more than 15% and the EBITA margin is expected to be more than 19%*
- EBITA in "Other" is expected to be around DKK (150) million. The majority of the cost is related to shared functions servicing both GN Hearing and GN Audio. In addition, GN will continue to actively research and explore future business opportunities outside the current area of operation in GN Hearing and GN Audio
- For GN Store Nord, the effective tax rate for 2019 is expected to be around 23%

In 2019, GN Store Nord targets a double digit percentage increase in earnings per share (EPS).

GN Hearing

Financial guidance 2019

GN Hearing expects in 2019 to continue to grow faster than the market (see market projections below). Organic revenue growth is expected to be around 7%. As outlined in the strategy for 2017 – 2019: Hear more, Do more, Be more, GN Hearing will continue executing on the three cornerstones of the strategy, Innovation Excellence, Commercial Excellence and People Excellence, which will contribute to solid growth in 2019.

The EBITA margin is expected to be more than 20% in 2019. GN Hearing will continue to invest in future growth opportunities in 2019, as described in the strategy for 2017 – 2019: Hear more, Do more, Be more. The development of foreign exchange rates is expected to have a slightly negative impact on the EBITA margin in 2019.

Market projections

For the 2017 – 2019 strategy period, GN Hearing estimated market growth to be around 4 - 6% in volumes with ASP decline of around 1 - 2% annually. For 2019, GN Hearing expects market growth to be within this range and to be broad-based across all the three regions: North America, Europe and Rest of World.

GN Audio

Financial guidance 2019

In 2019, GN Audio expects to deliver more than 15% organic revenue growth and to continue the solid growth momentum. This expectation is based on planned continued delivery of new relevant and market-making products combined with continued strong execution of the initiatives launched under the 2017 – 2019 strategy. The guidance assumes continued market share gains (see market projections below). GN Audio's organic growth is expected to be particularly strong in the first half of 2019, reflecting the comparison base in 2018.

GN Audio expects the EBITA margin to be more than 19%* in 2019, reflecting the expected revenue growth and operational leverage, however, partly off-set by investments

Financial guidance 2019**

	Organic revenue growth	EBITA margin	Effective tax rate
GN Hearing	~7%	>20%	
GN Audio	>15%	>19%*	
Other (DKK million)		~ (150)	
GN Store Nord			~23%

* Before extraordinary one-off costs related to the acquisition of Altia Systems Inc. (announced on February 19, 2019), which impact GN Audio's EBITA margin negatively by around 1 percentage point in 2019. The acquisition is expected to be accretive to GN Audio's financials from 2020

** Based on foreign exchange rates as of February 1, 2019 in future growth opportunities. The development of foreign exchange rates is expected to have a slightly negative impact on the EBITA margin in 2019.

Market projections
GN Audio expects that the very favorable global CC&O market trend will continue in 2019, creating a solid foundation for continued strong performance.

GN Audio's addressable parts of the consumer market is expected to develop favorably in 2019, among other factors with strong growth in the true wireless market. This is expected to off-set the challenges in the Bluetooth mono market, where GN Audio's relative exposure has decreased significantly in 2018.

In total, GN Audio expects that its addressable markets will grow by close to 10% in 2019.

Other activities and tax

EBITA in "Other" is expected to be around DKK (150) million in 2019 (DKK (143) million in 2018). The majority of the cost is related to shared functions servicing both GN Hearing and GN Audio.

In addition, GN will continue to actively research and explore future business opportunities outside the current area of operation in GN Hearing and GN Audio, leveraging on the core knowledge and competencies of the Group. The intelligent communication solution for defense and security forces announced on January 30, 2018, is a successful example of the portfolio of research projects aimed at leveraging GN's unique, leading competencies within intelligent audio solutions in both hearing aids and headsets.

GN is expected to deliver an effective tax rate of around 23% for 2019. This is slightly above the level realized in earlier years.

Forward-looking statements
The forward-looking statements in this annual report reflect the Executive Management's current expectations of certain future events and financial results. Statements regarding the future are inherently subject to risks and uncertainties which may result in material deviations from expectations. Furthermore, some of these expectations are based on assumptions regarding future events which may prove incorrect.

Factors that may cause actual results to deviate materially from expectations include – but are not limited to – general economic developments and developments in the financial markets, technological developments, changes and amendments to legislation and regulations governing GN's markets, changes in the demand for GN's products, competition, fluctuations in sub-contractor supplies and developments in ongoing litigation (including but not limited to class action and patent infringement litigation in the United States).

For more information, see the "Management's report" and "Risk management" elsewhere in this annual report. This annual report should not be considered an offer to sell securities in GN.

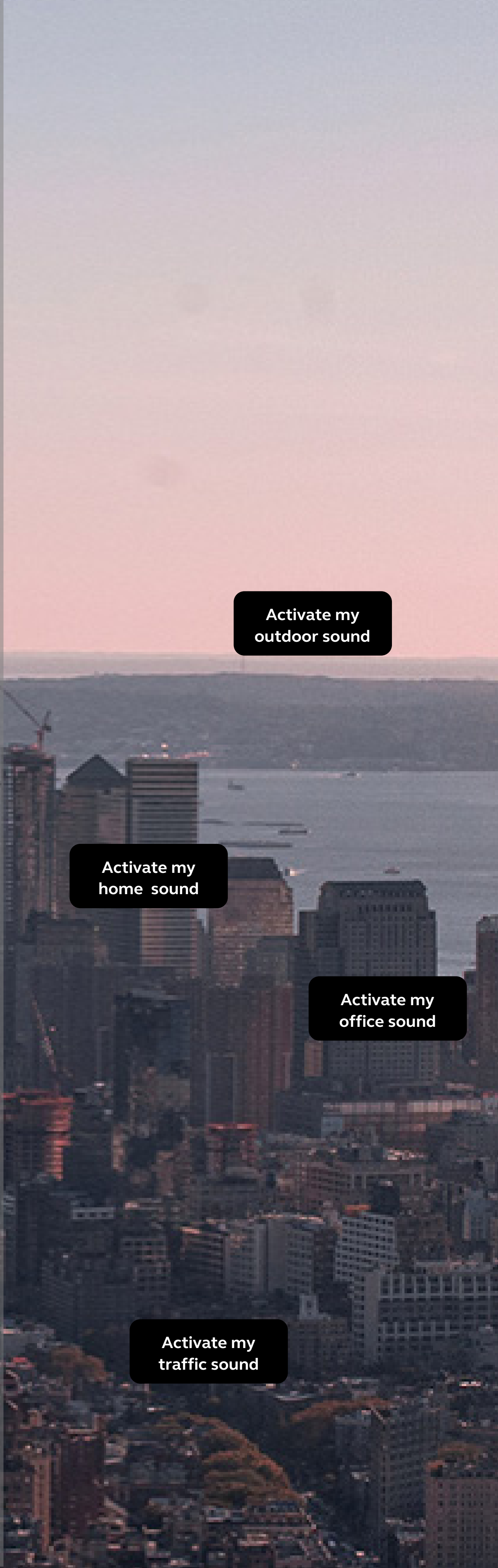
Enhancing GN solutions with AI

GN has for a number of years invested significantly in research and partnerships to develop Artificial Intelligence (AI) solutions that will let people hear more, do more and be more than they ever thought possible. As a recognized technology innovation leader, GN has always been pioneering new ways to make life sound better – this year celebrating 150 years of innovations.

Maintaining and further enhancing GN's position as a leader in intelligent audio solutions that transform lives through the power of sound, GN is leveraging the Group's combined strength to research and develop AI capabilities in a number of ways.

GN's new offerings launched in early 2019 within hearing aids and headsets follow years of investments in our dedicated AI research center, the GN Advanced Science unit; our investment in AudEERING, the recognized world leader within intelligent audio analysis and emotional artificial intelligence; our partnership and ecosystems with other leading technology innovators such as Apple and Google; and our extensive collaboration with other scientific partners and academic research institutes.

Through the combined strengths of GN Audio and GN Hearing, the GN Group takes advantage of its scale and strength of capabilities to the benefit of both its businesses in a way that competitors in neither the hearing aid nor the headset industries have access to. Looking to the future, AI-enhanced intelligent audio solutions – developed and used the right way – have great potential to lift the quality of life, overall health and well-being, as well as increase personal and corporate productivity.



GN Hearing

In 2018, strong performance by the ReSound LiNX 3D family, combined with the new ReSound LiNX Quattro drove 7% organic revenue growth and creates a solid growth platform for 2019 and onwards

6th generation 2.4 GHz

ReSound LiNX Quattro

drives strong growth in revenue and earnings

Organic growth
7%
in 2018

EBITA margin
20.5%
in 2018

Market share gains
8 years
in a row

9%
of revenue re-invested in R&D

World's first Premium-Plus hearing aid

Brilliant sound quality with unprecedented Layers of Sound and the world's most advanced rechargeable solution

Highlights 2018

- Organic revenue growth of 7% in 2018. Strong momentum with 10% organic revenue growth in Q4 2018
- In August 2018, GN Hearing announced its 6th generation 2.4 GHz hearing aid: ReSound LiNX Quattro, the world's first Premium-Plus hearing aid
- EBITA increased by 4%, compared to 2017, translating into an EBITA margin of 20.5% in line with financial guidance
- Free cash flow excl. M&A was DKK 574 million in 2018, translating into a cash conversion of 48%

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

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

The revenue growth of 4% translated into an increase in EBITA of 4%, while investing in further growth initiatives as part of the 2017 – 2019 strategy.

GN Hearing's strategy for 2017 – 2019: Hear More, Do More, Be More was announced in September 2016. It builds on three cornerstones: Innovation Excellence, Commercial Excellence and People Excellence. This will be the foundation for GN Hearing's continued strong profitable growth throughout 2019.

Revenue

GN Hearing delivered 7% organic revenue growth in 2018. The financial guidance for 2018 was more than 6% organic revenue growth. The foreign exchange development contributed negatively with around (3)% and M&A contribution was around 1%. Revenue growth was 4%. The revenue in 2018 reached DKK 5,833 million, compared to DKK 5,615 million in 2017.

Layers of Sound

Trendsetter in rechargeable solutions

The world's first Premium-Plus hearing aids, ReSound LiNX Quattro, give users confidence in the finer details: Brilliant sound quality, full spectrum of streaming, support and optimization from anywhere, and the world's most advanced rechargeable solution.

Introduced into the market in August 2018, ReSound LiNX Quattro and the corresponding Beltone Amaze have seen remarkable success.

While customers praise the sound quality, the rechargeable option has been a significant factor for many users. 9 out of 10 customers chose the rechargeable version.

No wonder - studies have shown that this is, indeed, the most intuitive Li-ion rechargeable hearing aid in the market: 8 out of 10 users are able to set up and use the charger in less than 30 seconds without instructions, which is twice as many as for other rechargeable hearing aids.

In terms of performance, this is the smallest and longest lasting 2.4 GHz integrated Li-ion rechargeable hearing aid in the market – with a small and exclusive portable charger, holding three extra charges. A full charge takes three hours and will last 30 hours - or 24 hours with streaming half of the time. With just 10 minutes charge, it will last almost 3 hours.

GN Hearing continued its strong performance in the independent market, addressing the growing share among independent customers in line with the target set out in the 2017 – 2019 strategy.

All three regions contributed with strong growth and market share gains during the year. In North America, GN Hearing continued to take market share in the independent market driven by the combination of ReSound LiNX 3D and ReSound LiNX Quattro. In APAC and Emerging Markets, GN Hearing continued to deliver double digit organic revenue growth, with particularly strong growth in among other China, where ReSound LiNX 3D was launched during October 2018. In Europe, GN Hearing continued to gain market share in several important markets, including France and Spain.

Earnings and other financial highlights
GN Hearing's gross profit reached DKK 4,034 million in 2018, which was 4% higher than in 2017. The gross margin was 69.2%, in line with 2017.

Operating expenses ended at DKK 2,840 million compared to DKK 2,742 million in 2017, corresponding to an increase of 4%. The increase in operating expenses is primarily related to continued investments in future products as well as in sales and marketing in order to sustain the above-market growth momentum. Operating expenses in percent of revenue decreased slightly from 48.8% in 2017 to 48.7% in 2018 as a function of the strong revenue growth and cost control.

EBITA increased to DKK 1,194 million in 2018 from DKK 1,153 million in 2017, an increase of 4%. The EBITA margin ended at 20.5%, in line with the guidance for the year and in line with 2017, reflecting strong underlying performance, but off-set by the development in foreign exchange rates as well as ongoing investments in future growth opportunities as part of the 2017 – 2019 strategy.

The return on invested capital (ROIC) increased to 19% for 2018 compared to 18% in 2017. The strong development is a result of the EBITA growth and a more moderate increase in the invested capital.

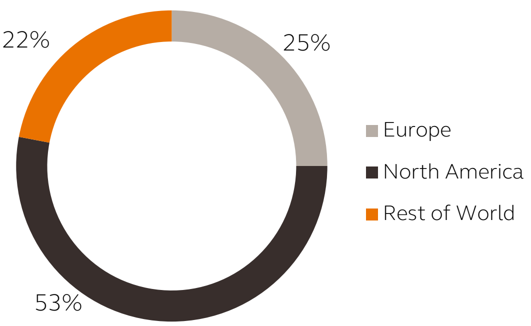
Free cash flow excl. M&A reached DKK 574 million, compared to DKK 866 million in Q4 2017, reflecting the timing of the ReSound LiNX Quattro launch and impacting trade receivables and inventories adversely. Cash conversion was 48% in 2018.

Business highlights

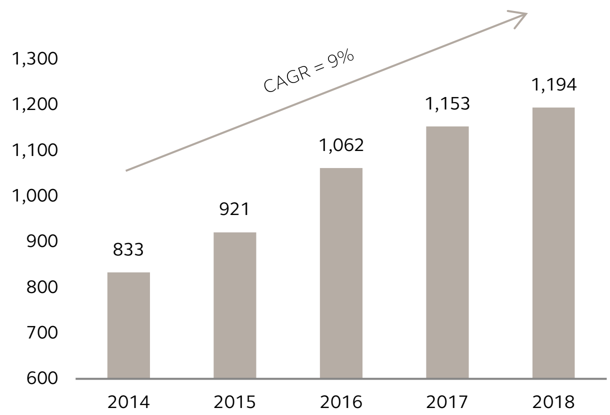
ReSound LiNX Quattro
On August 13, 2018, GN Hearing announced the world's first Premium-Plus hearing aid: ReSound LiNX Quattro, designed for people who want the very best that technology has to offer and desire a brilliant sound experience with great speech intelligibility even in noisy situations. ReSound LiNX Quattro is also offered in a very popular version with the world's most advanced rechargeable solution.

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

Revenue distribution



EBITA development
DKK million



Note: Excluding Otometrics and SMART restructuring costs

The ultimate test

“Pretty impressive”

ReSound LiNX Quattro is preferred 95% of the time for music listening, compared to other premium hearing aids. While the primary goal of hearing aids is to hear and communicate with others, the hearing aids’ ability to faithfully reproduce music is the ultimate test of sound quality as music is the most demanding listening environment.

In 2009, Meniere's Disease separated the composer Andrew Hugill from his music career. Ten years later, the new ReSound LiNX Quattro has given Andrew the confidence to bring music back in his life.

”This is better than anything I’ve heard in a long time. What I’ve got is a more complete auditory environment. It starts sounding like music. This is pretty impressive.”

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

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

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

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

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

New branded launch in Costco
In the autumn of 2018, ReSound Vida™ was launched in the branded category of Costco's hearing aid business. The new, exceptionally strong product offering allows GN Hearing to fortify its position in the branded category where there is good potential for profitable growth in years to come. The launch allows GN Hearing to further leverage the strong brand recognition of its main brand, ReSound.

Left: Premium-plus ReSound LiNX Quattro rechargeable version.

Below: the ReSound LiNX 3D full family of premium products.

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

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

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

Beltone network
In 2018, the Beltone network continued its encouraging development. Beltone is a strong and recognized brand in the U.S. hearing aid market, and it is GN Hearing's goal to further strengthen Beltone in order to build the network for the future. This initiative is focused on transformational growth as well as building a culture of continuous improvement and achieving even stronger brand awareness, which is further fueled by the recent introduction of the Beltone Amaze hearing aid (with features and benefits corresponding to ReSound LiNX Quattro).

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

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

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

FalCom going live

On January 30, 2018, GN announced FalCom under GN Hearing, a revolutionary intelligent communication solution with unparalleled noise management for defense and security forces.

The pioneering and patented hearing protection solution – leveraging GN's unique leading competencies within intelligent audio solutions in both GN Hearing and GN Audio – offers the user a communication headset which is comfortable, highly durable and protects the user against high volume noise while allowing the user to clearly identify important sound in 360 degrees. This initiative is a successful result of corporate level investments made through GN's Strategy Committee guided initiatives to explore opportunities outside of, but related to, GN's existing core business areas.

In the initial phase, focus has been to prepare for upcoming tenders, which are the prevalent purchasing method in this space. During 2018, GN has successfully shipped the first products, which are currently being tested in connection to a specific tender.

Jakob Gudbrand appointed new CEO of GN Hearing

On December 17, 2018, GN appointed Jakob Gudbrand new CEO of GN Hearing and member of GN Store Nord's Executive Management, effective as of February 18, 2019.

Jakob Gudbrand comes to GN from a position as President of the Chromatography and Mass Spectrometry division, a large division of Thermo Fisher Scientific, a US-based Fortune 500 company listed on the New York Stock Exchange. He has more than 15 years of broad-based international leadership experience from his diverse career at Thermo Fisher, including a strong mindset for growth and innovation from a high technology science company. Jakob Gudbrand headed the Chromatography and Mass Spectrometry division of Thermo Fisher, responsible for yearly revenues of around DKK 16 billion and 6,500 employees. GN Hearing's new CEO has had multiple senior management positions within Thermo Fisher Scientific. His leadership career started with Radiometer in Denmark, then moving on to the UK before relocating to the US. Jakob Gudbrand has a bachelor's degree in chemical engineering from the Technical University of Denmark (DTU).

Implementing AI in hearing solutions

In early January 2019, GN Hearing announced the world's first hearing solutions that intuitively adapt to the hearing aid user's personal preferences in any given sound environment. GN Hearing's artificial intelligence (AI) solution works in tandem with Apple's Siri virtual assistant.

The new, life-enhancing offering is an added benefit to the latest and innovative 2.4 GHz product portfolio under the ReSound and Beltone brands, and it is available to users from February 2019. Through the use of AI, GN Hearing will deliver a continuous stream of new user benefits in future software releases. This will enable users to always be at the forefront of innovation by updating existing GN Hearing instruments with new features.

Sales and marketing

In the 2017 - 2019 strategy: Hear More, Do More, Be More, GN Hearing has declared Commercial Excellence a key driver for success. The focus areas for marketing are to drive significantly increased market share in the open market through innovative new product launches and initiatives, further strengthening of partnerships with key accounts around the world, and to drive successful digital transformation. A disciplined and deepened understanding of customer and consumer needs and behaviors has allowed for differentiated value-driven programs and campaigns.

R&D

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

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

Operations

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

Market development

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

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

GN Audio

In 2018, GN Audio further strengthened its world-leading position in the attractive CC&O market. Very strong performance across regions and channels driven by new product launches led to 21% organic revenue growth

Exceptionally strong year

21%

organic revenue growth in 2018

Growth in EBITA

26%

EBITA margin

19.0%

vs 18.2% in 2017

No 1

in Unified Communications

Cash conversion

88%

Fastest growing company

in the professional headset market

Highlights 2018

- Organic revenue growth of 21% in 2018
- EBITA increased 26% to DKK 905 million, equivalent to an EBITA margin of 19.0%, compared to 18.2% in 2017
- Free cash flow excl. M&A increased to DKK 798 million equal to a cash conversion of 88%, compared to 67% in 2017
- Launch of Jabra Engage headset series uniquely positioned for the call-centric part of the headset market fortifying GN Audio's leadership in the attractive CC&O market
- Launch of important additions to the Jabra Elite family. This has been the key driver for the ongoing repositioning of the consumer business, which is now experiencing strong organic revenue growth for the full year

GN Audio continued to execute very strongly on the 2017 – 2019 strategy: Hear More, Do More, Be More. In 2018, GN Audio delivered strong growth in both revenue and EBITA. The development was the result of a leading product portfolio and best-in-class commercialization. Following a very successful 2018, GN Audio is well-positioned to take advantage of the current strong momentum and stay ahead of competition in the years to come.

In the enterprise business targeting the global Call Center & Office (CC&O) market, GN Audio achieved very significant growth throughout 2018. This was particularly driven by the Unified Communications (UC) segment. GN Audio accelerated its market share gains on the back of its leading product portfolio and continued strong execution across the organization.

GN Audio's ongoing repositioning of the consumer business resulted in strong organic revenue growth, driven among other by the very successful Jabra Elite family, which continues to receive outstanding reviews and feedback.

GN Audio's 2017 - 2019 strategy: Hear More, Do More, Be More, as announced in September 2016 continues, to be the foundation for GN Audio's strong profitable growth.

Jabra Engage

A giant leap for call-centric professionals

In early 2018, GN Audio launched Jabra Engage, a new family of professional headsets.

The Jabra Engage series includes mono and stereo variants and earns the title ‘world’s most powerful professional wireless headsets’ because of its secure wireless performance, market-leading density and connectivity, crystal clear audio and extensive talk time.

Later in the year, an addition to the Jabra Engage family saw the light of day: Jabra Engage 50 – a professional digital corded headset for better-sounding calls. With Jabra Engage 50, analytics can be widely used across businesses to improve call center performance.

Revenue

GN Audio delivered 21% organic revenue growth in 2018. This is slightly exceeding the updated financial guidance for 2018 of 16-19% organic revenue growth. The foreign exchange rate development contributed negatively with around (2)% and M&A contribution was around 1%. Revenue growth was 20%. The revenue in 2018 reached DKK 4,774 million, compared to DKK 3,970 million in 2017.

The continued strong growth reflects the strength of GN Audio's innovative world-leading product portfolio as well as strong execution on its commercial excellence initiatives across all three regions. As a result of the strong performance and market-making new products, GN Audio continues to strengthen its leading position in the attractive CC&O market.

As a result of GN Audio's ongoing repositioning, the consumer business has improved strongly each quarter during the year, driven in particular by the very successful Jabra Elite family. For the full year, the consumer business delivered strong organic revenue growth across all three sales regions.

Earnings and other financial highlights

In 2018, gross profit increased by 20% to DKK 2,540 million. The gross margin ended at 53.2% in 2018, equal to the level achieved in 2017, reflecting product mix.

Operating expenses ended at DKK 1,635 million compared to DKK 1,392 million in 2017, corresponding to an increase of 17%. The increase in operating expenses is primarily related to continued investments in future products as well as investments in sales and marketing in order to sustain the above-market growth momentum. Operating expenses in percent of revenue decreased from 35.1% in 2017 to 34.2% in 2018 as a function of the very strong top-line growth.

As a result, GN Audio's EBITA of DKK 905 million in 2018 represents an increase of 26%, compared to DKK 721 million in 2017. The EBITA margin thereby reached 19.0%, compared to 18.2% in 2017, thus slightly exceeding the financial guidance of "more than 18%" for 2018.

The return on invested capital (ROIC) increased to 59% for 2018, compared to 46% in 2017. The strong development is a result of the EBITA growth and a strong focus on the invested capital.

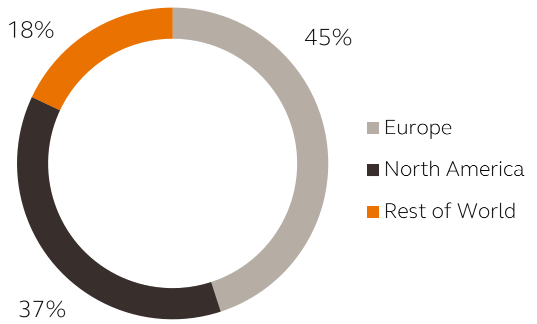
Strict focus on cash conversion continued with a strong cash conversion of 88% for the year. The free cash flow excl. M&A of DKK 798 million in 2018 compared to DKK 481 million in 2017.

Business highlights

During the year, GN Audio continued to invest in the business in order to sustain the attractive growth rates. The investments have been broad-based covering new innovative products, sales and marketing and specific smaller acquisitions, including audEERING in Germany and Innova in India.

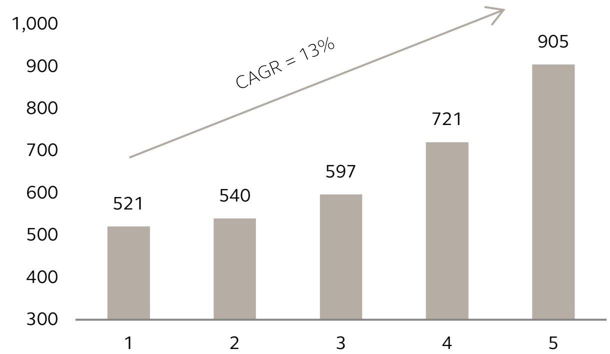
Throughout 2018, the CC&O market conditions were favorable and solid as expected, driven in particular by the Unified Communications market. GN Audio expects that the market for UC solutions will continue to expand in the coming years from mostly covering large enterprises to also expanding into small and medium-sized enterprises. In recent years, GN Audio has performed well delivering intelligent audio solutions to larger corporations implementing UC solutions.

Revenue distribution



EBITA development

DKK million



Distinct product families

Clear platform strategy strengthens commercialization

With the introduction of the Jabra Engage family in 2018, GN Audio completed the redesign of Jabra's full portfolio architecture.

With the Jabra Evolve, Jabra Engage and Jabra Elite series, which include headset variants at different price points and of different functionality, GN Audio now has three unprecedentedly strong pillars in our portfolio and see the results of our best-in-class commercialization.

Our open and agnostic approach to platforms enables co-development with our partners and true innovation as we create the headsets of tomorrow based on market insight.

Over the past couple of years this approach has allowed GN Audio to increasingly define the market segments in which the company operates – and to lead the innovation that defines the professional and consumer headset markets.

Jabra Engage series
Engineered for superior conversations that boost customer satisfaction

Jabra Evolve series
Engineered to enhance concentration and productivity in the open office

Jabra Elite series
Engineered for superior and true wireless calls and music

Product launches during the year

Jabra Engage product family
In April 2018, GN Audio launched Jabra Engage, a new family of wireless professional headsets that sets new standards for call quality, security, and the number of staff who can simultaneously use wireless headsets in a given office space.

Jabra Engage is an entirely new class of DECT (Digital Enhanced Cordless Telecommunications) wireless headsets that have been designed following extensive research into the challenges facing call-centric businesses. Providing industry-leading wireless performance, Jabra Engage delivers excellent call quality, improves customer satisfaction and employee productivity with the highest level of security of any wireless headset on the market.

In October, GN Audio launched Jabra Engage 50. With live on-screen microphone guidance for agents, and rich call analytics for the business, Jabra Engage 50 helps deliver better-sounding calls as well as a unique, 3-microphone system with intelligent noise-cancelation that filters out background noise and breathing sounds, giving callers a superior experience. With the introduction, GN Audio is taking yet another important step into value-adding software solutions that – combined with leading hardware expertise – fortify GN Audio's position as the innovation leader in the field of professional headset solutions.

Jabra Evolve 65t
To further support the collaborative working experience, GN Audio announced a new edition to its market-leading Jabra Evolve range of headsets in August with the introduction of Jabra Evolve 65t.

The true wireless earbud form factor is one of the fastest growing in the consumer headset market, and with relentless focus on R&D and our understanding of customer needs, GN Audio has now introduced this form factor in the professional market.

Jabra Elite product family
In Q1 2018, GN Audio launched important additions to its consumer product family, Jabra Elite. The Elite family of headsets are engineered to deliver best in class voice and music performance. Elite leverages Jabra's technology leadership to capitalize on the trends of increasing importance of conversations and voice assistants.

Jabra Elite Active 65t is engineered for active users who want a true wireless voice and music experience while working out; Jabra Elite 65t is engineered for the best true wireless voice and music experience; Jabra Elite 45e and Jabra Elite 65e are engineered for the best voice and music experience in their categories.

Further additions to the Jabra Elite family
In January 2019, Jabra announced the Jabra Elite 85h in connection with the annual consumer electronics show (CES) in Las Vegas.

The new headphones are engineered with Jabra SmartSound, based on audEERING context intelligence technology and include Active Noise Cancelation (ANC) and Jabra's HearThrough technology, which enables users to decide how much of the outside world penetrates through to the listener. The Elite 85h headphones set new standards across the board, with 32-hour battery life (with ANC activated), crystal-clear sound with advanced 6-microphone call technology, 40mm custom-engineered distortion-reducing speakers for top-quality acoustic experience and industry-leading durability.

2018 saw multiple new important product launches

Jabra Engage family

Jabra Evolve 65t

Jabra Elite 85h *)

*) Announced in January 2019

Leading true wireless

For business, pleasure and sports

In January 2018, we could make a claim that no other company could; that we were now the proud creators of the third-generation true wireless earbuds.

Since then, we have taken our true wireless offering even further within the Elite series, which is engineered for the best on-the-go true wireless calls and music experience and also includes an option for sports.

In the second half of 2018, we launched our first true wireless option in the Evolve range: Jabra Evolve 65t - the first true wireless earbuds to attain Skype for Business certification– making the earbuds versatile and attractive for both business and pleasure. Jabra Evolve 65t is a true “prosumer” product combining the best from professional and consumer headsets.

Other business highlights

Strategy 2017 – 2019: Hear More, Do More, Be More
In September 2016, at GN's Capital Markets Day, GN Audio announced its strategy for the current three-year period. To ensure strategy execution – particularly within Commercial and Innovation Excellence – a platform approach was implemented across the professional and consumer businesses and products.

A combined product management function covering both the professional and consumer segments and a unified distribution sales organization enable maximum utilization of technology, product and brand investments, as well as address changing partner and distribution patterns.

audEERING
In June 2018, GN announced the new strategic partnership with the German Artificial Intelligence (AI) company audEERING. Initially, GN Audio and audEERING engaged in joint development of AI-based solutions to enhance the GN Audio offering in both professional and consumer markets. GN Audio will be able to develop intelligent audio solutions that transform the way a headset can assist both call center employees, professionals and consumers in meaningful new ways. The first commercial product using the technology from audEERING, Jabra Elite 85h, was announced in early 2019.

Red Bull partnership
In October 2018, Jabra announced an innovation partnership with Red Bull Media House. Over the past two years, Jabra and Red Bull have developed a new microphone, the Jabra X Mic. This is a small, puck-shaped device that can attach to just about anything, and it has been explicitly engineered to be used in the most extreme, difficult-to-hear environments.

R&D
Throughout 2018, GN Audio's product development focused on bolstering Jabra's position as the world leader within professional headsets through the core competencies of wireless technology and intelligent audio solutions. As exemplified by the recent launches of the Jabra Engage family as well as the additions to the Jabra Evolve and Jabra Elite families, the innovation in headsets and earbuds continued at high pace, based on extensive research into customer needs and sharp focus on delivering outstanding user benefits.

In recent years, software and Artificial Intelligence (AI) has become increasingly important in the development of intelligent headsets and earbuds. The distinctive functionalities of directional microphones that eliminate background noise and apps used for sports coaching are examples of software technology that is critically important for delivering user benefits. In today's digitally connected society, noise overload is considered one of the key factors affecting personal wellbeing.

GN's focus on AI builds on years of investments in the Group's dedicated AI research center, the GN Advanced Science unit; the investment in audEERING, the partnerships and ecosystems with other leading technology innovators, such as Apple and Google, and extensive collaboration with other partners and academic research institutes.

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

Operations
Carefully selected subcontractors manufacture all of GN Audio's hardware, and components are sourced from trustworthy suppliers. GN Audio is working with a small number of tier-one manufacturers, supported by more than 100 sub-suppliers, in order to manufacture the comprehensive variety of products in the portfolio.

To optimize lead-time, GN Audio maintains a regional presence at three regional warehouses located in the United States, the Netherlands and Hong Kong. The global logistics for GN Audio's products is handled by one partner responsible for the entire process – from leaving the factories via warehouses to the final delivery to the specific customer.

Market development
The CC&O market showed solid growth rates again in 2018, and the market continues to develop favorably. GN Audio expects that the market trend will continue beyond 2018, creating a solid foundation for continued growth. Long-term growth in the CC&O market is supported by the expected further adoption of Unified Communications, driven by the proliferation of software-based desktop communications clients, productivity benefits, including hands-free communications and an efficient work environment with a growing number of open workspaces.

GN Audio's addressable parts of the consumer market is expected to develop favorably in 2019, in particular with strong growth in the true wireless market. This is expected to off-set the challenges in the Bluetooth mono market, where GN Audio's relative exposure decreased significantly in 2018.

In total, GN Audio expects that its addressable markets will grow by close to 10% in 2019.

Smart partnering

Combining expertise to drive innovation

At GN, we rely on our partnerships to help provide the best possible solutions to our users. GN partners with customers, start-ups and other industry leaders – such as Apple, Microsoft, Google, Cochlear, audEERING and Red Bull Media House – to offer the most innovative, intelligent and cutting-edge audio solutions to people around the world.

The different partnerships further expand our innovation leadership, with our multiple industry-leading innovations that have delivered unmatched user benefits, including the world's first Bluetooth headset, 2.4 GHz hearing aids, the world's first Made for Apple hearing aids, earbuds with an integrated heart rate monitor and the world's first cloud-based remote fine-tuning.

GN Audio brand manager Jonathan Pennington mounts the Jabra X Mic on a race car to test it under extreme circumstances at the Red Bull Ring circuit in Austria.

Corporate responsibility

GN is committed to acting in a responsible manner throughout our entire value chain and in all business matters. We consider this crucial to managing a sustainable successful global business and essential for reaching our long-term strategic goals

Human and labor rights
GN recognizes all human beings as being free and equal in dignity and rights and supports the abolition of child labor and forced labor.

GN's primary human and labor rights risk is in our supply chain. All suppliers are required to comply with GN's Code of Conduct, which covers bribery, human and labor rights, and safety. GN maintains close dialogue with its suppliers for clear expectation setting and cooperation. When we engage with a new supplier, a strict 5-step qualification process ensures that the new supplier can live up to our standards and requirements.

Furthermore, repetitive work is a main risk at GN Hearing's manufacturing facilities. All jobs in these facilities are reviewed for potential health & safety concerns, and repetitive work is mitigated. All sites have managers with direct responsibility to ensure operator safety.

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

Business ethics and compliance
GN's commitment to business ethics and compliance with international regulations and internal policies is anchored in our Ethics Guide, anti-corruption policies, our Supplier Codes of Conduct and other guidelines, which employees and business partners must adhere to.

The GN Group employs 6,000 people and sells products in 100 markets across the world. Its size and global presence pose an inherent risk that our internal regulations and policies are not adhered to in all business dealings, which could have both financial and reputational consequences.

To ensure compliance with our Ethics Guide and key policies, employees must on a regular basis take GN's e-learning courses within anti-corruption and competition compliance and electronically sign off on their compliance within specific areas. In 2018, the allocation of courses was streamlined and all employees received a minimum of five mandatory compliance campaigns, including business ethics, anti-corruption, information security and personal data.

Furthermore, GN enhanced the process for assessing and managing corruption risk in selected high-risk countries. In 2018, three anti-corruption compliance reviews were conducted resulting in 15 observations with various risk ratings ranging from low to high. Appropriate corrective and preventive actions were taken.

GN's whistleblower hotline is available in 27 countries and 21 languages. In 2018, 10 concerns were reported, primarily related to inappropriate behavior, harassment, misrepresentation of information and conflicts of interest. All relevant cases have been investigated and appropriate remediating as well as disciplinary actions were taken where relevant.

Product safety and development
GN builds trust and partnerships with customers, partners and users by delivering products and services of consistently high quality and best value.

GN uses its unique in-house competencies to develop intelligent audio solutions that let our users Hear more, Do more and Be more. We continually refine the way our products are produced to make the most of the raw materials and to design more sustainable products with the highest possible safety.

To avoid harmful materials and substances in products, materials and components, they undergo thorough testing during the development phase. GN complies with the EU RoHS recast directive and EU REACH regulation as well as other national and international legislation. Changes to legislation and standards are monitored closely.

GN Hearing's products are developed under a highly regulated quality system complying with ISO 13485 and FDA 21CFR 820 CGMP as well as other national standards, which are used by GN Hearing to control a number of product standards and processes. This implies that all materials and components of hearing aids that are in contact with human skin must fulfil all relevant biological and regulatory requirements. GN Hearing assesses biological evaluation according to ISO 10993-1.

GN Hearing's policy is to always try to minimize the amount of required animal testing by setting up tests and test schemes in the most efficient way.

GN Audio's products are developed by following a well-defined quality management system complying with ISO 9001:2015 and other relevant industry best practices.

GN has implemented a policy to avoid conflict minerals from mines controlled by military groups in DR Congo and nine adjacent countries. This includes an audit program to ensure compliance with the Conflict-Free Smelter Program (CFSP) of the Responsible Mining Initiative (RMI).

Environment and climate
GN is committed to integrating considerations of the environment in its planning and performance of activities in order to minimize its environmental and climate impact. GN actively encourages its suppliers to consider the environment in relation to GN's products.

GN's products are by nature small. Due to the nature and character of our business, our environmental and climate impact is assessed to be low. Nonetheless, GN continually evaluates the way it creates products to make the most of raw materials and to design more sustainable products of the highest possible quality.

In 2018, we continued our focus on reducing energy consumption at our manufacturing facilities.

Water consumption at GN's manufacturing facilities is very limited and primarily used for sanitation purposes.

For all our production lines, we have set a threshold for acceptable waste levels. Most of our waste is very small in quantity and all our manufacturing facilities use licensed disposal contractors that remove any waste and properly dispose of it.

Social projects
For seven years now, GN's hearing aid project in South Africa continued to contribute to overall hearing health. In 2018, a total of 200 new hearing aids were provided to and fitted on eligible patients. All recipients had their new hearing aids professionally fitted by a certified audiologist securing a high level of user satisfaction.

Early in 2018 the Ear Foundation of the UK reached out to GN Hearing inquiring if it would be possible to get hearing aids for children at the Hear his Voice Centre in Kampala, Uganda. GN Hearing provided a complete package with 50 hearing aids, fitting software and batteries for the first year. Trained audiologists from the Ear Foundation worked with the local team and fitted the hearing aids.

In March 2018, 90 children at the St. Johns School for the Deaf in Gambia were fitted hearing aids from GN Hearing and local staff were trained in the necessary techniques.

In Zimbabwe, parents of 250 hearing impaired children from all across Zimbabwe signed up for free hearing aid fitting. During a one-week fitting camp, sponsored by the GN Foundation, 32 children were fitted with hearing aids.

In 2018, Dhulikhel Hospital in Katmandu was donated a complete package with 50 hearing aids, fitting software and batteries for the first year. They will be used for a program to help hearing impaired children in Nepal.

In 2018, GN Audio continued the partnership with HAMAP, a non-governmental organization that works to improve the life and health of some of the world's most vulnerable people. With this partnership, GN Audio has contributed in helping close to 90,000 people gain access to clean drinking water, basic sanitation and education.

Supporting research
GN Hearing co-sponsors the research activity of the Centre for Acoustic-Mechanical Micro Systems (CAMM) at the Technical University of Denmark (DTU). The research focuses on optimization of micromechanics and acoustics in hearing aids.

GN Hearing co-sponsors the Centre for Applied Hearing Research (CAHR) with focus on the origin, nature and consequences of hearing impairment.

GN Hearing co-sponsors the research project on Better hEAring Rehabilitation (BEAR) to document the effect of current clinical practices, develop new diagnostic methods for creating more customized solutions for patients and establish new guidelines for improved clinical practices.

More information on GN responsibility
GN's Communication on Progress report to the United Nations Global Compact outlines GN's full corporate responsibility activities and is available on gn.com via https://www.gn.com/About/Document-download-center#. The report represents GN's mandatory account for corporate responsibility according to Section 99a in the Danish Financial Statements Act.

Risk management

Operating in business environments characterized by constant innovation and change, our proactive and systematic approach to risk management is a valuable tool in our continuous efforts to stay ahead of new developments and win in tomorrow’s marketplace

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

The global management teams in GN Hearing and GN Audio subsequently evaluate the most significant risks together in order to determine whether any additional or different actions should be taken to reduce such risks or potentially turn them into opportunities.

At least once a year, the risks assessed to be the most material to GN are reported to and discussed with the Audit Committee and subsequently the Board of Directors.

The process is linked to and supports other key planning processes, such as strategy planning, budgeting and ongoing business reviews, in order to ensure that key risks as well as opportunities are proactively managed on an ongoing basis and on different time horizons.

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

The main types of risk associated with GN’s business and the main initiatives taken to manage them are outlined below.

Main risks associated with GN’s businesses

A Research and development ▷ **B** Operations ▷ **C** Marketing and sales

D Regulatory risk

E Intellectual property rights

F Information security

G Human resources

H Financial risk

Risk	Characteristics	Mitigating actions
A Research and development	In a world where exciting new technologies such as voice computing and artificial intelligence continue to develop at an unprecedented speed, the potential for disruptive innovation and transformation within our playing field is greater than ever. While this entails previously unthinkable opportunities for development of new GN products and services, it also entails a key competitive risk in case we fail to turn the application of new technologies into better experiences and tangible benefits for the users of our offerings. The accelerating pace of technology development makes it paramount for GN to be able to shorten time-to-market even further in the years ahead.	As part of our continuous and relentless focus on innovation excellence, we have made further important improvements of our product innovation and development process during 2018. These improvements enable faster time-to-market as well as more agility and adaptability to change during the development process. The successful and timely launches of ReSound LiNX Quattro and Jabra Evolve 65t during 2018 are two very tangible examples that our innovation speed has increased without compromising on our high quality standards. During 2018, we have also taken steps to enable more cross-fertilization and leverage the increasing technology synergies between GN Audio and GN Hearing to the benefit of the customers of both companies.
B Operations	GN Hearing and GN Audio both rely on their global supply chains for the timely delivery of critical materials and components, which must meet our high quality standards. Failure of any of our key suppliers to provide agreed deliverables may negatively affect our ability to accommodate demand for GN products or result in safety issues. In addition, there is a risk that rising protectionist sentiment could escalate into new tariffs or other forms of trade barriers affecting the supply and cost of GN products or components.	Where possible and feasible, GN targets to pursue a dual sourcing strategy to ensure that GN is able to source the same type of component from at least two different suppliers. For some unique suppliers, other measures are taken to reduce the risk, such as higher inventory buffers, dual sets of production equipment or other specific measures. Further, GN closely monitors the risk of increasing barriers to trade and takes this into account in our ongoing production and supply chain planning to proactively reduce any potential impact.
C Marketing and sales	**GN Hearing** GN Hearing generates a significant part of its revenue from partnerships with a number of leading channels who occasionally put their business up for tender. This means that GN Hearing is exposed to the risk of losing business as these are re-tendered.	Our response to this risk is to work closely with our partners on continuously strengthening these partnerships and integrating our products and services in partners' customer journey. Accordingly, we will stay focused on meeting the needs and demands of our partners and provide them with superior added benefits

Risk	Characteristics	Mitigating actions
C Marketing and sales (continued)	**GN Audio** GN Audio's professional business continued to deliver market leading double-digit organic revenue growth in 2018 and further consolidated its position as the world's leading supplier of intelligent audio solutions for office businesses. However, the attractive growth rates also entail a risk that new competitors will enter the market and challenge GN Audio's position.	GN Audio continually works to build on and expand its world-leading position by developing new, innovative, relevant and unique solutions based on deep insights into new trends and developments in user preferences, purchasing patterns, technology and other key factors shaping customer needs and demands.
D Regulatory risk	In the U.S. market for hearing aids, a new over-the-counter category will be introduced by August 2020 at the latest. The precise scope and timing of its implementation is still not known, and it consequently also remains uncertain what overall effect this might have on GN and the hearing aid industry. New players may enter the market in this category, and we may see some downward pressure on prices. On the other hand, the new category might also increase the share of hearing-impaired people acquiring a hearing aid and thus increase the total market size.	If it makes business sense, GN could leverage its unique combination of competencies within medical devices and consumer electronics to develop an over-the-counter offering. Additionally, GN Hearing's focused business model as a dedicated wholesale manufacturer refraining from vertical integration – in combination with the continued development of strong strategic partnerships – makes GN less exposed to risks arising from the introduction of an over-the counter category than hearing aid manufacturers that are vertically integrated, as GN will be more agile and resilient.
	On May 25, 2018, a new EU regulation governing the protection of personal data (the *General Data Protection Regulation* – or GDPR) came into effect. The new legislation is very much a continuation of existing principles within the EU. However, the introduction of an accountability principle has required some additional attention to ensure compliance. The accountability principle dictates that companies must demonstrate compliance. Failure to comply could potentially result in significant fines and/or negatively affect trust in GN among data subjects.	During the first months of the year up until May 25, 2018, GN finalized its efforts to ensure that it handles all personal and other data in a secure manner and in compliance with the new regulation. In addition, we rolled out a comprehensive data privacy awareness campaign to all employees, including an e-learning program in multiple languages and face-to-face training to selected groups of employees. Throughout the rest of the year, we streamlined relevant processes and associated data flows to increase efficiency and make compliance with the regulation easier and more effortless for our employees.

Risk	Characteristics	Mitigating actions
D Regulatory risk (continued)	Regulatory requirements concerning quality management systems and product safety of medical devices, including hearing aids and certain accessories, are increasing. The next main piece of legislation raising the bar is the EU Medical Device Regulation, which imposes stricter requirements with regard to clinical data and safety risk management. In May 2020, the transition period for the regulation expires, after which quality systems of all R&D and manufacturing sites have to comply.	During 2018, GN Hearing achieved certifiction at all applicable sites to the new ISO 13485:2016 standard for quality management systems in medical devices manufacturing. GN Hearing also achieved a global certification under the Medical Device Single Audit Program (MDSAP), an international program that consists of one single regulatory audit of quality management systems to meet relevant requirements of multiple regulatory authorities. In 2018, GN Hearing upgraded its quality management organization. The ongoing work to ensure compliance with all relevant standards and laws will continue in 2019.
E Intellectual property rights	As GN operates globally in highly innovative industries and with increased focus on connectivity and software, there is a risk that our freedom to operate is restrained by third-party patents, including patent hold-ups or hold-outs, preventing commercialization of certain products or solutions or forcing GN to pay royalty.	During 2018, GN continued to strengthen its patent portfolio and optimize key processes related to intellectual property rights. The objective is to protect our freedom to operate within current and future innovation spaces and to defend ourselves in case of patent infringement claims being brought against GN.
F Information security	GN's business depends to a large and increasing degree on reliable and secure IT systems. Failure to adequately protect the IT infrastructure and key systems against the risk of security incidents could potentially lead to unavailability of services, unintended disclosure of business-critical confidential data or sensitive personal data, which may negatively affect GN's competitive position, damage its reputation and/or result in fines.	GN continuously minimizes these risks through a wide range of measures, such as technical security controls, various process controls and internal employee awareness campaigns based on its information security policy framework. During 2018, GN further strengthened its information security organization and governance as well as its specific defenses in order to ensure that GN stays on top of the constantly evolving threat landscape.

Risk	Characteristics	Mitigating actions
G Human resources	The competition for talent in our industry has intensified during the past few years. Should we no longer be able to attract, retain and grow the right talent on an ongoing basis, we might not be able: 1) to continue delivering innovative and relevant products, 2) to successfully execute on our strategy and 3) to build a sustainable organization for the future. In addition, our ability to deliver on our ambitious strategic objectives depends on our ability to ensure that the entire global organization is fully aligned behind our strategy and that this translates into flawless strategy execution.	GN's clearly defined People Excellence strategy provides the foundation for successfully building strong leadership and talent across the organization to meet our objectives. During 2018, we established a dedicated talent acquisition team to increase our in-house search capability and to complement our rigorous talent review and succession planning process. We also continued to strengthen leadership development and strategic execution power through Leading Strategy, our focused leadership development program. By the end of 2018, more than 90% of our global leaders at senior management positions had been enrolled in the program.
H Financial risk	Due to the nature of the operations, investments and financing activities, GN is exposed to a number of financial risks. GN has centralized the handling of these financial risks in Group Treasury with the exception of commercial risks, which are managed by the Group's operating businesses (divisions). The financial risks are managed in accordance with the overall financial risk management guidelines set out in GN's Group Treasury Policy. GN's net interest-bearing debt has increased moderately during 2018 to DKK 3,234 million and leverage has decreased to 1.5x mainly through strong growth whereby the cash generation from normal operations was offset by investments, dividend and the share buy-back program. GN's loans are long-term with maturities from 2020 to 2022 with variable interest based on short-term EURIBOR and CIBOR reference rates.	GN has hedged a substantial part of the expected net cash-flow in foreign currencies to secure the EBITA contribution of the material trading currencies for the next 12 months across both GN Hearing and GN Audio. GN is also monitoring the combined impact of minor trading currencies and hedges those on a case-by-case basis. To mitigate the cash-flow risk from rising interest rates on its variable debt, GN has concluded interest rate derivatives to swap a substantial proportion of the floating debt. To mitigate potential liquidity or refinancing risks GN has access to a Revolving Credit Facility of DKK 2,000 million, which can be upsized to DKK 4,000 million. Please refer to note 4.2 for further information about financial risks.

Shareholder information

Through an open and active dialogue, GN strives to provide all stakeholders with timely and relevant information to ensure a fair pricing of the GN share

The GN share
The price of the GN share ended at DKK 243 on December 31, 2018, which is equivalent to an increase of 21% compared to the end of 2017. In comparison, the C25 index as well as the Stoxx Europe 600 index decreased 13%. The total market value of GN's shares, excluding treasury shares, was DKK 32 billion at the end of 2018.

GN is, among other indices, included in the C25 index and Large Cap index on Nasdaq Copenhagen, as well as the Stoxx Europe 600 index and the Stoxx Europe Sustainability index.

Ownership
The GN stock is 100% free float, and the company has no dominant shareholders. GN has approximately 25,000 registered shareholders and foreign ownership is estimated to be around 70%.

The 10 largest registered shareholders held in total about 40% of the GN share capital at the end of 2018 (including GN's holding of treasury shares). Three shareholders have informed GN that they are holding 5% or more of the share capital:

- Marathon Asset Management LLP
- APG Asset Management N.V.
- NN Group N.V.

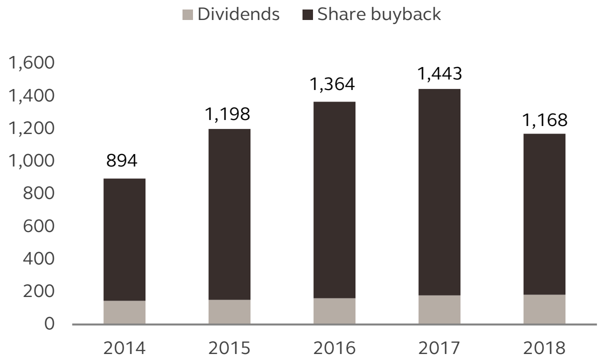
Share capital and voting rights
GN's share capital of DKK 582,736,856 consists of 145,684,214 shares, each carrying four votes. GN has one share class, and there are no restrictions on ownership or voting rights.

Treasury shares
On December 31, 2018, GN held 13,107,872 treasury shares corresponding to 9.0% of the share capital, and the value of the treasury shares was DKK 3.2 billion. As part of the EUR 225 million convertible bond offering concluded in May 2017, 6,215,744 shares are kept in Treasury to hedge future obligations of the convertible bond.

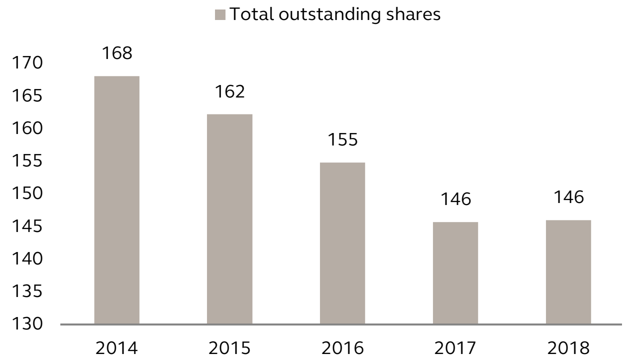
At the Annual General Meeting to be held on March 21, 2019, the Board of Directors will propose to reduce the company's share capital by canceling 3,416,114 shares equivalent to all treasury shares held today in excess of the shares needed to hedge future obligations of the convertible bond and 4,500,000 shares – which are held for hedging of long-term incentive programs.

Until the Annual General Meeting on March 21, 2019, the Board of Directors is authorized to acquire shares in GN. The company's holding of treasury shares may at no time exceed 15% of the share capital of the company.

Shareholder return distribution
(DKK million)



Development in total outstanding shares
(Million)



Dividend policy and share buyback programs
GN's overall financial target is to deliver a competitive shareholder return through a combination of dividend payments and share price appreciation. GN aims to pay out a dividend corresponding to 15 - 25% of the annual net profit and to distribute additional excess cash to shareholders through share buyback programs.

Dividend payments and share buybacks are subject to, among other factors, cash requirements to support the ongoing operations, strategic opportunities and the company's capital structure. It is GN's target to maintain a capital structure consisting of equity and debt with the net interest-bearing debt amounting to between one to two times EBITDA.

At the Annual General Meeting on March 21, 2019, the Board of Directors will propose to pay out a total dividend of DKK 197 million (equivalent to DKK 1.35 per share and 16% of the 2018 net profit) in respect of the 2018 financial year, compared to DKK 182 million in 2017 (equivalent to DKK 1.25 per share and 16% of the 2017 net profit).

Incentive programs
By the end of 2018, the total number of outstanding warrants in GN Hearing, was 16,124 (2.5% of the share capital in GN Hearing equivalent to approximately 1.6% of the share capital in GN Store Nord). The total number of outstanding warrants in GN Audio was 10,393 (1.5% of the share capital in GN Audio, equivalent to approximately 3.0% of the share capital in GN Store Nord).

Investor relations policy
As part of GN's investor relations activities, an active dialogue is pursued with existing and potential shareholders as well as with financial analysts. GN ensures that relevant and timely information is provided to the financial community to ensure that the GN share is fairly priced. This is accomplished through information continually announced to the market as company announcements and press releases, combined with investor meetings, conferences and presentations of the company's interim and annual results.

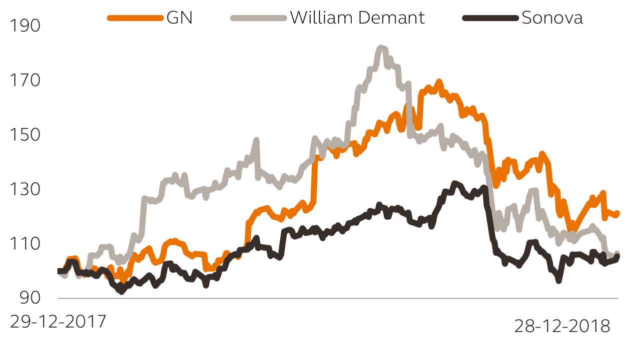
Following the release of interim and annual results, GN conducts roadshows where the Executive Management and the investor relations team inform investors and financial analysts about the recent developments in the company. GN is currently covered by 28 sell-side analysts, who continually release analyst research reports on GN and the industry dynamics. A full list of the analysts covering GN can be found on the website www.gn.com/Investor

GN has a four-week silent period prior to publication of a financial report. During these silent periods any communication with stakeholders is restricted.

GN's website – www.gn.com – contains historic and current information about GN, including company announcements and press releases, current and historic share price data, investor presentations and annual and interim reports.

The investor relations team can be contacted at:
Investor@gn.com

Share price development vs peers*



* Index : 29-12-2017 = 100

Financial calendar for 2019

Event	Date
Annual General Meeting	March 21, 2019 at GN headquarter
Interim Report Q1 2019	May 1, 2019
Interim Report Q2 2019	August 22, 2019
Interim Report Q3 2019	November 7, 2019

Read company announcements on www.gn.com

Corporate governance

GN Store Nord maintains a strong focus on corporate governance through policies, processes and control systems as well as training and follow-up activities

Corporate governance refers to the way a company is managed and controlled through ownership, management structure, incentive schemes, etc. GN strives to build trusted relationships with customers, shareholders, suppliers, employees and the community. We also aim for a high degree of transparency and active ownership, including sharing information and engaging in a regular dialogue with all of our stakeholders.

The Board of Directors follows all recommendations on corporate governance aimed at companies listed on Nasdaq Copenhagen. On its website – gn.com – GN provides a statutory report on corporate governance, including an explanation of how GN complies/partially complies/does not comply with each recommendation. This overview, as well as the risk management and internal control systems related to financial reporting described in the risk management section in this report, form the statutory report on corporate governance that is required under section 107b of the Danish Financial Statements Act. The report can be reviewed at https://www.gn.com/About/Document-download-center# under Corporate Governance.

Board of Directors

Composition and responsibilities of the Board of Directors
GN's Board of Directors consists of six directors elected by the shareholders at the Annual General Meeting and three employee representatives elected by the employees based in Denmark. Members of the Board of Directors, elected by the shareholders at the Annual General Meeting, are elected for an annual term until GN's next Annual General Meeting. GN's 2019 Annual General Meeting is held on March 21 at 10am.

Employee representatives are elected in accordance with the Danish Companies Act for terms of four years. Next election will be in the first quarter of 2022.

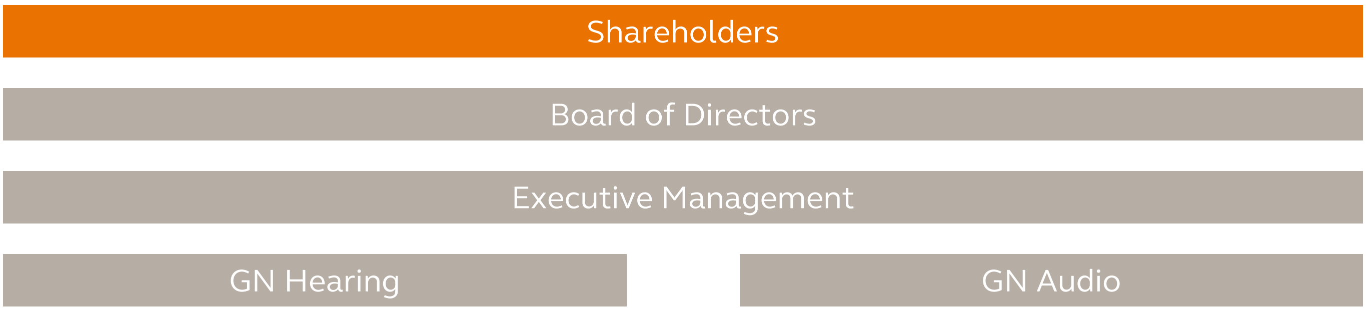
The Board of Directors is responsible for safeguarding the interests of the shareholders while at the same time considering all other stakeholders. At least once a year, the Board of Directors assesses the most important tasks based on the overall strategic direction of the company, including the financial and managerial supervision of the company. As part of the supervision, the Board of Directors evaluates the performance of the Executive Management on a continuous basis.

In 2018, the Board of Directors held 11 meetings and conference calls.

Competencies of the Board of Directors
GN's Board of Directors strives to recruit board members with a diverse range of mutually complementary competencies. When the Board of Directors proposes new board members, a CV, as well as a thorough description of the candidate's qualifications, will be available to the shareholders.

GN Group's framework for corporate governance

GN's management structure is built to support its two main businesses focusing on the hearing aid and headset segments. The CFO of the Group's parent company, GN Store Nord, the CEO of GN Hearing and the CEO of GN Audio constitute GN's Executive Management. The Board members of GN Store Nord are elected at GN's Annual General Meeting.



GN is a global company and to successfully develop and maintain this position in the marketplace, GN is dependent upon global expertise and experience at the board level. The Board of Directors is a diverse group in terms of global experience, functional competencies and industry background, which ensures that it can fulfill its obligations. Board members possess expertise within medtech, innovation, product development, online marketing and commercialization, as well as thorough understanding of financial and human resource matters and in-depth knowledge of GN's business.

The composition of the Board is a mix of board members with executive positions and professional board members of both genders, as well as Danish and international profiles. This composition is deemed to provide a good balance between knowledge, competencies, experience and availability for a substantial workload.

At the end of 2018, the Board of Directors carried out its annual self-evaluation. This encompassed the achievements of the Board as well as those of the chairman and the individual board members. The evaluation is carried out in a systematic way and is based on well-defined criteria.

The key area of continued focus for the Board of Directors' self-evaluation is the identification of necessary updates of the organizational development, the recruiting, training and education of staff in line with the company's strategy. The Board intends to obtain external assistance for the evaluation every third year; latest in year 2020.

Diversity and talent management

Board of Directors

The Board of Directors is dedicated to the belief that diversity strengthens any governing body and acknowledges the importance of diversity in general, including diversity of gender, nationality and competencies.

One of GN's diversity goals is, by the end of 2020, to have the Annual General Meeting elect women for three out of six positions in the GN Board of Directors. We have reached this target in 2018, when Gitte Pugholm Aabo joined the GN Board of Directors.

Senior management

Another focus has been to ensure stronger international representation in our senior management teams (GMT) in GN Audio and GN Hearing. By the end of 2018, GN Hearing's GMT consists of 25% female leaders and 50% non-Danes. GN Audio's GMT consists of 20% female leaders and 67 % non-Danes.

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

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

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

Remuneration

GN pursues a policy of offering the Board of Directors and the Executive Management remuneration that is competitive with industry peers and other global companies to attract and retain competent professional leaders of the businesses and members of the Board of Directors. Remuneration of the Executive Management is based on a fixed base salary plus a target bonus of 50% of the base salary with a potential to underperform or outperform the target leading to an effective potential bonus range of 0 - 100% of the base salary. In addition, Executive Management is offered to be part of GN Store Nord's Long-Term Incentive Program. The grant range is between 50-100% with a target grant of 75% of their base salary in Black-Scholes value.

The company does not make pension contributions for members of the Executive Management, and the Executive Management has change-of-control agreements in line with Danish market practice. The company has a fixed termination notice of 12 months if given by the company and six months if given by a member of the Executive Management. Members of the Board of Directors receive fixed remuneration. They are not awarded share options, nor do they participate in other incentive programs. Board members, Executive Management and senior management are encouraged to buy and own shares in GN.

GN's full Remuneration report 2018 is available on gn.com via https://www.gn.com/About/Document-download-center#.

Board committees

Chairmanship
The Chairman and the Vice Chairman form the Chairmanship of the Board. The Chairmanship prepares and organizes the work of the Board of Directors with a view to ensure that the Board performs its tasks, duties and responsibilities in an efficient and responsible manner. The Chairmanship also performs preparatory tasks for and advise the Board in relation to inter alia: business strategy, implementation of strategy, business development, budget and projects, and performs in-depth business reviews of selected areas.

Audit Committee
According to its charter, the Audit Committee, among other things, assists the Board of Directors in relation to internal accounting and financial control systems, the integrity of the company's financial reports and engagements with external auditors. The Audit Committee also carries out ongoing assessments of the company's financial and business risks.

In 2018, the committee continued to deploy GN's internal controls framework which, among other, builds on increased education and financial reporting process tracking. The committee reviewed the whistleblower reporting system, main accounting principles, tax strategy and compliance and key risks (including identified supplier risks), etc. The committee headed a tender process regarding audit services in accordance with applicable law and recommended that PricewaterhouseCoopers be elected as new auditor.

In 2018, the Audit Committee held five meetings.

Remuneration Committee
According to its charter, the Remuneration Committee assists the Board of Directors in matters and decisions concerning remuneration of the Executive Management and senior employees and in ensuring that the general remuneration policies reflect an appropriate balance. Resolutions on remuneration recommended by the Remuneration Committee and adopted by the Board of Directors are in line with the guidelines for incentive pay, as approved by the Board and by the Annual General Meeting.

The 2018 remuneration policy for the Executive Management is based on the remuneration guidelines and takes into account the corporate governance recommendations of Nasdaq Copenhagen and the requirements of the Danish Companies Act. In 2018, the Remuneration Committee supervised and reviewed the remuneration policy, salary, bonus, long-term incentive process and results, and assisted with preparation of the Remuneration Report, which can be reviewed at https://www.gn.com/About/Document-download-center#. It also reviewed warrant grants, talent development and succession planning process and results.

In 2018, the Remuneration Committee held 10 meetings.

Strategy Committee
As an innovation-driven company, it is vital for GN to maintain and further enhance the technological core capabilities of the company of today, and even more importantly of tomorrow. Investments in a number of exploratory research projects aim at discovering potential future business opportunities leveraging core knowledge and competencies of GN, but outside GN Hearing's and GN Audio's immediate area of operation.

In 2018, the Strategy Committee oversaw a series of existing projects as well as new projects to explore technological innovations within the broader technology space.

In 2018, the Strategy Committee held nine meetings.

Nomination Committee
According to its charter, the Nomination Committee advises and makes recommendations to the Board of Directors in relation to the skills that the Board of Directors and the Executive Management must have to best perform their tasks.

In 2018, primary activities included a review of the general competencies necessary to be represented on the Board. Based on this analysis and a review of the competency profiles of the individual board members, the committee concluded that all necessary competencies are represented in the current composition of the Board. The structure, size and diversity of the Board was also reviewed and found to meet all governance requirements as well as the requirements of GN. The committee also reviewed the latest developments in good corporate governance and performed succession planning for the Board.

In 2018, the Nomination Committee held five meetings.

Internal audit function
In accordance with its charter, the Audit Committee annually considers the need for an internal audit function. Based on the recommendations of the Audit Committee, the Board of Directors determines whether the internal control systems are adequate.

The Group Finance function of GN continued their focus on internal control of financial reporting covering the controls specifically designed to address the risks of misstatements in the financial statements. The compliance and internal control agenda continued to focus on the strengthening of the internal processes, including risk assessment, control activities and a defined controlling concept for the GN Group. The purpose is to strengthen the overall control environment, identify weaknesses and mitigate financial risks globally as well as locally.

The GN Group focuses on having a current and functioning internal control process that provides the users of our

Consolidated Financial Statements with a “reasonable assurance” that these are accurate and can be relied upon for informed decision-making. The Board of Directors' assessment, which is based on the company's size and the organization of the finance department, is that there is no need to establish an internal audit function at this time.

Compliance

Policy management and compliance training
GN's commitment to business ethics and compliance with international regulations and internal policies is anchored in our Ethics Guide, anti-corruption policies, our Supplier Codes of Conduct and other policies and guidelines. These outline the fundamental requirements for how GN operates and describe the responsibilities and ethical standards expected of all employees and relevant business partners.

To ensure and document that employees always are familiar with our Ethics Guide and other key policies, relevant employees have to electronically sign off on their compliance within specific areas and on a regular basis take GN's e-learning courses within key topics, such as anti-corruption and competition compliance. Each year this is supplemented with tailored face-to-face compliance training for selected business units or groups of employees.

Anti-corruption compliance reviews
As a regular part of our global anti-corruption compliance program, we each year conduct a number of compliance reviews of selected GN subsidiaries or business units around the world. The main objective is to identify and assess relevant risk areas and to make sure that adequate controls are in place to ensure compliance with applicable legislation and GN policies. The selection of subsidiaries or business units for compliance reviews is based on an annual country risk assessment consisting of several defined risk indicators.

Third-party due diligence
Our aspiration is that all our business partners acknowledge our values and share our commitment to conducting business in an ethical manner. In 2018, GN took further steps to enhance the process for assessing and managing corruption risk associated with third-party business partners in selected high-risk countries. The evaluation of third parties involves self-assessment questionnaires and due diligence screenings focusing on the potential reputational and legal risks associated with the business relationship.

Whistleblower system
GN's whistleblower hotline, the GN Alertline, is available in 27 countries and 21 languages and is independently managed by a third party. The hotline can be used by employees as well as external parties to report a concern or perceived misconduct. Reporting can take place via the internet (www.gnstorenord.alertline.eu) or via one of the local Alertline phone numbers.

The system is an important tool for ensuring that alleged illegal or unethical conduct is reported and immediately addressed. All complaints are treated with confidentiality, and GN is committed to dealing in good faith with any employee who takes action and/or participates in an investigation in a fair and respectful manner. This is emphasized in the GN non-retaliation policy signed by the Executive Management.

In addition, in 2018, a global awareness campaign was rolled out to ensure a good and consistent understanding of the GN whistleblower system among our employees globally. Awareness materials were made available in 10 different languages.

In 2018, 10 concerns were reported through the GN whistleblower system. The allegations were primarily related to inappropriate behavior, harassment, misrepresentation of information and conflicts of interest. All relevant cases have been investigated and appropriate remediating as well as disciplinary actions were taken where relevant.

More details on GN's compliance can be found in GN's annual Responsibility Report, available via https://www.gn.com/About/Document-download-center#

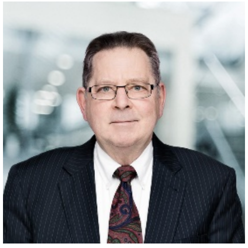
Shareholders

GN aims for transparency and active ownership towards shareholders through an open and active dialogue by ongoing communication with our shareholders at the Annual General Meeting and through investor presentations, news updates, conference calls, the company website, webcasts, interim reports, the annual report, company announcements and media outreach activities.

GN services national, as well as international investors, and ensures a continuous dialogue with shareholders, whether existing or potential, as well as equity analysts. On the company's website, gn.com, detailed material on the interests of the shareholders can be found. GN's shares are 100% free float, and shareholders have the ultimate authority over the company and exercise their right to make decisions at the Annual General Meeting where they also approve the annual report and elect board members and the independent auditor. For more information, please see the shareholder section on pages 45 – 46.

Notices for the Annual General Meeting
GN sends notices to convene Annual General Meetings by email. Letters are sent to shareholders who have requested this instead of emails. Thus, we encourage all registered shareholders to sign up at the investor portal with their email addresses and check the box labeled “subscribe/unsubscribe” in the field “Notice for the Annual General Meeting”. Shareholders will then receive the notice by email in the future.

Board of Directors

	Per Wold-Olsen (Chairman)	**William E. Hoover, Jr.** (Deputy Chairman)	**Wolfgang Reim**	**Gitte Pugholm Aabo**
	MBA. Formerly president with Merck & Co., Inc., Intercontinental Division, USA. Chairman since 2008.	MBA. Formerly with McKinsey & Company for 30 years. Deputy Chairman since 2008.	Ph.D. in physics. Professional board member and self-employed consultant within the medical industry.	MBA, HD graduate diploma in business administration, Bachelor of economy. CEO, LEO Pharma A/S
Board & Committee positions	Chairman of the Boards of GN Audio A/S and GN Hearing A/S. Chairman of the Boards of Medicines for Malaria Venture and Oncopeptides AB. Member of the Board of Gilead Sciences Inc.	Chairman of the Boards of ReD Associates and the GN Store Nord Foundation. Deputy chairman of the Boards of GN Audio A/S and GN Hearing A/S. Member of the Boards of Danfoss A/S, Lego Foundation and Neopost SA.	Chairman of the boards of D.O.R.C. B.V. and Ondal Medical Systems GmbH. Member of the boards of Elekta AB, GN Audio A/S, GN Hearing A/S and Dermalumics S.L.	Member of the Committee of Directors of Danmarks Nationalbank (the Danish National Bank), the American Skin Association Board, the American Skin Association Education Council, the European Federation of Pharmaceutical Industries and Associations.
Special competencies	Extensive global leadership expertise and knowledge of the healthcare industry. Brings a unique set of capabilities and values to the Board of GN Store Nord within marketing and product development as well as commercialization of innovation. Also possesses in-depth knowledge of the U.S. market as well as emerging markets.	In-depth knowledge from working with the largest industrial and high-tech companies in the Nordic region within strategy, organization and M&A. Experienced in supply chain/operations and has practical experience in helping Nordic multinationals rapidly scale up in emerging markets, especially in China and India.	Global leadership experience from the healthcare industry and special knowledge in the areas of business process reengineering, innovation management, global sourcing and supply chain management. Contributes to the Board with extensive M&A understanding.	Global leadership experience from the pharma industry and special knowledge within international management, finance – previously as CFO of LEO Pharma - IT, sales and marketing in the medical sector as well as deep insights into building digital communities.
Board member since	2008	2007	2008	2018
Term	2018/2019	2018/2019	2018/2019	2018/2019
Considered independent	Yes	Yes	Yes	Yes
Nationality	Norway	U.S.A.	Germany	Denmark
Year of birth	1947	1949	1956	1967
No. of GN shares	224,884 (unchanged)	156,500 (unchanged)	51,000 (unchanged)	0 (unchanged)
Total remuneration 2018 (DKK)	2,035,000	1,347,500	990,000	618,750
Chairmanship	21/21	21/21		
Audit Committee			5/5	C 5/5
Nomination Committee	C 5/5	5/5		
Remuneration Committee	C 10/10	10/10		
Strategy Committee	9/9	9/9	C 8/9	
GN Store Nord A/S Board	C 11/11	DC 11/11	10/11	9/11
GN Hearing A/S Board	C 6/6	DC 6/6	5/6	5/6
GN Audio A/S Board	C 6/6	DC 6/6	5/6	5/6

Employee elected members

				
Hélène Barnekow	**Ronica Wang**	**Leo Larsen**	**Morten Andersen**	**Marcus Stuhr Perathoner**
M.Sc. (International Business). CEO, Microsoft Sweden.	MBA, B.A.Sc. (Engineering). Co-founder & Global Managing Director, The InnoGrowth Group Ltd. Former leadership positions with J&J, Avon, Hutchison-Priceline, P&G	M.Sc. (Electrical Engineering) and a diploma in business administration and international trade. Senior Director, Audio Research, GN Audio.	B.Sc. (Mechanical Engineering). VP, Component Manufacturing in Operations, GN Hearing.	Customer Centricity Manager, GN Audio.
Member of the Boards of GN Audio A/S and GN Hearing A/S.	Member of the Boards of GN Audio A/S and GN Hearing A/S. Member of the Boards of Pandora A/S and Hotelbeds Group.			
Unique capabilities within general commercial management and marketing, including go-to-market, branding, communications, product management and channel management from the mobile communications and IT sector.	In-depth experience in global brand marketing, digital strategy/ ecommerce/omni-channel, business transformation, and sales/ channel management across consumer health, healthcare, technology, FMCG, affordable luxury, travel industries. Extensive knowledge of Asia/China/Japan.			
2013	2015	2007	2011	2018
2018/2019	2018/2019	2018/2022	2018/2022	2018/2022
Yes	Yes			
Sweden	Hong Kong	Denmark	Denmark	Denmark
1964	1962	1959	1963	1977
8,900 (unchanged)	4,850 (unchanged)	1,137 (unchanged)	1,230 (unchanged)	0 (unchanged)
660,000	660,000	275,000	275,000	206,250
	5/5			
8/10				
10/11	10/11			
6/6	6/6			
6/6	6/6			

Please visit www.gn.com for more elaborate descriptions of the board members' competencies and management duties.

*) #/# signifies the number of Board and Committee meetings in which each member has participated followed by the total number of Board and Committee meetings.

C Chairman

DC Deputy chairman

Board member

Executive Management

				
	Marcus Desimoni	**René Svendsen-Tune**	**Anders Hedegaard**	**Jakob Gudbrand**
	CFO, GN Store Nord & GN Hearing *(Interim CEO GN Hearing October 31, 2018 – February 17, 2019)*	President & CEO, GN Store Nord & GN Audio	Ex-President & CEO, GN Store Nord & GN Hearing *(stepped down as of October 31, 2018)*	Incoming President & CEO, GN Store Nord & GN Hearing *(joined as of February 18, 2019)*
Member of the Executive Management since	2016	2015	2014-2018	2019
Year of birth	1968	1955	1960	1971
No. of GN shares	5,000	73,000	12,190	0
Board positions		Deputy Chairman of the Board of NKT A/S. Member of the Boards of Nilfisk Holding A/S and Stokke AS.	Member of the Board of Orphazyme A/S.	

Additional financial information 2018

Additional financial information

Q4 financial highlights

GN Hearing

Revenue

GN Hearing ended the year with 10% organic revenue growth in Q4 2018. The foreign exchange development contributed with around (1)% and M&A contribution was around 1%. Revenue growth was 10%. The revenue in Q4 2018 reached DKK 1,644 million, compared to DKK 1,497 million in Q4 2017.

In Q4 2018, GN Hearing continued to perform strongly in the independent market, in line with the target set out in the 2017 - 2019 strategy: Hear More, Do More, Be More.

In North America, GN Hearing continued to take significant market share in the independent market driven by the combination of ReSound LiNX 3D and ReSound LiNX Quattro. GN Hearing's performance in the U.S. Veterans Affairs (VA) also improved significantly in Q4 driven by the very successful introduction of ReSound LiNX Quattro. By the end of the year, GN Hearing's market share increased to 23%, which is GN Hearing's highest ever market share in the VA.

In APAC and Emerging Markets, GN Hearing continued to deliver double digit organic revenue growth, with strong growth in among other China and India.

In Europe, GN Hearing continued to gain market share across several markets, including France, Spain, Sweden and Belgium.

Earnings and other financial highlights

GN Hearing's gross profit increased 7% to DKK 1,149 million in Q4 2018. The gross margin reached 69.9%, compared to 71.7% in Q4 2017, reflecting country mix and product mix in the quarter.

EBITA in Q4 2018 was DKK 385 million, compared to DKK 396 million in Q4 2017. The EBITA margin in Q4 2018 was 23.4%, compared to 26.5% in Q4 2017, primarily driven by an adverse development from foreign exchange rates as well as R&D capitalization fluctuations as a function of timing of product launches.

In Q4 2018, free cash flow excl. M&A reached DKK 183 million, compared to DKK 260 million in Q4 2017. The decrease reflects the timing of the ReSound LiNX Quattro launch impacting trade receivables adversely. Cash conversion was 48% in Q4 2018.

GN Audio

Revenue

GN Audio ended the year very strongly with 28% organic revenue growth in the fourth quarter. The foreign exchange development contributed with around 2% and M&A contribution was around 1%. Revenue growth was 31%. The revenue in Q4 2018 was DKK 1,543 million, compared to DKK 1,180 million in Q4 2017.

In Q4 2018, GN Audio's CC&O business continued to deliver strong double digit organic revenue growth and market share gains across regions and channels. The continued strong growth reflects GN Audio's innovative world leading product portfolio – including the Jabra Engage franchise launched in April 2018 – as well as strong execution on its commercial excellence initiatives.

Financial overview Q4 2018

	GN Hearing			GN Audio			Group total*		
DKK million	Q4 2018	Q4 2017	Growth	Q4 2018	Q4 2017	Growth	Q4 2018	Q4 2017	Growth
Revenue	**1,644**	**1,497**	**10%**	**1,543**	**1,180**	**31%**	**3,187**	**2,677**	**19%**
Organic growth	*10%*	*11%*		*28%*	*12%*		*18%*	*11%*	
Gross profit	**1,149**	**1,074**	**7%**	**816**	**640**	**28%**	**1,965**	**1,714**	**15%**
Gross margin	*69.9%*	*71.7%*	*(1.8)%p*	*52.9%*	*54.2%*	*(1.3)%p*	*61.7%*	*64.0%*	*(2.3)%p*
EBITA	**385**	**396**	**(3)%**	**348**	**271**	**28%**	**688**	**632**	**9%**
EBITA margin	*23.4%*	*26.5%*	*(3.1)%p*	*22.6%*	*23.0%*	*(0.4)%p*	*21.6%*	*23.6%*	*(2.0)%p*
EPS (DKK)							**3.33**	**2.71**	**23%**
FCF excl. M&A	183	260	(30)%	184	108	70%	246	291	(15)%

* Including "Other"

GN Audio's ongoing repositioning of the consumer business resulted in another quarter with strong double-digit organic revenue growth, driven among other by the very successful Jabra Elite family, which continues to receive outstanding reviews.

Earnings and other financial highlights
In Q4 2018, GN Audio's gross profit increased by 28% to DKK 816 million. This translated into a gross margin of 52.9%, which was slightly lower than in Q4 2017, reflecting product mix.

In Q4 2018, GN Audio's EBITA reached DKK 348 million equivalent to an EBITA margin of 22.6%, in line with Q4 2017.

GN Audio's free cash flow excl. M&A was DKK 184 million in Q4 2018, which is 70% higher than in Q4 2017. The cash conversion in Q4 2018 was 53%, compared to 40% in Q4 2017. The continued strong level reflects GN Audio's relentless focus on cash generation.

Contents

Quarterly financial highlights

DKK million	Q4 2018 (unaud.)	Q4 2017 (unaud.)	Full year 2018 (aud.)	Full year 2017 (aud.)
GN Hearing				
Revenue	1,644	1,497	5,833	5,615
Revenue growth	10%	8%	4%	9%
Organic growth	10%	11%	7%	6%
Gross profit margin	69.9%	71.7%	69.2%	69.4%
EBITA*	385	396	1,194	1,153
EBITA margin	23.4%	26.5%	20.5%	20.5%
ROIC (EBITA/Average invested capital)	19%	18%	19%	18%
Free cash flow excl. M&A	183	260	574	866
Cash conversion (Free cash flow excl. M&A/EBITA)	48%	66%	48%	75%
GN Audio				
Revenue	1,543	1,180	4,774	3,970
Revenue growth	31%	6%	20%	14%
Organic growth	28%	12%	21%	10%
Gross profit margin	52.9%	54.2%	53.2%	53.2%
EBITA*	348	271	905	721
EBITA margin	22.6%	23.0%	19.0%	18.2%
ROIC (EBITA/Average invested capital)	59%	46%	59%	46%
Free cash flow excl. M&A	184	108	798	481
Cash conversion (Free cash flow excl. M&A/EBITA)	53%	40%	88%	67%
GN Store Nord				
Revenue	3,187	2,677	10,607	9,585
Revenue growth	19%	7%	11%	11%
Organic growth	18%	11%	13%	8%
Gross profit margin	61.7%	64.0%	62.0%	62.7%
EBITA*	688	632	1,956	1,744
EBITA margin	21.6%	23.6%	18.4%	18.2%
Profit (loss) before tax	580	539	1,606	1,504
Effective tax rate	22.6%	31.0%	22.4%	25.4%
ROIC (EBITA/Average invested capital)	24%	21%	24%	21%
Earnings per share (EPS)	3.33	2.71	9.25	8.07
Earnings per share, fully diluted (EPS diluted)	3.29	2.69	9.13	8.02
Free cash flow excl. M&A	246	291	1,110	1,134
Cash conversion (Free cash flow excl. M&A/EBITA)	36%	46%	57%	65%
Equity ratio	39.1%	40.7%	39.1%	40.8%
Net interest-bearing debt	3,234	3,035	3,234	3,035
Net interest-bearing debt (period-end)/EBITDA	1.5	1.6	1.5	1.6
Payout ratio	0%	0%	16%	16%
Share buybacks**	173	254	1,061	1,372
Outstanding shares, end of period (thousand)	132,576	136,443	132,576	136,443
Average number of outstanding shares (thousand)	132,887	137,024	134,114	138,980
Average number of outstanding shares, fully diluted (thousand)	134,508	138,223	135,864	139,968
Treasury shares, end of period (thousand)	13,108	9,241	13,108	9,241
Share price at the end of the period	243.3	200.5	243.3	200.5
Market capitalization	32,256	27,357	32,256	27,357

ROIC and NIBD/EBITDA are calculated based on reported EBITA and EBITDA for the latest four quarters

* Excluding gain (loss) on divestments of operations etc. and amortization of acquired intangible assets, including amortization of development projects and software developed in-house

** Incl. buybacks as part of share based incentive programs

Quarterly reporting by segment

DKK million	Q1 2017 (unaud.)	Q2 2017 (unaud.)	Q3 2017 (unaud.)	Q4 2017 (unaud.)	Q1 2018 (unaud.)	Q2 2018 (unaud.)	Q3 2018 (unaud.)	Q4 2018 (unaud.)	Total 2017 (aud.)	Total 2018 (aud.)
Income statement										
Revenue										
GN Hearing	1,376	1,415	1,327	1,497	1,365	1,433	1,391	1,644	5,615	5,833
GN Audio	857	978	955	1,180	931	1,131	1,169	1,543	3,970	4,774
Total	**2,233**	**2,393**	**2,282**	**2,677**	**2,296**	**2,564**	**2,560**	**3,187**	**9,585**	**10,607**
Organic growth										
GN Hearing	4%	5%	6%	11%	5%	6%	6%	10%	6%	7%
GN Audio	8%	12%	9%	12%	17%	19%	20%	28%	10%	21%
Total	**5%**	**7%**	**7%**	**11%**	**10%**	**11%**	**12%**	**18%**	**8%**	**13%**
Gross profit										
GN Hearing	938	975	908	1,074	929	988	968	1,149	3,895	4,034
GN Audio	441	519	513	640	496	609	619	816	2,113	2,540
Total	**1,379**	**1,494**	**1,421**	**1,714**	**1,425**	**1,597**	**1,587**	**1,965**	**6,008**	**6,574**
Gross profit margin										
GN Hearing	68.2%	68.9%	68.4%	71.7%	68.1%	68.9%	69.6%	69.9%	69.4%	69.2%
GN Audio	51.5%	53.1%	53.7%	54.2%	53.3%	53.8%	53.0%	52.9%	53.2%	53.2%
Total	**61.8%**	**62.4%**	**62.3%**	**64.0%**	**62.1%**	**62.3%**	**62.0%**	**61.7%**	**62.7%**	**62.0%**
Development costs										
GN Hearing	(103)	(107)	(104)	(99)	(97)	(108)	(122)	(147)	(413)	(474)
GN Audio	(64)	(59)	(61)	(57)	(61)	(79)	(90)	(100)	(241)	(330)
Other *	(8)	(17)	(14)	(17)	(13)	(15)	(11)	(18)	(56)	(57)
Total	**(175)**	**(183)**	**(179)**	**(173)**	**(171)**	**(202)**	**(223)**	**(265)**	**(710)**	**(861)**
Selling and distribution costs and administrative expenses etc.										
GN Hearing	(590)	(613)	(547)	(579)	(570)	(602)	(577)	(617)	(2,329)	(2,366)
GN Audio	(274)	(292)	(273)	(312)	(309)	(323)	(305)	(368)	(1,151)	(1,305)
Other *	(20)	(20)	(16)	(18)	(21)	(18)	(20)	(27)	(74)	(86)
Total	**(884)**	**(925)**	**(836)**	**(909)**	**(900)**	**(943)**	**(902)**	**(1,012)**	**(3,554)**	**(3,757)**
EBITA										
GN Hearing	245	255	257	396	262	278	269	385	1,153	1,194
GN Audio	103	168	179	271	126	207	224	348	721	905
Other *	(28)	(37)	(30)	(35)	(34)	(33)	(31)	(45)	(130)	(143)
Total	**320**	**386**	**406**	**632**	**354**	**452**	**462**	**688**	**1,744**	**1,956**
EBITA margin										
GN Hearing	17.8%	18.0%	19.4%	26.5%	19.2%	19.4%	19.3%	23.4%	20.5%	20.5%
GN Audio	12.0%	17.2%	18.7%	23.0%	13.5%	18.3%	19.2%	22.6%	18.2%	19.0%
Total	**14.3%**	**16.1%**	**17.8%**	**23.6%**	**15.4%**	**17.6%**	**18.0%**	**21.6%**	**18.2%**	**18.4%**
Depreciation and software amortization										
GN Hearing	(28)	(28)	(28)	(28)	(25)	(24)	(24)	(25)	(112)	(98)
GN Audio	(9)	(9)	(9)	(8)	(7)	(13)	(11)	(12)	(35)	(43)
Other *	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(15)	(34)	(51)
Total	**(44)**	**(45)**	**(46)**	**(46)**	**(43)**	**(49)**	**(48)**	**(52)**	**(181)**	**(192)**
EBITDA										
GN Hearing	273	283	285	424	287	302	293	410	1,265	1,292
GN Audio	112	177	188	279	133	220	235	360	756	948
Other *	(21)	(29)	(21)	(25)	(23)	(21)	(18)	(30)	(96)	(92)
Total	**364**	**431**	**452**	**678**	**397**	**501**	**510**	**740**	**1,925**	**2,148**
EBITA	**320**	**386**	**406**	**632**	**354**	**452**	**462**	**688**	**1,744**	**1,956**
Amortization of acquired intangible assets	(35)	(40)	(34)	(39)	(37)	(37)	(40)	(41)	(148)	(155)
Gain (loss) on divestment of operations etc.	1	-	(1)	(38)	(1)	-	(5)	1	(38)	(5)
Operating profit (loss)	**286**	**346**	**371**	**555**	**316**	**415**	**417**	**648**	**1,558**	**1,796**
Share of profit (loss) in associates	-	-	6	-	-	-	-	13	6	13
Financial items, net	(31)	-	(13)	(16)	(42)	(49)	(31)	(81)	(60)	(203)
Profit (loss) before tax	**255**	**346**	**364**	**539**	**274**	**366**	**386**	**580**	**1,504**	**1,606**
Tax on profit (loss)	(56)	(78)	(81)	(167)	(61)	(82)	(85)	(131)	(382)	(359)
Profit (loss)	**199**	**268**	**283**	**372**	**213**	**284**	**301**	**449**	**1,122**	**1,247**
Balance sheet Development projects										
GN Hearing	816	833	834	859	868	925	931	937	859	937
GN Audio	273	274	279	300	309	322	322	315	300	315
Other *	-	-	-	-	-	(30)	(30)	(30)	-	(30)
Total	**1,089**	**1,107**	**1,113**	**1,159**	**1,177**	**1,217**	**1,223**	**1,222**	**1,159**	**1,222**
Inventories										
GN Hearing	412	394	392	382	376	411	457	460	382	460
GN Audio	291	314	384	329	274	308	400	492	329	492
Total	**703**	**708**	**776**	**711**	**650**	**719**	**857**	**952**	**711**	**952**
Trade receivables										
GN Hearing	1,176	1,138	1,063	1,121	1,119	1,096	1,144	1,276	1,121	1,276
GN Audio	781	906	881	990	816	1,020	1,022	1,118	990	1,118
Other *	-	-	1	-	-	-	-	-	-	-
Total	**1,957**	**2,044**	**1,945**	**2,111**	**1,935**	**2,116**	**2,166**	**2,394**	**2,111**	**2,394**
Net working capital										
GN Hearing	841	793	704	671	742	704	742	785	671	785
GN Audio	465	496	514	469	431	396	377	425	469	425
Other *	(113)	(117)	(78)	(55)	(75)	(84)	(77)	(98)	(55)	(98)
Total	**1,193**	**1,172**	**1,140**	**1,085**	**1,098**	**1,016**	**1,042**	**1,112**	**1,085**	**1,112**
Free cash flow excl. M&A										
GN Hearing	86	267	253	260	103	106	182	183	866	574
GN Audio	78	131	164	108	99	289	226	184	481	798
Other *	(22)	(53)	(61)	(77)	(25)	(57)	(59)	(121)	(213)	(262)
Total	**142**	**345**	**356**	**291**	**177**	**338**	**349**	**246**	**1,134**	**1,110**
Acquisitions and divestments of companies	**683**	**(11)**	**(5)**	**(9)**	**(28)**	**(69)**	**-**	**-**	**658**	**(97)**
Free cash flow	**825**	**334**	**351**	**282**	**149**	**269**	**349**	**246**	**1,792**	**1,013**

* "Other" comprises Group Functions, GN Ejendomme and eliminations

Q4 segment disclosures

Income statements (DKK million)	GN Hearing Q4 2018 (unaud.)	GN Hearing Q4 2017 (unaud.)	GN Audio Q4 2018 (unaud.)	GN Audio Q4 2017 (unaud.)	Other** Q4 2018 (unaud.)	Other** Q4 2017 (unaud.)	Consolidated total Q4 2018 (unaud.)	Consolidated total Q4 2017 (unaud.)
Revenue	1,644	1,497	1,543	1,180	-	-	3,187	2,677
Production costs	(495)	(423)	(727)	(540)	-	-	(1,222)	(963)
Gross profit	1,149	1,074	816	640	-	-	1,965	1,714
Development costs	(147)	(99)	(100)	(57)	(18)	(17)	(265)	(173)
Selling and distribution costs	(505)	(479)	(306)	(273)	-	-	(811)	(752)
Management and administrative expenses	(110)	(102)	(62)	(33)	(26)	(18)	(198)	(153)
Other operating income and costs, net	(2)	2	-	(6)	(1)	-	(3)	(4)
EBITA*	385	396	348	271	(45)	(35)	688	632
Amortization of acquired intangible assets	(36)	(35)	(5)	(4)	-	-	(41)	(39)
Gain (loss) on divestment of operations etc.	1	-	-	(38)	-	-	1	(38)
Operating profit (loss)	350	361	343	229	(45)	(35)	648	555
Share of profit (loss) in associates	13	-	-	-	-	-	13	-
Financial items	(32)	(3)	(5)	(4)	(44)	(9)	(81)	(16)
Profit (loss) before tax	331	358	338	225	(89)	(44)	580	539
Tax on profit (loss)	(79)	(76)	(74)	(108)	22	17	(131)	(167)
Profit (loss) for the period from continuing operations	252	282	264	117	(67)	(27)	449	372
Discontinued operations								
Profit (loss) for the period from discontinued operations	-	(8)	-	-	-	-	-	(8)
Profit (loss) for the period	252	274	264	117	(67)	(27)	449	364

Cash flow statement (DKK million)	GN Hearing Q4 2018 (unaud.)	GN Hearing Q4 2017 (unaud.)	GN Audio Q4 2018 (unaud.)	GN Audio Q4 2017 (unaud.)	Other** Q4 2018 (unaud.)	Other** Q4 2017 (unaud.)	Consolidated total Q4 2018 (unaud.)	Consolidated total Q4 2017 (unaud.)
Operating activities before changes in working capital	476	507	412	253	(29)	(25)	859	735
Cash flow from changes in working capital	(48)	1	(31)	39	17	(27)	(62)	13
Cash flow from operating activities excluding financial items and tax	428	508	381	292	(12)	(52)	797	748
Cash flow from investing activities:								
Development projects	(75)	(75)	(32)	(45)	-	-	(107)	(120)
Other	(123)	(94)	(16)	(14)	(35)	(33)	(174)	(141)
Cash flow from operating and investing activities before financial items and tax	230	339	333	233	(47)	(85)	516	487
Tax and financial items	(47)	(88)	(149)	(125)	(74)	8	(270)	(205)
Cash flow from operating and investing activities (free cash flow)	183	251	184	108	(121)	(77)	246	282
Cash flow from M&A activities	-	(9)	-	-	-	-	-	(9)
Free cash flow excl. M&A	183	260	184	108	(121)	(77)	246	291

Additional information (DKK million)	GN Hearing Q4 2018 (unaud.)	GN Hearing Q4 2017 (unaud.)	GN Audio Q4 2018 (unaud.)	GN Audio Q4 2017 (unaud.)	Other** Q4 2018 (unaud.)	Other** Q4 2017 (unaud.)	Consolidated total Q4 2018 (unaud.)	Consolidated total Q4 2017 (unaud.)
Revenue distributed geographically								
Denmark	37	9	68	48	-	-	105	57
Europe	397	353	671	471	-	-	1,068	824
North America	843	821	560	462	-	-	1,403	1,283
Rest of World	367	314	244	199	-	-	611	513
Revenue	1,644	1,497	1,543	1,180	-	-	3,187	2,677
Incurred development costs	(156)	(122)	(92)	(76)	(18)	(17)	(266)	(215)
Capitalized development costs	75	75	32	45	-	-	107	120
Amortization, impairment and depreciation of development projects***	(66)	(52)	(40)	(26)	-	-	(106)	(78)
Expensed development costs	(147)	(99)	(100)	(57)	(18)	(17)	(265)	(173)
EBITDA	410	424	360	279	(30)	(25)	740	678
Depreciation and software amortization	(25)	(28)	(12)	(8)	(15)	(10)	(52)	(46)
EBITA*	385	396	348	271	(45)	(35)	688	632
EBITA margin	23%	26%	23%	23%	N/A	N/A	22%	24%
Number of employees, end of period	~4,500	~4,350	~1,350	~1,075	~175	~150	~6,025	~5,575

* Excluding gain (loss) on divestments of operations etc. and amortization of acquired intangible assets, including amortization of development projects and software developed in-house

** "Other" comprises Group Shared Services, GN Ejendomme and eliminations

*** Does not include amortization of acquired intangible assets, cf. definition of EBITA*

Financial statements 2018 Content

Consolidated financial statements

Notes to the consolidated financial statements

Section 1 Basis of preparation

Overview of the financial accounting policies in general and an introduction to Management's key accounting estimates and judgments.

Section 2 Results of the year

Insights into the results for the year, including operating segments, employee costs and taxes.

Section 3 Operating assets and liabilities

Insights into the assets that form the basis for the activities in GN Store Nord, and the related liabilities. Most of these are included in invested capital and some in net working capital.

Section 4 Capital structure and financing items

Insight into GN Store Nord's capital structure and financial items as well as financial risks.

Section 5 Other disclosures

Statutory notes and other disclosures.

Consolidated income statement

DKK million	Note	2018	2017
Continuing operations			
Revenue	2.2	10,607	9,585
Production costs	2.3, 3.3, 3.5	(4,033)	(3,577)
Gross profit		**6,574**	**6,008**
Development costs	2.3, 3.3	(861)	(710)
Selling and distribution costs	2.3, 3.3	(3,050)	(2,913)
Management and administrative expenses	2.3, 3.3, 5.10	(706)	(635)
Other operating income and costs, net		(1)	(6)
EBITA*		**1,956**	**1,744**
Amortization of acquired intangible assets	2.5, 3.3	(155)	(148)
Gain (loss) on divestment of operations etc.	5.1	(5)	(38)
Operating profit (loss)		**1,796**	**1,558**
Share of profit (loss) in associates	5.7	13	6
Financial income	4.4	71	159
Financial expenses	4.4	(274)	(219)
Profit (loss) before tax		**1,606**	**1,504**
Tax on profit (loss)	2.4	(359)	(382)
Profit (loss) for the year from continuing operations		**1,247**	**1,122**
Discontinued operations			
Profit (loss) for the period from discontinued operations	5.2	-	61
Profit (loss) for the year		**1,247**	**1,183**
Attributable to:			
Non-controlling interests		6	-
Shareholders in GN Store Nord A/S		1,241	1,183
Earnings per share (EPS), including discontinued operations:			
Earnings per share (EPS)		9.25	8.51
Earnings per share, fully diluted (EPS diluted)		9.13	8.45
Earnings per share (EPS)	4.1		
Earnings per share (EPS)		9.25	8.07
Earnings per share fully diluted (EPS diluted)		9.13	8.02

* Excluding gain (loss) on divestments of operations etc. and amortization of acquired intangible assets, including amortization of development projects and software developed in-house

Consolidated statement of comprehensive income

DKK million	Note	2018	2017
Profit (loss) for the year		**1,247**	**1,183**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial gains (losses)		(11)	15
Tax relating to this item of other comprehensive income	2.4	3	(4)
Items that may be reclassified subsequently to profit or loss			
Adjustment of cash flow hedges	4.2	(68)	110
Foreign exchange adjustments, etc.		256	(802)
Tax relating to these items of other comprehensive income	2.4	5	7
Other comprehensive income for the year, net of tax		**185**	**(674)**
Total comprehensive income for the year		**1,432**	**509**
Attributable to:			
Non-controlling interests		6	-
Shareholders in GN Store Nord A/S		1,426	509

Consolidated balance sheet at December 31

DKK million	Note	2018	2017
Assets			
Intangible assets	3.1	6,594	6,244
Property, plant and equipment	3.2	514	486
Investments in associates	5.7	118	17
Deferred tax assets	2.4	368	344
Other non-current assets	3.4, 4.2	1,142	984
Total non-current assets		**8,736**	**8,075**
Inventories	3.5	952	711
Trade receivables	3.6, 4.2	2,394	2,111
Tax receivables		29	57
Other receivables		270	257
Cash and cash equivalents	4.2	636	526
Total current assets		**4,281**	**3,662**
Total assets		**13,017**	**11,737**
Equity and Liabilities			
Share capital		583	583
Other reserves		(3,677)	(2,871)
Proposed dividends for the year		197	182
Retained earnings		7,993	6,889
Total equity		**5,096**	**4,783**
Bank loans and issued bonds	4.2, 4.3	3,842	3,508
Pension obligations	5.5	54	45
Provisions	3.7	262	183
Deferred tax liabilities	2.4	399	440
Other non-current liabilities	4.2, 4.3	306	315
Total non-current liabilities		**4,863**	**4,491**
Bank loans	4.2, 4.3	28	53
Trade payables	4.2	934	605
Tax payables		148	84
Provisions	3.7	378	332
Other payables		1,570	1,389
Total current liabilities		**3,058**	**2,463**
Total equity and liabilities		**13,017**	**11,737**

Consolidated statement of cash flow

DKK million	Note	2018	2017
Operating activities			
Operating profit (loss)		1,796	1,558
Depreciation, amortization and impairment	3.3	690	632
Other non-cash adjustments	5.8	107	106
Cash flow from operating activities before changes in working capital		**2,593**	**2,296**
Change in inventories		(228)	(8)
Change in receivables		(273)	(159)
Change in trade payables and other payables		406	193
Total changes in working capital		**(95)**	**26**
Cash flow from operating activities before financial items and tax		**2,498**	**2,322**
Interest received		35	27
Interest etc. paid		(148)	(114)
Tax paid, net		(313)	(350)
Cash flow from operating activities		**2,072**	**1,885**
Investing activities			
Investments in intangible assets, excluding development projects		(156)	(181)
Development projects	3.1	(408)	(396)
Investments in property, plant and equipment	3.2	(160)	(103)
Investments in other non-current assets		(363)	(229)
Disposal of intangible assets and property, plant and equipment		3	1
Disposal/repayment of other non-current assets		122	157
Acquisition of companies/operations	5.1	(97)	(94)
Divestment of companies/operations	5.2	-	752
Cash flow from investing activities		**(1,059)**	**(93)**
Cash flow from operating and investing activities (free cash flow)		**1,013**	**1,792**
Financing activities			
Increase of long-term loans	4.3	296	-
Decrease of long-term loans	4.3	-	(1,616)
Decrease of short-term loans	4.3	(25)	(2)
Net proceeds from issue of bond-with-warrant units (convertible bond)	4.3	-	1,560
Net proceeds from warrant units issued with bonds	4.3	-	76
Paid dividends		(169)	(161)
Share-based payment (exercised)		65	70
Purchase of treasury shares	4.1	(1,061)	(1,372)
Other adjustments		(8)	(13)
Cash flow from financing activities		**(902)**	**(1,458)**
Net cash flow		**111**	**334**
Cash and cash equivalents, beginning of period		526	207
Adjustment foreign currency, cash and cash equivalents		(1)	(15)
Cash and cash equivalents, end of period	5.8	**636**	**526**

Consolidated statement of equity

		Other reserves							
DKK million	Share capital*	Foreign exchange adjust-ments	Hedging reserve	Treasury shares	Proposed dividends for the year	Retained earnings	Equity, shareholders in GN Store Nord A/S	Non-controlling interests	Total equity
Balance sheet total at December 31, 2016	**619**	**(540)**	**(60)**	**(1,497)**	**178**	**6,920**	**5,620**	**-**	**5,620**
Profit (loss) for the period	-	-	-	-	-	1,183	1,183	-	1,183
Actuarial gains (losses)	-	-	-	-	-	15	15	-	15
Adjustment of cash flow hedges	-	-	110	-	-	-	110	-	110
Foreign exchange adjustments, etc.	-	(802)	-	-	-	-	(802)	-	(802)
Tax relating to other comprehensive income	-	31	(24)	-	-	(4)	3	-	3
Total comprehensive income for the year	-	(771)	86	-	-	1,194	509	-	509
Reduction of share capital	(36)	-	-	1,193	-	(1,157)	-	-	-
Fair value of warrants issued with bonds (proceeds)	-	-	-	-	-	76	76	-	76
Share-based payment (granted)	-	-	-	-	-	22	22	-	22
Share-based payment (exercised)	-	-	-	90	-	(20)	70	-	70
Tax related to share-based incentive plans	-	-	-	-	-	19	19	-	19
Purchase/sale of treasury shares	-	-	-	(1,372)	-	-	(1,372)	-	(1,372)
Proposed dividends for the year*	-	-	-	-	182	(182)	-	-	-
Paid dividends	-	-	-	-	(161)	-	(161)	-	(161)
Dividends, treasury shares	-	-	-	-	(17)	17	-	-	-
Balance sheet total at December 31, 2017	**583**	**(1,311)**	**26**	**(1,586)**	**182**	**6,889**	**4,783**	**-**	**4,783**
Effect of implementing IFRS 9	-	-	-	-	-	12	12	-	12
Balance sheet total at January 1, 2018	**583**	**(1,311)**	**26**	**(1,586)**	**182**	**6,901**	**4,795**	**-**	**4,795**
Profit (loss) for the period	-	-	-	-	-	1,241	1,241	6	1,247
Actuarial gains (losses)	-	-	-	-	-	(11)	(11)	-	(11)
Adjustment of cash flow hedges	-	-	(68)	-	-	-	(68)	-	(68)
Foreign exchange adjustments, etc.	-	256	-	-	-	-	256	-	256
Tax relating to other comprehensive income	-	(10)	15	-	-	3	8	-	8
Total comprehensive income for the year	-	246	(53)	-	-	1,233	1,426	6	1,432
Share-based payment (granted)	-	-	-	-	-	28	28	-	28
Share-based payment (exercised)	-	-	-	62	-	3	65	-	65
Tax related to share-based incentive plans	-	-	-	-	-	14	14	-	14
Purchase/sale of treasury shares	-	-	-	(1,061)	-	-	(1,061)	-	(1,061)
Non-controlling interests on acquisition of subsidiary	-	-	-	-	-	-	-	65	65
Reclassification of non-controlling interests by recognizing a put option liability	-	-	-	-	-	(2)	(2)	(71)	(73)
Proposed dividends for the year*	-	-	-	-	197	(197)	-	-	-
Paid dividends	-	-	-	-	(169)	-	(169)	-	(169)
Dividends, treasury shares	-	-	-	-	(13)	13	-	-	-
Balance sheet total at December 31, 2018	**583**	**(1,065)**	**(27)**	**(2,585)**	**197**	**7,993**	**5,096**	**-**	**5,096**

* Equivalent to DKK 1.35 per share (2017: DKK 1.25 per share)

Section 1
Basis of preparation

In the annual report the notes are grouped in sections. Each note includes the accounting policies and significant accounting estimates applicable to the relevant notes. The description of the accounting policies in the notes is part of the complete description of GN Store Nord'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

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 Store Nord Group.

1.1 General accounting policies

The annual report of GN Store Nord for 2018 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.

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

New standards, interpretations and amendments adopted by GN Store Nord
As of January 1, 2018, GN Store Nord adopted all relevant new or revised International Financial Reporting Standards and IFRIC Interpretations with effective date January 1, 2018 or earlier, including IFRS 9 Financial instruments and IFRS 15 Revenue from Contracts with Customers. IFRS 9 has been applied retrospectively and the cumulative effect has been recognized in opening retained earnings at January 1, 2018. No comparative information has been restated. IFRS 15 has also been applied retrospectively. It has not been necessary to restate any comparative information or recognize any cumulative effect in retained earnings regarding IFRS 15. Apart from this, the annual report is presented in accordance with the accounting policies applied in previous years' annual reports.

Effect from implementing IFRS 9 Financial instruments
IFRS 9 addresses the classification and measurement of financial assets and liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets. GN Store Nord has reviewed the group's financial assets and liabilities which resulted in a minor impact on recognition and measurement from implementing IFRS 9. As described below, the total effect as of January 1, 2018 was that Loans to dispensers and ownership interests has increased DKK 16 million and, due to a related effect on deferred tax, equity has increased DKK 12 million. GN Store Nord's use of hedge accounting has not been affected by implementing IFRS 9 and neither has the accounting for financial liabilities. The disclosures regarding classification of certain financial assets has changed as financial assets are classified as measured at either amortized cost or fair value. The changed classification did not result in any changes to measurements.

Ownership interests in unlisted enterprises in which GN Store Nord does not exercise significant influence, and derivative financial instruments related to such, were previously measured at cost. After the implementation of IFRS 9, ownership interests are measured at fair value. Upon initial recognition of future investments it will be decided, on an instrument-by-instrument basis, whether the ownership interests will be measured at fair value through profit or loss or at fair value through other comprehensive income. Derivative financial instruments on ownership interests is measured at fair value through profit or loss. Going forward the income statement will be affected by changes in the fair value of the derivative financial instruments and by changes in the fair value of selected ownership interests. As of January 1, 2018 the value of ownership interests and derivative financial instruments related to such has increased DKK 28 million. Dispenser loans and trade receivables will continue to be measured at amortized cost.

When measuring loss allowances, GN Store Nord applies the simplified approach on trade receivables and record lifetime expected credit losses on all trade receivables. GN Store Nord measures loss allowances on dispenser loans equal to 12-month expected credit losses, if the credit risk has not increased significantly since initial recognition. If the credit risk has increased significantly, the loss allowance is measured at an amount equal to lifetime expected credit losses. As of January 1, 2018 the loss allowances on Loans to dispensers has increased DKK 12 million. IFRS 7 has required additional disclosures in the Annual Report.

The accumulated effect of the changes have been recognized in opening retained earnings at January 1, 2018 and no comparative information has been restated. The impact from the adoption of IFRS 9 can be illustrated as follows:

Impact on the consolidated balance sheet as at January 1, 2018

DKK million	Previous accounting policy	Effect of policy changes (IFRS 9)	New accounting policy
Assets			
Loans to dispensers and ownership interests*	605	16	621
Total assets	**11,737**	**16**	**11,753**
Equity and Liabilities			
Equity	**4,783**	**12**	**4,795**
Deferred tax liabilities	440	4	444
Total equity and liabilities	**11,737**	**16**	**11,753**

* Effect of fair value measurement of ownership interests and derivative financial instruments related to such (+28) and effect of increase in loss allowances on Loans to dispensers (-12)

Effect from implementing IFRS 15 Revenue from Contracts with Customers

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

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

The new standard has required additional disclosures regarding revenue recognition in the Annual Report such as opening and closing balances of contract assets and liabilities, as well as revenue recognized during the year from changes in contract liabilities. GN Store Nord's disaggregation of revenue in segments and geography has not changed due to the implementation of IFRS 15.

No comparative information has been restated.

Accounting standards not yet adopted

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

IFRS 16 Leases

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

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

The expected impact on the consolidated financial statements from implementing IFRS 16 Leases is as follows: Annual EBITDA is expected to increase by around DKK 125 million whereas annual EBITA is only expected to increase by around DKK 3 million. Right-of-use assets of around DKK 475 million are expected to be recognized in the balance sheet and similarly a lease liability of around DKK 475 million is expected to increase net interest bearing debt. Cash flow from operating and investing activities (free cash flow) is expected to increase by around DKK 115 million and ROIC is expected to decrease by around 2 percentage points.

The effects are based on current lease agreements and are estimates subject to uncertainties. Possible future changes in activities or lease agreements are not taken into account.

IFRIC 23 Uncertainty over Income Tax Treatments

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

GN Store Nord will adopt the mentioned standards and interpretations as of the effective dates.

Consolidated Financial Statements
The consolidated financial statements relate to the financial statements of the parent company, GN Store Nord, and its subsidiaries as at December 31, 2018. Control is achieved when the Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when GN Store Nord has less than a majority of the voting or similar rights of an investee, GN Store Nord considers all relevant facts and circumstances in assessing whether it has power over an investee.

Group companies are listed on page 113. Enterprises that are not subsidiaries, but where GN Store Nord holds between 20% and 50% of the voting rights and over which it exercises significant influence, but where it does not have power to govern the financial and operating policies, are considered associates. When assessing whether GN Store Nord exercises control or significant influence, potential voting rights that are substantive and options on acquisition of additional ownership interests are taken into account.

The consolidated financial statements are prepared as a consolidation of the financial statements of the parent company and those of the individual subsidiaries, all of which are presented in accordance with the Group's accounting policies. Intra-group income and expenses, shareholdings, intra-group balances and dividends, and realized and unrealized gains and losses on intra-group transactions are eliminated. On consolidation, the carrying amount of shares held by the parent company in subsidiaries is set off against the subsidiaries' equity.

Foreign Currency Translation
Functional Currency and Presentation Currency
Financial statement items for each of the reporting enterprises in the Group are measured using the currency used in the primary financial environment in which the reporting enterprise operates. Transactions denominated in other currencies than the functional currency are considered transactions denominated in foreign currencies. The consolidated financial statements are presented in Danish kroner (DKK), which is the functional currency and presentation currency of the parent company.

Translation of Transactions and Balances
On initial recognition, transactions denominated in foreign currencies are translated to the functional currency 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.

Translation of Subsidiaries
On recognition in the consolidated financial statements of foreign entities with another functional currency than GN Store Nord's presentation currency, the income statements are translated at the exchange rates at the transaction date, and the balance sheet items are translated at the exchange rates at the balance sheet date. An average exchange rate for the month is used as the exchange rate at the transaction date to the extent that this does not significantly distort the presentation of the underlying transactions. Foreign exchange differences arising on translation of the opening balance of equity of such enterprises at the exchange rates at the balance sheet date and on translation of the income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date are recognized in other comprehensive income.

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

Cash Flow Statement
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 judgments

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.

A description of significant accounting estimates and judgments is included in the relevant notes:

Estimate/Judgment	**Section**
Revenue recognition	2.1 Segment disclosures
Measurement of deferred tax	2.4 Tax
Recognition and measurement of goodwill and development projects	3.1 Intangible assets
Loans to dispensers and ownership interests	3.4 Other non-current assets
Measurement of inventories	3.5 Inventories
Measurement of trade receivables	3.6 Trade receivables
Measurement of provisions	3.7 Provisions
Recognition of contingent assets and liabilities	5.6 Contingent liabilities, other financial liabilities and contingent assets

1.3 Non-IFRS measures

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

Section 2
Results of the year

2.1 Segment disclosures

Income statement 2018

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Continuing operations					
External revenue	5,833	4,774	-	-	10,607
Internal revenue	-	-	215	(215)	-
Revenue	**5,833**	**4,774**	**215**	**(215)**	**10,607**
Production costs	(1,799)	(2,234)	-	-	(4,033)
Gross profit	**4,034**	**2,540**	**215**	**(215)**	**6,574**
Development costs	(474)	(330)	(57)	-	(861)
Selling and distribution costs	(1,952)	(1,098)	-	-	(3,050)
Management and administrative expenses	(414)	(207)	(300)	215	(706)
Other operating income and costs, net	-	-	30	(31)	(1)
EBITA*	**1,194**	**905**	**(112)**	**(31)**	**1,956**
Amortization of acquired intangible assets	(136)	(19)	-	-	(155)
Gain (loss) on divestment of operations etc.	-	(5)	-	-	(5)
Operating profit (loss)	**1,058**	**881**	**(112)**	**(31)**	**1,796**
Share of profit (loss) in associates	13	-	-	-	13
Financial items	(54)	7	(156)	-	(203)
Profit (loss) before tax	**1,017**	**888**	**(268)**	**(31)**	**1,606**
Tax on profit (loss)	(241)	(182)	64	-	(359)
Profit (loss) for the year from continuing operations	**776**	**706**	**(204)**	**(31)**	**1,247**
Discontinued operations					
Profit (loss) for the year from discontinued operations	-	-	-	-	-
Profit (loss) for the year	**776**	**706**	**(204)**	**(31)**	**1,247**
Impairment losses and reversals regarding intangible assets and property, plant and equipment recognized in the income statement	-	(10)	-	-	(10)

Transactions between segments are based on market terms. Eliminations in the income statement primarily concern internal revenue, intersegment rent, management fee and interest

Other segment disclosures 2018

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Incurred development costs	(516)	(341)	(57)	-	(914)
Capitalized development costs	249	159	-	-	408
Amortization and depreciation	(207)	(148)	-	-	(355)
Expensed development costs	**(474)**	**(330)**	**(57)**	**-**	**(861)**
EBITDA**	**1,292**	**948**	**(61)**	**(31)**	**2,148**
Depreciation and software amortization	(98)	(43)	(51)	-	(192)
EBITA*	**1,194**	**905**	**(112)**	**(31)**	**1,956**

* Excluding gain (loss) on divestments of operations etc. and amortization of acquired intangible assets, including amortization of development projects and software developed in-house

** Excluding gain (loss) on divestments of operations etc. but including amortization of development projects

Revenues are in all material respects related to sale of goods; hearing aid instruments, DKK 5,833 million (2017 DKK 5, 615 million) and headsets and other audio solutions, DKK 4,774 million (2017 DKK 3,970 million).

2.1 Segment disclosures (Continued)

Income statement 2017

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Continuing operations					
External revenue	5,615	3,970	-	-	9,585
Internal revenue	-	-	171	(171)	-
Revenue	**5,615**	**3,970**	**171**	**(171)**	**9,585**
Production costs	(1,720)	(1,857)	-	-	(3,577)
Gross profit	**3,895**	**2,113**	**171**	**(171)**	**6,008**
Development costs	(413)	(241)	(56)	-	(710)
Selling and distribution costs	(1,953)	(960)	-	-	(2,913)
Management and administrative expenses	(377)	(184)	(245)	171	(635)
Other operating income and costs, net	1	(7)	-	-	(6)
EBITA*	**1,153**	**721**	**(130)**	**-**	**1,744**
Amortization of acquired intangible assets	(132)	(16)	-	-	(148)
Gain (loss) on divestment of operations etc.	-	(38)	-	-	(38)
Operating profit (loss)	**1,021**	**667**	**(130)**	**-**	**1,558**
Share of profit (loss) in associates	6	-	-	-	6
Financial items	(26)	(7)	(27)	-	(60)
Profit (loss) before tax	**1,001**	**660**	**(157)**	**-**	**1,504**
Tax on profit (loss)	(234)	(190)	42	-	(382)
Profit (loss) for the year from continuing operations	**767**	**470**	**(115)**	**-**	**1,122**
Discontinued operations					
Profit (loss) for the year from discontinued operations	61	-	-	-	61
Profit (loss) for the year	**828**	**470**	**(115)**	**-**	**1,183**
Impairment losses and reversals regarding intangible assets and property, plant and equipment recognized in the income statement	(3)	(1)	-	-	(4)

Transactions between segments are based on market terms. Eliminations in the income statement primarily concern internal revenue, intersegment rent, management fee and interest

Other segment disclosures 2017

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Incurred development costs	(468)	(269)	(56)	-	(793)
Capitalized development costs	264	132	-	-	396
Amortization and depreciation	(209)	(104)	-	-	(313)
Expensed development costs	**(413)**	**(241)**	**(56)**	**-**	**(710)**
EBITDA**	**1,265**	**756**	**(96)**	**-**	**1,925**
Depreciation and software amortization	(112)	(35)	(34)	-	(181)
EBITA*	**1,153**	**721**	**(130)**	**-**	**1,744**

* Excluding gain (loss) on divestments of operations etc. and amortization of acquired intangible assets, including amortization of development projects and software developed in-house

** Excluding gain (loss) on divestments of operations etc. but including amortization of development projects

2.1 Segment disclosures (Continued)

Balance sheet 2018

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Assets					
Goodwill	3,478	767	-	-	4,245
Development projects	937	315	-	(30)	1,222
Other intangible assets	760	137	231	(1)	1,127
Property, plant and equipment	237	98	179	-	514
Loans to dispensers and ownership interests	887	-	-	-	887
Other non-current assets	613	120	37	(29)	741
Total non-current assets	**6,912**	**1,437**	**447**	**(60)**	**8,736**
Inventories	460	492	-	-	952
Trade receivables	1,276	1,118	-	-	2,394
Receivables from subsidiaries*	-	1,356	-	(1,356)	-
Tax receivables	36	33	48	(88)	29
Other receivables	160	63	47	-	270
Cash and cash equivalents	239	138	259	-	636
Total current assets	**2,171**	**3,200**	**354**	**(1,444)**	**4,281**
Total assets	**9,083**	**4,637**	**801**	**(1,504)**	**13,017**
Equity and Liabilities					
Equity	**6,167**	**3,083**	**(4,123)**	**(31)**	**5,096**
Bank loans and issued bonds	-	-	3,842	-	3,842
Pension obligations and deferred tax	244	71	167	(29)	453
Provisions	177	85	-	-	262
Other non-current liabilities	306	-	-	-	306
Total non-current liabilities	**727**	**156**	**4,009**	**(29)**	**4,863**
Bank loans	14	1	13	-	28
Trade payables	258	631	45	-	934
Amounts owed to subsidiaries*	599	-	757	(1,356)	-
Tax payables	209	27	-	(88)	148
Provisions	256	122	-	-	378
Other current liabilities	853	617	100	-	1,570
Total current liabilities	**2,189**	**1,398**	**915**	**(1,444)**	**3,058**
Total equity and liabilities	**9,083**	**4,637**	**801**	**(1,504)**	**13,017**

*Net amount

Eliminations in the balance sheet primarily concern tax and intercompany balances

2.1 Segment disclosures (Continued)

Cash flow statement 2018

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Cash flow from operating activities before changes in working capital	**1,546**	**1,139**	**(92)**	**-**	**2,593**
Cash flow from changes in working capital	(204)	67	42	-	(95)
Cash flow from operating activities before financial items and tax	**1,342**	**1,206**	**(50)**	**-**	**2,498**
Cash flow from investing activities:					
Development projects	(249)	(159)	-	-	(408)
Other investing activities	(408)	(118)	(125)	-	(651)
Cash flow from operating and investing activities before financial items and tax	**685**	**929**	**(175)**	**-**	**1,439**
Tax and financial items	(150)	(189)	(87)	-	(426)
Cash flow from operating and investing activities (free cash flow)	**535**	**740**	**(262)**	**-**	**1,013**
Cash flow from M&A activities	(39)	(58)	-	-	(97)
Free cash flow excl. M&A	**574**	**798**	**(262)**	**-**	**1,110**

2.1 Segment disclosures (Continued)

Balance sheet 2017

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Assets					
Goodwill	3,339	640	-	-	3,979
Development projects	859	300	-	-	1,159
Other intangible assets	797	116	193	-	1,106
Property, plant and equipment	235	78	173	-	486
Loans to dispensers and ownership interests	755	-	-	-	755
Other non-current assets	490	101	1	(2)	590
Total non-current assets	**6,475**	**1,235**	**367**	**(2)**	**8,075**
Inventories	382	329	-	-	711
Trade receivables	1,121	990	-	-	2,111
Receivables from subsidiaries*	-	578	423	(1,001)	-
Tax receivables	67	19	-	(29)	57
Other receivables	178	30	49	-	257
Cash and cash equivalents	157	104	265	-	526
Total current assets	**1,905**	**2,050**	**737**	**(1,030)**	**3,662**
Total assets	**8,380**	**3,285**	**1,104**	**(1,032)**	**11,737**
Equity and Liabilities					
Equity	**5,254**	**2,228**	**(2,699)**	**-**	**4,783**
Bank loans and issued bonds	-	-	3,508	-	3,508
Pension obligations and deferred tax	233	77	177	(2)	485
Provisions	171	12	-	-	183
Other non-current liabilities	315	-	-	-	315
Total non-current liabilities	**719**	**89**	**3,685**	**(2)**	**4,491**
Bank loans	38	4	11	-	53
Trade payables	222	350	33	-	605
Amounts owed to subsidiaries*	1,001	-	-	(1,001)	-
Tax payables	101	9	3	(29)	84
Provisions	257	75	-	-	332
Other current liabilities	788	530	71	-	1,389
Total current liabilities	**2,407**	**968**	**118**	**(1,030)**	**2,463**
Total equity and liabilities	**8,380**	**3,285**	**1,104**	**(1,032)**	**11,737**

*Net amount

Eliminations in the balance sheet primarily concern tax and intercompany balances

2.1 Segment disclosures (Continued)

Cash flow statement 2017

DKK million	GN Hearing	GN Audio	Other GN	Eliminations	Consolidated total
Cash flow from operating activities before changes in working capital	**1,541**	**851**	**(96)**	**-**	**2,296**
Cash flow from changes in working capital	47	(12)	(9)	-	26
Cash flow from operating activities before financial items and tax	**1,588**	**839**	**(105)**	**-**	**2,322**
Cash flow from investing activities:					
Development projects	(264)	(132)	-	-	(396)
Other investing activities	428	(43)	(82)	-	303
Cash flow from operating and investing activities before financial items and tax	**1,752**	**664**	**(187)**	**-**	**2,229**
Tax and financial items	(228)	(183)	(26)	-	(437)
Cash flow from operating and investing activities (free cash flow)	**1,524**	**481**	**(213)**	**-**	**1,792**
Cash flow from M&A activities	658	-	-	-	658
Free cash flow excl. M&A	**866**	**481**	**(213)**	**-**	**1,134**

§ Accounting policies

Segment Information

GN Store Nord's Management has identified GN Hearing and GN Audio as the reportable segments in the Group. GN Hearing is operating within the hearing instrument industry, primarily producing and selling hearing instruments and products related hereto. GN Audio is a leading supplier of headsets and speakerphone solutions for professional use, and consumer headsets and earbuds for calls, music and media consumption.

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.

Other GN primarily reflects cost from Group Functions, including new business opportunities and research projects under the supervision of the GN Store Nord Strategy Committee, which are outside the reportable segments in the Group. Furthermore, unallocated balance sheet items are included.

Revenue

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

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

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

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

2.1 Segment disclosures (Continued)

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

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

As part of a sales transaction, certain future services such as extended warranties may be included. In case such service-type warranties are sold, the transaction price is allocated to the promised goods and services based on stand-alone selling prices. Observable prices are as far as possible used to determine the stand-alone selling prices but if such are not available a cost plus a margin approach is used. Extended warranties are initially recognized as contract liabilities in the balance sheet and recognized in the income statement on a straight-line basis over the term of the extended warranty period.

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

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

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

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

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

Significant accounting estimates

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

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

2.2 Revenue and geographical information

Revenue disaggregation

	GN Hearing		GN Audio		Consolidated total	
DKK million	2018	2017	2018	2017	2018	2017
Denmark	135	89	155	138	290	227
Europe	1,332	1,293	2,012	1,555	3,344	2,848
North America	3,104	3,065	1,743	1,553	4,847	4,618
Asia and rest of world	1,262	1,168	864	724	2,126	1,892
Total revenue from customers contracts	**5,833**	**5,615**	**4,774**	**3,970**	**10,607**	**9,585**

Revenue is predominantly recognized at a point in time, and revenue recognized over time is not significant. Revenues are attributed to countries on the basis of the customer's location. Only the US represents a material single country. One distributor in the Audio segment comprises more than 10 % of the group's total revenues amounting to DKK 1,223 million (2017: DKK 890 million).

Geographical information on assets

	Intangible assets and property, plant and equipment	
DKK million	2018	2017
Denmark	2,279	2,111
Europe	313	358
North America	4,153	4,029
Asia and rest of world	363	232
Consolidated Total	**7,108**	**6,730**

Assets are attributed to countries based on the domicile location of the asset. Apart from Denmark only North America represents a material single country.

Contract liabilities

GN Store Nord has recognized the following revenue-related contract liabilities:

DKK million	2018	2017
Deferred revenue re. pre-paid extended warranties (Other payables and Other non-current liabilities)	160	121
Contract liabilities at December 31	**160**	**121**
Revenue recognized, included in contract liabilities at the beginning of the year	47	47

2.3 Staff Costs

DKK million	2018	2017
Wages, salaries and remuneration	(2,707)	(2,478)
Pensions, defined benefit plans	(7)	(7)
Pensions, defined contribution plans	(119)	(101)
Other social security costs	(292)	(302)
Share-based payments	(28)	(22)
Total	**(3,153)**	**(2,910)**
Included in:		
Production costs and change in payroll costs included in inventories	(519)	(470)
Development costs	(486)	(443)
Selling and distribution costs	(1,728)	(1,610)
Management and administrative expenses	(418)	(385)
Financial items	(2)	(2)
Total	**(3,153)**	**(2,910)**
Average number of employees	5,775	5,500
Number of employees, year-end	6,025	5,575

For information regarding remuneration of the Board of Directors and Executive Management, please refer to note 5.3 Remuneration of the Board of Directors and Executive Management

2.4 Tax

Tax on profit (loss)

DKK million	2018	2017
Tax on profit (loss)		
Current tax for the year	(384)	(306)
Deferred tax for the year	30	10
Effect of change in income tax rates	(2)	(102)
Withholding tax	(11)	-
Adjustment to current tax with respect to prior years	(4)	(6)
Adjustment to deferred tax with respect to prior years	12	22
Total	**(359)**	**(382)**
Reconciliation of effective tax rate		
Danish tax rate	22.0%	22.0%
Effect of tax rates in foreign jurisdictions	1.2%	1.0%
Non-taxable income	0.0%	(0.6)%
Non-deductible expenses	0.8%	0.9%
Utilization of previously not recognized tax assets	(2.0)%	(1.5)%
Withholding tax	0.7%	0.0%
Effect of change in income tax rates	0.2%	6.8%
Share of profit (loss) in associates	(0.2)%	(0.1)%
Adjustment of tax with respect to prior years	(0.5)%	(1.1)%
Other	0.2%	(2.0)%
Effective tax rate	**22.4%**	**25.4%**
Effective tax rate, continuing operations	22.4%	25.4%
Effective tax rate, discontinued operations	0.0%	12.6%
Tax relating to other comprehensive income		
Actuarial gains (losses)	3	(4)
Adjustment of cash flow hedges	15	(24)
Foreign exchange adjustments, etc.	(10)	31
Total	**8**	**3**

2.4 Tax (Continued)

Deferred Tax

DKK million	2018	2017
Deferred tax, net		
Deferred tax at January 1, net	(96)	13
Adjustment with respect to prior years	12	22
Effect of change in income tax rates	(2)	(102)
Addition of deferred tax on acquisition of enterprises	(16)	(7)
Deferred tax for the year recognized in profit (loss) for the year	30	10
Deferred tax for the year recognized in other comprehensive income for the year	9	7
Tax related to share-based incentive plans	8	10
Foreign exchange adjustments	24	(49)
Deferred tax at December 31, net	**(31)**	**(96)**
Deferred tax is recognized in the balance sheet as follows:		
Deferred tax assets	368	344
Deferred tax liabilities	(399)	(440)
Deferred tax at December 31, net	**(31)**	**(96)**
Deferred tax, net relates to:		
Intangible assets	(428)	(420)
Property, plant and equipment	27	26
Other securities	13	11
Current assets	83	57
Current liabilities	4	6
Intercompany liabilities	6	7
Tax loss carryforwards	159	189
Retaxation	(127)	(127)
Provisions	171	78
Other	61	77
Total	**(31)**	**(96)**
Tax value of unrecognized tax assets		
Tax loss carryforwards	53	78
Other tax assets	23	31
Unrecognized tax assets at December 31	**76**	**109**

Unrecognized tax assets are based on the Group's expectations to the future utilization of the tax assets. All tax losses carryforward have no expiry date.

Deferred tax, net includes DKK 20 million expected to be utilized within 12 months (2017: DKK 30 million).

Repatriation of retained earnings from certain foreign subsidiaries, however not planned or expected in the foreseeable future, may trigger withholding tax liabilities up to DKK 18 million (2017: DKK 23 million).

§ Accounting policies

Tax on profit (loss) for the year

The parent company is jointly taxed with all 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.

2.4 Tax (Continued)

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 in the respective countries 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 in Denmark or in foreign jurisdictions 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 valuation of tax, deferred tax assets and deferred tax liabilities and the extent to which deferred tax assets are recognized. GN Store Nord 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

2.5 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, amortization of acquired intangible assets are separated from the individual functions and presented as a separate line item. If amortization of acquired intangible assets are allocated to the individual line items by function, the income statement will present as follows:

DKK million	2018	2017
Revenue	10,607	9,585
Production costs	(4,033)	(3,577)
Gross profit	**6,574**	**6,008**
Development costs	(889)	(738)
Selling and distribution costs	(3,177)	(3,033)
Management and administrative expenses	(706)	(635)
Other operating income and costs, net	(1)	(6)
Gain (loss) on divestment of operations etc.	(5)	(38)
Operating profit (loss)	**1,796**	**1,558**
In the above income statement amortization of acquired intangible assets has been allocated to functions as follows:		
Development costs	(28)	(28)
Selling and distribution costs	(127)	(120)
Amortization of acquired intangible assets	**(155)**	**(148)**

* Excluding gain (loss) on divestments of operations etc. and amortization of acquired intangible assets, including amortization of development projects and software developed in-house

Section 3
Operating assets and liabilities

3.1 Intangible assets

DKK million	Goodwill	In-house develop-ment projects	Customer relation-ships	Software *	Patents and rights	Other	Total
Cost at January 1	3,979	3,168	707	691	397	706	9,648
Additions on company acquisitions	101	-	68	-	-	-	169
Additions	-	408	-	77	1	58	544
Disposals	-	-	-	(1)	-	(21)	(22)
Foreign exchange adjustments	165	-	33	5	9	20	232
Cost at December 31	4,245	3,576	808	772	407	763	10,571
Amortization and impairment at January 1	-	(2,009)	(219)	(447)	(301)	(428)	(3,404)
Amortization	-	(335)	(77)	(60)	(28)	(50)	(550)
Disposals	-	-	-	2	-	23	25
Impairment	-	(10)	-	-	-	-	(10)
Transfers	-	-	1	-	(1)	-	-
Foreign exchange adjustments	-	-	(13)	(4)	(7)	(14)	(38)
Amortization and impairment at December 31	-	(2,354)	(308)	(509)	(337)	(469)	(3,977)
Carrying amount at December 31, 2018	**4,245**	**1,222**	**500**	**263**	**70**	**294**	**6,594**
Cost at January 1	4,372	2,773	642	632	417	689	9,525
Additions on company acquisitions	64	-	149	-	-	-	213
Additions	-	396	9	93	-	79	577
Disposals	(2)	(1)	(10)	(19)	-	(8)	(40)
Foreign exchange adjustments	(455)	-	(83)	(15)	(20)	(54)	(627)
Cost at December 31	3,979	3,168	707	691	397	706	9,648
Amortization and impairment at January 1	-	(1,708)	(175)	(418)	(293)	(410)	(3,004)
Amortization	-	(302)	(68)	(58)	(28)	(49)	(505)
Disposals	-	2	1	15	-	5	23
Impairment	-	(1)	(1)	-	-	(2)	(4)
Foreign exchange adjustments	-	-	24	14	20	28	86
Amortization and impairment at December 31	-	(2,009)	(219)	(447)	(301)	(428)	(3,404)
Carrying amount at December 31, 2017	**3,979**	**1,159**	**488**	**244**	**96**	**278**	**6,244**

*Software includes Software in progress DKK 127 million (2017: DKK 105 million)

GN Store Nord 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 557 million (2017: DKK 774 million).

GN has a contractual commitment to invest DKK 0 million (2017: DKK 28 million) in intangible assets at December 31, 2018.

Goodwill

Additions during the year of DKK 101 million relate to the acquisition of equity shares in Innova Telecom PvT. Ltd cf. note 5.1 Acquisition and divestment of companies and operations.

Management has performed an impairment test of the carrying amount of goodwill at December 31, 2018. The impairment test covered the Group's cash-generating units (CGU) to which the carrying amount of goodwill is allocated.

3.1 Intangible assets (Continued)

	Carrying amount of goodwill DKK million		Pre-tax discount rate %		Weighted average cost of capital %	
	2018	2017	2018	2017	2018	2017
Cash-generating units:						
GN Hearing	3,478	3,339	8	8	7	7
GN Audio	767	640	11	11	9	9
Total	**4,245**	**3,979**				

In the impairment test, the discounted future cash flows of each CGU (the value in use) were compared with the carrying amounts. Future cash flows are based on the budget for 2019, market forecasts for 2020 - 2023, strategy plans, etc. approved by the Board of Directors. Budgets and strategy plans are based on specific assumptions for the individual CGU regarding sales, operating profit, working capital, investments in non-current assets, etc.. The calculations apply expected growth in the terminal period of 2.5% p.a. (2017: 2.5% p.a.)

GN Hearing and GN Audio's carrying amount of the goodwill is confirmed by the strong increasing growth during all quarters in 2018.
The GN Hearing segment expects to deliver strong organic growth the next year. The GN Audio segment is expecting to maintain their strong position in the growing headset market for professional use.

The market growth in the Hearing Aid industry and the Audio marked is driven by these main factors:

GN Hearing:
- The demographic trends including the increased number of elderly people,
- Increased prevalence of hearing loss due to the increasing noise in the environment,
- Increased penetration rates as more people with a hearing loss will use hearing aids in the future, and
- Increased use of two hearing aids instead of only one, which is relatively common today.

GN Audio:
- Increased use of headsets for both professional and private use,
- The market is expected to continue to grow close to 10% mid-to long term, driven by sustainable market trends,
- Increased demand for quality and optimal sound experience, especially within noise-cancelling products,
- Continued growth in the task-based office, fueled by unified communication (UC), making headsets more relevant in the office.

The expected revenue growth in the GN Hearing segment and GN Audio segment is based on the current differentiated product offering with unique wireless technology as well as future product launches. Based on the impairment test and related assumptions, Management has not identified any goodwill impairment at December 31, 2018. No likely change in the assumptions applied will result in an impairment.

Development projects and software
In-progress and completed development projects comprise development and design of hearing instruments, headsets and other hands free audio solutions. Most development projects are expected to be completed in the coming years, 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. During the year, impairments of DKK 10 million related to minor projects were recognized. In Management's assessments, the recoverable amount exceeds the carrying amount at December 31, 2018.

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

Customer relationships
Customer relationships primarily comprise acquired customer relationships. The most significant customer relationship relates to the acquisition of US Beltone.

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

3.1 Intangible assets (Continued)

Other
The Group's other intangible assets comprise DKK 92 million (2017: DKK 105 million) related to trademarks and DKK 202 million (2017: DKK 173 million) related to supply agreements.

§ Accounting policies

Goodwill
At the acquisition date goodwill is recognized in the balance sheet at cost as described under Business combinations. Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized but is tested for impairment at least once a year. The carrying amount of goodwill is allocated to the Group's cash-generating units at the acquisition date. Identification of cash-generating units is based on how Management monitor the operation in the Management reporting.

As a result of the integration of acquired enterprises in the existing group, Management assesses that the smallest cash-generating units to which the carrying amount of goodwill can be allocated are: GN Hearing and GN Audio.

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

3.1 Intangible assets (Continued)

Significant accounting estimates

Goodwill

Determining whether goodwill is impaired requires a comparison of the recoverable amount with the carrying amount. The recoverable amount is determined as the net present value of the future cash flows expected to arise from the cash generating unit to which goodwill is allocated.

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 million	Factory and office buildings	Leasehold improvements	Plant and machinery	Operating assets and equipment	Leased plant and equipment	Assets under construction	Total
Cost at January 1	422	154	714	341	4	31	1,666
Additions on company acquisitions	-	-	-	2	-	-	2
Additions	4	14	43	42	-	57	160
Disposals	-	(8)	(16)	(4)	(2)	-	(30)
Transfers	4	-	69	1	-	(74)	-
Foreign exchange adjustments	-	2	3	7	(2)	-	10
Cost at December 31	430	162	813	389	-	14	1,808
Depreciation and impairment at January 1	(180)	(116)	(602)	(280)	(2)	-	(1,180)
Depreciation	(17)	(11)	(76)	(25)	(1)	-	(130)
Disposals	-	8	16	3	3	-	30
Foreign exchange adjustments	-	(3)	(4)	(7)	-	-	(14)
Depreciation and impairment at December 31	(197)	(122)	(666)	(309)	-	-	(1,294)
Carrying amount at December 31, 2018	**233**	**40**	**147**	**80**	**-**	**14**	**514**
Cost at January 1	418	160	688	369	6	21	1,662
Additions on company acquisitions	-	-	-	9	-	-	9
Additions	8	14	29	16	-	36	103
Disposals	-	(10)	(15)	(26)	(1)	-	(52)
Transfers	-	-	25	-	-	(25)	-
Foreign exchange adjustments	(4)	(10)	(13)	(27)	(1)	(1)	(56)
Cost at December 31	422	154	714	341	4	31	1,666
Depreciation and impairment at January 1	(167)	(122)	(557)	(305)	(2)	-	(1,153)
Depreciation	(16)	(13)	(68)	(25)	(1)	-	(123)
Disposals	1	10	11	26	1	-	49
Foreign exchange adjustments	2	9	12	24	-	-	47
Depreciation and impairment at December 31	(180)	(116)	(602)	(280)	(2)	-	(1,180)
Carrying amount at December 31, 2017	**242**	**38**	**112**	**61**	**2**	**31**	**486**

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

3.2 Property, plant and equipment (Continued)

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 million	2018	2017
Depreciation, amortization and impairment for the year of property, plant and equipment and intangible assets are recognized in the income statement as follows:		
Production costs	(79)	(72)
Development costs	(355)	(313)
Selling and distribution costs	(25)	(25)
Management and administrative expenses	(76)	(74)
Amortization of acquired intangible assets	(155)	(148)
Total	**(690)**	**(632)**
Amortization of intangible assets is recognized in the income statement as follows:		
Production costs	(1)	(1)
Development costs	(335)	(303)
Selling and distribution costs	(8)	(8)
Management and administrative expenses	(51)	(48)
Amortization of acquired intangible assets	(155)	(145)
Total	**(550)**	**(505)**
Impairment of intangible assets is recognized in the income statement as follows:		
Development costs	(10)	(1)
Amortization of acquired intangible assets	-	(3)
Total	**(10)**	**(4)**

3.4 Other non-current assets

DKK million	2018	2017
Loans to dispensers of GN Hearing products	535	463
Pre-paid discounts	157	150
Ownership interests	195	142
RAP, SIP and DCP*	221	219
Other	34	10
Total	**1,142**	**984**

*RAP (Retirement Advantage Plan) and SIP (Savings and Investment Plan) are programs in which customers earn funds based on purchases made. DCP (Deferred Compensation Plan) is a program in which Management in certain foreign subsidiaries may choose to defer compensation. The amounts invested by the Group on behalf of customers and Management are recognized in Other non-current assets. The Group's liabilities related to the programs are recognized in Other non-current liabilities at DKK 207 million (2017: DKK 227 million).

GN Hearing's assessment of credit risk associated with non-current loans to dispensers depends primarily on change in payment behavior and current economic conditions. Before a loan is extended the creditworthiness of the individual dispenser is analyzed.

Dispenser loans are provided to dispensers of GN Hearing products in order to support their future growth. Calculating the expected credit loss rates, GN Store Nord considers historical loss rates for each category of dispensers, and provides for credit losses against loans to customers by comparing the development in the actual loan balance to the agreed development in the loan balance. The majority of dispenser loans is related to dispensers in the US.

The table below illustrates how the 12-month and lifetime expected credit loss are calculated for dispenser loans and how the credit risk exposure on dispenser loans are grouped by GN Store Nord's internal credit rating:

GN Store Nord internal credit rating	Expected credit loss rate	Basis for recognition of expected credit loss	DKK million Estimated gross carrying amount at default	DKK million Carrying amount (net of impairment provisions)
Performing	3%	12-month expected credit loss	527	511
Underperforming	71%	Lifetime expected credit losses	82	24
Write-off	100%	Assets derecognized through the income statement	18	-
Total dispenser loans at December 31, 2018			**627**	**535**

The 12-month and lifetime expected credit losses have developed as follows:

DKK million	Performing (12 month ECL)	Underperforming (lifetime ECL)	Total
Closing loss allowance as at 31 December, 2017 (calculated under IAS 39)	-	(42)	(42)
Amounts restated through opening retained earnings	(12)	-	(12)
Opening loss allowance as at 1 January, 2018 (calculated under IFRS 9)	(12)	(42)	(54)
New dispenser loans	(4)	(1)	(5)
Changes in model/risk parameters	-	(15)	(15)
Closing loss allowance as at 31 December, 2018 (calculated under IFRS 9)	**(16)**	**(58)**	**(74)**

All ownership interests are accounted for at fair value through other comprehensive income.

§ Accounting policies

Loans to dispensers

Loans to dispensers and other receivables are measured at amortized cost less write-down for expected credit losses. Both loans to dispensers and other receivables are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest.

3.4 Other non-current assets (Continued)

Ownership Interests and savings plans
Ownership interests between 20% and 50% in unlisted enterprises in which GN Hearing does not exercise significant influence on the financial and operating policies are recognized under non-current assets at fair value. Gains and losses on such ownership interests will either be recorded under financial items in the income statement or in other comprehensive income. This will depend on the Group's irrevocable election at the time of initial recognition to account for the ownership interests at fair value through profit (loss) or other comprehensive income.

Where the group has elected to present fair value gains and losses on ownership interests in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to the income statement following the derecognition of the investment. Changes in the fair value of ownership interests at fair value though profit or loss are recognized in financial items in the income statement.

The savings plans RAP, SIP and DCP are measured at fair value through profit or loss.

Impairment of dispenser loans
The impairment methodology applied to calculate expected credit losses associated with dispenser loans carried at amortized costs depends on whether there has been a significant increase in credit risk. Loss allowances on dispenser loans are measured equal to 12-month expected credit losses, if the credit risk has not increased significantly since initial recognition. If the credit risk has increased significantly, the loss allowance will be measured at an amount equal to lifetime expected credit losses.

The calculation of 12-month expected credit losses on dispenser loans are based on a weighted average of historical annual losses on customers. Payment plans are agreed with dispensers when issuing loans to these. The credit risk of loans to dispensers is considered to have increased significantly since initial recognition when actual loan balances differ from the agreed development in loan balances with more than 40%. At this point the loan is considered to be in default and credit impaired.

The calculation of lifetime expected credit losses on dispenser loans is based on the difference between the development in the actual loan balances and the agreed development in loan balances. The allowances are increased in steps if the difference between the actual loan balance and the agreed development in loan balances increases.

Indicators that there is no reasonable expectation of recovery of a dispenser loan include bankruptcy, change of control and change in the payment behavior or financial situation of the dispenser. In such cases a full or partial write-off of a dispenser loan will be recognized by derecognizing the asset. Where recoveries are made, these are recognized in the income statement.

As mentioned in note 1.1 General accounting policies the comparative figures have not been changed in connection with the implementation of IFRS 9 Financial instruments. The impairment losses in 2017 have therefore been measured using the incurred loss model under the former standard IAS 39 Financial instruments.

Impairment of Pre-paid discounts
The carrying amount of Pre-paid discounts is subject to an annual test for indications of impairment. When there is an indication that assets may be impaired, the recoverable amount of the asset is determined.

Recognition of impairment losses in the income statement
Impairment losses are recognized in the income statement in the relevant functional line items.

Impairment of dispenser loans is reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation

Significant accounting estimates

Financial support arrangements
GN Store Nord grants loans to dispensers and acquires ownership interests in dispensers. The agreements are typically comprehensive, complex and cover several aspects of the relationship between the parties. Management assesses the recognition and classification of income and expenses for each of these agreements, including whether the agreement has an embedded supply agreement or represent a discount on future sales. Management also assesses whether current economic conditions and changes in customers' payment behavior could indicate impairment of the outstanding balances

3.5 Inventories

DKK million	2018	2017
Raw materials and consumables	259	202
Work in progress	16	11
Finished goods and merchandise	677	498
Total	**952**	**711**
The above includes write-downs amounting to	(112)	(108)
Write-downs at December 31	**(112)**	**(108)**
Production costs include costs of goods sold of	(3,555)	(3,127)

§ Accounting policies

Inventories

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

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

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

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

! Significant accounting estimates

Measurement of inventories

The net realizable value of inventories is calculated based on the size of the inventory and decreases in the recoverable amount of purchased raw materials, technical obsolescence (e.g., faulty products), physical obsolescence (e.g. damaged products) and financial obsolescence (e.g., reduced demand or substituting products). GN Store Nord performs write-downs of inventories based on an individual assessment of products or product groups and expected product sales from 6 to 24 months following the balance sheet date

3.6 Trade receivables

DKK million	Current	1-60 days past due	61-90 days past due	91-120 days past due	121-180 days past due	More than 181 days past due	Total
Gross carrying amount - Trade receivables	1,958	286	54	36	60	165	2,559
Write-downs at December 31 (expected credit loss model)	(12)	(3)	(4)	(3)	(7)	(136)	(165)
Trade receivables at December 31, 2018	**1,946**	**283**	**50**	**33**	**53**	**29**	**2,394**
Expected loss rate	1%	1%	7%	8%	12%	82%	6%
Gross carrying amount - Trade receivables	1,749	248	22	31	36	143	2,229
Write-downs at December 31 (incurred loss model)	-	(2)	(3)	(3)	(5)	(105)	(118)
Trade receivables at December 31, 2017	**1,749**	**246**	**19**	**28**	**31**	**38**	**2,111**

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

DKK million	2018	2017
Write-downs at January 1	(118)	(97)
Write-downs made during the year	(57)	(38)
Realized during the year	7	10
Reversed write-downs	4	3
Foreign exchange adjustments	(1)	4
Write-downs at December 31	**(165)**	**(118)**

Total write-downs of DKK 165 million are included in trade receivables at the end of 2018 (2017: DKK 118 million). In 2018 no material write-downs have been recognized regarding individual receivables (2017: no material write-downs have been recognized regarding individual receivables). GN Store Nord'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 Store Nord 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.

§ Accounting policies

Measurement of trade receivables

Trade receivables are measured at amortized cost less expected lifetime credit losses. The expected loss rates are based on days past due and whether a receivable concerns a GN Hearing or a GN Audio customer. Current expectations and estimates of expected credit losses are furthermore based on change in customer behavior and current economic conditions.

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

! Significant accounting estimates

Measurement of trade receivables

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

3.7 Provisions

DKK million	Warranty provisions	Other provisions	Total
Provisions at January 1	148	367	515
Additions	113	354	467
Consumed	(94)	(236)	(330)
Reversed	(2)	(25)	(27)
Foreign exchange adjustments	4	11	15
Provisions at December 31, 2018	**169**	**471**	**640**
Which is presented in the consolidated balance sheet as:			
Non-current liabilities	68	194	262
Current liabilities	101	277	378
Provisions at December 31, 2018	**169**	**471**	**640**

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 earn-outs related to acquisition of companies of DKK 138 million (2017: DKK 123 million). The remaining items in other provisions primarily include obligations to take back hearing aids and headsets sold, obligations regarding onerous contracts and property leases and provisions for legal disputes.

§ Accounting policies

Provisions

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

Other provisions primarily comprise onerous contracts and return obligations related to sold products. Provisions are recognized when, as a result of events before or at the balance sheet date, the Group 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 Group 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 Group'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, 2018, the carrying amount of provisions with respect to obligations to take back goods was DKK 161 million (2017: DKK 125 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

Section 4 Capital structure and financing items

4.1 Outstanding shares and treasury shares

(Thousands)	Out-standing shares	Treasury shares	Total number of shares	Nominal value of outstand-ing shares (DKK)	Nominal value of treasury shares (DKK)	Nominal value of total shares (DKK)	Treasury shares as a per-centage of share capital
Number/value of shares at January 1, 2018	136,443	9,241	145,684	545,772	36,965	582,737	6.3%
Purchase of ownership interest in subsidiaries	441	(441)	-	1,765	(1,765)	-	
Shares acquired by GN Store Nord A/S	(4,308)	4,308	-	(17,231)	17,231	-	
Number/value of shares at December 31, 2018	**132,576**	**13,108**	**145,684**	**530,306**	**52,431**	**582,737**	**9.0%**

All shares are fully issued and paid up. The nominal value of each share is 4 DKK and no shares carry any special rights.

The treasury shares had a market value of DKK 3,189 million at December 31, 2018 (2017: DKK 1,853 million). The total cost of acquired treasury shares in 2018 was DKK 1,061 million (2017: DKK 1,372 million). No treasury shares were sold during the year.

Treasury shares have been acquired under the share buyback program in order reduce the share capital, hedge the warrant based long-term incentive program as well as the obligation under the convertible bond issued in 2017.

Shares thousand	2018	2017
Weighted average number of outstanding shares	134,114	138,980
Dilutive effect of share based payment with positive intrinsic value – average for the period	1,750	988
Diluted weighted average number of shares	**135,864**	**139,968**
DKK million		
Profit (loss) for the year attributable to shareholders in GN Store Nord A/S used for the calculation of earnings per share	1,241	1,183
Dilutive effect of profit (loss) for the year	-	-
Profit (loss) for the year attributable to shareholders in GN Store Nord A/S used for the calculation of diluted earnings per share	**1,241**	**1,183**

Cash distributions

DKK million	2018	2017
Dividend paid related to prior years	182	178
Share repurchase during the year	1,061	1,372
Total	**1,243**	**1,550**
Proposed dividend for the year	197	182
DKK per share		
Dividend paid related to prior years	1.25	1.15
Proposed dividend for the year	1.35	1.25

4.1 Outstanding shares and treasury shares (Continued)

§ Accounting policies

Earnings per Share and Diluted Earnings per Share

Earnings per share (EPS) is calculated by dividing the profit for the year after tax by the weighted average number of shares outstanding in the year. Diluted earnings per share is calculated by increasing the weighted average number of shares outstanding by the number of additional ordinary shares that would be outstanding if potentially dilutive shares were issued. The dilutive effect of outstanding share based payment is calculated using the Treasury Stock method.

Equity

Dividends

The expected dividend payment for the year is disclosed as a separate item in equity. Proposed dividends are recognized as a liability at the date they are adopted by the Annual General Meeting (declaration date).

Hedging reserve

The hedging reserve includes the accumulated net change in the fair value of hedging transactions qualifying for hedge accounting.

Treasury Shares

Treasury shares are recognized at cost. Gains and losses on disposal of own shares are calculated as the difference between the purchase price measured in accordance with the FIFO-principle and the selling price. Gains or losses are recognized directly in retained earnings. Dividends received from treasury shares are recognized directly in retained earnings. Capital reductions from the cancellation of treasury shares are deducted from the share capital at an amount corresponding to the nominal value of the shares.

Foreign exchange adjustments

The translation reserve in the consolidated financial statements comprises foreign exchange differences arising on translation of financial statements of foreign subsidiaries from their functional currencies into the presentation currency used by GN Store Nord (DKK) and foreign exchange adjustments of balances considered to be part of the total net investment in foreign entities

4.2 Financial risks and financial instruments

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

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

The areas exposed to financial risks are mainly cash & cash equivalents as well as loans and other financial indebtedness, the Group's Income Statement in financial income and expenses, the Group's Cash-flow through Cash-flow from Financing and the Group's Equity in Other Comprehensive Income. GN's objectives, policies and process for measuring and managing the risk exposure to these items are summarized in the table and further explained in the notes below.

4.2 Financial risks and financial instruments (Continued)

Financial risk	Exposure	Risk Management Policy	Mitigating actions
Foreign currency risk	Low Risk Based on the current revenue and cost composition, the anticipated primary foreign exchange exposures for the Group in 2019 (excluding EUR) are mainly arising from USD, CNY and JPY, whereas other currencies on a stand-alone basis would not have a material impact.	All hedging is conducted at Group level. A minimum of 75% and not more than 100% of the Net currency exposure in each operating business to maintain this hedging level at any point in time.	GN has hedged a substantial part of the expected net cash-flow in Foreign currencies to secure the EBITA contribution of the material trading currencies for the next 12 months across both GN Hearing and GN Audio. GN is also monitoring the combined impact of minor trading currencies and hedges those on a case-by-case basis.
Interest rate risk	Low Risk Large part of bank loans carried fixed interest rates as of 31 December 2018. Exposure related to EUR denominated bank loans.	At least 50% of all Interest-Bearing Debt should be fixed in interest, either through Fixed Interest or through derivative instruments.	To mitigate the cash-flow risk from rising interest rates on its variable debt, GN has concluded interest rate derivatives to swap a substantial proportion of the floating debt.
Funding, liquidity and capital structure	Low Risk GN's net interest-bearing debt has increased during 2018 to DKK 3,234 million mainly driven through strong growth whereby strong cash generation from normal operations was off-set by investments, dividend and the share buy-back programs.	GN's cash flow, liquid funds and debt are coordinated centrally to ensure the solvency and liquidity of the Group.	GN's loans and Revolving Credit Facilities are long-term with maturities between 2022 to 2023 with variable interest based on short term EURIBOR and CIBOR reference rates. To mitigate potential liquidity or refinancing risks, GN has access to a Revolving Credit Facility of DKK 2,000 million (which can be upsized to DKK 4,000 million), at December 31, 2018 the Credit Facility was drawn down with DKK 600 million.
Financial credit risk	Low Risk GN's exposure to credit risk arises primarily from trade and other receivables.	GN has established policies for credit risk management related to customers including the use of credit rating agencies.	GN has decentralized the credit risk management relating to customer including the use of credit rating agencies to the divisions (GN Hearing and GN Audio).

4.2 Financial risks and financial instruments (Continued)

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

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

DKK million	2018	2017
Income statement (Financial items)	(49)	(52)
Other Comprehensive Income	(21)	(41)

Interest rate risk
GN Store Nord has swapped a large part of the variable interest rate exposure on bank loans into fixed rates through interest rate swaps. The long-term debts consist of nominal EUR 175m and DKK 335 million at EURIBOR and CIBOR short term rates plus margin.

An increase of variable interest rates on the bank loans of 1 percentage point before considering the mitigating effect of the interest rate swaps would result in a net increase in the annual interest expenses of DKK 16 million.

Specification of net interest-bearing debt

DKK million	2018	2017
Cash and cash equivalents	636	526
Bank loans and issued bonds, non-current liabilities	(3,842)	(3,508)
Bank loans, current liabilities	(28)	(53)
Total	**(3,234)**	**(3,035)**

Funding, liquidity and capital structure
The Group's capital structure includes Interest Bearing long-terms debt with maturities between 2022 and 2023, including bank loans, convertible bonds and a drawing right attached to a DKK 2,000 million revolving credit facility, which on December 31, 2018 was drawn down with DKK 600 million. In addition, the Group utilizes short-term uncommitted facilities from its main relationship banks.

In May 2017 GN Store Nord issued EUR 225 million convertible bonds consisting of Bond-with-Warrant Units. The Bond-with-Warrant Units consists of senior unsecured zero coupon bonds due 2022 with detachable unsecured warrants expiring 2022. The bonds have a denomination of EUR 100,000 per Bond.

Initially 6,215,744 treasury shares are underlying the warrant units and those treasury shares will be kept to hedge the future obligations of GN Store Nord under the warrant units. The bonds carry no interest and will be redeemed at par at maturity, unless redeemed or purchased and cancelled earlier under their terms.

Any Unit holder may, at any time until 2022, exercise a warrant unit and require GN to redeem the corresponding bond at its principal amount. GN does not expect to issue any new shares upon exercise of warrant units, but will deliver up to 6,215,744 shares currently held in treasury, based on the initial strike price (DKK 269.4609), which is subject to adjustment from time to time upon certain customary events (anti-dilution clauses). The proceeds from the sale of these treasury shares at the initial strike price will amount to DKK 1,675 million corresponding to the nominal amount of the issued bonds of EUR 225 million at the exchange rate at the time of pricing of DKK/EUR 7.444.

4.2 Financial risks and financial instruments (Continued)

At December 31, 2018, GN Store Nord had an equity ratio of 39.1% (2017: 40.8%) and net interest-bearing debt of DKK 3,234 million (2017: DKK 3,035 million). GN Store Nord's long term capital structure policy (net debt up to a maximum of two times EBITDA) remains unchanged. As of December 31, 2018 GN Store Nord had undrawn borrowing facilities of DKK 1,400 million (2017: DKK 1,776 million).

GN Store Nord aims to pay out a dividend corresponding to 15-25% of the annual net results and will initiate share buyback programs when deemed appropriate subject to the authorization by the shareholders at the Annual General Meeting.

Retained earnings, which are available for distribution from the GN Store Nord Parent company amount to DKK 3,258 million (2017 DKK 2,617 million).

Financial credit risk

Credit Risk is defined as an unexpected loss in cash and earnings if the customer is unable to pay its obligation in due time. GN may incur losses if the credit quality of its customers deteriorates or if they default on their payment obligations to GN. GN's exposure to credit risk arises primarily from trade and other receivables. Such Credit Risk is managed decentralized through the divisions (GN Hearing and GN Audio). Assessment of credit risks related to customers is further described in note 3.6 Trade receivables and note 3.4 Other non-current assets.

Surplus cash positions in GN Store Nord's subsidiaries are centralized through Group Treasury if feasible, and cash is mainly held in current accounts or as short-term money market deposits. Cash positions are primarily held with financial institutions through which GN Store Nord conducts its day-to-day banking transactions and which are highly rated with Moody's and Standard & Poor's. GN Store Nord had cash and cash equivalents of DKK 636 million at December 31, 2018 (2017: DKK 526 million).

Contractual maturity analysis for financial liabilities

DKK million	Less than one year	Between one and three years	More than three years	Total
2018				
Issued bonds	-	-	1,604	1,604
Long-term bank loans	112	891	1,235	2,238
Other long-term payables	-	211	-	211
Short-term bank loans	28	-	-	28
Trade payables	934	-	-	934
Total non-derivative financial liabilities	1,074	1,102	2,839	5,015
Derivative financial liabilities	-	28	-	28
Total financial liabilities	**1,074**	**1,130**	**2,839**	**5,043**
2017				
Issued bonds	-	-	1,577	1,577
Long-term bank loans	74	112	1,745	1,931
Other long-term payables	-	240	-	240
Short-term bank loans	53	-	-	53
Trade payables	605	-	-	605
Total non-derivative financial liabilities	732	352	3,322	4,406
Derivative financial liabilities	-	25	-	25
Total financial liabilities	**732**	**377**	**3,322**	**4,431**

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

4.2 Financial risks and financial instruments (Continued)

Derivative financial instruments

Exchange rate instruments and interest rate swaps

	2018			2017		
DKK million	Contract amount, net	Fair value, assets	Fair value, liabilities	Contract amount, net	Fair value, assets	Fair value, liabilities
USD / DKK	999	4	18	920	38	-
JPY / DKK	87	1	5	121	8	-
GBP / DKK	41	-	-	109	1	-
CAD / DKK	67	2	-	75	1	-
CNY / DKK	-	-	-	98	1	-
Other currency pairs	419	-	3	-	-	-
Interest swaps denominated in EUR and DKK	1,707	-	22	1,741	-	25
Total	**3,320**	**7**	**48**	**3,064**	**49**	**25**

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

Fair value adjustments of cash flow hedges

DKK million	2018	2017
Fair value adjustment for the year recognized in Other comprehensive income	(46)	142
Reclassified from equity to revenue during the year	(18)	(32)
Reclassified from equity to production costs during the year	(2)	-
Reclassified from equity to selling and distribution costs during the year	(2)	-
Adjustment of cash flow hedges in Other comprehensive income	**(68)**	**110**
Fair value adjustment of cash flow hedges recognized in Other operating income and costs, net	(5)	-
Fair value adjustment of cash flow hedges recognized in financial items	(25)	(12)

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

4.2 Financial risks and financial instruments (Continued)

Categories of financial assets and liabilities and fair value hierarchy

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

	2018				
DKK million	Quoted prices (level 1)	Observable input (level 2)	Unobservable input (level 3)	Carrying value *)	Total
Loans and receivables					
Trade receivables	-	-	-	2,394	2,394
Other receivables	-	7	-	263	270
Other non-current assets cf. note 3.4	221	-	183	738	1,142
Cash and cash equivalents	-	-	-	636	636
Total loans and receivables	**221**	**7**	**183**	**4,031**	**4,442**
Financial liabilities					
Issued bonds	-	-	-	1,604	1,604
Pension obligations**	(281)	-	-	335	54
Bank loans	-	-	-	2,266	2,266
Other non-current liabilities	207	-	-	3	210
Contingent consideration	-	-	-	138	138
Trade payables	-	-	-	934	934
Other payables	-	48	-	1,522	1,570
Total financial liabilities	**(74)**	**48**	**-**	**6,802**	**6,776**

	2017				
DKK million	Quoted prices (level 1)	Observable input (level 2)	Unobservable input (level 3)	Carrying value *)	Total
Loans and receivables					
Trade receivables	-	-	-	2,111	2,111
Other receivables	-	49	-	208	257
Other non-current assets cf. note 3.4	219	-	142	623	984
Cash and cash equivalents	-	-	-	526	526
Total loans and receivables	**219**	**49**	**142**	**3,468**	**3,878**
Financial liabilities					
Issued bonds	-	-	-	1,577	1,577
Pension obligations**	(293)	-	-	338	45
Bank loans	-	-	-	1,984	1,984
Other non-current liabilities	227		-	13	240
Contingent consideration	-	-	-	123	123
Trade payables	-	-	-	605	605
Other payables	-	25	-	1,364	1,389
Total financial liabilities	**(66)**	**25**	**-**	**6,004**	**5,963**

* Due to the short maturity, the carrying value is considered to be an appropriate expression of the fair value, apart from issued bonds

** Quoted prices (level 1): Pension asset, comprises shares and bonds cf. note 5.5

Fair value hierarchy

FX contracts and interests rate swaps

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.

Ownership interests

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

4.2 Financial risks and financial instruments (Continued)

Derivative financial instruments (supply agreement / options)

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

RAP, SIP and DCP programs

RAP (Retirement Advantage Plan) and SIP (Savings and Investment Plan) are programs in which customers earn funds based on purchases made. DCP (Deferred Compensation Plan) is a program in which Management in certain foreign subsidiaries may choose to defer compensation. The asset value is based on the fair value of the mutual fund investments, and the liability is based on the value are generated by participant contributions, participant distributions, forfeitures, and investment earnings or losses. Both asset and liabilities are categorized as level 1 (quoted market data inputs) in the fair value hierarchy. Each quarter GN receive a report regarding the fair value of the assets from a third-party contractor, and will update the financial statements according to this report.

Contingent consideration

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. The fair value is based on discounted cash flows and contractual terms of the contingent considerations and on non-observable inputs, such as the financial performance of the acquired enterprises. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. Contingent considerations are categorized as level 3 (unobservable inputs) in the fair value hierarchy. The models are updated on a quarterly basis and any changes are reflected in the income statement. The fair value models are sensitive to the financial performance of the acquired enterprises, the probabilities of meeting the agreed objectives and the discount factor.

Issued bonds

The fair value of issued bonds (zero coupon) amounted to DKK 1,641 million at December 31, 2018 (2017: DKK 1.603 million). For other financial assets and liabilities, the fair value is approximately equal to the carrying amount.

§ Accounting policies

Derivative Financial Instruments

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

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

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

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

4.2 Financial risks and financial instruments (Continued)

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

Issued bond-with-warrant units are initially recognized at fair value less related transaction costs. The fair value of the bonds is estimated by calculating the present value of all contractual future cash flows using an interest rate for a bond with similar credit risk and duration as the issued bonds, but without the attached warrants. The difference between the fair value and the proceeds is considered to be the value of the warrants and is recognized in equity. The equity component is not re-measured subsequently. After initial recognition the bonds are measured at amortized cost using the effective interest method. In case the bonds are redeemed before maturity, the difference between the carrying amount at amortized cost and the principal amount will be recognized as a loss in financial expenses.

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

4.3 Liabilities from financing activities

DKK million	Bank loans	Issued bonds	Other non-current liabilities	Bank loans, current	Total
Liabilities at January 1	1,931	1,577	315	53	3,876
Cash flows	304	-	(8)	(25)	271
Foreign exchange adjustments	3	5	(1)	-	7
Non-cash interest expenses	-	22	-	-	22
Liabilities at December 31, 2018	**2,238**	**1,604**	**306**	**28**	**4,176**
Liabilities at January 1	3,527	-	325	55	3,907
Cash flows	(1,599)	1,560	(17)	(2)	(58)
Foreign exchange adjustments	3	4	7	-	14
Non-cash interest expenses	-	13	-	-	13
Liabilities at December 31, 2017	**1,931**	**1,577**	**315**	**53**	**3,876**

In 2017 the total cash proceeds from the issue of bonds of DKK 1,636 million included DKK 76 million posted to equity as value of warrants.

4.4 Financial income and expenses

DKK million	2018	2017
Financial income:		
Interest income*	22	17
Financial income, other	28	37
Fair value adjustments of derivative financial instruments	3	-
Foreign exchange gain	18	105
Total	**71**	**159**
Financial expenses:		
Interest expenses*	(56)	(59)
Financial expenses, other	(61)	(71)
Fair value adjustments of derivative financial instruments and impairments	(63)	(39)
Foreign exchange loss	(94)	(50)
Total	**(274)**	**(219)**

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

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

Fair value adjustments of derivative financial instruments and impairments include an impairment loss of DKK 38 million (2017: DKK 27 million) related to Loans to dispensers of GN Hearing products and fair value adjustments at DKK 25 million (2017: DKK 12 million) related to interest rate swap transferred from other comprehensive income.

§ 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.

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

Section 5
Other disclosures

5.1 Acquisition and divestment of companies and operations

Acquisitions
In April 2018, GN Audio acquired 46% of the shares in Innova Telekom Private Limited, in addition to the 5% of the shares in Innova already owned by GN Audio. GN Audio thereby obtained control of Innova, which is a national channel distributor and customer support partner of GN Audio in India. The purpose of the acquisition is to secure GN Audio's sales channel in the Indian market. The Group has elected to measure the non-controlling interests in the company at fair value.

During 2018, GN Hearing acquired a few minor hearing instrument chains and distributors, primarily in the US. These acquisitions all strengthen GN Hearing's sales and distribution channels.

	Fair value at acquisition date			
DKK million	Innova	Other	2018	2017
Identifiable assets acquired, liabilities assumed and consideration transferred				
Non-current assets	1	1	2	9
Current assets	24	2	26	6
Non-current liabilities	(17)	-	(17)	(11)
Current liabilities	(14)	-	(14)	(5)
Fair value of identified net assets	**(6)**	**3**	**(3)**	**(1)**
Non-controlling interest measured at fair value	(65)	-	(65)	-
Goodwill	101	-	101	64
Other intangible assets	38	30	68	149
Consideration transferred	**68**	**33**	**101**	**212**
Fair value of assets transferred	13	(9)	4	(116)
Fair value of existing ownership interest	(7)	-	(7)	-
Payable consideration	-	-	-	(13)
Contingent consideration	(13)	(10)	(23)	-
Acquired cash and cash equivalents	(3)	-	(3)	-
Cash consideration paid	**58**	**14**	**72**	**83**

Goodwill relating to the above transactions is allocated to the cash-generating units GN Hearing with DKK 0 million (2017: DKK 64 million) and GN Audio DKK 101 million (2017: DKK 0 million).

In 2018, GN Hearing paid out DKK 25 million (2017: DKK 11 million) in contingent consideration related to prior years' acquisitions. The payments were mainly related to the acquisition of Audigy Group. An adjustment of DKK 3 million (2017: DKK 21 million) has been recognized as financial income in the income statement, mainly related to Audigy acquisition.

DKK million	2018	2017
The share of revenue and profit (loss) for the year from the acquisition date can be specified as follows:		
Revenue	96	105
EBIT	20	5
Profit (loss) for the year	13	3
Acquired operations if they had been owned throughout the year:		
Revenue	150	129
EBIT	30	6
Profit (loss) for the year	20	4

5.1 Acquisition and divestment of companies and operations (Continued)

Divestments etc.

In 2018 GN Hearing divested a number of minor hearing instrument distributors primarily in the US. Other adjustments relate to a legal dispute. In 2017 and 2018 this primarily relates to the Plantronics legal case.

DKK million	2018	2017
Non-current assets	-	(3)
Disposed net assets	**-**	**(3)**
Fair value of assets received	1	3
Gain (loss) on divestment of operations	**1**	**-**
Other adjustments	(6)	(38)
Gain (loss) on divestment of operations etc.	**(5)**	**(38)**

Post balance sheet date acquisitions

In February 2019, GN Audio acquired 100% of the US based company Altia Systems, Inc. the creator of the PanaCast system and software products. The PanaCast system delivers real-time 180 degrees panoramic video streams from integrated and synchronized multi-camera arrays.

The acquisition is expected to create synergies such as using Altia Systems existing sales channels to sell Jabra products and transferring the technology developed by Altia Systems into existing and new Jabra products. Technology has been valued based on the relief from royalty method. The goodwill relates to these expected synergies and the value of Altia Systems' highly skilled workforce is also included in goodwill.

The fair value of the identifiable assets and liabilities at acquisition date are provisionally determined as follows:

DKK million	Altia
Identifiable assets acquired, liabilities assumed and consideration transferred	
Intangible assets	387
Property, plant and equipment	1
Current assets	32
Deferred tax liabilities	(92)
Current liabilities	(52)
Fair value of identified net assets	**276**
Goodwill	453
Consideration transferred	**729**
Payable consideration	(140)
Acquired cash and cash equivalents	(15)
Cash consideration paid	**574**

The goodwill of DKK 453 million relating to the above transaction will be allocated to the cash-generating unit GN Audio. The goodwill will not be deductible for tax purposes. In order to effect the acquisition GN has incurred costs of up to DKK 46 million which will be expensed in management and administrative expenses in 2019.

5.1 Acquisition and divestment of companies and operations (Continued)

§ Accounting policies

Business Combinations

Enterprises acquired or formed during the year are recognized in the consolidated financial statements from the date of acquisition or formation. The acquisition date is the date when the parent company effectively obtains control of the acquired enterprise. Enterprises disposed of are recognized in the consolidated income statement until the disposal date. The comparative figures are not restated for acquisitions.

For acquisitions of new enterprises in which the parent company is able to exercise control over the acquired enterprise, the purchase method is used. The acquired enterprises' identifiable assets, liabilities and contingent liabilities are measured at fair value at the acquisition date. Identifiable intangible assets are recognized if they are separable or arise from a contractual right. Deferred tax on revaluations is recognized.

Any excess of the cost over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill under intangible assets. Goodwill is not amortized but is tested at least annually for impairment. The first impairment test is performed within the end of the acquisition year. Upon acquisition, goodwill is allocated to the cash-generating units, which subsequently form the basis for the impairment test. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with another functional currency than the presentation currency used by GN Store Nord are treated as assets and liabilities belonging to the foreign entity and translated into the foreign entity's functional currency at the exchange rate at the transaction date.

The cost of a business combination comprises the fair value of the consideration agreed upon. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the amount of that adjustment is included in the cost of the combination if the adjustment is probable and can be measured in a reliable manner. Subsequent changes to contingent considerations are recognized in the income statement. If uncertainties regarding measurement of identifiable assets, liabilities and contingent liabilities exist at the acquisition date, initial recognition will take place on the basis of preliminary fair values. If identifiable assets, liabilities and contingent liabilities are subsequently determined to have different fair value at the acquisition date than first assumed, goodwill is adjusted up until twelve months after the acquisition. The effect of the adjustments is recognized in the opening balance of equity and the comparative figures are restated accordingly.

When acquiring a controlling interest in steps, GN Store Nord assesses the fair value of the acquired net assets at the time control is obtained. At such time, interests acquired previously are also adjusted to fair value. The difference between the fair value and the carrying amount is recognized in the income statement.

Acquisition of additional equity interest after a business combination is not accounted for using the acquisition method, but rather as equity transactions. Disposals of equity interest while retaining control are also accounted for as equity transactions. Transactions resulting in a loss of control result in a gain or loss being recognized in the income statement.

When acquiring less than 100% of the shares in a company, GN Store Nord recognizes the goodwill on a transaction-by-transaction basis or as a proportion of goodwill in accordance with GN Store Nord's ownership interest.

In business combinations where put options have been issued regarding shares held by non-controlling interests the non-controlling interests are recognized initially. As long as the put options remain unexercised the non-controlling interests are updated at the end of each reporting period, including its share of allocations of profit or loss. The non-controlling interests are thereafter derecognized by recognizing a financial liability for the put options and the difference is included as an equity transaction.
If the put options are exercised the same treatment is applied up to the date of exercise. The amount recognized as the financial liability at that date is extinguished by the payment of the exercise price. If the put option expires unexercised, the position is unwound so the non-controlling interest is recognized at the amount it would have been, had the put options never been issued. The financial liability is derecognized in equity

5.2 Discontinued operations

On September 25, 2016 GN Hearing and Natus Medical Incorporated (hereafter "Natus") entered into an agreement whereby ownership of GN Otometrics is transferred from GN Hearing to Natus. The divestment further strengthened GN Hearing's focus and strategic direction as a dedicated hearing instrument company, with GN Hearing being in a unique position to continue to deliver industry leading growth and profitability. The total consideration payable by Natus was USD 145 million which was settled in cash on a debt and cash free basis. Closing of the transaction took place on January 3, 2017.

As of January 1, 2017 GN Otometrics was no longer included in the consolidated financial statements of the GN Group. The carrying amounts of assets and liabilities disposed of and the gain on divestment were:

DKK million	2018	2017
Intangible assets	-	(494)
Property, plant & equipment	-	(22)
Receivables	-	(665)
Inventories	-	(142)
Cash and cash equivalents	-	(30)
Payables	-	624
Deferred tax	-	62
Interest-bearing liabilities	-	2
Disposed net assets	**-**	**(665)**
Directly attributable transaction related costs	-	(57)
Cash consideration received	-	1,065
Paid capital increase in divested associated company of GN Otometrics	-	(288)
Gain on divestment of GN Otometrics before tax and reclassifications from equity	**-**	**55**
Reclassification of reserve for foreign exchange adjustments	-	15
Income tax expense on gain from the sale of GN Otometrics	-	(9)
Gain on divestment of GN Otometrics	**-**	**61**
Profit (loss) for the year from discontinued operations	**-**	**61**

The net cash flow effect of the divestment of GN Otometrics can be specified as follows:

DKK million	2018	2017
Cash consideration received	-	1,065
Paid capital increase in divested associated company of GN Otometrics	-	(288)
Received payment of receivables from GN Otometrics associated company	-	61
Directly attributable transaction related costs	-	(57)
Cash and cash equivalents disposed of	-	(29)
Net cash flow from divestment of GN Otometrics	**-**	**752**

As part of the divestment of GN Otometrics a capital increase of DKK 288 million has been paid to GN Otometrics' associated company Audiology Systems Inc in 2017.

Earnings per share (EPS) from discontinued operations	2018	2017
Earnings per share (EPS) from discontinued operations	-	0.44
Earnings per share from discontinued operations, fully diluted (EPS diluted)	-	0.43

§ Accounting policies

Discontinued operations

Assets and liabilities classified as held for sale are presented separately as items in the balance sheet. A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement

5.3 Remuneration of the Board of Directors and Executive Management

Remuneration to Executive Management and other Key Management personnel can be specified as follows:

DKK million	2018 Fixed salary	2018 Bonus	2018 Share-based payments	2018 Total	2017 Fixed salary	2017 Bonus	2017 Share-based payments	2017 Total
Anders Hedegaard, CEO of GN Hearing until October 31, 2018	(5.7)	(5.2)	(0.4)	(11.3)	(6.4)	(4.0)	(2.3)	(12.7)
René Svendsen-Tune, CEO of GN Audio	(6.4)	(5.9)	(2.7)	(15.0)	(6.0)	(5.4)	(2.3)	(13.7)
Marcus Desimoni, CFO of GN Store Nord	(4.9)	(4.2)	(2.5)	(11.6)	(4.6)	(2.8)	(1.8)	(9.2)
Total	**(17.0)**	**(15.3)**	**(5.6)**	**(37.9)**	**(17.0)**	**(12.2)**	**(6.4)**	**(35.6)**
Other Key Management personnel	(3.7)	(0.9)	(0.4)	(5.0)	(2.2)	(0.8)	(0.2)	(3.2)
Board of Directors remuneration	(7.3)	-	-	(7.3)	(6.7)	-	-	(6.7)
Total	**(11.0)**	**(0.9)**	**(0.4)**	**(12.3)**	**(8.9)**	**(0.8)**	**(0.2)**	**(9.9)**
Total remuneration	**(28.0)**	**(16.2)**	**(6.0)**	**(50.2)**	**(25.9)**	**(13.0)**	**(6.6)**	**(45.5)**

Incentive plans

The Group's warrant-based long-term incentive program is specified and described in note 5.4 Incentive plans.

Executive Management and Board of Directors Remuneration

The total remuneration of the Executive Management is based on the “General Guidelines for Incentive Pay to Management”, as adopted at GN´s Annual General Meeting. Total salary (Fixed salary & Bonus) of the Executive Management, increased by 11% or DKK 3.1 million from 2017 to 2018. As Announced, Anders Hedegaard stepped down as CEO of GN Hearing as of October 31, 2018. Due to this, non-vested share based incentives for Anders Hedegaard have been terminated.

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

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

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

In 2018 Other Key Management personnel remuneration includes remuneration of DKK 1.2 million to the former CEO of GN Hearing Anders Hedegaard for the period from October 31, 2018.

5.3 Remuneration of the Board of Directors and Executive Management (Continued)

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

The full-year remuneration of the Board of Directors is as follows (DKK thousand):

GN Store Nord A/S	
Chairman	825
Deputy Chairman	550
Other Board members	275
Remuneration Committee Chairman	330
Remuneration Committee other members	165
Audit Committee Chairman	330
Audit Committee, other members	165
Strategy Committee Chairman	330
Strategy Committee other members	165
Nomination Committee Chairman	165
Nomination Committee other members	83

GN Hearing A/S	
Chairman	275
Deputy Chairman	193
Other Board members	110

GN Audio A/S	
Chairman	275
Deputy Chairman	193
Other Board members	110

In addition to the remuneration, members of the Board of Directors who are not Danish residents are entitled to a fixed travel allowance in connection with participation in board meetings in Denmark. For European-based board members the allowance amounts to DKK 22,500 per meeting and for Non-European based board members the allowance amounts to DKK 45,000 per meeting.

DKK thousand	2018	2017
Per Wold-Olsen (Chairman)	2,035	1,850
William E. Hoover, Jr. (Deputy Chairman)	1,348	1,225
Wolfgang Reim	990	900
Gitte Pugholm Aabo (from April 2018)	619	-
Carsten Krogsgaard Thomsen (until March 2018)	206	750
Helene Barnekow	660	600
Ronica Wang	660	600
Leo Larsen	275	250
Morten Andersen	275	250
Marcus Stuhr Perathoner (from April 2018)	206	-
Nikolai Bisgaard (until March 2018)	69	250
Total Board of Directors remuneration	**7,343**	**6,675**

5.4 Incentive plans

Warrant programs

GN Store Nord has a warrant-based long-term equity-settled incentive program whereby the Executive Management and other senior employees are granted warrants linked to shares in GN Hearing A/S and GN Audio A/S. For members of Executive Management the grant size can vary between 50-100% of their base salary.

Calculation of share price for each division

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

Vesting conditions of warrants

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

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

Valuation model and assumptions

The market value of the warrants are calculated using the principles of the Black-Scholes option pricing model. In addition the model have taken the overperformance criteria into account using Monte Carlo simulation. The market value of the outstanding warrants at the balance sheet date is calculated on the basis of underlying market prices on the final business day of the year, whereas the market value of 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:

	GN Hearing A/S				GN Audio A/S			
	Executive Management		Other employees		Executive Management		Other employees	
	2018	2017	2018	2017	2018	2017	2018	2017
Number of warrants awarded in the year	1,056	968	4,482	4,428	738	666	2,228	2,208
Share price GN Store Nord at ordinary grant date	199	161	199	161	199	161	199	161
Vesting period	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Life of warrant	6 years	6 years	6 years	6 years	6 years	6 years	6 years	6 years
Volatility*	19%	20%	19%	20%	23%	30%	23%	30%
Expected dividend**	-	-	-	-	-	-	-	-
Risk-free interest rate***	0.30%	(0.10)%	0.30%	(0.10)%	0.30%	(0.10)%	0.30%	(0.10)%
Fair Value per warrant at ordinary grant (DKK)	5,000	3,986	5,000	3,986	5,743	5,131	5,743	5,131
Total market value at grant (DKK million)	5	4	23	18	4	3	13	11
Amortization period of the program	2018 - 2021	2017 - 2020	2018 - 2021	2017 - 2020	2018 - 2021	2017 - 2020	2018 - 2021	2017 - 2020

* Volatility is estimated by external experts

** No dividends is paid out through GN Hearing A/S or GN Audio A/S during the life of the warrants. All dividends are paid out through GN Store Nord A/S

*** Risk-free interest rate is estimated by external experts and based on the zero yield curve derived from Danish government bonds with maturity equal to the expiry of the warrants

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

Exercise of warrants

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

5.4 Incentive plans (Continued)

Warrants programs

	GN Hearing A/S				GN Audio A/S			
	DKK	Number			DKK	Number		
	Average exercise price	Executive Manage-ment	Other employees	Total	Average exercise price	Executive Manage-ment	Other employees	Total
Outstanding warrants at January 1, 2017	**24,649**	**2,205**	**12,745**	**14,950**	**24,549**	**1,730**	**7,977**	**9,707**
Warrants granted during the year	30,624	968	4,428	5,396	28,934	666	2,208	2,874
Warrants exercised during the year	18,957	(118)	(2,680)	(2,798)	17,755	-	(971)	(971)
Warrants forfeited during the year	26,452	(117)	(2,238)	(2,355)	24,728	-	(2,378)	(2,378)
Outstanding warrants at December 31, 2017	**27,540**	**2,938**	**12,255**	**15,193**	**26,587**	**2,396**	**6,836**	**9,232**
Warrants granted during the year	32,278	1,056	4,482	5,538	33,993	738	2,228	2,966
Warrants exercised during the year	20,901	-	(1,174)	(1,174)	29,670	-	(1,349)	(1,349)
Warrants forfeited during the year	30,723	(1,551)	(1,882)	(3,433)	27,418	-	(456)	(456)
Outstanding warrants at December 31, 2018	**29,021**	**2,443**	**13,681**	**16,124**	**28,273**	**3,134**	**7,259**	**10,393**
Weighted average term to maturity		3.4	3.4	3.4		3.4	3.6	3.6
Number of exercisable warrants at December 31, 2017		-	1,381	1,381		-	98	98
Number of exercisable warrants at December 31, 2018		694	3,013	3,707		538	573	1,111
Market value of outstanding warrants at December 31, 2018 (DKK million)		20	107	127		83	187	270

Average share price at exercise: GN Hearing: DKK 36,163 (2017: DKK 33,784) GN Audio: DKK 48,323 (2017: DKK 32,134)

Outstanding warrants in GN Hearing and GN Audio by grant date are shown below:

	GN Hearing A/S				GN Audio A/S			
	DKK	Number			DKK	Number		
Grant date	Exercise price	Executive Manage-ment	Other employees	Total	Exercise price	Executive Manage-ment	Other employees	Total
March 2014	24,711	-	168	168	NA	NA	NA	NA
March 2015	26,729	694	2,670	3,364	30,600	538	573	1,111
August 2015	23,807	-	50	50	NA	NA	NA	NA
November 2015	24,896	-	125	125	NA	NA	NA	NA
March 2016	26,936	1,276	3,120	4,396	22,495	1,192	2,370	3,562
August 2016	27,797	-	68	68	23,308	-	58	58
November 2016	26,932	-	211	211	NA	NA	NA	NA
March 2017	30,451	240	3,242	3,482	28,794	666	2,065	2,731
May 2017	35,873	-	56	56	36,781	-	-	-
August 2017	39,391	-	35	35	NA	NA	NA	NA
December 2017	36,177	-	43	43	35,824	-	47	47
February 2018	31,792	233	3,631	3,864	33,913	738	2,118	2,856
May 2018	NA	NA	NA	NA	42,338	-	28	28
August 2018	46,342	-	49	49	NA	NA	NA	NA
September 2018	44,817	-	22	22	NA	NA	NA	NA
December 2018	34,047	-	191	191	NA	NA	NA	NA
Outstanding warrants at December 31		**2,443**	**13,681**	**16,124**		**3,134**	**7,259**	**10,393**

§ 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 ●

5.5 Pension obligations

DKK million	2018	2017
Present value of defined benefit obligations	(335)	(338)
Fair value of plan assets	281	293
Net obligations	**(54)**	**(45)**

The present value of defined benefit obligations includes unfunded pension obligations not covered by payments to insurance company of DKK 20 million (2017: DKK 18 million).

	2018	2017
Development in present value of defined benefit obligations		
Obligations at January 1	(338)	(366)
Foreign exchange adjustments	(13)	39
Costs for the year	(4)	(4)
Interest expense	(11)	(11)
Actuarial gains (losses) regarding demographic assumptions	1	2
Actuarial gains (losses) regarding financial assumptions	14	(13)
Pension payments	16	15
Obligations at December 31	**(335)**	**(338)**
Maturity of pension obligations		
Less than one year	(17)	(16)
Between one and five years	(76)	(70)
More than five years	(242)	(252)
Total	**(335)**	**(338)**
Development in fair value of plan assets		
Plan assets at January 1	293	300
Foreign exchange adjustments	13	(33)
Interest income	9	8
Return on plan assets in excess of interest income	(26)	26
Payment by GN Store Nord	7	7
Pension payments	(15)	(15)
Plan assets at December 31	**281**	**293**
Pension costs recognized in the income statement		
Costs for the year	(5)	(4)
Interest expense	(11)	(11)
Interest income from plan assets	9	8
Defined benefit plans total	(7)	(7)
Defined contribution plans total	(119)	(101)
Total pension costs recognized in the income statement	**(126)**	**(108)**
The costs are recognized in the following income statement items:		
Production costs	(21)	(13)
Development costs	(28)	(24)
Selling and distribution costs	(41)	(39)
Management and administrative expenses	(34)	(30)
Financial expenses	(2)	(2)
Total	**(126)**	**(108)**
The following accumulated actuarial gains (losses) since January 1, 2005 are recognized in the Statement of other Comprehensive Income:		
Accumulated actuarial gains (losses)	(76)	(65)
Breakdown of plan assets:		
Shares	60%	60%
Bonds	37%	37%
Cash and cash equivalents	3%	3%
Total	**100%**	**100%**

5.5 Pension obligations (Continued)

At the balance sheet date the actuarial calculations for the prevailing American defined benefit plan are based on a discount rate of 4% (2017: 4%).

A 25 basis point decrease in the discount rate will result in a DKK 7 million increase in the defined benefit obligation and a 25 basis point increase will result in a DKK 7 million decrease in the defined benefit obligation.

Defined contribution plans
The Group has pension commitments regarding certain groups of employees in Denmark and abroad. Pension plans are generally defined contribution plans. The pension plans are funded by current payments to independent pension funds and insurance companies, which are responsible for payment of the pension benefits. When contributions to defined contribution plans have been paid, the Group has no further commitments to present or former employees. Contributions to defined contribution plans are recognized in the income statement when they are due.

Defined benefit plans
The Group has an American pension plan, which is not covered by payments to insurance companies but is partly off-set by the fair value of reserved pension funds. At July 1, 2003, the pension plan was frozen, meaning that employees covered by the plan will continue to be entitled to the pension payments earned up to this date. However, employees will not earn further pension payments.

§ Accounting policies

Pensions
Contributions to defined contribution plans are recognized in the income statement in the period to which they relate and any contributions outstanding are recognized in the balance sheet as other payables.

Defined benefit plans are subject to an annual actuarial estimate of the present value of future benefits under the defined benefit plan. The present value is determined on the basis of assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. The present value is determined only for benefits earned by employees from their employment with the Group. The actuarial present value less the fair value of any plan assets is recognized in the balance sheet under pension obligations. Pension costs for the year are recognized in the income statement based on actuarial estimates and financial expectations at the beginning of the year. Any difference between the expected development in plan assets and the defined benefit obligation and actual amounts results in actuarial gains or losses. Actuarial gains or losses are recognized in other comprehensive income

5.6 Contingent assets and liabilities

DKK million	2018	2017
Guarantees	**74**	**72**

Guarantees
The majority of guarantees is related to an associated company's bank credit facility.

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

Purchase obligations
GN Store Nord has agreed with a number of suppliers that the suppliers will purchase components for the production of hearing instruments and headsets based on sales estimates prepared by GN Store Nord. To the extent that GN Store Nord's sales estimates exceed actual purchases from suppliers, GN Store Nord 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 Store Nord recognizes a provision for onerous purchase contracts.

5.6 Contingent assets and liabilities (Continued)

Outstanding Lawsuits and disputes

GN Store Nord and its subsidiaries and associates are parties to various lawsuits, including various cases involving patent infringements. Besides from the case below, the outcome of cases pending is not expected to be of material importance to the Group's financial position.

Claim against Plantronics Inc.

In 2012, GN Audio filed suit against Plantronics for attempted monopolization of the distributors' market in the United States. During the discovery phase, GN learned of alleged intentional document destruction. A hearing on the matter was held on May 18, 2016, and on July 6, 2016, the Court issued a sanctions motion ordering Plantronics to pay USD 3 million to GN Audio in punitive damages as well as reasonable fees and costs incurred in connection with the discovery dispute. Furthermore, the Court reserved the right to issue additional evidentiary sanctions, and to instruct the jury that it may draw an adverse inference that emails destroyed by Plantronics would have been favorable to GN Audio's case and/or unfavorable to Plantronics' defense. On October 18, 2017 a jury in the Federal District Court, Delaware, ruled in favor of Plantronics and did not find that Plantronics' behavior in the market had been unlawful. GN has appealed the ruling and the case was argued before the Court of Appeals on December 11, 2018. A ruling is expected in first half of 2019.

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

For information on lease obligations, please refer to note 5.9 Lease obligations.

! Significant accounting estimates

Provisions, Contingencies and Lawsuits

GN Store Nord'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 ●

5.7 Associates

Investments in associates

DKK million	2018	2017
Aggregated financial information for associates is provided below:		
Total share of profit (loss) in associates for the year	13	6
Total unrecognized loss in associates for the year	(5)	(16)
Total share of net assets in associates	88	(8)
Cumulative unrecognized loss in associates	(30)	(25)
Carrying amount of associates	118	17

Transactions with associates comprise sale of goods of DKK 85 million (2017: DKK 19 million) on normal commercial terms and conditions.

Group companies are listed on page 113.

§ 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) ●

5.8 Other non-cash adjustments

DKK million	2018	2017
Share-based payment (granted)	28	22
Provision for bad debt, inventory write-downs, etc.	35	36
Adjustment of provisions	44	48
Total	**107**	**106**

5.9 Lease obligations

DKK million	2018	2017
Future lease obligations are distributed as follows:		
Operating leases:		
Less than one year	152	141
Between one and five years	256	212
More than five years	56	71
Total	**464**	**424**

Operating leases primarily relate to lease of property on market terms in Denmark, the United States and the United Kingdom. The remaining lease terms are between one and fifteen years.

Operating leases include rental obligations related to properties in Denmark in the amount of DKK 11 million (2017: DKK 14 million).

Lease payments recognized in the income statement relating to operating leases amount to DKK 175 million (2017: DKK 165 million).

§ 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

5.10 Fees to auditors appointed at the annual general meeting

DKK million	2018	2017
Audit fees	(7)	(7)
Other assistance:		
Other assurance related services	(2)	(5)
Tax assistance and advice	(2)	(2)
Other services	(1)	(1)
Total	**(12)**	**(15)**

Consolidated audit fees include DKK 4 million (2017: DKK 3 million) to Ernst & Young P/S. Consolidated other assistance includes DKK 4 million (2017: DKK 7 million) to Ernst & Young P/S, primarily related to other assurance related services, tax compliance and technical accounting advisory services as well as financial due diligence work.

5.11 Related parties

There is no single entity or person that has control or exercises significant influence over the GN Group as a whole. As such related parties are solely constitutes those with Key Management personnel. Transactions with Key Management personnel have been identified as remuneration only which is disclosed in note 5.3 and 5.4 of these financial statements.

Transactions with associates

During the year GN has had transactions with its associates comprising hearing instruments for DKK 85 million (2017: DKK 19 million). At year end GN has DKK 81 million (DKK 8 million) in receivables from associates.

5.12 Events after the reporting period

Please refer to note 5.1 Acquisition and divestment of companies and operations for disclosures on acquisitions made after the reporting period.

Companies in the GN Group

	Domicile	Currency	Ownership %	Share capital
GN Store Nord A/S	Denmark	DKK		582,736,856
GN Ejendomme A/S	Denmark	DKK	100	115,625,000
GN Audio A/S	Denmark	DKK	100	34,237,900
GN Audio Australia Pty Ltd.	Australia	AUD	100	2,500,000
GN Áudio Brasil Importacão & Comércio Ltda.	Brazil	BRL	100	407,821
GN Audio Canada Inc.	Canada	CAD	100	409,800
GN Audio (China) Ltd.	China	USD	100	65,116,155
GN Audio (Shanghai) Co., Ltd.	China	CNY	100	15,481,000
GN Audio Logistic (Xiamen) Ltd.	China	CNY	100	4,133,738
GN Audio France SA	France	EUR	100	80,000
GN Audio Germany GmbH	Germany	EUR	100	51,000
GN Audio Hong Kong Limited	Hong Kong	HKD	100	32,500,000
GN Audio India Private Limited	India	INR	100	40,000,000
Jabra Connect India Private Limited	India	INR	51	20,000,000
GN Audio Italy s.r.l.	Italy	EUR	100	10,200
GN Audio Japan Ltd.	Japan	JPY	100	10,000,000
GN Audio Benelux B.V.	Netherlands	EUR	100	18,000
GN Audio Singapore Pte. Ltd.	Singapore	SGD	100	700,000
Jabra Connect Singapore Pte.Ltd.	Singapore	USD	100	12,000
GN Audio Spain, S.A.	Spain	EUR	100	60,111
GN Audio Sweden AB	Sweden	SEK	100	5,100,000
GN Audio UK Ltd.	United Kingdom	GBP	100	100,000
GN Audio USA Inc.	USA	USD	100	35,900,000
GN Hearing A/S	Denmark	DKK	100	63,905,300
GN Hearing Australia Pty. Ltd.	Australia	AUD	100	4,000,002
GN Hearing Austria GmbH	Austria	EUR	100	500,000
GN Hearing Brazil	Brazil	BRL	100	1,019,327
GN Hearing Care Canada Ltd.	Canada	CAD	100	8,435,000
5837946 Manitoba Ltd.	Canada	CAD	100	10,000
810720 Alberta Ltd.	Canada	CAD	100	50,000
Golden Hearing Ltd.	Canada	CAD	100	1,039
GN Hearing Shanghai Ltd.	China	CNY	100	20,491,300
GN ReSound China Ltd.	China	CNY	100	34,000,000
GN Hearing Czech Republic spol. s r.o.	Czech Republic	CZK	100	102,000
Beltone Europe Holdings ApS	Denmark	DKK	100	200,000
Dansk Hørecenter ApS	Denmark	DKK	100	130,000
GN Advanced Hearing Protection A/S	Denmark	DKK	100	500,000
GN Hearing Finland Oy/Ab	Finland	EUR	100	55,502
GN Hearing SAS	France	EUR	100	762,269
GN Hearing GmbH	Germany	EUR	100	296,549
GN ReSound GmbH Hörtechnologie	Germany	EUR	100	2,162,253
GN Hearing India Private Limited	India	INR	100	20,983,210
GN Hearing S.r.l.	Italy	EUR	100	181,190
GN Hearing Japan K.K.	Japan	JPY	100	499,000,000
GN Hearing Korea Co., Ltd.	Korea	KRW	100	136,700,000
GN Hearing (Malaysia) Sdn Bhd	Malaysia	RM	100	500,000
GN Hearing Benelux B.V.	Netherlands	EUR	100	680,670
GN Hearing New Zealand Limited	New Zealand	NZD	100	2,000,000
GN Hearing Norway AS	Norway	NOK	100	2,000,000
GN Hearing RUS LLC	Russia	RUB	100	10,000
GN Hearing Pte. Ltd.	Singapore	SGD	100	1,740,000
Interton Slovakia S.R.O.	Slovakia	EUR	85	6,639
GN Hearing Care S.A.	Spain	EUR	100	66,110
GN Hearing Sverige AB	Sweden	SEK	100	100,000
GN Hearing Switzerland AG	Switzerland	CHF	100	500,000
GN Hearing UK Ltd.	United Kingdom	GBP	100	7,376,000
GN US Holdings Inc.	USA	USD	100	36,000,000
GN Advanced Hearing Protection, LLC*	USA	USD	100	0
GN Hearing Care Corporation	USA	USD	100	190,000
GN ReSound Holdings, Inc.*	USA	USD	100	0
ReSound Holdings, Inc.	USA	USD	100	10,000
Beltone Holdings II, Inc.	USA	USD	100	3,000
Beltone Holdings III, Inc.	USA	USD	100	3,000
Beltone Holdings IV, Inc	USA	USD	100	3,000
Beltone Hearing Care Foundation*	USA	USD	100	0
Audigy Group, LLC*	USA	USD	100	0
Audigy Medical, LLC*	USA	USD	100	0
Audigy Venture, LLC*	USA	USD	100	0

Companies in the GN Group (Continued)

	Domicile	Currency	Ownership %	Share capital
Associates				
Audio Nova S.R.L.	Romania	ROL	49	1,000
Himpp A/S	Denmark	DKK	11	1,800,000
HIMSA A/S	Denmark	DKK	25	1,000,000
HIMSA II A/S	Denmark	DKK	17	600,000
Himsa II K/S	Denmark	DKK	15	3,250,000
K/S Himpp	Denmark	DKK	9	140,703,360
AudEERING Gmbh	Germany	EUR	25	25,000
Hearing Center of the East Bay, LLC	USA	USD	50	25,000

* Without par value

Note: A few minor companies have been omitted from the list

In this annual report the following financial terms are used:

Operating profit (loss)	Profit (loss) before tax and financial items.
EBITDA	Operating profit (loss) before depreciation and impairment of property, plant and equipment, amortization and impairment of intangible assets, except development projects, impairment of goodwill and gains (losses) on divestment of operations etc.. EBITDA therefore include amortization of development projects.
EBITA	Operating profit (loss) before amortization and impairment of acquired intangible assets, impairment of goodwill and gains (losses) on divestment of operations etc.. EBITA therefore include amortization of development projects and software developed in-house.
Convertible bond	EUR 225 million senior unsecured zero coupon bonds due 2022 with detachable unsecured warrant units expiring 2022 (refer to note 4.2 Financial Risk).
Non-IFRS measures	The use of non-IFRS measures is explained in note 1.3 Non-IFRS measures and note 2.5 Income statement classified by function.

Key Ratio Definitions

Organic growth $= \dfrac{\text{Absolute organic sales growth}}{\text{Sales in comparative period}}$

Organic growth is a measure of growth excluding the impact of acquisitions, divestments and foreign exchange adjustments from year-on-year comparisons.

Net working capital (NWC) = Inventories + receivables + other operating current assets - trade payables - other operating current liabilities

Net interest bearing debt (NIBD) = Bank loans and issued bonds - Cash and cash equivalents

Dividend payout ratio $= \dfrac{\text{Total dividend}}{\text{Profit (loss) for the year}}$

Gross margin $= \dfrac{\text{Gross profit}}{\text{Revenue}}$

EBITA margin $= \dfrac{\text{EBITA}}{\text{Revenue}}$

ROIC (Return on invested capital including goodwill) $= \dfrac{\text{EBITA}}{\text{Average invested capital including goodwill}}$

Invested capital = NWC + property, plant and equipment and intangible assets + loans to dispensers of GN ReSound products + pre-paid discounts + ownership interests – provisions-

Cash conversion $= \dfrac{\text{Free cash flow excl. company acquisitions and divestments}}{\text{EBITA}}$

Return on equity (ROE) $= \dfrac{\text{Profit (loss) for the year}}{\text{Average equity of the Group}}$

Equity ratio $= \dfrac{\text{Equity of the Group}}{\text{Total assets}}$

Earnings per share, basic (EPS) $= \dfrac{\text{Profit (loss) for the year}}{\text{Average number of shares outstanding}}$

Earnings per share, fully diluted (EPS diluted) $= \dfrac{\text{Profit (loss) for the year}}{\text{Average number of shares outstanding, fully diluted}}$

Market capitalization: Number of shares outstanding x share price at the end of the period

Outstanding shares: Number of shares listed - treasury shares

Parent company Financial statements 2018

Financial statements

Notes to the parent company financial statements

Notes – Income statement and balance sheet

Notes – Other disclosures

Income statement

DKK million	Note	2018	2017
Revenue		169	129
Gross profit		**169**	**129**
Development costs		(57)	(56)
Management and administrative expenses	1,2,3	(247)	(194)
Other operating income and costs, net		30	-
Operating profit (loss)		**(105)**	**(121)**
Share of profit after tax in subsidiaries	8	1,445	1,290
Financial income	4	63	122
Financial expenses	4	(217)	(148)
Profit (loss) before tax		**1,186**	**1,143**
Tax on profit (loss)	5	55	40
Profit (loss) for the year		**1,241**	**1,183**
Proposed profit appropriation/distribution of loss			
Transferred to reserve for net revaluation according to the equity method		(555)	1,290
Retained earnings		1,599	(289)
Proposed dividends for the year		197	182
		1,241	**1,183**

Statement of comprehensive income

DKK million	2018	2017
Profit (loss) for the year	**1,241**	**1,183**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Other changes in equity in subsidiaries	4	11
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Adjustment of cash flow hedges	9	19
Tax relating to this item of other comprehensive income	(2)	(3)
Foreign exchange adjustments, etc.	256	(802)
Other changes in equity in subsidiaries	(70)	101
Comprehensive income for the year	**1,438**	**509**

Balance sheet at December 31

DKK million	Note	2018	2017
Assets			
Intangible assets	6	230	192
Property, plant and equipment	7	12	-
Investments in subsidiaries	8	9,384	7,542
Investments in associates	9	30	-
Amounts owed by subsidiaries	12	1,408	1,191
Total non-current assets		**11,064**	**8,925**
Tax receivables		46	-
Other receivables	12	38	47
Cash and cash equivalents		259	265
Total current assets		**343**	**312**
Total assets		**11,407**	**9,237**
Equity and liabilities			
Share capital		583	583
Other reserves		(1,332)	(15)
Proposed dividends for the year		197	182
Retained earnings		5,648	4,033
Total equity		**5,096**	**4,783**
Bank loans and issued bonds	12, 15	3,842	3,508
Deferred tax liabilities	10	161	171
Total non-current liabilities		**4,003**	**3,679**
Bank loans	12, 15	13	11
Trade payables	12	39	30
Tax payables		-	2
Amounts owed to subsidiaries	12, 15	2,157	665
Other payables		99	67
Total current liabilities		**2,308**	**775**
Total equity and liabilities		**11,407**	**9,237**

Statement of cash flow

DKK million	Note	2018	2017
Operating activities			
Operating profit (loss)		(105)	(121)
Depreciation, amortization and impairment	6, 7	37	23
Cash flow from operating activities before changes in working capital		**(68)**	**(98)**
Change in receivables		9	(39)
Change in trade payables and other payables		43	21
Total changes in working capital		**52**	**(18)**
Cash flow from operating activities before financial items and tax		**(16)**	**(116)**
Interest and dividends, etc. received		-	4,010
Interest paid		(82)	(68)
Tax paid, net		(2)	28
Cash flow from operating activities		**(100)**	**3,854**
Investing activities			
Investments in intangible assets		(73)	(134)
Investments in tangible assets		(14)	-
Investments in associates		(30)	-
Amounts owed by subsidiaries		(322)	(425)
Cash flow from investing activities		**(439)**	**(559)**
Cash flow from operating and investing activities (free cash flow)		**(539)**	**3,295**
Financing activities			
Increase of long-term loans	15	304	-
Decrease of long-term loans	15	-	(1,599)
Increase in short-term loans and amounts owed to subsidiaries	15	1,459	-
Decrease of short-term loans and amounts owed to subsidiaries	15	-	(1,534)
Net proceeds from issue of bond-with-warrant units (convertible bonds)		-	1,636
Paid dividends		(169)	(161)
Purchase/sale of treasury shares		(1,061)	(1,372)
Cash flow from financing activities		**533**	**(3,030)**
Net cash flow		**(6)**	**265**
Cash and cash equivalents, beginning of period		265	-
Cash and cash equivalents, end of period		**259**	**265**

Statement of equity

DKK million	Share capital*	Other reserves: Additional paid-in capital	Other reserves: Hedging reserve	Other reserves: Treasury shares	Other reserves: Reserve according to the equity method	Proposed dividends for the year	Retained earnings	Total equity
Balance sheet total at December 31, 2016	**619**	**-**	**(28)**	**(1,497)**	**942**	**178**	**5,406**	**5,620**
Profit (loss) for the period	-	-	-	-	1,290	-	(107)	1,183
Adjustment of cash flow hedges	-	-	19	-	-	-	-	19
Other changes in equity in subsidiaries	-	-	-	-	106	-	-	106
Foreign currency translation adjustments of investments in subsidiaries etc.	-	-	-	-	(802)	-	-	(802)
Tax relating to other comprehensive income	-	-	(3)	-	6	-	-	3
Total comprehensive income for the year	**-**	**-**	**16**	**-**	**600**	**-**	**(107)**	**509**
Reduction of the share capital	(36)	-	-	1,193	-	-	(1,157)	-
Value of warrants issued with bonds	-	-	-	-	-	-	76	76
Other changes in equity in subsidiaries	-	-	-	-	22	-	-	22
Purchase of ownership interests in subsidiaries by payment in treasury shares	-	-	-	90	-	-	(20)	70
Tax related to share-based incentive plans	-	-	-	-	19	-	-	19
Purchase/sale of treasury shares	-	-	-	(1,372)	-	-	-	(1,372)
Proposed dividends for the year*	-	-	-	-	-	182	(182)	-
Paid dividends	-	-	-	-	-	(161)	-	(161)
Dividends, treasury shares	-	-	-	-	-	(17)	17	-
Balance sheet total at December 31, 2017	**583**	**-**	**(12)**	**(1,586)**	**1,583**	**182**	**4,033**	**4,783**
Profit (loss) for the period	-	-	-	-	(555)	-	1,796	1,241
Adjustment of cash flow hedges	-	-	9	-	-	-	-	9
Other changes in equity in subsidiaries	-	-	-	-	(76)	-	-	(76)
Foreign currency translation adjustments of investments in subsidiaries etc.	-	-	-	-	256	-	-	256
Tax relating to other comprehensive income	-	-	(2)	-	10	-	-	8
Total comprehensive income for the year	**-**	**-**	**7**	**-**	**(365)**	**-**	**1,796**	**1,438**
Other changes in equity in subsidiaries	-	-	-	-	26	-	-	26
Purchase of ownership interests in subsidiaries by payment in treasury shares	-	-	-	62	-	-	3	65
Tax related to share-based incentive plans	-	-	3	-	11	-	-	14
Purchase/sale of treasury shares	-	-	-	(1,061)	-	-	-	(1,061)
Proposed dividends for the year*	-	-	-	-	-	197	(197)	-
Paid dividends	-	-	-	-	-	(169)	-	(169)
Dividends, treasury shares	-	-	-	-	-	(13)	13	-
Balance sheet total at December 31, 2018	**583**	**-**	**(2)**	**(2,585)**	**1,255**	**197**	**5,648**	**5,096**

* Equivalent to DKK 1.35 per share (2017: DKK 1.25 per share)

The reserve according to the equity method includes foreign exchange adjustments of DKK (1,065) million (2017 DKK (1,311) million).

Retained earnings, which are available for distribution from the Parent Company amounts to DKK 3,258 million (2017 DKK 2,617 million).

1 Staff costs

DKK million	2018	2017
Wages, salaries and remuneration	(135)	(102)
Pensions	(11)	(9)
Other social security costs	(1)	(1)
Total	**(147)**	**(112)**
Executive Management remuneration can be specified as follows:		
Marcus Desimoni, CFO of GN Store Nord*	(9.1)	(7.4)
Total	**(9.1)**	**(7.4)**
Board of Directors remuneration	(5.5)	(5.0)
Total remuneration	**(14.6)**	**(12.4)**
Staff costs are included in Management and administrative expenses.		
Average number of employees	158	144
Number of employees, year-end	164	148

* Does not include share based payments

For information regarding Executive Management and Board of Directors total remuneration please refer to note 5.3 in the consolidated financial statements.

2 Depreciation, amortization and impairment

Depreciation, amortization and impairment of tangible and intangible assets of DKK 37 million (2017: DKK 23 million), are recognized in the Income Statement as management and administrative expenses.

3 Fees to auditors appointed at the annual general meeting

DKK million	2018	2017
Audit fees	(1)	(1)
Other assistance:		
Other assurance related services	(1)	(5)
Tax assistance and advice	(1)	(1)
Other services	(1)	(1)
Total	**(4)**	**(8)**

Other assistance is described in note 5.10 in the consolidated financial statements.

4 Financial income and expenses

DKK million	2018	2017
Financial income		
Interest income from subsidiaries*	45	51
Interest income from bank balances*	16	12
Financial income, other	1	3
Foreign exchange gain	1	56
Total	**63**	**122**
Financial expenses		
Interest expense to subsidiaries*	(75)	(60)
Interest expenses on bank loans and issued bonds*	(78)	(52)
Financial expenses, other	(8)	(18)
Fair value adjustments of derivative financial instruments and impairments	-	(12)
Foreign exchange loss	(56)	(6)
Total	**(217)**	**(148)**

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

5 Tax

DKK million	2018	2017
Tax on profit (loss)		
Current tax for the year	41	39
Deferred tax for the year	15	(7)
Adjustment to current tax in respect of prior years	4	(2)
Adjustment to deferred tax in respect of prior years	(5)	10
Total	**55**	**40**
Reconciliation of effective tax rate		
Danish tax rate	22.0%	22.0%
Non-deductible expenses	0.1%	0.1%
Adjustment of tax with respect to prior years	0.1%	(0.8)%
Share of profit (loss) in subsidiaries	(26.8)%	(24.8)%
Effective tax rate	**(4.6)%**	**(3.5)%**

In 2018, the parent company paid preliminary taxes of DKK 164 million (2017 DKK 218 million) in Danish corporation tax for the year on behalf of the joint Group taxation.

6 Intangible assets

	Software	
DKK million	2018	2017
Cost at January 1	302	168
Additions	73	134
Cost at December 31	**375**	**302**
Amortization and impairment at January 1	(110)	(87)
Amortization	(35)	(23)
Amortization and impairment at December 31	**(145)**	**(110)**
Carrying amount at December 31	**230**	**192**
Amortized over	1 - 7 years	1 - 7 years

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

7 Property, plant and equipment

DKK million	Operating assets and equipment 2018	2017
Cost at January 1	-	-
Additions	14	-
Cost at December 31	**14**	**-**
Depreciation and impairment at January 1	-	-
Depreciation	(2)	-
Depreciation and impairment at December 31	**(2)**	**-**
Carrying amount at December 31	12	-
Amortized over	1 - 7 years	1 - 7 years

8 Investments in subsidiaries

DKK million	2018	2017
Cost at January 1	5,959	5,891
Additions, capital contribution	170	70
Other adjustments	-	(2)
Cost at December 31	**6,129**	**5,959**
Value adjustment at January 1	1,583	4,942
Share of profit after tax in subsidiaries	1,445	1,290
Foreign currency translation adjustments	275	(802)
Direct equity postings in subsidiaries	(48)	153
Dividends received	-	(4,000)
Value adjustments at December 31	**3,255**	**1,583**
Carrying amount at December 31	**9,384**	**7,542**

Group companies are listed on page 113. Before the Annual General Meeting on March 21, 2019, a dividend of DKK 1,000 million will be declared from both GN Hearing A/S and GN Audio A/S to GN Store Nord A/S, DKK 2,000 million in total.

9 Investments in associates

DKK million	2018	2017
Aggregated financial information for associates is provided below:		
Total share of loss in associates for the year	-	-
Total unrecognized profit/loss in associates for the year	-	-
Total share of net assets in associates	30	-
Cumulative unrecognized loss in associates	-	-
Carrying amount of associates	30	-

Transactions with associates comprise sale of goods of DKK 0 million (2017: DKK 0 million) and sale of services of DKK 0 million (2017: DKK 0 million) on normal commercial terms and conditions.

10 Deferred tax

DKK million	2018	2017
Deferred tax, net		
Deferred tax at January 1, net	(171)	(174)
Adjustment in respect of prior years	(5)	10
Deferred tax for the year recognized in profit (loss) for the year	15	(7)
Deferred tax at December 31, net	**(161)**	**(171)**
Deferred tax, net relates to:		
Intangible assets	(33)	(26)
Retaxation	(127)	(127)
Provisions	(20)	(20)
Other	19	2
Total	**(161)**	**(171)**

11 Contingent assets and liabilities

The parent company has issued guarantees on behalf of subsidiaries of DKK 2 million (2017: DKK 0 million).

The company is jointly taxed with all Danish subsidiaries. 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.

12 Financial instruments and financial risk

Contractual maturity analysis for financial liabilities

DKK million	Less than one year	Between one and three years	More than three years	Total
2018				
Issued Bonds	-	-	1,604	1,604
Long-term bank loans	112	891	1,235	2,238
Short-term bank loans	13	-	-	13
Trade payables	39	-	-	39
Amounts owed to subsidiaries	2,157	-	-	2,157
Total non-derivative financial liabilities	2,321	891	2,839	6,051
Derivative financial liabilities	-	22	-	22
Total financial liabilities	**2,321**	**913**	**2,839**	**6,073**
2017				
Issued Bonds	-	-	1,577	1,577
Long-term bank loans	74	112	1,745	1,931
Short-term bank loans	11	-	-	11
Trade payables	30	-	-	30
Amounts owed to subsidiaries	665	-	-	665
Total non-derivative financial liabilities	780	112	3,322	4,214
Derivative financial liabilities	-	25	-	25
Total financial liabilities	**780**	**137**	**3,322**	**4,239**

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

12 Financial instruments and financial risk (Continued)

Categories of financial assets and liabilities

DKK million	2018	2017
Other receivables	38	47
Receivables from subsidiaries	1,408	1,191
Financial assets measured at amortized cost	**1,446**	**1,238**
Issued bonds	1,604	1,577
Bank loans, non-current	2,238	1,931
Bank loans	13	11
Trade payables	39	30
Amounts owed to subsidiaries	2,157	665
Financial liabilities measured at amortized cost	**6,051**	**4,214**
Derivative financial instruments included in Other payables	22	25
Financial liabilities measured at fair value	**22**	**25**

The fair value of issued bonds (zero coupon) amounted to DKK 1,641 million at December 31, 2018 (2017: DKK 1.603 million). For other financial assets and liabilities, the fair value is approximately equal to the carrying amount. GN Store Nord's bank loans carry floating interest rates and are primarily funded based on short term EURIBOR rates.

Derivative financial instruments
Cash flow hedges, interest rate swap

	2018			2017		
	Contract amount, net	Fair value, assets	Fair value, liabilities	Contract amount, net	Fair value, assets	Fair value, liabilities
EUR*	1,307	-	19	1,191	-	16
DKK	400		3	550		9
Total	**1,707**	**-**	**22**	**1,741**	**-**	**25**

* Interest rate swaps denominated in EUR

GN has hedged future interest rates with interest rate swaps. The fair value of the interest rate swaps is determined using forward interest rates and can be categorized as level 2 (observable inputs) in the fair value hierarchy.

DKK million	2018	2017
Fair value adjustment for the year recognized in Other comprehensive income	9	19

13 Outstanding shares and treasury shares

For information regarding outstanding shares and treasury shares please refer to note 4.1 Outstanding shares and treasury shares in the consolidated financial statements.

Funding, liquidity and capital structure is managed at Group level, please refer to note 4.2 Financial risk and financial instruments in the consolidated financial statements.

14 Related party transactions

In addition to disclosures given in note 5.11, related parties for GN Store Nord A/S comprise group enterprises and associates over which GN Store Nord A/S exercises control or significant influence.

Group enterprises and associates

Group companies are listed on page 113. Trade with group enterprises and associates comprised:

DKK million	2018	2017
Sale of services to group enterprises	308	227
Lease income from group enterprises	14	13
Purchase of services from group enterprises	(83)	(58)
Lease costs paid to group enterprises	(17)	(16)

The parent company's balances with group enterprises at December 31, 2018 are disclosed in the balance sheet. Interest income and expenses with respect to group enterprises are disclosed in note 4. Further, balances with Group enterprises comprise trade balances related to the purchase and sale of goods and services.

Sale of services to group enterprises consists of facility services, canteen services, management fee and IT costs. Purchase of services from group enterprises mainly consists of facility services and canteen services. Furthermore, the parent company has purchased development services on market terms from subsidiaries related to the exploring research projects undertaken in GN Other.

No transactions have been carried out with the Board of Directors, the Executive Management, senior employees, major shareholders or other related parties, apart from remuneration disclosed in notes 5.3 Remuneration of the Board of Directors and Executive Management and 5.4 Incentive plans in the consolidated financial statements.

15 Liabilities from financing activities

DKK million	Bank loans	Issued bonds	Bank loans, current	Amounts owed to subsidiaries	Total
Liabilities at January 1	1,931	1,577	11	665	4,184
Cash flows	304	-	2	1,457	1,763
Foreign exchange adjustments	3	5	-	35	43
Non-cash interest expenses	-	22	-	-	22
Liabilities at December 31, 2018	**2,238**	**1,604**	**13**	**2,157**	**6,012**
Liabilities at January 1	3,527	-	47	2,218	5,792
Cash flows	(1,599)	1,560	(36)	(1,498)	(1,573)
Foreign exchange adjustments	3	4	-	(55)	(48)
Non-cash interest expenses	-	13	-	-	13
Liabilities at December 31, 2017	**1,931**	**1,577**	**11**	**665**	**4,184**

In 2017 the total cash proceeds from the issue of bonds of DKK 1,636 million include DKK 76 million posted to equity as value of warrants.

16 Accounting policies

The financial statements for 2018 of the parent company, GN Store Nord A/S have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for annual reports of listed companies. The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of certain financial instruments (including derivative financial instruments) at fair value.

The accounting policies for the financial statements of the parent company have been changed in line with the changes to accounting policies described in note 1.1 in the consolidated financial statements. None of these changes have directly impacted recognition and measurement in the parent company. Apart from the above mentioned changes the accounting policies for the financial statements of the parent company are unchanged from the last financial year and are the same as for the consolidated financial statements with the following additions:

Supplementary accounting policies for the parent company
Investments in subsidiaries
Revenue in the parent company primarily relates to services rendered to GN Group companies during the year.

Investments in subsidiaries are accounted for using the equity method whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the share of the subsidiaries net assets. The share of the subsidiaries profit or loss, less unrealized intra-Group profits, is included in the income statement of the parent company and the share of the subsidiaries other comprehensive income is included in other comprehensive income of the parent company. Received dividends reduce the carrying amount of the investments in subsidiaries.

To the extent net profit in subsidiaries exceeds declared or proposed dividends from such companies, net revaluation of investments in subsidiaries is transferred to Net revaluation reserve under Equity according to the equity method.

Management's report for the GN Parent company
The GN Parent Company reports GN Corporate level activities and investments into GN Hearing and GN Audio. Revenue in 2018 grew DKK 40 million (2017: DKK 109 million), primarily due to changes in Group Functions. Costs increased during the year due to the increased activities related to research initiatives at Corporate level and changes in Group Functions. The GN Parent Company applies the equity method for recognizing share of profit and investments in subsidiaries and profit for the year and total equity developed in line with the Group's overall development. In 2017 cash flow from operations was positively impacted by dividends received in the total amount of DKK 4,010 million. In 2018 no dividends has been received.

Statement by the Executive Management and the Board of Directors

Today, the Executive Management and the Board of Directors have discussed and approved the GN Store Nord Annual Report 2018.

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

It is our opinion that the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the group and the parent company at 31 December 2018 and of the results of the group's and the parent company's operations and cash flows for the financial year 1 January – 31 December 2018.

Further, in our opinion, the Management's report gives a fair review of the development in the group's and the parent company's activities and financial matters, results of operations, cash flows and financial position as well as a description of material risks and uncertainties that the group and the parent company face.

We recommend that the annual report be approved at the Annual General Meeting.

Ballerup, February 27, 2019

Executive Management

Jakob Gudbrand
CEO, GN Store Nord & GN Hearing

René Svendsen-Tune
CEO, GN Store Nord & GN Audio

Marcus Desimoni
CFO, GN Store Nord & GN Hearing

Board of Directors

Per Wold-Olsen
Chairman

William E. Hoover, Jr.
Deputy chairman

Wolfgang Reim

Ronica Wang

Hélène Barnekow

Gitte Pugholm Aabo

Leo Larsen

Marcus Stuhr Perathoner

Morten Andersen

Independent auditor's report

To the shareholders of GN Store Nord A/S

Opinion
We have audited the consolidated financial statements and the parent company financial statements of GN Store Nord A/S for the financial year 1 January – 31 December 2018, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the Parent Company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

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

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

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

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

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

Appointment of auditor
We were initially appointed as auditor of GN Store Nord A/S before 1995. We have been re-appointed annually at the general meeting for a total consecutive period of more than 24 years up to and including the financial year 2018.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2018. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Accordingly, our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Accounting for financial support arrangements
The Group has entered into financial support arrangements with certain of its dispensers, primarily in the US. The arrangements include providing financial support through loans and acquiring ownership interests.

Financial support arrangements were significant to our audit as the total carrying amount of DKK 1,026 million in loans, ownership interests and supply agreements at December 31, 2018 is material to the consolidated financial statements and because the accounting treatment includes judgements based on facts, circumstances and Management assumptions. The arrangements are complex by nature as they often combine or link multiple elements of the commercial relationship with the dispenser. Areas of judgement include assessing the individual components of the arrangements, the classification of the investments and the recoverability of assets (impairment testing).

Additional details on financial support arrangements are provided in section 3.4 of the consolidated financial statements.

Our procedures in relation to the audit of financial support arrangements included:

- Assessing group accounting policies for compliance with IFRS.
- Evaluating Management's classification of investments and of the individual components of the financial support

arrangements against a sample of underlying contracts and supporting documentation.

- Examining the principles for amortisation of supply agreements classified as intangible rights and recognition of any prepaid discounts against revenue against a sample of underlying contracts and supporting documentation.

- In respect of recoverability of the financial support arrangements, we examined payment histories and impairment tests prepared by Management as well as obtained external confirmations of the outstanding balances for selected loan arrangements.

Recognition and measurement of capitalised development costs
The Group capitalises development costs in accordance with IFRS, which prescribes capitalisation when certain criteria are met. Recognition and measurement of capitalised development costs were significant to our audit because the carrying amount of DKK 1,222 million at 31 December 2018 is material to the consolidated financial statements and because the criteria for capitalisation and impairment testing are subject to judgement and estimates based on Management's assumptions, including consideration of anticipated technological developments within the audio and hearing care industry.

Additional details on capitalised development costs are provided in section 3.1 of the consolidated financial statements.

Our procedures in relation to the audit of recognition and measurement of capitalised development costs included:

- Assessing group accounting policies for compliance with IFRS and on a sample basis testing available documentation to consider whether the criteria for capitalisation were met.

- Testing of the key assumptions applied by Management by means of comparison with business plans, historic performance and Management's assumptions regarding strategy, product life cycle, anticipated technological developments, market expectations and discount rates for selected development projects.

Revenue recognition
Revenue is recognised when control over the underlying products has been obtained by the customer and is measured taking account of incentives, returns and rebates earned by dispensers and customers. Due to the multitude and variety of contractual terms across the Group's markets, the estimation of incentives, returns and rebates is considered complex and therefore significant to our audit.

Additional details on revenue recognition are provided in section 2.1 of the consolidated financial statements.

Our procedures in relation to revenue recognition included:

- Considering the appropriateness of the Group's revenue recognition accounting policies, including those relating to incentives, returns and rebates and assessing compliance with IFRS.

- Testing on a sample basis the effectiveness of the Group's controls over correct timing of revenue recognition.

- Testing on a sample basis that incentives, returns and rebates have been recognised in the consolidated income statement in the correct period.

- Verifying selected sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the year-end date to supporting documentation and assessing whether those transactions were recognised in the correct period and in accordance with the applicable sales contracts.

- Applying data analytics to identify and test revenue journal entries on a sample basis.

Statement on the Management's review
Management is responsible for the Management's review.

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

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

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

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

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, February 27, 2019

ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

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

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