The Chairman's report at William Demant Holding A/S' annual general meeting on Tuesday 9 April 2013 at 4 pm

2012 was a year in which our Group did not quite manage to keep up the high growth momentum normally synonymous with William Demant. For many years now, we have been used to delivering substantial organic growth and thus boosting our earnings, but in 2012, our high level of ambition was slightly out of reach. I would just like to mention some of the factors inhibiting our growth in the past year:

- We have only had a few new products, and our Premium hearing aids have been around for a while.
- We have had tough comparative figures, as sales in both 2010 and 2011 were extremely favourable.
- We have had to adapt to structural changes and revised subsidy schemes in a number of European markets.

Trends in 2012 quite clearly showed that we operate in a product-driven market and that frequent product launches are a must to capture market shares. The fairly few product launches in 2012 therefore made it difficult for us to fully match the plan. We nevertheless succeeded in obtaining unit growth in the wholesale of hearing aids that outmatched market growth.

The financial highlights of 2012 can be summarised as follows:

- Consolidated revenue amounted to well over DKK 8.6 billion, or a rise of 6%.
- Driven by changes in foreign exchange rates and acquisitions, our hearing aid business delivered 5% growth.
- Oticon Medical captured additional market shares in the market for bone-anchored hearing solutions.
- Diagnostic Instruments delivered 18% growth, with organic growth accounting for 2 percentage points.
- Personal Communication attained a growth rate of 5%.
- Our consolidated operating profit aggregated DKK 1.7 billion, or a fall of DKK 50 million.
- Our free cash flow before acquisitions amounted to DKK 782 million.

Viewed in isolation, consolidated revenue and net profit trends in 2012 were modest compared with previous years. However, this is perhaps not very surprising, especially considering that in the past two years, i.e. in 2010 and 2011, our three hearing aid brands combined generated wholesale unit growth of almost 30% – and in a market that grew by a mere 3-4% annually in the same period.

The strong development we have seen since early 2010 is no doubt due to the substantial strengthening of Oticon's product programme set in motion by the launch of the Premium family Agil in 2010, a launch that at the time also marked the beginning of a new platform and product cycle. The strong sales momentum in 2010 and 2011 raised consolidated revenue by close on DKK 2.5 billion in total, which enabled us to improve our operating profit by about DKK 300 million in each of the two years.

2012 was thus the last of three years with a highly prosperous and successful technological platform. But our lack of major, new products also affected 2012, and some of our competitors started responding to the rather severe pressure we had applied in the past two years.

In terms of value, we believe that overall the hearing aid market developed flatly in 2012, or perhaps even slightly negatively, among other factors because the average selling price came under pressure – primarily as a result of mix shifts in the market and some other factors that I would like to outline:

- We have seen changes in subsidy systems and procurement routines in a number of European markets, including countries such as Holland, Switzerland, Denmark and Norway.
- We have witnessed more aggressive tendering processes in some countries.
- We have watched dispensers that offer less expensive solutions obtain some success, which naturally creates more demand for brands that mainly deliver good quality at a fair price. This actually serves to our benefit, as our Bernafon brand has seen solid growth.
- Last but not least, we have seen strong product offerings in the mid-priced and low-end segments towards the end of the individual manufacturers' product cycles, which means that the market has seen a certain downward mix shift. On the other hand, this was probably what could be expected before a series of high-end launches like those made at the end of 2012 and in early 2013.

Despite some short-term concerns, I think it is fair to say that compared with most other industries, the hearing aid industry remains a highly stable line of business in a stable competitive situation and with stable market growth driven by demographic changes.

And now a few comments on the individual business activities and brands:

For Oticon, which is the Group's largest and best-known brand, I have already reviewed the general development in 2012. But, of course, the decisive development is that in January 2013, Oticon launched a brand new technological platform and the Premium family, Oticon Alta, and has started its next product cycle and thus a period of revitalised growth. After the first few months on the market, the feedback from customers and end-users alike is very positive, and internal as well as external tests have confirmed Oticon Alta's audiological qualities and features.

Alta represents a considerable lift compared with the highly successful Agil family, which has probably enjoyed a status as the world's best hearing aid. Without being too technical, I would like to mention some of the improvements offered by Alta:

- Its high degree of individualisation makes Alta far more adaptable to the unique preferences of the individual user than previous hearing aids, and also ensures higher efficiency in our customers' work with end-users.
- Alta's anti-feedback system has been markedly improved.
- We have considerably improved our full range of in-the-ear instruments. Historically, when it comes to this category of instruments, our market share has been too low, but we now have a product range that places us among the best manufacturers.

As you know, our Group works on the basis of a so-called multi-brand strategy, meaning that we have three different hearing instrument brands, each with its unique profile on the market. This means that we are far better equipped than previously to offer all sales channels and types of customers precisely the products that suit them best. In fact, this is why we offer our dispensers products not only from Oticon, our Premium brand, but also from Bernafon and Sonic.

2012 was another good year for Bernafon with strong sales supported by an attractive product programme at competitive prices. This has been the recipe for growth for our Swiss brand. For Sonic, our smallest hearing aid brand, which was incorporated into our Group just over two years ago, 2012 saw a number of interesting product launches. Sonic's position as an innovative and dynamic business partner under stable ownership is bearing ever more fruit – also for the end-users.

This turns my attention to our retail activities. In overall terms, our retail business developed favourably in the past year – not least in relation to market growth in the countries in which we operate. In particular, we generated fair growth in North America, whereas some markets in Europe developed less favourably.

Oticon Medical continues to capture substantial market shares in the market for bone-anchored hearing solutions. In a few short years, Oticon Medical has gained one quarter of the world market thanks to a highly competitive product programme and an intense dialogue with surgeons all over the world.

That 2013 has all the markings of becoming another good year for Oticon Medical is, however, due to more than the growth potential of the existing business. Our acquisition last week of Neurelec, a French manufacturer of cochlear implants, has formed the foundation for additional growth for many years to come. Our entry into the market for fully implantable products provides access to a market that, in terms of profitability, is at least as attractive as the hearing aid market, but is growing at a much faster pace.

Our acquisition of Neurelec should be viewed as a natural continuation of our successful venture in bone-anchored hearing solutions through Oticon Medical. The solid experience base obtained by Oticon Medical gives us a natural springboard into the market for implants.

We are very aware of the challenges and risks that are especially typical for the most invasive part of the implant market, resulting in, among other things, a number of product recalls by Neurelec's competitors. For this reason, we are advancing into the implants area with a good deal of humility, but we do not wish to conceal our high level of ambition either. Personally, I find it difficult not to be very enthusiastic about Oticon Medical's and Neurelec's considerable growth potential – not only in the short run, but, most certainly, also in the long run.

And now to a few comments on the development in our two other business activities:

Again in 2012, Diagnostic Instruments reinforced its global lead in audiological equipment. After several years of strong growth, Diagnostic Instruments now account for 10% of consolidated revenue, or almost twice the percentage realised just five years ago. In addition to organic growth, which matches market growth, a number of strategic acquisitions have further bolstered this activity. I am indeed very pleased with the development seen in this business activity, which besides being the most profitable on the market also creates synergies across the Group's other activities.

As regards our Personal Communication business activity, growth has once again been secured by Sennheiser Communications, which is our joint venture in the headset field.

It goes without saying that the success of the William Demant Group demands that we focus on supporting all the activities and brands that I have just gone over. Our ambition to continuously grow our revenue and profit is rooted in our mission statement, which says that our subsidiaries must stimulate and promote a high degree of innovation through a flexible and knowledge-based organisational structure. This, of course, makes the right physical environment a must.

Consequently, we have started expanding our premises here at Kongebakken, which we have actually outgrown. At the moment, around 50 members of our staff have been relocated to a rented building – simply because we have run out of space here at our impressive headquarters. The floorage of our new extension is 6,000 m^2 spread over three floors, with another 2,000 m^2 on the basement level. The new building, which is to house 330 staff, is scheduled for completion in spring 2014.

We are also building new premises on the island of Funen. After 12 years of handsome growth, our diagnostic business, Interacoustics, is today the world's largest manufacturer of diagnostic equipment. To ensure that this development can continue in the years to come, we are in the process of building a new head office for Interacoustics, which has a perfect location for our existing workforce and also enables us to attract even more, highly qualified staff from a larger geographic area. Construction will begin in spring 2014. Moving-in is scheduled for spring 2015.

We are of course extremely pleased that the growth our Group generates allows us to establish even more knowledge-based jobs in Denmark.

Now, I would like to talk about our capital structure: In 2012, we stuck to our aim to keep our net interest-bearing debt at DKK 1.5-2 billion and to use our free cash flow, after acquisitions, for the repurchase of shares. At the end of 2012, we had repurchased shares worth about DKK 500 million, and for 2013, we aim to keep the same level of debt and continue our share buy-back programme.

I will now briefly review our general expectations of 2013, which can be seen in their entirety in our annual report: For 2013, we forecast organic growth in our wholesale activities outmatching market growth by 3-5 percentage points in local currencies. Consolidated operating profit for 2013 is forecast at a level exceeding the level realised in 2012.

I would now like to touch briefly upon corporate governance and our remuneration policy:

In our opinion, one of the principal tasks of our Board of Directors is to ensure that the William Demant Group performs its managerial tasks as effectively as possible and that the Company complies with the recommendations on corporate governance. The Directors currently review the general framework and processes relating to corporate governance. Our website provides a detailed description of our approach to the 79 recommendations and to the five recommendations that we do not comply with.

As most of you are probably aware, the Danish Committee on Corporate Governance published a proposal for updated recommendations in January. Once the recommendations have been finally adopted, which will probably be within a short period of time, the Directors will as usual consider them according to the "comply or explain" principle. The new recommendations have been simplified and will be easier to deal with. Offhand, we expect to comply with them to the same extent as before.

In accordance with the recommendations, I would like to comment briefly on the remuneration paid to our Executive Board and our Board of Directors. We have for many years had a very simple remuneration policy according to which the Directors' remuneration consists of a fixed basic fee paid to each Director. The Chairman's remuneration is fixed at three times the basic fee and the Deputy Chairman's remuneration at twice the basic fee. For 2013, we propose the same basic fee, which means that fees have not been adjusted since 2010. Audit committee members receive no separate fees.

The Executive Board also receives a fixed remuneration without any variable bonuses or similar schemes. As regards our President & CEO, an arm's length termination and seniority agreement applies, which is explained in more detail on our website. The Directors find that this remuneration structure is not only simple and transparent, but also reflects a competitive remuneration level for both the Board of Directors and the Executive Board.

Our President & CEO, Niels Jacobsen, will now review the accounts for 2012.

Niels – the floor is yours.