

CORPORATE RESPONSIBILITY
in the
WILLIAM DEMANT HOLDING
GROUP

11 March 2010

Corporate responsibility

Setting high ethical standards in our way of doing business is an integral part of William Demant Holding's mission. Within our natural sphere of interest, we are committed to doing our part to help tackle social and environmental challenges beyond the obligations imposed on us by law.

As our mission statement says: "All Group companies seek to promote a stimulating and rewarding working environment through a flexible, knowledge-based organisational structure. Moreover, the Group is committed to high standards of ethics, quality and fairness and is dedicated to meeting its environmental and social responsibilities."

The main business drivers for our work with corporate responsibility are:

- Attracting, retaining and motivating employees, primarily in Denmark.
- Attracting socially responsible investors (SRI funds).
- Benefiting customer relationships.
- Facilitating the selection of well-managed suppliers.
- Reducing risks associated with the potentially unethical business conduct of business partners.

Systematising our efforts

In 2008, a process was initiated with a view to documenting that principles of corporate responsibility are firmly anchored in the Group and to facilitating that this corporate business philosophy would be more actively reflected in both internal and external communication. Further objectives were:

- Assessing the need for formal policies.
- Identifying processes where corporate responsibility could be further integrated.

The main finding of this process was a strong track record of fundamental business values that have guided management and employees. This has historically contributed to the Group's attractiveness as workplace, business partner and investment object. Also, we found:

- No immediate exposure to risks associated with unethical business practice,
- Strong culture guiding employee behaviour more than written policies and guidelines,
- Strong, but informal, review of business conduct among cooperation partners, most notably suppliers,
- A growing number of external stakeholders asking for clearly stated company policies and systematic actions within the field of corporate responsibility.

Based on these findings, it was decided to formalise the Group's approach to corporate responsibility through the development of more transparent principles and policies and to extend the code of conduct to suppliers. In general, four main themes are the backbone of our work with corporate responsibility:

- Corporate governance – ensuring that we maintain an accountable and efficient management structure characterised by a high level of transparency and responsibility vis-à-vis owners and other stakeholders, and ensuring that we observe governing laws and regulations on corporate governance matters, including the Corporate Governance Recommendations as laid down by NASDAQ OMX Copenhagen.
- People and society – ensuring that the Group contributes to the growth of society, while respecting basic human rights and maintaining a safe and engaging working environment.
- Environmental protection – ensuring that Group companies limit any adverse impacts on the external environment as much as possible.
- Business ethics – ensuring that the Group's results are generated in an honest and fair manner.

Even though the Group is founded on a value-based corporate culture and only limited use of written policies, we decided to prepare a Group-wide policy on corporate responsibility to facilitate the clarification of

attitudes, organisational anchoring and prioritisation across business units and cultures. Secondly, a formal policy would ease the communication of corporate aspirations and initiatives to stakeholders, who often expect formal policies within this field.

The Group has now adopted a corporate responsibility policy with 14 principles outlining the Group's approach to the defined four main focus areas. We have also formulated a comprehensive business ethics policy and an extensive code of conduct for suppliers, all of which are available on our website.

The corporate responsibility policy is distributed to relevant business partners and an obligation to conduct their business in respect of the 14 principles is, where relevant, incorporated into contracts with third parties.

The business ethics policy consists of a set of rules and guidelines outlining our approach to how – from an ethical point of view – we run our business and interact with our customers. The supplier code of conduct aims to help suppliers improve their social and environmental standards and currently covers all suppliers of hearing aid components and also aims to expand coverage to the whole Group.

Corporate governance

William Demant Holding's Board of Directors and Executive Board consider corporate governance an ongoing process and regularly assess whether amendments to the Company's articles of association or managerial processes are required. The Board of Directors currently considers the Corporate Governance Recommendations, which are part of the disclosure requirements laid down by NASDAQ OMX Copenhagen and drawn up by the Committee on Corporate Governance under the auspices of NASDAQ OMX Copenhagen. The Board of Directors determines the extent to which the Company should implement such recommendations. By and large, William Demant Holding complies with the recommendations, and if it decides to deviate from them, the Company explains its decision, also known as the "comply-or-explain principle". Having provided information in the Annual Report 2009 in the section on Corporate governance and partly in the section on Risk management activities, the Group complies with the provisions of section 107b of the Danish Financial Statements Act under which management's review in the annual report must cover certain aspects of corporate governance. A more comprehensive review of the manner in which William Demant Holding complies with the Corporate Governance Recommendations is available on our website under Corporate Governance.

People and society

In all corporate product areas, we support communication between people as well as social interaction, knowledge sharing and social relations. In doing so, we contribute by virtue of our products to promoting the quality of life of hearing aid users and to furthering social development and growth.

Our core business is hearing aids, which also accounts for the best part of consolidated revenues. As a modern medtech company, we find it natural to work on ensuring that the improvement in the quality of life experienced by the users of our products is accomplished in an honest and responsible manner and in consideration of the conditions of life of other stakeholders.

Responsible supply chain management

William Demant Holding supports the Universal Declaration of Human Rights and ILO's Declaration of Fundamental Principles and Rights at Work. These declarations are vested and strongly enforced in Danish legislation and our corporate culture. We therefore see the greatest potential for improvements in these areas of our work with potential and existing suppliers outside Denmark, e.g. in Asia and other relevant regions.

The updated supplier code of conduct sets specific terms for the suppliers' business practice based on the main principles contained in the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the Eight Funda-

mental ILO Conventions and the United Nations Convention against Corruption. At this point, over 100 suppliers of components and packaging have signed our code of conduct. The enforcement of the code is secured through a systematic integration of human and labour rights, environmental concerns and business ethics standards in our supplier selection and evaluation procedures.

From 2010, all existing and new hearing component suppliers, who fulfill a few specific materiality criteria, will be subject to a thorough review of their business practice. The suppliers are grouped in three categories according to the level of risk of breach of our code of conduct. The risk assessment is the Group's own methodology, which is subject to independent audit and is based on the supplier's geographical presence, sector, management practices and strategic importance to the Group. The categorisation of suppliers help us prioritise the resources needed for further dialogue with the suppliers.

If the assessment of a potential new supplier exposes a high risk of breach of our code, an audit must be performed before any further dialogue with the supplier can be initiated. If the risk is considered medium, an audit must be performed before final approval of the supplier, and if the risk is considered low, corporate responsibility is integrated into the dialogue with the supplier, but no audit is required. In practice, a site visit is almost always carried through before a supplier is approved. Existing suppliers are also evaluated according to this risk assessment. Medium-risk suppliers must be audited once every 18 months and high-risk suppliers must be audited once every 12 months.

As a general rule, our own staff will conduct this audit, and if we ask an independent external specialist to carry through such audit, corporate staff will always assist.

The Group has a zero-tolerance policy in certain areas such as child labour and forced labour, and we have strict criteria for compliance with international conventions. A checklist with more than 130 questions has for instance been prepared by our organisation in China responsible for supplier cooperation in Asia. Based on this checklist, a score is derived from the audit. We prefer to work with suppliers with a high score and have set up systems for follow-up and action planning if the findings of the audit are not favourable.

If problems are revealed with an existing supplier, our first option is always to cooperate with the supplier to improve conditions. If, however, a supplier fails to improve identified conditions, we reserve the right to terminate the cooperation. So far, no contracts have been terminated due to ethical misconduct, but a number of potential suppliers have been rejected based on a site visit.

Environmental protection

We have identified our main environmental aspects to be the use of chemical substances, the handling of electronic waste, the use of packaging and energy consumption for equipment and facilities, but the environmental footprint of our activities is limited as very few materials are used for the manufacture of hearing aids. Additionally, the major part of our production is the assembly of finished components. Waste from our production and offices is separated in appropriate fractions and disposed of with a view to maximising recycling to the greatest extent possible.

Product raw materials

We have implemented the requirements set out in the EU Restriction of Hazardous Substances (RoHS) Directive in our main hearing aid factories located in Denmark and Poland. The RoHS Directive bans six substances (lead, cadmium, mercury, hexavalent chromium, PBB and PDBE) from products put on the EU market, but our approach means that these selected hazardous substances are excluded from all our products worldwide.

During 2009, we have worked on making unit packaging uniform, which will further reduce the use of resources and ease our customers' handling of our products.

Our packaging is made from recycled materials while the product itself contains electrical circuits and batteries and is therefore unsuited for direct recycling or disposal, but must be collected and handled according to the EU Waste Electrical and Electronic Equipment Directive. This directive requires producers to bear the cost of the collection, recovery and disposal of electronic waste arising from their products.

Climate and CO2 emissions

We are providing detailed accounts of our CO2 emissions as well as risks and opportunities arising from climate changes in our reporting to the Carbon Disclosure Project (CDP). A copy of our report is available on our website.

Considering that we are manufacturers, our use of energy is fairly low with an annual CO2 emission of less than 3.5 tonnes per employee in Denmark and Poland. By comparison, our total CO2 emission amounted to 4,958 tonnes in Denmark in 2008. Over 80% of our accounted carbon dioxide emissions derive from the use of electricity, some 10% from the heating of buildings and approx. 7% from company cars. In 2009, we mapped energy consumption in selected locations to identify areas in which the consumption of electricity could be reduced. The Group does not participate in any trading schemes and has not set any corporate reduction targets. However, the ongoing reduction of energy consumption is part of the responsibility of local facility management at our sites.

Our total cost of electricity and heating as well as fuel consumption for company cars amounted to approx. DKK 13 million in 2008.

Business ethics

We are convinced that the Group's business can only flourish if based on sound business ethics. We develop innovative products of high quality and to benefit users through our products is our primary goal. We therefore have no interest in supporting business conduct that contributes to distorting market mechanisms. The Group has not been involved in any legal cases or settlements regarding business ethics.

The Group does not offer, give, accept or receive bribery in any form and we discourage facilitation payments.

While all employees must comply with the laws and regulations of the country in which they operate, employees may be confronted with dilemmas while striving to balance this requirement with local cultures and customs. In such cases, it may be conducive to consult international conventions and guidelines to find an appropriate solution. This also implies that local customs, which have served as a guideline in the past, may be considered inadequate and/or inappropriate.

We have recently adopted a Group-wide formal business ethics policy, which outlines how we want to act and be seen with regard to the ethical aspects of doing business and interacting with customers. Specifically, the policy provides guidelines as to what is appropriate and inappropriate marketing, hospitality and other interaction with hearing healthcare professionals.

Finally, according to the policy we will incorporate business ethics principles into contracts with third parties where relevant, and we have applied a set of principles to avoid misuse of payments and financial transactions.

United Nations Global Compact initiative

In March 2010, we joined the United Nations Global Compact initiative, committing the Group to complying with and promoting the principles of human and labour rights, environmental protection and anti-corruption as well as to reporting annually on the results of these efforts. Signing up for the Global Compact provides the Group with a well-recognised framework for further systemisation of our activities and reporting. Our

first communication on progress will be provided in connection with the publication of the Group's Annual Report 2010 in March 2011.

The number of enquiries from investors and other key stakeholders in relation to our corporate responsibility policies rose moderately in 2009, and we expect this trend to continue. With our participation in the Carbon Disclosure Project and our Global Compact commitment, we wish to emphasise that we will prioritise and further develop these activities over the next few years.