

**The Chairman's report at the annual general meeting of  
William Demant Holding A/S  
Monday, 31 March 2008 at 4 pm**

Also this year, the Board of Directors can look back on the past year with great satisfaction.

In 2007, the Group achieved sizeable growth rates and once again captured market shares. Also in 2007, the Group took the lead as the absolute "first mover" in the hearing aid industry by introducing the world's first, fully wireless, binaural hearing aid solution, which means that two hearing aids can communicate wirelessly and thus act as one central processor. We can all delight in the wealth of exciting opportunities that wireless technology presents and can at the same time pride ourselves on another successful year in our corporate history. Like most other listed companies, we have lately witnessed significant falls in share prices, but we are convinced that they do not mirror corporate development.

I would like to start by mentioning some of the financial results achieved in 2007:

- In 2007, consolidated revenues were almost DKK 5.5 billion, which corresponds to 8% growth despite a negative impact from exchange rates of 3%.
- At just under DKK 1.3 billion, operating profits matched the 2006 level. However, if we adjust this figure for special items, the underlying business in fact generated a record result with a profit margin of more than 25%.
- The past year generated substantial cash flows, with the Group channelling almost DKK 1 billion back to our shareholders through the buy-back of shares.

As mentioned, profits in 2007 were affected by various special items, the most important being related to costs incurred in connection with a patent case in the USA. According to a jury decision, we have violated two patents, and the owner was awarded damages to the tune of DKK 80 million. In addition to damages, we have paid legal expenses that bring total costs up to DKK 140 million. The amount does, however, include costs relating to the pending appeal case. The aggregate amount is included in the consolidated administrative expenses and therefore negatively affects the bottom-line. However, we maintain that we have *not* violated the two patents and therefore intend to appeal the jury's decision. In this connection, I must strongly emphasise that the patents in question have already expired and cannot affect earnings on any existing or future products.

Market growth in 2007 outmatched our long-term forecasts of an annual rate of growth of 2-4%, with slightly increasing selling prices contributing another 1-2 percentage points. The higher market growth in 2007 is mainly attributable to a significant increase in demand from the British National Health Service (NHS) and the US Veterans Affairs. Discounting the growth in demand from these two major purchasers of hearing aids, market

growth rates did indeed match our long-term forecasts. We are convinced that the hearing aid industry does not entirely keep step with the general economy, and we have not in fact observed any appreciable change in consumer behaviour in periods of low growth.

In 2007, the William Demant Holding Group once again consolidated its position as the industry's technological innovator. The launch in the spring of 2007 of Epoq, the world's first, fully wireless, binaural hearing aid solution, was a technological quantum leap. Epoq has opened up a whole new world of audiological benefits for hearing aid users, who are now experiencing greatly improved sound reproduction.

The decisive difference between Epoq and other sophisticated hearing aid solutions lies in its wireless, continuous ear-to-ear communication. Epoq is based on Oticon's wireless broadband architecture RISE, the result of the Group's largest in-house development project to date. Epoq was presented at the US hearing aid convention (AAA) in April last year and is the first product based entirely on our new RISE architecture.

Epoq has been very well received by hearing care professionals and end-users. The user satisfaction rates are unprecedented, and various product tests have indeed shown that the dramatic improvement is consistent with the leap users experience when switching from one to two conventional hearing aids. The product's sound reproduction, which recreates the user's sense of space and ability to localise sources of sound, has been particularly commended.

The product has certainly not gone unnoticed. Apart from being the most publicised product in the hearing aid industry in 2007, Epoq has already been rewarded with a number of prestigious prizes – including (1) the *Danish Product Award 2007*, presented by the engineering magazine *Ingeniøren* to the most innovative product of the year; (2) the *Best of Innovations 2008 Design and Engineering Award* in the *Healthcare* category, awarded at the *Consumer Electronics Show* in Las Vegas in January; and (3) the *Red Dot Design Award*.

2007 was yet another successful year for the product concept Oticon Delta. Delta has gradually become a reference product in the segment for cosmetically attractive behind-the-ear instruments. Delta has essentially dominated this segment since its launch in spring 2006, and although competition is far tougher now than back then, the concept is still very popular on most markets.

2007 was also a good year for Bernafon with the launch of Brite, an attractive mini-instrument characterised by innovative design and sophisticated technology. The concept was enthusiastically received by the market, and it also won the prestigious *Red Dot Design Award*. Bernafon also introduced their new Super Power hearing aid, Xtreme, as well as new versions of both ICOS and Prio in the high-end and mid-priced segments, respectively.

The other two corporate business activities *Diagnostic Instruments* and *Personal Communication* likewise developed satisfactorily in 2007.

*Diagnostic Instruments* strengthened their distribution in several markets, both by establishing its own distribution companies and in some cases by co-operating with other corporate entities.

*Personal Communication* generated handsome two-digit growth rates in 2007. Growth was driven by the sale of wireless FrontRow speaker systems in particular, but sales of wireless headsets from Sennheiser Communications also developed favourably.

We remain convinced that dedicated focus on innovation and development is the best strategy for fulfilling our long-term growth plans. The numerous ground-breaking new products I just mentioned are the results of this tremendous innovation focus. Naturally, we have no intention of stopping here, and our future pipeline will reflect this focus on research and development. In our annual report published in early March, we revealed some of the interesting products to be launched at this year's AAA convention, which starts this coming Wednesday in the USA. In the Premium segment, Oticon will expand the market potential for Epoq by introducing a tiny Power behind-the-ear instrument for users with severe hearing loss, an entirely new Epoq product family and, not least, various new features for the full Epoq product range, including a highly improved anti-feedback system. We also aim to bolster our position in the mid-priced segment with the introduction of two new complete families of high-quality hearing aids. These tiny behind-the-ear instruments will be available in all models and many colours, and they will be very easy to fit.

2007 saw a major restructuring of production, with large parts of production being transferred to our new facilities at Mierzyn in Poland. We acquired the production facilities from one of our sub-suppliers and hired many of their highly competent staff. Overall, the process has been satisfactory, and we already expect to realise about half the annual savings in 2008. In connection with this restructuring, we have regrettably had to say goodbye to 100 employees at the factory at Thisted, but we now feel well prepared for future growth in terms of qualified staff as well as productive capacity.

Again in 2007, the Board of Directors considered the *Corporate Governance Recommendations 2005* formulated by the *Copenhagen Stock Exchange Committee on Corporate Governance*. A review of our policy is available on our website, and pages 16 and 17 of the Annual Report 2007 include a summary. We have once more expanded the level of information to corporate stakeholders, with particular emphasis on risk management activities. We are of the opinion that the Group lives up to all the major recommendations.

The Board has chosen not to include a separate item on the agenda in relation to incentive programmes, for the simple reason that we have not set up any such programmes for the Board of Directors or the Executive Board.

Directors' fees will remain unchanged in 2008. We have not set up any Board committees entitling Board members to special fees, or paid any special remuneration in 2007.

In 2007, we repeated our decision to use share buy-backs as a "dividend instrument", which is why shareholders do not receive an actual dividend this year. Under a separate

item on the agenda, we will propose cancelling the shares bought back in 2007, which will increase the shareholders' stake in the Group. We are of the opinion that this form of dividend is more beneficial both for the Company and for our shareholders. Shareholders avoid having to re-invest any dividend in the same share, and any shareholders wishing to retain the same stake in the Group are free to sell their increased interest immediately after the general meeting.

On behalf of the Board, I would like to extend our warmest thanks to our competent staff for their dedication and hard work in the past year. Our excellent staff are the reason why, year after year, we can continue to set the agenda as the most innovative player in the hearing aid industry, and 2007 was certainly no exception. Thank you!

2008 will be another year of growth for our Group. We expect revenues to improve by about 7-10%, corresponding to revenues of DKK 5.70-5.85 billion. Despite a negative exchange impact to the tune of DKK 100 million, which includes the negative DKK 40 million from 2007, 2008 still has the potential to be another year of record earnings.

In conclusion, I would like to point out why I am convinced that the William Demant Holding Group is geared to meet the challenges of the global hearing aid market:

- We are at the technological forefront of the industry, and our latest development – the RISE architecture – is ground-breaking in many respects. Having already invested heavily in research and development, we are convinced that we have the best foundation for developing and launching high-quality and innovative products in the future.
- We already have the most complete product portfolios in most segments, and this year's product introductions give us every reason to be optimistic about the future. And with Epoq, we are the only supplier to date who can offer a fully wireless, binaural hearing aid solution.
- Our new corporate production facilities in Poland have sufficient capacity to accommodate growth for many years to come; growth that we can achieve without investing heavily in facilities while retaining a high degree of efficiency and quality.

Before giving the floor to Niels for a review of the financial statements for 2007, I would like to take the opportunity to congratulate the Oticon Foundation on their 50th anniversary. We have always been very pleased to have the Oticon Foundation as the principal shareholder of William Demant Holding, and in our opinion, the stability and perspective represented by this ownership will help to ensure the existence of the Group – for the next 10, 50 or 100 years! I would also like to extend our warm thanks to Knud Sørensen, who has chaired the Oticon Foundation since 1998. During the reign of Knud Sørensen, the Foundation has considered more than 16,000 applications and awarded around DKK 0.5 billion. The grants awarded by the Foundation have not only contributed to the strengthening of audiological and scientific research and development, but have also promoted a great number of artistic and cultural projects. The beautiful restoration of the Kongens Nytorv square in central Copenhagen and the coming restoration of the Israels Plads

square, also in central Copenhagen, are only a few examples of projects sponsored by the Foundation.

Knud Sørensen has discharged his duties in the Foundation with a rare blend of decency and vision. Once again, a big thank you to Knud Sørensen. Niels Boserup has been appointed new chairman of the Oticon Foundation.

Niels – the floor is yours!