

**The Chairman's report at the annual general meeting of
William Demant Holding A/S
Thursday, 26 March 2009 at 4 pm**

For many years, the Chairman in office was able each spring to report very enthusiastically on the events of the past year. That was also the case one year ago. Almost all the past years were characterised by growing market shares, cutting-edge product launches and continuous growth in both revenues and earnings. All this led to steadily growing cash flows which in turn funded more growth. Surplus funds were unhesitatingly channelled right back to our shareholders in the form of comprehensive share buy-back programmes. From our listing at the Copenhagen stock exchange in 1995 and until 2007, we succeeded in almost doubling our market share in the global market for hearing aids and doubling our profitability in terms of profit margin, which is an apt illustration of our success. In all modesty, we did probably write Danish history in terms of good corporate management in that period. There was certainly no shortage of good stories through all these fabulous years.

In 2008, things were indeed different. The second half-year, in particular, was marked by the financial crisis, recession in many countries and a drop in private consumption. This turned the basic conditions, on which not only we but more or less all companies operate, upside down. It was a sudden and drastic change all in the same period of time, and it had dramatic consequences in many lines of business.

And we certainly did not manage to emerge from the crisis unscathed either. As a shareholder, you are of course not very enthusiastic about the price of your shares being halved in 2008 – even if other comparable companies experienced equally drastic falls in their share prices.

As you will see from this graph, the price of the William Demant Holding share fell by approx. 50% in 2008, or slightly more than the price of Sonova shares in the same period. If we look at trends in the OMX C20 index, the Danish share market also lost almost half its value in 2008, and the price of GN Store Nord shares actually dropped even more than our share price.

Although other hearing aid manufacturers saw fluctuations in share prices matching ours or even worse, and other lines of business saw even more dramatic development – I do find that I need to give you an outline of the extraordinary events that affected us in 2008.

Let me begin with the global financial crisis and the economic downturn. We have always been convinced that we are not particularly sensitive to changes in world economy and shifts in consumer demand, and this is still what we believe. We need to remember that for the absolute majority of people, the loss of hearing is an age-related condition which only gets worse over time and that most end-users are elderly people. This means that existing and potential users of hearing aids – at least in many European countries – live on a sum corresponding to the Danish old age pension. And as hearing aids in many European countries are fully or partly subsidised, the size of economic growth rates is not the all-important demand factor.

Worldwide however, things are not quite as straightforward. In the USA, which is the world's largest single market for hearing aids, the absolute majority of hearing aids are sold without any form of subsidy or government support. People typically foot the entire bill themselves. And since old age pensioners in the USA live on their savings to a much higher degree than elsewhere, and such savings are usually placed in shares or bonds, they are much more vulnerable to events such as a drastic downslide of financial markets. Consumer confidence among elderly Americans nosedived in the past 12 to 18 months – and in almost 30 years it has never been as low as now.

No wonder therefore that some people chose to postpone their decision to buy a hearing aid. If we were to take the pessimism of US consumers into account, one might think that the market for hearing aids in 2008 faced an outright collapse, which is far from the truth. Normally, the US hearing aid market grows by 3-4% annually in terms of units. The fact is that the economic recession in 2008 reduced the growth rate of the US market for hearing aids from a small plus to a small minus. The trend is definitely not encouraging, but it is nothing compared with the dire situation seen in many other lines of business.

In return, even minor changes in sales affect earnings dramatically, both when things are better than expected in terms of revenues and when things are not going according to plan, because we do have large fixed overheads, and they are not really affected by the number of hearing aids that we manage to sell in any given year. And one should not forget that our profit margin originates from a very high level and that even after the decline in 2008 our profit margin is still higher than in many other companies.

In 2008, the hearing aid market was also impacted by slightly tougher competition on prices than we are used to. Our line of business has six major manufacturers, and there is no doubt that they have all devised ambitious growth plans that may prove extremely difficult to fulfil if the market is weak or negative. In such situations, some players may be tempted to use price as a tool in the hope of warding off any loss of market shares. Unfortunately, this has a tendency to rub off on the entire market and affect all other manufacturers to a greater or lesser degree.

Our corporate hearing aid companies – Oticon and Bernafon – have also had to handle some internal challenges. Recent years' sales success, Oticon Delta, came under pressure already at the beginning of 2008 with almost all our competitors launching products that competed directly with Delta. And we could not really blame them, could we? Because with this design product – with its fabulous sound quality and almost invisible fitting – we experienced a quite exceptionally handsome sales curve right from its introduction in spring 2006. The problem was that when competition set in, we did not have a product to replace Delta.

The reason that we were not ready – as we would normally have been – was related to the shift in paradigm to wireless technology where we have been a market leader since the launch of Oticon Epoq in 2007. Our development effort in the wireless field required tremendous development resources to such an extent that in 2007 and in early 2008, we were unable to launch new product concepts at our usual pace and speed. It was an unusual situation for us, but we are convinced that investments in wireless technology and its multitude of user benefits were absolutely necessary to gear us for the future.

In terms of sales, our performance in 2008 was more or less on a par with that of the competition. As we have always pursued a strategy of growth and the capture of market shares, we plan accordingly, and as this was also the plan at the beginning 2008, our earnings were affected with costs invariably growing at the rate of inflation and the rate of increase in payroll costs. Unfortunately, that was what happened in 2008, and for the first time as a listed company, we had to downgrade earnings forecasts in 2008 – and indeed on more than one occasion.

We have now completed the switch to an entirely new technological platform, which today is very stable and offers significant user benefits. We now appear the world's most advanced company when it comes to the development of user benefits and features based on wireless technology designed for people with hearing impairment.

First and foremost **audiological** user benefits such as "spatial awareness", which means the re-creation of the user's sense of space: Such as being able to place sound sources in a room or space and the ability to determine the distance to such sound source. One example is that a hearing-impaired person using one of our most recent hearing aids is no longer a danger to himself or others when moving in traffic, because he is much better able to determine the distance to other road users and place them in a three-dimensional space.

But I am also thinking of user benefits in the area that we call **Connectivity**, which is wireless linking to other electronic sound sources primarily by means of Bluetooth technology. Try to imagine the freedom it gives! Being hearing impaired, you can now sit on your sofa and watch television with the sound being wirelessly transmitted directly into your hearing aids. When the phone rings, you will hear a tiny "ring" in your hearing aids and by pushing a single button you can answer the phone, the sound of your television being replaced by the sound of your phone. Whether you have a landline phone or a mobile phone is irrelevant. The system will handle both types, and it will handle the sound of your MP3 player, personal computer or laptop as well.

I am very proud that with our wireless technology, we have been at the forefront in moving the boundaries of what is possible for hearing-impaired people and that in many ways they can now focus on the possibilities rather than the constraints. I am proud that we have taken the lead in the wireless sphere which undoubtedly represents the greatest technological shift in our line of business since the transition from analogue to digital hearing aids more than a decade ago. We are convinced that in the next few years, the winners and losers of the hearing aid industry will be defined in terms of their ability to master wireless technology.

Our other two business activities, Diagnostic Instruments and Personal Communication, both emerged reasonably well from 2008.

Diagnostic Instruments, which manufactures audiological equipment for use by hearing care businesses and hearing clinics, has once again succeeded in capturing substantial market shares with as much as 16% growth in revenues in terms of local currencies. This growth rate was even achieved without jeopardising the high profitability. In this area, we have now reached the stage of so-called critical mass. We have the strongest product programme in this line of business and, physically, we are present in all major markets, and things are moving very fast! We have become the world's biggest supplier of diagnostic equipment, and there is nothing to suggest that this position is in

jeopardy. We are on the crest of a wave and expect the handsome development to continue in 2009, albeit at a slightly lower pace than in 2008.

Of our three business activities, Personal Communication is the activity which is most sensitive to changes in world economy. A decline in revenues of 6% in 2008 was mainly due to difficult market conditions for FrontRow which primarily delivers wireless sound systems to schools. Sennheiser Communications, which is a corporate joint venture involved in headsets, also experienced difficult market conditions, including a large reduction in revenues with a large OEM customer.

And now, I will turn to some of the more general aspects.

Again in 2008, our Board of Directors considered the *Recommendations for good corporate governance*. A review is available on our website, and pages 27 and 28 of the recently published Annual Report 2008 also include a comprehensive summary. The Directors are convinced that the Group complies with all essential recommendations.

As in 2007, the Directors have chosen not to have a separate item on the agenda concerning incentive programmes, the reason for this being the same as in 2007, namely that we have no special incentive schemes neither for the Board of Directors nor for the Executive Board.

The basic fee paid to Directors of the parent company elected by the shareholders will be increased in 2009 by 50,000 Danish kroner to 250,000 kroner. This increase is however of a technical nature as there will be a similar fall in fees for the same Directors who have historically also been on the Board of Oticon. Oticon's Board of Directors has been changed so that it now consists of intra-Group members in line with the situation in all our other subsidiaries. In other words, Directors elected by the shareholders at the annual general meeting will get the same fees as previously. We did not set up any Board committees in 2008 whose members are entitled to special fees, nor did we pay out any special remuneration in the 2008 financial year.

As of 2009, the law requires listed companies to establish a so-called audit committee to monitor the presentation of financial statements. The Directors have discussed this subject and decided to leave this task in the hands of the entire Board.

The Board recommends to the annual general meeting that as in previous years, no dividend be paid out for the 2008 financial year. Generally, we are of the opinion that the buy-back of shares gives us an opportunity to plan dividend policy more dynamically which is why we have carried through considerable share buy-back programmes in recent years. We maintain our decision to temporarily suspend the share buy-back programme as announced on 5 November 2008. The main explanations for this decision are the global financial crisis and our wish to always have substantial financial resources available for any further expansion. The reason that we have this item on the agenda is that we wish to have the flexibility to buy back shares, if the situation before the next general meeting should warrant such buy-back.

I would like to extend my warm thanks to our many competent employees who really went the extra mile in a difficult year. That we have continuously managed to set the agenda as the most innovative player in the hearing aid industry is only possible thanks to a very strong staff and corporate culture. So a really big thank you to all our staff!

If we look at 2009, there are definitely some challenges on the horizon as a direct offspring of the financial crisis and the recession in many parts of the world. But for William Demant Holding, we have reason to be optimistic. We start 2009 with what is probably our strongest ever product programme, due among other factors to the many new products to be presented at next week's US hearing aid convention, AudiologyNOW or AAA. It will be outside the scope of my report to give you a review of all the novelties here, but I can guarantee that these product novelties will extend our market potential considerably.

As announced on the publication of our Annual Report, we have also chosen to earmark resources for brand new business areas, such as Oticon Medical, whose product area is so-called bone-anchored hearing solutions, which means that for the first time we – so to speak – go under people's skin! On a global scale, this is a highly promising market with tremendous unexploited growth potential – and *that* in a market in which only a few manufacturers have the technical expertise to operate. Oticon Medical is expected to launch its first commercial products on the market in the second half of 2009.

The uncertain world economy makes it difficult for us to establish any precise forecasts for 2009. For the global market for hearing aids as such, we expect flat volume growth in 2009. And average selling prices in 2009 are estimated to contribute neutrally or negatively to market growth. As a result of the general uncertainties, management's growth estimates are therefore subject to considerable uncertainty.

We are however on less shaky ground when it comes to our own opportunities to cope in the market. Based on the massive strengthening of our hearing aid product portfolios, we expect corporate wholesale of hearing aids to exceed market growth by 2- 4 percentage points which means that we will capture market shares.

Despite the present general uncertainty in most markets, we are optimistic about our development on the long term. Demographic trends – headed by the increasing number of elderly – will currently widen the total market for hearing aids; a market that is characterised by fairly low penetration. Our Group is among the most powerful players in the industry with unique, innovative products and a solid market position in all major markets. A targeted development effort in recent years has given us a technological head start which we expect to bolster in the years to come. We also have an extremely sound financial position, and our ability to generate cash flows is entirely intact. And in these uncertain times, we should not forget that in the Oticon Foundation we have a stable and long-term, major shareholder which in very many respects is a valuable asset for corporate development.

Niels, the floor is yours.