

The Chairman's report at William Demant Holding A/S'
annual general meeting
Wednesday, 7 April 2010 at 4 p.m.

Once again, the Board of Directors is pleased to look back on the past year.

The William Demant Holding Group was back on the growth track in 2009, and as Chairman I am happy to see that we again managed to capture market shares. My pleasure in this development is rooted in the fact that in many ways the year before, that is 2008, was an unusually challenging period for our Group. A demanding move into the realm of wireless technology meant that we were unable to reach our normal product launch performance, which throughout 2008 resulted in the fact that the innovation of our product programme simply did not match our normal, high standard. Consequently, for the first time in many years, we did not succeed in gaining further market shares in 2008. At the same time, we saw declining revenues, which can to some degree be attributed to the general financial crisis.

In return, 2009 was the year in which we harvested the first fruits of our substantial investments in new technology, and I would like to begin my report by pointing out some of the financial results achieved in 2009:

- Consolidated revenues totalled DKK 5.7 billion matching a rate of growth of 6%.
- Operating profits rose by 10% to DKK 1.15 billion.
- Earnings per share amounted to DKK 13.6, which – compared with 2008 – represents an increase of over 17%.

We are not quite where we would like to be, but with bigger market shares and higher earnings, we have come a long way. The stock market certainly acknowledged the improvement with a staggering 80% increase in the price of our shares in 2009, matching a rise in the market value of our company of over DKK 10 billion. Admittedly, the increase must be viewed in light of the drastic fall in 2008, and yes, there is still some way to go before we reach the level of a few years back, but the improvement does testify to a stock market with considerable faith in our company – on the short as well as on the long term. By way of example, I would mention that in 2009 two of the world's leading investment management enterprises, which generally only make long-term investments, chose to boost their investments in our Group to over 5% each.

If we take a look at the trend in share prices compared with the OMX C20 index, we also managed quite well.

The global market for hearing aids stabilised in 2009, and we estimate unit growth to have been at the upper end of our long-term forecasts. However, the rate of unit growth was counterbalanced by a matching fall in average wholesale prices, which meant that in overall terms, the hearing aid market developed flatly in terms of value. As mentioned earlier, we gained market shares in 2009, mainly due to a favourable shift in our so-called product and channel mixes. For instance, we boosted sales to independent dispensers while sales to the National Health Service (NHS) in

the UK fell. Together, these shifts favourably impacted the average selling price. We generally coped somewhat better than the market in 2009, the reason being that for most of the period under review, we were placed at a disadvantage in relation to two of the biggest buyers of hearing aids in the world: we were – and still are – one of the two main suppliers to the British NHS, but their demand dropped by 4% in 2009. In return, we were for most of 2009 precluded from selling hearing aids to Veterans Affairs (VA) in the US, who boosted their demand by as much as 28% during that period. For those who do not know, Veterans Affairs is the organisation in the USA that supports US soldiers, providing them with health services including the remedying of hearing losses. From 1 November, both Oticon and Bernafon were included on the list of suppliers providing hearing aids for Veterans Affairs, but since it was fairly late in 2009, it did not have any major impact on consolidated revenues in 2009.

Our own corporate retail activities performed extremely well in 2009, and we achieved a handsome 8% rate of organic growth.

In the past couple of years, we have invested quite substantial amounts in research and development, particularly in wireless technology. When we launched the world's first wireless hearing aid with full ear-to-ear communication back in 2007, we did not know how long we could retain our leading position or how long we would be able to justify the fairly heavy investments. Now, three years later, we have no doubt that we made the right choice. We admit that we had some teething problems, which initially cost us some sales. Being a pioneer in the field of new, groundbreaking technology is certainly a major challenge, but the fact that we have now launched our second-generation wireless technology – before most of our competitors have even launched their first generation – is definitely something we can be proud of. We cannot, however, rest on our laurels as technological leadership is obviously not enough. In future, we must also be the leading player in our industry, commercially speaking.

Oticon Agil is the first product family based on our new wireless platform, and the global launch in early March progressed as planned. Oticon Agil incorporates the most sophisticated signal processing on the market setting an entirely new standard for alleviating hearing losses in noisy surroundings. I will not touch upon all the details relating to Oticon Agil, but suffice it to say that until today we have received exceptional responses from end-users and that this product family is expected to make a significant contribution to growth in 2010.

Once again, Diagnostic Instruments had an impressive year, generating growth in revenues of as much as 19% in an otherwise flat market. Some of the success may be ascribed to our ability to utilise various economies of scale, thereby achieving tremendous growth in sales and high profitability. The inclusion of the Grason-Stadler high-end brand towards the end of 2009 further fortified our position, and we are now able to present a complete product portfolio that includes four brands.

Personal Communication is the smallest of our three activity areas and also the area which is most sensitive to economic trends. Personal Communication had to face a total decline of 6% in revenues. Although this is not satisfactory, we are pleased to note that the two business activities have generally enlarged their respective market shares in recent years, and with the softer breeze – figuratively speaking – now sweeping across the market place, we may expect these activities to prosper.

2009 was also the year when Oticon Medical entered the market for bone-anchored hearing systems. With the combination of a strong product programme and Oticon's excellent reputation, Oticon Medical had an extremely favourable feedback from clinics, and we have high expectations of this area.

And now, I would like to focus on some of the more general aspects of our business.

It has always been part of William Demant Holding's policy and mission to act responsibly towards our stakeholders, be they customers, staff, investors or other groups. We have high ethical standards as regards our way of doing business, and we have just joined the UN Global Compact initiative, pledging our Group to comply with and promote the principles of human and labour rights, environmental protection and anti-corruption globally. This decision has a twofold purpose: firstly, we wish to systematise our CSR efforts further, and secondly, we want to use a recognised global framework in which to report and verify progress.

For the companies in the William Demant Holding Group, our corporate responsibility and sustainability efforts include four principal themes, which we deal with in a global context duly considering local conditions. The four themes are: (1) Good corporate governance, (2) Human and social considerations, (3) Environmental aspects and (4) Business ethics.

Based on the UN Global Compact initiative guidelines, we have adopted 14 principles which define our general approach to and intentions in respect of the above four areas. Moreover, we have adopted a comprehensive business ethics policy, outlining our approach to how to run our business and how to interact with our customers. As regards our suppliers, we have endorsed an extensive code of conduct which we are in the process of implementing throughout the Group. The Group has a zero-tolerance policy in certain areas such as child labour and forced labour. The formal procedure for approval of a potential supplier means that an audit of such supplier must be made if we think there is a risk that the supplier does not comply with our code of conduct.

The environmental impact of the Group's manufacturing of products is limited, but we have nevertheless chosen to report on our CO₂ emissions via the Carbon Disclosure Project, enabling us and our stakeholders to compare our CO₂ emissions and their business impact with those of other companies.

Principles, policies and detailed information on our corporate responsibility and sustainability efforts including our CO₂ emission statement are available on our website. With our participation in the Carbon Disclosure Project and our UN Global Compact commitment, we wish to emphasise that we will prioritise and further develop these activities over the next few years.

It has probably not escaped your attention that we no longer print and distribute our annual report. I would like to explain the background for our decision no longer to do so: we have decided to use electronic media as the primary means of communication with our more than 18,000 registered shareholders and other stakeholders because it enables us to communicate faster and more efficiently while at the same time protecting the environment by considerably reducing the consumption of paper, energy for distribution, postage and so on. In recent years, we have noted that the demand for printed copies of our annual reports has gone down appreciably. The decrease in de-

mand and the not insignificant burden on the environment due to printing and sending out copies of the annual report together resulted in a decision to no longer print and send out the annual report. The full annual report will of course be available in downloadable electronic form on our website. We ask shareholders and other stakeholders to sign up for our news service on our website so that in future you will receive an e-mail with news from us including annual reports, interim reports, interim information and other announcements. All shareholders have received a letter by post explaining the signing up procedure, and it looks as if most of you have signed up for this service. In just six weeks, we have received more sign-up forms for our electronic news service via our website and shareholder portal than the number of stakeholders that used to receive a printed version of our annual report. I trust that generally our shareholders will appreciate our initiative and support a united effort to protect the environment.

In the past year, the Board of Directors again considered the Recommendations for good corporate governance, and we are of the opinion that the Group lives up to all the major recommendations. We closely follow any developments in this area and are aware that at the moment the recommendations are undergoing a major review. The Committee's work is scheduled for completion in spring 2010 when we expect a set of revised recommendations to be published.

In compliance with new legal requirements, we set up an audit committee in 2009, and the Directors have decided to leave this task in the hands of the entire Board. No separate fees will be paid for work on this committee, and no other Board committees have been established in which separate fees are earned. Directors' fees for this general-meeting year will remain unchanged.

I would like to take this opportunity to comment on our decision in autumn 2008 to suspend our share buyback programme in connection with the global financial crisis. Since then, our substantial cash flows have mostly been applied for the settlement of debt and acquisitions, and we expect this to continue into 2010. Over the next few months, we will however reconsider the corporate capital structure including any future share buyback arrangements. On the presentation of our interim report in August, the plan is to announce the outcome of our considerations. One thing I will promise is that we do not wish to accumulate a large cash balance – we want the cash flows that we generate to work: either for the expansion of our activities or with our shareholders in the form of share buybacks.

I would also like to extend my warm thanks to our competent staff for their dedication and hard work in the past year. Their commitment has enabled us to capture market shares in the past year and geared us for further progress. Thank you!

If we look at 2010, this promises to be yet another year of corporate growth to considerably exceed market growth. This optimism is rooted in various factors, but first and foremost in the launch of Oticon Agil, which I mentioned earlier. The launch of a high-end product of this calibre can be a significant growth driver, and we definitely expect Oticon Agil to be just that, we quite simply call it the best hearing aid in the world. Furthermore, both Oticon's and Bernafon's product portfolios are very strong – in fact so strong that we need to go back several years to find similar depth and breadth in our portfolios. Supplying hearing aids to the US Veterans Affairs will undoubtedly also represent a growth factor in 2010, albeit the effect hereof is thought to be more manifest in 2011 and onwards. We therefore expect development in the corporate wholesale of hearing aids for 2010 to exceed market growth by 3-5 percentage points in terms of value. To-

gether with the effect of acquisitions of retail businesses, this will correspond to an increase in the corporate share of the wholesale market of about 1 percentage point.

In 2010, we expect Diagnostic Instruments to generate moderate one-digit growth in an otherwise flat market with the addition of the effect on revenues from the acquisition of Grason-Stadler – in round figures about DKK 60-70 million. Following two years of very difficult market conditions, Personal Communication is also expected to see a positive trend in revenues.

So, 2009 was – all in all – a good year for our Group, and the prospects for 2010 are even better.

And now, Niels, the floor is yours.