ANNUAL REPORT 2012

William Demant

The English text in this document is an unauthorised translation of the Danish original. In the event of any inconsistencies, the Danish version shall apply.

RENEWED MOMENTUM IN 2013

Dear reader,

After two years of strong growth in both revenue and earnings, the Group saw more modest success in 2012. However, this development may not be such a surprise after all, given the fact that in 2010 and 2011, we were able to generate overall unit growth of almost 30% in the wholesale of Group-manufactured hearing aids in a market that grew by a mere 3-4% annually during this period.

The impressive curve that we have followed since the beginning of 2010 can undoubtedly be traced to the significant strengthening of Oticon's product programme that was kickstarted by the launch of the Premium family, Oticon Agil, which also marked the beginning of a new platform and product cycle. The sturdy sales growth in 2010 and 2011 enabled us to increase Group revenue by more than DKK 2.3 billion in total and against this backdrop deliver a rise in operating profit (EBIT) of approximately DKK 300 million in each of the two years.

2012 was thus our third year with the successful RISE 2 platform, but also a year in which we focused our attention on finalising the next technological platform and thus preparing for another line-up of groundbreaking products, starting in January 2013 with the Premium family called Oticon Alta. However, with only a few product launches in the past year, tough comparative figures and keener price competition, we faced special challenges in 2012. In addition, difficult market conditions in several countries left their mark on the year, particularly the second half.

"For the year as a whole, we generated unit growth in the corporate wholesale of hearing aids just exceeding market growth, but, as everyone knows, we aim much higher"

Partly driven by strong product offerings in the mid-priced and low-end segments towards the end of the individual manufacturers' product cycles, downward mix shifts in the market contributed to putting average selling prices under pressure in the past year. At the same time, we saw changes in subsidy schemes and aggressive tendering rounds also affecting prices unfavourably.

For the year as a whole, we generated unit growth in the corporate wholesale of hearing aids just exceeding market growth, but, as everyone knows, we aim much higher: With the launch in early January of a brand new technological platform called Inium and the introduction of the promising Premium family, Oticon Alta, we have embarked on the next platform and product cycle, which is certain to generate renewed momentum for the Group in 2013. The first feedback on Alta from dispensers and end-users alike has been extremely positive, so I am confident that we will be able to capture market share again in 2013.

Oticon Medical continues to capture market share in the market for bone-anchored hearing solutions. Based on a highly competitive product programme and intense dialogue with surgeons worldwide, Oticon Medical has, in just a few years, captured a quarter of the world market. Personally, I find it hard to disguise my enthusiasm for the major growth potential inherent in Oticon Medical – in both the short and the long term.

With almost a quarter of the world hearing aid market based on three strong brands, hearing aids will indeed remain the mainstay of our activities for many years to come. And if we continue to be successful in the area of bone-anchored hearing solutions, Oticon Medical will be able to continue to expand its position in future. To this should of course be added that the Group has also established itself as the world's leading and by far largest manufacturer of diagnostic equipment for audiological use. Boasting the industry's widest range of brands and products as well as a global market share now approaching 40%, Diagnostic Instruments now stands stronger than ever before – solidly underpinned by the acquisition of distribution activities in the USA in recent years.

Overall, I am therefore confident that among hearing aid manufacturers, we are exceptionally well positioned, as regards both the present competitive situation and our ability to generate growth and win market share in the longer term. Our ability to exploit technology, knowledge and expertise across the Group's closely related – but nonetheless vastly different – business activities is crucial to our success now and into the future. Also, it is essential that we are always ready for change, thus ensuring that all our Group's activities are continually organised in the best and most efficient manner – which is particularly important in the current market climate of increasingly keen competition and price pressure.

Finally, I would like to take this opportunity to thank every member of our global workforce of skilled and committed employees. A few years ago, we got the Group back on the growth track, and also in 2012, where market conditions were tougher than usual for us, everyone made an extraordinary effort. Not only in 2013, but certainly also in the years to come, our many new products, initiatives and growth opportunities will continue to demand unwavering commitment and willingness to go the extra mile.
The William Demant Group's position in 2013 among the strongest and most competitive players in the industry is in no small part thanks to the efforts of its employees.

Niels Jacobsen
President & CEO

THE YEAR AT A GLANCE

In 2012, our Group recorded revenue growth of just over 6% and a 3% fall in operating profit (EBIT). We thus lived up to our most recent forecasts even if the development in 2012 did not quite match our usual performance. High comparative figures and unfavourable mixes of products and distribution channels have contributed to this development. Moreover, the market for hearing aids saw less favourable trends in many countries, due among other things to increased offerings of attractive products in the low-end and mid-priced segments. The moderate development in 2012 should also be viewed in the light of the substantial improvements in both revenue and earnings in the three preceding years. We have – despite the decline in operating profit (EBIT) in 2012 – nonetheless witnessed an increase in EBIT of 16% since 2010.

Consolidated sales in 2012 were positively affected by acquisitions and changes in exchange rates, each contributing by about 3% to growth, which, with moderate organic growth, resulted in revenue totalling DKK 8,555 million. Operating profit (EBIT) amounted to DKK 1,653 million, matching a profit margin of 19.3%, and earnings per share (EPS) amounted to DKK 20.2. The transition in autumn to consignment stock in the public hearing care services in Norway and our practice to recognise gains and losses on forward exchange contracts in revenue have adversely affected both our revenue and our operating profit (EBIT).

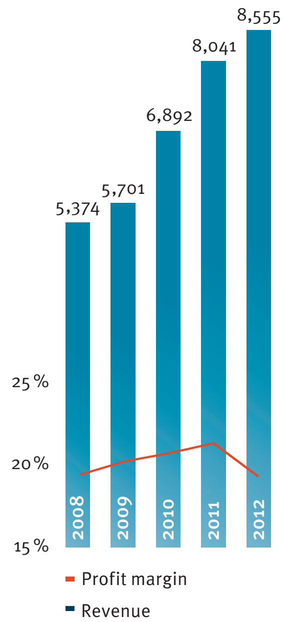
For 2012, the global unit growth rate in the hearing aid market is thought to have been 2-3%, and hearing aid sales are estimated at just over 10 million units. The general economic slowdown, a less attractive product mix, keener price competition as well as changes in structures and subsidies in a number of European markets resulted, however, in flat to slightly negative trends in revenue in our industry prior to a series of high-end launches at the end of 2012 and in early 2013.

Also in 2012, we succeeded in delivering unit growth in the wholesale of hearing aids that outmatched market growth. However, sales in terms of value did not see an equally positive development. Overall, our Hearing Devices business generated 5% revenue growth, which was driven by changes in foreign exchange rates and acquisitions. 2012 thus proved a bit more challenging than anticipated at the beginning of the year, and towards the end of 2012, we started to feel the need to revitalise our range of high-end hearing aids from Oticon.

With our launch of Oticon Alta in January 2013, Oticon is now well under way with the sale of its first hearing aid based on the new Inium platform, which has enabled an entirely new anti-feedback system and a wide range of other audiological features. Oticon Alta can to a larger extent than it has been possible with previous products be programmed to match

Revenue and profit margin

DKK million



the individual user's needs and requirements. Initial feedback from both hearing care professionals and users has been extremely positive, and also in the years to come, Oticon has high expectations of delivering the strongest audiological products based on the Inium platform.

Based on its introduction of the successful Chronos family in a RITE version (Receiver-In-The-Ear), Bernafon continued its sturdy growth in 2012, and the positive development in Sonic was supported by the launch of Flip, a RITE hearing aid, at the end of 2011. Towards year-end 2012, Sonic also introduced an entirely new product family called Bliss, which is available at two price points in the high-end categories.

Again in 2012, Oticon Medical generated substantial sales growth in all regions and continues to capture market shares. High reliability, an attractive and user-friendly design and unique audiological advantages have helped Oticon Medical, within a short period of time, to develop into a major player in its field. The introduction of a new and innovative implant system was also a crucial growth factor in 2012.

In 2012, Diagnostic Instruments generated satisfactory growth of just over 18% in local currencies, organic growth accounting for 2 percentage points. Acquired growth relates primarily to the distribution activities acquired in the USA and to the three diagnostic equipment manufacturers acquired in 2011 and 2012, i.e. Micromedical, MedRx and Sensory Devices. Over a number of years, Diagnostic Instruments has built a solid market position in most product categories and with its multi-brand strategy, it covers every major customer segment in all the important geographic regions.

Personal Communication recorded 5% growth in local currencies in 2012. The improvement in revenue is mainly due to fair growth in Sennheiser Communications, partially driven by the PC and mobile phone segments. In the same period, Phonic Ear and FrontRow recorded a slight improvement despite persisting difficult market conditions.

KEY FIGURES AND FINANCIAL RATIOS – DKK

	2012	2011	2010	2009	2008
INCOME STATEMENT, DKK MILLION					
Revenue	8,555	8,041	6,892	5,701	5,374
Gross profit	6,127	5,777	4,959	4,035	3,725
Research and development costs	652	633	615	576	533
EBITDA	1,920	1,942	1,654	1,341	1,217
Depreciation etc.	267	233	224	192	174
Operating profit (EBIT)	1,653	1,709	1,430	1,149	1,042
Net financial items	-132	-103	-116	-94	-139
Profit before tax	1,521	1,606	1,314	1,055	903
Profit for the year	1,151	1,199	988	795	682
BALANCE SHEET, DKK MILLION					
Net interest-bearing debt	1,804	1,548	1,869	1,575	1,908
Assets	8,777	7,646	6,786	4,626	3,914
Equity	4,059	3,304	2,443	1,302	532
OTHER KEY FIGURES, DKK MILLION					
Investment in property, plant and equipment, net	310	382	251	181	196
Cash flow from operating activities (CFFO)	1,272	1,381	826	950	828
Free cash flow	782	895	494	656	588
Employees (average)	8,025	7,392	6,318	5,674	5,383
FINANCIAL RATIOS					
Gross profit ratio	71.6%	71.8%	71.9%	70.8%	69.3%
EBITDA margin	22.4%	24.2%	24.0%	23.5%	22.6%
Profit margin (EBIT margin)	19.3%	21.3%	20.7%	20.2%	19.4%
Return on equity	31.8%	41.7%	49.5%	87.2%	162.9%
Equity ratio	46.2%	43.2%	36.0%	28.1%	13.6%
Earnings per share (EPS), DKK*	20.2	20.6	16.9	13.6	11.6
Cash flow per share (CFPS), DKK*	22.3	23.7	14.1	16.3	14.1
Free cash flow per share, DKK*	13.7	15.4	8.5	11.2	10.0
Dividend per share, DKK*	0	0	0	0	0
Equity value per share, DKK*	71.2	56.7	41.9	22.3	9.2
Price earnings (P/E)	24	23	24	29	19
Share price, DKK*	484	478	414	393	218
Market cap. adjusted for treasury shares, DKK million	27,419	27,397	24,173	22,894	12,718
Average number of shares on the market, million	57.02	58.24	58.35	58.31	58.77

Financial ratios are calculated in accordance with "Recommendations and Financial Ratios 2010" from the Danish Society of Financial Analysts. The free cash flow is calculated as the sum of cash flow from operating activities (CFFO) and investing activities (CFFI) before acquisition of enterprises, participating interests and activities. On computation of the return on equity, average equity is calculated duly considering the purchase of treasury shares.

**Per share of DKK 1.*

KEY FIGURES AND FINANCIAL RATIOS – EUR**

	2012	2011	2010	2009	2008
INCOME STATEMENT, EUR MILLION					
Revenue	1,149	1,080	926	766	722
Gross profit	823	776	666	542	500
Research and development costs	88	85	83	77	72
EBITDA	258	261	222	180	163
Depreciation etc.	36	31	30	26	23
Operating profit (EBIT)	222	230	192	154	140
Net financial items	-18	-14	-16	-13	-19
Profit before tax	204	216	177	142	121
Profit for the year	155	161	133	107	92
BALANCE SHEET, EUR MILLION					
Net interest-bearing debt	242	207	251	211	256
Assets	1,176	1,025	910	620	525
Equity	544	443	327	175	71
OTHER KEY FIGURES, EUR MILLION					
Investment in property, plant and equipment, net	42	51	34	24	26
Cash flow from operating activities (CFFO)	171	186	111	128	111
Free cash flow	105	120	66	88	79
Employees (average)	8,025	7,392	6,318	5,674	5,383
FINANCIAL RATIOS					
Gross profit ratio	71.6%	71.8%	71.9%	70.8%	69.3%
EBITDA margin	22.4%	24.2%	24.0%	23.5%	22.6%
Profit margin (EBIT margin)	19.3%	21.3%	20.7%	20.2%	19.4%
Return on equity	31.8%	41.7%	49.5%	87.2%	162.9%
Equity ratio	46.2%	43.2%	36.0%	28.1%	13.6%
Earnings per share (EPS), EUR*	2.7	2.8	2.3	1.8	1.6
Cash flow per share (CFPS), EUR*	3.0	3.2	1.9	2.2	1.9
Free cash flow per share, EUR*	1.8	2.1	1.1	1.5	1.3
Dividend per share, EUR*	0	0	0	0	0
Equity value per share, EUR*	9.5	7.6	5.6	3.0	1.2
Price earnings (P/E)	24	23	24	29	19
Share price, EUR*	65	64	56	53	29
Market cap. adjusted for treasury shares, EUR million	3,675	3,672	3,240	3,069	1,705
Average number of shares on the market, million	57.02	58.24	58.35	58.31	58.77

Financial ratios are calculated in accordance with "Recommendations and Financial Ratios 2010" from the Danish Society of Financial Analysts. The free cash flow is calculated as the sum of cash flow from operating activities (CFFO) and investing activities (CFFI) before acquisition of enterprises, participating interests and activities. On computation of the return on equity, average equity is calculated duly considering the purchase of treasury shares.

*Per share of DKK 1.

**On the translation of key figures and financial ratios from Danish kroner to euro, Danmarks Nationalbank's rate of exchange at 28 December 2012 of 746.04 has been used for balance sheet items, and the average rate of exchange of 744.38 has been used for income statement and cash flow items.

Market conditions

The hearing aid market in general

The market for hearing aids once again generated unit growth in 2012 despite the fact that the general economic slowdown, a less attractive product mix and intensified price competition are estimated to have caused the industry to experience a flat to slightly negative trend in revenue prior to the series of high-end launches towards the end of 2012 and in early 2013. However, we still believe that market growth drivers, such as the increasing elderly population, remain intact and that also in future, cyclical fluctuations will only marginally affect market trends.

US growth below historic average

With 3% unit growth in 2012, the rate of growth in the US market, the world's largest single market for hearing aids, was in the middle of our forecast for annual global growth of 2-4% and just slightly below the historical average for this market. Representing the public part of the US market, Veterans Affairs (VA) generated a growth rate of just over 3%, which is fractionally above the growth rate in the commercial part of the US market.

Slowdown in European growth

Following unit growth in Europe in 2011 that exceeded our expectations, 2012 saw some slowdown. A European unit growth rate of about 2% for the year is thus slightly below the historical market growth rate, which is among other things due to changes to the subsidy system in Switzerland and to some structural changes to public hearing care services in Norway. The general economic slowdown in southern Europe has also given rise to consumer caution, with the drop in spending causing sales to slowdown in Italy and France, among other countries. However, in our view the patterns of demand in Europe have not changed fundamentally, and for instance the German market has seen a unit growth rate matching the European market growth rate.

Stable growth in the UK

In the UK, both the National Health Service (NHS) and the commercial market saw fair unit growth of 5% in total in 2012, which exceeds the historical average. However, demand during the year was somewhat erratic because total UK sales – and thus growth – were to some degree affected by public purchasing, which follows a cyclical pattern, depending on when and how fast existing hearing aids are replaced.

Continuing growth in Japan

The Japanese market showed positive trends throughout 2012, delivering growth that surpassed our growth expectations of the global hearing aid market. The Japanese market still has a lower degree of penetration than the most developed hearing aid markets and therefore seems to hold a potential for future growth exceeding the global level.

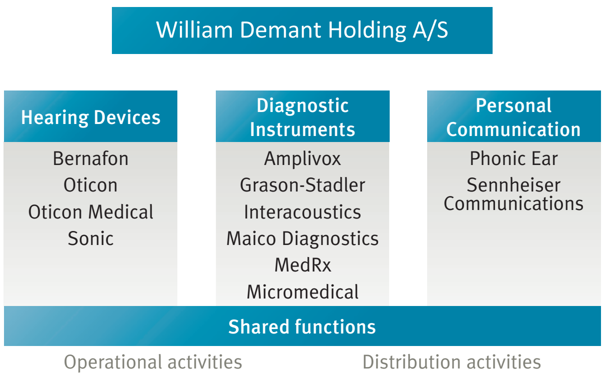
Global growth and price trends

We estimate that in 2012, global unit growth totalled 2-3%, with hearing aid sales estimated at just over 10 million units.

The above description of market conditions relates to the development in units and is partly based on available statistics from a number of main markets. The average selling price, on the other hand, is to a greater extent based on an estimate, since the information on market prices and product mixes is rather limited. In our estimation, the average selling price for 2012 dropped by 2-4%, a decline due not only to an attractive supply of mid-priced and low-end products, but also to mounting price competition during the periods immediately before a number of new high-end products were launched. Based on the estimated unit growth, we therefore believe that in terms of value, overall market growth has been flat or has declined slightly.

Focus on user needs

By continuously developing and delivering increasingly discreet and user-friendly solutions, hearing aid manufacturers considerably help to counter the stigmatisation that many hearing-impaired people see as the greatest impediment to investing in a hearing aid and thus alleviating their hearing loss. The cosmetic aspect is, however, only one prerequisite for meeting the goal of satisfying users. Above all, solutions must enable users to live an active life and interact effortlessly with others in social contexts regardless of age and skills. One of our industry's major challenges is thus to ensure proper fitting of the right hearing solutions for the user to get maximum joy and benefit from the hearing aid. Audiologists and hearing care professionals therefore play an increasingly vital role in relation to end-users, both before and after the fitting, and thus help to ensure that the user gets maximum benefit from the new hearing aid and its wireless accessories.



Hearing Devices

Continuously growing market share

In 2012, we generated unit growth just exceeding market growth. Changes in structure and subsidies in a number of European markets also had an adverse impact on the average selling price. In terms of value, however, consolidated revenue from our Hearing Devices business failed to develop equally favourably due to a fall in the average selling price driven by shifts in product mix and tougher price competition in several markets. The 2% growth in local currencies in the Hearing Devices business was driven by acquisitions. 2012 thus proved slightly more challenging than anticipated at the beginning of the year, and towards the end of 2012, we started to feel the need for a new high-end family from Oticon in order for us to be able to maintain our positive revenue growth.

Oticon's products and services

Despite challenging market conditions, Oticon's modest success in 2012 was thanks to a complete range of products based on the RISE 2 platform and continuous focus on providing our customers with the best conditions for selling solutions that match end-users' needs. The host of options for customised hearing solutions requires close collaboration between manufacturer and hearing care professional to ensure not only that the end-user gets the right solution, but also that the hearing aid is individually fitted for maximum benefit. Again in 2012, we made a great effort to design valuable tools for hearing care professionals, as also in future, their work will be key to making the most of the sophisticated technology offered by Oticon's hearing aids and thus to achieving end-user satisfaction.

Oticon's product launches

2012 saw the launch of Oticon Intiga[i], a so-called IIC hearing aid (Invisible-Inside-the-Canal). Generally speaking, our Group has a strong focus on solutions with clear audiological advantages that keep the mental capacity required for hearing and processing messages in difficult listening environments at a minimum, thereby freeing up energy for the user to be more active in a social context. In our opinion, the best audiology – and thus the best hearing aid – should ensure, all through the day, that the sound impressions created are as natural as possible and that users retain their sense of direction and spatial sense.

With the introduction of Oticon Alta in January 2013, we launched our first hearing aid based on the brand new Inium platform, which among other things offers twice the working memory of the previous platform. Based on this new processor, Oticon has introduced an entirely new anti-feedback system that will set new standards in our industry, and on the whole, Alta offers a number of audiological advantages that will considerably improve speech intelligibility in the most difficult listening environments. Alta can, to an even greater extent than it has been the case with previous products, be customised to match individual user needs and preferences, which will give an entirely new user experience. Not only will this make it much easier for new users to become accustomed to their hearing aids, but more experienced users will feel that they are better able to take active part in conversations in challenging listening environments and that they have more mental energy to live an active life. Overall, the launch of Alta is a big step towards our foremost goal, namely to enhance speech intelligibility so that users forget all about their challenges and can act on an equal footing with people with normal hearing. With Alta, Oticon has once again exploited its considerable audiological know-how to deliver tangible improvements that benefit people with impaired hearing.

At the launch of Oticon Alta in January, Oticon also launched its new generation of wireless accessories in the ConnectLine series, whose focal point is the new Streamer Pro, an accessory that uses highly power-efficient wireless technology based on magnetic induction in the communication between the Streamer and the hearing aid and uses the more power-consuming 2.4 GHz technology for streaming between units over longer distances. Our new Streamer Pro offers a new design, has a lower battery consumption and can be programmed according to the user's individual requirements. The new Streamer Pro can communicate with a very broad spectrum of Bluetooth units, and the possibilities for wireless connection have been expanded to include linking to FM transmitters, telecoils, IP telephony as well as a new and improved solution for landline phones.

A few weeks after its launch in January, Alta was available on all the Group's main markets, in all styles and at two price points. The initial feedback from dispensers and users has been extremely favourable, and Oticon has high expectations, when it comes to being able to deliver the market's strongest audiological products based on the Inium platform also in the years to come.

Continuous growth in Bernafon

Having introduced the successful Chronos family in a RITE version (Receiver-In-The-Ear), Bernafon continued its sturdy growth in 2012 and reinforced its business partner relations by offering a comprehensive and attractive product programme at competitive prices, resulting in an improved product mix. Bernafon will continue to build its product portfolio in 2013, gearing it for continuous growth and for capturing larger market shares in the segments where it operates.

Enhanced Sonic profile

Sonic, which joined the William Demant Group at the end of 2010, saw exciting development in 2012 and, under the slogan "Everyday Sounds Better", managed to enhance its profile, an improvement supported by the launch of the RITE hearing aid Flip at the end of 2011. Towards the end of 2012, Sonic introduced an all-new product family called Bliss, available at two price points in the high-end price range. Sonic's improved product programme and the various initiatives taken to attract the interest and gain the trust of both existing and new customers have paid off, resulting in Sonic once again generating growth in 2012. With further launches and the establishment of the Sonic brand on new markets, 2013 will be another exciting year for the company, which will continue to focus on being a dynamic and innovative business partner under stable ownership.

NHS and VA

Our collaboration with the NHS in the UK also developed positively in 2012, and even though the NHS expanded its network of suppliers in the most recent bidding round in 2010, we managed to increase our hearing aid sales to the NHS and thus remain its largest supplier. Sales to the VA in the USA saw slightly negative development in the past year, but we are hoping that our new product launches will reinforce our business relations with VA in 2013.

Retail activities

With both organic and acquired growth, Group retail activities saw overall favourable development in 2012. We generated healthy growth, particularly in the North American market, whereas a number of European markets developed less favourably. Compared to the general market growth in those countries where we operate, retailing trends were, however, fairly satisfactory in 2012.

Growth in Oticon Medical

Again in 2012, Oticon Medical saw solid sales growth in all regions and continues to capture market shares. High reliability, an attractive and user-friendly design and unique audiological advantages already found in Oticon's traditional hearing aids have rapidly made Oticon Medical a major player in the development, manufacture and sale of bone-anchored hearing solutions. The introduction of a new and innovative implant system that ensures better and quicker integration of the implant itself has been a vital growth factor in 2012. In the coming year, Oticon Medical will continue its close dialogue with surgeons and audiologists with a view to further simplifying the implementation and fitting processes and spreading awareness of bone-anchored hearing solutions, which currently have a rather low degree of penetration in many markets.

Diagnostic Instruments

A global market leader in audiological equipment, Diagnostic Instruments grew satisfactorily in 2012 by just over 18% in local currencies, with organic growth accounting for 2 percentage points. The acquired growth relates primarily to distribution activities acquired in the USA and to the three diagnostic equipment manufacturers acquired in 2011 and 2012, namely Micromedical, MedRx and Sensory Devices. The result of recent years' industry consolidation has limited the opportunities for future acquisitions. Consequently, we will focus on integrating and developing the companies already acquired and on continuing to generate organic growth in our entire Diagnostic Instruments business.

This business activity now consists of six audiometer companies: Grason-Stadler (USA), Amplivox (UK), Maico (Germany and the USA), MedRx (USA), Micromedical (USA) and Interacoustics (Denmark). Over a number of years, Diagnostic Instruments has built strong market positions in most product categories, and with its multi-brand strategy, it covers every major customer segment in all the important geographic regions.

In terms of value, the total global market for diagnostic equipment is estimated to have grown by 2% in 2012. Thus, the global macro-economic slowdown does not appear to have caused growth to stagnate or decline, although competition seems to have intensified.

Personal Communication

Personal Communication comprises Phonic Ear (including FrontRow), a manufacturer of assistive listening devices and wireless sound systems, and our joint venture Sennheiser Communications, a player in the market for both professional and private-user headsets in the PC, mobile phone and CC&O (Call Center and Office) segments.

In 2012, Personal Communication realised 5% growth in local currencies. This improvement in revenue is mainly due to fair growth in Sennheiser Communications and is partially driven by growth in the PC and mobile phone segments. In the same period, Phonic Ear and FrontRow recorded a slight improvement despite difficult market conditions.

Financial review 2012

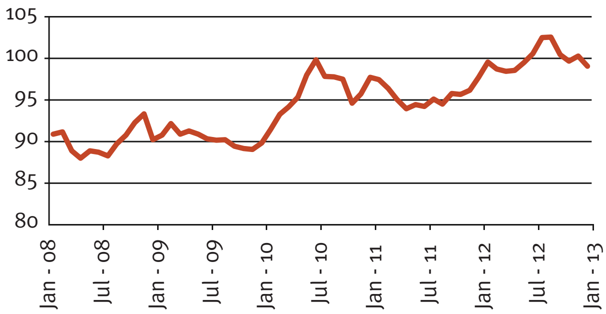
Revenue and foreign exchange

In 2012, consolidated revenue amounted to DKK 8,555 million, or a rate of growth of just over 6%. Acquisitions and foreign currency each contributed to growth by about 3 percentage points, the organic growth contribution thus being modest.

With 98% of consolidated sales being invoiced in foreign currencies, reported revenue is significantly affected by movements in corporate trading currencies. Based on the distribution of consolidated sales in 2012 among the respective trading currencies, the graph overleaf shows month-by-month trends in the Group's currency basket.

The positive exchange rate impact on consolidated revenue is in particular attributable to the US dollar, which rose by 8% based on average exchange rates in 2012 and 2011, but also other major trading currencies such as the Australian dollar, the Canadian dollar and the British pound sterling rose by 9%, 7% and 7%, respectively, based on average exchange rates.

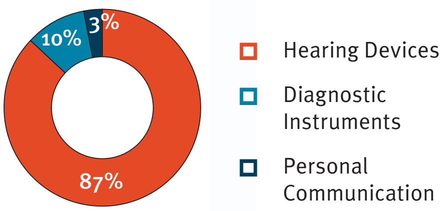
The Group's currency basket – indexed development



Index 100 = average for 2012

The year's total exchange rate impact on revenue of about 3% is composed of a positive currency translation effect of 5% and a negative transaction effect of 2%. The latter is the net effect of realised gains or losses on forward exchange contracts, which are used for hedging exchange risks and are recognised in the financial statements together with the revenue in foreign currencies that such forward exchange contracts are designed to hedge.

Revenue by business activity



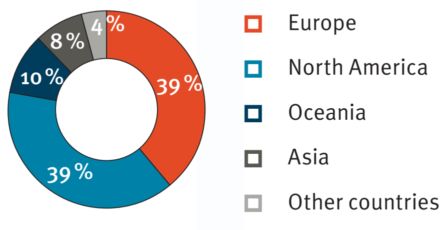
In 2012, the Group generated growth of just over 4% in local currencies in North America, such growth having been driven by acquisitions. A weak third quarter is the main reason why the underlying business did not succeed in achieving the usual rate of growth for the year as a whole in North America. At year-end, our market share with VA was approximately 9%. Diagnostic Instruments generated fair growth and acquisitions further reinforced the business activity's position in distribution in the USA. Sales in North America accounted for 39% of total consolidated revenue.

Growth in consolidated revenue in Europe was just over 1% in local currencies in 2012, acquisitions accounting for most of the increase. However, in several European countries in which we have substantial market shares, uncertainty about changes in legislation and subsidy systems adversely affected market trends and thus our sales, this being the case in for instance Norway and Denmark. In other countries, such as Germany, we obtained fair stable growth, which is satisfactory in the light of the challenges that have characterised several of these markets. Europe accounted for 39% of total consolidated revenue.

Revenue by business activity

			Percentage change	
DKK million	**2012**	**2011**	**DKK**	**Local currency**
Hearing Devices	7,410	7,075	5%	2%
Diagnostic Instruments	844	686	23%	18%
Personal Communication	301	280	8%	5%
Total	**8,555**	**8,041**	**6%**	**3%**

Revenue by geographic region



Group retail activities, which are part of our Hearing Devices activities, saw fair growth based on both organic and acquired growth. We mainly carried through minor acquisitions in countries in which we already have distribution activities.

In 2012, Diagnostic Instruments realised revenue of DKK 844 million, or 18% growth in local currencies. Such growth was mainly driven by acquisitions. Diagnostic Instruments accounted for 10% of consolidated revenue in 2012.

Revenue in Personal Communication was DKK 301 million in 2012, matching an increase of 5% in local currencies. Revenue in Personal Communication was just over 3% of total consolidated revenue.

Gross profit

In the year under review, gross profit rose by 6% to DKK 6,127 million. The consolidated gross profit ratio was 71.6%, matching a moderate fall of 0.2 percentage point on last year. Unit growth was generated in the lower price categories, and this unfavourable product mix has prevented us from maintaining or boosting our gross profit ratio. Other business units with slightly lower gross profit ratios achieved higher rates of growth than the Group as a whole, which of course also adversely affected the consolidated gross profit ratio. A rise in the sale of Streamers and other wireless equipment designed for our sophisticated hearing aids also dampened the consolidated gross profit ratio. Decreasing unit costs, on the other hand, had a favourable impact on this ratio due to economies of scale and efficiency improvements in the Group's supply chain. We expect this trend to continue in 2013.

Capacity costs

Consolidated capacity costs rose by 6% in local currencies, acquisitions accounting for about half the increase, which means that growth in capacity costs in the underlying business was higher than the organic growth in revenue.

Capacity costs

			Percentage change	
DKK million	2012	2011	DKK	Local currency
R&D costs	652	633	3%	2%
Distribution costs	3,319	2,959	12%	7%
Administrative expenses	515	482	7%	3%
Total	**4,486**	**4,074**	**10%**	**6%**

Research and development costs
Consolidated research and development costs in local currencies rose by 2% in 2012, which is slightly below revenue growth. We have in recent years obtained economies of scale in our research and development activities, both in and across our various business activities, and the rise in costs has thus been relatively modest. Since 2009, the increase in total consolidated research and development costs has been close on 13%. By way of comparison, revenue in the same period grew by 50%.

Distribution costs
Distribution costs in local currencies rose by almost 7%, half of which is attributable to acquisitions. The launch of our high-end product, Oticon Alta, required substantial sales preparation costs, and we also increased the number of sales representatives to increase our availability in selected markets. Moreover, again in 2012, we continued to strengthen the Group's distribution activities, particularly in respect of Diagnostic Instruments, Hearing Devices and bone-anchored hearing solutions from Oticon Medical.

Administrative expenses
In 2012, consolidated administrative expenses in local currencies increased by just over 3%, acquisitions accounting for about 1 percentage point of this increase.

Profit for the year
Operating profit (EBIT) for the year totalled DKK 1,653 million, or a fall of DKK 56 million compared with 2011. One of the reasons for this fall is the fact that revenue growth in the wholesale of hearing aids was relatively modest and was affected by the transition in autumn to consignment stock in the public hearing care services in Norway, resulting in invoiced sales falling considerably below the normal level. The changes in Norway have had an adverse one-off effect on the Group's operating profit (EBIT) of about DKK 40 million in the second half-year. The Group's practice to recognise losses and gains on forward exchange contracts in revenue also impacted our revenue as well as our operating profit (EBIT) by DKK -101 million in 2012 (DKK 26 million in 2011). In 2012, our profit margin was 19.3%, corresponding to a fall of 2 percentage points.

As it appears from *Risk management activities* on page 20, we intend to hedge any exchange rate fluctuations by matching positive and negative cash flows in the main currencies as much as possible and by entering into forward exchange contracts. With our current use of such contracts, forecast cash flows in the main currencies is hedged with a horizon of up to 24 months.

Realised forward exchange contracts are recognised in the income statement together with the items that such contracts are designed to hedge. In practice, forward exchange contracts will typically be recognised together with the revenue in foreign currencies relating to that particular hedge.

In addition to hedging by means of forward exchange contracts, we raised loans in foreign currencies to balance out net receivables.

At the end of the reporting year, the Group had entered into forward exchange contracts at a contractual value of DKK 1,093 million (DKK 1,786 million at 31 December 2011) and a fair value of DKK 26 million (DKK -84 million at 31 December 2011). As at 31 December 2012, our material contracts hedged the following currencies:

Forward exchange contracts at 31 December 2012

Currency	Hedging period	Hedging rate
USD	6 months	584
JPY	17 months	7.12
AUD	8 months	574
GBP	11 months	902
CAD	8 months	581

In 2012, consolidated net financial items amounted to DKK -132 million against DKK -103 million in 2011. Interest resulting from the now closed ETG case totalled DKK 37 million.

In the year under review, consolidated profit before tax amounted to DKK 1,521 million, or a fall of 5% on 2011. Tax on profit for the year is calculated at DKK 370 million, matching an effective tax rate of 24.3% (25.3% in 2011). Earnings per share (EPS) was DKK 20.2 (DKK 20.6 in 2011).

At the annual general meeting, our Board of Directors will propose that the entire profit for the year be retained and transferred to reserves.

Equity and capital structure
Consolidated equity was DKK 4,059 million at 31 December 2012 (DKK 3,304 million at 31 December 2011), matching an equity ratio of 46.2%. The increase in equity is first and foremost due to the profit for the year and secondly to value adjustments of hedging instruments of DKK 133 million. We continuously seek to have a net interest-bearing debt of about DKK 1.5-2.0 billion. This level was determined in order to enable the Group to act quickly and flexibly, should any attrac-

tive acquisition opportunities arise. In 2012, the Company bought treasury shares worth DKK 497 million and at the end of the year held a total of 1,688,237 treasury shares acquired at an average price of DKK 473 since the launch of our current buyback programme in August 2011. We did not carry through any capital increases in the period under review.

Consolidated equity

DKK million	2012	2011
Equity at 1.1.	**3,304**	**2,443**
Foreign currency translation adj., subsidiaries	3	57
Value adjustments, hedging instruments	133	-84
Profit for the year	1,151	1,199
Other adj. including purchase of treasury shares	-532	-311
Equity at 31.12.	**4,059**	**3,304**

Consolidated cash flow

Consolidated cash flow from operating activities totalled DKK 1,272 million in 2012, which is a fall of 8% on the year before. Income tax paid in 2012 aggregated DKK 380 million; DKK 295 million of which was paid in Denmark.

Free cash flow amounted to DKK 782 million, or a fall of DKK 113 million compared with 2011. The lower level in 2012 can be attributed to the realisation of provisions and to the payment of interest in connection with the settlement of the patent infringement case filed by the New York-based Energy Transportation Group (ETG) to which we have been a party since 2005.

Cash flow by main items

DKK million	2012	2011
Profit for the year	**1,151**	**1,199**
Cash flow from operating activities	1,272	1,381
Cash flow from investing activities	-490	-486
Free cash flow	**782**	**895**
Acquisition of enterprises, interests and activities	-682	-330
Financing activities	-600	-437
Cash flow for the year	**-500**	**128**

In 2012, cash flow from investing activities (exclusive of acquisitions) totalled DKK 490 million (DKK 486 million in 2011). For 2013, we expect a similar level of investment.

We made a number of acquisitions in 2012, primarily of distributors in the USA and manufacturers of diagnostic equipment. The cash acquisition cost in respect of the acquisition of enterprises, participating interests and activities amounted to DKK 682 million for the year, including earn-out payments related to prior-year acquisitions.

Financing activities in 2012 totalled DKK -600 million (DKK -437 million in 2011), which first and foremost relate to the purchase of treasury shares worth DKK 497 million (DKK 301 million in 2011).

Balance sheet

At 31 December 2012, the consolidated balance sheet sum was DKK 8,777 million, which is an increase of close on 15% compared with the balance sheet total at year-end 2011. The improvement is due to goodwill resulting from acquisitions and also to an increase in loans to customers. At 31 December 2012, such loans amounted to DKK 477 million, which is a rise of some DKK 93 million on the year before. This amount is expected to grow in 2013. The balance sheet total includes a negative exchange rate impact of around 0.2%.

The rise in consolidated goodwill, which at year-end 2012 was DKK 2,568 million (DKK 1,976 million at year-end 2011), relates to the acquisitions mentioned above.

In 2012, there was a fall in inventories and an increase in trade receivables. In overall terms, the development in working capital is satisfactory, manifesting itself in for instance a fall in recent years in the tied-up working capital compared with the Group's activity level.

The consolidated net interest-bearing debt rose by DKK 256 million, amounting to DKK 1,804 million at the end of 2012. This rise can be attributed to acquisitions. Our ongoing purchase of treasury shares can be adjusted to the actual acquisition and investment level, so that the consolidated net interest-bearing debt is kept within the desired interval of DKK 1.5-2.0 billion.

In 2012, net financial contracts were positive by DKK 5 million. This amount is composed of unrealised gains and losses on forward exchange contracts of DKK 31 million and DKK 5 million, respectively, and of unrealised losses on interest swaps in the amount of DKK 21 million.

There have been no events that materially affect the assessment of the Annual Report after the balance sheet date and until today.

Board of Directors and employees

At our annual general meeting on 11 April 2012, Lars Nørby Johansen, Peter Foss, Niels B. Christiansen and Thomas Hofman-Bang were re-elected for one year. After the general meeting, the Directors elected Lars Nørby Johansen Chairman and Peter Foss Deputy Chairman of the Board of Directors.

At year-end, our Group had 8,290 employees (7,748 in 2011) of whom 1,546 were employed in Denmark (1,582 in 2011). The average number of staff (full-time equivalent) was 8,025 in 2012 (7,392 in 2011).

The Board would like to take this opportunity to thank all corporate staff worldwide for their dedication and professionalism throughout 2012. Thanks to their enthusiastic commitment, our Group will also be geared for success in the years to come.

Knowledge resources

Our aim for continuous growth in revenue and operating profit (EBIT) is rooted in our mission statement, which says that we must strive for a high level of innovation through a flexible and knowledge-based organisation. The prerequisite for the Group's continued competitiveness is extensive audiological know-how and a broad spectrum of competencies, such as further developing wireless technology, designing integrated circuits for sophisticated analogue and digital processing of sound signals, developing software for optimum fitting of hearing aids, designing micro-amplifiers and related acoustic systems as well as developing and manufacturing micro-mechanic components.

The Group's products are made through the cooperation of a wide range of specialists, each with thorough knowledge of their own fields, in-depth understanding of other professional areas and appreciation of the corporate approach. In order to utilise competencies and knowledge across the organisation, substantial resources are channelled into communication and knowledge sharing through a shared IT platform, a high degree of openness and the secondment of employees to other corporate companies.

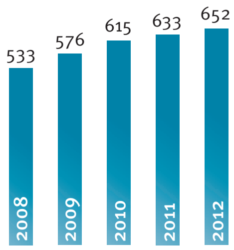
Our corporate development centre in Denmark is a major catalyst for ongoing as well as future innovation projects. Eriksholm, our corporate research centre, also plays a key role in our endeavours to always be at the forefront of development, enabling us to deliver the most innovative solutions and to give end-users and hearing care professionals the most advantages.

The Oticon Foundation

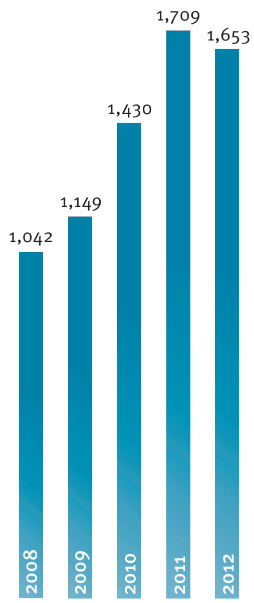
William Demant Holding's main shareholder, the Oticon Foundation, whose full name is *William Demants og Hustru Ida Emilies Fond*, was founded in 1957 by William Demant, son of the Company's founder Hans Demant. Its primary goal is to safeguard and expand the William Demant Group's business and provide support for various commercial and charitable purposes with particular focus on the field of audiology. At the end of 2011, the majority of the Oticon Foundation's shares in William Demant Holding were transferred to its wholly-owned subsidiary, William Demant Invest. Charitable tasks are thus now handled by the Foundation and business activities by William Demant Invest. Voting rights and decisions to buy or sell William Demant Holding shares are still exercised and made, respectively, by the Oticon Foundation.

In accordance with the Oticon Foundation's investment strategy, the Foundation's investments – apart from shares in William Demant Holding – also include other assets, as the Foundation can make active investments in companies whose business models and structures resemble those of the William Demant Group, but are outside our strategic sphere of interest. The Foundation has made a management agreement on a commercial arm's length basis with William Demant Holding to the effect that the latter will handle the administration of the investments made through William Demant Invest.

R&D costs – DKK million



Operating profit (EBIT) – DKK million



Sound liquidity and a satisfactory free flow are important to obtain fair pricing of our shares at NASDAQ OMX Copenhagen. In autumn 2005, the Oticon Foundation therefore announced that in future it would strive to retain a direct or indirect ownership interest of 55-60% through, if necessary, the ongoing sale of shares in the market. Any sale of shares by the Foundation is independent of any purchase of treasury shares by the Company.

Outlook for 2013

The introduction of Oticon's newest high-end product family, Oticon Alta, in January 2013 heralds a significant audiological improvement, which means greater advantages for users and dispensers alike. The cornerstone of Oticon Alta is the new Inium platform, which ushers in a new product generation for the Group's largest hearing aid brand. The first feedback from dispensers and end-users after the launch has been positive and supports us in our belief that we can generate growth and capture market share in the years to come – and thus also in 2013.

Despite Oticon Alta's qualities and market potential, we believe that the present outlook for the global hearing aid market – and thus for the Group – is subject to greater uncertainty than normally owing to a range of structural factors, including growth in markets and distribution channels with lower average selling prices. To this should be added further uncertainty due to changes in subsidy systems and government spending patterns in a number of countries. At the beginning of the year, it is therefore our best prediction that the global hearing aid market will record modest value growth in 2013.

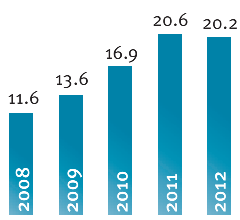
Against this backdrop, organic growth in the Group's wholesale of hearing aids is expected to exceed market growth rates by 3-5 percentage points in local currencies in 2013, whereas our retail business is expected to deliver an organic growth rate on a par with the underlying market. Moreover, we expect Diagnostic Instruments to also capture market share organically in 2013 in a market that is anticipated to record low, single-digit growth. To this should be added the effect of any exchange rate impacts.

In 2013, corporate operating profit (EBIT) is expected to exceed the level realised in 2012.

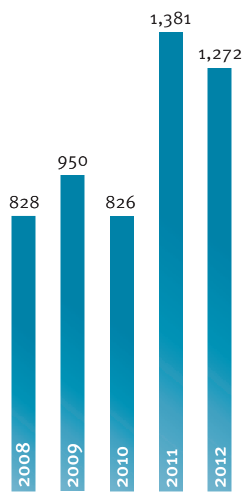
The Group is expected to have an effective tax rate of approximately 25% in 2013, and investments are expected to hover at the 2012 level.

Also in 2013, we intend to buy treasury shares. To this end, we will continue to apply our share buyback programme to channel the Group's surplus cash flow back to the shareholders, and we aim to maintain the level of net interest-bearing debt at around DKK 1.5-2.0 billion. Buybacks will, in line with customary Group practice, be adjusted on a continuous basis to reflect the extent of acquisitions and investments.

Earnings per share – DKK



Cash flow from operating activities – DKK million



Capital

At 31 December 2012, the Company's authorised share capital was nominally DKK 58,349,875 divided into as many shares of DKK 1. The shares are not divided into classes and have the same rights.

Having previously communicated its intention to maintain an ownership interest of 55-60% of William Demant Holding's share capital, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation) has notified the Company that at 31 December 2012, the Foundation – directly or indirectly – held approximately 55% of the share capital. The Capital Group Companies, Inc. (including accounts whose portfolios are managed by the company and its direct or indirect subsidiaries) has announced that as of 3 September 2012, it holds more than 5% of the share capital in William Demant Holding A/S. Fidelity (FMR LLC, including its direct or indirect subsidiaries) announced on 31 July 2012 that as of that date, it had reduced its equity interest and now holds less than 5% of the share capital in William Demant Holding A/S.

About 40% of the Group's employees are shareholders in the Company. All members of the Board of Directors and Executive Board are shareholders in the Company. Shares held by employees and by members of the Board of Directors and the Executive Board account for just above 1% of the total share capital.

In 2012, the Company bought 979,367 treasury shares at a total price of DKK 497 million. In 2012, the Company has not carried out any capital increases. At year-end 2012, the Company thus held 1,688,237 treasury shares, corresponding to 2.9% of the share capital. At the coming annual general meeting, our Board of Directors will propose that the share capital be reduced by the number of treasury shares as at the general meeting date, 9 April 2013.

Share information

DKK	2012	2011	2010	2009	2008
Highest share price	597	495	480	396	478
Lowest share price	451	352	352	167	158
Share price, year-end	484	478	414	393	218
Market capitalisation*	27,419	27,397	24,173	22,894	12,718
Average no. of shares**	57.02	58.24	58.35	58.31	58.77
No. of shares at 31.12.**	56.66	57.64	58.35	58.35	58.31
Treasury shares at 31.12.***	1.688	0.709	0	0.606	0.641

* *DKK million excluding treasury shares.*
** *Million shares excluding treasury shares.*
*** *Million shares.*

Specification of movements in share capital

DKK 1,000	2012	2011	2010	2009	2008
Share capital at 1.1.	58,350	58,350	58,956	58,956	60,986
Capital increase	0	0	0	0	0
Capital reduction	0	0	-606	0	-2,030
Share capital at 31.12.	**58,350**	**58,350**	**58,350**	**58,956**	**58,956**

Powers relating to share capital

The shareholders in general meeting have authorised the Directors to increase the share capital by up to nominally 1,179,527 in connection with the issue of employee shares at a subscription price to be determined by the Directors, however minimum DKK 1.05 per share of DKK 1. The authorisation is valid until 1 January 2016. For other purposes, the Directors have, until 1 January 2016, been authorised to further increase the share capital by up to DKK 6,664,384. The subscription price will be determined by the Directors.

Until the next annual general meeting, the Directors have been authorised to have the Company acquire treasury shares at a nominal value of up to 10% of the share capital. The purchase price may, however, not deviate by more than 10% from the price listed on NASDAQ OMX Copenhagen.

Dividend

At the general meeting, the Directors will, as in prior years, propose that all profits for the 2012 financial year be retained. The Directors have previously decided that the Company's substantial cash flow from operating activities is first and foremost to be used for investments and acquisitions. Any excess liquidity will as a rule be used for the continuous purchase of treasury shares. As mentioned earlier, we aim to keep our net interest-bearing debt at DKK 1.5-2.0 billion and expect to use future free cash flow (with the deduction of acquisitions) for the purchase of treasury shares.

Insider rules

The Group's insider rules and in-house procedures comply with the provisions of the *Danish Securities Trading Act* under which the Executive Board and the Board of Directors and their related parties are obliged to inform the Company of their transactions with the Company's securities with a view to subsequent publication and reporting to the *Danish Financial Supervisory Authority*. In 2012, there has been no such announcements. In its internal rules, the Company has chosen to operate an insider register containing a relatively large number of persons, including leading staff members, who – through their attachment to the Company – may possess price-affecting knowledge of the Group's internal affairs. Persons entered in the insider register may only trade in Company shares for a period of six weeks following publication of the annual report and the interim report through NASDAQ OMX Copenhagen. Such persons are also obliged to inform the Company of their transactions in Company shares.

STEFAN INGILDSEN

SØREN B. ANDERSSON

MORTEN L. NIELSEN

IR policy and investor information

It is the aim of William Demant Holding to ensure a steady and consistent flow of information to share market players to promote a basis for the fair pricing of Company shares – pricing that at any time reflects corporate strategies, financial capabilities and prospects for the future. The flow of information will contribute to a reduction of the Company-specific risk associated with investing in William Demant Holding shares, thereby leading to a reduction of the Company's cost of capital.

We aim to reach this goal by continuously providing relevant, correct and adequate information in our Company announcements. The Company also maintains an active and open dialogue with analysts as well as current and potential investors. Through presentations, individual meetings and participation in investor conferences, we aim to maintain an ongoing dialogue with a broad section of share market players. In 2012, we held approximately 400 investor meetings and presentations. The Company also uses its website, www.demant.com, for communication with the share market.

Investors and analysts may also contact Stefan Ingildsen, Senior Vice President, Finance; Søren B. Andersson, Vice President, IR; or Morten Lehmann Nielsen, IR Manager, by phone +45 3917 7100 or by e-mail to william@demant.com.

Company announcements in 2012

29 February	Annual Report 2011
14 March	Notice annual general meeting
11 April	Annual general meeting
10 May	Interim information, first quarter 2012
16 August	Interim Report 2012
7 November	Interim information, third quarter 2012
13 December	Financial calendar 2013

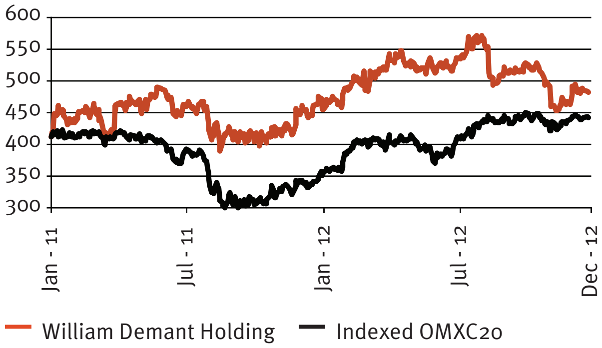
Financial calendar 2013

25 February	Deadline for submission of agenda items for the annual general meeting
26 February	Annual Report 2012
9 April	Annual general meeting
7 May	Interim information, first quarter 2013
14 August	Interim Report 2013
5 November	Interim information, third quarter 2013

Annual general meeting

The annual general meeting will be held on Tuesday, 9 April 2013, at 4 p.m. at the Company's head office Kongebakken 9, 2765 Smørum, Denmark.

Development in share price



RISK MANAGEMENT ACTIVITIES

Risk management activities in the William Demant Group first and foremost focus on the business-related and financial risks to which the Company is fairly likely to be exposed.

In general, we act in a stable market with a limited number of players. In normal circumstances, the risks to which the Company may be exposed do not change on the short term. The financial crisis we have experienced in recent years does not seem to have changed this picture significantly, and the development in the demand for Group products has thus been stable. In connection with the preparation of the Group's strategic, budgetary and annual plans, the Board of Directors considers the risks identified in these processes.

Business risks

The major risks to which the William Demant Group may be exposed are of a business nature – be they risks within the Company's control or external risks due to, for instance, the behaviour of the competition.

The market in which we act is a highly product-driven market. Our significant research and development initiatives help underpin our market position. It is therefore also vital in the long term to maintain our innovative edge and to attract the most qualified and competent staff. Product risks relate mainly to delays in connection with product launches, but due to our constant focus on all links in the value chain, such delays rarely occur. Furthermore, we closely monitor the supply situation and seek to ensure that we always have an inventory level that can counter any interruptions in production.

Taking out, protecting and keeping patents in the hearing aid industry are indeed complicated processes. We therefore develop and maintain our competencies in this area on an ongoing basis. The William Demant Group is involved in a few disputes. Since 2005, the Group has been party to a patent infringement case filed by the New York-based Energy Transportation Group (ETG). Charges were originally brought against the entire hearing aid industry based on two expired patents, which – according to the ETG – include certain aspects of the anti-feedback technology normally used in hearing aids. In the case in question against our Company, an appellate court (Court of Appeals for the Federal Circuit) indicated in October 2012 that the jury had been presented with the correct particulars of the case, but the appellate court chose not to reconsider the actual infringement. We maintained that the Group had not infringed the ETG patents, and we therefore petitioned the appellate court to reconsider its position. Having received the appellate court's rejection of our petition, we chose not to appeal the decision to the Supreme Court, so we now consider the case closed. In 2007, the Group made a provision to cover any damages and legal costs in this respect. The residual provision, which at the beginning of the year amounted to DKK 94 million, is set off against damages, legal costs and interest totalling DKK 118 million.

Apart from the provision relating to the ETG case, which affected the income statement negatively in 2007 and 2012, Management is of the opinion that other disputes do not or will not significantly affect the Group's financial position. We seek to make adequate provisions for legal proceedings. It is our policy to take out patents for our own groundbreaking development and technology and currently monitor that third-party products do not infringe our patents and that our products do not infringe third-party patents.

Financial risks

Financial risk management concentrates on exchange rate, interest rate, credit and liquidity risks with a view to protecting the Group against potential losses and ensuring that Management's forecasts for the current year are only to a limited extent affected by changes or events in the surrounding world – be they changes in exchange rates or in interest rate levels. It is corporate policy to exclusively hedge commercial risks and not to undertake any financial transactions of a speculative nature.

Exchange rate risks

The Group seeks to hedge against any exchange rate risks through forward exchange contracts and other hedging instruments. Hedging thus gives Management the opportunity – and necessary time – to redirect business arrangements in the event of persistent changes in foreign exchange rates. The Group aims to hedge such changes in foreign exchange rates by seeking to match positive and negative cash flows in the main currencies as much as possible and by entering into forward exchange contracts. By entering into such contracts, we can hedge estimated cash flows with a horizon of up to 24 months.

Effect on EBIT, 5% positive exchange rate impact*

(DKK million)	2012	2011
USD	+35	+35
GBP	+15	+10
CAD	+10	+10
AUD	+10	+10
JPY	+5	+5

** Estimated, on a non-hedged basis, i.e. the total annual exchange rate impact excluding forward exchange contracts.*

The exchange rate risk has been calculated on the basis of a simple addition of the operating profits (EBIT) of Group enterprises in local currencies. Whereas the addition of EBITs includes all Group enterprises, the net foreign exchange flow is identical to the flow in Oticon A/S. We estimate that approximately 90% of all foreign currency translation is made in Oticon A/S and that the analysis therefore gives a fair presentation of the flow in the entire Group. The foreign exchange flow includes actual foreign currency translation as well as changes in net receivables (trade receivables, trade payables and bank balances).

The table below shows the impact on equity given a change of 5% in selected currencies.

Effect on equity, 5% positive exchange rate impact

(DKK million)	2012	2011
USD	+45	+25
CAD	+25	+30
AUD	+10	+10
GBP	+10	+5
JPY	+2	+2

Interest rate risks
Hedging interest rate risks on corporate loans is corporate policy if we find that interest payments can be hedged at a satisfactory level compared with hedging costs. Hedging is generally done through interest rate swaps, with floating-rate loans being converted into fixed-rate loans. Currently, the Group has limited debts compared with the volume of corporate activities.

Based on the net debt at the end of the 2012 financial year, a rise of 1 percentage point in the general interest rate level will cause an increase in consolidated annual interest expenses before tax of less than DKK 1 million (approximately DKK 1 million in 2011).

Credit risks
Corporate credit risks relate primarily to trade receivables. Our customer base is fragmented, so credit risks only involve minor losses on individual customers. Together, our five largest customers account for less than 10% of total consolidated revenue. We therefore estimate that we have no major credit exposure, which is supported by our track record of only insignificant losses on bad debts. When granting loans to customers or business partners, we require that they provide security in their business. The maximum credit risk relating to receivables matches the carrying amounts of such receivables. The Group has no major deposits in particular financial institutions for which reason the credit risk of such deposits is considered to be low.

Liquidity risks
The Group aims to have sufficient cash resources to be able to continuously take appropriate steps in case of unforeseen fluctuations in cash outflows. We have access to considerable undrawn credit facilities, and the liquidity risk is therefore considered to be low. We are of the opinion that the Group has a strong cash flow and satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions. The Group has neither in the financial year 2012 nor in the comparative year 2011 failed to perform or defaulted on any loan agreements.

Financial reporting process and internal control
Once a year, we carry through a very detailed planning and budgetary process, and any deviations from the plans and budgets resulting from this process are carefully monitored month by month. In terms of sales and costs, month-by-month development is very similar, so with the repetitive nature of our business, even minor deviations will become visible fairly quickly.

To ensure high quality in the Group's financial reporting systems, the Board of Directors and Executive Board have adopted policies, procedures and guidelines for financial reporting and internal control to which the subsidiaries and reporting units must adhere, including:

- Continuous follow-up on results achieved compared to the approved budgets
- Policies for IT, insurance, cash management, procurement etc.
- Reporting instructions as well as reporting and finance manuals

The responsibility for maintaining sufficient and efficient internal control and risk management in connection with financial reporting lies with the Executive Board.

The Board of Directors has assessed the Group's existing control environment and concluded that it is adequate and that there is no need for setting up an internal audit function.

Safeguarding corporate assets

Management continuously seeks to minimise any financial consequences of damage to corporate assets, including any operating losses incidental to potential damage. We currently invest in security and surveillance systems to prevent damage and to minimise such damage, should it arise. Major risks, which cannot be adequately minimised, are identified by the Company's Management who will on a continuous basis ensure that appropriate insurance policies are taken out under the Group's global insurance programme administered by recognised and credit-rated insurance brokers, and that such insurances are taken out with insurance companies with high credit ratings. The Group's insurance programme has deductible clauses in line with normal market terms. The Directors review the Company's insurance policies once a year, including the coverage of identified risks.

The Directors are regularly briefed on developments in identified risks. The purpose of this reporting is to keep the Directors fully updated and to facilitate corrective action to minimise any such risks.

CORPORATE SOCIAL RESPONSIBILITY

It is deeply rooted in our corporate culture to make exacting demands on ourselves and also to set high ethical standards in our business affairs. As a result, we find it natural to take on social and environmental challenges within our natural sphere of interest.

Our corporate social report and Global Compact

Our corporate social report is prepared in compliance with section 99 a of the *Danish Financial Statements Act*. This means that we are obliged to account for our social activities and report on our business strategies and activities, including human and labour rights, environmental protection, anti-corruption and climate.

Companies that have signed the UN Global Compact and submit an annual Communication of Progress report automatically comply with the rules of law as long as their annual reports state where such information is published. Having joined the UN Global Compact in 2010, we handed in our first progress report for the 2010 reporting year in spring 2011, and in spring 2012, we submitted our second report for the reporting year 2011. Our latest report for the 2012 reporting year is available on Global Compact's website www.unglobalcompact.org/COP and on our website under *CSR, Downloads*: www.demant.com/downloadcsr.cfm.

In addition to ensuring our compliance with section 99 a of the *Danish Financial Statements Act*, the UN Global Compact serves as a recognised global framework tool for further systematising and reporting on our work with responsibility.

Our environmental awareness

As a means of measuring and recording our environmental footprint, we have also joined the Carbon Disclosure Project (CDP). We have submitted CDP reports on corporate CO_2 emissions and climate strategy since 2008. At the time of writing, there are no available data for the 2012 calendar year, but a look at the development from 2010 to 2011 reveals, according to our CDP reports, that emissions in the countries in which we manufacture our products have risen by a mere 4% compared to a rise in revenue of some 17%. CO_2 emissions per employee are calculated at 3.0 tonnes per year, which is low for a manufacturing company and indeed represents a fall of about 6% from 2010 to 2011.

Our social responsibility

To us, being responsible also means giving more than is necessarily expected of us or dictated by law. It is worth mentioning that each year, our majority shareholder, the Oticon Foundation, donates millions of Danish kroner for social, cultural and scientific purposes. In 2012, the Foundation donated about DKK 100 million of which DKK 58 million went to educational institutions and research projects in the audiological field as set forth in the objects clause of the deed of foundation concerning the alleviation of hearing loss.

A special project should be pointed out here: In 2012, the Oticon Foundation donated over DKK 36 million to the Technical University of Denmark to help the University set up a new research centre called the *Oticon Centre of Excellence for Hearing and Speech*. The Centre focuses mainly on cross-disciplinary basic research in audiology-related disciplines that address hearing problems in noisy environments, or in more popular terms the "cocktail party problem", i.e. those situations where people with hearing impairment have special challenges.

Our focus

Interest in our CSR effort has risen moderately in recent years and we expect this trend to continue. The positive value growth in the Company, for instance through the Oticon Foundation, will also in future continue to benefit society through donations.

Our CSR principles and policies as well as more detailed information on our work in this area are available on our website under *CSR*: www.demant.com/csr.cfm.

WE SUPPORT

Our work on corporate governance is an ongoing process for our Board of Directors and Executive Board, who regularly assess whether their findings give rise to amendments to our articles of association or managerial processes.

We take our point of departure in the existing *Corporate Governance Recommendations* drawn up by the *Danish Committee on Corporate Governance* as part of the disclosure requirements laid down by NASDAQ OMX Copenhagen. The existing recommendations were most recently revised in August 2011. The Board of Directors determines on an ongoing basis the extent to which the Company should implement such recommendations. At present, we comply with 74 out of 79 recommendations. The deviations from the five recommendations that we do not comply with are well-founded, and we explain what we have done instead. A complete schematic presentation of the recommendations, *Corporate governance 2012 – Statutory report on company management, cf. section 107 b of the Danish Financial Statements Act*, is available on our website under *Corporate Governance*: www.demant.com/governance.cfm.

Through our reference to the website, we meet the requirement that the annual report review is to include a statutory report on company management, cf. section 107 b of the *Danish Financial Statements Act*. Since we attach great importance to this topic in our daily operation of the Company, we find it relevant to accentuate a number of significant aspects and supplementary information on corporate governance in our Group in this chapter.

New recommendations for corporate governance in 2013

On 7 January 2013, the *Danish Committee on Corporate Governance* submitted its proposal for updated recommendations for corporate governance. It is expected that the new recommendations will be adopted and published in April 2013 after which the Board of Directors will – as has been the case previously – consider the recommendations according to the "comply or explain" principle.

Shareholders' role and interaction with Management

We communicate on an ongoing basis with our shareholders at the annual general meeting and through shareholder meetings, investor presentations, e-mail, telephone, our website, webcasts, capital market days, the annual report, company announcements etc. and communicate to a great extent in both Danish and English.

As at 26 February 2013, our principal shareholder, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation) – directly or indirectly – holds approximately 55% of the share capital and votes in William Demant Holding A/S. The Oticon Foundation has a statute according to which it is obliged to work towards keeping control of the Company, for which reason the probability of takeover attempts is considered small.

Openness and transparency

All information essential for the assessment of the Company and its activities by shareholders and financial markets is published as promptly as possible in compliance with the rules of the *Danish Financial Supervisory Authority* and NASDAQ OMX Copenhagen.

Our website is in English only. We have made this choice of language based on our knowledge of the stakeholders seeking information via the Internet. However, most of the documents that can be downloaded from our website are avail able in both Danish and English.

In compliance with the *Danish Securities Trading Act*, we publish annual and interim reports. In the time span between such reports, we publish quarterly information rather than actual quarterly reports. In our opinion, actual quarterly reports will not promote a better understanding of our activities, as the quarterly information provides an adequate account of the important events and transactions that have taken place during the period in question. Furthermore, such quarterly information gives a general outline of the Group and its financial position and results.

Competitive aspects are important reasons for our decision not to draw up actual quarterly reports: The hearing aid industry consists of six major players of which only three are listed companies. The unlisted companies do not publish such information at all or only to a very limited extent, and of the listed companies, only one publishes actual quarterly reports.

Duties, responsibilities, composition and organisation of the Board of Directors

The Board of Directors is responsible for the overall strategic management as well as the financial and managerial supervision of the Company, and it currently evaluates the work of the Executive Board as for instance reflected in the annual plan and budget prepared for the Board of Directors. The Board's duties and responsibilities are set out in its rules of procedure, and the Executive Board's duties and responsibilities are provided in a set of instructions. Such rules of procedure and instructions are revised once a year.

Currently, the Board has seven Directors: four Directors elected by the shareholders at the general meeting and three Directors elected by staff in Denmark. Shareholders elect Directors for a term of one year and staff elect Directors for a term of four years. Staff-elected Directors are elected in accordance with the provisions of the *Danish Companies Act*.

The next staff election will take place in 2015. A Director cannot be re-elected once he or she has reached the age of 70. At least half the Directors elected by shareholders at the annual general meeting are independent.

As at 26 February 2013, all Directors are shareholders in the Company holding shares as follows (including movements in 2012): Lars Nørby Johansen, Chairman of the Board of Directors 3,768 shares (unchanged); Peter Foss, Deputy Chairman 2,588 shares (unchanged); Niels B. Christiansen 502 shares (unchanged); Thomas Hofman-Bang 2,500 shares (unchanged); Ole Lundsgaard 1,056 shares (unchanged); Jørgen Møller Nielsen 55 shares (unchanged); Karin Ubbesen 97 shares (movement in 2012: -35).

Board committees/audit committee

The Company's Board of Directors have discussed the general framework in respect of the role and function of the mandatory audit committee and decided to let the entire Board of Directors handle this task. The Directors have taken our business activities, the size of the Board and the limited scope of estimates and assessments in relation to financial reporting into account. The stipulation that no Director may be member of the Executive Board – in case the entire Board of Directors acts as the audit committee – is satisfied. The Board of Directors appoints the chairman of the audit committee, who is independent and who is not Chairman of the Board of Directors.

In 2012, the audit committee held three meetings in connection with the ordinary board meetings.

The terms of reference of the audit committee are available on our corporate website under *About us, Executive Board and Board of Directors, Audit Committee*: www.demant.com/audit.cfm.

Apart from the audit committee, no independent Board committees are set up at the moment, as the Board deems such committees unnecessary, given the Company's business activities and the size of the Board.

Board of Directors' and Executive Board's remuneration

Once a year, the Board of Directors assesses the remuneration paid to Directors and the Executive Board. The basis for the assessment is a competitive and reasonable level that will attract and retain the most suitable and competent candidates.

Directors' remuneration consists of a fixed basic remuneration per Director of DKK 300,000. The Chairman receives three times the basic remuneration and the Deputy Chairman twice the basic remuneration. The Executive Board too receives a fixed remuneration. Consequently, such remuneration does not include any variable bonuses. In the opinion of the Board of Directors, the fixed remuneration reflects a competitive remuneration of the Board of Directors and the Executive Board.

For the President & CEO, a termination and resignation clause in line with normal market terms has been agreed upon. If the Company terminates the employment, the notice is 12 months with one month's extension for each calendar year of employment, however a maximum of 30 months. Since the President & CEO has been employed with the Company since 1992, the notice on the part of the Company was 30 months at 31 December 2012. If the President & CEO terminates the employment himself, the notice is six months. Moreover, the President & CEO is entitled to a seniority bonus, matching one year's salary for every four years of employment after 2005. In the consolidated financial statements, this seniority bonus is recognised as a defined benefit plan commitment that will be paid out on termination of his employment.

Audit

The audit fee is agreed with the auditor prior to a financial year and is subject to approval by the audit committee. The auditor may be asked to perform non-audit services. Such services are to be agreed with the Company's Executive Board in each case. If the fee to be paid for non-audit services exceeds the ordinary audit fees, such fee is subject to approval by the Board of Directors.

Risk management

All major risks are on an ongoing basis discussed by the Board of Directors, based among other things on the annual plan and budget drawn up for the Board of Directors, please see *Risk management activities* on page 20.

New law on more female directors and managers

In December 2010, the Company signed the Danish Minister for Gender Equality's recommendations to Danish businesses (*Operation Chain Reaction*) that efforts be made to increase the number of women on boards and in managerial positions in general. This non-compulsory initiative will in 2013 be replaced by concrete legislation to this effect, so starting with our Annual Report 2013, we will be required to publish target figures for the composition by gender of our Board of Directors and also account for the development in the composition by gender in the Company's Board of Directors and other managerial levels in general.

Board members elected by the general meeting are up for election every year, although the individual Board members are traditionally re-elected and sit on the Board for an extended number of years. This ensures consistency and maximum insight into the conditions prevailing within the Company and the industry and is considered to be extremely important for the value that the Board of Directors bring to the Company. All four Board members up for election by the general meeting were re-elected in 2012, so the percentage of female Board members remains unchanged.

The next time a current Board member elected by the general meeting leaves the Board, special emphasis will be put on nominating women as new candidates. The selection process is thorough, and nominations are submitted for approval by the Company's majority shareholder. The candidates' professional competencies will, however, always be the paramount consideration. The composition of the Board focuses on ensuring the right combination of competencies and experience, including international managerial experience. Directorship experience from major listed companies will carry particular weight. On our website under *About us, Executive Board and Board of Directors, Board of Directors*: www.demant.com/management.cfm, a description is available of the competencies and qualifications that the Board of Directors deems necessary to have at its overall disposal in order for the Board to be able to perform its tasks for the Company.

As regards the number of female managers in the Group's other managerial layers, Group companies focus more strongly on increasing the number of women in executive positions. To that end, the Group, already at the beginning of 2012, laid down a diversity policy and took specific initiatives aimed at even better ensuring equal terms between the genders when it comes to both employment and promotion. Specific initiatives will be launched on an ongoing basis to follow up on this development.

Amendments to articles of association

If amendments to articles other than those listed in section 107 of the *Danish Companies Act* are to be adopted, at least 51% of the share capital must be represented at the general meeting, and the resolution must be approved by a two-thirds majority of the votes cast and of the represented share capital, which is entitled to vote. If 51% of the share capital is not represented at the general meeting, but two thirds of the votes cast and of the represented share capital, which is entitled to vote, have approved the proposal, the Board shall call an extraordinary general meeting within 14 days at which meeting the proposal may be adopted by a two-thirds majority of the votes cast, irrespective of the size of the share capital represented.

BOARD OF DIRECTORS

Lars Nørby Johansen, Chairman
(born 1949)
Joined the Board of Directors in 1998 and was most recently re-elected in 2012 for one year. Because of his seat on the Board for more than 12 years, he is not considered an independent Director.

Codan A/S and one subsidiary, chairman of the board
The Danish Growth Council, chairman
Dansk Vækstkapital (Danish Growth Capital), chairman of the board
Falck A/S and one subsidiary, chairman of the board
University of Southern Denmark, chairman of the board
DONG Energy A/S, deputy chairman of the board
The Rockwool Foundation, deputy chairman of the board
Arp-Hansen Hotel Group A/S, director
Index Award A/S, director

Lars Nørby Johansen holds a degree in social sciences. His strengths include extensive international experience as a corporate manager, including extensive directorship experience from listed companies, and he has profound knowledge of the challenges resulting from globalisation. He is also well versed in the political aspects of business.

Peter Foss, Deputy Chairman
(born 1956)
Joined the Board of Directors in 2007 and was most recently re-elected in 2012 for one year. Because of his seat on the Boards of the Oticon Foundation and William Demant Invest A/S, he is not considered an independent Director.

FOSS A/S, chairman of the board
N. Foss & Co. A/S, deputy chairman of the board
The Oticon Foundation, deputy chairman of the board
William Demant Invest A/S, deputy chairman of the board
A.R. Holding af 1999 A/S, director

Peter Foss holds a Master of Science degree in engineering from the Technical University of Denmark (DTU) and also holds a diploma degree in finance and credit law. He has extensive managerial experience from global, market-leading, industrial companies that have extensive product development. In addition, he has directorship experience from different lines of business.

Niels B. Christiansen
(born 1966)
Joined the Board of Directors in 2008 and was most recently re-elected in 2012 for one year. He is considered an independent Director.

Danfoss A/S, President & CEO and directorships in four subsidiaries
Axcel A/S, chairman of the board
Danske Bank A/S, deputy chairman of the board
Sauer-Danfoss Inc., deputy chairman of the board

Niels B. Christiansen holds a Master of Science degree in engineering from the Technical University of Denmark (DTU) and also holds an MBA from INSEAD in France. His experience with international management of major, global, industrial, hi-tech corporations is comprehensive. Extensive directorship experience from listed companies as well as experience from different lines of business.

Thomas Hofman-Bang
(born 1964)
Joined the Board of Directors in 2009 and was most recently re-elected in 2012 for one year. He is chairman of the audit committee. He is considered an independent Director.

NKT Holding A/S, President & CEO and chairman of the board in two subsidiaries
Danish Committee on Corporate Governance, member

Thomas Hofman-Bang holds a Master of Science degree in business economics and auditing and is a state-authorised public accountant. He has considerable experience in the management of large, global, industrial corporations, including special competencies within economic and financial affairs. Directorship experience from listed companies as well as experience from different lines of business.

Ole Lundsgaard
(born 1969)
Staff-elected Director.
Joined the Board of Directors in 2003 and was most recently re-elected in 2011 for a term of four years.

Interacoustics A/S, staff-elected director since 2003 and deputy chairman of the joint consultative committee

Ole Lundsgaard was trained as an electronics mechanic at the University of Odense, Institute of Biology. He is Technical Product Manager within Diagnostic Instruments and has been employed with Interacoustics A/S since 1993.

Jørgen Møller Nielsen
(born 1962)
Staff-elected Director.
Joined the Board of Directors in 2011 for a term of four years.

Deputy chairman of the local business group under The Danish Society of Engineers (IDA)

Jørgen Møller Nielsen holds a Master of Science degree in engineering (electrical engineering) and also holds a diploma in business administration (organisation and strategy). He is Project Manager within microelectronics at the Group's amplifier factory in Ballerup, Denmark, and has been with the Company since 2001.

Karin Ubbesen
(born 1962)
Staff-elected Director.
Joined the Board of Directors in 2011 for a term of four years.

Oticon A/S, shop steward, staff-elected director since 2007

Karin Ubbesen is employed at the Group's factory in Thisted, Denmark, as a fitter and has been with the Company since 1987.

Age limit for Directors

In compliance with the Company's articles of association, Directors must resign from the Board no later than at the first general meeting following their 70th birthday.

Directors' remuneration

In 2012, the basic remuneration of a Director amounted to DKK 300,000. The Chairman's remuneration is determined to be three times the basic remuneration and the Deputy Chairman's remuneration twice the basic remuneration.

There is no separate remuneration for the audit committee because the committee's work is covered by the approved Director's remuneration.

Evaluation of the Board

Once a year, the Chairman of the Board performs an evaluation of the Board's work. Every other year, such evaluation is performed through personal, individual interviews with the Directors by the Chairman of the Board, and every other year, the evaluation is carried out by means of questionnaires to be filled out by the Directors. In both instances, the results of the evaluation are discussed at the subsequent Board meeting.

In connection with the evaluation in December 2012, the Directors expressed their great satisfaction with the manner in which the Board works, which also applies to their cooperation with Management. It is still the Board's opinion that between them, the Directors have the right competences. Based on feedback from the evaluation, one of the decisions made by the Board was to adjust the contents of the monthly financial report to the Board.

Board meetings in 2012

In 2012, the Board of Directors convened on six occasions. In 2012, the audit committee convened on three occasions in connection with ordinary Board meetings.

Annual general meeting

In 2012, the annual general meeting took place on 11 April. In 2013, the annual general meeting will take place on 9 April.

Auditor

Deloitte Statsautoriseret Revisionspartnerselskab.

EXECUTIVE BOARD

Niels Jacobsen, President & CEO
(born 1957)
Joined the Company in 1992 as Executive Vice President and was appointed President & CEO in 1998. Master of Science in Economics, 1983, from Aarhus University.

LEGO A/S, chairman of the board
A.P. Møller - Mærsk A/S, deputy chairman of the board
KIRKBI A/S, deputy chairman of the board
Thomas B. Thriges Fond (Thomas B. Thrige Foundation), chairman

In addition, Niels Jacobsen holds the following executive positions and directorships in the William Demant Group:
William Demant Invest A/S, General Manager; directorships in a number of Group-owned subsidiaries as well as directorships in the following partly owned companies: Össur hf. (chairman of the board), Sennheiser Communications A/S (director), HIMPP A/S (chairman of the board), HIMSA A/S, (chairman of the board) and HIMSA II A/S (director).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MANAGEMENT STATEMENT

We have today discussed and approved the Annual Report 2012 of William Demant Holding A/S for the financial year 1 January – 31 December 2012.

The consolidated financial statements have been prepared and presented in accordance with *International Financial Reporting Standards* as adopted by the EU, and the Parent financial statements have been prepared and presented in accordance with the *Danish Financial Statements Act*. Further, the Annual Report 2012 has been prepared in accordance with Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the Parent financial statements give a true and fair view of the Group's and the Parent's assets, liabilities and financial position at 31 December 2012 as well as of the consolidated financial performance and cash flows and the Parent's financial performance for the financial year 1 January – 31 December 2012.

We also believe that Management commentary contains a fair review of the development in the Group's and the Parent's business and financial position, the results for the year and the Group's and the Parent's financial position as a whole as well as a description of the principal risks and uncertainties that they face.

We recommend the Annual Report 2012 for adoption at the Annual General Meeting.

Smørum, 26 February 2013

Executive Board:

Niels Jacobsen
President & CEO

Board of Directors:

Lars Nørby Johansen
Chairman

Peter Foss
Deputy Chairman

Niels B. Christiansen

Thomas Hofman-Bang

Ole Lundsgaard

Jørgen Møller Nielsen

Karin Ubbesen

INDEPENDENT AUDITOR'S REPORT

To the shareholders of William Demant Holding A/S

Report on the consolidated financial statements and Parent financial statements

We have audited the consolidated financial statements and Parent financial statements of William Demant Holding A/S for the financial year 1 January – 31 December 2012, which comprise the income statement, balance sheet, statement of changes in equity and notes, including the accounting policies, for the Group as well as the Parent and the statement of comprehensive income and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with *International Financial Reporting Standards* as adopted by the EU and Danish disclosure requirements for listed companies, and the Parent financial statements are prepared in accordance with the *Danish Financial Statements Act*.

Management's responsibility for the consolidated and Parent financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with *International Financial Reporting Standards* as adopted by the EU and Danish disclosure requirements for listed companies as well as the preparation of Parent financial statements that give a true and fair view in accordance with the *Danish Financial Statements Act*, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and Parent financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements and Parent financial statements based on our audit. We conducted our audit in accordance with *International Standards on Auditing* and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and Parent financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and Parent financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the consolidated financial statements and Parent financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements and Parent financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by Management as well as the overall presentation of the consolidated financial statements and Parent financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2012 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2012 in accordance with *International Financial Reporting Standards* as adopted by the EU and Danish disclosure requirements for listed companies.

Further, in our opinion, the Parent financial statements give a true and fair view of the Parent's financial position at 31 December 2012 and of the results of its operations for the financial year 1 January – 31 December 2012 in accordance with the *Danish Financial Statements Act*.

Statement on Management review

Pursuant to the *Danish Financial Statements Act*, we have read the Management review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and Parent financial statements.

On this basis, it is our opinion that the information provided in the Management review is consistent with the consolidated financial statements and Parent financial statements.

Copenhagen, 26 February 2013

Deloitte
Statsautoriseret Revisionspartnerselskab

Erik Holst Jørgensen
State Authorised Public Accountant

Kirsten Aaskov Mikkelsen
State Authorised Public Accountant


CPH TURNKEY

GROUP ACCOUNTING POLICIES

General

The consolidated financial statements are presented in compliance with *International Financial Reporting Standards* as adopted by the EU and Danish disclosure requirements for annual reports published by reporting class D (listed) companies, cf. the Danish executive order on IFRS issued in compliance with the *Danish Financial Statements Act*. The registered office of William Demant Holding A/S is in Denmark.

The consolidated financial statements are presented in Danish kroner (DKK), which is the presentation currency for Group activities and the functional currency for the Parent.

The consolidated financial statements are presented on the basis of historical cost, except for derivatives and financial assets classified as available for sale, which are measured at their fair values.

The financial statements for the Parent are presented separately from the consolidated financial statements and are shown on the last pages of this report. The Parent's accounting policies are also shown on the last pages of this report in connection with the financial statements for the Parent.

The accounting policies remain unchanged for the consolidated financial statements compared to 2011. However, a few reclassifications in the comparative figures for 2011 have been made.

Effect of new accounting standards

The Group has implemented all the new, updated and amended standards and interpretations as approved by the EU and applicable to the 2012 financial year. None of these new, updated and amended standards or interpretations resulted in any changes to the accounting policies for the Group or had any significant impact on the consolidated financial statements for 2012.

Effect of new accounting standards not yet in force

Revised or new standards and interpretations issued, but not yet effective or approved by the EU at the time of publication of this Annual Report, have not been incorporated into this Annual Report.

Further amendments to IAS 1 *Presentation of Financial Statements* will require that items recognised in other comprehensive income will be classified in items that, in compliance with other standards, are subsequently reclassified from other comprehensive income to the income statement or are classified in items that are not subsequently reclassified. These amendments will become effective for financial years starting on 1 July 2012 or later.

Assessing the effects of the Group's implementation of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IAS 28 *Investments in Associates and Joint Ventures* will require a detailed analysis. These standards will become effective on 1 January 2013 and have been approved by the EU with an effective date from 1 January 2014. Following a concrete assessment, such amendments may mean that some Group associates, which are treated as associates under the current accounting policies, may have to be treated as subsidiaries and will have to be consolidated as such. The existing option of using pro rata consolidation of joint ventures in the consolidated financial statements will be revoked, as such ventures must in the future be recognised using the equity method or be consolidated as subsidiaries.

Estimating the effect of such amendments is not possible in practice until further analyses have been made.

In Management's opinion, the future implementation by the Group of other standards and interpretations will not have any significant impact on the annual reports for future reporting periods.

Accounting estimates and assumptions

Many items can only be estimated rather than accurately measured. Such estimates are based on the most recent information available on preparation of the financial statements. Estimates and assumptions are therefore reassessed on an ongoing basis. Actual figures may however deviate from these estimates. Any changes in accounting estimates will be recognised in the reporting period in which such changes are made. In connection with the practical application of the accounting policies, Management has made usual accounting estimates and assessments concerning development costs and business combinations as well as valuation of non-current assets, inventories, receivables and liabilities.

In our opinion, the product development undertaken by the Group today cannot meaningfully be allocated to either the development of new products or the further development of existing products. Further, as our products are subject to various authority approvals, it is difficult to determine the final completion of new corporate products.

Definition of materiality

IFRS contain extensive disclosure requirements. The Group discloses the information required according to IFRS, unless such information is deemed immaterial or irrelevant.

Consolidated financial statements

The consolidated financial statements comprise William Demant Holding A/S (the Parent) and the enterprises in which the Parent can or actually exercises a controlling interest by either directly or indirectly holding more than 50% of the voting rights, or in which the Parent in some other manner has a controlling interest.

Enterprises in which the Group holds 20-50% of the voting rights or in some other manner can or actually exercises a significant interest are considered to be associates and are incorporated proportionately into the consolidated financial statements using the equity method.

Consolidation principles

The consolidated financial statements are prepared on the basis of the financial statements for the Parent and its subsidiaries by aggregating uniform items. Enterprises which, by agreement, are managed jointly with one or more other enterprises are included through pro rata consolidation. The financial statements included in the consolidated financial statements are prepared in accordance with the Group's accounting policies. Intra-Group income, expenses, shareholdings, balances and dividends as well as unrealised intra-Group profits on inventories are eliminated.

The accounting items of subsidiaries are recognised 100% in the consolidated financial statements. On initial recognition, minority interests are measured either at their fair value or at their proportionate share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. The particular method is chosen for each individual transaction. Minority interests are subsequently adjusted for their proportional share of changes in equity of the particular subsidiary. Comprehensive income is allocated to minority interests whether or not, as a result hereof, the value of such interests will be negative.

Buying or selling minority interests in a subsidiary, which does not result in control or discontinuation of control of such subsidiary, is treated as an equity transaction in the consolidated financial statements, and any difference between the consideration and the carrying amount is allocated to the Parent's share of the equity.

Business combinations

Newly acquired or newly established enterprises are recognised in the consolidated financial statements from the time of acquisition or formation. The time of acquisition is the date when control of the enterprise is actually taken. Enterprises either divested or discontinued are recognised up until the date of divestment or discontinuation. The date of divestment is the date when control is actually transferred to a third party. In respect of newly acquired enterprises, comparative figures and key figures will not be restated.

On acquiring new enterprises of which the Group obtains control, the purchase method is applied according to which their identified assets, liabilities and contingent liabilities are measured at their fair values on the acquisition date. Any non-current assets acquired for the purpose of resale are, however, measured at their fair values less expected costs to sell. Restructuring costs are solely recognised in the pre-acquisition balance sheet if they are a liability for the acquired enterprise. Any tax effect of revaluations will be taken into account.

The cost of an acquired enterprise consists of the fair value of the consideration paid for such an enterprise. If the final consideration is conditional upon one or more future events, the consideration will be recognised at the fair value on the acquisition date. Any subsequent adjustment of contingent consideration is recognised directly in the income statement, unless the adjustment is the result of new information about conditions prevailing on the acquisition date, and this information becomes available up to 12 months after the acquisition date. Acquisition costs are recognised directly in the income statement when incurred.

If cost exceeds the fair values of the assets, liabilities and contingent liabilities identified on acquisition, any remaining positive differences (goodwill) are recognised in the balance sheet under intangible assets and tested for impairment at least annually. If the carrying amount of an asset exceeds its recoverable amount, it will be written down to such lower recoverable amount.

If, on the acquisition date, there are any uncertainties with respect to identifying or measuring acquired assets, liabilities or contingent liabilities or uncertainty with respect to determining their cost, initial recognition will be made on the basis of provisionally calculated values. Such provisionally calculated values may be adjusted or additional assets or liabilities may be recognised up to 12 months after the acquisition date, if new information becomes available about conditions prevailing on the acquisition date, which would have affected the calculation of values on that day, had such information been known.

Profit or loss from the divestment or winding up of subsidiaries and associates

Profit or loss from the divestment or winding up of subsidiaries and associates, resulting in the Group no longer having a controlling or significant interest, will be determined as the difference between the fair value of the sales proceeds or disposal consideration and the fair values of any remaining equity interests. Any such profits or losses will be recognised in the income statement together with any accumulated foreign currency translation adjustments previously recognised in other comprehensive income.

Foreign currency translation

On initial recognition, transactions in foreign currencies are translated at the exchange rates prevailing at the date of the transaction. The functional currencies of the enterprises are determined by the economic environment in which they operate (normally the local currency).

Receivables, payables and other monetary items in foreign currency are translated into Danish kroner at the exchange rates prevailing at the balance sheet date. Realised and unrealised foreign currency translation adjustments are recognised in the income statement under gross profit or net financial items, depending on the purpose of the underlying transaction.

Property, plant and equipment, intangible assets, inventories and other non-monetary assets purchased in foreign currency and measured on the basis of historical cost are translated at the exchange rates prevailing at the transaction date. Non-monetary items, which are revalued at their fair values, are translated using the exchange rates at the revaluation date.

On recognition in the consolidated financial statements of enterprises presenting their financial statements in a functional currency other than Danish kroner, the income statement is translated using average exchange rates for the months of the year in question, unless they deviate materially from actual exchange rates at the transaction dates. In case of the latter, actual exchange rates are applied. Balance sheet items are translated at the exchange rates prevailing at the balance sheet date. Goodwill is considered as belonging to the acquired enterprise in question and is translated at the exchange rate prevailing at the balance sheet date.

All foreign currency translation adjustments are recognised in the income statement, with the exception of the following, which are recognised in other comprehensive income.

- The translation of net assets of foreign subsidiaries using exchange rates prevailing at the balance sheet date
- The translation of income statements of foreign subsidiaries using monthly average exchange rates for the months of the year, whereas their balance sheet items are translated using exchange rates at the balance sheet date
- The translation of non-current intra-Group receivables that are considered to be an addition to or deduction from net investments in foreign subsidiaries
- The translation of equity interests in associates

Derivatives

On initial recognition, derivatives are measured at their fair values at the settlement date. After initial recognition, derivatives are measured at their fair values at the balance sheet date. Any positive or negative fair values of derivatives are recognised as separate items in the balance sheet. Forward exchange contracts and interest swaps are measured based on current market data and by use of commonly recognised valuation methods.

Any changes in fair values of derivatives classified as and satisfying the criteria for hedging of the fair value of a recognised asset or a recognised liability are recognised in the income statement together with any changes in the fair value of the hedged asset or hedged liability.

Any changes in fair values of derivatives classified as and satisfying the conditions for effective hedging of future transactions are recognised in other comprehensive income. The ineffective portion is recognised directly in the income statement. On realisation of the hedged transactions, the accumulated changes are recognised together with the particular transactions.

Derivatives not fulfilling the conditions for treatment as hedging instruments are considered trading portfolios and measured at their fair values, with fair value adjustments being recognised, on an ongoing basis, in the income statement.

Share-based incentive programmes

Share-based incentive programmes entitling staff to buy shares in the Parent only (equity schemes) are measured at the fair value of such equity instruments at the time of allocation and are recognised in the income statement under staff costs over the period in which staff earn the right to buy such shares. The set-off is recognised directly in equity.

Income statement

Income and costs are recognised on an accruals basis. The income statement is broken down by function, and all costs, including depreciation, amortisation and impairment losses, are therefore charged to production, distribution, administration and research and development.

Revenue

Revenue is recognised in the income statement upon delivery and transfer of risk to buyer. Revenue from services, including service packages and extended warranties, is recognised on a straight-line basis in step with the delivery of such services.

Revenue is measured at the fair value of the agreed consideration excluding charges. Any discounts and profits on goods expected to be returned are set off against revenue. Revenue from agency-like business is measured at the value of the agency commission.

Production costs

Production costs are costs incurred to generate revenue. Commercial companies recognise cost of sales under production costs. Production companies recognise cost of raw materials, consumables, production staff as well as maintenance of and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets used in the production process under production costs.

Research and development costs
Research costs are always recognised in the income statement in step with the incurrence of such costs.

Development costs include all costs not satisfying capitalisation criteria, but incurred in connection with development, prototype construction, development of new business concepts and amortisation of capitalised development costs.

Distribution costs
Distribution costs include costs relating to training, sales, marketing, promotion materials, distribution, bad debts as well as depreciation, amortisation and impairment losses on assets used for distribution purposes.

Administrative expenses
Administrative expenses include administrative staff costs, office expenses as well as depreciation, amortisation and impairment losses on assets used for administrative purposes.

Public subsidies
Public subsidies are recognised when there is reasonable certainty that the conditions for such subsidies are satisfied and that they will be granted.

Subsidies for the covering of costs incurred are recognised proportionately in the income statement over the periods in which the particular costs are recognised in the income statement. Subsidies are set off against costs incurred. Public subsidies attaching to a particular asset are deducted from the cost of such asset.

Net financial items
Net financial items mainly consist of interest income and expenses and also include interest on finance leases, amortisation of financial assets and liabilities as well as certain realised and unrealised foreign exchange gains and losses.

Interest income and expenses are accrued based on the principal amount and the effective rate of interest. The effective rate of interest is the discount rate used for discounting expected future payments attaching to the financial asset or financial liability in order for the present value to match the carrying amount of such asset or liability.

Tax
Tax on the year's profit includes current tax and any changes in deferred tax. Current tax includes taxes payable determined on the basis of the estimated taxable income for the year and any prior-year tax adjustments. Tax on changes in equity and other comprehensive income is recognised directly in equity and in other comprehensive income, respectively. Foreign currency translation adjustments of deferred tax are recognised as part of the year's adjustments of deferred tax.

Current tax liabilities or tax receivables are recognised in the balance sheet and determined as tax calculated on the year's taxable income adjusted for any tax on account. The tax rates prevailing at the balance sheet date are used for calculation of the year's taxable income.

Deferred tax is recognised using the balance-sheet liability method on any temporary differences between the tax base of assets and liabilities and their carrying amounts, except for deferred tax on temporary differences arisen either on initial recognition of goodwill or on initial recognition of a transaction that is not a business combination, with the temporary difference ascertained on initial recognition affecting neither net profits nor taxable income.

Deferred tax is determined on the basis of the tax rules and rates prevailing at the balance sheet date in the particular countries. The effect on deferred tax of any changes in tax rates is included in tax on the year's profit, unless such deferred tax is attributable to items previously recognised directly in equity or in other comprehensive income. In the latter case, such changes will also be recognised directly in equity or in other comprehensive income. The tax base of a loss, if any, which may be set off against future taxable income, is carried forward and set off against deferred tax in the same legal tax entity and jurisdiction. Deferred tax assets, including the tax value of any tax losses allowed for carryforward, are recognised in the balance sheet at the estimated realisable value of such assets either by a set-off against a deferred tax liability or as a net asset to be set off against future positive taxable income. At the balance sheet date, an assessment is made as to whether it is probable that sufficient taxable income will be available in the future against which the deferred tax asset can be utilised. Deferred tax on temporary differences between the carrying amount and the tax value of investments in subsidiaries and associates is recognised, unless the Parent is able to control the time of realisation of such deferred tax and it is probable that such deferred tax will not be released as current tax in the foreseeable future.

Deferred tax is recognised in respect of eliminations of intra-Group profits and losses.

Balance sheet

Intangible assets
On initial recognition, goodwill is recognised and measured as the difference between the cost of the acquisition – including the value of minority interests in the acquired enterprise and the fair value of previously acquired equity interests – and the fair value of the acquired assets, liabilities and contingent liabilities, see description under *Business combinations*.

On recognition of goodwill, goodwill is allocated to corporate activities that generate independent payments (cash-generating units). The definition of a cash-generating unit is in line with the corporate managerial structure as well as internal financial management and reporting.

Goodwill is not amortised, but is tested for impairment at least once a year. If the recoverable amount of a cash-gene-rating unit is lower than the carrying amounts of the property, plant and equipment and intangible assets, including goodwill, attributable to the particular cash-generating unit, the particular assets will be written down.

Patents and licences acquired from a third party are measured at cost less accumulated amortisation and impairment losses.

Patents and licences are amortised over their estimated economic lives, however maximum 20 years.

Other intangible assets, including intangible assets acquired in connection with a business combination, are measured at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised on a straight-line basis over their estimated useful lives of 3-5 years.

Property, plant and equipment
Property, plant and equipment are recognised at cost less accumulated depreciation and impairment losses. Cost is defined as the acquisition price and costs directly relating to the acquisition until such time as the particular asset is ready for use. As regards assets produced by the Group, cost includes all costs directly attributable to the production of such assets, including materials, components, sub-supplies and payroll. In respect of financially leased assets, cost is calculated as the fair value or the present value of future lease payments, whichever is lower.

Interest expenses on loans for financing of the production of property, plant and equipment are recognised in the cost of the assets if such expenses pertain to the manufacturing period. Other borrowing costs are recognised in the income statement.

If the acquisition or the use of an asset requires the Group to defray costs for the demolition or restoration of such asset, the calculated costs hereof are recognised as a provision and as part of the cost of the particular asset, respectively.

The cost of a total asset is divided into various elements, which will be depreciated separately if their useful lives are not the same.

The depreciation basis is cost less the estimated residual value of an asset after the end of its useful life. The residual value is the estimated amount, which could after deduction of costs to sell be obtained through the sale of the asset today, such asset already having the age and being in the state of repair expected after the end of its useful life. The residual value is determined at the time of acquisition and is reviewed annually. If the residual value exceeds the carrying amount, depreciation will be discontinued.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Land is not depreciated.

Buildings	33-50 years
Technical installations	10 years
Plant and machinery	3-5 years
Other plant, fixtures and operating equipment	3-5 years
IT hardware and software	3 years
Leasehold improvements	over the lease period

Depreciation methods, useful lives and residual values are reviewed annually.

Property, plant and equipment are written down to their recoverable amounts, if these are lower than their carrying amounts.

Equity interests in associates
Equity interests in associates are recognised and measured using the equity method, i.e. interests are recognised in the balance sheet at their proportionate share of the equity value determined in accordance with the Group's accounting policies, after the deduction of and with the addition of proportionate intra-Group gains and losses, respectively, and with the addition of the carrying amount of any goodwill. The proportionate shares of profit after tax of associates are recognised in the income statement after the year's changes in unrealised intra-Group profits less any impairment loss relating to goodwill.

The proportionate shares of all transactions and events, which have been recognised in other comprehensive income for the associate, are recognised in the consolidated other comprehensive income.

On the acquisition of equity interests in associates, the acquisition method is applied.

Impairment of property, plant and equipment, intangible assets and equity interests in associates
The carrying amounts of property, plant and equipment and

intangible assets with definite useful lives as well as equity interests in associates are reviewed at the balance sheet date to determine whether there are indications of impairment. If so, the recoverable amount of the particular asset is calculated to determine the need for impairment, if any. The recoverable amounts of goodwill and other intangible assets with indefinite useful lives will be estimated whether or not there are indications of impairment.

The recoverable amount is estimated for the smallest cash-generating unit that the asset is part of. The recoverable amount is determined as the higher of the fair value of the asset or cash-generating unit less costs to sell or the value in use of such asset or unit. On determination of the value in use, estimated future cash flows will be discounted to their present values by using a discount rate that reflects partly current market valuations of the time value of money, and partly the special risks attaching to the particular asset or cash-generating unit for which no adjustment has been made in the estimated future cash flows. If the recoverable amount of a particular asset or cash-generating unit is lower than its carrying amount, such asset or unit is written down to its recoverable amount.

Impairment losses are recognised in the income statement. On any subsequent reversal of impairment losses due to changes in the assumptions on which the calculation of the recoverable amount is based, the carrying amount of an asset or cash-generating unit is increased to the adjusted estimate of the recoverable amount, however not exceeding the carrying amount of the asset or cash-generating unit, had the particular asset or cash-generating unit not been written down. Amortisation of goodwill is not reversed.

Other investments

On initial recognition, other investments are classified as "assets available for sale", recognised at their fair values and subsequently measured at their fair values. Unrealised value adjustments are recognised in other comprehensive income. On realisation, value adjustments are transferred to net financial items in the income statement.

The determination of fair values is based on current market data and by use of recognised valuation methods.

Inventories

Raw materials, components and goods for resale are measured at cost according to the FIFO principle (according to which the most recent supplies are considered to be in stock) or at their net realisable value, whichever is lower. Group-manufactured products and work in progress are measured at the value of direct cost, direct payroll costs, consumables and at a proportionate share of indirect production costs (IPO), which are allocated on the basis of the normal capacity of the production facility. IPO include the proportionate share of capacity costs directly relating to Group-manufactured products and work in progress.

The net realisable value of inventories is calculated as the estimated selling price less costs of completion and costs to sell.

Receivables

Receivables include trade receivables and other receivables. Receivables are included in the category loans and receivables, which are financial assets with fixed or determinable payments, which are not listed on an active market and are not derivatives.

On initial recognition, receivables are measured at their fair values with the addition of transaction costs. Receivables *with* a definite maturity date are measured at amortised cost. Receivables *without* a definite maturity date are measured at cost. Current receivables arisen due to the Group's ordinary activities are measured at their nominal value. Based on assessments of the risk of losses on individual receivables and groups of similar receivables, provisions are made for bad debts using a provisions account.

Prepaid expenses

Prepaid expenses recognised under assets include costs relating to the following financial year. Prepaid expenses are measured at cost.

Equity

Foreign currency translation reserve includes foreign currency adjustments on translation of financial statements of foreign subsidiaries or associates from their respective functional currencies into Danish kroner. Foreign currency translation adjustments are recognised in the income statement on realisation of the net investment.

Hedging reserve includes fair value adjustments of derivatives or loans satisfying the criteria for hedging of future transactions. The amounts are recognised in the income statement or the balance sheet in step with recognition of the hedged transactions.

Treasury shares and dividend

On the purchase or sale of treasury shares, the purchase price or selling price, respectively, is recognised directly in equity under other reserves (retained earnings). A capital reduction through the cancellation of treasury shares will reduce the share capital by an amount corresponding to the nominal value of such shares.

Proposed dividend is recognised as a liability at the time of adoption at the annual general meeting.

Pension liabilities and similar commitments
The Group has pension benefit plans and similar agreements with some of its employees. As regards *defined contribution plans*, the Group pays regular, fixed contributions to independent pension companies. Contributions are recognised in the income statement for the period in which employees have performed work entitling them to such pension contributions. Contributions due are recognised in the balance sheet as a liability.

As regards *defined benefit plans*, the Group is obliged to pay a certain contribution when an employee covered by such a plan retires, for instance a fixed amount or a percentage of the employee's final salary. In relation to defined benefit plans, an actuarial calculation is made periodically of the accrued present value of future benefits to which employees through their past employment with the Group are entitled and which are payable under the benefit plan. The value in use is calculated on the basis of assumptions in respect of the future development in, among other things, wage levels, interest rates and inflation rates. The value in use less the fair value of any assets attaching to the benefit plan is recognised in the balance sheet under provisions.

The annual pension costs are recognised in the income statement based on actuarial estimates and the financial expectations at the beginning of the year. Differences between the estimated development of pension assets and pension liabilities and their realised values are termed actuarial gains and actuarial losses, respectively, and are recognised in other comprehensive income.

Other non-current employee benefits are recognised also using actuarial calculation. Actuarial gains or losses on such benefits are recognised directly in the income statement.

Provisions
Provisions are recognised where, as a result of an earlier event, the Group has a legal or constructive obligation and where the settlement of such an obligation is expected to draw on corporate financial resources, but where there is uncertainty about the timing or amount of the obligation. Provisions are measured on a discounted basis based on Management's best estimate of the amount at which a particular liability may be settled. The discount effect of any changes in the present value of provisions is recognised as a financial expense.

Lease commitments
Lease commitments concerning assets held under a finance lease are recognised in the balance sheet as a liability and are measured on signing of the particular lease at the lower of the fair value of the leased asset or the present value of future lease payments. After initial recognition, lease commitments are measured at amortised cost. The difference between the present value and the nominal value of lease payments is recognised in the income statement as a financial expense over the lease period.

Lease payments concerning operational leases are recognised on a straight-line basis in the income statement over the lease period.

Other financial liabilities
Debts to credit institutions are recognised at the date of borrowing at their proceeds less transaction costs. For subsequent periods, financial liabilities are measured at amortised cost in order for the difference between proceeds and the nominal value to be recognised as a financial expense over the term of the loan.

On initial recognition, other financial liabilities are measured at their fair values and subsequently at amortised cost using the effective interest method and the difference between proceeds and the nominal value is recognised in the income statement as a financial expense over the term of the loan.

Other non-financial liabilities
Other non-financial liabilities are recognised where, as a result of an earlier event, the Group has a legal or constructive obligation and where the settlement of such an obligation is expected to draw on corporate financial resources. Other non-financial liabilities are measured on a discounted basis, and the discount effect of any changes in the present value of the liabilities is recognised as a financial expense.

On the sale of products with a right of return, a liability is recognised in respect of the profit on products expected to be returned and of any costs connected with the return of such products. Warranty commitments include the obligation to remedy faulty or defective products in the warranty period.

Deferred income
Deferred income includes income received relating to the following financial year. Deferred income is measured at cost.

Cash flow statement
The cash flow statement is prepared according to the indirect method and reflects the consolidated net cash flow broken down into operating, investing and financing activities.

Cash flow from operating activities includes inflows from the year's operations adjusted for non-cash operating items, changes in working capital, financial income received and expenses paid, realised foreign currency translation gains and losses and income tax paid.

Cash flow from investing activities includes payments in respect of the acquisition or divestment of enterprises and financial assets as well as the purchase, development, improvement or sale of intangible assets and property, plant and equipment.

Finance leases are considered transactions that do not have a cash flow effect. Cash flows relating to finance leases are recognised as payment of interest and repayment of debt.

Cash flow from financing activities includes payments to and from shareholders and the raising and repayment of non-current and current debt not included in working capital.

Cash flow in currencies other than the functional currency is recognised at average exchange rates for the months of the year, unless they deviate significantly from actual exchange rates on the transaction dates.

Cash and cash equivalents are cash less interest-bearing, current bank debt.

Segment information

Based on the criteria in IFRS 8 *Operating Segments* and the internal reporting model used by Management for the assessment of results and the allocation of resources, we have identified one operating segment, *the development, manufacture and sale of products and equipment designed to facilitate people's hearing and communication*, which complies with our approach to the organisation and management of activities.

A geographical distribution of revenue and non-current assets is also presented.

CONSOLIDATED INCOME STATEMENT

(DKK million)	Note	2012	2011
Revenue	1	8,555	8,041
Production costs	2/3	-2,428	-2,264
Gross profit		**6,127**	**5,777**
Research and development costs	2/3	-652	-633
Distribution costs	2/3	-3,319	-2,959
Administrative expenses	2/3/4	-515	-482
Share of profit after tax, associates	10	12	6
Operating profit (EBIT)		**1,653**	**1,709**
Financial income	5	44	40
Financial expenses	5	-176	-143
Profit before tax		**1,521**	**1,606**
Tax on profit for the year	6	-370	-407
Profit for the year		**1,151**	**1,199**
Profit for the year attributable to:			
William Demant Holding A/S' shareholders		1,153	1,198
Minority interests		-2	1
		1,151	**1,199**
Earnings per share (EPS), DKK	7	20.2	20.6
Diluted earnings per share (DEPS), DKK	7	20.2	20.6

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(DKK million)	2012	2011
Profit for the year	1,151	1,199
Other comprehensive income:		
Foreign currency translation adjustment, foreign enterprises	3	57
Value adjustment of hedging instruments:		
Value adjustment for the year	4	-80
Value adjustment transferred to revenue	101	-26
Value adjustment transferred to financial expenses	28	22
Actuarial gains/(losses) on defined benefit plans	-8	-24
Tax on other comprehensive income	-27	13
Other comprehensive income	101	-38
Comprehensive income	**1,252**	**1,161**
Profit for the year attributable to:		
William Demant Holding A/S' shareholders	1,254	1,157
Minority interests	-2	4
	1,252	**1,161**
Breakdown of tax on other comprehensive income:		
Foreign currency translation adjustment, foreign enterprises	6	-9
Value adjustment of hedging instruments for the year	-1	20
Value adjustment of hedging instruments transferred to revenue	-25	7
Value adjustment of hedging instruments transferred to financial expenses	-7	-5
Tax on other comprehensive income	**-27**	**13**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2012	2011
Assets			
Goodwill		2,568	1,976
Patents and licences		47	44
Other intangible assets		33	35
Intangible assets	8	**2,648**	**2,055**
Land and buildings		686	672
Plant and machinery		159	132
Other plant, fixtures and operating equipment		259	250
Leasehold improvements		170	154
Prepayments and assets under construction		98	68
Property, plant and equipment	9	**1,372**	**1,276**
Investments in associates	10	278	96
Receivables from associates	10/15	124	83
Other investments	10/15	12	9
Other receivables	13/15	623	487
Deferred tax assets	11	268	278
Other non-current assets		**1,305**	**953**
Non-current assets		**5,325**	**4,284**
Inventories	12	1,014	1,082
Trade receivables	13/15	1,754	1,711
Receivables from associates	15	12	5
Income tax		88	46
Other receivables	13/15	142	140
Unrealised gains on financial contracts	15	31	0
Prepaid expenses		104	90
Cash	15	307	288
Current assets		**3,452**	**3,362**
Assets		**8,777**	**7,646**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2012	2011
Equity and liabilities			
Share capital		58	58
Other reserves		4,003	3,242
Equity attributable to William Demant Holding A/S' shareholders		4,061	3,300
Equity attributable to minority interests		-2	4
Equity		**4,059**	**3,304**
Interest-bearing debt	15	76	1.011
Deferred tax liabilities	11	148	113
Provisions	14	122	195
Other liabilities	16	136	190
Non-current liabilities		**482**	**1,509**
Interest-bearing debt	15	2,637	1,301
Trade payables	15	351	405
Income tax		54	45
Provisions	14	36	37
Other liabilities	16	936	746
Unrealised losses on financial contracts	15	26	127
Deferred income		196	172
Current liabilities		**4,236**	**2,833**
Liabilities		**4,718**	**4,342**
Equity and liabilities		**8,777**	**7,646**

Operating lease commitments	17
Contingent liabilities	18
Related parties	19
Acquisition of enterprises and activities	20
Divestment of enterprises and activities	21
Government grants	22
Specifications to consolidated cash flow statement	23
Events after the balance sheet date	24
Approval and publication	25
Shareholders	26
Board of Directors and Executive Board	27

CONSOLIDATED CASH FLOW STATEMENT

(DKK million)	Note	2012	2011
Operating profit (EBIT)		1,653	1,709
Non-cash items etc.	23	237	253
Change in receivables etc.		-31	-112
Change in inventories		89	-71
Change in trade payables and other liabilities etc.		-81	117
Change in provisions		-84	-2
Cash flow from operating profit		**1,783**	**1,894**
Financial income etc. received		38	35
Financial expenses etc. paid		-171	-123
Realised foreign currency translation adjustments		2	-2
Income tax paid		-380	-423
Cash flow from operating activities (CFFO)		**1,272**	**1,381**
Acquisition of enterprises, participating interests and activities		-682	-330
Divestment of enterprises and activities		0	5
Investments in and disposal of intangible assets		-14	-2
Investments in property, plant and equipment	23	-329	-407
Disposal of property, plant and equipment		19	25
Investments in other non-current assets		-273	-212
Disposal of other non-current assets		107	105
Cash flow from investing activities (CFFI)		**-1,172**	**-816**
Repayment on non-current debt		-148	-131
Proceeds from borrowings	23	42	0
Purchase of treasury shares		-497	-301
Other adjustments		3	-5
Cash flow from financing activities (CFFF)		**-600**	**-437**
Cash flow for the year, net		**-500**	**128**
Cash and cash equivalents at the beginning of the year		-846	-955
Foreign currency translation adjustment of cash and cash equivalents		8	-19
Cash and cash equivalents at the end of the year		**-1,338**	**-846**
Breakdown of cash and cash equivalents at the end of the year:			
Cash	15	307	288
Interest-bearing current bank debt	15	-1,645	-1,134
Cash and cash equivalents at the end of the year		**-1,338**	**-846**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Retained earnings	William Demant Holding A/S' shareholders' share	Minority interests' share	Equity
Equity at 1.1.2011	**58**	**47**	**-26**	**2,364**	**2,443**	**0**	**2,443**
Compr. income in 2011:							
Profit for the year	-	-	-	1,198	1,198	1	1,199
Other compr. income:							
Foreign currency translation adjustment, foreign enterprises	-	54	-	-	54	3	57
Value adjustment of hedging instruments:							
Value adjustment, year	-	-	-80	-	-80	-	-80
Value adjustment transferred to revenue	-	-	-26	-	-26	-	-26
Value adjustment transferred to financial expenses	-	-	22	-	22	-	22
Actuarial gains/(losses) on defined benefit plans	-	-	-	-24	-24	0	-24
Tax on other compr. income	-	-9	22	0	13	0	13
Other compr. income	-	45	-62	-24	-41	3	-38
Compr. income, year	**-**	**45**	**-62**	**1,174**	**1,157**	**4**	**1,161**
Purchase of treasury shares	-	-	-	-301	-301	-	-301
Other changes in equity	-	-	-	1	1	0	1
Equity at 31.12.2011	**58**	**92**	**-88**	**3,238**	**3,300**	**4**	**3,304**
Compr. income in 2012:							
Profit for the year	-	-	-	1,153	1,153	-2	1,151
Other compr. income:							
Foreign currency translation adjustment, foreign enterprises	-	3	-	-	3	0	3
Value adjustment of hedging instruments:							
Value adjustment, year	-	-	4	-	4	-	4
Value adjustment transferred to revenue	-	-	101	-	101	-	101
Value adjustment transferred to financial expenses	-	-	28	-	28	-	28
Actuarial gains/(losses) on defined benefit plans	-	-	-	-8	-8	0	-8
Tax on other compr. income	-	6	-33	0	-27	0	-27
Other compr. income	-	9	100	-8	101	0	101
Compr. income, year	**-**	**9**	**100**	**1,145**	**1,254**	**-2**	**1,252**
Purchase of treasury shares	-	-	-	-497	-497	-	-497
Other changes in equity	-	-	-	4	4	-4	0
Equity at 31.12.2012	**58**	**101**	**12**	**3,890**	**4,061**	**-2**	**4,059**

For changes in share capital, please refer to *Parent statement of changes in equity* on page 82.

Note 1 – Segment information by geographic region and business activity

(DKK million)

Revenue and non-current assets by geographic region:	Revenue 2012	Revenue 2011	Non-current assets 2012	Non-current assets 2011
Denmark	170	190	920	855
Other Europe	3,158	3,062	963	672
North America	3,349	3,059	2,989	2,345
Oceania	877	824	356	311
Asia	650	591	81	88
Other countries	351	315	16	13
Total	**8,555**	**8,041**	**5,325**	**4,284**

Consolidated revenue mainly derives from the sale of goods and is broken down by the customers' geographical location. The five largest single customers together account for less than 10% of total consolidated revenue. Non-current assets are broken down by the geographical domicile of such assets.

Revenue by business activity:	Revenue 2012	Revenue 2011
Hearing Devices	7,410	7,075
Diagnostic Instruments	844	686
Personal Communication	301	280
Total	**8,555**	**8,041**

	2012	2011
Value adjustments transferred from equity relating to derivatives made for hedging revenue	-101	26

Note 2 – Employees

(DKK million)

	2012	2011
Staff cost:		
Wages and salaries	2,916	2,618
Defined contribution plans	61	43
Defined benefit plans (note 14)	13	10
Social security costs etc.	206	176
Total	**3,196**	**2,847**
Of which cash remuneration for Executive Board and Board of Directors:		
Executive Board, salary	12	11
Executive Board, bonus and pension	0	0
Board of Directors, remuneration	3	3

The President & CEO of William Demant Holding is entitled to a seniority bonus, matching one year's salary for every four years of employment after 2005. This seniority bonus is recognised as a defined benefit plan commitment and will be paid out on termination of his employment. In 2012, the basic remuneration for a member of the Parent's Board of Directors was DKK 300,000 (DKK 300,000 in 2011). The Chairman of the Board of Directors receives three times the basic remuneration and the Deputy Chairman twice the basic remuneration.

	2012	2011
Staff cost by function:		
Production costs	644	563
Research and development costs	439	424
Distribution costs	1,782	1,575
Administrative expenses	331	285
Total	**3,196**	**2,847**
Average number of full-time employees	8,025	7,392

The number of employees in proportionately consolidated companies is included with the Group's proportionate ownership interest in the particular enterprises. The average number of such employees is 472 (483 in 2011), the William Demant Group accounting for 290 (297 in 2011).

Note 3 – Amortisation, depreciation and impairment losses

(DKK million)	2012	2011
Amortisation of intangible assets	-20	-15
Depreciation on property, plant and equipment	-218	-187
Total	**-238**	**-202**
Amortisation and depreciation by function:		
Production costs	-55	-51
Research and development costs	-39	-37
Distribution costs	-103	-88
Administrative expenses	-41	-26
Total	**-238**	**-202**
Net gains from sale of assets	5	5
Total	**5**	**5**
Net proceeds from sale of assets by function:		
Production costs	0	1
Distribution costs	4	3
Administrative expenses	1	1
Total	**5**	**5**

Neither in 2012 nor in 2011, has there been any impairment losses relating to property, plant and equipment or intangible assets.

Note 4 – Fees to Parent's auditors appointed by the annual general meeting

(DKK million)	2012	2011
Statutory audit	8	9
Other assurance engagements	0	0
Tax and VAT advisory services	3	2
Other services	1	1
Total	**12**	**12**

A few Group enterprises are not audited by the appointed auditors or their foreign affiliates.

Note 5 – Net financial items

(DKK million)	2012	2011
Interest on bank deposits etc.	24	25
Interest on receivables	19	14
Other financial income	1	1
Financial income from financial assets not measured at fair value in the income statement	**44**	**40**
Interest on bank debt, mortgages etc.	-96	-60
Value adjustment transferred from equity relating to derivatives made for hedging loans	-28	-22
Interest on finance lease debt	-1	-1
Interest on financial liabilities not measured at fair value in the income statement	**-125**	**-83**
Foreign exchange losses, net	-3	-18
Interest element, discounted liabilities	-1	-2
Transaction costs	-47	-40
Financial expenses	**-176**	**-143**

Note 6 – Tax

(DKK million)

	2012	2011
Tax on profit for the year:		
Current tax on profit for the year	-342	-408
Adjustment of current tax, prior years	0	16
Change in deferred tax	-45	8
Adjustment of deferred tax, prior years	18	-22
Adjustment of deferred tax at the beginning of the year due to changes in income tax rates	-1	-1
Total	**-370**	**-407**
Reconciliation of tax rates:		
Danish income tax rate	25.0%	25.0%
Differences in tax rates of non-Danish enterprises from Danish income tax rate	0.2%	0.4%
Use of tax assets not previously recognised	0.0%	-1.1%
Permanent differences	-0.2%	0.7%
Other items, including prior-year adjustments	-0.7%	0.3%
Effective tax rate	**24.3%**	**25.3%**

Note 7 – Earnings per share

	2012	2011
William Demant Holding A/S' shareholders' share of profit for the year, DKK million	1,153	1,198
Average number of shares, million	58.3	58.3
Average number of treasury shares, million	-1.3	-0.1
Average number of shares on the market, million	**57.0**	**58.2**
Earnings per share (EPS), DKK	**20.2**	**20.6**
Diluted earnings per share (DEPS), DKK	**20.2**	**20.6**

Note 8 – Intangible assets

(DKK million)	Goodwill	Patents and licences	Other intangible assets	Total intangible assets
Cost at 1.1.2012	**1,976**	**88**	**65**	**2,129**
Foreign currency translation adjustments	2	0	0	2
Additions during the year	0	12	2	14
Additions relating to acquisitions	590	0	7	597
Disposals relating to divestment of enterprises	0	0	0	0
Cost at 31.12.2012	**2,568**	**100**	**74**	**2,742**
Amortisation at 1.1.2012	**-**	**-44**	**-30**	**-74**
Foreign currency translation adjustments	-	0	0	0
Amortisation for the year	-	-9	-11	-20
Amortisation at 31.12.2012	**-**	**-53**	**-41**	**-94**
Carrying amount at 31.12.2012	**2,568**	**47**	**33**	**2,648**
Cost at 1.1.2011	**1,660**	**91**	**62**	**1,813**
Foreign currency translation adjustments	44	0	2	46
Additions during the year	0	0	1	1
Additions relating to acquisitions	274	-3	5	276
Disposals relating to divestment of enterprises	-2	0	-5	-7
Cost at 31.12.2011	**1,976**	**88**	**65**	**2,129**
Amortisation at 1.1.2011	**-**	**-38**	**-21**	**-59**
Foreign currency translation adjustments	-	0	0	0
Amortisation for the year	-	-6	-9	-15
Amortisation at 31.12.2011	**-**	**-44**	**-30**	**-74**
Carrying amount at 31.12.2011	**1,976**	**44**	**35**	**2,055**

Impairment testing is carried out annually on preparation of the annual report or on indication of impairment. On impairment testing, discounted values of future cash flows are compared with the carrying amounts. Group enterprises cooperate closely on research and development, purchasing, production, marketing and sales, as the use of resources in the individual markets is coordinated and monitored by Management in Denmark. Group enterprises are thus highly integrated. Consequently, Management considers the overall business as one cash-generating unit. Certain business activities, which to a higher degree act with more autonomy in relation to the Group, and whose profitability can be measured independently of the other activities, constitute a separate cash-generating unit. In relation to the existing integration in the Group and the recognised goodwill, neither at 31 December 2012 nor at 31 December 2011, had any separate cash-generating units been identified to which goodwill can be allocated. The annual impairment test was thus based on the Group as a whole. Based on the impairment test, there was no impairment of goodwill at 31 December 2012 and 31 December 2011. Future cash flows are based on the budget for 2013, on strategy plans and on projections hereof. Projections extending beyond 2013 are based on general parameters. The terminal value for the period after 2013 is determined on the assumption of 2% growth (2% in 2011). The discount rate is 9% (9% in 2011). Apart from goodwill, all intangible assets have limited useful lives.

Note 9 – Property, plant and equipment

(DKK million)

	Land and buildings	Plant and machinery	Other plant, fixtures and operating equipment	Leasehold improve-ments	Prepayments and assets under construction	Total property, plant and equipment
Cost at 1.1.2012	**799**	**669**	**827**	**305**	**68**	**2,668**
Foreign currency translation adjustments	5	-1	-1	4	0	7
Additions during the year	28	54	80	48	89	299
Additions relating to acquisitions	5	3	9	2	1	20
Disposals during the year	-5	-21	-22	-6	-1	-55
Transferred to/from other items	0	32	27	0	-59	0
Cost at 31.12.2012	**832**	**736**	**920**	**353**	**98**	**2,939**
Depreciation and impairment losses at 1.1.2012	**-127**	**-537**	**-577**	**-151**	**-**	**-1,392**
Foreign currency translation adjustments	0	2	2	-1	-	3
Depreciation for the year	-19	-59	-104	-36	-	-218
Disposals during the year	0	17	18	5	-	40
Transferred to/from other items	0	0	0	0	-	0
Depreciation and impairment losses at 31.12.2012	**-146**	**-577**	**-661**	**-183**	**-**	**-1,567**
Carrying amount at 31.12.2012	**686**	**159**	**259**	**170**	**98**	**1,372**
Of which financially leased assets	**43**	**0**	**0**	**0**	**0**	**43**
Cost at 1.1.2011	**678**	**624**	**734**	**256**	**63**	**2,355**
Foreign currency translation adjustments	-7	-1	5	2	1	0
Additions during the year	91	46	118	50	63	368
Additions relating to acquisitions	0	-1	7	-1	-2	3
Disposals during the year	0	-5	-50	-3	0	-58
Transferred to/from other items	37	6	13	1	-57	0
Cost at 31.12.2011	**799**	**669**	**827**	**305**	**68**	**2,668**
Depreciation and impairment losses at 1.1.2011	**-113**	**-487**	**-521**	**-123**	**-**	**-1,244**
Foreign currency translation adjustments	0	-1	-4	-1	-	-6
Depreciation for the year	-14	-55	-89	-29	-	-187
Disposals during the year	0	4	40	1	-	45
Transferred to/from other items	0	2	-3	1	-	0
Depreciation and impairment losses at 31.12.2011	**-127**	**-537**	**-577**	**-151**	**-**	**-1,392**
Carrying amount at 31.12.2011	**672**	**132**	**250**	**154**	**68**	**1,276**
Of which financially leased assets	**40**	**0**	**0**	**0**	**0**	**40**

Group property, plant and equipment with a carrying amount of DKK 2 million (DKK 3 million in 2011) have been provided in security of debt to credit institutions of DKK 2 million (DKK 3 million in 2011). Financial leases mainly concern properties acquirable at favourable prices on expiry of the term of such leases. At year-end, the contractual obligation as regards the acquisition of property, plant and equipment amounted to DKK 0 million (DKK 0 million in 2011). Neither in 2012 nor in 2011, have changes been made in material estimates in respect of property, plant and equipment.

Note 10 – Other non-current assets

(DKK million)	Investments in associates	Receivables from associates	Other investments	Other receivables
Cost at 1.1.2012	**95**	**83**	**16**	**519**
Foreign currency translation adjustments	1	-1	0	-4
Additions during the year	183	42	4	255
Disposals during the year	-9	0	0	-105
Cost at 31.12.2012	**270**	**124**	**20**	**665**
Value adjustments at 1.1.2012	**1**	**-**	**-7**	**-32**
Foreign currency translation adjustment	0	-	0	0
Share of profit after tax	12	-	-	0
Dividends received	-1	-	-	-
Disposals during the year	-4	-	-	-
Other adjustments	0	-	-1	-10
Value adjustments at 31.12.2012	**8**	**-**	**-8**	**-42**
Carrying amount at 31.12.2012	**278**	**124**	**12**	**623**
Cost at 1.1.2011	**80**	**70**	**13**	**412**
Foreign currency translation adjustments	0	2	0	7
Additions during the year	15	11	3	200
Disposals during the year	0	0	0	-100
Cost at 31.12.2011	**95**	**83**	**16**	**519**
Value adjustments at 1.1.2011	**3**	**-**	**-7**	**-28**
Foreign currency translation adjustments	0	-	0	-1
Share of profit after tax	6	-	-	-
Dividends received	0	-	-	-
Disposals during the year	0	-	-	-
Other adjustments	-8	-	0	-3
Value adjustments at 31.12.2011	**1**	**-**	**-7**	**-32**
Carrying amount at 31.12.2011	**96**	**83**	**9**	**487**

Please refer to *Subsidiaries and associates* on page 90 for a list of associates. Ownership interest equals share of voting rights. For further details on associates, please refer to note 19 *Related parties*.

Note 11 – Deferred tax

(DKK million)

	2012	2011
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax assets	268	278
Deferred tax liabilities	-148	-113
Deferred tax, net at 31.12.	**120**	**165**
Deferred tax, net at 1.1.	165	180
Foreign currency translation adjustments	-2	2
Changes in deferred tax assets	-45	7
Additions relating to acquisitions	8	2
Adjustment of deferred tax, prior years	18	-22
Adjustment of deferred tax at the beginning of the year due to changes in income tax rates	-1	-1
Deferred tax relating to changes in equity, net	-24	-3
Other adjustments	1	0
Deferred tax, net at 31.12.	**120**	**165**

The tax value of deferred tax assets not recognised is DKK 83 million (DKK 81 million in 2011) and relates mainly to tax losses. This is due to considerable uncertainty about the use of the above tax assets. The tax losses will not expire in the near future. Any sale of shares in subsidiaries and associates at the balance sheet date is estimated to result in tax in the amount of DKK 0 million (DKK 0 million in 2011).

Breakdown of the Group's temporary differences and changes:

	Temporary differences at 1.1.2012	Foreign currency translation adjustments	Acquisitions	Recognised in profit for the year	Recognised in other comprehen-sive income	Temporary differences at 31.12.2012
Intangible assets	-25	0	0	-4	0	-29
Property, plant and equipment	-49	0	0	0	0	-49
Inventories	105	0	0	14	0	119
Receivables	10	0	0	-1	0	9
Provisions	46	-1	0	-11	0	34
Tax losses	69	0	8	-9	0	68
Other	9	-1	0	-16	-24	-32
Total	**165**	**-2**	**8**	**-27**	**-24**	**120**

Note 12 – Inventories

(DKK million)	2012	2011
Raw materials and purchased components	528	576
Work in progress	18	28
Finished goods and goods for resale	468	478
Inventories	**1,014**	**1,082**
Write-downs included in the above	141	148
Carrying amount of inventories recognised at fair value after deduction of costs to sell	0	0
Included in the income statement under production costs:		
Write-downs of inventories for the year, net	32	45
Cost of goods sold for the year	1,867	1,742

Write-downs for the year are shown net, as breakdown into reversed write-downs and new write-downs is not possible. Inventories are generally expected to be sold within one year.

Note 13 – Receivables

(DKK million)	2012	2011
Trade receivables	1,754	1,711
Other non-current receivables	623	487
Other current receivables	142	140
Total	**2,519**	**2,338**
Non-impaired receivables by age:		
Balance not due	1,885	1,770
0-3 months	379	346
3-6 months	125	103
6-12 months	78	60
Over 12 months	52	59
Total	**2,519**	**2,338**
Breakdown of the year's development in write-downs:		
Write-downs for uncollectibles at 1.1.	-118	-110
Foreign currency translation adjustments	0	1
Additions relating to acquisitions	0	0
Applied during the year	16	22
Additions during the year	-32	-32
Reversals during the year	0	1
Write-downs for uncollectibles at 31.12.	**-134**	**-118**

Uncollectibles are written down, if the value of an amount receivable is impaired based on an assessment of the particular debtor's and uniform groups of debtors' ability to pay. Receivables are computed at net realisable value, and write-downs are recognised on a provisions account. For information on security or collateral, please see *Risk management activities* on page 20.

Note 14 – Provisions

(DKK million)	2012	2011
Other non-current employee benefits	41	37
Miscellaneous provisions	52	142
Other provisions	93	179
Defined benefit plan liabilities, net	65	53
Provisions at 31.12.	**158**	**232**
Breakdown of provisions:		
Non-current provisions	122	195
Current provisions	36	37
Provisions at 31.12.	**158**	**232**
Other provisions:		
Other provisions at 1.1.	179	185
Foreign currency translation adjustments	-1	2
Additions relating to acquisitions	4	0
Disposals relating to divestment of enterprises	0	-1
Provisions during the year	13	47
Applied during the year	-95	-32
Reversals during the year	-7	-22
Other provisions at 31.12.	**93**	**179**
Defined benefit plan costs recognised in the income statement:		
Current service cost	14	9
Calculated interest on plan liabilities	3	4
Expected return on plan assets	-4	-3
Costs recognised in the income statement (note 2)	**13**	**10**
Defined benefit plan costs by function:		
Research and development costs	4	2
Distribution costs	2	2
Administrative expenses	7	6
Total	**13**	**10**
Accumulated actuarial loss recognised in the statement of comprehensive income	**-36**	**-28**

At the beginning of 2012, miscellaneous provisions related mainly to the US patent case against ETG with a provision of DKK 94 million (DKK 94 million at the beginning of 2011). The case concerns the violation of two patents and was concluded in 2012, as it has been decided not to appeal to the Supreme Court. The provision at the beginning of the year has been offset against damages, legal costs and interest, which amount to a total of DKK 118 million.

Other provisions also relate to provisions for other disputes etc. and are essentially expected to be applied within the next two years.

Note 14 – Provisions – *continued*

(DKK million)	2012	2011
Present value of defined benefit plan liabilities:		
Defined benefit plan liabilities at 1.1.	161	120
Foreign currency translation adjustments	1	2
Current service costs	14	9
Calculated interest on plan liabilities	3	4
Actuarial losses/(gains)	12	36
Benefits paid	1	-15
Contributions from plan participants	2	5
Defined benefit plan liabilities at 31.12.	**194**	**161**
Fair value of plan assets:		
Plan assets at 1.1.	108	95
Foreign currency translation adjustments	1	2
Expected return on plan assets	4	3
Actuarial gains/(losses)	4	12
Contributions	11	11
Benefits paid	1	-15
Plan assets at 31.12.	**129**	**108**
Net plan liabilities recognised in the balance sheet	**65**	**53**
Return on plan assets:		
Actual return on plan assets	8	15
Expected return on plan assets	4	3
Actuarial gains/(losses) on plan assets	**4**	**12**
Assumptions:		
Discount rate	2.0%	2.5%
Expected return on plan assets	4.0%	4.0%
Future salary increase rate	1.5%	1.5%

	2012	2011	2010	2009	2008
Key figures for defined benefit plans:					
Present value of defined benefit plan liabilities	-194	-161	-120	-94	-86
Fair value of plan assets	129	108	95	73	60
Net plan liabilities	**-65**	**-53**	**-25**	**-21**	**-26**
Experience adjustments to plan liabilities	**-12**	**-36**	**1**	**6**	**2**
Experience adjustments to plan assets	**4**	**12**	**1**	**3**	**-9**

Generally, the Group does not offer defined benefit plans, but it has such plans in Switzerland and Holland, where they are required by law. Moreover, the President & CEO of the Company has a seniority bonus. Plan assets at 31 December 2012 include: bonds (42%), shares (23%), other securities (21%), cash and cash equivalents (1%) and other assets (13%). Plan assets at 31 December 2011 included: bonds (41%), shares (22%), other securities (22%), cash and cash equivalents (3%) and other assets (12%). The Group expects to pay approximately DKK 12 million in 2013 (DKK 12 million in 2011) into defined benefit plans.

Note 15 – Financial instruments and financial risks

Categories of financial instruments

(DKK million)	2012	2011
Unrealised gains on financial contracts	31	0
Financial assets used as hedging instruments	**31**	**0**
Receivables from associates	136	88
Other receivables	759	625
Trade receivables	1,754	1,711
Cash	307	288
Loans, receivables and cash	**2,956**	**2,712**
Other investments	12	9
Financial assets available for sale	**12**	**9**
Unrealised losses on financial contracts	-26	-127
Financial liabilities used as hedging instruments	**-26**	**-127**
Finance lease debt	-14	-17
Debt to credit institutions etc.	-1,054	-1,161
Interest-bearing bank debt	-1,645	-1,134
Trade payables	-351	-405
Other liabilities	-906	-745
Financial liabilities measured at amortised cost	**-3,970**	**-3,462**

As was the case in 2011, most financial liabilities fall due within one year. As regards financial assets and liabilities, their carrying amounts generally match their fair values. The following non-financial items are included in the balance sheet and represent the difference between the table above and the balance sheet: other receivables DKK 6 million (DKK 2 million in 2011) and other liabilities DKK -166 million (DKK -191 million in 2011).

Policies relating to financial risk management and capital structure

Financial risk management concentrates on exchange rate, interest rate, credit and liquidity risks with a view to protecting the Group against potential losses and ensuring that Management's forecasts for the current year are only to a limited extent affected by changes or events in the surrounding world – be they changes in exchange rates or in interest rate levels. It is corporate policy to exclusively hedge commercial risks and not to undertake any financial transactions of a speculative nature.

Based on the Group's liquidity situation and budgets, Management currently assesses the consolidated capital structure. The Group aims to have a net interest-bearing debt of DKK 1.5-2.0 billion. This level has been determined to enable the Group to act quickly and flexibly, should any attractive acquisition opportunities arise. The desired level is among other things obtained through our share buyback programme.

Exchange rate risks

The Group seeks to hedge against any exchange rate risks through forward exchange contracts and other hedging instruments. Hedging thus gives Management the opportunity – and necessary time – to redirect business arrangements in the event of persistent changes in foreign exchange rates. The Group aims to hedge such changes in foreign exchange rates by seeking to match positive and negative cash flows in the main currencies as much as possible and by entering into forward exchange contracts. By entering into such contracts, we can hedge estimated cash flows with a horizon of up to 24 months.

Note 15 – Financial instruments and financial risks – *continued*

Interest rate risks
Hedging interest rate risks on corporate loans is corporate policy if we find that interest payments can be hedged at a satisfactory level compared with hedging costs. Hedging is generally done through interest rate swaps, with floating-rate loans being converted into fixed-rate loans. Currently, the Group has limited debts compared with the volume of corporate activities.

Liquidity risks
The Group aims to have sufficient cash resources to be able continuously to take appropriate steps in case of unforeseen fluctuations in cash outflows. We have access to considerable undrawn credit facilities, and the liquidity risk is therefore considered to be low. We are of the opinion that the Group has a strong cash flow and satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions. The Group has neither in the financial year 2012 nor in the comparative year 2011 failed to perform or defaulted on any loan agreements.

Credit risks
Corporate credit risks relate primarily to trade receivables. Our customer base is fragmented, so credit risks only involve minor losses on individual customers. Together, our five largest customers account for less than 10% of total consolidated revenue. We therefore estimate that we have no major credit exposure, which is supported by our track record of only insignificant losses on bad debts. When granting loans to customers or business partners, we require that they provide security in their business. The maximum credit risk relating to receivables matches the carrying amounts of such receivables. The Group has no major deposits in particular financial institutions for which reason the credit risk of such deposits is considered to be low.

Exchange rate risks

Exchange rate risks relating to future cash flows
Open forward exchange contracts at the balance sheet date may be specified as shown below, with contracts for sale of currencies being shown with their negative contract values. The expiry dates reflect the periods in which the hedged cash flows are expected to be realised.

Realised forward exchange contracts are recognised in the income statement together with the items, typically the revenue in foreign currency, that such contracts are designed to hedge. In 2012, our forward exchange contracts realised a loss of DKK 101 million (gain of DKK 26 million in 2011), which decreased reported revenue for the year. In addition, we raised loans in foreign currencies to balance out net receivables. At year-end 2012, we had entered into forward exchange contracts with a contractual value of DKK 1,093 million (DKK 1,786 million in 2011) and a fair value of DKK 26 million (DKK -84 million in 2011).

Note 15 – Financial instruments and financial risks – *continued*

Forward exchange contracts

(DKK million)

	Expiry	Contractual value	Fair value	Positive fair value at year-end	Negative fair value at year-end	Expiry	Contractual value	Fair value	Positive fair value at year-end	Negative fair value at year-end
	2012					2011				
USD	2013	-233	7	7	0	2012	-877	-41	0	41
JPY	2013/14	-231	18	18	0	2012/13	-226	-19	0	19
AUD	2013	-172	-2	0	2	2012	-185	-9	0	9
CAD	2013	-232	6	6	0	2012	-240	-6	0	6
GBP	2013	-225	-3	0	3	2012/13	-294	-6	0	6
Other currencies	2013	0	0	0	0	2012	36	-3	0	3
		-1,093	**26**	**31**	**5**		**-1,786**	**-84**	**0**	**84**

Sensitivity analysis in respect of foreign currencies

The below table shows the impact on the year's operating profit (EBIT) and consolidated equity given a change of 5% in the currencies with the largest exposures. The exchange rate risk has been calculated on the basis of a simple addition of the EBITs of Group enterprises in local currencies. Whereas the addition of EBITs includes all Group enterprises, the net exchange flow is identical to the flow in Oticon A/S. We estimate that approximately 90% of all currency exchange is made in Oticon A/S and that the analysis therefore provides a fair presentation of the flow in the entire Group. The exchange flow includes actual exchange transactions as well as changes in net receivables (trade receivables, trade payables and bank balances).

Effect on EBIT, 5% positive change in exchange rates*

DKK million	2012	2011
USD	+35	+35
GBP	+15	+10
CAD	+10	+10
AUD	+10	+10
JPY	+5	+5

* *Estimated, on a non-hedged basis, i.e. the total annual exchange rate impact excluding forward exchange contracts.*

Effect on equity, 5% positive change in exchange rates

DKK million	2012	2011
USD	+45	+25
GBP	+10	+5
CAD	+25	+30
AUD	+10	+10
JPY	+2	+2

Note 15 – Financial instruments and financial risks – *continued*

Interest rate risks

(DKK million)	Less than 1 year	1-5 years	More than 5 years	Total	Weighted rate of return
2012					
Interest-bearing assets	55	346	201	602	
Cash	307	0	0	307	
Interest-bearing assets	**362**	**346**	**201**	**909**	**3.1%**
Finance lease debt	-6	-8	0	-14	
Debt to credit institutions etc.	-986	-68	0	-1,054	
Interest-bearing bank debt	-1,645	0	0	-1,645	
Interest-bearing liabilities	**-2,637**	**-76**	**0**	**-2,713**	**2.6%**
Net position	**-2,275**	**270**	**201**	**-1,804**	**2.3%**
Finance lease debt:					
Minimum lease payments	-6	-8	0	-14	
Interest element	0	0	0	0	
Carrying amount	**-6**	**-8**	**0**	**-14**	
2011					
Interest-bearing assets	47	293	136	476	
Cash	288	0	0	288	
Interest-bearing assets	**335**	**293**	**136**	**764**	**3.0%**
Finance lease debt	-11	-6	0	-17	
Debt to credit institutions etc.	-156	-1,005	0	-1,161	
Interest-bearing bank debt	-1,134	0	0	-1,134	
Interest-bearing liabilities	**-1,301**	**-1,011**	**0**	**-2,312**	**3.0%**
Net position	**-966**	**-718**	**136**	**-1,548**	**3.0%**
Finance lease debt:					
Minimum lease payments	-11	-6	0	-17	
Interest element	0	0	0	0	
Carrying amount	**-11**	**-6**	**0**	**-17**	

Cash consists primarily of bank deposits of which DKK 3 million (DKK 40 million in 2011) relate to joint ventures.

Interest-bearing debt broken down by currency: 31% in euros (33% in 2011), 10% in Danish kroner (16% in 2011), 47% in US dollars (41% in 2011), 10% in Canadian dollars (6% in 2011) and 2% in other currencies (4% in 2011).

Note 15 – Financial instruments and financial risks – *continued*

The Group has fixed the interest rates on part of its non-current debt through interest swaps.

Interest swaps

(DKK million)

	Expiry	Fixed interest rate	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end	Expiry	Fixed interest rate	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end
			31.12.2012					**31.12.2011**		
USD/USD	2016	2.3%	141	0	8	2016	2.3%	144	0	7
EUR/EUR	2013	4.0%	746	0	9	2013	4.0%	743	0	32
DKK/DKK	2015	3.5%	40	0	4	2015	3.5%	40	0	4
			927	**0**	**21**			**927**	**0**	**43**

The fair value of outstanding interest swaps at the balance sheet date is DKK -21 million (DKK -43 million in 2011). The contractual value of outstanding interest swaps is DKK 927 million (DKK 927 million in 2011), such swaps running up to and including 2016. This includes one interest swap that is not designated as hedging. This swap has a fair value of DKK -8 million (DKK -7 million in 2011). There has been no ineffectiveness on interest swaps in 2012 or 2011.

Sensitivity analysis in respect of interest rates

Based on the net debt at the end of the 2012 financial year, a rise of 1 percentage point in the general interest rate level will cause an increase in consolidated annual interest expenses before tax of less than DKK 1 million (just over DKK 1 million in 2011). About one third of the interest-bearing debt is subject to fixed interest rates, partly due to interest swaps being made at floating interest rates and partly to loans being raised at fixed interest rates.

Methods and assumptions for calculation of fair values

Other investments

Other investments are assessed on the basis of their equity value.

Derivatives

Forward exchange contracts and interest swaps are assessed on the basis of generally recognised valuation methods based on relevant observable swap curves and exchange rates.

Fair value hierarchy for derivatives measured at fair value in the balance sheet

The following classification of derivatives measured at fair value is divided according to the fair value hierarchy:

- Listed prices in an active market for the same type of instrument (level 1).
- Listed prices in an active market for similar assets or liabilities or other valuation methods, with all significant inputs being based on observable market data (level 2).
- Valuation methods, with any significant inputs not being based on observable market data (level 3).

Note 15 – Financial instruments and financial risks – *continued*

(DKK million)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	2012				2011			
Financial assets used as hedging instruments	0	31	0	31	0	0	0	0
Other investments (available for sale)	0	0	12	12	0	0	9	9
Financial liabilities used as hedging instruments	0	-26	0	-26	0	-127	0	-127

There are no transfers between levels 1 and 2 in the 2012 and 2011 financial years.

Derivatives measured at fair value in the balance sheet based on valuation methods, with any significant inputs not being based on observable market data (level 3):

Financial assets available for sale

(DKK million)	2012	2011
Carrying amount at 1.1.	9	6
Foreign currency translation adjustment	0	0
Purchase	4	3
Sale	0	0
Other adjustments	-1	0
Transferred to/from level 3	0	0
Carrying amount at 31.12.	12	**9**

Note 16 – Other liabilities

(DKK million)	2012	2011
Product-related liabilities	166	191
Staff-related liabilities	251	254
Other debt, public authorities	105	96
Debt relating to acquisitions	329	187
Other costs payable	221	208
Other liabilities	**1,072**	**936**
Due within 1 year	936	746
Due within 1-5 years	136	190

Product-related liabilities include service packages, warranties, returned products etc. Our liabilities in respect of service packages and warranties were calculated on the basis of information on products sold, related service and warranty periods and past experience of costs incurred by our Group to fulfil our service and warranty liabilities. Our liabilities in respect of returns were calculated based on information on products sold, related rights concerning returns and past experience of products returned in the various markets. Consolidated product-related liabilities are the sum of a large number of small claims, the sum changing constantly due to a large number of additions and disposals.

Staff-related liabilities include holiday pay and payroll costs due.

The carrying amount of other liabilities matches the fair value of the liabilities.

Note 17 – Operating lease commitments

(DKK million)	2012	2011
Rent	543	458
Other operating leases	24	33
Total	**567**	**491**
Operating leases, less than 1 year	159	128
Operating leases, 1-5 years	291	256
Operating leases, over 5 years	117	107
Total	**567**	**491**

Operating leases are recognised in the income statement at an amount of DKK 253 million (DKK 212 million in 2011). The Group's operating leases mainly relate to rent and vehicles.

Note 18 – Contingent liabilities

The William Demant Group is involved in a few disputes, lawsuits etc. Management is of the opinion that disputes do not or will not significantly affect the Group's financial position. The Group seeks to make adequate provisions for legal proceedings. A bank guarantee in the amount of DKK 0 million (DKK 92 million in 2011) has been provided in respect of the US patent case.

As part of our business activities, the Group has entered into normal agreements with customers and suppliers etc. as well as agreements for the purchase of shareholdings.

For the purposes of section 17 of the Republic of Ireland Companies (Amendment) Act, William Demant Holding A/S has undertaken to indemnify the creditors of its subsidiaries incorporated in the Republic of Ireland in respect of all losses and liabilities as referred to in section 5 c of said act for the financial year ending on the 31 December 2012 or any amended financial period incorporating the said financial year. The Company does not expect any material loss to arise from this guarantee.

Note 19 – Related parties

William Demants og Hustru Ida Emilies Fond (the Oticon Foundation) Kongebakken 9, 2765 Smørum, Denmark is the only related party with a controlling interest. Controlling interest is achieved through a combination of the Oticon Foundation's own shareholding and the shareholding of William Demant Invest A/S for which the Oticon Foundation exercises the voting rights. Associated enterprises of William Demant Invest A/S are related parties to the William Demant Group.

Related parties with significant influence are the Company's Executive Board, Board of Directors and their related parties. Furthermore, related parties are companies in which the above persons have significant interests.

Subsidiaries, joint ventures and associates as well as the William Demant Group's ownership interests in these companies appear from the *Subsidiaries and associates* list on page 90.

The Oticon Foundation lets office and production premises to the joint venture, Sennheiser Communications A/S. In 2012, the rental expense amounted to DKK 2 million (DKK 2 million in 2011). In 2012, the Oticon Foundation and William Demant Invest A/S paid administration fees to the Group of DKK 2 million (DKK 2 million in 2011) and DKK 5 million (DKK 2 million in 2011), respectively.

In 2012, William Demant Invest A/S advanced a loan to the Group. At the end of 2012, the loan amounted to DKK 56 million and the Group paid interest in the amount of DKK 1 million on the loan in 2012. In 2011 and 2012, the Group settled Danish tax on account and residual tax with William Demant Invest A/S, the administration company for the joint taxation.

Sales to joint ventures not eliminated in the consolidated financial statements amounted to DKK 23 million (DKK 26 million in 2011). At year-end, non-eliminated receivables, net, with joint ventures totalled DKK 4 million (DKK 6 million in 2011).

In 2012, the Group received royalties from and paid licence fees amounting to DKK 2 million (DKK 1 million in 2011) to associates and also received dividends from associates in the amount of DKK 0 million (DKK 0 million in 2011). In 2012, the Group received interest income from associates in the amount of DKK 5 million (DKK 3 million in 2011).

There have been no transactions with the Executive Board and the Board of Directors apart from normal remuneration, please refer to note 2 *Employees*.

In the reporting period, transactions with related parties were made on an arm's length basis.

(DKK million)

	2012	2011
The consolidated financial statements include the following amounts related to joint ventures:		
Revenue	377	373
Costs	344	325
Non-current assets	8	59
Current assets	54	100
Non-current liabilities	0	4
Current liabilities	30	58
Financial information with respect to associates:		
Revenue	386	285
Net profit for the year	27	12
Assets	348	223
Liabilities	274	185

In 2012 and 2011, the Group's joint venture activities consisted of Sennheiser Communications A/S and Hearing Healthcare Management Inc., which are both proportionately consolidated in the consolidated financial statements based on the Group's ownership interests of 50% and 65%, respectively. In compliance with the shareholders' agreements, the Group has exercised a joint controlling interest in both these companies together with the other shareholders. At the end of 2012, the Group obtained 100% ownership of Hearing Healthcare Management Inc. There are no major contingent liabilities in the Group's joint ventures.

Note 20 – Acquisition of enterprises and activities

(DKK million)	North America	Oceania	Europe/ Asia	Total
	Fair value on acquisition			
2012				
Intangible assets	6	0	1	7
Property, plant and equipment	14	2	4	20
Other non-current assets	16	0	1	17
Inventories	13	1	6	20
Current receivables	23	0	9	32
Cash and bank debt	17	0	5	22
Non-current liabilities	-2	0	0	-2
Current liabilities	-29	-2	-21	-52
Acquired net assets	**58**	**1**	**5**	**64**
Goodwill	487	34	69	590
Acquisition cost	**545**	**35**	**74**	**654**
Minority interests' share of acquisition cost	-1	0	-2	-3
Fair value of non-controlling interests on obtaining control	-118	0	-9	-127
Earn-outs and deferred payments	-47	-2	-10	-59
Acquired cash and bank debt	-17	0	-5	-22
Cash acquisition cost	**362**	**33**	**48**	**443**
2011				
Intangible assets	2	0	0	2
Property, plant and equipment	1	1	1	3
Other non-current assets	2	0	0	2
Inventories	15	0	3	18
Current receivables	21	0	-8	13
Cash and bank debt	10	0	1	11
Non-current liabilities	0	0	0	0
Current liabilities	-28	-1	-2	-31
Acquired net assets	**23**	**0**	**-5**	**18**
Goodwill	234	24	16	274
Acquisition cost	**257**	**24**	**11**	**292**
Minority interests' share of acquisition cost	0	0	0	0
Fair value of non-controlling interests on obtaining control	0	0	0	0
Earn-out and deferred payments	3	1	0	4
Acquired cash and bank debt	-10	0	-1	-11
Cash acquisition cost	**250**	**25**	**10**	**285**

Note 20 – Acquisitions – *continued*

Our most significant acquisition in 2012 is our purchase of the remaining equity interest in the US distribution business Hearing Healthcare Management Inc. in which we had so far held an interest of 65%. Acquired on 31 December 2012, this equity interest was treated in compliance with the rules governing step acquisitions and represents an addition of DKK 264 million in the form of the purchase sum of the equity interest and fair value adjustment of our 65% interest until 31 December 2012. Identifiable assets accounted for DKK 27 million and goodwill for DKK 237 million. Goodwill is attributable to estimated synergies between activities in Hearing Healthcare Management Inc. and the Group's existing activities, to the future growth potential and to the value of staff in Hearing Healthcare Management Inc. In the above geographical segmentation of total acquisitions, the acquisition of Hearing Healthcare Management Inc. is included under North America.

The Group's other acquisitions in the period under review include the acquisition of some minor distribution enterprises relating to Diagnostic Instruments in North America as well as part or full acquisition of minor distribution entities relating to Hearing Devices in North America, Oceania and Europe/Asia. In respect of these acquisitions, we paid acquisition cost exceeding the fair values of the acquired assets, liabilities and contingent liabilities. Such positive balances in value can be attributed to expected synergies between the activities of the acquired entities and our existing activities, to the future growth potential and to the value of the staff of such acquired entities. These synergies are not recognised separately from goodwill, as they are not separately identifiable.

A few of the acquisitions were made with the participation of minority investors. At the time of acquisition, minority investors' shares of acquisitions were measured at their proportionate shares of the total fair values of the acquired entities including goodwill. In connection with step acquisitions, non-controlling interests were at the time of achieving control included at their fair values with fair value adjustments in the income statement.

In 2012, a few adjustments were made to the preliminary recognition of acquisitions in 2011 and of acquisitions made in 2009 and recognised in compliance with IFRS 3 (2004). These adjustments are due to a reduction of estimated earn-out and goodwill in the amount of DKK 1 million. Also in 2012, in relation to acquisitions with final recognition in 2010 or 2011, a few adjustments were made in respect of estimated earn-out. Such adjustments are recognised in the income statement.

The total positive impact on the income statement due to fair value adjustment of non-controlling interests in step acquisitions (DKK 122 million) and adjustments of estimated earn-out (DKK -110 million) amounted to DKK 12 million of which DKK 8 million was recognised in administrative expenses and DKK 4 million in profit from associates.

Of the total acquisition cost in 2012, the fair values of estimated contingent consideration in the form of earn-outs or deferred payments accounted for DKK 60 million (DKK 17 million in 2011), such payments depending on the results of the acquired enterprises in a period of typically one to five years after the dates of acquisition and can as a maximum total DKK 69 million.

The acquired assets included contractual receivables amounting to DKK 29 million (DKK 10 million in 2011) of which DKK 0 million (DKK 0 million in 2011) is thought to be uncollectible at the date of acquisition. Of the total goodwill in the amount of DKK 590 million (DKK 274 million in 2011), DKK 209 million (DKK 217 million in 2011) can be amortised for tax purposes. Neither in 2011 nor in 2012, were contingent liabilities recognised on acquisition.

The above statement of fair values of the respective acquired enterprises is not considered final until 12 months after acquisition. Transaction costs in connection with acquisitions in 2012 amounted to DKK 5 million (DKK 4 million in 2011), which has been recognised under administrative expenses.

The revenue and profit of the acquired enterprises since our acquisition in 2012 amounted to DKK 185 million (DKK 113 million in 2011) and DKK 15 million (DKK 10 million in 2011), respectively. Had such revenue and profit been consolidated on 1 January 2012, the consolidated revenue and profit are proforma estimated to have been DKK 8,644 million (DKK 8,100 million in 2011) and DKK 1,156 million (DKK 1,203 million in 2011), respectively. In our opinion, these proforma figures reflect the level of consolidated earnings after our acquisition of the enterprises and consequently, the amounts can form a basis for comparison in subsequent financial years.

From the balance sheet date and until the date of financial reporting in 2013, we have acquired a few minor distribution enterprises. We are in the process of calculating their fair values. The acquisition cost is expected to relate primarily to goodwill.

Note 21 – Divestment of enterprises and activities

(DKK million)	2012	2011
Goodwill	0	2
Intangible assets	0	5
Inventories	0	1
Receivables	0	1
Cash	0	1
Current liabilities	0	-1
Carrying amount of net assets divested	**0**	**9**
Loss on divestments	0	-1
Total proceeds	**0**	**8**
Proceeds from divestments, receivables	0	-2
Cash divested	0	-1
Cash effect	**0**	**5**

There have been no divestments in 2012. In 2011, the divestment of enterprises and activities included the divestment of some minor distribution enterprises and activities. Losses from divestments are recognised in administrative expenses.

Note 22 – Government grants

In 2012, the William Demant Group received government grants in the amount of DKK 1 million (DKK 0 million in 2011). Grants are offset against research and development costs.

Note 23 – Specifications to consolidated cash flow statement

(DKK million)	2012	2011
Amortisation and depreciation etc.	267	233
Share of profit after tax, associates	-12	-6
Gain on sale of intangible assets and property, plant and equipment	-5	-5
Other non-cash items	-13	31
Other non-cash items	**237**	**253**
Investments in property, plant and equipment	-329	-407
Investments in property, plant and equipment, paid	**-329**	**-407**
Proceeds from borrowings	42	0
Proceeds from borrowings	**42**	**0**

Note 24 – Events after the balance sheet date

There have been no events that materially affect the assessment of the Annual Report after the balance sheet date and until today.

Note 25 – Approval and publication

At the Board meeting on 26 February 2013, our Board of Directors approved this Annual Report for publication. The Annual Report will be presented to the shareholders of William Demant Holding A/S for adoption at the annual general meeting on 9 April 2013.

Note 26 – Shareholders

The names of the shareholders listed below are recorded in the register of shareholders as owners of minimum 5% of the votes or minimum 5% of the share capital:

William Demant Invest A/S and this company's parent, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation), Kongebakken 9, 2765 Smørum, Denmark. Ownership interest is approximately 55%. The Oticon Foundation prepares consolidated financial statements in which the William Demant Group is included.

The Capital Group Companies Inc., Los Angeles, USA. Ownership interest (including ownership interests of customers whose portfolios are administered by the company and companies owned directly or indirectly by the company) is 5-10%.

Note 27 – Board of Directors and Executive Board

The members of the Board of Directors and Executive Board of William Demant Holding A/S hold other executive positions as specified below:

Board of Directors	Other executive positions
Lars Nørby Johansen, Chairman	Codan A/S and one subsidiary, chairman of the board The Danish Growth Council, chairman Dansk Vækstkapital (Danish Growth Capital), chairman of the board Falck A/S and one subsidiary, chairman of the board University of Southern Denmark, chairman of the board DONG Energy A/S, deputy chairman of the board The Rockwool Foundation, deputy chairman of the board Arp-Hansen Hotel Group A/S, director Index Award A/S, director
Peter Foss, Deputy Chairman	FOSS A/S, chairman of the board N. Foss & Co. A/S, deputy chairman of the board The Oticon Foundation, deputy chairman of the board William Demant Invest A/S, deputy chairman of the board A.R. Holding af 1999 A/S, director
Niels B. Christiansen	Danfoss A/S, President & CEO and directorships in four subsidiaries Axcel A/S, chairman of the board Danske Bank A/S, deputy chairman of the board Sauer-Danfoss Inc., deputy chairman of the board
Thomas Hofman-Bang	NKT Holding A/S, President & CEO and chairman of the board in two subsidiaries Danish Committee on Corporate Governance, member
Ole Lundsgaard	Interacoustics A/S, staff-elected director and deputy chairman of the joint consultative committee
Jørgen Møller Nielsen	Deputy chairman of the local business group under The Danish Society of Engineers (IDA)
Karin Ubbesen	Oticon A/S, shop steward, staff-elected director

Executive Board

Niels Jacobsen, President & CEO	LEGO A/S, chairman of the board A.P. Møller - Mærsk A/S, deputy chairman of the board KIRKBI A/S, deputy chairman of the board Thomas B. Thriges Fond (Thomas B. Thrige Foundation), chairman


FCD = 15
FCD = 1,5

PARENT ACCOUNTING POLICIES

The financial statements for the Parent, William Demant Holding A/S, are presented in accordance with the provisions of the *Danish Financial Statements Act* for large class D entities.

The Parent financial statements are presented in Danish kroner (DKK), which is also the functional currency for the Parent. The accounting policies are the same as last year.

The Parent's accounting policies in respect of recognition and measurement are generally consistent with the Group's accounting policies. The instances in which the Parent's accounting policies deviate from those of the Group are described below.

Income statement

Tax

The Parent is jointly taxed with its Danish subsidiaries and its Parent, William Demant Invest A/S. Current income tax is allocated to the jointly taxed Danish companies in proportion to their taxable incomes.

Balance sheet

Goodwill

Goodwill is amortised on a straight-line basis over 20 years, which is the useful life determined on the basis of Management's experience in respect of the individual business activities. Goodwill is written down to its recoverable amount if lower than its carrying amount.

Rights

Rights acquired are amortised on a straight-line basis over their estimated useful lives and measured at cost less accumulated amortisation and impairment losses. The amortisation period is five years. Rights acquired are written down to their recoverable value if lower than their carrying value.

Equity interests in subsidiaries and associates

Equity interests in subsidiaries and associates are recognised and measured using the equity method, i.e. interests are measured at the proportionate share of the equity values of such subsidiaries or associates with the addition or deduction of the carrying amount of goodwill and with the addition or deduction of unrealised intra-Group profits or unrealised intra-Group losses, respectively.

The Parent's proportionate shares of profits or losses in subsidiaries and associates are recognised in the income statement after elimination of unrealised intra-Group profits or losses less amortisation and impairment, if any, of goodwill.

Subsidiaries and associates with negative equity values are measured at DKK 0, and any receivables from such companies are written down with the Parent's share of the negative equity value, to the extent that such receivable is considered irrecoverable. If the negative equity value exceeds receivables, if any, such residual amounts will be recognised under provisions, to the extent that the Parent has a legal or constructive obligation to cover liabilities incurred by the particular subsidiary or associate.

On distribution of profit or loss, net revaluation and net impairment loss of equity interests in subsidiaries and associates are transferred to reserves for net revaluation according to the equity method under equity.

Other investments

On initial recognition, other investments are measured at cost. Subsequently, they are measured at their fair values on the balance sheet date, and any changes in fair values are recognised in the income statement under net financial items.

Provisions

Provisions include liabilities, which are uncertain in respect of the amount or the timing of their settlement. Provisions may include different types of liabilities, such as deferred tax liabilities, onerous contracts, pension obligations as well as provisions for disputes etc.

Statement of changes in equity

In compliance with the format requirements of the *Danish Financial Statements Act*, any items included under comprehensive income in the consolidated financial statements are recognised directly in equity in the Parent financial statements, with the exception of actuarial gains and losses on plan assets and plan liabilities, which in the Parent are recognised in the income statement.

Cash flow statement

In compliance with section 84(4) of the *Danish Financial Statements Act*, a cash flow statement is not drawn up for the Parent, such statement being included in the consolidated cash flow statement.

PARENT INCOME STATEMENT

(DKK million)	Note	2012	2011
Administrative expenses	1/2	-57	-54
Other operating income and expenses		-1	45
Operating loss (EBIT)		**-58**	**-9**
Share of profit after tax, subsidiaries	7	1,091	1,098
Share of profit after tax, associates	7	3	0
Financial income	3	32	39
Financial expenses	3	-58	-60
Profit before tax		**1,010**	**1,068**
Tax on profit for the year	4	19	6
Profit for the year		**1,029**	**1,074**
Proposed distribution of net profit:			
Transferred to reserves for net revaluation according to the equity method		236	541
Retained earnings		793	533
		1,029	**1,074**

PARENT BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2012	2011
Assets			
Goodwill		56	59
Rights		3	5
Intangible assets	5	**59**	**64**
Land and buildings		24	24
Other plant, fixtures and operating equipment		2	2
Property, plant and equipment	6	**26**	**26**
Investments in subsidiaries	7	4,617	3,999
Receivables from subsidiaries	7	1,527	1,517
Investments in associates	7	46	17
Receivables from associates		13	0
Other investments	7	4	4
Other receivables	7	15	14
Financial assets		**6,222**	**5,551**
Non-current assets		**6,307**	**5,641**
Income tax		0	6
Prepaid expenses		1	1
Receivables		**1**	**7**
Cash		**0**	**3**
Current assets		**1**	**10**
Assets		**6,308**	**5,651**

PARENT BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2012	2011
Equity and liabilities			
Share capital		58	58
Other reserves		1,402	1,061
Retained earnings		2,700	2,404
Total equity		**4,160**	**3,523**
Other provisions		25	20
Deferred tax liabilities	4	15	25
Provisions		**40**	**45**
Bank debt		25	918
Debt to subsidiaries		0	69
Other debt		68	52
Non-current liabilities	8	**93**	**1,039**
Current share of non-current payables		897	0
Debt to parent		56	0
Debt to subsidiaries		1,020	1,006
Income tax		8	0
Other debt	8	34	38
Current liabilities		**2,015**	**1,044**
Liabilities		**2,108**	**2,083**
Equity and liabilities		**6,308**	**5,651**
Contingent liabilities	9		
Related parties	10		
Shareholders	11		
Events after the balance sheet date	12		

PARENT STATEMENT OF CHANGES IN EQUITY

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Other reserves: Reserve according to equity method	Retained earnings	Total equity
Equity at 1.1.2011	**58**	**-83**	**-34**	**655**	**2,168**	**2,764**
Profit for the year	-	-	-	541	533	1,074
Foreign currency translation adjustment of investments in subsidiaries etc.	-	-7	-	53	-	46
Other changes in equity in subsidiaries	-	-	-	-76	3	-73
Value adjustment of hedging instruments	-	-	13	-	-	13
Tax related to changes in equity	-	2	-3	-	-	-1
Purchase of treasury shares	-	-	-	-	-301	-301
Other changes in equity	-	-	-	-	1	1
Equity at 31.12.2011	**58**	**-88**	**-24**	**1,173**	**2,404**	**3,523**
Profit for the year	-	-	-	236	793	1,029
Foreign currency translation adjustment of investments in subsidiaries etc.	-	-4	-	4	-	0
Other changes in equity in subsidiaries	-	-	-	87	0	87
Value adjustment of hedging instruments	-	-	22	-	-	22
Tax related to changes in equity	-	1	-5	-	-	-4
Purchase of treasury shares	-	-	-	-	-497	-497
Other changes in equity	-	-	-	-	0	0
Equity at 31.12.2012	**58**	**-91**	**-7**	**1,500**	**2,700**	**4,160**

Changes in share capital:	**2012**	**2011**	**2010**	**2009**	**2008**
Share capital at the beginning of the year					
Reduction of share capital through cancellation	58	58	59	59	61
of treasury shares	0	0	-1	0	-2
Share capital at the end of the year	**58**	**58**	**58**	**59**	**59**

At year-end 2011, the share capital was nominally DKK 58 million (DKK 58 million in 2011) divided into the corresponding number of shares of DKK 1. There are no restrictions on the negotiability or voting rights of the shares. At year-end 2012, the number of shares in the market was 56,661,638 (57,641,005 in 2011). For additional information, please refer to note 11 *Shareholders*.

	2012		2011	
	Treasury shares	Percentage of share capital	Treasury shares	Percentage of share capital
Holding of treasury shares:				
Treasury shares at 1.1.	708,870	1.2%	0	0.0%
Purchase of treasury shares	979,367	1.7%	708,870	1.2%
Treasury shares at 31.12.	**1,688,237**	**2.9%**	**708,870**	**1.2%**

As part of the Company's share buyback programme, the Company acquired 979,367 treasury shares in 2012 (708,870 shares in 2011) worth a total of DKK 497 million (DKK 301 million in 2011).

Note 1 – Employees

(DKK million)	2012	2011
Staff cost:		
Wages and salaries	31	31
Pension plans	0	1
Total	**31**	**32**
Of which cash remuneration for Executive Board and Board of Directors:		
Executive Board, salary	12	11
Executive Board, bonus and pension	0	0
Board of Directors, remuneration	3	3

For a description of seniority bonus, reference is made to note 2 *Employees* in the consolidated financial statements. In 2012, the basic remuneration for a member of the Parent's Board of Directors was DKK 300,000 (DKK 300,000 in 2011). The Chairman of the Board of Directors receives three times the basic remuneration and the Deputy Chairman twice the basic remuneration.

	2012	2011
Average number of full-time employees	15	15

Note 2 – Fees to Parent's auditors appointed by the annual general meeting

(DKK million)	2012	2011
Statutory audit	1	1
Total	**1**	**1**

Note 3 – Net financial items

(DKK million)	2012	2011
Interest from subsidiaries	31	36
Interest income	1	3
Financial income	**32**	**39**
Interest to subsidiaries	-12	-10
Interest expenses	-42	-44
Transaction costs	-2	-1
Foreign exchange losses, net	-2	-5
Financial expenses	**-58**	**-60**

Note 4 – Tax on profit for the year and deferred tax

(DKK million)

	2012	2011
Tax on profit for the year:		
Current tax on profit for the year	10	6
Adjustment of current tax, prior years	-1	20
Change in deferred tax	10	1
Adjustment of deferred tax, prior years	0	-21
Total	**19**	**6**
Reconciliation of tax rates:		
Tax on profit for the year	24	7
Tax on entries on equity	-5	-1
Total	**19**	**6**
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax assets	0	0
Deferred tax liabilities	-15	-25
Deferred tax, net at 31.12.	**-15**	**-25**
Deferred tax, net at 1.1.	-25	-5
Change in deferred tax assets	10	1
Adjustment of deferred tax, prior years	0	-21
Deferred tax, net at 31.12.	**-15**	**-25**

Note 5 – Intangible assets

(DKK million)	Goodwill	Rights	Total intangible assets
Cost at 1.1.2012	**65**	**7**	**72**
Additions during the year	0	0	0
Adjustments relating to acquisitions	0	0	0
Cost at 31.12.2012	**65**	**7**	**72**
Amortisation at 1.1.2012	**-6**	**-2**	**-8**
Amortisation for the year	-3	-2	-5
Amortisation at 31.12.2012	**-9**	**-4**	**-13**
Carrying amount at 31.12.2012	**56**	**3**	**59**
Cost at 1.1.2011	**78**	**9**	**87**
Additions during the year	0	0	0
Adjustments relating to acquisitions	-13	-2	-15
Cost at 31.12.2011	**65**	**7**	**72**
Amortisation at 1.1.2011	**-3**	**-1**	**-4**
Amortisation for the year	-3	-1	-4
Amortisation at 31.12.2011	**-6**	**-2**	**-8**
Carrying amount at 31.12.2011	**59**	**5**	**64**

Goodwill is amortised over 20 years, reflecting the useful life estimated by Management.

Note 6 – Property, plant and equipment

(DKK million)

	Land and buildings	Other plant, fixtures and operating equipment	Total property, plant and equipment
Cost at 1.1.2012	**30**	**2**	**32**
Additions during the year	0	0	0
Disposals during the year	0	0	0
Cost at 31.12.2012	**30**	**2**	**32**
Depreciation and impairment losses at 1.1.2012	**-6**	**0**	**-6**
Depreciation for the year	0	0	0
Disposals during the year	0	0	0
Depreciation and impairment losses at 31.12.2012	**-6**	**0**	**-6**
Carrying amount at 31.12.2012	**24**	**2**	**26**
Cost at 1.1.2011	**30**	**2**	**32**
Additions during the year	0	0	0
Disposals during the year	0	0	0
Cost at 31.12.2011	**30**	**2**	**32**
Depreciation and impairment losses at 1.1.2011	**-6**	**0**	**-6**
Depreciation for the year	0	0	0
Disposals during the year	0	0	0
Depreciation and impairment losses at 31.12.2011	**-6**	**0**	**-6**
Carrying amount at 31.12.2011	**24**	**2**	**26**

The Parent has no financially leased assets.

Note 7 – Financial assets

(DKK million)	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates	Other investments	Other receivables
Cost at 1.1.2012	**2,823**	**1,517**	**20**	**3**	**14**
Foreign currency translation adjustments	0	1	0	0	0
Additions during the year	295	73	32	0	5
Disposals during the year	0	-64	-6	0	-4
Cost at 31.12.2012	**3,118**	**1,527**	**46**	**3**	**15**
Value adjustments at 1.1.2012	**1,176**	**-**	**-3**	**1**	**0**
Foreign currency translation adjustments	3	-	0	0	0
Share of profit after tax	1,091	-	3	-	-
Dividends received	-855	-	-1	-	-
Disposals during the year	0	-	-3	0	0
Other adjustments	84	-	4	0	0
Value adjustments at 31.12.2012	**1,499**	**-**	**0**	**1**	**0**
Carrying amount at 31.12.2012	**4,617**	**1,527**	**46**	**4**	**15**
Cost at 1.1.2011	**2,466**	**1,068**	**20**	**3**	**32**
Foreign currency translation adjustments	0	0	0	0	0
Additions during the year	361	467	0	0	1
Disposals during the year	-4	-18	0	0	-19
Cost at 31.12.2011	**2,823**	**1,517**	**20**	**3**	**14**
Value adjustments at 1.1.2011	**656**	**-**	**-1**	**1**	**0**
Foreign currency translation adjustments	53	-	0	0	0
Share of profit after tax	1,098	-	0	-	-
Dividends received	-557	-	0	-	-
Disposals during the year	0	-	0	0	0
Other adjustments	-74	-	-2	0	0
Value adjustments at 31.12.2011	**1,176**	**-**	**-3**	**1**	**0**
Carrying amount at 31.12.2011	**3,999**	**1,517**	**17**	**4**	**14**

The carrying amounts of investments in subsidiaries include capitalised goodwill in the net amount of DKK 56 million (DKK 59 million in 2011). Amortisation of consolidated capitalised goodwill for the year is DKK 3 million (DKK 3 million in 2011). Receivables from subsidiaries of DKK 1,527 million (DKK 1,517 million in 2011) are considered additions to the total investments in the particular enterprises and are therefore considered non-current. Other receivables worth DKK 15 million (DKK 14 million in 2011) will fall due after five years. Please refer to the *Subsidiaries and associates* list on page 90 for further information on subsidiaries, joint ventures and associates.

Note 8 – Other debt

(DKK million)	2012	2011
Staff-related liabilities	1	1
Other debt, public authorities	5	2
Liabilities relating to acquisitions	83	52
Other costs payable	4	3
Unrealised losses on financial contracts	9	32
Other debt	**102**	**90**
Due within 1 year	34	38
Due within 1-5 years	68	52

Staff-related liabilities include holiday pay and payroll costs due. The carrying amount of other debt matches the fair value of the debt.

Of the non-current bank debt in the amount of DKK 25 million (DKK 918 million in 2011), DKK 0 million (DKK 0 million in 2011) will fall due after five years. The non-current debt to subsidiaries of DKK 0 million (DKK 69 million in 2011) is considered a deduction from the total investment in the particular enterprises and is therefore considered non-current.

Note 9 – Contingent liabilities

William Demant Holding A/S has provided security in respect of credit facilities established by Danish subsidiaries. These credit facilities totalled DKK 1,287 million (DKK 1,417 million in 2011) of which DKK 830 million were drawn (DKK 523 million in 2011). Moreover, we have established a mutual guarantee with Oticon A/S in the amount of DKK 400 million (DKK 900 million in 2011), which is being drawn upon on a current basis.

William Demant Holding A/S has provided security in respect of a subsidiary's rent amounting to DKK 0 million (DKK 3 million in 2011) as well as guarantees concerning the continuous operation and payment liabilities in 2013 of some of our subsidiaries.

The parent is jointly taxed with William Demant Invest A/S, which is the administration company. As of 1 July 2012, under the *Danish Corporation Tax Act*, the parent is therefore liable for any obligation to withhold tax at source in respect of interest, royalties and dividends in relation to the jointly taxed enterprises.

For the purposes of section 17 of the Republic of Ireland Companies (Amendment) Act, William Demant Holding A/S has undertaken to indemnify the creditors of its subsidiaries incorporated in the Republic of Ireland in respect of all losses and liabilities as referred to in section 5 c of said act for the financial year ending on the 31 December 2011 or any amended financial period incorporating the said financial year. The Company does not expect any material loss to arise from this guarantee.

Note 10 – Related parties

William Demants og Hustru Ida Emilies Fond (the Oticon Foundation) Kongebakken 9, 2765 Smørum, Denmark is the only related party with a controlling interest. Controlling interest is achieved through a combination of the Oticon Foundation's own shareholding and the shareholding of William Demant Invest A/S for which the Oticon Foundation exercises the voting rights. Associated enterprises of William Demant Invest A/S are related parties to William Demant Holding A/S.

Related parties with significant influence are the Company's Executive Board, Board of Directors and their related parties. Furthermore, related parties are companies in which the above persons have significant interests.

Note 11 – Shareholders

The names of the shareholders listed below are recorded in the register of shareholders as owners of minimum 5% of the votes or minimum 5% of the share capital:

William Demant Invest A/S and this company's parent, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation), Kongebakken 9, 2765 Smørum, Denmark. Ownership interest is approximately 55%. The Oticon Foundation prepares consolidated financial statements in which the William Demant Group is included.

The Capital Group Companies Inc., Los Angeles, USA. Ownership interest (including ownership interests of customers whose portfolios are administered by the company and companies owned directly or indirectly by the company) is 5-10%.

Note 12 – Events after the balance sheet date

Please refer to note 24 *Events after the balance sheet date* in the consolidated financial statements.

SUBSIDIARIES AND ASSOCIATES

Company	*Interest*
William Demant Holding A/S	**Parent**
Oticon A/S, Denmark*	100%
Oticon AS, Norway*	100%
Oticon AB, Sweden*	100%
Oy Oticon Ab, Finland*	100%
Oticon GmbH, Germany	100%
Oticon Nederland B.V., Holland*	100%
Oticon S.A., Switzerland*	100%
Oticon Italia S.r.l., Italy*	100%
Oticon España S.A., Spain	100%
Oticon Polska Sp. z o.o., Poland*	100%
Oticon Polska Production Sp. z o.o., Poland	100%
Oticon Limited, United Kingdom*	100%
Oticon Inc., USA	100%
Oticon Canada Ltd., Canada*	100%
Oticon Australia Pty. Ltd., Australia*	100%
Oticon New Zealand Ltd., New Zealand*	100%
Oticon K.K., Japan*	100%
Oticon Singapore Pte Ltd., Singapore*	100%
Oticon Shanghai Hearing Technology Co. Ltd., China*	100%
Oticon International Trading Shanghai Co. Ltd., China*	100%
Oticon South Africa (Pty) Ltd., South Africa*	100%
Oticon Korea Co. Ltd., Korea*	100%
Oticon Malaysia Sdn, Malaysia*	100%
Oticon Medical A/S, Denmark*	100%
Oticon Medical AB, Sweden	100%
Oticon Medical Inc., USA	100%
Bernafon AG, Switzerland*	100%
Bernafon Hörgeräte GmbH, Germany	100%
Bernafon S.r.l., Italy*	100%
Bernafon LLC, USA	100%
Bernafon Canada Ltd., Canada	100%
Bernafon Australia Pty. Ltd., Australia*	100%
Bernafon New Zealand Pty. Ltd., New Zealand	100%
Bernafon K.K., Japan	100%
Bernafon Nederland B.V., Holland*	100%
Bernafon AB, Sweden*	100%
Bernafon Ibérica S.L.U., Spain*	100%

Company	*Interest*
Acustica Sp. z o.o., Poland*	100%
AD Styla Sp. z o.o., Poland	100%
Akoustica Medica M EPE, Greece	100%
American Hearing Aid Associates, Inc., USA	100%
Amplivox Ltd., United Kingdom	100%
Canada Hearing Centre Ltd., Canada	100%
Centro Auditivo Telex S.A., Brazil	100%
Diagnostic Group LLC, USA	100%
Digital Hearing (UK) Ltd., United Kingdom	100%
Fonikon Biernacki K.A. & Konopka A.K. Sp. z o.o., Poland	100%
Gordon N. Stowe and Associates Inc., USA	100%
Hearing Healthcare Management Inc., USA	100%
Hidden Hearing (Portugal), Unipessoal Lda., Portugal	100%
Hidden Hearing (UK) Ltd., United Kingdom	100%
Hidden Hearing Limited, Ireland	100%
Interacoustics A/S, Denmark*	100%
Interacoustics Pty. Ltd., Australia*	100%
Kuulopiiri Oy, Finland*	100%
M.S.R. West, Inc., USA	100%
Maico Diagnostic GmbH, Germany*	100%
Maico S.r.l., Italy*	100%
Med-Acoustics Inc., USA	100%
Medrx Inc., USA	100%
Micromedical Technologies Inc., USA	100%
Phonic Ear A/S, Denmark*	100%
Prodition S.A., France*	100%
Sensory Devices Inc., USA	100%
SES Isitme Cihazlari San Ve Tic. A.S, Turkey	100%
Sonic Innovations Inc., USA	100%
Tele-Acoustics Inc., USA	100%
Trilogy Audiometrics Inc., USA	100%
Van Boxtel Hoorwinkels B.V., Holland	100%
Frontrow Calypso LLC., USA	75%
Sennheiser Communications A/S, Denmark	50%
nEarcom LLC, USA	33%
HIMSA A/S, Denmark	25%

The list above includes the Group's active companies.
**Directly owned by the Parent.*


audiostar pro
Pure Tone
Channel 1
0
Frequency
8000
Channel 2
0
Left Ear
Right Ear
gsi


POWER
STATUS
Phonic Ear


SENNHEISER

William Demant Holding A/S
Kongebakken 9
DK-2765 Smørum
Denmark
Phone +45 3917 7100
Fax +45 3927 8900
william@demant.com
www.demant.com
CVR no. 71186911

Editing, design and production:
William Demant Holding A/S

THE GLOBAL COMPACT
WE SUPPORT

William Demant