The Chairman's report at William Demant Holding A/S' annual general meeting on Wednesday 9 April 2014 at 4 pm

2013 was a good year for the William Demant Group with fair growth in revenue and earnings. The improvement was satisfactory, not least in the light of the changes witnessed in the past few years, which have altered the competitive picture in our industry and contributed to hampering market growth. The challenging market situation makes more demands on all players, and we and our competitors each have different approaches to such challenges. In the William Demant Group, we have chosen to invest massively in the future, and I am confident that our unique position in hearing healthcare will drive our future growth.

I will start by reviewing some of the main events and trends in the past year:

Consolidated revenue grew by 10% in local currencies and profit after tax by 14%. In my opinion, double-digit top- and bottom-line growth is quite decent, and although we always aim higher, the improvement provides a good basis for further investments and growth in the future. Results for 2013 were in line with the consensus forecasts made by professional sell-side analysts. In my view, the somewhat mixed reception that the share market gave our annual report – despite the good results – is related to certain matters that I will touch upon now:

First and foremost, the current market trends for 2014 – and thus also for the William Demant Group – are slightly murkier than they used to be, and we have therefore been reluctant to announce hard-and-fast expectations for this year. Some may have felt more optimistic about 2014, but we must bear in mind that we expect quite a bit of headwind from the exchange rate fluctuations that will affect both the top and the bottom line, just as we must keep in mind that these fluctuations are actually incorporated into our estimated rise in earnings per share of 5-10%.

Market growth in the hearing aid industry has been receding for a number of years. Driven by demographics, unit growth continues to be fair, which is reflected in a stable increase in the number of potential end-users. However, the fall in average selling prices has limited the value added in recent years, and in 2013 we actually saw zero growth. Various mix shifts and changes in the subsidy systems of some countries are the primary drivers of trends in selling prices, and these changes were particularly conspicuous in 2013. A number of sales channels, which buy in bulk and thus at lower prices, grew at the expense of the small independent dispensers. By way of example, I can mention the British National Health Service, the US Veterans Affairs and some relatively new players on the market, such as warehouses and opticians. In addition, structural changes in the subsidy systems in a number of European markets, including Denmark and Holland, also led to lower prices.

Apart from having to deal with market-related challenges, our own hearing aid business was in a slightly unfavourable position in 2013 – despite the successful roll-out of a completely new technological platform. We have thus been underexposed towards sales channels that have considerably outgrown the underlying market, but overexposed towards some of the struggling markets. Of course, this position is temporary, and it is therefore fair to say that we are currently in sort of a transitional period. With our multi-brand strategy with as many as three hearing aid brands – Oticon, Bernafon and Sonic – we feel solidly positioned to also perform well in all channels and on all markets in the future.

We believe that the way to meet current market challenges is by investing in the future. Consequently, we have deliberately chosen not to optimise short-term gains, but rather to carry through a series of strategically vital investments and initiatives which will support our future growth and profitability.

First and foremost, we have in 2013 alone carried through a number of strategically important acquisitions, amounting to more than 1 billion Danish kroner. In doing so, have we not only significantly fortified our distribution network, but we have also entered a major growth area, namely cochlear implants. The takeover of the French cochlear implant manufacturer, Neurelec, is a crucial milestone in our Group's history and another step towards achieving our ambition of becoming one of the leading hearing healthcare groups in the world. Neurelec has given us access to know-how, technology and a history of fully implantable hearing solutions, and we have contributed quite a bit in terms of audiology and distribution. In the long term, we can thus create one of the leading players in this line of business, just as we did in bone-anchored hearing systems. We now command a unique position in all types of hearing solutions and as the only company in our industry, we offer hearing aids as well as various types of hearing implants and diagnostic equipment. Given this strong position, we can realise synergies across all our companies, thereby benefitting from economies of scale through the entire value chain.

Realising our ambitions obviously involves increasing costs in the short term, a move expected to have a short-term dilutive effect on our profit margin in the next few years. In the longer term, however, we expect our implant business to contribute to an increase of the Group's profitability, and I am therefore very pleased that we have taken this important strategic step.

In addition, we have substantially improved operations and optimised the infrastructure across our many Group enterprises: Transferring parts of our ITE production to Poland, establishing a new global distribution centre also in Poland, modernising and updating IT systems throughout our organisation and setting up local shared service units are all examples of these initiatives. Streamlining our business has entailed considerable costs, but we have also reaped the benefits of prior years' investments. This process will continue in the years to come. Although we have moved certain types of jobs from Denmark to for instance Poland, we have also employed quite a few new staff in Denmark. Most of these employees are highly qualified specialists who will be engaged in for instance research and development. As you will probably have noted, we are currently expanding our premises here at Kongebakken, and we expect to move into the new building in mid-May. Our diagnostic company, Interacoustics, will also extend its premises, and once its new head office is finished in 2015, we will have created the optimal framework for our more knowledge-intensive jobs in Denmark.

And now, I would like to comment on our individual business activities and brands:

In early 2013, Oticon launched its latest Premium hearing aid family, Oticon Alta, which is based on a new technological platform. Alta includes a number of significant improvements compared with our previous Premium instruments, and with the introduction of Alta, we have succeeded in substantially boosting our market share in the important Premium segment. For most of 2013, Oticon's product portfolio was not fully updated in all price points, but the launch of an attractive mid-priced product at the end of the third quarter significantly reinforced Oticon's product range.

Our two other hearing aid brands, Bernafon and Sonic, both enjoyed the benefits of updated product portfolios and generated fair growth in the past year. On the whole, the two brands are highly competitive and appeal extensively to the fastest-growing part of the market.

Upgraded product portfolios for all three hearing aid brands have helped boost our total market share despite our slightly unfavourable position in the market in 2013.

This leads me to the important new products introduced on the market in the first quarter of 2014: The introduction in February of Oticon Ria in the lower price segment completes the roll-out of our newest platform, and Oticon's joining Apple's Made for iPhone programme is the latest initiative. Indeed, the launch of our first Made for iPhone connectivity solution for hearing aids attracted positive attention at the recent US annual hearing aid convention, AudiologyNOW!, which was held in Florida this year. Available in all price segments and in all form factors, our solution is designed for all current and future users of Oticon's ConnectLine hearing aids, including some two million people already using Oticon's wireless hearing aids. Our solution also meets end-users' wish for low power consumption, which can be satisfied without compromising on the audiological benefits that distinguish Oticon's hearing aids. Through the EHIMA partner organisation, the world's leading hearing aid manufacturers are concurrently working to establish a common industrial Bluetooth standard. The collaboration is expected to result in a number of advantages for the industry, including a common standard that enables wireless connectivity to all mobile devices and has low power consumption.

In 2013, trends in our retail activities were in step with the development on the markets in which we are active. A few markets, such as Australia and Holland, have generally speaking endured demanding times, a fact that has obviously hampered our growth in these areas. All things considered, development in our retail activities was satisfactory.

As you may know, 2013 was an exceptionally eventful year for Oticon Medical, not least due to the acquisition of the French **cochlear implant** business, Neurelec. The integration of Neurelec into Oticon Medical has progressed as planned, and although we have just one year's experience in this exciting area, we have been strengthened in our belief that we can fulfil our major, long-term ambition of becoming a leading manufacturer in this area. Also growth in the sale of **bone-anchored** hearing systems was satisfactory in 2013, and an entirely new product family launched in November last year enjoyed a very favourable reception from surgeons and end-users.

Our other two corporate business activities, Diagnostic Instruments and Personal Communication, both fared well in 2013:

With a satisfactory 8% increase in revenue in local currencies, Diagnostic Instruments, which manufactures audiological equipment for hearing care professionals and hearing clinics, once again succeeded in capturing market shares, thereby fortifying its position as the world's largest supplier of diagnostic equipment. This improvement is due to a combination of organic and acquisitive growth and what is more, it was accomplished without jeopardising Diagnostic Instruments' already high profitability.

As regards Personal Communication, we are happy to see that Sennheiser Communications, our joint venture in headsets, delivered substantial growth in 2013.

I would like to take this opportunity to comment on the capital structure of our Group:

In spring 2013, the Board of Directors decided to raise the interval of the Group's net interest-bearing debt by 500 million Danish kroner to 2.0-2.5 billion Danish kroner. The new debt interval is to be viewed in connection with recent years' growth in earnings and balance and does therefore not reflect a change in our general capital structure and level of gearing. Going forward, we also expect to generate substantial cash flows, and if no opportunities arise to turn such cash flows into good and sound investments, this money will be channelled back to our shareholders in the form of share buy-backs. At the moment, there seems to be very few attractive acquisition opportunities, and this is the very reason why we expect to be able to buy back shares of 500 million Danish kroner or more in 2014. In addition to share buy-backs, we expect in 2014 to see continuing growth in all our business activities as well as higher earnings per share, but Niels Jacobsen will touch on this in his review of the accounts.

The proposed amendment to our articles of association in relation to the presentation of our annual and interim reports in English only is in line with the trend in a number of other C20 companies, and I would like to explain the background for our decision: We consider our proposal to present the annual report in English only a natural consequence of our being an international group. Furthermore, demand for a full Danish version has been steadily declining in recent years. We also avoid the risk of inconsistencies between the two versions, which is always a challenge when communicating complex messages. However, we still wish to communicate in Danish with those of our shareholders who prefer this. A comprehensive summary of the annual report in Danish has been printed and is available here today as well as on our website. Our Danish investor relations department is always ready to answer any queries from shareholders and other stakeholders.

I would now like to briefly touch on corporate governance, women in management and our remuneration policy.

The Board of Directors and Executive Board consider corporate governance an ongoing process and currently assess the extent to which the recommendations are to be implemented in the company. In 2013, we reviewed the revised *Recommendations on Corporate Governance* by applying the "comply or explain" principle, and we continue to comply with these recommendations to a large extent. A complete review is available on our website.

We constantly seek to ensure diversity in our Group by for instance promoting the number of women in managerial positions. We focus on and actively work towards increasing the number of women in managerial positions, and we are pleased to report that in the past five years, we have increased the percentage of women in managerial positions in our Group from 11% to 18% and doubled the number of women in senior management from 7% to 14%. As far as diversity on our Board of Directors is concerned, we set in April 2013 a target and a deadline for the number of women on our Board, namely "election of a woman to our Board of Directors within a four-year period". As you will see from the notice to this general meeting, our Board has proposed Ms Benedikte Leroy as a new member of the Board. I would like to emphasise that we have proposed that Benedikte be elected because of her competencies and because we are convinced she can contribute to the work of our Board – and **not** because she is a woman.

For many years, our Group has had a very simple remuneration policy according to which each member of the Board receives a fixed basic fee. The Chairman's fee is fixed at three times the basic fee and the Deputy Chairman's at twice the basic fee. For 2014, we propose the same basic fee, which means that the fee has remained unchanged since 2010. There are no separate fees for the audit and nomination committees. Our Executive Board also receives a fixed remuneration without any variable salary elements.

Before proceeding to the next item on the agenda, there is good reason to thank all our staff for their commitment and professional work in 2013. These years are quite exciting for the Group, and our staff is key to the fulfilment of our ambition of becoming the world's leading hearing healthcare company. Our position in hearing healthcare with three hearing aid brands, our Oticon Medical business that offers both bone-anchored hearing systems and cochlear implants and not least our position as the world's largest manufacturer of diagnostic instruments all make the William Demant Group highly attractive for its many stakeholders – be they staff, customers or shareholders.