William Demant

The Chairman's report at William Demant Holding A/S' annual general meeting on Wednesday, 11 April 2012 at 4 p.m.

2011 was another good year for the William Demant Group. Our consolidated revenues and hearing aid sales both experienced double-digit growth. This positive development is broadly based in business activities as well as geographical areas, and I would like to touch upon some of the factors driving this growth:

- Firstly, the hearing aid market saw stable growth and was unaffected by the general slowdown in the global economy.
- Secondly, our broad, state-of-the-art product programme once again made us the fastest-growing player in the hearing aid industry.
- And thirdly, consolidated growth can be ascribed to the fact that we successfully integrated the hearing aid company Otix Global. Add to this our strengthened distribution of diagnostic instruments, which is the result of several strategic acquisitions in 2011.

We are pleased that the groundwork laid back in 2010 with the launch of Oticon Agil has contributed to ensuring continuously rising sales. In 2011, product launches in particularly the mid-priced and low-end price categories formed the basis for quite substantial unit growth. Our organic unit growth in 2011 corresponded to two thirds of total unit growth in the hearing aid market, an advance that our competitors naturally had difficulty matching.

In the past year, our focus on putting customers first and offering the right products and value-creating services reinforced our position as the preferred business partner in the industry. Although we achieved the market's highest growth rates for the second year running and command a strong position coming into 2012, gaining the confidence of end-users and hearing care professionals will beyond a doubt continue to require a lot of hard work. To stay ahead of the competition also in future, we not only have to keep our well-oiled development and sales apparatus going, we also have to improve it on a continuous basis. I am absolutely convinced, however, that the combination of our substantial research and development efforts and our considerable know-how will enable us to continue creating value and enhancing the quality of life of the end-users.

The major financial results of our efforts in 2011 can be summed up as follows:

- In 2011, consolidated revenues amounted to well over DKK 8 billion, or a 17% increase on last year of which 9 percentage points related to organic growth.
- Our core business, the wholesale of hearing aids, succeeded in achieving an organic growth rate of just over 8% in 2011, while the underlying market grew by only a few percent.
- The Diagnostic Instruments business activity realised a growth rate of as much as 28%, with organic growth accounting for 12 percentage points.
- The Personal Communication business activity achieved 8% growth, which was driven by an impressive double-digit growth rate in Sennheiser Communications.
- Consolidated operating profits rose by 20% to DKK 1.7 billion.
- Free cash flows before acquisitions amounted to close on DKK 900 million, which is almost a doubling of last year's figure.

During the year, investors and analysts had some concerns about how hearing aid users would respond to the global economic slowdown, and especially how sales would develop in the debt-ridden economies of Southern Europe. Fortunately, their fears proved unfounded, and with roughly 4% unit growth, global trends reflected historical growth rates as well as our expectations of the year.

We have entered 2012 reinforced in our belief that the market for hearing aids is stable and resilient to economic downturns. There is much to suggest that macro-economic factors only impact the development of our business to a minor degree and that the need for help – and not least the recognition of that need for help – are the true drivers behind a decision to get a hearing aid.

The success we have experienced since the launch of Oticon Agil in 2010 is to a large extent due to the audiological advantages offered by features such as ear-to-ear communication. While we have already introduced products based on the *second* generation of *our* wireless platform, many of our competitors are still in the process of introducing products based on the *first* generation of *their* wireless platform.

As we experienced in 2007 and 2008, our competitors have now also felt that converting wireless technology into practical solutions is highly resource-intensive. For most manufacturers, the complexity of wireless technology often means that they are in reality unable to offer users major audiological benefits, until subsequent platform generations have been developed.

In many ways, this has given us an edge when it comes to audiology, and we now have a well-tested and strong wireless platform, which has the further advantage of being the platform with the lowest power consumption in the industry. We are therefore convinced that also in future, audiology will be the field in which we can extend our lead and capture market shares. Or put in a slightly different way: the core of our business is to use our strong audiological and development competencies to capture market shares – all of which will be firmly supported by a high level of competence within the more commercial disciplines such as marketing, sales, distribution and logistics.

Of course, the competition is making progress too, so we need to constantly focus on becoming better at what we do and using our sales and development resources as efficiently as possible. To this end, we continually optimise our business procedures and learn from our mistakes.

I would now like to highlight a few events relating to the various business activities.

Oticon's boost in unit sales in 2011 was mainly attributable to a powerful product programme in the mid-priced and low-end price categories, which was again a result of some highly successful launches in these categories in autumn 2010 and spring 2011.

In autumn 2011, Oticon introduced the world's smallest, fully wireless and cosmetically attractive hearing aid called Oticon Intiga, and in early March this year, the Intiga family was extended with **Intiga**^{i}, which is an IIC (Invisible In the Canal) type of hearing aid placed deeply inside the ear canal and therefore invisible. In other words, Oticon has created an extremely attractive product range, and our most recent platform technology is now available in all product categories.

Bernafon enjoyed a great year as well, with healthy growth in the number of instruments sold. Following the launch of a complete family of high-end hearing aids in the second half of 2011, our Swiss brand is also geared to continue along its upward curve in 2012.

To give the general assembly a better impression of the commercial world that not only we and our products, but also the hearing care professionals and the end-users belong to, we will now show two short films featuring Bernafon and Oticon, respectively.

I hope that by watching these two short films, you all got a sense of our brands and our products, which – when all comes to all – are what the hearing care professionals fit and the end-users buy.

When we took over American Otix Global at the end of 2010, we also acquired a third hearing aid brand called Sonic. 2011 was the year in which Sonic became fully integrated into the William Demant Group. In 2011, we focused on creating a strong sales organisation for Sonic, while updating the company's product programme on an ongoing basis. With a sharper profile under the slogan *"Everyday Sounds Better"*, Sonic is now poised for more growth in 2012 – growth that will among other things be driven by continual product updates.

Our retail business also performed well throughout 2011, achieving growth well above the market rate. The HearingLife chains, which were part of Otix Global and sell hearing aids to end-users in the USA and Australia, were also integrated into our Group in 2011, and the business adjustments made to this end were very successful, particularly in the USA.

We are extremely pleased – and rather proud – that Oticon Medical, which is our investment in bone-anchored hearing solutions, became profitable in the second half of 2011. Slightly more than two years after its first product launch, Oticon Medical has succeeded in capturing sizeable market shares, and a number of independent studies show that users prefer Oticon Medical's products to those of the competition.

It has ultimately been thrilling to watch our Group build up a new business unit and develop and market an all-new product group at global level. This endeavour has been highly successful – and everything is achieved within a few, short years thanks to a dedicated effort at different organisational levels. Despite the fact that Oticon Medical does *not* use the same sales channels as our other business activities, our powerful brands and physical presence with sales companies in all major markets enable us to seize promising business opportunities quickly and efficiently.

Our flexibility and capacity for change are plusses when it comes to the substantial number of acquisitions that we make every year. Most recently, our takeover of Otix Global enabled us, in just one year, to turn a company that had run at a loss for more than ten years into a profitable venture.

This spurs me on to Diagnostic Instruments. This business activity was established in connection with a minor acquisition back in 1995 and has since then developed into the key player in this market – and what is more the most profitable player. Again in 2011, Diagnostic Instruments saw very positive development. Besides achieving an organic growth rate that considerably exceeds the market growth rate, this business activity has acquired a number of companies involved in distributing diagnostic instruments in the USA. Consolidating the acquired distributors allows us to offer a more complete product and service range, while building up relations with our customers, which may benefit our other business activities.

As regards our Personal Communication business activity, Sennheiser Communications – our joint venture in headsets – once again recorded a double-digit growth rate, thereby ensuring solid development in this activity.

As Chairman of the Board, I am quite pleased to see that growth in 2011 was not driven by a single product launch or business activity. We are, in fact, in the gratifying situation that all three business activities, Hearing Devices, Diagnostic Instruments and Personal Communication, contributed impressive organic growth rates. Thus, 2011 brought much success, and we must continue these successes also in future in order to maintain the good momentum. However, I am confident about the future, and I am sure that we will achieve our goals – with the right mindset and based on the general choices we have made.

A chief responsibility of the Directors is to ensure that the William Demant Group performs its managerial tasks with maximum efficacy. With this in mind, the Directors regularly review the general framework and processes for corporate governance. A review of the recommendations drawn up by the *Committee on Corporate Governance in Denmark* shows that we comply with as many as 74 of the total 79 recommendations. Our website includes a detailed description of our compliance with these recommendations, and we explain why we do not comply with the last five of these recommendations.

Along the lines of the recommendations, I would like to comment on the remuneration paid to our Executive Board and Board of Directors, which I can do quite briefly. For many years, we have had a very simple remuneration policy, with a fixed basic fee per Director. It is proposed that the basic fee remain unchanged compared with last year's basic fee. At present, the Chairman's remuneration is three times the basic fee and the Deputy Chairman's fee twice the basic fee. There are no separate fees relating to Board committees. It is worth mentioning that the total Directors' fee in William Demant Holding is at the low end of the level in the other companies in the C20 index. The Executive Board's fee is also fixed and does not contain any variable bonuses. For the President & CEO, a termination/resignation and seniority agreement in line with normal market terms has been concluded. More details on this agreement are available on our website. The Board finds that not only is this remuneration structure simple and transparent, it also reflects the competitive remuneration of both the Board of Directors and the Executive Board.

I would also like to take this opportunity to mention that in April 2011, staff members were elected to serve on the Board. Ole Lundsgaard was re-elected, and two new members, Jørgen Møller Nielsen and Karin Ubbesen, were elected – all three for a four-year period.

Furthermore, I would like to comment on the corporate capital structure. Back in 2010, the Directors reviewed the corporate capital structure and subsequently announced the level of debt they considered reasonable for the Group. As a consequence of more stable trends in the financial markets, we adjusted our level of debt in 2011, and we now strive to have a net interest-bearing debt in the interval DKK 1.5-2 billion. In our interim report for the first six months of 2011, the Board found the consolidated debt to be at a suitable level and so decided to resume our share buyback programme. In future, any free cash flows, after acquisitions, will therefore be applied for the buyback of shares.

The buyback programme was resumed on 19 August 2011, reaching the DKK 300 million mark at year-end. When deliberating the announced level of debt, we do not necessarily seek the highest possible level of debt, but rather a level that enables us to act swiftly and flexibly, should an attractive acquisition opportunity arise. The level of debt is an issue that the Directors address regularly based on various internal and external factors.

In conclusion, I would like to comment on our expectations of 2012, which can be seen in their entirety in our annual report. In keeping with tradition, we expect to capture market shares in 2012 as we have in previous years. We expect broadly founded growth in all three of our business activities, which will lead to total growth in revenues of 5-9%, with acquisitions accounting for 1-3 percentage points.

I take great pleasure in coming to the conclusion that for 2011, we have once again met our own expectations and that we have kicked off 2012 well geared to maintain the positive momentum. That we will continue to capture market shares is of course not a given, since we move in a dynamic industry where being at the forefront requires nothing less than our very best. But when I look at the professionalism and enthusiasm found throughout our organisation, I have no doubt that we will repeat our excellent performance in 2012, picking right up where we left off in 2011.

At the end of the day, our ability to conceive new concepts and translate theory into practice is and always will be the basis for our sophisticated products. Of course, the foundation is the close customer relations and the respect we hold for the millions of end-users we help every day. It is this combination of state-of-the-art technology and customer care that make us the preferred business partner in our industry. I would therefore like to extend my warm thanks to all our employees for their outstanding work in 2011. Great job!

Our President & CEO, Niels Jacobsen, will now review the financial statements for 2011.

Niels – the floor is yours.