The Chairman's report at William Demant Holding A/S' annual general meeting on Wednesday, 13 April 2011 at 4 p.m.

2010 was an exceptionally good year for the William Demant Group. The impressive development was reflected in various ways of which I will mention the three most important:

- We managed to regain our position as the fastest-growing player in the hearing aid industry, with growth in revenues reaching no less than 21%.
- Around this time last year, we launched our high-end product Oticon Agil, our first hearing aid based on second-generation wireless products. A few months after its introduction, Agil ranked as the world's best-selling Premium product.
- This strong momentum has continued into 2011 where we also expect to be able to capture substantial market shares in the global market for hearing aids.

The high growth generated in 2010 is solid proof that we have emerged stronger from the difficult years from 2007 to 2009. We are therefore gratified to have succeeded in surpassing our competitors in the past year.

At the same time, we have created a solid foundation for growth in 2011 and the years to come: growth rooted in the strength generated in the market by our numerous excellent new products and our organisation's determination to win. But also growth rooted in the current competitive situation in which several of our competitors are struggling to produce positive growth rates. In other words, we stand strong in the market at the moment, but on the other hand, the ongoing battle for the favour of hearing care professionals is fierce. By achieving the right mix of skill and humbleness, we believe that we have truly taken the lead in an industry that makes its living by selling high-tech products accompanied by good service.

I can summarise the financial highlights of our efforts in 2010 as follows:

- Consolidated revenues amounted to just under 6.9 billion Danish kroner, or an increase of no less than 21%, with organic growth accounting for 12 percentage points.
- Our core business – the wholesale of hearing aids – generated 15% organic growth in 2010, which should be viewed in light of the fact that the market only grew by a few percent.
- Diagnostic Instruments and Personal Communication both showed growth rates hovering around 9%.
- Operating profits rose by almost one fourth to over 1.4 billion Danish kroner.

As I mentioned earlier, last spring's launch of our Premium hearing aid, Oticon Agil, was undoubtedly a major driver of our development in 2010. This brings me to comment on the general technological developments and competition in our industry.

From the moment we launched Agil, we sensed that customer demand would be significant. All markets and distribution channels worldwide gave us roughly the same feedback, namely that with Agil, we had set new standards for sound quality and wireless features in hearing aids.

But there is more to Agil's success: when we launched our first generation of wireless Epoq hearing aids three years earlier, hearing care professionals hesitated to embrace the new features, but their response at the launch of Agil in March 2010 was the exact opposite. In 2010, the market was geared for the new technologies in another way entirely. Back in 2007, everything was new and untried. We therefore had to expend a lot of resources on training hearing care professionals in the purposes of the new features and on making them comfortable with the daily routine of using wireless Bluetooth technology. Today, we have progressed by leaps and bounds, with hearing care professionals now to a high degree requesting new features themselves.

For our part, we have definitely also performed better. A number of technical problems caused us trouble during the launch of Epoq back in 2007 and it took a lot of energy and many resources to solve these problems, but Agil has been another story entirely, so far posing only minor technical challenges that have all been resolved quickly and efficiently. The launch of Agil in 2010 thus succeeded as a result of the, at times, hard-earned experience gained from our first generation of wireless products in combination with the persistent efforts made to assure quality.

If we take a step back and consider Agil's success from an industry perspective, three crucial points come to mind:

1. Firstly, developing competitive technologies for use in hearing aids is a very difficult exercise. We are no strangers to such challenges, and the emergence of wireless technologies has only complicated matters, engendering a complexity that costs not only time, but also money. We are, however, convinced that most of the costs and challenges associated with the transition to new wireless platforms are behind us, which is more than we can say for several of our competitors.

2. Secondly, manufacturers have truly regained the possibility of differentiating themselves in terms of products. Since all manufacturers have decided to invest in developing their own wireless platforms in-house, and since manufacturers are also at widely different stages of development, the industry has now entered an era where products and features really differ from each other.

   Finally, the higher complexity of product development, the longer development times and the resultant higher costs all clearly suggest that the concentration of market shares taking place at the moment will, by all appearances, continue at the current pace or, perhaps, a higher one. Consolidating market shares is a necessity because it makes no sense for the hearing aid industry to develop what amounts to six parallel wireless technologies. We are convinced that the minor players, in particular, will feel the pressure of this development: when some of your competitors operate with R&D budgets two or three times larger than your own, asserting your position is really hard.

So if we bring the situation to a head, competition in the hearing aid industry resembles a zero-sum game where one player's gain is another player's loss. Ours is a fairly limited and well-defined line of business where the overall market has shown moderately positive development with single-digit growth rates. So every time we gain market shares, somebody else in the system loses them. And if you lose market shares year in and year out, earmarking funds for product development gets harder and thus makes it harder to reverse the situation. Several minor players in our industry are clearly struggling with this dilemma at the moment.

However, our greatest competitors are also currently feeling the tougher competition. In the past six months, Swiss Sonova, which has indeed generated impressive growth for several years, appears to have had difficulty maintaining the momentum of the past few years. However, we certainly still consider Sonova a major competitor, but these recent developments simply illustrate that this line of business is no longer easy and that anything can happen.

However, let me revert to our own Group: I am pleased that our current momentum is not just due to Oticon Agil, but is also broadly anchored in the Group's many activities. Today, the product portfolios of our hearing aid businesses are stronger and more complete than ever, thanks in part to new products designed for children and young people as well as the introduction of Super Power hearing aids for people with severe hearing losses. In recent years, Bernafon's many product launches and sharper market profile have greatly strengthened the Bernafon brand and thus boosted Bernafon sales significantly.

In 2010, the acquisition of Otix Global, and thus the Sonic brand, towards the end of the year supplemented Oticon and Bernafon with a third hearing aid brand. Each with their own unique profile, the three brands give us a solid growth foundation for better addressing different customer needs in future.

We are also very pleased to report that with Oticon Medical we are in full swing establishing our Group as a significant player on the market for bone-anchored hearing systems. The response by customers has been extremely positive, which is supported by various product studies comparing Oticon Medical's products with existing products on the market. This gives us every reason to believe that over the next few years, we will be able to generate substantial growth in this new business activity.

We are also doing exceptionally well in the market for diagnostic instruments at the moment. With revenues in 2010 exceeding half a billion Danish kroner, we are unequivocally the largest player on the market for audiometers and diagnostic equipment.

And as regards Personal Communication, we are very pleased that Sennheiser Communications, our joint venture in the headset area, is back on the growth track after a few stagnant years with unfavourable market conditions hampering growth. Sennheiser Communications is currently busy preparing the company for the coming years' expected growth in the market for professional headsets – growth which will primarily be driven by the integration of a range of communication tools, including e-mail, mobile phones, landline phones, video conference equipment and online messaging. This development is termed Unified Communication and is expected to increase demand for headsets.

The Board of Directors currently consider the framework and processes relating to executive management, the aim being to ensure that the William Demant Group is always able to solve managerial tasks as competently as possible. We have also specifically contemplated the new recommendations relating to corporate governance drawn up by the *Committee on Corporate Governance* and introduced a year ago. A review of these recommendations shows that the William Demant Group follows most of them, in fact as many as 73 out of 78. There are only five of the recommendations that we do not follow, the reasons for which are provided in our review on corporate governance available on our website. The review also explicitly describes all relevant aspects of corporate governance in the William Demant Group – also including a description of all 73 of the recommendations that we do follow.

Some recommendations concern the remuneration of executive boards and boards of directors. Among other things, the Committee recommends that in his report, the chairman of the board mentions the corporate remuneration policy. In this connection, I can say that our Board of Directors adopted a very simple remuneration policy many years ago, which has not been changed since. Directors' remuneration consists of a fixed basic fee per Director. Currently, the Chairman's fee is fixed at three times the basic fee and the Deputy Chairman's at twice the basic fee. Apart from that, there is no remuneration for work in special board committees. Our Executive Board also receives a fixed fee without any variable components. The Directors find that a fixed fee competitively remunerates both our Directors and our Executive Board. For our President & CEO, we have made a resignation agreement in line with normal market terms. This is described in more detail in our remuneration policy on our website. The Directors have, however, proposed that the general meeting's approval of Directors' fees should be amended: we now recommend that the general meeting approves the fees for the current financial year. We will revert to this in the chairman's review of proposals from the Board of Directors.

I would like to take this opportunity to comment on the corporate capital structure. In autumn 2008, we decided to temporarily suspend our buyback of shares – a decision made as a direct consequence of the financial crisis in 2008. In continuation of that decision, consolidated cash flows have largely been used for acquisitions and continuous debt reduction. In 2010, the Board of Directors reconsidered the corporate capital structure, including the issue of resuming our practice of buying back shares. The Board concluded – as mentioned in our interim report – that the Group should endeavour to have an interest-bearing net debt of 1 to 1.5 billion Danish kroner, but that the Board also makes decisions concerning the desired level of debt on a regular basis. In our considerations, we emphasised that the Group should not necessarily strive for the highest possible level of debt, but rather seek to ensure that the Group is able to act quickly and flexibly if attractive opportunities for acquisitions should arise. We also assessed the gearing levels in major Danish companies and in European med-tech companies. We prefer not to deviate drastically from practices in comparable companies. With an interest-bearing net debt at year-end of just under 1.9 billion Danish kroner and the prospect of considerable cash flows in 2011, we may at some point in 2011 be in a position where buying back shares is again on the table. The timing will depend on current corporate cash flows and on the extent of any acquisitions. To emphasise my point, I would like to assure our shareholders that we certainly have no intention of accumulating capital in the company. If we do not use our cash flows for good and sound investments, the cash will be channelled back to our shareholders in the form of share buybacks – provided, though, that we have reduced our debt to the desired interval. As indicated previously, the level of debt is an area addressed regularly by the Board of Directors and therefore also considered regularly by the Board.

Finally, I would like to comment on our expectations for 2011, which are fully outlined in our annual report. However, I would like to point out that in 2011, we definitely expect to continue the positive trends begun in 2010. We thus forecast substantial growth in both revenues and earnings and also expect to see further strengthening of our corporate profitability. If we exclude the acquisition of Otix Global and the non-recurring costs in this connection, we expect 2011 to see an increase in our profit margin compared with 2010 and a handsome double-digit growth rate in operating profits – also before recognition of Otix Global. For 2011, unit growth in the global market for hearing aids is estimated at 2-4%, whereas the average selling price in the market is projected to be flat or slightly negative. Corporate wholesale of hearing aids in 2011 is expected to exceed market growth by as much as 4-8 percentage points. In other words, we can look forward to capturing considerable market shares.

As mentioned several times, we are now back on track and heading in the right direction. History – and I am thinking of our own history and that of our competitors – does, however, show that it is important to be a little humble even in the face of success and great ambitions for the future. We have undeniably come a long way in recent years, but our success does not mean we have achieved our ultimate goal. It is in fact the organisation's strive to achieve new goals that has us convinced that going forward, our growth will surpass that of the market.

Before I give the floor to Niels, there is every reason to thank our staff for their solid and productive work. Our success in recapturing our position as the fastest-growing business in the hearing aid industry is undoubtedly thanks to the great commitment and willingness of our staff to go the extra mile.

Niels, the floor is yours.