ANNUAL REPORT 2011

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.

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STRONG GROWTH IN A STABLE MARKET

Dear reader

2011 was another good year for the William Demant Group. So good in fact that our wholesale of hearing aids generated unit growth of no less than 17%, an advance that has enabled us to maintain our position as the industry's fastest-growing company and once again to capture significant market shares. Volume growth in the underlying market amounted to just under 4%, which falls within the customary growth pattern. In other words, the hearing aid market seems essentially unaffected by the general economic slowdown.

The Group's other two business activities, Diagnostic Instruments and Personal Communication, also performed well in 2011. As well as generating strong organic growth, Diagnostic Instruments further consolidated its activities by acquiring distribution businesses in the US market. Growth in Personal Communication was driven by Sennheiser Communications, which again realised high, double-digit, organic growth.

I am certain that our success lies chiefly in our long-standing focus on technology, innovation and product development coupled with our close partnership with primary customers, i.e. dispensers and hearing care professionals.

I would even venture to say that ours is definitely the strongest and most up-to-date product programme in the industry. Carrying every conceivable model variant, Oticon's portfolio in particular offers customers products that are probably second to none in the industry.

The ultra-fast, sophisticated RISE 2 platform is the engine driving the steady stream of products that have been rolling onto the market since spring 2010. The Intiga family will be enhanced further in spring 2012, when Oticon launches its first IIC instrument (Invisible Inside the Canal) called Intiga[i].

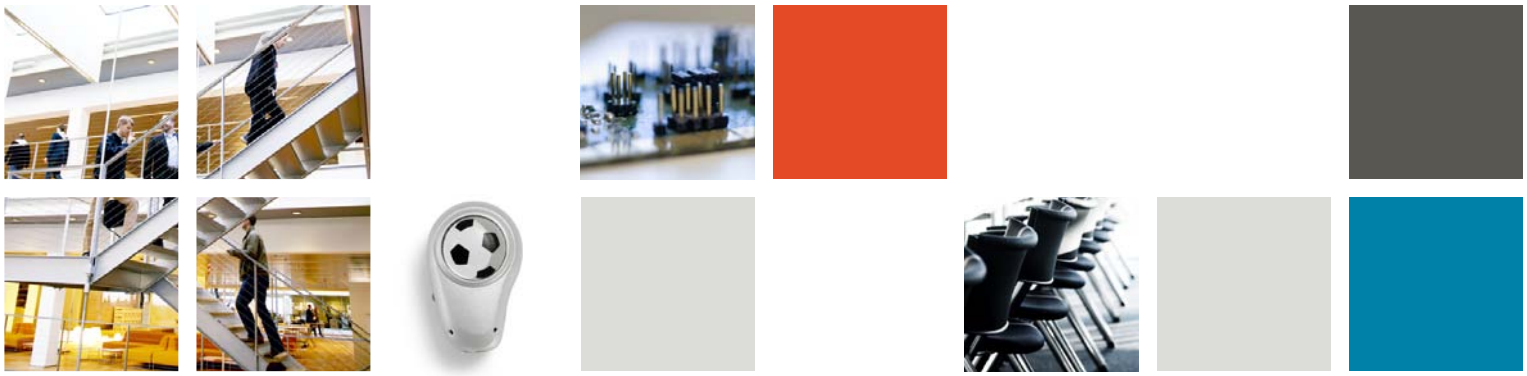
This advanced technology has enabled us to set new standards for what hearing care professionals and end-users can expect in modern hearing aids in terms of sound quality and features. These advances are primarily the result of dedicated development projects conducted in the field of wireless technology since 2000.

In acquiring the US hearing aid brand Sonic that complements the Group's two other brands – Danish Oticon and Swiss Bernafon – we now boast three hearing aid brands that together accommodate the full spectrum of customers and their individual needs. Finally, Oticon Medical's bone-anchored hearing systems, which are being successfully introduced in an increasing number of markets, help us meet practically every need for hearing solutions in the market. In that connection, I am pleased to note that at the end of 2011 – after just two years on the market – Oticon Medical is now making a positive contribution to consolidated operating earnings.

All these developments are a reflection of so-called micro-segmentation – a phenomenon that is here to stay and will undoubtedly put added pressure on smaller players because the costs of being at the cutting edge never cease to rise. To illustrate this point, it is worth noting that the William Demant Group's consolidated growth in revenues in 2010 and 2011 corresponds to the revenue generated by one of the industry's smaller players. Granted, certain acquisitions have contributed to the growth we have achieved, but in fact, organic growth accounts for over half of the Group's total increase in revenues in 2010 and 2011.

However, "just" having good products is no longer enough. To become the preferred supplier of hearing care professionals, a manufacturer must also be able to offer a complete package of services such as training, counselling tools, software as well as marketing materials and marketing cooperation. The quality of these services varies considerably from manufacturer to manufacturer, which is why these services make it possible to further position each individual brand – a potential that we have done much to exploit in recent years.

Investors and analysts seem preoccupied with issues like economic decline, consumer reluctance and the risk of recession. Specifically, they seem to fear that the uncertain macro-economic forecasts will curb end-users' desire to buy hearing aids. Nonetheless, I honestly believe that this fear is baseless, as there is no obvious historical correlation between general economic trends and the demand for hearing aids. The population of potential end-users is developing steadily and predictably and will continue to do so for decades to come. Moreover, most hearing aids are bought without any form of subsidy, which means that, unlike other med-tech industries, the hearing aid industry is relatively untouched by health reforms and budget cuts. In our industry, it is thus very important for both individual manufacturers and the market as a whole to keep abreast of product cycles.



Finally, I would like to extend a warm thank you to all our highly skilled and committed employees whose determination over the past three years has helped put the Group back on the growth track. Thanks to their tireless efforts, in 2012 the William Demant Group stands very strong and equipped to take on the competition.

Niels Jacobsen
President & CEO

THE YEAR AT A GLANCE

In 2011, the Group as a whole matched our most recent forecasts. The Group recorded solid double-digit growth in earnings per share for the third year running – or more precisely, an improvement of 22%. By comparison, the corresponding increases in 2009 and 2010 were 17% and 24%, respectively. The impressive development in 2011 is, among other factors, due to the positive contribution of all business activities to our organic growth, which amounted to 9% in 2011. Acquisitions made a 7% contribution to sales in 2011 while currency had a positive impact of 1%, bringing total revenues up to DKK 8,041 million, corresponding to reported growth of 17%.

The Group recorded operating profits (EBIT) of DKK 1,709 million, close on 20% on the previous year, and a profit margin of 21.3% (20.7% in 2010). Realised net profits for the year were DKK 1,199 million, representing an increase of 21% on 2010.

In 2011, the Group achieved volume growth of no less than 17% in wholesale of hearing aids, with recently acquired Sonic accounting for 3 percentage points. With market growth of just under 4% in terms of units, we have thus once again managed to win significant market shares. In our assessment, there are no signs that the economic slowdown or consumers' reluctance to buy has adversely affected the market for hearing aids.

In 2011, Oticon's growth was mainly driven by the distinct enhancement of the product programme that was kick-started in spring 2010 with the launch of the Premium family Oticon Agil, which also marked the introduction of the new, advanced RISE 2 platform. Since then, products such as Oticon Acto and Oticon Ino have been introduced in the lower price categories. Together with the design family Oticon Intiga, both Acto and Ino contributed significantly to corporate growth in 2011. Combined with the growth generated by other new products such as the Super Power family Chili and the paediatric product family Safari, Oticon demonstrated considerable momentum in 2011 and is today the best-positioned brand in the market for hearing aids. In March 2012, the introduction of Intiga[i], a so-called IIC solution (Invisible Inside the Canal), will mark Oticon's entry into the market for tiny in-the-ear instruments.

For Bernafon too, growth was driven by a strong product programme. The second half of the year saw the launch of Chronos in the high-end segments, while the lower-priced Inizia was available throughout 2011 and therefore accounted for an important part of Bernafon's total growth.

Finally, the Sonic brand acquired by the Group at the end of 2010 has further fortified the Group's wholesale business.

Oticon Medical continued in 2011 to capture market shares in the market for bone-anchored hearing systems while contributing to the ongoing expansion of the market. Oticon Medical's substantial growth since the company's first products were released for sale at the end of 2009 means that the company has contributed to the Group with positive operating earnings since the autumn of 2011.

In 2011, the Group's retail activities also performed very well, returning a growth rate slightly below that of our wholesale business. One of the drivers of this favourable development was our focus on general operational optimisation.

2011 was a particularly eventful year for Diagnostic Instruments. We continued our focus on boosting market shares through organic growth while actively pursuing acquisitional opportunities, one result being the takeover of distribution activities in the US market. Overall, Diagnostic Instruments generated reported growth in 2011 of no less than 28% and organic growth of 12%.

Growth in Personal Communication was driven solely by Sennheiser Communications, which has performed very well in recent years, particularly in the professional segment, where the integration of various communication tools and media (Unified Communication) is constantly fuelling the need for special headsets. Conversely, FrontRow's educational systems are struggling under difficult market conditions, while Phonic Ear is suffering under the increasing tendency by hearing aid manufacturers to integrate features offered by accessory products for the hearing-impaired into new hearing aids. Consequently, accessories are less frequently sold as stand-alone solutions. Total organic growth in Personal Communication constituted 8% in 2011.


Revenue and profit margin
DKK million
5,488
5,374
5,701
6,892
8,041
25%
20%
15%
2007
2008
2009
2010
2011
Profit margin
Revenue

KEY FIGURES AND FINANCIAL RATIOS – DKK

	2011	2010	2009	2008	2007
INCOME STATEMENT, DKK MILLION					
Revenue	8,041	6,892	5,701	5,374	5,488
Gross profit	5,777	4,959	4,035	3,725	3,971
Research and development costs	633	615	576	533	505
EBITDA	1,942	1,654	1,341	1,217	1,436
Depreciation etc.	233	224	192	174	169
Operating profit (EBIT)	1,709	1,430	1,149	1,042	1,268
Net financial items	-103	-116	-94	-139	-97
Profit before tax	1,606	1,314	1,055	903	1,171
Profit for the year	1,199	988	795	682	895
BALANCE SHEET, DKK MILLION					
Net interest-bearing debt	-1,548	-1,869	-1,575	-1,908	-1,800
Total assets	7,646	6,786	4,626	3,914	3,714
Equity	3,304	2,443	1,302	532	426
OTHER KEY FIGURES, DKK MILLION					
Investment in property, plant and equipment, net	382	251	181	196	166
Cash flow from operating activities (CFFO)	1,381	826	950	828	848
Free cash flow	895	494	656	588	756
Employees (average)	7,392	6,318	5,674	5,383	5,072
FINANCIAL RATIOS					
Gross profit ratio	71.8%	71.9%	70.8%	69.3%	72.4%
EBITDA margin	24.2%	24.0%	23.5%	22.6%	26.2%
Profit margin (EBIT margin)	21.3%	20.7%	20.2%	19.4%	23.1%
Return on equity	41.7%	49.5%	87.2%	162.9%	160.3%
Equity ratio	43.2%	36.0%	28.1%	13.6%	11.5%
Earnings per share (EPS), DKK*	20.6	16.9	13.6	11.6	14.8
Cash flow per share (CFPS), DKK*	23.7	14.1	16.3	14.1	14.0
Free cash flow per share, DKK*	15.4	8.5	11.2	10.0	12.5
Dividend per share, DKK*	0	0	0	0	0
Book value per share, DKK*	56.7	41.9	22.3	9.2	7.2
Price earnings (P/E)	23	24	29	19	32
Share price, DKK*	478	414	393	218	471
Market cap. adjusted for treasury shares, DKK million	27,397	24,173	22,894	12,718	28,063
Average number of shares, million	58.24	58.35	58.31	58.77	60.62

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 flows from operating activities (CFFO) and investing activities (CFFI) adjusted for acquisitions. On computation of the return on equity, average equity is calculated duly considering the current buyback of shares.

**Per share of DKK 1.*

KEY FIGURES AND FINANCIAL RATIOS – EUR**

	2011	2010	2009	2008	2007
INCOME STATEMENT, EUR MILLION					
Revenue	1,079	925	765	721	737
Gross profit	775	666	542	500	533
Research and development costs	85	83	77	72	68
EBITDA	261	222	180	163	193
Depreciation etc.	31	30	26	23	23
Operating profit (EBIT)	229	192	154	140	170
Net financial items	-14	-16	-13	-19	-13
Profit before tax	216	176	142	121	157
Profit for the year	161	133	107	92	120
BALANCE SHEET, EUR MILLION					
Net interest-bearing debt	-208	-251	-212	-257	-242
Total assets	1,028	913	622	527	500
Equity	444	329	175	72	57
OTHER KEY FIGURES, EUR MILLION					
Investment in property, plant and equipment, net	51	34	24	26	22
Cash flow from operating activities (CFFO)	185	111	128	111	114
Free cash flow	120	66	88	79	102
Employees (average)	7,392	6,318	5,674	5,383	5,072
FINANCIAL RATIOS					
Gross profit ratio	71.8%	71.9%	70.8%	69.3%	72.4%
EBITDA margin	24.2%	24.0%	23.5%	22.6%	26.2%
Profit margin (EBIT margin)	21.3%	20.7%	20.2%	19.4%	23.1%
Return on equity	41.7%	49.5%	87.2%	162.9%	160.3%
Equity ratio	43.2%	36.0%	28.1%	13.6%	11.5%
Earnings per share (EPS), EUR*	2.8	2.3	1.8	1.6	2.0
Cash flow per share (CFPS), EUR*	3.2	1.9	2.2	1.9	1.9
Free cash flow per share, EUR*	2.1	1.1	1.5	1.3	1.7
Dividend per share, EUR*	0	0	0	0	0
Book value per share, EUR*	7.6	5.6	3.0	1.2	1.0
Price earnings (P/E)	23	24	29	19	32
Share price, EUR*	64	56	53	29	63
Market cap. adjusted for treasury shares, EUR million	3,685	3,252	3,080	1,711	3,775
Average number of shares, million	58.24	58.35	58.31	58.77	60.62

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 flows from operating activities (CFFO) and investing activities (CFFI) adjusted for acquisitions. On computation of the return on equity, average equity is calculated duly considering the current buyback of shares.

**Per share of DKK 1.*
***On the translation of key figures and financial ratios from DKK to EUR, Danmarks Nationalbank's rate of exchange at 31 December 2011 of 743.42 has been used for balance sheet items, and the average rate of exchange of 745.05 has been used for income statement and cash flow items.*

REVIEW

Market conditions and business trends

The hearing aid market in general

In 2011, the market for hearing aids proved once again to be stable, and despite the general global economic slowdown, the industry generated positive growth rates. Key market growth drivers like the increasing elderly population have remained intact, and the decision to buy a hearing aid is only to a limited degree impacted by cyclical fluctuations.

Development in the USA as expected

With unit growth of 3% in 2011, the US hearing aid market, which is the world's largest single market for hearing aids, was on par with our expectations of 2-4% global volume growth for the full year. Once again, the US government's demand through Veterans Affairs (VA) exceeded growth in the commercial market, although growth in the second half-year in the private sector of the US market was somewhat higher than growth in VA. Overall, demand by VA rose by 4%, while unit growth in the private sector of the US market of just over 2% was slightly below the historic average.

Higher growth in Europe

Unit growth in Europe was very satisfactory, outstripping growth in the US market as well as our expectations for global market growth. Major hearing aid markets such as Germany, France, Italy and the Netherlands all performed very well, and in 2011, Switzerland recorded extraordinarily high growth, although this was mainly spurred by structural changes in the national hearing care sector. During the year, some investors and analysts have shown a certain interest in the debt-ridden economies of southern Europe, but here too, the market for hearing aids has proved remarkably resistant to macro-economic trends.

Stable growth in the UK

After a number of years of erratic demand by the National Health Service (NHS) as well as the private-sector market, the British hearing aid industry saw stable growth in 2011 in the region of 3%. The measures taken in recent years with a view to optimising the NHS have shortened public waiting lists and steadied unit growth development. Both the private sector market and the NHS have contributed to growth in the UK in 2011.

Japan back on the growth track

After a period of positive growth rates, the Japanese market saw falling sales in the first quarter of the year, a direct consequence of the tragic tsunami that struck the country in March. Despite the disaster, it was pleasing to see the quick return of the Japanese hearing aid market to normal conditions and to see favourable growth for the year as a whole, albeit on the low side of our expectations for global market growth. However, the Japanese market still has a lower degree of penetration than most developed markets for hearing aids and therefore appears to hold unexploited potential.

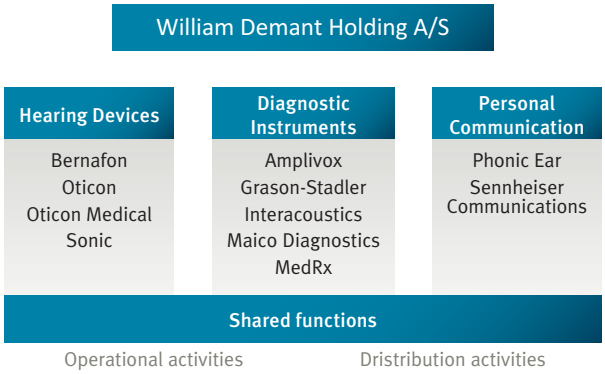
Global growth and price movement

In our estimation, global unit growth in 2011 was just under 4% and sales of hearing aids are thought to have topped 10 million units in 2011.

The above description of market conditions relates to volume development and is partly based on statistics available for a number of main markets. The average selling price, on the other hand, is to a higher degree based on an estimate, due to the fact that only limited price and product mix information is available. We estimate that in 2011, the average selling price dipped by 2-3%, a decline primarily due to product mix changes, with key market players launching attractive ranges of mid-priced and low-end products in the period. In terms of value, overall market growth was, in our estimation, 1-2%.

Innovation and product mix

Innovation connected with high-end product launches will continue to enhance the product mix and raise average selling prices. Consequently, development will depend heavily on manufacturers' ability to offer specific benefits to end-users. As product families mature and are renewed, manufacturers will see a cyclical trend in average selling prices and, depending on the launch rate and degree of innovation, these price cycles may coincide or conflict. In general, 2011 was an evolutionary year, because manufacturers focused on improving existing product portfolios without actually offering innovation, a situation reflected in declining average selling prices.



Hearing Devices

Strong growth in all regions

In 2011, the Group's hearing device activities again recorded the industry's highest growth and captured market shares in all geographic regions. In the wholesale business, total unit sales grew by 17%, and, disregarding the acquisition of Otix Global, the underlying business generated unit growth of 14%. As a natural consequence of the present product cycle, with the Group's largest hearing aid brand Oticon having introduced the market's strongest product programme in the mid-priced and low-end segments and having captured sizeable market shares in these segments, the Group's average selling price fell by 5% in 2011. The successful launch of the design product Oticon Intiga in September impacted the average selling price positively towards the end of the year, whereas rising sales to the NHS had an adverse effect on development in the second half-year. The hearing aid business generated overall organic growth in revenues of 8%. If we look at our core business alone – wholesale of hearing aids – the Group generated organic growth in consolidated revenues of slightly over 8%.

Oticon's products and services

Growth was partly driven by the comprehensive product range carried by Oticon at the start of 2011, which was further reinforced with the launch of the basic product Oticon Ino in February and the design product Oticon Intiga in September. However, product launches have not been the only drivers of this major growth: the breadth of its product portfolio and its enhanced profile have also bolstered Oticon's market position. We also believe that the high service level, coupled with a strong image, makes Oticon an attractive business partner and the industry brand that adds most value for customers. Oticon's stated goal to be a business partner that creates value for the customers is pivotal when we forge customer relations and a significant reason why Oticon has once again managed to capture sizeable market shares.

Oticon's product launches

Oticon Ino is based on Oticon's second-generation wireless platform, RISE 2, known from the successful Agil and Acto product families. Just a matter of weeks after its launch, Ino was available on all markets, and because most of Oticon's customers were already familiar with its basic technology, Ino rapidly became a commercial success as well, achieving high sales figures.

The design product Oticon Intiga is the world's smallest fully wireless RITE hearing aid and is based on the successful RISE 2 platform. Intiga offers the same strong audiological advantages as the high-end instrument Oticon Agil, while being a full 33% smaller than the popular and discreet miniRITE model introduced in connection with the launch of Oticon Agil in 2010. As well as featuring a cosmetically attractive shell, Intiga offers fully wireless, binaural processing and the possibility of streaming multiple sound sources. Dispensers and end-users alike have given Intiga a very good reception due to its attractive design and uncompromising audiological features. Intiga has thus significantly strengthened our position in the Design segment, which is especially popular with first-time users. Being a cosmetically attractive alternative to the miniRITE models, Intiga sales have however – as anticipated – triggered some cannibalisation of existing products.

The launch of Oticon Intiga^{i} in March 2012 will add yet another cosmetically attractive member to the Intiga family. Intiga^{i}, an IIC (Invisible Inside the Canal) instrument, fits in the auditory canal so snugly as to be invisible. Custom-built for users, the instrument is shaped to follow the unique contours of a person's auditory canal. Although Intiga^{i} will not be suited for all users, we look forward to offering a large number of our customers with mild to moderate hearing losses an invisible solution to remedy their hearing impairment. Intiga^{i} will be available in two variants in the upper price category.

Continued growth in Bernafon

Thanks particularly to the performance of the basic product Inizia 3|1, Bernafon recorded impressive unit sales again in 2011, noting a rise in sales to both independent dispensers and so-called volume customers, even though – as expected – shifts in product and channel mixes resulted in a lower average selling price. In the summer of 2011, Bernafon launched Chronos 9|7|5 in an array of styles for the mid-priced and high-end ranges. The launch of the RITE version, Chronos Nano, in November has put Bernafon in a good position at the start of 2012 to continue growth and enhance its product mix. All in all, Bernafon has established a very strong and attractive product portfolio based on its in-house developed

ChannelFree signal processing technology and a highly effective anti-feedback system.

Enhanced Sonic profile
At the end of November 2010, the Group acquired the US hearing aid company Otix Global and its Sonic brand. Since then, much effort has been devoted to revitalising the business and establishing a sustainable platform for the Group's third hearing aid brand. At end-2011, Sonic had built a strong sales organisation both in its main market in the USA and internationally. Under the slogan *"Everyday Sounds Better"*, Sonic has launched an enhanced profile, underpinning its future strategic aim to be a dynamic and innovative business partner under stable, long-term ownership. Having intro-duced the IIC instrument Groove in spring 2011 and the RITE instrument Flip at the end of the year, Sonic is in full swing updating its existing product portfolio and adding state-of-the-art wireless technology and effective signal processing to its features. We are confident that, with a sustainable foundation to shore up future growth and with continued optimisation of its product portfolio in 2012, Sonic will also in future be an attractive business partner for new and exist-ing customers alike.

NHS and VA
The Group remains the largest supplier of hearing aids to the NHS in the UK, and although the NHS decided in August 2010 to expand its network of suppliers, we successfully boosted our productive collaboration in 2011 and increased our market share with the NHS. Sales to VA in the USA have progressed satisfactorily, and at the end of 2011, our market share with VA was 10%.

Retail activities
Corporate retail activities also performed very well in 2011, with organic growth above the global market growth rate. Some of the reasons for this healthy growth are the adjustment of our British retail business to changed market conditions and focus on the operational optimisation of all of our retail activities in 2011. The HearingLife chain in the USA, which we took over in connection with the acquisition of Otix Global, has also undergone a positive transformation and emerged significantly stronger at the end of 2011.

Profit in Oticon Medical
In the past year, Oticon Medical experienced strong sales growth, generating a profit from autumn 2011. All geographic regions contributed to growth, and particularly markets such as Spain, Germany, the Netherlands and Scandinavia contributed significantly. As the subject of various studies during the year, Oticon Medical's bone-anchored hearing systems were lauded for their high product and sound quality. Users in practically every study conducted actually preferred Oticon Medical's products. The launch of the more powerful sound processor Ponto Pro Power in summer 2011 made Oticon Medical a one-stop supplier of bone-anchored hearing systems, enabling the company to offer solutions even for severely hearing-impaired users. The launch was highly satisfactory, and customers quickly embraced Ponto Pro Power. As Ponto and Ponto Pro were upgraded when Ponto Pro Power was introduced, all the products in the Ponto series are now fully up-to-date and offer a number of the advanced audiological advantages for which Oticon's hearing aids are so well-known.

In the first half of 2012, Oticon Medical will launch a new implant system offering multiple innovative user benefits, including easier engagement, better stability and not least faster and simpler surgery. Naturally, the new implant system is fully compatible with the existing product programme.

Diagnostic Instruments
A global market leader in its field, Diagnostic Instruments generated highly satisfactory growth in local currency of 30% in 2011, organic growth accounting for 12 percentage points. The total global market for diagnostic equipment is believed to have grown by 2-3% in 2011, and Diagnostic Instruments has thus once again captured market shares and reinforced its position.

This business activity comprises five audiometer companies: Interacoustics in Denmark, Grason-Stadler in the USA, Amplivox in the UK, Maico in Germany and the USA and MedRx in the USA. Diagnostic Instruments is also to some degree involved in distribution to customers.

The growth recorded by Diagnostic Instruments is based broadly on distribution and wholesale in most product categories, especially in impedance instruments and hearing aid fitting systems, such growth being attributable to the rapidly growing number of new hearing aid clinics.

Various acquisitions in 2011, including that of Gordon N. Stowe, strengthened the position of Diagnostic Instruments with respect to distribution in the USA, which is mainly handled by so-called Special Instrument Distributors (SIDs). In the past year, William Demant also acquired a few strategically important niche manufacturers of diagnostic instruments,



including MedRx, and we expect – on an ongoing basis – to be able to realise economies of scale as the acquired companies are integrated into the Group.

Personal Communication

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

Personal Communication realised healthy organic growth of 8% in total in 2011. This revenue increase is solely attributable to the impressive double-digit growth recorded by Sennheiser Communications, which was also driven by strong growth in Unified Communication. In the same period, Phonic Ear and FrontRow saw declining revenues due to harsh market conditions, which can, among other factors, be attributed to the fact that today assistive devices for the hearing impaired are more often sold together with modern hearing aids than was the case previously, and also to the fact that the level of investment in the US educational sector was low in 2011, which has impacted sales of sound systems.

Financial review 2011

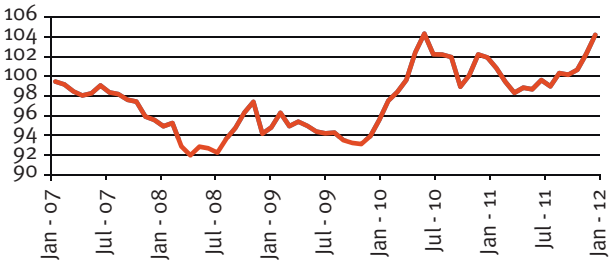
Revenues and foreign exchange

In the reporting period, consolidated revenues totalled DKK 8,041 million, matching overall growth of almost 17%, organic growth accounting for about 9 percentage points. Acquisitions contributed to growth by 7 percentage points, and the positive exchange impact was well over 1 percentage point.

With 97% of consolidated sales being invoiced in foreign currencies, reported revenues are affected significantly by movements in corporate trading currencies. Based on the distribution of consolidated sales in 2011 in the respective trading currencies, the graph below shows the monthly trend in the Group's currency basket.

As a result of the unstable economic situation worldwide, the foreign exchange markets were impacted by considerable volatility through most of 2011. The moderately positive exchange impact on consolidated revenues is mainly attributable to trends in the rates of the Australian dollar and the Japanese yen, which rose by 7% and 5%, respectively, measured at average exchange rates in 2011 and 2010. With a fall of just under 5% on the average exchange rate, the US dollar pulled in the opposite direction.

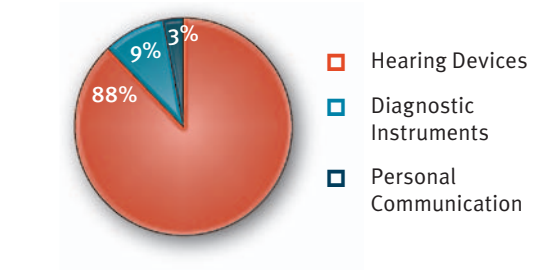
The Group's currency basket – indexed development



Index 100 = average for 2011

The year's total exchange impact on revenues of about 1% is composed of a negative translation effect of close on 1% and a positive transaction effect of just under 2%. The latter is the net effect of realised gains or losses on forward exchange contracts used for hedging of exchange risks and recognised in the financial statements together with the revenues in foreign currencies that such forward exchange contracts are designed to hedge.

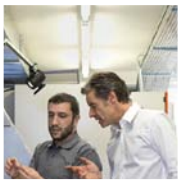
Revenues by business activity



In 2011, the Group generated growth in North America of well over 18% measured in local currencies, with organic growth accounting for about half of this growth. Again in 2011, we improved our market share with Veterans Affairs (VA), and in terms of volume, sales at year-end accounted for about 10% of total VA demand. Although all of our three hearing aid brands are represented with VA, Oticon still clearly accounts for the biggest slice of sales. With the acquisition of Gordon N. Stowe among others, Diagnostic Instruments has fortified its position in distribution in the USA. North America accounts for 38% of consolidated revenues.

In the reporting period, the Group realised growth in revenues in Europe of close on 10% in local currencies, acquisitions accounting for approx. 2 percentage points. This improvement is broadly founded in most European markets, including in particular our key markets Germany and France. Total sales in the so-called PIIGS countries (Portugal, Italy, Ireland,



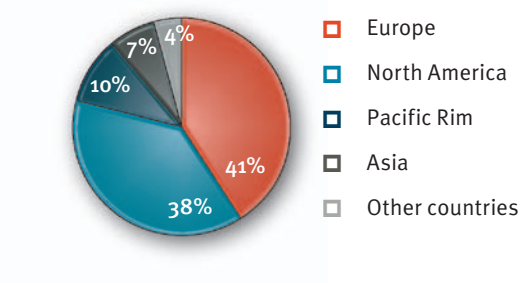




Greece and Spain) also developed fairly, which is quite satisfactory in light of the considerable economic instability in these countries. Europe accounts for well over 40% of total consolidated revenues.

Revenues by business activity

DKK million	2011	2010	Percentage change DKK	Percentage change Local currency
Hearing Devices	7,075	6,098	16%	14%
Diagnostic Instruments	686	535	28%	30%
Personal Communication	280	259	8%	9%
Total	**8,041**	**6,892**	**17%**	**16%**

Revenues by geographic region



In 2011, corporate retail activities saw fair growth exceeding market growth. The improvement was, among other factors, driven by focused optimisation of certain aspects of our retail activities, such as the successful integration of the HearingLife chain in the USA.

In 2011, Diagnostic Instruments generated revenues totalling DKK 686 million, corresponding to 30% growth in local currencies, with organic growth accounting for 12 percentage points. Some of the organic growth drivers were an updated product programme and the strong positioning of our five brands. In other words, the rate of growth in Diagnostic Instruments was considerably higher than in the underlying market, which is thought to have grown by 2-3% in the same period. Our stronger position in distribution in the USA, our acquisition of the diagnostic activities in Otix Global and our acquisition of a couple of small, but strategically important, niche manufacturers are the primary explanations for the acquired growth. In the reporting period, Diagnostic Instruments accounted for almost 9% of consolidated revenues.

In the period under review, Personal Communication realised revenues of DKK 280 million, or a rise of well over 9% in terms of local currencies. As mentioned earlier, this improvement was solely driven by impressive sales in Sennheiser Communications, whereas Phonic Ear and FrontRow – as a result of difficult market conditions – both experienced a drop in sales. In 2011, revenues generated by Personal Communication constituted just over 3% of consolidated revenues.

Gross profits

Consolidated gross profits rose by well over 16% to DKK 5,777 million. The consolidated gross profit ratio was 71.8%, which matches the level of 2010 with a gross profit ratio of 71.9%. The strong sale of mid-priced and low-end hearing aids resulted in a less favourable product mix and thus a lower average selling price, which also dampened our gross profit ratio. In the reporting period, Sonic hearing aids were comparatively expensive to produce. We expect this to change in future, when Sonic unit costs should match the level of unit costs for our other hearing aid brands. Growing sales of Streamers and other wireless equipment for our state-of-the-art hearing aids also had a negative impact on the gross profit ratio, as these products typically do not sell at the same high gross profit ratios as do hearing aids. There is, however, also a positive side, because the gross profit ratio is boosted by falling unit costs thanks to the economies of scale achieved by the Group, as the number of hearing aids produced increases substantially. The gross profit ratio was improved by 0.7 percentage point from the first to the second half of 2011, among other things due to the launch of Oticon Intiga.

Capacity costs

Consolidated capacity costs in local currencies rose by 15% in 2011. Two thirds of this increase is, however, directly attributable to acquisitions, which means that the underlying business generated substantial organic sales growth without a correspondingly large increase in capacity costs. For staff outside Denmark, we carried through an employee share programme in 2010, the cost of which was DKK 15 million. Such programme was not carried through in 2011.

Capacity costs

DKK million	2011	2010	Percentage change DKK	Percentage change Local currency
R&D costs	633	615	3%	2%
Distribution costs	2,959	2,471	20%	20%
Administrative expenses	482	449	7%	8%
Total	**4,074**	**3,535**	**15%**	**15%**

Research and development costs

Consolidated research and development costs in local currencies rose by a modest 2% in the reporting period, which is considerably below growth in revenues in the same period. In the past few years, we have optimised our research and






development effort and are now reaping the full benefits of the substantial investments made earlier in our unique wireless technology etc. If we consider total consolidated research and development costs since 2009, they have gone up by close on 10%. By way of comparison, we have boosted revenues by more than 40% in the same period.

Distribution costs

In terms of local currencies, distribution costs rose by 20%, two thirds of which being attributable to acquisitions. The rise in consolidated distribution costs, excluding acquisitions, is therefore below the organic growth in revenues. 2011 has seen a continuous strengthening of corporate distribution activities, particularly in respect of Diagnostic Instruments, Hearing Devices and bone-anchored hearing solutions from Oticon Medical.

Administrative expenses

In 2011, consolidated administrative expenses in local currencies rose by 8%, a rise that is exclusively due to acquisitions.

Profit for the year

In the period under review, operating profits (EBIT) amounted to DKK 1,709 million, or an increase of close on 20% compared with 2010. This substantial improvement is first and foremost due to the high revenue growth generated by the Group in the past year. The profit margin rose by 0.6 percentage point to 21.3%. If adjusted for our acquisition of Otix Global, the increase in the consolidated EBIT margin would have been about 1 percentage point. We achieved an improvement in the profit margin of 1.1 percentage points from the first to the second half of 2011. Some of the explanations for this gradual improvement of the EBIT margin in the reporting period are that operating profit (EBIT) in Otix Global improved during the period and that most of the non-recurring costs relating to the integration of Otix Global were expensed in the first half-year.

We aim to hedge changes in exchange rates by seeking to match positive and negative cash flows in the main currencies and by entering into forward exchange contracts. With our current use of such contracts, forecast cash flows are 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 forward exchange contracts are designed to hedge. In reality, forward exchange contracts will typically be recognised together with revenues in foreign currencies relating to that particular hedge. In 2011, such forward exchange contracts realised a gain of DKK 26 million, thereby improving reported revenues.

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 period, the Group had entered into forward exchange contracts at a contractual value of DKK 1,786 million (DKK 972 million in 2010) and at a market value of DKK -84 million (DKK 13 million in 2010). The major contracts hedged the follow-ing currencies at 31 December 2011:

Forward exchange contracts at 31 December 2011

Currency	Hedging period	Hedging rate
USD	10 months	547
JPY	18 months	6.86
AUD	10 months	546
GBP	14 months	865
CAD	10 months	546

In 2011, consolidated net financial items amounted to DKK -103 million against DKK -116 million in 2010. The difference should be seen in the light of the Group's lower interest-bearing debt as well as a lower general interest rate level.

In the period under review, consolidated profits before tax amounted to DKK 1,606 million, or an increase of 22% on 2010. Tax on profits for the year is calculated at DKK 407 million, matching an effective tax rate of 25.3% (24.8% in 2010). Earnings per share (EPS) rose by 22% to DKK 20.6. At year-end, the Company held 708,870 treasury shares.

At the annual general meeting, our Board of Directors will propose that all profits for the year be retained and transferred to the Company's reserves.

Equity and capital

At 31 December 2011, consolidated equity amounted to DKK 3,304 million (DKK 2,443 million at 31 December 2010), or an equity ratio of 43%.

The major increase in consolidated equity should be seen in the light of the growth in results and the fact that our share buyback programme was not resumed until the third quarter of 2011. As previously communicated, we seek to have a net interest-bearing debt of about DKK 1.5-2.0 billion. This level has been determined in order to enable the Group to act






quickly and flexibly, should any attractive acquisition possibilities arise, so we do not necessarily strive to have the highest possible level of debt. We did not carry through any capital increases in the reporting period.

Consolidated equity

DKK million	2011	2010
Equity at the beginning of the year	**2,443**	**1,302**
Foreign currency transl. adjustment, subsidiaries	57	122
Value adjustments of hedging instruments	-84	21
Profit for the year	1,199	988
Other adjustments	-311	10
Equity at year-end	**3,304**	**2,443**

Consolidated cash flows

Consolidated cash flows from operating activities totalled DKK 1,381 million in the reporting period, which is an increase of as much as 67% compared with 2010. The sizeable increase is mainly due to the improvement in operating profits (EBIT) and a satisfactory development in the working capital. The Group paid DKK 423 million in corporation tax in the period under review of which tax in Denmark accounted for DKK 335 million.

Free cash flows amounted to DKK 895 million, or a rise of DKK 401 million on 2010.

Cash flows by main items

DKK million	2011	2010
Profit for the year	**1,199**	**988**
Cash flows from operating activities	1,381	826
Cash flows from investing activities	-486	-332
Free cash flows	**895**	**494**
Acquisitions, interests and activities	-330	-806
Cash flows from financing activities	-437	494
Cash flows for the year	**128**	**182**

Cash flows for investing activities (excluding acquisitions) totalled DKK 486 million in the reporting period against DKK 332 million in 2010. Investments include property, plant and equipment worth DKK 382 million. For 2012, we expect a level of investment similar to the 2011 level.

In the period under review, the Group acquired a number of companies, primarily distribution companies in the USA. The purchase consideration in cash for acquistions, interests and activities was DKK 330 million in the reporting period.

In 2011, other financing activities amounted to DKK -437 million (DKK 494 million in 2010), mainly relating to the buyback of shares worth DKK 301 million.

Balance sheet

At 31 December 2011, the consolidated balance sheet amounted to DKK 7,646 million, or a rise of 13% compared with the balance sheet total at year-end 2010. The increase in the balance sheet total includes a positive exchange impact of about 0.4 percentage point.

The change in the Group's goodwill, which at the end of 2011 was DKK 1,976 million against DKK 1,660 million at the end of 2010, mainly relates to the acquisition of distribution companies in relation to Hearing Devices and Diagnostic Instruments.

The Group had lent a total of DKK 467 million to customers and business partners at 31 December 2011. This is a rise of approx. DKK 85 million on last year. This amount is expected to grow in 2012 as well.

The relative increase in working capital in the period under review was lower than the growth in revenues and relates to a minor increase in consolidated inventories and trade receivables, resulting from a higher level of activity. The limited increase in working capital is firstly due to an increasingly large number of corporate products being manufactured using the same platform families and secondly to the satisfactory integration of acquired companies.

In the period under review, the consolidated net interest-bearing debt was reduced by DKK 321 million and amounted to DKK 1,548 million at year-end. The reduction in debt is the result of strong cash flows from operating activities, moderate acquisition activities and the fact that we did not begin to buy back shares until the second half of 2011. The buyback of shares was resumed in August 2011 to ensure that the consolidated net interest-bearing debt stays within the desired interval of DKK 1.5-2.0 billion.

Non-realised losses on forward exchange contracts of DKK 84 million contributed to a rise in non-realised losses on financial contracts.

There have been no events to change the assessment of the annual report after the balance sheet date and until today.








Directors and employees
At our annual general meeting on 13 April 2011, Lars Nørby Johansen, Peter Foss, Niels B. Christiansen and Thomas Hofman-Bang were re-elected for one year. At the employee election in April 2011, Jørgen Møller Nielsen and Karin Ubbesen were elected and Ole Lundsgaard was re-elected – all for a term of four years. After the general meeting, the Directors elected Lars Nørby Johansen Chairman and Peter Foss Deputy Chairman of the Board of Directors.

At year-end, the Group had 7,748 employees (7,098 in 2010) of whom 1,582 were employed in Denmark (1,592 in 2010). The influx of employees was mainly due to acquisitions. The average number of employees (full-time equivalent) was 7,392 in 2011 (6,318 in 2010).

The Board would like to take this opportunity to thank all corporate staff worldwide for their professionalism, dedication and diligence throughout 2011. Their enthusiastic commitment is the reason that we can once again show impressive double-digit growth in revenues, and their work will also be the key to ensuring corporate growth in future.

Employee share ownership plans and incentive programmes
Due to changed legislation, we will, as of 2012, no longer be able to offer salary sacrifice arrangements to our employees. Since 2008, we have offered such arrangements to our employees liable to pay tax in Denmark.

We have no share option programmes or similar schemes for corporate staff.

Knowledge resources
Our aim for continuous growth in revenues and earnings 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 micromechanic components.

The Group's products are made in cooperation with 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 secondment of employees to other Group 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 and to deliver the most innovative solutions that bring end-users and hearing care professionals the most advantages.

The Oticon Foundation
William Demant Holding's ultimate 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. On 10 November 2011, the Oticon Foundation transferred the majority of its shares in William Demant Holding to its wholly owned subsidiary William Demant Invest (see Company announcement no. 2011-09). Subsequently, charitable tasks will be managed by the Foundation and commercial activities by William Demant Invest. Voting rights and decisions in respect of buying and selling William Demant Holding shares will remain with 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 direct, active investments in companies which, in their business model and structure, resemble William Demant Holding, but are outside its 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 manage the investments made through William Demant Invest.

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% against previously 60-65% through, if necessary, the current sale of shares in the market. Any current sale of shares by the Foundation is independent of any buyback of shares.

Outlook for 2012

With volume growth rates in the global hearing aid market of 2-4% and flat to slightly negative development in average selling prices, the global market for hearing aids is estimated to show low single-digit growth in 2012.

For 2012, we expect the Group to continue to improve its market shares. Consolidated revenues for 2012 are thus forecast to grow by 5-9% of which acquisitions are estimated to account for 1-3 percentage points.

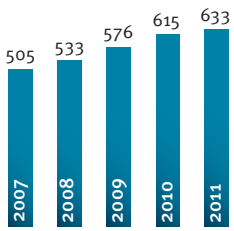
Based on average exchange rates to date, we expect movements in exchange rates to have a slightly positive impact on consolidated revenues in 2012. The full effect of such movements is, however, postponed due to the Group's foreign currency hedging.

Consolidated operating profits (EBIT) are thus expected to continue to grow in 2012 compared with the level realised in 2011.

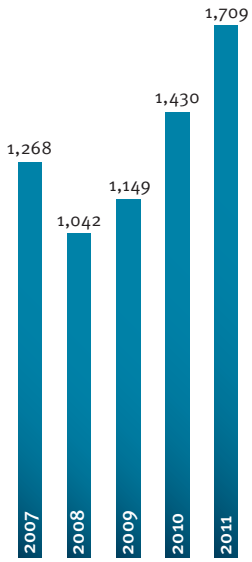
The Group's effective tax rate is estimated at 25-26% in 2012.

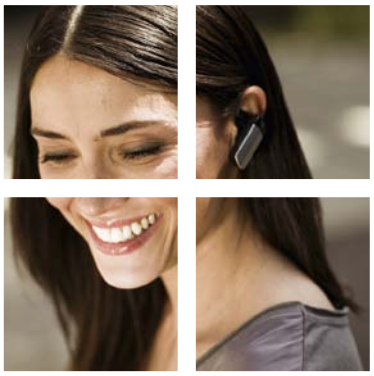
As we expect to continue to generate substantial cash flows from operating activities in 2012, as our level of investments is expected to match that of 2011, and as our level of acquisitions is expected to be moderate, we are planning to continue our buyback of shares in 2012. Through our share buyback programme, we will thus continue to channel any excess cash flows back to our shareholders while maintaining the level of consolidated net interest-bearing debt of DKK 1.5-2.0 billion.

R&D costs – DKK million

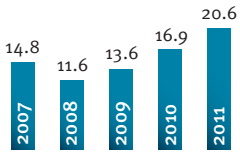


Operating profit (EBIT) – DKK million

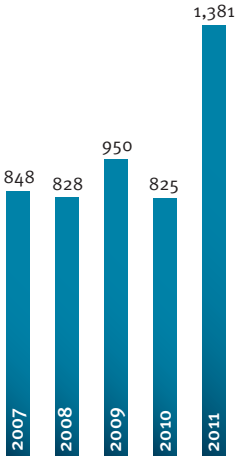


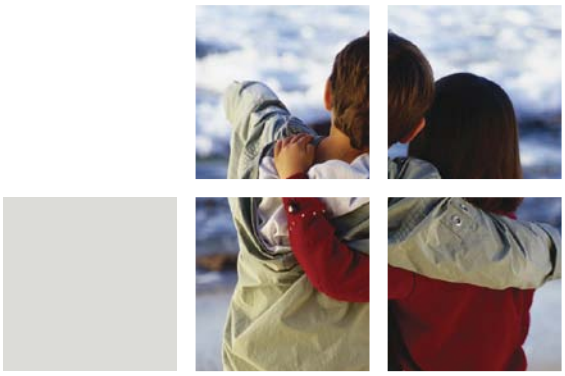


Earnings per share – DKK



Cash flows from operating activities – DKK million





SHAREHOLDER INFORMATION

Capital

At 31 December 2011, 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.

William Demants og Hustru Ida Emilies Fond (the Oticon Foundation) has notified the Company that at 31 December 2011, the Foundation – directly or indirectly – held approx. 60% of the share capital and has previously communicated its intention to maintain an ownership interest of 55-60% of William Demant Holding's share capital. Fidelity International holds 5-10% of the share capital.

About half 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 under 2% of the total share capital.

In 2011, the Company resumed its share buyback programme, which was temporarily suspended in autumn 2008, and has in 2011 bought 708,870 treasury shares at a total price of DKK 301 million. In 2011, the Company has not carried out any capital increases. At year-end 2011, the Company held 708,870 treasury shares, corresponding to 1.2% of the share capital.

Share information

DKK	2007	2008	2009	2010	2011
Highest share price	583	478	396	480	495
Lowest share price	407	158	167	352	352
Share price, year-end	471	218	393	414	478
Market capitalisation*	28,063	12,718	22,894	24,173	27,397
Average no. of shares**	60.62	58.77	58.31	58.35	58.24
No. of shares, year-end**	59.58	58.31	58.35	58.35	57.64
Treasury shares, year-end***	1.406	0.641	0.606	0	0.709

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

Specification of movements in share capital

DKK 1,000	2007	2008	2009	2010	2011
Share capital at 1.1.	63,323	60,986	58,956	58,956	58,350
Capital increase	0	0	0	0	0
Capital reduction	-2,337	-2,030	0	-606	0
Share capital at 31.12.	**60,986**	**58,956**	**58,956**	**58,350**	**58,350**

Powers relating to share capital

The shareholders in general meeting have empowered 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 empowerment is valid until 1 January 2016. Until 1 January 2016, the Directors have been authorised to increase the share capital by up to DKK 6,664,384 for other purposes. 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 2011 financial year be retained. The Directors have previously decided that any excess liquidity is first and foremost to be used for the continuous purchase of treasury shares. As mentioned earlier, we aim to keep our interest-bearing debt at DKK 1.5-2.0 billion and expect to use future free cash flows (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 2011, there was one such announcement. Such announcements can be seen on the Company's website under *Investor, 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.


Søren B. Andersson


Stefan Ingildsen


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 2011, we held approx. 420 investor meetings and presentations.

The Company also uses its website, www.demant.com, for communication with the share market. Relaunched in 2011, the website provides more information about the Group and its business activities.

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 2011

9 March	Annual Report 2010
16 March	Notice annual general meeting
13 April	Annual general meeting
12 May	Interim information, first quarter 2011
16 May	Stalking horse bid for the acquisition of assets in HearUSA Inc.
1 August	Expiry of agreement on transfer of assets in HearUSA Inc.
19 August	Interim Report 2011
10 November	Interim information, third quarter 2011
10 November	Transfer of shares from the Oticon Foundation to William Demant Invest A/S
22 December	Financial calendar 2012
28 December	Notification of share purchases by senior executives

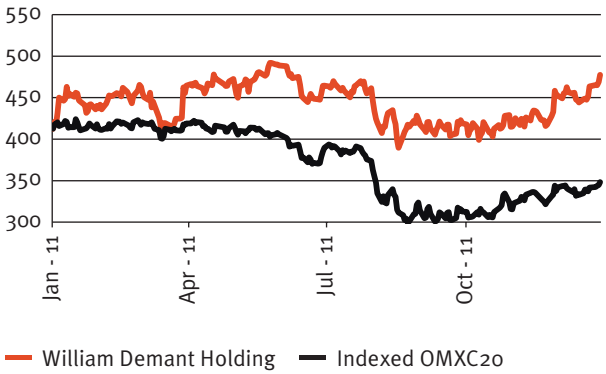
Financial calendar 2012

28 February	Deadline for submission of agenda items for the annual general meeting
29 February	Annual Report 2011
11 April	Annual general meeting
10 May	Interim information, first quarter 2012
16 August	Interim Report 2012
7 November	Interim information, third quarter 2012

Annual general meeting

The annual general meeting will be held on Wednesday, 11 April 2012, 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 is 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. The Group's significant research and development initiatives help underpin our market position. It is therefore also vital in the long term to maintain the Group's 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 currently develop and maintain our competences in this area. The William Demant Group is involved in a few disputes. In the patent case against American ETG, the judge in June 2011 made a decision in respect of the jury's verdict from 2008 at the U.S. District Court of Delaware, which at the time found that William Demant had violated two patents. The judge upheld the verdict in respect of one patent and reversed the verdict in respect of the other patent. We maintain that we have not violated any of ETG's patents, and we have therefore appealed the decision to the U.S. Court of Appeals for the Federal Circuit.

We have found that there is no need for adjustment of our provisions, i.e. we have provided about DKK 94 million for payment of any damages and legal costs. Apart from the provision relating to the ETG case, which affected the income statement negatively in 2007, 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 innovations and currently monitor that third-party products do not infringe on our patents and that our products do not infringe on third-party patents.

Financial risks

Financial risk management concentrates on exchange rate, interest rate, credit and liquidity risks as well as safeguarding against losses on property, plant and equipment. Financial risk management initiatives aim to protect the Group against potential losses and make sure that Management's forecasts for the current year are only to a limited extent affected by fluctuations in the surrounding world – be they fluctuations in exchange rates or interest rate levels or in the form of direct damage to Group assets. 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. Currency hedging gives Management the opportunity – and necessary time – to redirect business strategies 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. Our current use of such contracts will hedge estimated cash flows with a horizon of up to 24 months.

Effect on EBIT, 5% positive exchange rate impact*

(DKK million)	2011	2010
USD	+35	+30
GBP	+10	+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 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 approx. 90% of all currency exchange is made in Oticon A/S and that the analysis therefore provides a true and fair presentation of the flow in the entire Group. The exchange flow includes actual exchange transactions as well as changes in net receivables (debtors, creditors and bank balances).

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.

Effect on equity, 5% positive exchange rate impact

(DKK million)	2011	2010
CAD	+30	+30
USD	+25	+15
AUD	+10	+10
GBP	+5	+5
JPY	+2	+1

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 2011 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 approx. DKK 1 million (approx. DKK 2 million in 2010).

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 ten largest customers account for less than 10% of total consolidated revenues. We therefore estimate that we have no major credit exposure, which is supported by our track record of insignificant previous losses on bad debts. When undertaking lending transactions with customers or business partners, we require that they give security in their particular businesses. Maximum credit risks relating to trade receivables match their carrying values. The Group has no major deposits in 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 continuously to take appropriate steps in case of unforeseen fluctuations in cash outflows. We have access to non-utilised credit facilities, and the liquidity risk is therefore considered to be low. In addition, we have committed loan facilities with our two primary banks in the amount of DKK 1.2 billion. We are of the opinion that the Group has a strong cash flow and satisfactory credit rating to secure current inflow of working capital and funds for any potential acquisitions. The Group has not failed to perform or defaulted on any loan agreements in the 2011 or 2010 financial years.

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 the 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 facilitate corrective action to minimise such risks.

CORPORATE SOCIAL RESPONSIBILITY

Our corporate responsibility

The high standards we set for ourselves and for our ethical business conduct form an integral part of our tradition and corporate culture. As a result, we find it natural to take on social and environmental challenges over and beyond our natural sphere of interest.

Global Compact

In spring 2011, we submitted our first Communication of Progress to the UN Global Compact, which we joined in 2010, pledging us to globally promote principles on human rights, rights at work, environmental protection and anti-corruption. Global Compact also serves as a globally recognised framework based on which we can systematise our CSR efforts and report the results achieved. The Communication of Progress is published on the UN Global Compact website as well as on our own website.

Our environmental awareness

Reporting to the Carbon Disclosure Project (CDP) is one way for a company to benchmark its environmental footprint. We have been reporting in this way on the Group's CO_2 emissions and climate strategy since 2008. No data for the 2011 calendar year is available as yet, but a look at the development from 2009 to 2010 reveals, according to our reporting, that emissions in the countries in which we manufacture our products have risen only by about 5% compared to a rise in revenues of approx. 20%. CO_2 emissions per employee are calculated at 3.3 tonnes per year, which is low for a production company.

Our social responsibility

Responsibility also means giving more than is necessarily expected or dictated by legislation. In this context, it is worth mentioning that our majority shareholder, *William Demants og Hustru Ida Emilies Fond*, also known as the Oticon Foundation, donates DKK 60-80 million annually to social, cultural and scientific causes. In 2011, the Foundation granted DKK 63 million of which DKK 13 million went to educational institutions and research projects in the audiological field, an area covered by the statutes of the Foundation.

Our focus

Interest in our CSR effort has risen moderately in recent years, and we expect this trend to continue. Our affiliation with the Oticon Foundation will also in future ensure that our growth will benefit society through various donations. We would mention that in early 2012, the Oticon Foundation has decided – through William Demant Invest A/S – to invest DKK 1.7 billion in a wind farm off the German North Sea coast. From 2015, the wind farm is to produce "green" power matching the power consumption of 285,000 households. The ownership interest of William Demant Invest will constitute about 18%, and its share of the wind farm will produce more than five times the Group's total power consumption.

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/csrreport.cfm.

CORPORATE GOVERNANCE

Our work on corporate governance is an ongoing process, and the Board of Directors and the Executive Board 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 *Corporate Governance Recommendations*, which are part of the disclosure requirements laid down by NASDAQ OMX Copenhagen. Drawn up by the *Committee on Corporate Governance* under the auspices of NASDAQ OMX Copenhagen, the recommendations were most recently updated in August 2011. The Board of Directors determines the extent to which the Company should implement such recommendations, and we comply with 74 out of 79 recommendations. The deviations from the five recommendations that we do not comply with are wellfounded. A complete schematic presentation of the recommendations, *Statutory report on enterprise management, cf. section 107b 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 enterprise 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.

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 29 February 2012, our principal shareholder, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation) – directly or indirectly – holds approx. 60% 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.

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 available in both Danish and English.

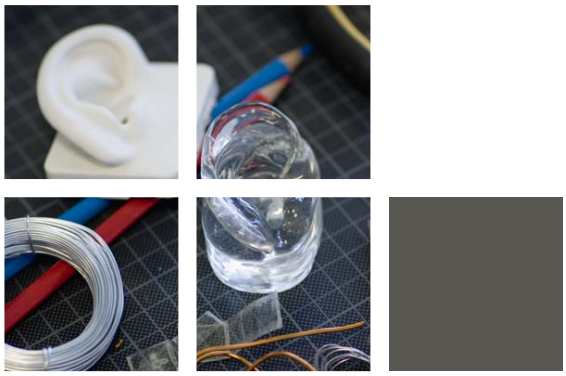
In compliance with the *Danish Securities Trading Act*, we publish annual and interim reports. In the time span between such reports, we publish quarterly information rather than actual quarterly reports. In our opinion, actual quarterly reports will not promote a better understanding of our activities, 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 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 these 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 29 February 2012, all Directors are shareholders in the Company holding shares as follows (including movements in 2011): 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 (movement in 2011: +137); Jørgen Møller Nielsen 55 shares (unchanged); Karin Ubbesen 132 shares (unchanged).

Board committees/audit committee

Our 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 Directors may be members of the Executive Board – in case the entire Board of Directors acts as the audit committee – is satisfied.

In 2011, the audit committee has 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*, *Management and Board of Directors*.

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' fees consist of a fixed basic fee per Director. The Chairman's fee is determined to be three times the basic fee and the Deputy Chairman's fee is determined to be twice the basic fee. The Executive Board too receives a fixed fee. Consequently, such fees do not include any variable bonuses. In the opinion of the Board of Directors, the fixed fee 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 2011. 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 22.

Recommendations for more women on supervisory boards – "Operation Chain Reaction"

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 supervisory boards.

For more than 25 years, except for a brief period of one and a half years, the Board of Directors of William Demant Holding






has included at least one female member. 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. All four Board members up for election by the general meeting were re-elected in 2011, so the percentage of female Board members remains unchanged. Of the three Board members elected by the employees in the 2011 employee election, one man and one woman were replaced by another man and another woman.

The next time a current Board member elected by a general meeting leaves the Board, special emphasis will be put on nominating women as new candidates. 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 managerial experience from international and, preferably, listed companies. The selection process is thorough, and nominations are submitted for approval by the Company's majority shareholder.

As regards efforts to boost the pool of female Board candidates, Group companies are focusing more strongly on promoting more women in executive positions. To this end, the Group has established a diversity policy as well as 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 Public 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 in 1998 and was most recently re-elected in 2011 for one year. Because of his seat on the Board for more than 12 years, he is not considered an independent Director.

The Danish Growth Council, chairman
Danish Growth Capital, chairman of the board
Falck A/S and one subsidiary, chairman of the board
Georg Jensen A/S, 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
Codan A/S and one subsidiary, director
Index Award A/S, director

Lars Nørby Johansen has a degree in social sciences. His strengths include extensive international experience as a corporate manager and a board member in multiple lines of business as well as 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 in 2007 and was most recently re-elected in 2011 for one year. Because of his seat on the Boards of the Oticon Foundation and William Demant Invest A/S (the Company's principal shareholder), he is not considered an independent Director.

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

Peter Foss is a Master of Science 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 having extensive product development. In addition, he has directorship experience from different lines of business.

Niels B. Christiansen (born 1966)
Joined the Board in 2008 and was most recently re-elected in 2011 for one year. He is considered an independent Director.

Danfoss A/S, President & CEO and directorships in six 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 is a Master of Science in Engineering from the Technical University of Denmark (DTU) and holds an MBA from INSEAD in France. His experience with international management of major, global, industrial, hi-tech corporations is comprehensive. In addition, he has directorship experience from different lines of business.

Thomas Hofman-Bang (born 1964)
Joined the Board in 2009 and was most recently re-elected in 2011 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 three subsidiaries
NeuroSearch A/S, chairman of the board
Danish Committee on Corporate Governance, member

Thomas Hofman-Bang is a Master of Science in Business Economics and Auditing and 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. In addition, he has directorship experience from different lines of business.

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

Interacoustics A/S, staff-elected director since 2003, 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 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 is a Master of Science 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 1961)
Staff-elected Director.
Joined the Board in 2011 for a term of four years.

3F Thy-Mors, director
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' fees

In 2011, the basic fee of a Director amounted to DKK 300,000. The Chairman's fee is determined to be three times the basic fee and the Deputy Chairman's fee is determined to be twice the basic fee.

There is no separate fee for the audit committee because the committee's work is covered by the approved directors' fees.

Evaluation of the Board

Once a year, the Chairman of the Board evaluates the Board's work through individual interviews with the Directors after which he gives feedback to the entire Board.

In connection with the evaluation in December 2011, the Directors expressed their great satisfaction with the manner in which the Board works, which also applies to their cooperation with Management. Also, it is the Board's opinion that between them, the Directors have the right competences.

Board meetings in 2011

In 2011, the Board of Directors convened on five occasions. In 2011, the audit committee convened on three occasions in connection with ordinary Board meetings.

Annual general meeting

In 2011, the annual general meeting took place on 13 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 Group-owned subsidiaries; directorships in the following partly owned companies: Össur hf., chairman of the board; Sennheiser Communications A/S, chairman of the board; HIMPP A/S, chairman of the board; HIMSA A/S, chairman of the board; and HIMSA II A/S, director.

SIGNATURES

We have today discussed and approved the Annual Report 2011 of William Demant Holding A/S for the financial year 1 January – 31 December 2011.

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 2011 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 2011 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 2011.

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 2011 for adoption at the Annual General Meeting.

Smørum, 29 February 2012

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 2011, 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 2011 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2011 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 2011 and of the results of its operations for the financial year 1 January – 31 December 2011 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, 29 February 2012

Deloitte
Statsautoriseret Revisionspartnerselskab

Erik Holst Jørgensen
State Authorised Public Accountant

Kirsten Aaskov Mikkelsen
State Authorised Public Accountant

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 IFRS order 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 our corporate 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 held for sale, which are measured at their fair values.

With effect from 2011, 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.

Effect of new accounting standards

The Group has implemented all the new standards and interpretations as approved by the EU and applicable to the 2011 financial year. None of these new 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 2011. An amendment to IAS 1 *Presentation of Financial Statements* has been implemented, and the statements of comprehensive income and changes in equity have been presented to meet the new requirements.

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 report.

Any further amendments to IAS 1 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 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*, which will become effective on 1 January 2013, will require a detailed analysis. 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 therefore have to be consolidated. The existing option of using pro rata consolidation of joint ventures in the consolidated financial statements will be revoked, as such ventures must subsequently be recognised under the equity method.

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

The amendments have not yet been approved for use in the EU.

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 period.

Accounting estimates and assumptions

Many accounting items can only be estimated rather than accurately measured. Such estimates are based on the most recent information available on preparation of the accounts. Estimates and assumptions are therefore re-valued on an ongoing basis. Actual figures may however deviate from such 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 normal accounting estimates and assessments concerning development costs, business combinations as well as the valuation of non-current assets, inventories, receivables and payables.

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

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 does exercise 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 does exercise a significant interest are considered to be associates and have been incorporated proportionately into the consolidated financial statements using the equity method.

Consolidation principles

The consolidated financial statements have been 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 that are included in the consolidated financial statements have been prepared in accordance with the Group's accounting policies. Intra-Group income, expenditure, shareholdings, accounts and dividends as well as non-realised 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 consolidated 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 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 re-valuations will be taken into account.

The cost of an acquired enterprise consists of the fair value of the consideration paid for such enterprise. If the final consideration sum is conditional upon one or more future events, such adjustments will be recognised at their fair values on the acquisition date. Any subsequent adjustment of contingent consideration is recognised directly in the income statement. Acquisition costs are recognised directly in the income statement on payment.

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 the 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 for 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 sale or winding up of subsidiaries and associates

Profits or losses from the sale 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 values of the sales proceeds or disposal sum and the fair values of any remaining interests. Any such profits or losses will be recognised in the income statement together with any accumulated exchange rate adjustments previously recognised in other comprehensive income.

Translation of foreign currency

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 companies 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 non-realised exchange rate adjustments are recognised in the income statement under gross profit or net financial items, depending on the purpose of the 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 re-valued 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 (DKK), 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 rates of exchange 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.

Exchange rate adjustments, arising from the translation at the beginning of the year of balance sheet items of foreign enterprises at the exchange rates prevailing at the balance sheet date and from the translation of income statement items from the rates of exchange prevailing at the transaction date to the rates of exchange prevailing at the balance sheet date, are recognised in other comprehensive income. Exchange rate adjustments, resulting from changes made directly in the equity of such foreign enterprise, are also recognised in other comprehensive income.

Exchange rate adjustments of intra-Group accounts, which are considered additions to or deductions from the total investment in the particular enterprise, are recognised directly in other comprehensive income.

Derivatives

On initial recognition, derivatives – primarily forward exchange contracts and interest rate swaps – 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 transactions 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 will be recognised as part of the cost of 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 are entitled 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 expenses, are therefore charged to production, distribution, administration or research and development.

Revenue

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

Revenues are 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 revenues. Revenues from agency-like business are measured at the value of the agency commission.

Production costs

Production costs are costs paid to generate revenues. 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 for property, plant and equipment and intangible assets used in the production process under production costs.

Research and development costs

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

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

Distribution costs

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

Administrative expenses

Administrative expenses include administrative staff costs, office expenses as well as depreciation and impairment losses for assets used for administration 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 costs paid 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 paid. 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 financial leases, amortisation of financial assets and liabilities as well as certain realised and non-realised exchange rate gains and losses.

Interest income and expenses are accrued based on the principal sum 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 current 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 tax payable determined on the basis of the estimated taxable income for the year and any prior-year tax adjustments. Tax on movements in equity is recognised directly in equity or in other comprehensive income. Exchange rate adjustments of deferred tax are recognised as part of the year's adjustments of deferred tax.

Current tax payables or receivables are recognised in the balance sheet and determined as tax calculated on the year's taxable income adjusted for any tax paid 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 change 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, will be 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 that may be carried forward, 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 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 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 complies with the corporate managerial structure as well as internal financial management and reporting.

In the consolidated financial statements, goodwill is not amortised, but tested for impairment at least once a year. If the recoverable amount of a cash-generating 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 ac-cumulated depreciation and impairment losses. Cost is defined as the acquisition sum 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. Cost in respect of financially leased assets 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 cost if they pertain to the manufacturing period. Other borrowing costs are recognised in the income statement.

If the acquisition or use of an asset requires the Group to incur costs for the demolition or restoration of such asset, the calculated costs hereof are recognised as a provision or 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 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 with the exception of land.

Buildings	33-50 years
Technical installations	10 years
Manufacturing facilities and machinery	3-5 years
Other plant, fixtures, tools and 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 lower than their carrying amounts.

Interests in associates
Investments in associates are recognised and measured using the equity method, i.e. investments 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 proportionate intra-Group losses, respectively, and with the addition of the carrying amount of any goodwill. The proportionate shares of profits after tax of associates are recognised in the income statement after the year's changes in non-realised intra-Group profits less impairment loss, if any, 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 interests in associates, the acquisition method is applied.

Impairment losses for property, plant and equipment, intangible assets and interests in associates
The carrying amounts of property, plant and equipment and intangible assets with definite useful lives as well as investments 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 assessed whether or not there are indications of impairment.

The recoverable amount is assessed 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 at 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 impaired. Amortisation of goodwill is not reversed.

Other securities and interests
On initial recognition, other securities and interests are classified as "assets held for sale", recognised at their fair values and subsequently measured at their fair values. Non-realised value adjustments are recognised in other comprehensive income. On realisation, value adjustments will be 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 (i.e. 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 direct cost, direct payroll costs, consumables and at a proportionate share of indirect production costs (IPO) and are subsequently allocated on the basis of the normal capacity of the production facilities. Indirect production costs (IPO) include the proportionate share of capacity costs directly relating to Group-manufactured products and work in progress.

The net realisation 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 expiry date are measured at amortised cost. Receivables without a definite expiry date are measured at cost. Current receivables arisen due to the Group's normal activities are measured at their nominal value. Based on individual assessments of loss risks, provisions are made for bad debts using a provisions account.

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

Equity
Foreign currency translation reserve includes exchange differences on translation of financial statements of foreign subsidiaries or associates from their respective functional currencies into Danish kroner. Foreign exchange rate 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 acquisition or sale of treasury shares, the acquisition cost or divestment sum, respectively, is recognised directly in equity under distributable reserves. A reduction in capital 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 benefit plans and similar commitments
The Group has pension benefit plans or similar commitments with some of its employees. As regards *defined contribution plans*, the Group pays regular, fixed contributions to independent pension companies. Such contributions are recognised in the income statement for the period in which employees have performed work entitling them to contributions under a benefit plan. 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 final salary of the employee in question. In relation to de-fined benefit plans, an actuarial calculation is made annually 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 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 forecasts at the beginning of the year. Differences between the estimated development of pension assets and 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 liability and where the redemption of any such liability is likely to draw on corporate financial resources. Provisions are measured on a discounted basis based on Management's best estimate of the amount at which a particular liability may be redeemed. The discount effect of any differences in the present value of provisions during the financial year is recognised as a financial expense.

On the sale of products with a right of return, a provision is made 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.

Lease commitments
Lease commitments concerning finance leases 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 liabilities 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 bor-rowing at their proceeds less transaction costs. In subsequent periods, financial liabilities are measured at amortised cost for the difference between proceeds and nominal values to be recognised as a financial expense over the term of the loan.

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

Prepayments and accrued income
Prepayments and accrued income recognised under liabilities include income received and pertaining to the following financial year. Prepayments and accrued income are measured at cost.

Cash flow statement
The cash flow statement is based on the indirect method and reflects the Group's consolidated net cash flows by operating, investing and financing activities.

Cash flows from operating activities include inflows from the year's operations adjusted for non-cash-generating operating items, movements in working capital, financial income and expenses and corporation tax.

Cash flows from investing activities include 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 non-cash transactions. Cash flows relating to finance leases are recognised as payment of interest and debt repayment.

Cash flows from financing activities include payments to or from shareholders and the raising or repayment of non-current or current debt not included in working capital. Cash flows in currencies other than the functional currency are 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 funds less interest-bearing, current bank debt.

Segment information
Based on the aggregation criteria in IFRS 8 and the internal reporting model used by Management for the assessment of results and the use 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 revenues and non-current assets is also presented.

CONSOLIDATED INCOME STATEMENT

(DKK million)	Note	2011	2010
Revenue	1	8,041	6,892
Production costs	2/3	-2,264	-1,933
Gross profit		**5,777**	**4,959**
Research and development costs	2/3	-633	-615
Distribution costs	2/3	-2,959	-2,471
Administrative expenses	2/3/4	-482	-449
Share of profit after tax, associates	10	6	6
Operating profit (EBIT)		**1,709**	**1,430**
Financial income	5	40	32
Financial expenses	5	-143	-148
Profit before tax		**1,606**	**1,314**
Tax on profit for the year	6	-407	-326
Profit for the year		**1,199**	**988**
Distribution of profit for the year:			
William Demant Holding A/S' shareholders' share		1,198	988
Minority interests' share		1	0
		1,199	**988**
Earnings per share (EPS), DKK		20.6	16.9
Diluted earnings per share (DEPS), DKK		20.6	16.9

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(DKK million)	2011	2010
Profit for the year	1,199	988
Other comprehensive income:		
Foreign currency translation, foreign enterprises	57	122
Value adjustment of hedging instruments:		
Value adjustment for the year	-58	-60
Value adjustment transferred to revenue	-26	81
Actuarial gains/(losses) on defined benefit plans	-24	2
Tax on other comprehensive income	13	10
Other comprehensive income	-38	**155**
Total comprehensive income	**1,161**	**1,143**
Distribution of total comprehensive income:		
William Demant Holding A/S' shareholders' share	1,157	1,143
Minority interests' share	4	0
	1,161	**1,143**
Breakdown of tax on other comprehensive income:		
Foreign currency translation adjustment relating to foreign enterprises	-9	18
Value adjustment of hedging instruments transferred to the income statement	7	-23
Value adjustment of hedging instruments	15	15
Tax on other comprehensive income	**13**	**10**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2011	2010
Assets			
Goodwill		1,976	1,660
Patents and licences		44	53
Other intangible assets		35	41
Intangible assets	8	**2,055**	**1,754**
Land and buildings		672	565
Plant and machinery		132	137
Other plant, fixtures and operating equipment		250	213
Leasehold improvements		154	133
Prepayments and assets under construction		68	63
Property, plant and equipment	9	**1,276**	**1,111**
Investments in associates	10	96	83
Receivables from associates	10/15	83	70
Other investments	10/15	9	6
Other receivables	13/15	487	435
Deferred tax assets	11	278	266
Other non-current assets		**953**	**860**
Total non-current assets		**4,284**	**3,725**
Inventories	12	1,082	993
Trade receivables	13/15	1,711	1,609
Receivables from associates	15	5	7
Corporation tax		46	32
Other receivables	13/15	140	57
Unrealised gains on financial contracts	15	0	30
Prepayments and accrued expenses		90	93
Cash	15	288	240
Current assets		**3,362**	**3,061**
Total assets		**7,646**	**6,786**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2011	2010
Equity and liabilities			
Share capital		58	58
Other reserves		3,242	2,385
Equity, William Demant Holding A/S' shareholders' share		3,300	2,443
Equity, minority interests' share		4	0
Total equity		**3,304**	**2,443**
Interest-bearing liabilities	15	1,011	1,045
Deferred tax liabilities	11	113	86
Provisions	14	195	171
Other liabilities	16	190	173
Non-current liabilities		**1,509**	**1,475**
Interest-bearing liabilities	15	1,301	1,454
Trade payables	15	405	342
Corporation tax		45	78
Provisions	14	37	39
Other liabilities	16	746	726
Unrealised losses on financial contracts	15	127	65
Prepayments and accrued income		172	164
Current liabilities		**2,833**	**2,868**
Total liabilities		**4,342**	**4,343**
Total equity and liabilities		**7,646**	**6,786**

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Shareholders	26
Board of Directors and Executive Board	27

CONSOLIDATED CASH FLOW STATEMENT

(DKK million)	Note	2011	2010
Operating profit (EBIT)		1,709	1,430
Non-cash items etc.	23	253	181
Change in receivables etc.		-112	-289
Change in inventories		-71	-111
Change in trade payables and other liabilities etc.		117	-26
Change in provisions		-2	-3
Cash flow excluding net financial gains/losses and corporation tax		**1,894**	**1,182**
Financial income etc. received		35	29
Financial expenses etc. paid		-123	-129
Realised foreign exchange gains and losses		-2	17
Corporation tax paid		-423	-273
Cash flow from operating activities (CFFO)		**1,381**	**826**
Acquisitions, participating interests and activities		-330	-806
Divestments		5	0
Investments in and disposal of intangible assets		-2	-11
Investments in property, plant and equipment	23	-407	-264
Disposal of property, plant and equipment		25	13
Investments in other non-current assets		-212	-162
Disposal of other non-current assets		105	92
Cash flow from investing activities (CFFI)		**-816**	**-1,138**
Repayment on non-current liabilities		-131	-554
Proceeds from borrowings	23	0	1,050
Buyback of shares		-301	0
Other adjustments		-5	-2
Cash flow from financing activities (CFFF)		**-437**	**494**
Cash flow for the year, net		**128**	**182**
Cash and cash equivalents at the beginning of the year		-955	-1,118
Foreign currency translation adjustment of cash and cash equivalents		-19	-19
Cash and cash equivalents at the end of the year		**-846**	**-955**
Breakdown of cash and cash equivalents at the end of the year:			
Cash	15	288	240
Interest-bearing current bank debt	15	-1,134	-1,195
Cash and cash equivalents at the end of the year		**-846**	**-955**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(DKK million)	Share capital	Other reserves			William Demant Holding A/S' shareholders' share	Minority interests' share	Total equity
		Foreign currency translation reserve	Hedging reserves	Retained earnings			
Equity at 1.1.2010	**59**	**-93**	**-39**	**1,375**	**1,302**	**0**	**1,302**
Compr. income in 2010:							
Profit for the year	-	-	-	988	988	0	988
Other compr. income:							
Currency translation adjustment, foreign enterprises	-	122	-	-	122	0	122
Value adjustment of hedging instruments:							
Value adjustment, year	-	-	-60	0	-60	0	-60
Value adjustment transferred to revenue	-	-	81	0	81	0	81
Actuarial gains/(losses) on defined benefit plans	-	-	-	2	2	0	2
Tax on other compr. income	-	18	-8	0	10	0	10
Total other compr. income	-	140	13	2	155	0	155
Total compr. income, year	**-**	**140**	**13**	**990**	**1,143**	**0**	**1,143**
Reduction of share capital through cancellation of treasury shares	-1	-	-	1	0	0	0
Other changes in equity	-	-	-	-2	-2	0	-2
Equity at 31.12.2010	**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:							
Currency translation adjustment, foreign enterprises	-	54	-	-	54	3	57
Value adjustment of hedging instruments:							
Value adjustment, year	-	-	-58	0	-58	0	-58
Value adjustment transferred to revenue	-	-	-26	0	-26	0	-26
Actuarial gains/(losses) on defined benefit plans	-	-		-24	-24	0	-24
Tax on other compr. income	-	-9	22	0	13	0	13
Total other compr. income	-	45	-62	-24	-41	3	-38
Total compr. income, year	**-**	**45**	**-62**	**1,174**	**1,157**	**4**	**1,161**
Buyback of shares	-	-	0	-301	-301	0	-301
Other changes in equity	-	-	0	1	1	0	1
Equity at 31.12.2011	**58**	**92**	**-88**	**3,238**	**3,300**	**4**	**3,304**

For changes in equity, please refer to *Parent statement of changes in equity* on page 84.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Segment information by geographic region and business activity

(DKK million)	Revenue		Non-current assets	
Revenue and non-current assets by geographic region:	**2011**	**2010**	**2011**	**2010**
Denmark	190	194	855	856
Other Europe	3,062	2,752	672	616
North America	3,059	2,617	2,345	1,878
Pacific Rim	824	566	311	279
Asia	591	470	88	86
Other countries	315	293	13	10
Total	**8,041**	**6,892**	**4,284**	**3,725**

Consolidated revenues mainly derive from the sale of goods and are broken down by the customers' geographical location. The ten biggest single customers together account for less than 10% of total consolidated revenues. Non-current assets are broken down by the geographical domicile of such assets.

	Revenue	
Revenue by business activity:	**2011**	**2010**
Hearing Devices	7,075	6,098
Diagnostic Instruments	686	535
Personal Communication	280	259
Total	**8,041**	**6,892**

	2011	**2010**
Fair value adjustments transferred from equity relating to derivatives made for hedging of sales	26	-81

Note 2 – Employees

(DKK million)

	2011	2010
Staff costs:		
Wages and salaries	2,618	2,195
Defined contribution plans	43	38
Defined benefit plans (note 14)	10	11
Social security costs etc.	176	176
Total	**2,847**	**2,420**
Of which cash remuneration for Executive Board and Board of Directors:		
Executive Board, salary	11	10
Executive Board, bonus and pension	0	0
Remuneration, Board of Directors	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 2011, the basic remuneration for a member of the Parent's Board of Directors was DKK 300,000 (DKK 300,000 in 2010). The Chairman of the Board of Directors receives three times the basic remuneration and the Deputy Chairman twice the basic remuneration. Wages and salaries include a gift element of DKK 0 million (DKK 15 million) recognised in the income statement from the sale of shares to employees in the Group's foreign companies. The gift element is calculated as the difference between the market value of the shares at the time of granting and the allotment price to be paid by the employees.

	2011	2010
Staff cost by function:		
Production costs	563	529
Research and development costs	424	385
Distribution costs	1,575	1,239
Administrative expenses	285	267
Total	**2,847**	**2,420**
Average number of full-time employees	7,392	6,318

The number of employees in proportionately consolidated companies is included with the Group's percentage ownership interest in the particular enterprises. The average number of such employees is 483 (487 in 2010), the William Demant Holding Group accounting for 297 (285 in 2010).

Note 3 – Amortisation, depreciation and impairment losses

(DKK million)	2011	2010
Amortisation of intangible assets	-15	-15
Depreciation on property, plant and equipment	-187	-182
Total	**-202**	**-197**
Amortisation and depreciation by function:		
Production costs	-51	-52
Research and development costs	-37	-48
Distribution costs	-88	-72
Administrative expenses	-26	-25
Total	**-202**	**-197**
Proceeds from sale of assets, net	5	3
Total	**5**	**3**
Net proceeds from sale of assets by function:		
Production costs	1	0
Distribution costs	3	3
Administrative expenses	1	0
Total	**5**	**3**

Neither in 2011 nor in 2010, has there been any impairment losses for property, plant and equipment or intangible assets.

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

(DKK million)	2011	2010
Statutory audit	9	7
Other assurance engagements	0	0
Tax and VAT advisory services	2	2
Other services	1	1
Total	**12**	**10**

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

Note 5 – Net financial items

(DKK million)	2011	2010
Interest income from bank deposits etc.	25	22
Interest income from receivables	14	9
Other financial income	1	1
Financial income from financial assets not measured at fair values in the income statement	**40**	**32**
Interest expenses relating to bank debt, mortgages etc.	-82	-87
Interest expenses relating to financial leases	-1	-1
Interest expenses relating to financial liabilities not measured at fair values in the income statement	**-83**	**-88**
Foreign exchange losses, net	-18	-18
Inefficiency from hedging of cash flows	0	-1
Interest element, discounted liabilities	-2	0
Transaction costs	-40	-41
Financial expenses	**-143**	**-148**

Note 6 – Tax

(DKK million)

	2011	2010
Tax on profit for the year:		
Current tax on profit for the year	-408	-342
Adjustment of current tax, prior years	16	7
Change in deferred tax	8	19
Adjustment of deferred tax, prior years	-22	-10
Adjustment of deferred tax at the beginning of the year due to reduction of corporation tax rates	-1	0
Total	**-407**	**-326**
Reconciliation of tax rates:		
Danish corporation tax rate	25.0 %	25.0 %
Differences in tax rates of non-Danish enterprises from Danish corporation tax rate	0.4 %	-0.8 %
Use of tax assets not previously recognised	-1.1 %	0.0 %
Write-down of tax assets	0.0 %	0.2 %
Permanent differences	0.7 %	0.3 %
Other items, including prior-year adjustments	0.3 %	0.1 %
Effective tax rate	**25.3 %**	**24.8 %**

Note 7 – Earnings per share

	2011	2010
William Demant Holding A/S' shareholders' share of profit for the year, DKK million	1,198	988
Average number of shares, million	58.3	58.6
Average number of treasury shares, million	-0.1	-0.2
Average number of shares on the market, million	**58.2**	**58.4**
Earnings per share (EPS), DKK	**20.6**	**16.9**
Diluted earnings per share (DEPS), DKK	**20.6**	**16.9**

Note 8 – Intangible assets

(DKK million)	Goodwill	Patents and licences	Other intangible assets	Total intangible assets
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**
Cost at 1.1.2010	**786**	**80**	**32**	**898**
Foreign currency translation adjustments	81	0	2	83
Additions during the year	0	8	3	11
Additions relating to acquisitions	793	3	25	821
Disposals relating to divestment of enterprises	0	0	0	0
Cost at 31.12.2010	**1,660**	**91**	**62**	**1,813**
Amortisation at 1.1.2010	**-**	**-33**	**-10**	**-43**
Foreign currency translation adjustments	-	0	-1	-1
Amortisation for the year	-	-5	-10	-15
Amortisation at 31.12.2010	**-**	**-38**	**-21**	**-59**
Carrying amount at 31.12.2010	**1,660**	**53**	**41**	**1,754**

Impairment testing is carried out annually on preparation of the annual report or when impairment is indicated. On impairment testing, discounted values of future cash flows are compared with the book values. Group enterprises cooperate closely on research and development, purchasing, production as well as marketing and sale, the use of resources in the individual markets being 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. With the existing integration in the Group and recognised goodwill at 31 December 2011 and 31 December 2010, no separate cash-generating units have 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 2011 and 31 December 2010. Future cash flows are based on the budget for 2012, strategy plans and projections hereof. Projections extending beyond 2012 are based on general parameters. The terminal value for the period after 2012 is determined on the assumption of 2% growth (2% in 2010). The discount rate is 9% before tax (9% in 2010). 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 1.1.2011	**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**
Cost at 1.1.2010	**646**	**585**	**629**	**179**	**23**	**2,062**
Foreign currency translation adjustments	6	10	33	16	0	65
Additions during the year	21	42	79	43	55	240
Additions relating to acquisitions	5	6	27	19	4	61
Disposals during the year	-1	-28	-43	-1	0	-73
Transferred to/from other items	1	9	9	0	-19	0
Cost at 31.12.2010	**678**	**624**	**734**	**256**	**63**	**2,355**
Depreciation and impairment losses at 1.1.2010	**-99**	**-445**	**-451**	**-90**	**-**	**-1,085**
Foreign currency translation adjustments	-1	-8	-22	-9	-	-40
Depreciation for the year	-13	-62	-83	-24	-	-182
Disposals during the year	0	27	36	0	-	63
Transferred to/from other items	0	1	-1	0	-	0
Depreciation and impairment losses at 31.12.2010	**-113**	**-487**	**-521**	**-123**	**-**	**-1,244**
Carrying amount at 31.12.2010	**565**	**137**	**213**	**133**	**63**	**1,111**
Of which financially leased assets	**47**	**0**	**1**	**0**	**0**	**48**

Group property, plant and equipment with a carrying amount of DKK 3 million (DKK 4 million in 2010) have been provided in security of debt to credit institutions of DKK 3 million (DKK 5 million in 2010). 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 2010). Neither in 2011 nor in 2010, 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
Cost at 1.1.2011	**80**	**70**	**13**
Foreign currency translation adjustments	0	13	0
Additions during the year	15	0	3
Disposals during the year	0	0	0
Cost at 31.12.2011	**95**	**83**	**16**
Value adjustments at 1.1.2011	**3**	**-**	**-7**
Share of profit after tax	6	-	-
Other adjustments	-8	-	0
Value adjustments at 31.12.2011	**1**	**-**	**-7**
Carrying amount at 31.12.2011	**96**	**83**	**9**
Cost at 1.1.2010	**13**	**0**	**17**
Foreign currency translation adjustments	0	0	1
Additions during the year	67	70	3
Disposals during the year	0	0	-8
Cost at 31.12.2010	**80**	**70**	**13**
Value adjustments at 1.1.2010	**1**	**-**	**-7**
Share of profit after tax	6	-	-
Other adjustments	-4	-	0
Value adjustments at 31.12.2010	**3**	**-**	**-7**
Carrying amount at 31.12.2010	**83**	**70**	**6**

Please refer to the *Subsidiaries and associates* list on page 92 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)

	2011	2010
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax assets	278	266
Deferred tax liabilities	-113	-86
Deferred tax, net at 31.12.	**165**	**180**
Deferred tax, net at 1.1.	180	88
Foreign currency translation adjustments	2	11
Change in deferred tax assets	7	19
Additions relating to acquisitions	2	83
Adjustment of deferred tax, prior years	-22	-10
Adjustment of deferred tax at the beginning of the year due to reduction of corporation tax rates	-1	0
Deferred tax relating to changes in equity, net	-3	-11
Deferred tax, net at 31.12.	**165**	**180**

The tax base of deferred tax assets not recognised is DKK 81 million (DKK 105 million in 2010) and relates mainly to tax losses. This is due to considerable uncertainty concerning 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 2010).

Breakdown of the Group's temporary differences and changes:

	Temporary differences at 1.1.2011	Foreign currency translation adjustments	Acquisitions	Recognised in profit for the year	Recognised in other comprehen-sive inconme	Temporary differences at 31.12.2011
Intangible assets	-25	0	0	0	0	-25
Property, plant and equipment	-28	0	0	-21	0	-49
Inventories	84	0	0	21	0	105
Receivables	16	0	0	-6	0	10
Provisions	47	7	0	-8	0	46
Tax losses	55	0	0	14	0	69
Other	31	-5	2	-16	-3	9
Total	**180**	**2**	**2**	**-16**	**-3**	**165**

Note 12 – Inventories

(DKK million)	2011	2010
Raw materials and purchased components	576	498
Work in progress	28	27
Finished goods and goods for resale	478	468
Inventories	**1,082**	**993**
Write-downs included in the above	148	142
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	45	60
Cost of goods sold for the year	1,742	1,451

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)	2011	2010
Trade receivables	1,711	1,609
Other non-current receivables	487	435
Other current receivables	140	57
Total	**2,338**	**2,101**
Receivables by age:		
Balance not due	1,770	1,527
0-3 months	388	419
3-6 months	128	135
6-12 months	82	88
Over 12 months	88	42
Total	**2,456**	**2,211**
Breakdown of the year's development in write-downs:		
Write-downs for uncollectibles at 1.1.	-110	-72
Foreign currency translation adjustments	1	-3
Additions relating to acquisitions	0	-8
Applied during the year	22	6
Additions during the year	-32	-33
Reversals during the year	1	0
Write-downs for uncollectibles at 31.12.	**-118**	**-110**

Anticipated uncollectibles are written down, if the value of an amount receivable is impaired on assessment of the particular debtor's ability to pay. Write-downs are computed at net realisable value and recognised on a provisions account. For information on security or collateral, please see *Risk management activities* on page 22.

Note 14 – Provisions

(DKK million)	2011	2010
Other non-current employee benefits	37	40
Miscellaneous provisions	142	145
Other provisions	179	185
Defined benefit plan liabilities, net	53	25
Provisions at 31.12.	**232**	**210**
Breakdown of provisions:		
Non-current provisions	195	171
Current provisions	37	39
Provisions at 31.12.	**232**	**210**
Other provisions:		
Other provisions at 1.1.	185	125
Foreign currency translation adjustments	2	4
Additions relating to acquisitions	0	33
Disposals relating to divestment of enterprises	-1	0
Provisions for the year	47	45
Applied during the year	-32	-18
Reversals during the year	-22	-4
Other provisions at 31.12.	**179**	**185**
Defined benefit plan costs recognised in the income statement:		
Current service cost	9	10
Calculated interest on plan liabilities	4	3
Expected return on plan assets	-3	-2
Costs recognised in the income statement (note 2)	**10**	**11**
Defined benefit plan costs by function:		
Production costs	0	1
Research and development costs	2	3
Distribution costs	2	3
Administrative expenses	6	4
Total	**10**	**11**
Accumulated actuarial loss recognised in the statement of comprehensive income	**-28**	**-4**

Miscellaneous provisions relate mainly to the US patent case against ETG with a provision of DKK 94 million (DKK 94 million in 2010). The case originally concerned violation of two patents. In June 2011, the judge upheld the verdict in respect of one patent and reversed the verdict in respect of the other patent. The Group maintains that none of the ETG patents have been violated and has therefore appealed the decision regarding the patent in respect of which the judge upheld the verdict. The Group finds no need to adjust the provisions made in respect of this case which will cover payment of any damages and legal costs. Moreover, other provisions have been made regarding other disputes etc., and these provisions are essentially expected to be applied within the next two years.

Note 14 – Provisions – *continued*

(DKK million)	2011	2010
Present value of defined benefit plan liabilities:		
Defined benefit plan liabilities at 1.1.	120	94
Foreign currency translation adjustments	2	13
Current service costs	9	10
Calculated interest on plan liabilities	4	3
Actuarial losses/(gains)	36	-1
Benefits paid	-15	0
Contributions from plan participants	5	1
Defined benefit plan liabilities at 31.12.	**161**	**120**
Fair value of plan assets:		
Plan assets at 1.1.	95	73
Foreign currency translation adjustments	2	12
Expected return on plan assets	3	2
Actuarial gains/(losses)	12	1
Contributions	11	7
Benefits paid	-15	0
Plan assets at 31.12.	**108**	**95**
Net plan liabilities recognised in the balance sheet	**53**	**25**
Return on plan assets:		
Actual return on plan assets	15	3
Expected return on plan assets	3	2
Actuarial gains/(losses) on plan assets	**12**	**1**
Assumptions:		
Discount rate	2.5%	4.1%
Expected return on plan assets	4.0%	4.1%
Future salary increase rate	1.5%	1.8%

	2011	2010	2009	2008	2007
Key figures for defined benefit plans:					
Present value of defined benefit plan liabilities	161	120	94	86	72
Fair value of plan assets	108	95	73	60	57
Net plan liabilities	**53**	**25**	**21**	**26**	**15**
Experience adjustments to plan liabilities	**36**	**-1**	**-6**	**-2**	**-3**
Experience adjustments to plan assets	**12**	**1**	**3**	**-9**	**-1**

Generally, the Group does not offer defined benefit plans, but it has such plans in Switzerland and the Netherlands, where they are required by law. Moreover, the President & CEO of the Company has a seniority bonus. Plan assets at 31 December 2011 include: bonds (41%), shares (22%), securities (22%), cash and cash equivalents (3%) and other assets (12%). Plan assets at 31 December 2010 included: bonds (39%), shares (23%), securities (19%), cash and cash equivalents (6%) and other assets (13%). The Group expects to pay approx. DKK 12 million in 2012 (DKK 8 million in 2011) into defined benefit plans.

Note 15 – Financial instruments and financial risks

Categories of financial instruments

(DKK million)	2011	2010
Unrealised gains on financial contracts	0	30
Financial assets used as hedging instruments	**0**	**30**
Receivables from associates, non-current	83	70
Other receivables, non-current	487	435
Trade receivables	1,711	1,609
Receivables from associates, current	5	7
Other receivables, current	138	55
Cash	288	240
Loans and receivables	**2,712**	**2,416**
Other investments	9	6
Financial assets available for sale	**9**	**6**
Unrealised losses on financial contracts	-127	-65
Financial liabilities used as hedging instruments	**-127**	**-65**
Financial lease commitments	-17	-20
Debt to credit institutions etc.	-2,295	-2,479
Trade payables	-405	-342
Other liabilities	-745	-700
Financial liabilities measured at amortised cost	**-3,462**	**-3,541**

As was the case in 2010, most financial liabilities fall due within one year. As regards financial assets and liabilities, their carrying amounts generally match their fair values.

Policies relating to financial risk management

Financial risk management concentrates on exchange rate, interest rate, credit and liquidity risks as well as safeguarding against losses on property, plant and equipment. Financial risk management initiatives aim to protect the Group against potential losses and make sure that Management's forecasts for the current year are only to a limited extent affected by fluctuations in the surrounding world – be they fluctuations in exchange rates or interest rate levels or in the form of direct damage to Group assets. 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. Currency hedging gives Management the opportunity – and necessary time – to redirect business strategies 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. Our current use of such contracts will 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 non-utilised credit facilities, and the liquidity risk is therefore considered to be low. In addition, we have committed loan facilities with our two primary banks in the amount of DKK 1.2 billion. We are of the opinion that the Group has a strong cash flow and satisfactory credit rating to secure current inflow of working capital and funds for any potential acquisitions. The Group has not failed to perform or defaulted on any loan agreements in the 2011 or 2010 financial years.

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 ten largest customers account for less than 10% of total consolidated revenues. We therefore estimate that we have no major credit exposure, which is supported by our track record of insignificant previous losses on bad debts. When undertaking lending transactions with customers or business partners, we require that they give security in their particular businesses. Maximum credit risks relating to trade receivables match their carrying values. The Group has no major deposits in 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 end of the reporting period may be specified as shown below, with contracts for sale of currency being shown with 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 revenues in foreign currency, that such contracts are designed to hedge. In 2011, our forward exchange contracts realised a profit of DKK 26 million (DKK -81 million in 2010), which increased reported revenues for the period under review. In addition, we raised loans in foreign currencies to balance out net receivables. At year-end 2011, we had entered into forward exchange contracts with a repurchase value of DKK 1,786 million (DKK 972 million in 2010) and a market value of DKK -84 million (DKK 13 million in 2010).

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

Forward exchange contracts

(DKK million)

	2011					2010				
	Expiry	Contractual value	Fair value	Positive fair values at year-end	Negative fair values at year-end	Expiry	Contractual value	Fair value	Positive fair values at year-end	Negative fair values at year-end
USD	2012	-877	-41	0	41	2011	-417	26	26	0
JPY	2012/13	-226	-19	0	19	2011/12	-175	-2	0	2
AUD	2012	-185	-9	0	9	2011	-86	-15	0	15
CAD	2012	-240	-6	0	6	2011	-141	2	2	0
GBP	2012/13	-294	-6	0	6	2011	-153	2	2	0
Other currencies	2012	36	-3	0	3	-	0	0	0	0
		-1,786	**-84**	**0**	**84**		**-972**	**13**	**30**	**17**

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 approx. 90% of all currency exchange is made in Oticon A/S and that the analysis therefore provides a true and fair presentation of the flow in the entire Group. The exchange flow includes actual exchange transactions as well as changes in net receivables (debtors, creditors and bank balances).

Effect on EBIT, 5% positive exchange rate impact*

DKK million	2011	2010
USD	+35	+30
GBP	+10	+10
CAD	+10	+10
AUD	+10	+10
JPY	+5	+5

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

Effect on equity, 5% positive exchange rate impact

DKK million	2011	2010
USD	+25	+15
GBP	+5	+5
CAD	+30	+30
AUD	+10	+10
JPY	+2	+1

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

Interest rate risks

(DKK million)	Under 1 year	1-5 years	Over 5 years	Total	Weighted rate of return
2011					
Interest-bearing assets	47	293	136	476	
Cash	288	0	0	288	
Interest-bearing assets	**335**	**293**	**136**	**764**	**3.0%**
Financial lease commitments	-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%**
Financial lease commitments:					
Minimum lease payments	11	6	0	17	
Interest element	0	0	0	0	
Carrying amount	**11**	**6**	**0**	**17**	
2010					
Interest-bearing assets	0	384	6	390	
Cash	240	0	0	240	
Interest-bearing assets	**240**	**384**	**6**	**630**	**3.1%**
Financial lease commitments	-4	-16	0	-20	
Debt to credit institutions etc.	-255	-1,029	0	-1,284	
Interest-bearing bank debt	-1,195	0	0	-1,195	
Interest-bearing liabilities	**-1,454**	**-1,045**	**0**	**-2,499**	**2.8%**
Net position	**-1,214**	**-661**	**6**	**-1,869**	**2.8%**
Financial lease commitments:					
Minimum lease payments	5	16	0	21	
Interest element	-1	0	0	-1	
Carrying amount	**4**	**16**	**0**	**20**	

Cash consists primarily of bank deposits of which DKK 40 million (DKK 28 million in 2010) relate to joint venture companies. Interest-bearing liabilities broken down by currency: 32% in euros (30% in 2010), 29% in Danish kroner (27% in 2010), 33% in US dollars (29% in 2010) and 6% in other currencies (14% in 2010). Some properties leased by the Group have been sublet to third parties. Future rents from these properties will as a minimum amount to DKK 0 million (DKK 2 million in 2010) in the non-cancellable period. Apart from floating interest rates, lease agreements contain no conditional rent payments.

The Group seeks to have a net interest-bearing debt of about DKK 1.5-2.0 billion. This level has been determined in order to enable the Group to act quickly and flexibly, should any attractive acquisition possibilities arise. The desired level is among other things obtained through our share buyback programme.

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 values at year-end	Negative fair values at year-end	Expiry	Fixed interest rate	Contractual amount at year-end	Positive fair values at year-end	Negative fair values at year-end
			31.12.2011					**31.12.2010**		
USD/USD	2016	2.3%	144	0	7	2010		0	0	0
EUR/EUR	2013	4.0%	743	0	32	2013	4.0%	745	0	46
DKK/DKK	2015	3.5%	40	0	4	2015	3.5%	40	0	2
CAD/CAD	2011		0	0	0	2011	3.0%	84	0	0
			927	**0**	**43**			**869**	**0**	**48**

The fair value of outstanding interest swaps at the balance sheet date is DKK -43 million (DKK -48 million in 2010). The nominal value of outstanding interest swaps is DKK 927 million (DKK 869 million in 2010), such swaps running up to and including 2016. The ineffective portion of interest swaps is DKK 0 million (DKK 0 million in 2010).

Sensitivity analysis in respect of interest rates

Based on the net debt at the end of the 2011 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 approx. DKK 1 million (approx. DKK 2 million in 2010). About half of the interest-bearing liabilities is subject to fixed interest rates, partly due to interest swaps being made at floating interest rates and partly to loans raised at fixed interest rates.

Methods and assumptions for calculation of fair values

Other securities and interests

Other securities and interests are assessed on the basis of their net asset 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 where all significant inputs are 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
	2011				**2010**			
Financial assets used as hedging instruments	0	0	0	0	0	30	0	30
Other investments (available for sale)	0	0	9	9	0	0	6	6
Financial liabilities used as hedging instruments	0	-127	0	-127	0	-65	0	-65

There are no transfers between levels 1 and 2 in the 2010 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)	**2011**	**2010**
Carrying amount at 1.1.	6	10
Foreign currency translation adjustment	0	1
Purchase	3	3
Sale	0	-8
Transferred to/from level 3	0	0
Carrying amount at 31.12.	**9**	**6**

Gains or losses in the income statement relating to assets held at 31 December 2011 amounted to DKK 0 million (DKK 0 million in 2010).

Note 16 – Other liabilities

(DKK million)	2011	2010
Product-related liabilities	191	199
Staff-related liabilities	254	217
Other payables, public authorities	96	77
Liabilities relating to acquisitions	187	193
Other costs payable	208	213
Other liabilities	**936**	**899**
Due within 1 year	746	726
Due within 1-5 years	190	173

Product-related liabilities mainly relate to service packages, warranties and returned products. 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)	2011	2010
Rent	458	398
Other operating leases	33	36
Total	**491**	**434**
Operating leases, less than 1 year	128	116
Operating leases, 1-5 years	256	217
Operating leases, over 5 years	107	101
Total	**491**	**434**

Operating leases are recognised in the income statement at an amount of DKK 212 million (DKK 162 million in 2010). 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. Apart from the provision relating to the US patent case, Management is of the opinion that other 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 92 million (DKK 90 million in 2010) 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 5c 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 19 – Related parties

Related parties with control consist of the principal shareholder, William Demant Invest A/S, this company's parent *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation), Kongebakken 9, 2765 Smørum, Denmark, as well as the Company's associates.

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 92.

The Oticon Foundation lets office and production premises to the joint venture, Sennheiser Communications A/S. In 2011, the rental expense amounted to DKK 2 million (DKK 2 million in 2010). The Oticon Foundation and William Demant Invest A/S paid administration fees to the Group of DKK 2 million (DKK 1 million in 2010) and DKK 2 million (DKK 2 million in 2010), respectively.

Sales to joint ventures not eliminated in the consolidated financial statements amounted to DKK 26 million (DKK 29 million in 2010). At year-end, non-eliminated receivables, net, with joint ventures totalled DKK 6 million (DKK 5 million in 2010).

In 2011, the Group has received royalties from and paid licence fees amounting to DKK 1 million (DKK 1 million in 2010) to associates and has received dividends from associates in the amount of DKK 0 million (DKK 0 million in 2010). The Group has in 2011 received interest income from associates in the amount of DKK 3 million (DKK 0 million in 2010).

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)

	2011	2010
The consolidated financial statements include the following amounts related to joint ventures:		
Revenue	373	326
Costs	325	309
Non-current assets	59	45
Current assets	100	81
Non-current liabilities	4	8
Current liabilities	58	48
Financial information with respect to associates:		
Revenue	285	165
Net profit for the year	12	13
Assets	223	168
Liabilities	185	136

Joint ventures consist of activities in 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 holds joint controlling interest in both these companies together with the other shareholders of the companies. There are no major contingent liabilities in the two joint ventures.

Note 20 – Acquisitions

(DKK million)	North America	Australia	Europe/ Asia	Total
	Fair value on acquisition			
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
Receivables	21	0	-8	13
Cash and bank debt	10	0	1	11
Current liabilities	-28	-1	-2	-31
Acquired net assets	**23**	**0**	**-5**	**18**
Goodwill	234	24	16	274
Acquisition cost	**257**	**24**	**11**	**292**
Of which earn-outs and deferred payments	3	1	0	4
Acquired cash and bank debt	-10	0	-1	-11
Cash acquisition cost	**250**	**25**	**10**	**285**
2010				
Intangible assets	27	0	1	28
Property, plant and equipment	44	0	17	61
Other non-current assets	61	0	3	64
Inventories	33	0	16	49
Receivables	100	0	16	116
Cash and bank debt	59	0	7	66
Non-current liabilities	-107	0	-4	-111
Current liabilities	-173	-1	-32	-206
Acquired net assets	**44**	**-1**	**24**	**67**
Goodwill	653	1	139	793
Acquisition cost	**697**	**0**	**163**	**860**
Of which earn-out and deferred payments	-120	1	-2	-121
Acquired cash and bank debt	-59	0	-7	-66
Cash acquisition cost	**518**	**1**	**154**	**673**

Note 20 – Acquisitions – *continued*

Our most significant acquisitions in 2011 are related to a number of distribution enterprises in relation to Diagnostic Instruments, Gordon N. Stowe being the most important with the purchase of 100% of the shares on 1 May 2011. In addition, we have made acquisitions of strategically important niche manufacturers of diagnostic equipment. Acquisitions in relation to Diagnostic Instruments represented a total of DKK 185 million of which identifiable assets accounted for DKK 60 million, identifiable liabilities for DKK 23 million and goodwill for DKK 148 million. Goodwill relates to the expected synergies between the activities in the acquired enterprises and the Group's existing activities as well as any future potential for growth. In the above geographical segmentation of corporate acquisitions, our acquisitions of diagnostic enterprises have been included under North America.

The Group's other acquisitions in the period under review included the acquisition of some or all activities in minor distribution enterprises in North America, Australia and Europe/Asia. In respect of such acquisitions, we paid acquisition sums exceeding the fair values of the acquired assets, liabilities and contingent liabilities. The positive differences in values are based on expected synergies between the activities in the acquired enterprises and our existing activities, any future potential for growth as well as the value of the employees of such acquired enterprises. These synergies have not been recognised separately from goodwill, as they are not separately identifiable.

Of the total sum of all acquisitions in 2011, the fair values of any contingent compensation in the form of earn-outs and deferred payments accounted for DKK 17 million (DKK 121 million in 2010), such payments depending on the results of the acquired enterprises in a period of typically 1-5 years after the date of acquisition.

The acquired assets included contractual receivables amounting to DKK 10 million (DKK 87 million in 2010) of which DKK 0 million (DKK 10 million in 2010) is thought to be unrecoverable at the date of acquisition. Of the total goodwill in the amount of DKK 274 million (DKK 793 million in 2010), DKK 217 million (DKK 111 million in 2010) is deductible for tax purposes. No contingent liabilities have been included in acquisitions for 2010 and 2011.

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 the reporting period amounted to DKK 4 million (DKK 9 million in 2010), which have been recognised under administrative expenses.

The revenues and profits or losses of the acquired enterprises since our takeover in 2011 amounted to DKK 113 million (DKK 223 million in 2010) and DKK 10 million (DKK -10 million in 2010), respectively. Had such revenues, profits or losses been consolidated on 1 January 2011, the consolidated revenues and profits or losses are proforma estimated to have been DKK 8,100 million (DKK 7,145 million in 2010) and DKK 1,203 million (DKK 918 million in 2010), respectively. In our opinion, these proforma figures reflect the level of consolidated earnings after our takeover of the enterprises in question, and consequently the amounts can form a basis for comparison in subsequent financial years.

From the balance sheet date and until the date of presentation of accounts in 2012, we have acquired a minor manufacturer of diagnostic instruments and a few minor distribution enterprises. We are in the process of calculating their fair values. The acquisition sums are expected to relate primarily to goodwill.

In 2010, acquisitions related to Otix Global and a number of minor distribution enterprises. In 2011, some adjustments were made to the preliminary figures recognised in 2010. These adjustments were mainly attributable to the fair values of intangible assets and property, plant and equipment of Otix Global. In continuation hereof, recognised goodwill was raised by DKK 21 million. In addition, estimated earn-outs relating to acquisitions in 2010 were reduced by DKK 21 million. Consequently, recognised goodwill was reduced by a similar amount. These adjustments were made in 2011 within a period of 12 months after the date of acquisition in 2010.

Note 21 – Divestments

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

The divestment of enterprises and activities includes the divestment of some minor distribution enterprises and activities. There were no divestments in 2010. Losses from such divestments are recognised in administrative expenses.

Note 22 – Government grants

In 2011, the William Demant Group received government grants in the amount of DKK 0 mio. (DKK 0 mio. in 2010).

Note 23 – Non-cash items etc.

(DKK million)	2011	2010
Amortisation and depreciation	233	224
Share of profit after tax in associates	-6	-6
Proceeds from sale of intangible assets and property, plant and equipment	-5	-2
Other non-cash items	31	-35
Other non-cash items	**253**	**181**
Acquired property, plant and equipment	-407	-265
Of which financially leased assets	0	1
Acquired property, plant and equipment, paid	**-407**	**-264**
Proceeds from the raising of financial liabilities	0	1.051
Of which lease commitments	0	-1
Proceeds from the raising of financial liabilities	**0**	**1,050**

Note 24 – Events after the balance sheet date

There have been no events to 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 29 February 2012, 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 11 April 2012.

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 approx. 60%.

Fidelity International, Kingswood Fields, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP, England. Ownership interest 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	The Danish Growth Council, chairman Danish Growth Capital, chairman of the board Falck A/S and one subsidiary, chairman of the board Georg Jensen A/S, 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 Codan A/S and one subsidiary, director Index Award A/S, director
Peter Foss, Deputy Chairman	FOSS A/S, chairman of the board and director in one subsidiary N. Foss & Co. A/S, deputy chairman of the board The Oticon Foundation, deputy chairman of the board William Demant Invest A/S, director A.R. Holding af 1999 A/S, director
Niels B. Christiansen	Danfoss A/S, President & CEO and directorships in six 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 three subsidiaries NeuroSearch A/S, chairman of the board Danish Committee on Corporate Governance, member
Ole Lundsgaard	Interacoustics A/S, staff-elected director since 2003, 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	3F Thy-Mors, director Oticon A/S, shop steward, staff-elected director since 2007
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

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 corporation 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 the useful life determined on the basis of Management's experience in respect of the individual business activities. The amortisation period is 20 years. Goodwill is written down to its recoverable amount if lower than its carrying amount

Rights acquired

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

Interests in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured using the equity method, i.e. such investments 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 are recognised in the income statement after elimination of unrealised intra-Group profits or losses and with the deduction of 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 such liability incurred by the particular subsidiary or associate.

The net revaluation of investments in subsidiaries and associates is transferred on distribution of profit or loss to reserves for net revaluation according to the equity method under equity.

Other securities and interests

On initial recognition, other securities and interests 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.

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.

Cash flow statement

In compliance with s. 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	2011	2010
Administrative expenses	1/2	-54	-67
Other operating income		45	43
Operating loss (EBIT)		**-9**	**-24**
Share of profit after tax, subsidiaries	7	1,098	941
Share of profit after tax, associates	7	0	-1
Financial income	3	39	46
Financial expenses	3	-60	-48
Profit before tax		**1,068**	**914**
Tax on profit for the year	4	6	3
Profit for the year		**1,074**	**917**
Proposed distribution of net profit:			
Transferred to reserves for net revaluation according to the equity method		541	380
Retained earnings		533	537
		1,074	**917**

PARENT BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2011	2010
Assets			
Goodwill		59	75
Rights acquired		5	8
Intangible assets	5	**64**	**83**
Land and buildings		24	24
Other plant, fixtures and operating equipment		2	2
Property, plant and equipment	6	**26**	**26**
Investments in subsidiaries		3,999	3,122
Receivables from subsidiaries		1,517	1,068
Investments in associates		17	19
Other investments		4	4
Other receivables		14	32
Financial assets	7	**5,551**	**4,245**
Non-current assets		**5,641**	**4,354**
Corporation tax		6	0
Other receivables		0	1
Prepayments and accrued expenses		1	2
Receivables		**7**	**3**
Cash		**3**	**0**
Current assets		**10**	**3**
Assets		**5,651**	**4,357**

PARENT BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2011	2010
Equity and liabilities			
Share capital		58	58
Other reserves		1,061	538
Retained earnings		2,404	2,168
Total equity		**3,523**	**2,764**
Other provisions		20	16
Deferred tax liabilities	4	25	5
Provisions		**45**	**21**
Bank debt		918	923
Debt to subsidiaries		69	67
Other liabilities		52	60
Non-current liabilities	8	**1,039**	**1,050**
Current share of non-current payables		0	65
Debt to subsidiaries		1,006	402
Corporation tax		0	1
Other liabilities	8	38	54
Current liabilities		**1,044**	**522**
Liabilities		**2,083**	**1,572**
Equity and liabilities		**5,651**	**4,357**
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 reserves	Other reserves: Reserve according to equity method	Retained earnings	Total equity
Equity at 1.1.2010	**59**	**-73**	**-37**	**106**	**1,633**	**1,688**
Net profit for the year	-	-	-	380	537	917
Foreign currency translation adjustment of investments in subsidiaries etc.	-	-14	-	145	-	131
Other changes in equity in subsidiaries	-	-		24	-3	21
Value adjustment of hedging instruments	-	-	4	-	-	4
Tax related to changes in equity	-	4	-1	-	-	3
Reduction of share capital through cancellation of treasury shares	-1	-	-	-	1	-
Equity at 31.12.2010	**58**	**-83**	**-34**	**655**	**2,168**	**2,764**
Net 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	0	-	13
Tax related to changes in equity	-	2	-3	-	-	-1
Buyback of shares	-	-	-	-	-301	-301
Other changes in equity	-	-	-	-	1	1
Equity at 31.12.2011	**58**	**-88**	**-24**	**1,173**	**2,404**	**3,523**

	2011	2010	2009	2008	2007
Changes in share capital:					
Share capital at the beginning of the year	58	59	59	61	63
Reduction of share capital through cancellation of treasury shares	0	-1	0	-2	-2
Share capital at the end of the year	**58**	**58**	**59**	**59**	**61**

At year-end 2011, the share capital was nominally DKK 58 million (DKK 58 million in 2010) 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 2011, the number of shares in the market was 57,641,005 (58,349,875 in 2010). For additional information, please refer to note 11 *Shareholders*.

	2011		2010	
	Treasury shares	Percentage of share capital	Treasury shares	Percentage of share capital
Holding of treasury shares:				
Treasury shares at 1.1.	0	0.0%	606,382	1.0%
Buyback of shares	708,870	1.2%	0	0.0%
Used for reduction of share capital during the year	0	0.0%	-606,382	-1.0%
Treasury shares at 31.12.	**708,870**	**1.2%**	**0**	**0.0%**

As part of the Company's share buyback programme, which was resumed in mid-2011, the Company acquired 708,870 treasury shares in 2011 worth a total of DKK 301 million.

NOTES TO PARENT FINANCIAL STATEMENTS

Note 1 – Employees

(DKK million)	2011	2010
Staff cost:		
Wages and salaries	31	26
Pension plans	1	0
Total	**32**	**26**
Of which cash remuneration for Executive Board and Board of Directors:		
Executive Board, salary	11	10
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 2011, the basic fee for a member of the Parent's Board of Directors amounted to DKK 300,000 (DKK 300,000 in 2010). The Chairman's fee was three times the basic fee and the Deputy Chairman's fee twice the basic fee.

	2011	2010
Average number of full-time employees	15	10

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

(DKK million)	2011	2010
Statutory audit	1	1
Total	**1**	**1**

Note 3 – Net financial items

(DKK million)	2011	2010
Interest income from subsidiaries	36	28
Interest income	3	2
Foreign exchange gains, net	0	16
Financial income	**39**	**46**
Interest expenses to subsidiaries	-10	-5
Interest expenses	-44	-41
Transaction costs	-1	-2
Foreign exchange losses, net	-5	0
Financial expenses	**-60**	**-48**

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

(DKK million)	2011	2010
Tax on profit for the year:		
Current tax on profit for the year	6	6
Adjustment of current tax, prior years	20	3
Change in deferred tax	1	0
Adjustment of deferred tax, prior years	-21	-6
Total	**6**	**3**
Reconciliation of tax rates:		
Tax on profit for the year	7	0
Tax on equity items	-1	3
Total tax for the year	**6**	**3**
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax assets	0	0
Deferred tax liabilities	-25	-5
Deferred tax, net at 31.12.	**-25**	**-5**
Deferred tax, net at 1.1.	-5	1
Change in deferred tax assets	1	0
Adjustment of deferred tax, prior years	-21	-6
Deferred tax, net at 31.12.	**-25**	**-5**

Note 5 – Intangible assets

(DKK million)	Goodwill	Rights acquired	Total intangible assets
Cost at 1.1.2011	78	9	87
Additions during the year	0	0	0
Adjustment of 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
Cost at 1.1.2010	0	0	0
Additions during the year	0	0	0
Additions relating to acquisitions	78	9	87
Cost at 31.12.2010	78	9	87
Amortisation at 1.1.2010	0	0	0
Amortisation for the year	-3	-1	-4
Amortisation at 31.12.2010	-3	-1	-4
Carrying amount at 31.12.2010	75	8	83

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 1.1.2011	**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**
Cost at 1.1.2010	30	2	32
Additions during the year	0	1	1
Disposals during the year	0	-1	-1
Cost at 31.12.2010	**30**	**2**	**32**
Depreciation and impairment losses at 1.1.2010	**-6**	**-1**	**-7**
Depreciation for the year	0	0	0
Disposals during the year	0	1	1
Depreciation and impairment losses at 31.12.2010	**-6**	**0**	**-6**
Carrying amount at 31.12.2010	**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 1.1.2011	**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**	**-**
Foreign currency translation adjustments	53	-	0	0	-
Share of profit after tax	1,098	-	0	-	-
Dividends received	-557	-	0	-	-
Other adjustments	-74	-	-2	0	-
Value adjustments at 31.12.2011	**1,176**		**-3**	**1**	**-**
Carrying amount at 31.12.2011	**3,999**	**1,517**	**17**	**4**	**14**
Cost at 1.1.2010	**1,480**	**1,061**	**7**	**0**	**37**
Foreign currency translation adjustments	0	8	0	0	0
Additions during the year	1,066	99	13	3	5
Disposals during the year	-80	-100	0	0	-10
Cost at 31.12.2010	**2,466**	**1,068**	**20**	**3**	**32**
Value adjustments at 1.1.2010	**106**	**-**	**0**	**1**	**-**
Foreign currency translation adjustments	145	-	0	0	-
Share of profit/loss after tax	941	-	-1	-	-
Dividends received	-560	-	0	-	-
Other adjustments	24	-	0	0	-
Value adjustments at 31.12.2010	**656**	**-**	**-1**	**1**	**-**
Carrying amount at 31.12.2010	**3,122**	**1,068**	**19**	**4**	**32**

The carrying amounts of investments in subsidiaries include capitalised goodwill in the net amount of DKK 59 million (DKK 62 million in 2010). Amortisation of consolidated capitalised goodwill for the year is DKK 3 million (DKK 3 million in 2010). Receivables from subsidiaries of DKK 1,517 million (DKK 1,068 million in 2010) are considered additions to the total investments in the particular enterprises and are therefore considered non-current. Other receivables worth DKK 14 million (DKK 32 million in 2010) will fall due after five years. Please refer to the *Subsidiaries and associates* list on page 92 for further information on subsidiaries, joint ventures and associates.

Note 8 – Other liabilities

(DKK million)	2011	2010
Staff-related liabilities	1	1
Other liabilities, public authorities	2	0
Liabilities relating to acquisitions	52	63
Other costs payable	3	4
Unrealised losses on financial contracts	32	46
Other liabilities	**90**	**114**
Due within 1 year	38	54
Due within 1-5 years	52	60

Staff-related liabilities include holiday pay and payroll costs due. The carrying amount of other liabilities matches the fair value of the liabilities. Of the non-current bank debt in the amount of DKK 918 million (DKK 923 million in 2010), DKK 0 million (DKK 0 million in 2010) will fall due after five years. The non-current payables to subsidiaries of DKK 69 million (DKK 67 million in 2010) are considered a deduction from the total investment in the particular enterprises and are 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 1,417 million (DKK 1,695 million in 2010) of which DKK 523 million has been utilised (DKK 651 million in 2010). Moreover, we have established a mutual guarantee with Oticon A/S in the amount of DKK 900 million, which is being utilised on a current basis.

William Demant Holding A/S has provided security in respect of a subsidiary's rent amounting to DKK 3 million (DKK 5 million in 2010) as well as guarantees concerning the continuous operation and payment liabilities in 2012 of some of our subsidiaries.

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 5c 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

Related parties with control consist of the principal shareholder, William Demant Invest A/S, this company's parent *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation), Kongebakken 9, 2765 Smørum, Denmark, as well as the Company's associates.

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.

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

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 approx. 60%.

Fidelity International, Kingswood Fields, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP, England. Ownership interest 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%
Prodition S.A., France*	100%
Bernafon AG, Switzerland*	100%
Bernafon Hörgeräte GmbH, Germany	100%
Bernafon S.r.l., Italy*	100%
Maico 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%

Company	*Interest*
Bernafon K.K., Japan	100%
Bernafon Nederland B.V., Holland*	100%
Kuulopiiri Oy, Finland*	100%
Acustica Sp. z o.o., Poland*	100%
AD Styla Sp. z o.o., Poland	100%
Adelaide Digital Hearing Solutions Pty. Ltd., Australia	100%
Akoustica Medica M EPE, Greece	100%
American Hearing Aid Associates, Inc., USA	100%
Amplivox Ltd., United Kingdom	100%
Centro Auditivo Telex S.A., Brazil	100%
Diagnostic Group LLC, USA	100%
Digital Hearing (UK) Ltd., United Kingdom	100%
Hidden Hearing (UK) Ltd., United Kingdom	100%
Hidden Hearing Limited, Ireland	100%
Hidden Hearing (Portugal), Unipessoal Lda., Portugal	100%
Interacoustics A/S, Denmark*	100%
Interacoustics Pty. Ltd., Australia*	100%
Maico Diagnostic GmbH, Germany*	100%
Phonic Ear A/S, Denmark*	100%
Sonic Innovations Inc., USA	100%
Van Boxtel Hoorwinkels B.V., Holland	100%
Western Hearing Services Pty. Ltd., Australia	100%
Canada Hearing Centre Ltd., Canada	100%
Gordon N. Stowe and Associates Inc., USA	100%
Fonikon Biernacki K.A. & Konopka A.K. Sp. z o.o., Poland	100%
M.S.R. Northwest Inc., USA	100%
M.S.R. West, Inc., USA	100%
Tele-acoustics Charlotte Inc. USA	100%
Sensory Devices Inc., USA	100%
MedRx Inc., USA	100%
SES Isitme Cihazlari San Ve Tic. A.S, Turkey	80%
Frontrow Calypso LLC., USA	75%
Hearing Healthcare Management Inc., USA	65%
Sennheiser Communications A/S, Denmark	50%
nEarcom LLC, USA	33%
HIMSA A/S, Denmark	25%

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

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