

The Chairman's report at William Demant Holding A/S' annual general meeting on Thursday 7 April 2016 at 4 pm

2015 was a good year, so it is with great pleasure that the Board of Directors looks back on the past year.

Before I proceed, I would however like to seize this opportunity to focus attention on William Demant's long-term, strategic position. It can briefly be summed up as follows:

We want to be one of the world's leading hearing healthcare companies with the best and most comprehensive portfolio of hearing healthcare solutions!

The three pillars that together make up our global hearing healthcare company are:

- 1. Hearing Devices**, which includes both wholesale and retail
- 2. Hearing Implants**, which we have split into two product segments: bone-anchored hearing systems and cochlear implants
- 3. Diagnostic Instruments**, covering six different brands of audiological equipment

Because of our presence in all areas of hearing healthcare – and not only hearing aids – we have access to a large market, and we enjoy favourable growth rates. This also means that we are able to share and optimise our development resources and infrastructure across the organisation. Our market position and strategy thus form the basis for a positive outlook, as far as the future of the William Demant Group is concerned.

Three important topics in the report

I would like to start by briefly introducing three pivotal topics in this year's report and then elaborate on them later on:

- First of all, 2015 was the year in which our classic core business – wholesale of hearing aids – came back on the growth path. As Chairman of the Board of Directors, I am very pleased to see that once again we succeeded in winning considerable market shares. And I am also pleased that we can now start reaping the benefits of our extensive investments in new technology – not least in Oticon's coming major product launch. Through investments such as these, we have created a solid foundation for growth in 2016 and in the coming years.
- Our retail business reached an important milestone in the past year with the take-over of Audika, the leading hearing aid chain in France. The gradual optimisation and consolidation of our retail activities are also beginning to pay off.
- Our two minor business activities, Hearing Implants and Diagnostic Instruments, were slightly more challenged in 2015 than usually. The main reason for this should be found in a few, oil-dependent growth markets. Furthermore, growth in our implant business slowed down, because the customers have to some extent been waiting for the very promising new cochlear implant system that was successfully introduced in late 2015. Generally speaking, we are however very comfortable with the

growth outlook for these two business activities, which are very important elements in our Group's hearing healthcare strategy.

Financial key figures

Before I dive further into the individual business activities, I would like to briefly highlight some of the financial results of our efforts in the past year as well as our expectations of 2016:

- The Group generated revenue of DKK 10.7 billion, corresponding to 7% growth.
- Our core business – wholesale of hearing aids – generated a 6% organic growth rate, and what is more, this growth was generated in a market that only grows a very few percent each year.
- Our operating profit rose by 7% to DKK 1.9 billion, and we saw an improvement in the underlying profit ratio.
- Earnings per share was DKK 26.6, or an increase of 12% on 2014.
- In 2016, we expect an operating profit of DKK 2.0-2.3 billion.

The share price went up

The share market also repaid us with an increase in the share price of no less than 40% in 2015. This corresponds to an improvement in the Company's market value of almost DKK 10 billion. Of course, this increase should be seen in connection with a generally positive share market trend. But if we take a look at the development of our share price compared to the C20 Cap index, we have done pretty well. The share market seems to have increased confidence in our Group – not only in the short run, but also in the long run.

On that uplifting note, I would now like to comment further on the development in our different business activities, which together make up our hearing healthcare Group:

Hearing Devices

The demand for hearing aids by the global market saw a positive development in 2015, and unit growth is estimated to have been around 5%. In general, we regard *unit* growth in the market as positive, and we have adjusted our expectations of the future, annual unit growth rate in the market to a level of 4-5%. This is particularly due to the fact that in a demographical sense, prospects are favourable: These years, the large post-war generation is reaching the age of the average end-user. It seems, however, that the average selling price in the market continues to fall a bit every year. This means that we are only seeing moderate *value* growth in the market.

As already mentioned, our own core business saw rather positive development in 2015. The biggest product and platform launch in the history of the Company, which took place in the first quarter, kicked off a new era of higher growth rates. In the second half-year, in particular, Oticon's new Inium Sense platform delivered an encouraging organic growth rate of 8%. Our two minor hearing aid brands, Bernafon and Sonic, also saw considerable progress from the first to the second half-year. This contributed to our winning market shares in overall terms in the second half of the year. In my opinion, the new momentum once again underlines the need to invest massively in innovation and new technology. In the fight for market shares, it is absolutely crucial to be a market leader in these areas.

Innovation is in fact my cue to start talking about the next topic: A topic which has already attracted quite a lot of attention. I am talking about the long awaited introduction of Oticon's coming, cutting-edge hearing aid technology. Unfortunately, I cannot yet unveil the product name, the technical features or the launch

strategy. But I dare say that the coming product will offer unique audiology to the end-users and become the best hearing aid on the market!

It is no secret that for a number of years now, the Group has invested heavily in research and development, particularly in the new wireless dual-radio technology. We expect to be able to show the result of our hard work at the end of the second quarter, when we will launch the world's first hearing aid with dual-radio technology. It is of course uncertain how long we will be able to stay in the lead, as far as this technology is concerned. But it goes without saying that we will not just lean back and rest on our laurels. In an extremely competitive industry with strong competitors, it is, as you are probably aware, not enough to just be in the lead in terms of technology – we also need to be the commercial leader in our industry.

Retail

The Group's retail activities are still essential, as far as the realisation of our ambition to become one of the world's leading hearing healthcare companies is concerned. We were therefore very pleased when, towards the end of 2015, we succeeded in taking over the leading French hearing aid chain, Audika. With this acquisition, we now have more than 450 shops all over France. It was a substantial acquisition worth almost DKK 1.3 billion. In connection with the acquisition, we also took over more than 800 skilled new employees, or what corresponds to an increase of the Group's total staff of almost 10%.

The William Demant Group has for decades been a regular supplier of hearing aids to Audika, so the acquisition is a continuation of an already strong cooperation. The addition of such a well-run business as Audika has significantly strengthened our position on the French market. After a successful take-over, I now look forward to our Group further developing the Audika business and continuing the adopted strategy together with the competent management and staff. Our other retail activities saw satisfactory development in 2015 in line with development in the markets where we are present. We have focused on consolidating previous acquisitions and in doing so improving our results – an effort which was reflected in the gradual improvement of our results in 2015.

Hearing Implants and Diagnostic Instruments

In 2015, our two other business activities, Hearing Implants and Diagnostic Instruments, realised lower-than-expected growth. This is mainly due to unfavourable exposure towards a few growth markets. By way of example, Diagnostic Instruments lost the major part of its sales in the two important markets Russia and Belarus. If we disregard these markets, Diagnostic Instruments did in fact see satisfactory growth of 4%. Growth in our implant business also suffered under the slowdown in Russia and other new markets.

For our implant business, Oticon Medical, 2015 was also an eventful year, not least due to the pre-launch of an entirely new cochlear implant system. The pre-launch was a great success, and the implant system was really well received by the leading surgeons in Europe and by the end-users. The launch itself in a number of key markets has, however, taken longer than originally assumed. We have to flatly admit that it is hard to predict how long it will take to gain a proper foothold in the individual markets. At the same time, it is obvious that realising our ambition in the implant industry means increased costs in the short run, which has a dilutive effect on our profit margin. In the longer run, we expect the implant business to contribute to increasing the Group's profitability – which is perfectly consistent with our adopted strategy.

Sennheiser Communications

Sennheiser Communications, our joint venture in headsets, saw considerable growth again in 2015. This growth was mainly driven by headset solutions for communication in the workplace, also called Unified Communication. The organic growth in revenue of 16% exceeded the market growth rate, and Sennheiser Communications is at the moment busy preparing the company for further growth in the years to come.

Investment in the future

In the William Demant Group, we continue to invest massively in the future. In order to support the establishment of a genuine hearing healthcare Group, we have taken initiatives to benefit from the Group's common infrastructure and will continue to do so in the coming years. Moving our ITE production to Poland and Mexico, establishing a new global distribution centre in Poland, modernising IT systems in the entire Group and setting up local shared services units are all examples of such initiatives. The costs of this streamlining of the business have been substantial, but we have at the same time reaped the benefits of previous years' investments. This is a process that will continue in the coming years.

The ongoing transformation and expansion of the Group have required changes in the entire organisational structure. In order to secure sufficient management competencies in the next phase, we have extended the Executive Board: Søren Nielsen has been promoted to COO, and René Schneider was hired as CFO. We are convinced that with this extension, we have created the right basis for growth in all our hearing healthcare businesses.

I would like to take this opportunity to comment on the Group's capital structure. We also expect to generate substantial cash flow in the future. The cash flow generated must be put to work – either to expand the Group's activities or to buy back William Demant shares. We have now started the last year of our three-year share buy-back programme that has a total value of DKK 2.5-3.0 billion.

Before I round off, I would like to comment on corporate governance, women in management and our remuneration policy:

Corporate governance

The Board of Directors and Executive Board consider the work on corporate governance an ongoing process and regularly assess the extent to which the recommendations must be implemented in the Company. We have also in 2015 responded to the Danish *Recommendations on corporate governance* according to the "comply or explain" principle. We still comply largely with the recommendations. A complete report is available on our website.

Women in managerial positions

We strive towards ensuring diversity in the Group, which also means furthering the number of women at the Group's different management levels. I am therefore pleased to report that we – since we started to record these numbers in 2009 – have increased the total proportion of female managers from 11% to 20% in 2015. I would, however, like to stress that competencies are always key when positions are filled at all levels in the Group. In 2013, the Board of Directors set a target for the proportion of female Board members and decided that one woman must be elected to the Board within a period of four years. This target was reached already the next year. In connection with the publication of the most recent annual report for 2015, the Board has set a new target: Before the end of 2020, at least two Board members must be female.

Remuneration policy

Many years ago, the Group decided to adopt a rather simple remuneration policy for the Board of Directors. Each member of the Board gets a fixed basic fee. The basic fee has remained the same since 2010. For 2016, we therefore propose that the fee is increased by DKK 50,000 to DKK 350,000. The Chairman's fee is three times the basic fee and the Deputy Chairman's twice the basic fee. In addition, the Board proposes that starting this year, the members of the audit committee receive an annual basic fee of DKK 50,000 and that the Chairman of the audit committee receives three times the basic fee. There are still no special fees for members of the nomination committee. It is worth noticing that – even with the proposed rise – the Directors' fee in William Demant Holding is at the low end of the level prevailing in the other companies in the C20 Cap index.

Today, each member of the Executive Board receives a fixed salary. The Board of Directors proposes that in addition to the fixed salary, the members of the Executive Board can be offered an annual stay-on payment with a variable element. This proposal will be presented in more detail later at this annual general meeting under item 7c on the agenda. The Board is of the opinion that the proposal reflects a competitive and fair remuneration of the Executive Board, which will ensure retention and recruitment of the most qualified candidates.

Company shares

The nominal value of the Company's shares has for many years been DKK 1 per share. The Board of Directors proposes an amendment to the articles of association to the effect that the smallest nominal value of the Company's share is changed to DKK 0.2. Let me explain the background of this proposal: Adopting this proposal makes it possible to – at a later stage – carry out a so-called share split in a 1:5 ratio, which means that each share with a nominal value of DKK 1 is replaced by five new shares, each with a nominal value of DKK 0.2. Such a share split is sometimes carried out when a share price exceeds a certain level and also makes it possible for more potential shareholders to own the share.

Final remarks

Before I give Niels the floor, I find it appropriate to thank the Group's many talented employees for their great effort in the past year. The high level of commitment shown by our employees has very much contributed to the Group winning market shares again in 2015 and to positioning us for further progress. For this, a heartfelt thank you to the Group's employees.

Niels, the floor is yours.
