

# Company announcement no 2017-07

Interim Report 2017

14 August 2017

**Market share gains in wholesale of hearing aids, with organic growth of 11% driven by Oticon Opn  
Group organic growth of 8% due to innovative products and strong performances by all businesses  
Based on strong EBIT growth of 28% in the first half-year, we increase our guidance for 2017**

- In the first half of 2017, the Group continued its positive momentum from the second half of 2016 with strong performances by all business activities. Revenue amounted to DKK 6,505 million, corresponding to 12% growth compared to the same period last year, with 8 percentage points attributable to organic growth and 2 percentage points attributable to acquisitions and exchange rate effects, respectively.
- Hearing Devices had a very encouraging first half-year with the wholesale business as the main driver of organic growth, as Oticon Opn continued to perform strongly and thus helped improve the overall product mix. Our wholesale business realised an organic growth rate of 11%, with unit sales growing by 8% and the average selling price (ASP) going up by 3%. Oticon launched Oticon Opn in two new styles including a rechargeable solution, which can be retrofitted to existing Oticon Opn devices, as well as a tinnitus feature. Bernafon and Sonic also launched new hearing aid families in early June in three styles and at three price points including Made for iPhone® connectivity, which will help improve the competitive position of these brands. Our retail business realised 10% growth in local currencies of which 4 percentage points are attributable to organic growth.
- Realising an organic growth rate of 24%, Hearing Implants performed very well in the first half-year. Both our cochlear implants and our bone-anchored hearing systems business performed strongly due to continued positive momentum sparked by new products, product approvals in new markets and won tenders in a couple of oil-dependent countries.
- Revenue in Diagnostic Instruments grew by 11% in local currencies of which 10 percentage points can be attributed to organic growth. The substantial organic growth was broadly based across most geographies and brands.
- Our operating profit (EBIT) grew by 28% supported by significant sales growth, economies of scale and strategic initiatives. EBIT amounted to DKK 1,142 million before restructuring costs of DKK 83 million. The resulting EBIT margin was 17.6% compared to 15.4% for the same period last year. Profit for the period was DKK 798 million corresponding to earnings per share (EPS) of DKK 3.09, or an increase of 30%. Cash flow from operating activities (CFFO) was DKK 969 million, or an increase of 26% before cash flow from restructuring costs of DKK -83 million.
- Average exchange rates for our invoicing currencies were higher in the first half-year than in the same period last year and had a positive impact on Group revenue of 2%. However, these invoicing currencies have weakened significantly since the beginning of the year, particularly in the second quarter. This impacted the Group's EBIT negatively in the first half-year by around DKK 70 million. Based on current exchange rates and including expected full-year gains from our hedging activities, we now expect foreign exchange rates to negatively impact EBIT in 2017 by around DKK 80 million compared to exchange rates at the beginning of the year.
- Despite the negative exchange rate effect, we have increased our guidance for 2017 based on the financial results in the first six months combined with our expectation of a solid second half-year. We now expect an EBIT of DKK 2.3-2.6 billion (previously DKK 2.2-2.5 billion) before restructuring costs of around DKK 175 million (previously around DKK 200 million).

*"I'm pleased with the overall very good development of the Company in the first half-year where we've seen strong performances by all our business activities. Being able to deliver such high growth rates is a testament to the strong product innovation and customer focus across the entire Group, but also a clear indication that we are moving in the right direction to deliver on our hearing healthcare strategy. The fact that we've entered the second half in very good shape makes me confident that we can maintain our positive momentum for the remainder of the year, which is also the reason why we've increased our guidance for 2017," says Søren Nielsen, President & CEO.*

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## KEY FIGURES AND FINANCIAL RATIOS

	H1 2017	H1 2016	Change H1/H1	Full year 2016
<b>INCOME STATEMENT, DKK MILLION</b>				
Revenue	6,505	5,810	12%	12,002
Gross profit	4,939	4,349	14%	9,030
Gross profit – adjusted	4,956	4,369	13%	9,102
R&D costs	458	404	13%	839
EBITDA	1,256	1,024	23%	2,346
Amortisation and depreciation etc.	197	184	7%	404
Operating profit (EBIT)	1,059	840	26%	1,942
Operating profit (EBIT) – adjusted	1,142	892	28%	2,130
Net financial items	-55	-43	28%	-101
Profit before tax	1,004	797	26%	1,841
Profit for the period	798	634	26%	1,464
<b>BALANCE SHEET, DKK MILLION</b>				
Net interest-bearing debt	4,081	3,914	4%	4,036
Assets	16,082	14,946	8%	15,548
Equity	7,248	6,704	8%	6,966
<b>OTHER KEY FIGURES, DKK MILLION</b>				
Investment in property, plant and equipment, net	124	146	-15%	299
Cash flow from operating activities (CFFO)	886	728	22%	1,679
Cash flow from operating activities (CFFO) – adjusted	969	768	26%	1,756
Free cash flow	660	504	31%	1,223
Average number of employees	13,047	12,194	7%	12,339
<b>FINANCIAL RATIOS</b>				
Gross profit margin	75.9%	74.9%		75.2%
Gross profit margin – adjusted	76.2%	75.2%		75.8%
EBITDA margin	19.3%	17.6%		19.5%
Profit margin (EBIT margin)	16.3%	14.5%		16.2%
Profit margin (EBIT margin) – adjusted	17.6%	15.4%		17.7%
Return on equity	22.3%	19.0%		21.5%
Equity ratio	45.1%	44.9%		44.8%
Earnings per share (EPS), DKK*	3.09	2.37	30%	5.53
Cash flow per share (CFPS), DKK*	3.43	2.74	25%	6.37
Free cash flow per share, DKK*	2.56	1.90	35%	4.64
Dividend per share, DKK*	0	0	n.a.	0
Equity value per share, DKK*	28.1	25.2	12%	26.4
Price earnings (P/E)	27.3	27.4	0%	22.2
Share price, DKK*	168.50	130.00	30%	122.80
Market cap. adjusted for treasury shares, DKK million	43,222	34,309	26%	31,829
Average number of shares outstanding, million	257.94	265.82	-3%	263.75

Financial ratios are calculated in accordance with "Recommendations and Financial Ratios 2015" 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) before acquisition and disposal of enterprises, participating interests and activities. On computation of the return on equity, average equity is calculated, duly considering the buy-back of shares.

\*Per share of nominally DKK 0.20.

## FINANCIAL REVIEW

As previously announced, the Group has initiated a restructuring programme, and the commentary below on our financial results is based on figures adjusted for restructuring costs, unless otherwise indicated.

### Income statement

(DKK million)	Reported H1 2017	Restructuring costs	Adjusted H1 2017	Adjusted H1 2016	Growth
Revenue	6,505	0	6,505	5,810	12%
Production costs	-1,566	-17	-1,549	-1,441	7%
<b>Gross profit</b>	<b>4,939</b>	<b>-17</b>	<b>4,956</b>	<b>4,369</b>	<b>13%</b>
Gross profit margin	75.9%		76.2%	75.2%	
R&D costs	-458	-40	-418	-396	6%
Distribution costs	-3,086	-16	-3,070	-2,769	11%
Administrative expenses	-358	-10	-348	-327	6%
Share of profit after tax, associates and joint ventures	22	0	22	15	47%
<b>Operating profit (EBIT)</b>	<b>1,059</b>	<b>-83</b>	<b>1,142</b>	<b>892</b>	<b>28%</b>
Operating profit margin (EBIT margin)	16.3%		17.6%	15.4%	

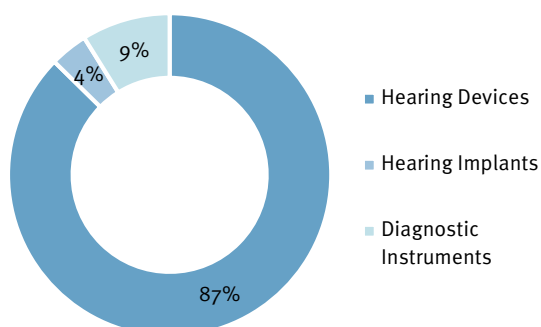
### Revenue

In the first half-year, Group revenue amounted to DKK 6,505 million, corresponding to a growth rate of 12% compared to the first half of 2016. Organic growth was the main driver of growth, contributing by 8 percentage points while acquisitions contributed by 2 percentage points. All business activities contributed to the strong growth, with wholesale of hearing aids as the main growth driver.

Exchange rate effects contributed by the last 2 percentage points to the total growth rate of 12%, with US dollar, Australian dollar and Brazilian real averages higher and the British pound average lower than in the comparable period last year.

### Revenue by business activity

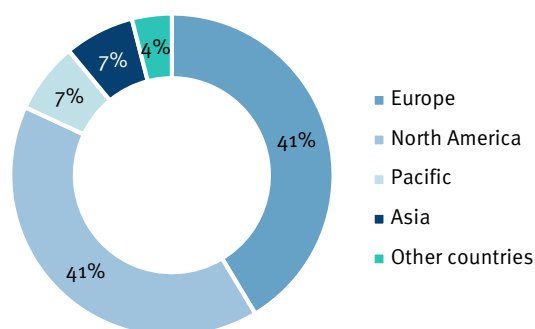
(DKK million)	H1 2017	H1 2016	Change	
			DKK	Local currency
Hearing Devices	5,682	5,096	11%	10%
Hearing Implants	246	199	24%	24%
Diagnostic Instruments	577	515	12%	11%
<b>Total</b>	<b>6,505</b>	<b>5,810</b>	<b>12%</b>	<b>10%</b>



In terms of geography, we saw solid growth in all regions, with *Other countries* delivering the highest growth in relative terms. Europe and North America remain the largest regions, each accounting for approx. 41% of total Group revenue.

### Revenue by geographic region

(DKK million)	H1 2017	H1 2016	Change	
			DKK	Local currency
Europe	2,691	2,499	8%	10%
North America	2,637	2,326	13%	9%
Pacific	461	426	8%	3%
Asia	456	395	15%	14%
Other countries	260	164	59%	43%
<b>Total</b>	<b>6,505</b>	<b>5,810</b>	<b>12%</b>	<b>10%</b>



### Gross profit

Gross profit in the reporting period increased by 13% to DKK 4,956 million, resulting in a gross profit margin of 76.2%, which is an increase of 1.0 percentage point on the same period last year, reflecting improved production efficiency as well as a positive product mix driven by Oticon Opn.

### Capacity costs

Total capacity costs for the period increased by 10% to DKK 3,836 million. The increase is primarily driven by growing distribution costs related to both organic growth and acquired retail activities, while R&D costs and administrative expenses grew at a lower rate during the reporting period. R&D costs amounted to DKK 418 million, corresponding to 6% of Group revenue compared to 7% in the first half-year 2016. The lower R&D costs to sales ratio does not reflect a slowdown in the activity level, but rather improved efficiency, resulting from the implemented strategic initiatives.

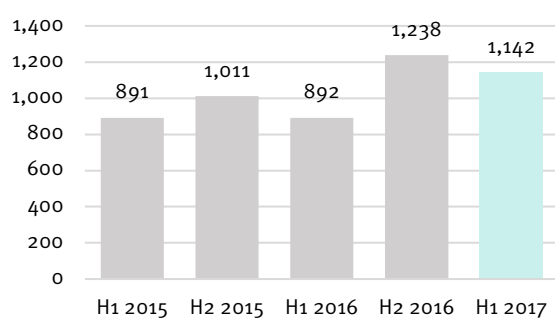
### Capacity costs

(DKK million)	H1 2017	H1 2016	Change	
			DKK	Local currency
R&D costs	418	396	6%	6%
Distribution costs	3,070	2,769	11%	9%
Adm. expenses	348	327	6%	7%
<b>Total</b>	<b>3,836</b>	<b>3,492</b>	<b>10%</b>	<b>9%</b>

### Operating profit

Total Group operating profit (EBIT) amounted to DKK 1,142 million for the reporting period, or an increase of 28% compared to the same period last year. This resulted in an EBIT margin of 17.6%, which is 2.2 percentage points higher than last year. The significant improvement in both absolute and relative terms is mainly driven by a combination of strong growth and high operating leverage in Hearing Devices. However, both Hearing Implants and Diagnostic Instruments also contributed to the Group's increasing operating profit by delivering strong performances in the first half-year on the back of relatively soft comparative figures. At the same time, our strategic initiatives supported the growth in EBIT, as cost savings continue to materialise. Share of profit after tax from associates and joint ventures amounted to DKK 22 million of which DKK 14 million was attributable to our share of Sennheiser Communications.

### Adjusted operating profit (EBIT) – DKK million



As already mentioned, average exchange rates for our invoicing currencies were higher in the first half-year than in the same period last year and thus had a positive impact on revenue of 2%. However, all major invoicing currencies weakened significantly against the Danish krone during the first half-year, particularly in the second quarter, which negatively impacted the Group's EBIT for the reporting period.

The weakened currencies include the US dollar, the Canadian dollar, the Australian dollar, the British pound and the Brazilian real, and total negative exchange rate effects amounted to around DKK 70 million. Consequently, EBIT for the reporting period reflects a strong underlying performance of the Group.

With total restructuring costs for the reporting period of DKK 83 million, reported EBIT amounted to DKK 1,059 million, corresponding to a growth rate of 26% and a reported EBIT margin of 16.3%.

### Financial items

Net financial items amounted to DKK -55 million, or an increase of DKK 12 million compared to last year, which is due to higher credit card and bank fees and slightly increased interest expenses.

### Profit for the period

Reported profit before tax amounted to DKK 1,004 million, which is an increase of 26% on last year. After tax of DKK 206 million, the reported net profit for the period was DKK 798 million, also an increase of 26% compared to last year. The resulting reported earnings per share (EPS) was DKK 3.09, an increase of 30% compared to DKK 2.37 for the same period last year.

### Cash flow statement

In the first half-year, the Group generated cash flow from operating activities (CFFO) of DKK 969 million, or 26% growth on last year. After cash flow from restructuring costs of DKK -83 million, reported CFFO amounted to DKK 886 million, which is an increase of 22% compared to last year. Reported free cash flow before acquisitions and divestments increased by 31% to DKK 660 million.

Cash flow from acquisitions and divestments increased by 116% to DKK -494 million, whereas buy-back of shares in the amount of DKK 396 million was 10% lower than last year. Thus, net cash flow for the period amounted to DKK -4 million.

(DKK million)	H1 2017	H1 2016	Change
<b>Adjusted operating profit</b>	<b>1,142</b>	<b>892</b>	<b>28%</b>
<b>Adjusted cash flow from operating activities</b>	<b>969</b>	<b>768</b>	<b>26%</b>
Cash flow from restructuring costs	-83	-40	108%
<b>Reported cash flow from operating activities</b>	<b>886</b>	<b>728</b>	<b>22%</b>
Cash flow from investing activities	-226	-224	1%
<b>Reported free cash flow</b>	<b>660</b>	<b>504</b>	<b>31%</b>
Acquisition and divestment of enterprises, participating interests and activities	-494	-229	116%
Buy-back of shares	-396	-439	-10%
Other financing activities	226	148	53%
<b>Cash flow for the period</b>	<b>-4</b>	<b>-16</b>	<b>-75%</b>

## Balance sheet

Total assets amounted to DKK 16,082 million at 30 June 2017, or an increase of 3% compared to year-end 2016. The increase primarily relates to investments in associates and joint ventures. Net interest-bearing debt (NIBD) was DKK 4,081 million, which is approx. 1% higher than the DKK 4,036 million reported at the end of 2016. The resulting net gearing multiple (NIBD/EBITDA) was 1.6 based on EBITDA for the 12 months ending on 30 June 2017.

Total equity for the Group increased by 4% to DKK 7,248 million of which DKK 5 million is attributable to minority interests and DKK 7,243 million to shareholders of William Demant Holding. The net increase was primarily impacted by the period's profit as well as the Group's buy-back of shares. The latter amounted to DKK 396 million based on the buy-back of 2,683,979 shares at an average price of DKK 147.47. With the cancellation of 7,115,550 treasury shares decided by the shareholders at the annual general meeting on 27 March 2017, the total number of treasury shares held by the Company at 30 June 2017 was 2,455,828, corresponding to 0.9% of the total number of shares outstanding. After the reporting period, the Company has bought back an additional 230,000 shares at an average price of DKK 167.93, and the level of share buy-back is expected to be higher in the second half of the year than in the first.

## Employees

At the end of the first half-year, William Demant Holding had 13,270 employees compared to 12,671 at the beginning of the year and 12,344 at the end of the first half of last year.

## Hedging activities

The Group aims to hedge changes in foreign exchange rates by seeking to match positive and negative cash flows in the main trading currencies as much as possible and by entering into forward exchange contracts. By entering into such contracts, we hedge estimated cash flows with a horizon of up to 24 months.

The material forward exchange contracts in place at 30 June 2017 to hedge against the Group's exposure to movements in exchange rates are shown in the table below.

Currency	Hedging period	Average hedging rate
USD	10 months	678
JPY	14 months	6.34
AUD	6 months	516
GBP	6 months	872
CAD	6 months	517

## Accounting policies as well as financial estimates and assumptions

This Interim Report 2017 is presented in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU and further Danish disclosure requirements in respect of interim reports for listed companies. We have not prepared

a separate interim report for the Parent. The report is presented in Danish kroner (DKK), which is the functional currency of the Parent.

The accounting policies used for this Interim Report 2017 are the same as the accounting policies used for our Annual Report 2016 to which we refer for a full description, with the exception of one change as described below. The Group has adopted all new, amended and revised accounting standards and interpretations as published by the IASB and adopted by the EU effective for the accounting period beginning on 1 January 2017. The implementation of such standards and interpretations has not had any significant impact on the consolidated financial statements for the first six months of 2017.

Based on an enquiry from the Danish Business Authority, the Group has decided to amend its accounting policy under which short-term bank facilities are included in cash and cash equivalents in the cash flow statement. Any short-term bank facilities that are uncommitted, that are part of the Group's cash management and that often fluctuate from positive to overdrawn, are part of cash and cash equivalents, and any other short-term bank facilities are considered a financing activity in the cash flow statement.

Compared with the description in our Annual Report 2016, there have been no changes in the accounting estimates and assumptions made by Management in the preparation of this Interim Report 2017.

### *Effect of new accounting standards not yet in force*

Revised and new standards and interpretations issued, but not yet effective or approved by the EU at the time of publication of this Interim Report 2017, have not been incorporated into this report.

Issued in May 2014, IFRS 15 Revenue from Contracts with Customers establishes a single comprehensive model for entities to be used on the recognition of revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue and related interpretations when it becomes effective. Management has analysed the impact of IFRS 15 and will continue this work. It is Management's expectation that the new standard will have some impact on the timing of revenue recognition, on net or gross recognition of principal and agent relationships and on the disclosure of revenue. The value of the impact of these changes has not been estimated yet, but is at this stage expected to have some, but not material, impact. IFRS 15 will take effect on 1 January 2018.

IFRS 9 Financial Instruments was issued in 2009 and has been revised several times since then. Management anticipates that the future application of IFRS 9 may impact the Group's reporting on and disclosure of financial instruments and hedging instruments. Management is in the process of evaluating the impact and prospects of the revised standard, and the new rules on provisions for loans and receivables

and the new possibilities for hedging are expected to have very limited impact on our financial statements. IFRS 9 will take effect on 1 January 2018.

Issued in January 2016, IFRS 16 Leases requires lessees to recognise nearly all leases on the balance sheet. Management is in the process of evaluating the expected future impact of the application of IFRS 16 on the figures reported and disclosed by the Group. Management expects the implementation of this standard to have a material impact on the recognition of tangible assets and financial debt on the balance sheet. The standard will also impact the classification of expenses in the income statement, the classification of cash flows in the cash flow statement as well as the related key figures. IFRS 16 is expected to take effect on 1 January 2019.

#### **Events after the balance sheet date**

There have been no events that materially change the assessment of this Interim Report 2017 after the balance sheet date and up to today.

#### **Outlook 2017**

As far as the hearing aid market is concerned, we now expect to see a unit growth rate of 2-4% (previously 4-6%) in 2017. However, due to improved product mixes we expect the slightly negative pressure on the market's average wholesale price to ease (previously low, single-digit percentage decline). In terms of value, we thus continue to expect the wholesale market to grow by 1-3% in 2017.

In 2017, we expect to generate growth in sales in all the Group's three business activities: Hearing Devices, Hearing Implants and Diagnostic Instruments. As mentioned, all major invoicing currencies weakened significantly against the Danish krone during the first half-year, particularly in the second quarter, and based on current exchange rates and including the impact of exchange rate hedging, we now expect a slightly negative exchange rate impact on revenue of below 1% in 2017. Acquisitions made in 2016 will impact consolidated revenue by approx. 1% in 2017.

In 2017, we expect continued strong cash flow from operating activities (CFFO) and to continue to buy back shares. We will continue to prioritise value-adding investment opportunities and acquisitions, and any additional cash will be spent on buying back shares. We aim at a target gearing multiple of 1.5-2.0 measured as net interest-bearing debt (NIBD) relative to EBITDA.

Despite a significant negative exchange rate effect on EBIT, we managed to deliver strong financial results for the first six months of the year. Based on the strong underlying performance combined with our expectation of a solid second half-year, we increase our guidance for 2017 to an EBIT of DKK 2.3-2.6 billion (previously DKK 2.2-2.5 billion) before restructuring costs. Additionally, we lower our guidance for restructuring costs for 2017, which we now expect to amount to around DKK 175 million (previously around DKK 200 million).

Our updated guidance includes an expected negative full-year exchange rate effect on EBIT of around DKK 80 million based on current exchange rates and including expected full-year gains from our hedging activities of which around DKK 70 million relates to the first half-year.

## MANAGEMENT COMMENTARY

### Hearing Devices

Our Hearing Devices business activity performed strongly in the first half of the year with growth of 10% in local currencies. Organic growth contributed by 8 percentage points, with our wholesale business as the main growth driver, generating organic growth of 11%. Acquisitive growth contributed by 2 percentage points with our retail business as the main growth driver.

#### *Market conditions and business trends*

We estimate that in the first half-year, the global market for hearing aids saw growth rates slightly below the Group's general expectations of 4-6% unit growth per year. In North America, unit sales increased by approx. 3% according to statistics from the Hearing Industries Association (HIA), with 3% growth in the commercial part of the US market and 2% growth in Veterans Affairs (VA). We estimate that growth in Europe was approx. 3-4% driven by the UK and France.

The average selling price (ASP) on the global wholesale market for hearing aids is estimated to have remained more or less unchanged in the first half-year compared to the same period last year. We believe that the slight pressure on the ASP caused by channel mix shifts has been countered by new product launches by several manufacturers, which have commanded higher prices and led to increased product differentiation. Consequently, we believe that the global wholesale market for hearing aids has seen moderate growth in the first half of the year, even if this estimate is subject to some uncertainty due to the lack of official statistics on ASPs.

We still consider the global ASP development in the retail market for hearing aids stable, although it varies widely across markets because of differences in reimbursement schemes, market structures, customer preferences and customer behaviour.

#### *Wholesale*

Our hearing aid wholesale business succeeded in carrying the positive momentum from the second half of 2016 into the first half of 2017. Growth generated in the first half-year accelerated to 11% in local currencies and was entirely attributable to organic growth. We thus succeeded in increasing our global market share. Overall, our wholesale volumes increased by 8% compared to last year, with the ASP growing by 3%.

As was also the case for the second half of 2016, growth was first and foremost driven by Oticon Opn, which continued to perform very well and helped the Group win new customers with its unique audiological concept. This resulted in an improved product mix compared to the first half-year of 2016 and a solid increase in the ASP for the Oticon brand. At the same time, Oticon realised strong volume growth, although this was partly attributable to soft comparable sales in the months leading up to the Opn launch in June last year during

which period some customers postponed their orders in anticipation of the Opn launch. The two public channels, Veterans Affairs (VA) in the US and the NHS in the UK, made strong contributions to unit growth with the latter having a dilutive effect on the ASP. As far as VA is concerned, the launch of Oticon Opn has – in combination with a very dedicated sales effort – helped us improve our unit market share in the channel from 6.7% in October 2016, the month immediately before the launch of Oticon Opn, to 13.2% in June 2017.

As previously announced, the open sound paradigm was expanded at the beginning of June with the launch of Oticon Opn in two new styles, a new miniRITE-T with telecoil and a new and powerful BTE for severe to profound hearing losses, as well as the introduction of a new tinnitus feature. Together with the commercial launch of a rechargeable solution for Oticon Opn in late June, Oticon has an extremely competitive product portfolio, which serves as a good base for continuing the positive momentum.

Our Bernafon and Sonic brands saw unit growth in the reporting period, particularly driven by sales to Sonic distributors, although the effect on value growth was countered by decreasing ASPs for both brands. The pressure on pricing is primarily the result of their respective product portfolios getting closer to the end of their life cycles. However, both Bernafon and Sonic launched new product families – Zerena and Enchant, respectively – in three styles and at three price points at the beginning of June. These introductions, which include 2.4GHz Made For iPhone® connectivity, will help the brands get back on a strong growth trajectory.

Performance was strong across all geographical regions, with the highest growth rates in relative terms to be found in Asia, Pacific and *Other countries*, the latter in large part due to sales to Sonic distributors. Europe and North America also saw strong growth driven by increasing sales to independents, to some large public channels (VA and the NHS) and to our own retail business. As far as the latter is concerned, we continue to increase the share of our own wholesale products. Sales to independent retail chains were, however, affected by some headwind due to acquisitions made by competitors, although the effect was limited by the fact that we have a relatively diversified customer base.

#### *Retail*

In retail, growth in the first half-year reached 10% in local currencies of which 4 percentage points are attributable to organic growth and 6 percentage points to acquisitions. The organic growth rate was roughly in line with the market growth rate, but was skewed towards the first quarter, which had more business days compared to the second quarter. Acquisitive growth mainly stemmed from acquisitions made in North America. Overall, growth was primarily attributable to increasing unit sales – particularly the sale of Group-manufactured products – but also to the fact that the ASP

increased somewhat compared to the same period last year, with Oticon Opn being a key driver.

The first half of the year saw strong performances in Canada and in a number of European markets where we operate consolidated retail chains. Conversely, it has been more challenging to generate growth in those markets in Europe where our retail operations are more fragmented. In the US, underlying performance has improved and we are working hard to overcome the main challenge of creating a coherent operational set-up across geographies and brands, while continuing to make bolt-on acquisitions. The implementation of a new ERP system, which is almost completed, is an important means to this end.

### **Hearing Implants**

Hearing Implants realised growth of 24% in local currencies in the first half of the year. This growth is entirely organic and is based on strong performances by both our cochlear implants (CI) and bone-anchored hearing systems (BAHS) businesses, and we are confident that we have gained market shares in both segments. The strong growth is a result of the continued positive momentum sparked by our new products, product approvals in new markets and improved market conditions in a number of oil-dependent countries, which adversely affected growth in 2016.

#### *Cochlear implants*

In the CI business, sales growth was broadly based across the regions that we operate in and our Neuro implant maintained very positive momentum with good feedback from surgeons, audiologists and end-users. We continued the roll-out of Neuro in a number of new markets such as France and Brazil, allowing us to leverage on our existing commercial infrastructure and to grow sales of Neuro significantly. Furthermore, initial clinical data from independent third parties are very strong, particularly when it comes to the understanding of speech in noise, which underscores the compelling value proposition of Neuro, as the ability to hear in difficult listening situations is the biggest challenge for CI users. More clinical studies will follow to further document the strong performance of Neuro.

Before the end of 2017, we also plan to launch Neuro 2, a very small and cosmetically attractive BTE processor. The new BTE is the result of the biggest project ever in Oticon Medical and represents a giant leap forward. The BTE will be industry-leading in terms of design, size and usability, and it comes with the first Genie Medical CI fitting software based on the principles of our hearing aid and BAHS fitting software, which will make the fitting of Neuro much faster and easier. The announcement of this launch got a very positive reception at the 13th European Symposium of Paediatric Cochlear Implantation (ESPCI) held in Lisbon in May and bodes well for continued strong momentum. Meanwhile, we continue to progress with our clinical study with the FDA, the purpose of which is to gain market clearance for Neuro in the US, which will be a key growth driver in the future.

#### *Bone-anchored hearing systems*

Growth in our BAHS business continues to be driven by the Ponto 3 product family, which was launched in late 2016. In particular, the uniqueness of the Ponto 3 Super Power – the world's first ever abutment-level Super Power processor – continues to drive strong sales momentum. Clinical studies made by leading BAHS centres in Europe are beginning to document the exceptional performance of the Ponto 3 Super Power, which is expected to help us keep growing in the coming period. Having now been in the market for 18 months, the combination of our BHX implant and the Minimally Invasive Ponto Surgery (MIPS) technique has proven its worth and is experiencing strong traction with customers.

Geographically, growth was strong across most regions, with some established European markets such as the UK performing particularly well.

### **Diagnostic Instruments**

We believe that growth in the global market for hearing and balance diagnostic instruments increased in the first half of 2017 compared to last year, particularly in oil-dependent markets. Reporting strong growth of 11% in local currencies in the first half-year, our Diagnostic Instruments business activity benefitted from this overall market growth and even succeeded in growing its market share. Of this growth, 10 percentage points can be attributed to organic growth and the remaining 1 percentage point to acquisitions.

The growth reflected both a relatively weak comparative base in the first half of 2016 and strong performances across most regions. In the US, we saw very positive momentum in our new-born hearing screening business, which exceeded our expectations. Also Asia saw strong growth, whereas Pacific disappointed slightly, although the region is expected to see improved performance for the remainder of the year. In relative terms, growth was particularly strong in Africa, South America and the Middle East, which all had a challenging 2016. All brands contributed to growth, particularly Grason-Stadler and Interacoustics, with good performance across most product categories.

As a result of the operational leverage in Diagnostic Instruments as well as improved production efficiency, the strong revenue growth translated into a significant improvement in the operating profit for the reporting period compared to the same period last year.

### **Personal Communication**

Sennheiser Communications, our 50/50 joint venture with Sennheiser KG, realised revenue of DKK 333 million in the first half-year, or a 6% increase on the same period last year. Growth was driven by the Call Center and Office (CC&O) business due to delivery on a number of orders won with large accounts and an increasing run rate business. The underlying growth of the Mobile segment was strong, but due to negative inventory effects, this segment's contribution to reported growth was negative. This was also the case for the Gaming segment, although underlying growth here was already slightly negative. The Group's share of profit



after tax from the joint venture amounted to DKK 14 million for the reporting period.

### Strategic Group initiatives

In our Interim Report 2016, we announced several strategic initiatives to be implemented during 2016, 2017 and 2018. The initiatives mainly relate to operational activities and R&D, with the overall goal of ensuring cost efficiency and future scalability for the Group, and we continue to execute on the initiatives according to plan. When the initiatives are fully implemented, total annual cost savings will amount to DKK 200 million based on the cost base for 2016. To this amount should be added savings obtained due to having a more efficient base to scale from. We have already seen the effects of cost savings, and we expect them to continue to materialise gradually throughout 2017 and 2018. As mentioned under Outlook, we have reduced our guidance for 2017 for one-off restructuring costs related to our strategic

initiatives to around DKK 175 million (previously around DKK 200 million). The table below shows a breakdown of restructuring costs for the reporting period.

### Restructuring costs

(DKK million)	H1 2017	H1 2016	FY 2016
Revenue	0	0	0
Production costs	-17	-20	-72
<b>Gross profit</b>	<b>-17</b>	<b>-20</b>	<b>-72</b>
R&D costs	-40	-8	-55
Distribution costs	-16	-17	-36
Administrative expenses	-10	-7	-25
<b>Capacity costs</b>	<b>-66</b>	<b>-32</b>	<b>-116</b>
<b>Operating profit (EBIT)</b>	<b>-83</b>	<b>-52</b>	<b>-188</b>

## MANAGEMENT STATEMENT

We have today discussed and approved this Interim Report 2017 for William Demant Holding A/S.

Interim Report 2017 has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU and further Danish disclosure requirements in respect of interim reports for listed companies. Interim Report 2017 has not been audited or reviewed by our auditors.

In our opinion, Interim Report 2017 gives a true and fair view of the Group's assets, liabilities and financial position at 30 June 2017 as well as of the results of our activities and cash flows for the first six months of 2017.

We also believe that the financial review and management commentary contain a fair review of the development in the Group's business and financial position, the results for the period and the Group's financial position as a whole as well as a description of the principal risks and uncertainties facing William Demant Holding A/S.

*Smørum, 14 August 2017*

### *Executive Board:*

Søren Nielsen  
President & CEO

René Schneider  
CFO

### *Board of Directors:*

Niels B. Christiansen  
Chairman

Niels Jacobsen  
Deputy Chairman

Thomas Duer

Peter Foss

Benedikte Leroy

Ole Lundsgaard

Jørgen Møller Nielsen

Lars Rasmussen

## INCOME STATEMENT

(DKK million)	H1 2017	H1 2016	Full year 2016
Revenue	6,505	5,810	12,002
Production costs	-1,566	-1,461	-2,972
<b>Gross profit</b>	<b>4,939</b>	<b>4,349</b>	<b>9,030</b>
R&D costs	-458	-404	-839
Distribution costs	-3,086	-2,786	-5,654
Administrative expenses	-358	-334	-676
Share of profit after tax, associates and joint ventures	22	15	81
<b>Operating profit (EBIT)</b>	<b>1,059</b>	<b>840</b>	<b>1,942</b>
Financial income	23	23	42
Financial expenses	-78	-66	-143
<b>Profit before tax</b>	<b>1,004</b>	<b>797</b>	<b>1,841</b>
Tax on profit for the period	-206	-163	-377
<b>Profit for the period</b>	<b>798</b>	<b>634</b>	<b>1,464</b>
<b>Profit for the year attributable to:</b>			
William Demant Holding A/S' shareholders	796	631	1,459
Minority interests	2	3	5
	<b>798</b>	<b>634</b>	<b>1,464</b>
Earnings per share (EPS), DKK	3.09	2.37	5.53
Diluted earnings per share (DEPS), DKK	3.09	2.37	5.53

## STATEMENT OF COMPREHENSIVE INCOME

(DKK million)	H1 2017	H1 2016	Full year 2016
<b>Profit for the period</b>	<b>798</b>	<b>634</b>	<b>1,464</b>
<b>Other comprehensive income:</b>			
<b>Items that have been or may subsequently be reclassified to the income statement:</b>			
Foreign currency translation adjustment, subsidiaries	-202	-24	43
Value adjustment of hedging instruments:			
Value adjustment for the period	100	16	-20
Value adjustment transferred to revenue	8	33	46
Value adjustment transferred to financial expenses	0	0	0
Tax on items that have been or may subsequently be reclassified to the income statement	-24	-12	-9
<b>Items that have been or may subsequently be reclassified to the income statement</b>	<b>-118</b>	<b>13</b>	<b>60</b>
<b>Items that will not subsequently be reclassified to the income statement:</b>			
Actuarial gains/(losses) on defined benefit plans	0	-1	-7
Tax on items that will not subsequently be reclassified to the income statement	0	0	1
<b>Items that will not subsequently be reclassified to the income statement</b>	<b>0</b>	<b>-1</b>	<b>-6</b>
<b>Other comprehensive income</b>	<b>-118</b>	<b>12</b>	<b>54</b>
<b>Comprehensive income</b>	<b>680</b>	<b>646</b>	<b>1,518</b>
<b>Comprehensive income attributable to:</b>			
William Demant Holding A/S' shareholders	678	643	1,513
Minority interests	2	3	5
	<b>680</b>	<b>646</b>	<b>1,518</b>

## BALANCE SHEET – ASSETS

(DKK million)	Note	30 June 2017	30 June 2016	31 Dec. 2016
<b>Assets</b>				
Goodwill	2	6,337	5,928	6,276
Patents and licences		44	19	51
Other intangible assets		387	297	289
Prepayments and assets under development		100	56	152
<b>Intangible assets</b>		<b>6,868</b>	<b>6,300</b>	<b>6,768</b>
Land and buildings		863	884	878
Plant and machinery		220	170	220
Other plant, fixtures and operating equipment		284	273	290
Leasehold improvements		272	241	263
Prepayments and assets under construction		73	186	91
<b>Property, plant and equipment</b>		<b>1,712</b>	<b>1,754</b>	<b>1,742</b>
Investments in associates and joint ventures		928	529	583
Receivables from associates and joint ventures		502	372	383
Other investments		8	12	8
Other receivables		456	562	539
Deferred tax assets		400	359	396
<b>Other non-current assets</b>		<b>2,294</b>	<b>1,834</b>	<b>1,909</b>
<b>Non-current assets</b>		<b>10,874</b>	<b>9,888</b>	<b>10,419</b>
Inventories		1,321	1,257	1,300
Trade receivables		2,465	2,437	2,440
Receivables from associates and joint ventures		40	55	71
Income tax		148	154	146
Other receivables		249	251	259
Unrealised gains on financial contracts		74	15	11
Prepaid expenses		196	183	192
Cash		715	706	710
<b>Current assets</b>		<b>5,208</b>	<b>5,058</b>	<b>5,129</b>
<b>Assets</b>		<b>16,082</b>	<b>14,946</b>	<b>15,548</b>

## BALANCE SHEET – EQUITY AND LIABILITIES

(DKK million)	30 June 2017	30 June 2016	31 Dec. 2016
<b>Equity and liabilities</b>			
Share capital	52	53	53
Other reserves	7,191	6,649	6,908
Equity attributable to William Demant Holding A/S' shareholders	7,243	6,702	6,961
Equity attributable to minority interests	5	2	5
<b>Equity</b>	<b>7,248</b>	<b>6,704</b>	<b>6,966</b>
Interest-bearing debt	1,960	2,015	1,960
Deferred tax liabilities	149	115	152
Provisions	236	231	295
Other liabilities	192	145	171
Deferred income	194	175	170
<b>Non-current liabilities</b>	<b>2,731</b>	<b>2,681</b>	<b>2,748</b>
Interest-bearing debt	3,663	3,374	3,547
Trade payables	520	506	513
Payables to associates and joint ventures	2	1	2
Income tax	135	243	148
Provisions	29	13	32
Other liabilities	1,461	1,118	1,244
Unrealised losses on financial contracts	1	28	46
Deferred income	292	278	302
<b>Current liabilities</b>	<b>6,103</b>	<b>5,561</b>	<b>5,834</b>
<b>Liabilities</b>	<b>8,834</b>	<b>8,242</b>	<b>8,582</b>
<b>Equity and liabilities</b>	<b>16,082</b>	<b>14,946</b>	<b>15,548</b>

## CASH FLOW STATEMENT

(DKK million)	H1 2017	H1 2016	Full year 2016
Operating profit (EBIT)	1,059	840	1,942
Non-cash items etc.	125	160	374
Change in receivables etc.	-44	-238	-293
Change in inventories	-4	79	40
Change in trade payables and other liabilities etc.	71	70	136
Change in provisions	-57	-23	10
Dividends received	48	8	9
<b>Cash flow from operating profit</b>	<b>1,198</b>	<b>896</b>	<b>2,218</b>
Financial income etc. received	18	23	31
Financial expenses etc. paid	-77	-65	-137
Realised foreign currency translation adjustments	-1	3	-7
Income tax paid	-252	-129	-426
<b>Cash flow from operating activities (CFFO)</b>	<b>886</b>	<b>728</b>	<b>1,679</b>
Acquisition of enterprises, participating interests and activities	-494	-229	-363
Disposal of enterprises, participating interests and activities	0	0	27
Investments in and disposal of intangible assets	-68	-72	-152
Investments in property, plant and equipment	-134	-160	-319
Disposal of property, plant and equipment	10	14	20
Investments in other non-current assets	-132	-87	-199
Disposal of other non-current assets	98	81	194
<b>Cash flow from investing activities (CFFI)</b>	<b>-720</b>	<b>-453</b>	<b>-792</b>
Repayments of borrowings	-745	-761	-350
Proceeds from borrowings	954	1,019	774
Change in short-term bank facilities	19	-110	-150
Dividends to minority interests	-2	0	-3
Buy-back of shares	-396	-439	-1,050
<b>Cash flow from financing activities (CFFF)</b>	<b>-170</b>	<b>-291</b>	<b>-779</b>
<b>Cash flow for the period, net</b>	<b>-4</b>	<b>-16</b>	<b>108</b>
Cash and cash equivalents at the beginning of the period	502	421	421
Foreign currency translation adjustment of cash and cash equivalents	-6	1	-27
<b>Cash and cash equivalents at the end of the period</b>	<b>492</b>	<b>406</b>	<b>502</b>
<b>Breakdown of cash and cash equivalents at the end of the period:</b>			
Cash	715	706	710
Short-term bank overdraft	-223	-300	-208
<b>Cash and cash equivalents at the end of the period</b>	<b>492</b>	<b>406</b>	<b>502</b>

## STATEMENT OF CHANGES IN EQUITY IN H1 2016

	Share capital	Other reserves			William Demant Holding A/S' shareholders' share	Minority interests' share	Equity
		Foreign currency translation reserve	Hedging reserve	Retained earnings			
(DKK million)							
<b>Equity at 1.1.2016</b>	<b>54</b>	<b>173</b>	<b>-45</b>	<b>6,317</b>	<b>6,499</b>	<b>1</b>	<b>6,500</b>
<b>Comprehensive income, period:</b>							
Profit for the period	-	-	-	631	631	3	634
<b>Other comprehensive income:</b>							
Foreign currency translation adjustment, subsidiaries	-	-24	-	-	-24	-	-24
Value adjustment of hedging instruments:							
Value adjustment, period	-	-	16	-	16	-	16
Value adjustment transferred to revenue	-	-	33	-	33	-	33
Value adjustment transferred to financial expenses	-	-	0	-	0	-	-
Actuarial gains/(losses) on defined benefit plans	-	-	-	-1	-1	0	-1
Tax on other comprehensive income	-	0	-12	0	-12	0	-12
<b>Other comprehensive income</b>	<b>-</b>	<b>-24</b>	<b>37</b>	<b>-1</b>	<b>12</b>	<b>0</b>	<b>12</b>
<b>Comprehensive income, period</b>	<b>-</b>	<b>-24</b>	<b>37</b>	<b>630</b>	<b>643</b>	<b>3</b>	<b>646</b>
Buy-back of shares	-	-	0	-439	-439	-	-439
Capital reduction through cancellation of treasury shares	-1	-	-	0	-1	-	-1
Other changes in equity	-	-	-	0	0	-2	-2
<b>Equity at 30.06.2016</b>	<b>53</b>	<b>149</b>	<b>-8</b>	<b>6,508</b>	<b>6,702</b>	<b>2</b>	<b>6,704</b>



## STATEMENT OF CHANGES IN EQUITY IN H1 2017

	Share capital	Other reserves			William Demant Holding A/S' shareholders' share	Minority interests' share	Equity
		Foreign currency translation reserve	Hedging reserve	Retained earnings			
(DKK million)							
<b>Equity at 1.1.2017</b>	<b>53</b>	<b>213</b>	<b>-25</b>	<b>6,720</b>	<b>6,961</b>	<b>5</b>	<b>6,966</b>
<b>Comprehensive income, period:</b>							
Profit for the period	-	-	-	796	796	2	798
<b>Other comprehensive income:</b>							
Foreign currency translation adjustment, subsidiaries	-	-202	-	-	-202	-	-202
Value adjustment of hedging instruments:							
Value adjustment, period	-	-	100	-	100	-	100
Value adjustment transferred to revenue	-	-	8	-	8	-	8
Value adjustment transferred to financial expenses	-	-	0	-	0	-	0
Actuarial gains/(losses) on defined benefit plans	-	-	-	0	0	0	0
Tax on other comprehensive income	-	0	-24	0	-24	0	-24
Other comprehensive income	-	-202	84	0	-118	0	-118
<b>Comprehensive income, period</b>	<b>-</b>	<b>-202</b>	<b>84</b>	<b>796</b>	<b>678</b>	<b>2</b>	<b>680</b>
Buy-back of shares	-	-	0	-396	-396	-	-396
Capital reduction through cancellation of treasury shares	-1	-	-	1	0	-	0
Other changes in equity	-	-	-	0	0	-2	-2
<b>Equity at 30.06.2017</b>	<b>52</b>	<b>11</b>	<b>59</b>	<b>7,121</b>	<b>7,243</b>	<b>5</b>	<b>7,248</b>

## NOTE 1 – ACQUISITION OF ENTERPRISES AND ACTIVITIES

(DKK million)	Fair value on acquisition				H1 2017	H1 2016
	North America	Oceania	Europe/Asia	South America		
Intangible assets	2	2	10	-1	13	11
Property, plant and equipment	10	1	2	0	13	18
Other non-current assets	0	0	0	0	0	20
Inventories	2	0	1	0	3	6
Current receivables	6	0	4	0	10	32
Cash and bank debt	2	0	4	0	6	12
Non-current liabilities	-2	0	1	0	-1	-136
Current liabilities	-17	-1	-9	0	-27	-27
<b>Acquired net assets</b>	<b>3</b>	<b>2</b>	<b>13</b>	<b>-1</b>	<b>17</b>	<b>-64</b>
Goodwill	199	12	68	1	280	307
<b>Acquisition cost</b>	<b>202</b>	<b>14</b>	<b>81</b>	<b>0</b>	<b>297</b>	<b>243</b>
Fair value of non-controlling interests on obtaining control	0	0	0	0	0	-10
Contingent considerations and deferred payments	-64	-3	-5	0	-72	-29
Acquired cash and bank debt	-2	0	-4	0	-6	-12
<b>Cash acquisition cost</b>	<b>136</b>	<b>11</b>	<b>72</b>	<b>0</b>	<b>219</b>	<b>192</b>

Consolidated acquisitions in 2017 consist of a number of minor hearing healthcare distribution enterprises, mainly in Europe and North America. In respect of these acquisitions, we paid acquisition costs exceeding the fair values of the acquired assets, liabilities and contingent liabilities. Such positive balances in value can be attributed to expected synergies between the activities of the acquired entities and our existing activities, to the future growth opportunities and to the value of staff competencies in the acquired entities. These synergies are not recognised separately from goodwill, as they are not separately identifiable.

In the first half-year, a few adjustments were made to the preliminary recognition of acquisitions made in 2016. The impact of these adjustments on goodwill was DKK 11 million (DKK 2 million in the first half of 2016).

No contingent considerations (earn-out) adjustments were made via the income statement in the first half-year of 2017, nor in 2016. Contingent consideration entries made in the first half-year relate to the addition of DKK 72 million in respect of acquisitions and DKK 180 million relating to investments in associates and joint ventures, to a reduction of DKK 24 million in respect of exchange rate adjustments as well as to a reduction of DKK 41 million in respect of payments. At 30 June 2017, contingent considerations totalled DKK 369 million (DKK 106 million at 30 June 2016).

Of the total acquisition cost in the reporting period, the fair value of estimated contingent considerations in the form of earn-outs or deferred payments accounted for DKK 72 million (DKK 29 million in the first half of 2016). Such payments depend on the results of the acquired entities for a period of 1-5 years after takeover and can total a maximum of DKK 100 million (DKK 29 million in the first half of 2016). The maximum value of the contingent considerations related to investments in associates and joint ventures was DKK 180 million (DKK 0 million in 2016) and is equal to the fair value.

The acquired assets include contractual receivables amounting to DKK 6 million (DKK 16 million in 2016) of which DKK 0 million (DKK 3 million in 2016) was thought to be uncollectible at the date of the acquisition. Of total goodwill in the amount of DKK 280 million (DKK 307 million in 2016), DKK 174 million (DKK 120 million in 2016) can be amortised for tax purposes.

The above statements of the fair values of acquisitions made in the first half of 2017 and in the first half of 2016 are not considered final until 12 months after takeover.

Recognised in distribution costs, transaction costs incurred as a result of acquisitions made in the reporting period were DKK 0 million (DKK 0 million in the first half of 2016).

Revenue and profit generated by the acquired enterprises since our acquisition in 2017 amount to DKK 47 million (DKK 75 million in 2016) and DKK 1 million (DKK 2 million in 2016), respectively. Had such revenue and profit been consolidated on

1 January 2017, we estimate that consolidated pro forma revenue and profit would have been DKK 6,539 million (DKK 5,837 million in the first half of 2016) and DKK 799 million (DKK 635 million in the first half of 2016), respectively. In our opinion, these pro forma figures reflect the level of consolidated earnings after our acquisition of the enterprises and, consequently, the amounts can form the basis for comparison in subsequent financial periods.

As part of our ordinary activities, we have made acquisitions in the period between the balance sheet date and publication of this Interim Report. We are in the process of calculating their fair values. Acquisition costs are expected to relate primarily to goodwill.

## NOTE 2 – GOODWILL

(DKK million)	30 June 2017	30 June 2016	31 Dec. 2016
<b>Cost at 1 January</b>	<b>6,276</b>	<b>5,660</b>	<b>5,660</b>
Foreign currency translation adjustments	-219	-36	68
Additions relating to acquisitions	280	307	560
Disposals relating to divestments	0	-3	-12
<b>Cost balance</b>	<b>6,337</b>	<b>5,928</b>	<b>6,276</b>
<b>Amortisation at 1 January</b>	<b>0</b>	<b>0</b>	<b>0</b>
Foreign currency translation adjustments	0	0	0
Impairment for the year	0	0	0
Disposals relating to divestments	0	0	0
<b>Amortisation balance</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Carrying amount</b>	<b>6,337</b>	<b>5,928</b>	<b>6,276</b>