

UNITED NATIONS GLOBAL COMPACT COMMUNICATION ON PROGRESS 2016



William Demant /

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About the report

This report represents William Demant's management commitment to secure good corporate governance and business ethics as well as social and environmental responsibilities of the Group. The reported numbers and policies encompass all companies in the William Demant Group, which also include our joint venture Sennheiser Communications A/S. Encompassing our joint venture means that we will pin out specific numbers and initiatives from Sennheiser Communications here and there in the report.

The structure of this report is based on the very own representation of the Group CSR structure and functions as the Communication on Progress (COP) to the UN Global Compact as well as William Demant Holding's statement on the UK Modern Slavery Act. In addition, this report represents the statutory report cf. Danish Financial Statements Act, section 99a and 99b.

This report is published annually and it covers the solar year 2016 from 1 January 2016 to 31 December 2016.

With William Demant, Communication and CSR manager Trine Kromann-Mikkelsen is responsible for coordinating our CSR activities and policies and the liaison between the organisation and the executive management board (see page 9 on Corporate Governance).

Contact information:

Trine Kromann-Mikkelsen, +45 5117 6873, trkr@demant.com



CEO STATEMENT

Our vision is to make a life-changing difference to people suffering from hearing loss. In fact, care for other people is the very foundation of our company.

The story of our company starts in the beginning of the twentieth century with one man's passion to help his wife lead a better life, unhindered by her hearing loss. This passion for empowering hearing disabled to play an active part in improving their lives is what has driven the William Demant Group through the last century, what drives us now and what will drive us in the years to come.

As an integrated part of our business, we are committed to high standards of ethics, quality and fairness and we are dedicated to upholding environmental and social responsibilities. Within our natural sphere of influence, we strive to actively improve people's quality of life and minimise the adverse effects of our activities. This is achieved by ensuring that business results are financially viable, socially balanced and environmentally sustainable.

In 2015 the UN member states agreed on the UN Sustainable Development Goals (SDG). The goals are encouraging, and William Demant Group is committed to take part in these goals by focusing on the ones where we have a natural access to improvement. I would like highlight one of these goals, the empowerment of people through better health and care.

We continuously commit to raise the bar in terms of accessibility, quality and technology of our products. Hearing loss is a serious risk to health and poses several social, psychological and physical issues: Social isolation, reduced mental well-being, depression and cognitive decline as well as underemployment or even unemployment. Through projects and initiatives, we strive to build awareness in the field of audiology and increase general understanding of living with hearing impairment and treating hearing loss.

In 2016, our Group and the Oticon Foundation published the whitepaper "Hearing Care across the Life Span", which offers a perspective on establishing a complete hearing care program in less developed countries. I am very proud of this initiative, and I look forward to seeing the projects it will help offset in places where hearing healthcare is low or absent. Proper hearing care is not only a social and economic gift to society, it's a way to make a positive, life-changing difference for people living with hearing loss. In this way, we commit and contribute to the SDG no. 3 of good health and well-being.

In 2016, we updated our reporting structure and framework in order to adhere to the changes in the DIRECTIVE 2014/95/EU of the European Parliament and the Council, and hence the Danish Financial Statements Act, section 99a and 99b. We meet the new requirements by elaborating on the company business model and by giving explanations of our policies, processes, actions and results. From 2016, the Group also adheres to the United Nations Convention Against Corruption, the Modern Slavery Act, and the UK Bribery Act.

We have been committed to the UN Global compact since Spring 2010 and we will continue to be committed to support the Global Compact Initiative and its principles and goals.

Niels Jacobsen

President & Chief Executive Office

INTRODUCTION

Company Profile

The William Demant Group is a global market leader in hearing healthcare. We develop, manufacture and sell products and equipment that help people with hearing loss connect and communicate with the world around them.

The company is listed on Nasdaq Copenhagen as part of the OMXC20 index portfolio consisting of the 20 most traded shares. A copy of the annual report for 2016 can be found online at: Demant.com/About/Business-activities.

The Oticon Foundation is the majority owner of William Demant Holding through the investment company William Demant Invest. We focus on three business activities: Hearing Devices, Diagnostic Instruments and Hearing Implants. By utilising technology from our hearing devices and knowhow from the Group, we develop and expand our personal communication business, our joint venture Sennheiser Communications, in a growing market of headsets for unified communication and leisure.

Our companies collaborate in many areas and to a wide extent share resources and technologies as well as infrastructure and distribution channels. These synergies will help millions of people experience the joy of hearing for many years to come just as they also facilitate smarter ways of working and decreases the Group's general impact and footprint.

William Demant operates globally employing more than 12.000 people, through local subsidiaries in more than 30 countries and with an extended presence through our trusted distributors in more than 130 countries. Our main volume production is based in, Poland and Denmark and we are present with custom production in the Americas (US, Canada, Mexico), EMEA region (Poland, Italy, Turkey) and Asia Pacific (Australia, China, Japan and Korea).



Hearing devices

Hearing devices represent our main focus. In our journey to improve life of people suffering from hearing loss, we target all sales channels and customer segments thriving to deliver the best products possible and state-of-the-art technology.

Hearing implants

Hearing implants comprise bone anchored hearing systems and cochlear implants, and they aim to improve the life of people who are profoundly deaf or have severe hearing loss.

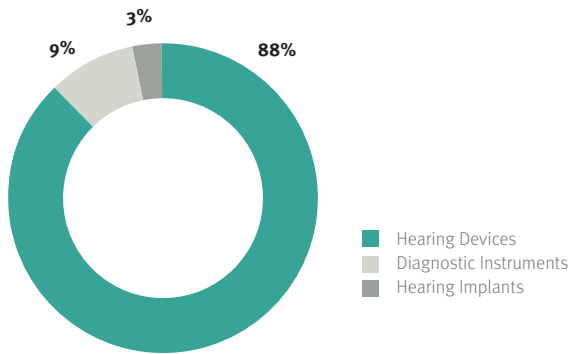
Diagnostic Instruments

Diagnostic Instruments help diagnose and measure patients affected by hearing loss and balance problems.

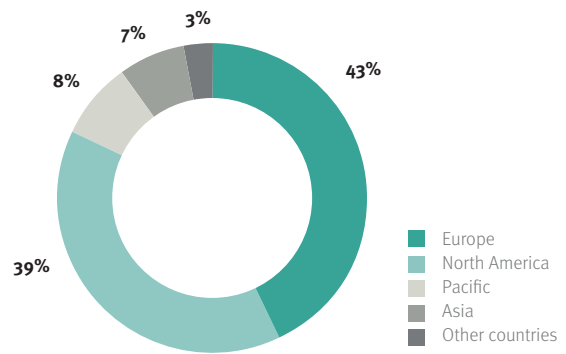
We aim at bringing true innovation to the market in an efficient manner. Sharing knowledge and expertise across our Group also implies using our shared services function, infrastructure and common distribution to increase cost efficiency and stay highly competitive.

INTRODUCTION

In the financial year 2016, total revenues was a little above DKK 12 billion.



Revenue by business activity



Revenue by geographic region

Vision

Our vision is to make a life-changing difference to people suffering from hearing loss.

Mission

The aim of all our businesses is to become each customer's preferred supplier of state-of-the-art solutions and to create a platform for continued organic growth. We strive to meet end-user needs by maintaining a high level of innovation and constantly expanding our global infrastructure.

Identity

All companies in the William Demant Group seek to promote a stimulating and rewarding working environment through a flexible, knowledge-based organisation. Moreover, each company has its own position and unique business model. Everybody is committed to high standards of ethics, quality and fairness and dedicated to meeting our environmental and social responsibilities.

INTRODUCTION

Our Sustainability framework

We organise our work within Corporate Social Responsibility in a framework that comprises four different categories and entails 14 principles.

The principles provide guidance for management and all employees. William Demant additionally recognises its responsibility to promote similar practices among suppliers and other business partners. William Demant Holding's Management review the principles and update them if necessary on a yearly basis.

- 1 Corporate governance
- 2 People and society
- 3 Environmental protection
- 4 Business ethic

1. Corporate governance

William Demant Holding's Board of Directors and Management consider corporate governance on an ongoing basis and regularly assess whether amendments to the Company's Articles of Association or managerial processes are required.

1. We maintain an accountable and efficient management structure.
2. We communicate in an open, transparent, impartial and timely manner with the stock market about the Group's strategy, objectives and risks.
3. We maintain adequate internal control mechanisms with a view to monitoring, managing and mitigating any material risks associated with our business.

Read more on page 9

2. People and society

The Group makes a positive contribution to the communities in which it operates through job generation, economic growth, tax payment and the marketing of products that contribute to enhancing people's quality of life. William Demant supports the Universal Declaration of Human Rights and ILO's Declaration of Fundamental Principles and Rights at Work, the Modern Slavery Act.

4. We treat our employees with respect and dignity, encourage diversity and ensure fair treatment.

5. We do not use and prohibit the use of forced or child labour.
6. We provide a safe and healthy working environment where employees can perform to their full potential and where initiative is encouraged.
7. We recognise our employees' rights to freedom of association and collective bargaining.
8. We strive to maintain good relations with neighbours and the surrounding society through involvement and open communication.

Read more on page 11

3. Environmental protection

The Group endeavours to protect the environment for future generations by monitoring and reducing the environmental impacts of its business activities.

9. We use materials efficiently and strive to optimise packaging as well as waste handling.
10. We limit the use of hazardous substances in products and processes.
11. We monitor our impact on the climate and aim to reduce energy consumption.

Read more on page 17

4. Business ethics

WDH believes that in a competitive market the Group's businesses can only flourish if based on sound business ethics. The Group adheres to the United Nations Convention Against Corruption, and the UK Bribery Act. Most of the Group's activities can be characterised as "relationship business", which frequently involves close interaction with clients, including consulting, training and entertaining hearing care professionals, for instance audiologists, hearing aid dispensers, ear-nose-and-throat specialists and clinic owners.

12. We are committed to abide by the laws and regulations of the countries in which we operate. In the absence of adequate laws and regulations, we refer to recognised international standards and industry norms.
13. We work against bribery and other forms of corruption, both directly and indirectly through our business partners, and we strive to avoid facilitation payments.
14. To benefit the users of our products is our primary goal. We therefore avoid actions that may influence business decisions to the disadvantage of the end users.

Read more on page 19.

INTRODUCTION

Approach

UN Global Compact

Our 14 principles also cover our commitment to including the ten principles of the UN Global Compact as a part of our business strategy and daily operations. The ten principles of UN GC covers four main areas, human rights, labour rights, environment and anti-corruption, and our compliance with the principles can be found in the report as follows:

- Human rights: page 13-14
- Labour rights: page 14-15
- Environment: page 17-18
- Anti-corruption: page 19

UK Modern slavery act

In order to comply with the new British legislation of March 2016 that organisations are required to publish an annual statement setting out steps to ensure that there is no modern slavery within their organisation or supply chains, we include a thorough description of our processes and policies in place (see page 14).

Stakeholders

This report is a presentation of our CSR activities based on data collected from the whole Group told in a simple way yet with a comprehensive scope. It is intended for stakeholders who are interested in learning about our approach to CSR. Our main stakeholders are customers (audiologists, hearing aid dispensers, ear-nose-and-throat specialists and clinic owners), end-users, partners and suppliers, healthcare professionals and policy makers as well as shareholders, analysts, the general public and media. We also encourage our employees to study the report. In order to engage in dialogue with our stakeholders, William Demant has different channels:

Investor Relations department who services analysts and investors on a daily email and phone call basis as well as road shows and capital market days.

Our brands have direct customer communication via social media and newsletters, magazines, satisfaction surveys, events and conferences as well as direct sales meetings with customers. For 2017 and beyond we have decided to roll-out a comprehensive customer service project. The organisation sponsored by Oticon Foundation, IDA Institute, has direct dialogue with healthcare professionals and academics.

We have several industry organisation memberships in e.g. Denmark (Dansk Industri), Europe (EHIMA) and US (HIA).

Our supplier dialogue is via Code of Conduct and audits.

Politically, we work on actively promoting collaboration on public/private research through our participation in e.g. Vækstteam for life science and a joint project group with representatives from the industry, patient organisation and health and education system in Denmark.

We strive to maintain an active and open dialogue with the media and provides quick, current, correct and relevant answers to requests in a professional and respectful manner.

Internally, we have the intranet Kitenet, an internal newspaper, Demant Inside, and an online news portal also called Demant Inside as well as a monthly engagement survey.

CORPORATE GOVERNANCE

In order to balance our many stakeholders' interests, we have established a set of processes and relations by which we control and direct our company. William Demant Holding's Board of Directors and Management consider corporate governance on an ongoing basis and regularly assess whether amendments to the Company's Articles of Association or managerial processes are required.

William Demant Holding is subject to the Danish Recommendations on Corporate Governance laid down by the Danish Committee on Corporate Governance in respect to the way in which we adhere to the recommendations. As a listed company, the Group thrives to maintain an accountable and efficient management structure and communicate in an open, transparent, impartial and timely manner with the stock market about the Group's strategy, objectives and risks. Control mechanisms are in place with a view to monitoring, managing and mitigating any material risks associated with our business as explained below.

1.1 Management structure

William Demant Holding has a two-tier management structure consisting of a Board of Directors and an Executive Board.

Under the Company's Articles of Association, the Board of Directors must consist of four to six Board members elected by the shareholders at the general meeting in addition to staff-elected Board members. Currently, the Company's Board of Directors has eight members: five elected by the shareholders and three elected by our employees in Denmark.

The Company's Executive Board presently consists of three executives: President & CEO, Chief Operating Officer & Deputy CEO and Chief Financial Officer. The Executive Board has the overall responsibility for the activities and the day-to-day operations of the Company. The tasks, responsibilities and scope of the Executive Board as well as the guidelines in respect of the delegation of duties between the Board of Directors and the Executive Board are stipulated in the Instructions for the Executive Board.

The annual general meeting is the supreme authority in all company matters. The Company has one ultimate shareholder, the Oticon Foundation, which directly or indirectly holds approx. 58% of the shares and voting rights at the annual general meeting.

1.2 Internal control and risk management systems

The Board of Directors and the Executive Board are in an ongoing dialogue on the identification, description and handling of the business risks to which the Company may be exposed. Any material risks are described in the Annual Plan and Budget on a yearly basis and that is approved by the Board of Directors. In the chapter on risk management activities in our annual report, we provide a review of the main elements of our internal control and risk management systems in connection with the financial reporting process.

From a financial reporting process and internal control point of view, once a year we carry through a very detailed planning and budgetary process. Any deviations from the plans and budgets resulting from this process are carefully monitored month by month.

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 financial reporting, governance and corporate social responsibility lies with the Executive Board. As such, the Executive Board is responsible for shaping and supporting the corporate social responsibility mission and activities of the Group and the responsibility of coordinating, aligning and reporting to the Executive Board lies with William Demant Group Communication.

1.3 Reporting on corporate governance

When reporting on corporate governance, we follow the "comply or explain" principle, which means that failure to comply with a recommendation does not constitute a breach, as long as we explain why we have chosen not to follow a given recom-

Topic

Management structure

Internal control and risk management systems

Initiatives and results

Board of Directors and Executive Board

Financial reporting, responsibility and control environments

CORPORATE GOVERNANCE

mentation and also explain what we do instead. The few cases where we have chosen to deviate from a recommendation are well-founded, and we explain what we do instead. To further increase transparency, we have decided to provide supplementary and relevant information, even when we follow the recommendations.

A complete schematic presentation of the recommendations and our compliance, Corporate Governance 2016 – Statutory report on corporate governance, cf. section 107 b of the Danish Financial Statements Act, is available at www.demant.com/media/#media-documents

PEOPLE AND SOCIETY

As noted earlier, care for other people is the very foundation of our company. Hans Demant founded the company on a passion to help his hearing impaired wife lead a better life. When he passed away his son William Demant continued the business. He was a visionary man driven by a strong personal interest in hearing and treatment of hearing loss. More than 100 years later, this care for other people on which the company was founded and developed is still the focal point of everything we do. We want to help people hear better. To have conversations with their loved ones. To be a part of society.

“With less feeling of straining to hear, my energy level is better.”
End-user of Oticon hearing aid, Barbara Abromowitz

I am generally invigorated and have more energy at the end of a day. On court, my witness interrogations required less focus on hearing which liberated my thinking to examine more effectively.”

End-user of Oticon hearing aid, Christopher N. Mammel

For reasons of clarity we divide this section in two paragraphs: “Empowerment and support” and “Protecting human and labour rights”. In both sections, we elaborate on the policy, actions and results for both theme.

“Empowerment and support” focuses on the actions, policy and results with the aim of alleviating hearing loss, foster research and technological development and enabling people empowerment through rehabilitation and hearing care programs.

“Protecting Human and Labour rights” elaborates on how we deal with human rights and labour rights what are our policies, actions and results in the fields. This section also touches upon, human and labour rights, child labour, code of conduct, modern slavery, sustainability in the work place and female leadership.

2.1 Empowerment and support

We take pride in empowering individuals and communities not only directly through our products, but also through initiatives aimed at improving people’s life.

The growth strategy of William Demant (explained in the section Company profile) also contributes positively to our work with CSR. The more the company earns, the more is given back to the majority owner the Oticon Foundation who, in turn, reinvests in society and hearing healthcare by grant activities and investment activities in William Demant Invest. One of the reasons for channeling our philanthropic activities and some of our CSR work through the Oticon Foundation is the separation of our commercial activities from these activities.

Through the Oticon Foundation multiple initiatives and charitable projects are fostered and initiated. Projects and initiatives in the fields of research, education, culture and selected social areas are carried out with particular emphasis on audiology and hearing, i.e. projects initiated to outline the impacts of hearing loss, and treat or alleviate its symptoms.

We are positive that a foundation formally separated from the commercial organisation will be fully dedicated to the best allocation of resources in a way that best serves the purpose of empowering and support hearing impaired people. Following this vision, two engineers specialized in audiology and related disciplines work with the Foundation one to two days a week respectively to make sure applications are reviewed in a proper and professional manner.

In 2016, the Oticon Foundation donated approx. 80 million kroner to projects within the areas of research, education, culture and care. A total of 42 million kroner was donated to projects alleviating hearing loss all over the world and to education and research in hearing healthcare. More than 29 million kroner was donated to cultural and educational purposes – especially with donations to student exchange programs.

Topic – Empowerment and support

Alleviating hearing loss in distant areas

Education and research

People Empowerment

Initiatives and results

Mobile Hearing Clinic

Audio explorers, Eriksholm Summer Camp, PH.ds and leading universities’ contributions, CASPR and BEAR projects

IDA institute, telehealth tools and telecare platform, BEAR rehabilitation project, whitepaper “Hearing Care across the Life Span”

PEOPLE AND SOCIETY

Alleviating hearing loss in distant area

The Oticon Foundation has donated DKK 1.12 million to the project called "Mobile Hearing Clinic" – a hearing clinic on wheels that can reach the rural districts in China. The project was initiated in 2015 and will run for two more years with the aim is to help 6,000 people a year. The mobile hearing clinic provide basic counselling and services, including cleaning of ears, hearing testing and fitting of hearing aids as well as counselling of parents to children suffering from hearing loss. Over the next years, the mobile hearing clinic will cover as much of China as at all possible, including Tibet. The clinic focuses particularly on rural areas where access to hearing rehabilitation is traditionally very poor.

Education and research

The Oticon Foundation funds educational institutions and research projects in the field of audiology.

For the first time in 2016, an exciting initiative called the Audio Explorers challenge was carried out. Supported by the Oticon Foundation, Oticon hosted a nationwide competition aimed at Engineering students with an interest in mechanical, electrical or software development. The winners flew to New York to measure and document the sound level in the urban environment, and to study and understand what it takes to overcome the challenges of hearing aid production and the development of state-of-the-art solutions.

Another enriching educational experience sponsored by Oticon Foundation is the Eriksholm Summer Camp. In 2016, the summer camp gave 58 young audiologists representing 23 countries a unique opportunity to engage in formal and informal discussions and hands-on workshops with leading scientists from Eriksholm Research Centre, guest experts, Oticon audiologists and specialists. At last year's summer camp, research was linked to practice, user needs to technology, and people across borders shared insights and new experiences. The discussion of the latest findings within the field was taken further with interactive workshops in which the participants were invited for group discussion and knowledge sharing.

The Oticon Foundation has a long history of donating to projects that promote research and the dissemination of knowledge in audiology. Every year the Foundation finances two PH.D. projects within the field of audiology and hearing. These two projects are selected among a number of approx. 10-15 applications submitted on 1 December. In 2016, the Foundation donated 11 million Danish kroner to audiology research at leading universities around the world. Large amounts were donated to universities in Holland, US, South Africa and Italy and to research initiatives in Nordic universities.

In Denmark the Oticon Foundation co-founded the establishment of CASPR with a contribution of 8 million Danish Kroner. The establishment of a new research center at Aalborg University, the

Centre for Acoustic Signal Processing Research (CASPR) means a strong contribution towards the specialization of statistical signal processing for portable audio devices such as hearing aids and Cochlear implants. This will bring strong advances in sound analysis algorithms and understanding of their interplay with auditory perception facilitating a new generation of advanced speech enhancement schemes for assistive listening.

People Empowerment

For several years, the Oticon Foundation has funded the IDA Institute and it has contributed with 12 million kroner to the work of the Institute in 2017. IDA is an organisation that works to disseminate patient centered hearing rehabilitation globally and that develops tools to empower and support people with hearing impairment in their process of recognition and treatment. The work of the institute aims to improve the patient journey and positively impact hearing-impaired persons and hearing care professionals around the world by promoting research and education within the field of acoustic communication.

Among the education and clinical tools IDA has established this year, particular relevancy assume telehealth tools and telecare platform specifically developed for teenager and twins. The online resources help them manage the different transitions in their life of young hearing impaired, empower them and enable them to self-manage their hearing tools.

Additionally, the Oticon Foundation together with Danish universities, national hearing aid producers and research organizations established the BEAR rehabilitation project. The project has the aim to increasing the quality of hearing rehabilitation for people with hearing loss allowing for significant improvements in life quality.

Along with the Oticon Foundation, William Demant companies Oticon, Interacoustics and Oticon Medical published a whitepaper "Hearing Care across the Life Span". The whitepaper offers a perspective on establishing a complete hearing care program in a less developed country.

As with most healthcare issues in society today, addressing such a task can be complex and considerable expertise is required in order to secure success when implementing screening, fitting and rehabilitation processes. The whitepaper offers a complete guideline for a patient-centered as well as a cost-effective methodology for hearing care, which fits into an overall healthcare set-up in a given country.

The argument of the whitepaper is that proper hearing care is not only a social and economic gift to society, it's a way to make a positive, life-changing difference for people living with hearing loss.

PEOPLE AND SOCIETY

2.2 Protecting Human and Labour rights

As a company, we acknowledge our responsibilities for the surroundings where we operate and for the people and organisations we work with. For this reasons, William Demant supports the Universal Declaration of Human Rights and ILO's Declaration of Fundamental Principles and Rights at Work.

With regard to governing our policies, we operate with a global/local approach: The William Demant Group formulates policies and guidelines and the local management have the mandate and responsibility of daily operation as well as solving, reporting and taking actions according to company policies and local legislation. This model has functioned within a continuously growing and successful global company, which William Group has become over the years.

In the recent years, we have established a strategic global HR Board, which currently functions as an activity coordinating body in terms of HR strategy, organisational and leadership development as well as deployment of HR systems. The board can be activated in case of urgency or breach of company policies. In terms of our suppliers and external partners, we make sure they comply to our code of conduct and audit them if our risk assessment indicate so.

We additionally strive to create a rewarding, respectful and safe place of work, where our employees are motivated and thrive professionally and personally.

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Human rights

William Demant respects the protection of human rights through the implementation of the established principles and regulations contained in its business ethics policy and code of conduct. The policies can be found on our website at: www.demant.com/media/

Additionally, production of hearing aids is not a dangerous and risky manufacturing activity. The employees are not involved in dangerous procedures, components, or material. By way of example, our 2016 global accident report from our production and service sites (approx. 3,500 employees) in Denmark, Poland, Mexico and US shows only 16 accidents, which were all of smaller character.

At William Demant, more than 90% of our turnover comes from the OECD countries; this does not erase the risk of human rights violation, however, it lower the exposure to such a risk. In countries where securing human rights is covered by local legislation, we act in accordance by following the UN Global Compact Principles. To this, we add the implementation of principles and policies from our code of conducts and business ethics policy.

Most of our production sites are located in OECD countries. When we operate with countries outside OECD we mitigate the risk by making sure we only employ and conduct business with highly skilled labour selling and handling our advanced products. Violating proclaimed human rights is against our business model and against our own business ethics policy.

Where local legislation does not naturally protect human rights and labour rights, we use our code of conduct to ensure that high standards are met when doing business and dealing with e.g. suppliers, which are beyond the boundaries of our own company.

All in all, company makes efforts in supporting the protection of internationally proclaimed human rights within and outside the corporate boundaries. Even though it can hardly be justified as protection of human rights, William Demant tries to exercise a positive spillover effect and improve conditions for people less fortunate, with a specific focus on its core business and mission: health and hearing care.

Topic – Protecting Human and Labour rights

Human and labour rights

Code of conduct and compliance

Modern Slavery

Sustainability in the workplace

Diversity and gender equality

Initiatives and results

Stand on human and labour rights, child labour

Code of conduct, risk assessment and audit

Stand on risk of exploitation of labour

Health and safety, personal development, work-life balance, stress policy, engagement survey, graduate program

Results and progress

PEOPLE AND SOCIETY

Labour rights

The William Demant Group has signed collective agreements with relevant labour unions. Subsequently, we negotiate and sign local agreements, duly considering local conditions, thus further improving terms regarding salary, working hours, salary increments, education etc.

We respect the individual's membership of labour unions.

Child labour

As declared in our business ethics policy and code of conduct, and likewise implemented by our suppliers, we uphold the effective abolition of child labour and condemn its usage.

Due to the quality and sophistication of our products and services, the vast majority of our employees, as well as the employees of the companies with which we conduct business, are highly skilled, having to go through years of training and/or education. This is a requirement to enable them to develop, sell and handle the products.

Code of conduct

As mentioned, all suppliers must sign a comprehensive code of conduct that lists criteria, governing aspects of human rights, labour rights, the environment as well as anti-corruption.

The code of conduct has been used since 2010 throughout the Group, and we are proud of announcing that in 2016 a total of 346 out of 567 suppliers have signed the code of conduct. This is an increase of 105 suppliers signing the code of conduct, in comparison to 2015.

We select and currently assess our suppliers based on this code. The suppliers are grouped in three categories according to the level of risk of breach of our code of conduct. The risk assessment is based on William Demant's own methodology. It is subject to independent audit and based on the supplier's geographical presence, sector, management practices and strategic importance for William Demant. The categorisation of suppliers helps us prioritise the resources needed for further dialogue with the suppliers.

If we find that there is a risk that a supplier does not live up to our code of conduct, we carry out an audit and prepare a report, listing the items that need to be addressed before we can initiate or continue cooperation with that supplier. In 2016, an external auditing firm performed 5 CSR audits. In addition, 3 external CSR audits has been performed by Sennheiser Communications. The external audits were followed up by internal audits, to control that initiatives contained in prior action plans had indeed been carried out, and to take actions on the results of the audits.

The typical non-compliances among suppliers are:

- Too many working hours per week
- Lack of one day off per week
- Fines to workers for breaking internal rules, e.g. violation of smoking prohibition
- Lack of evidence of CSR audits of subcontractors
- Emergency exits blocked
- Lack of exit signs
- Lack of training in fire extinction and emergency handling
- Lack of written emergency plans

Modern slavery

We stand by building awareness of modern slavery and against exploitation of labor, slavery, servitude, forced and compulsory labor and human trafficking.

We consider the risk of human trafficking in our supply chain to be very mild. Our revenue model has a predominant base in OECD countries, where the government has a higher level of control over human rights, labour rights and modern slavery enforcement. In terms of production and assemblies of our products, the company operates predominantly in Europe, North and Latin America, where the risks are contained.

We tackle the risk of exploitation in the labour market by working with suppliers, entities, sales subsidiaries and distributions network that comply and abide with our code of conduct, regulations on human rights, labour rights and business ethics. A significant size of our collaborators have to undergo formal education and training scheme, and this reduce even more the risk associated with human trafficking.

The statement of our engagement against modern slavery can be found on our website at:

www.demant.com/about/responsibility

PEOPLE AND SOCIETY

Sustainability in the workplace

The occupational health and safety team makes sure our company is run in safety by carrying out review of the status of safety at work, initial and periodic safety training for new employees, participation in the creation of the safety instructions at the workplace, preparation of risk assessment and protective measures, and consultancy in aspects relating to safety at work.

To make sure that we allow our employees to develop in the best possible way and to grow within the organization, we review their competences, performances and career plans on a yearly basis. In order to enable the development and growth of our employees, the Group has established an education platform called Demant Training Academy. The Demant Academy offers a broad variety of training opportunities: on a general level, communication and facilitation courses; for engineers, test driven development and scrum training; project management and general leadership training as well as support for additional training; activities on working smarter activities are also offered.

Our company put focus on healthy lifestyle as well as work-life balance. In some of our premises, we offer the possibility for our employees to join the corporate gym. In our headquarter, we also offer the possibility to sign up for our canteen schemes, which serve freshly made meals 60% of organic food, as well as the opportunity to join other leisure activities and sport clubs.

Dealing with stress is a part of our responsibility as a modern and accountable company and for this reason we actively engage employees in preventing and dealing with stress. The company has established a stress policy in this regard, and have defined prevention initiatives, courses and toolbox. The purpose of our stress policy is to clarify what is expected of each of us in our various roles and not least, during the different phases of cases of stress. The policy should be treated as a guideline for what we must do depending on the role(s) we have in the company.

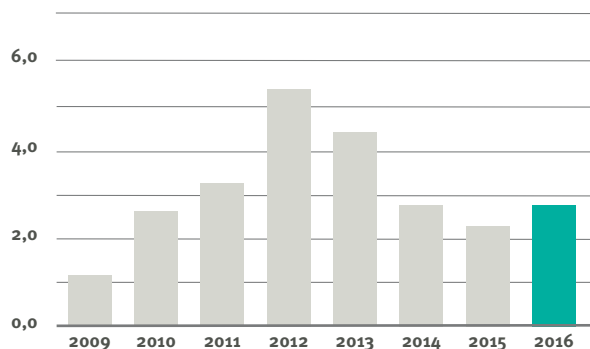
It is our ambition to keep stress to an absolute minimum and to constantly strive to keep it minimized for the benefit of employees and the company. Top Management expects that leaders in the company, as a part of their duties, know when a member of their staff is suffering from stress. In these cases, the leader must take the necessary action normally in cooperation with HR. Top Management also expects that leaders have made themselves familiar with company stress policy and the tools described in the Stress Toolbox.

In 2012, we experienced a significant increase in the number of our employees affected by stress. By developing a policy and taking actions, we have managed to decrease the occurrence of stress cases significantly, as shown by the table below. The numbers include all occurrences from minor, short-term situa-

tions to longer, monthly leave of absence. They cover employees at our locations in Denmark.

In 2016, a slight increase incurred, which is a cause of singular events such as a major product launch and a comprehensive audit. In peer to peer analysis, we only find few other companies with as comprehensive policies and actions as us and we trust our continuous commitment to the stress management policy to keep us on the right track.

Percentage of employees affected by stress



As an ambitious company, we want to be the best, have and retain the best employees, work smarter and reach ambitious goals. Therefore, it is very important that we keep having dedicated employees with high engagement. In 2015, we started running an Engagement Survey to track the overall engagement level in the company. This is used to obtain knowledge about:

- The development of the engagement level in general in our Danish subsidiaries
- How activities in the daily company life affect our overall engagement.

The knowledge we obtain from the surveys is used as part of future decisions in regard to management tools, employee development and communication in the organization. Results are available on our intranet. In the coming years, we plan to run a test in 2017 on a global Engagement Survey in some countries, which potentially can be rolled out in all major locations from 2018.

In order to recruit new talents and to train them within the organization, William Demant has developed a Graduate program scheme, which started in 2014 and it is now recruiting for its 4th consecutive year. The Graduate Program is a two-year scheme in the course of which young candidates explore the Company and develop their personal and professional skills throughout four job rotations. Each period enhances their business understanding both functionally and geographically. The program has now developed to the following streams in Denmark and abroad: Finance, Operations, IT, Sales & Marketing, Quality and R&D, Retail.

PEOPLE AND SOCIETY

To secure and plan for future recruitment of engineers, which remain high priority for the William Demant Group, we have invested in the Polish market and will be expanding Research & Development division in Warsaw, Demant Technology Centre. William Demant is not a small satellite in Poland, but is investing in labour and talent in the country. We also have our central hub for production in the country.

Diversity and gender equality

Diversity at management level addresses age, international experience and gender. In recent years, soft law and statutory requirements have focused specifically on gender equality. On 1 April 2013, new rules for the gender-specific composition of top management in all large Danish companies became effective. The rules aim to ensure that the proportion of women in managerial positions in large companies is increased significantly in the coming years. The rules oblige companies to set a target for the representation of the under-represented gender on the company's board and to set a deadline for reaching this target.

Moreover, companies must adopt general policies on how they will further women's access to managerial positions in the company based on the assumption that more women in managerial positions will – generally speaking – provide the basis for the future recruitment of women as board members.

Lastly, the rules provide that once a year, namely on publication of its annual report, the company must publicise its targets and adopted policies as well as the progress made in the period under review, either in the company's annual report or on its corporate website. Having signed the UN Global Compact and by submitting annual Communication on Progress reports, we automatically comply with the rules of law.

This report constitutes our annual progress report on Female Leadership. The policy and the progress we make are also available on our website: www.demant.com/about/responsibility

We work to encourage more women to seek executive and managerial positions. This commitment is anchored with the Board of Directors and the Management. In 2012, we defined a diversity policy and specific initiatives for increasing the share of female managers in the Group. We called it 'More female managers'. On an ongoing basis, concrete initiatives are taken to support the policy, from communication to recruitment and leadership.

In terms of gender equality in the Board of Directors, a female Board member was elected at the annual general meeting in April 2014. By that the Board reached its first target within one year after the target was set, and the Board decided in 2016 to set a new target and deadline: Before the end of 2020, the Board of Directors aims to have at least two female members. Since the target was only set in 2016, it has not been reached yet.

For our joint venture Sennheiser Communications, there are currently no female board members, but they have set a one female member in 2020. Since the target was only set in 2016, it has not been reached yet.

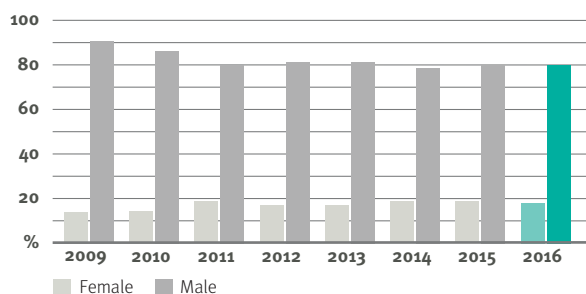
- In job advertisements, employer branding material, and communication, we always aim to balance the tone of voice between 'male' and 'female' connotations and visuals.
- Concerning recruitment, we require qualified female candidates in the second round when cooperating with external recruiting agencies. With regard to external recruitment processes, relevant departments in the Group must prioritise sending female employees to job fairs.
- From a talent management perspective, our managers make an effort to guide and nudging female talents towards pursuing opportunities for promotion.

Since we started recording these numbers in 2009, the male/female manager ratio in our Danish companies has improved from 89/11 in 2009 to 81/19 in 2016. In middle and first-line management, the ratio has increased from 84/16 in 2009 to 79/21 in 2016.

However, the percentage development shows a slowdown in the last 2 years. Traditionally, our recruitment base has been male dominated, and we still find it to be unbalanced with considerably less females studying engineering. We continue, however, doing all we can with regard to our own job advertisement and recruitment processes recognizing that more could be done and that there is still a long way to go. From a talent management perspective, we are planning an organisational talent review where we will include a diversity angle.

It should be noted that organizational levels were redefined in 2016 and actual numbers may not be directly comparable with previous years.

Development in male-female leadership 2009-2016



In connection with this CSR report, we have included Sennheiser Communications' numbers on "diversity in management" for the first time in 2016 and thus the numbers do not yet represent a development. In 2016, the number of female and male managers are the following:

Top management: 0/2

Other management levels: 1/28

ENVIROMENTAL PROTECTION

On the basis of what is in our sphere of influence, we aim at adopting a responsible approach to minimise environmental challenges, undertake initiatives that promote environmental responsibility, and encourage the development and diffusion of environmentally friendly technologies.

Naturally, we comply with all current environmental rules and regulations in all the countries in which we operate. Our product-related environmental impact is fairly limited. Production of hearing aid does not require significant quantity of material and waster, and it does not utilize significant amount of water in the production process. By way of example, a hearing aid weighs just 2-6 grammes and contains no harmful substances.

3.1 Product safety and restricted list

Although the use of raw material is limited compared to other industries, we still enforce a precautionary approach to environmental challenges. Thus, we have implemented the use of 'restricted lists', which is a compliance providing instruction and information on what is the basis for substances utilization and categorization of substances and material.

The aim is to provide detailed instructions on how to ensure that the group complies with relevant law regulations related with content specific substances. The document lists all relevant components and materials, which are banned or restricted.

It is mandatory for our suppliers to comply with the restricted list, which is controlled through a declaration of conformity and/or audits. The list is an initiative taken by William Demant and is based on the following regulations:

- Restriction of Hazardous Substances (ROHS)
- Toys directive
- Conflict minerals that are subject to the requirements of Dodd-Frank Section 1502
- Registration, and the Evaluation, Authorisation and Restriction of Chemicals directive (REACH).

Substances are categorised in classes:

- Class I: Prohibited (not to be introduced in the production or be present in any products put on the market by the William Demant Group).
- Class II: Restricted (for restricted use only).
- Class III: Subjected to special deliberation (can be used, but under observation).
- Class IV: Under observation (can be used after thorough risk assessment).

In addition to requirements and restrictions, which are mandatory by law, we have enforced extra specifications, e.g ban on the use of al phthalates and natural rubber latex. Working with restricted lists ensures full transparency on the use of hazardous substances, it ensures compliance with relevant directives, and it gives the manufacturers the opportunity to set the bar even higher than required or recommended by external standards.

3.2 Carbon Disclosure Project

In 2008, we joined the CDP (formerly known as the Carbon Disclosure Project), providing us with a means of measuring and recording our environmental footprint. Every year, we submit the CDP report on corporate CO2 emissions and climate strategy. All reports are available on our website under: demant.com/media/#media-documents

In 2016, our Group's CO2 emissions reached 14,973 tonnes, representing 2.32 CO2 tonnes per employees. This is a stable trend compared to 2015, when emissions reached a total of 14,406 tonnes representing an amount of 2.36 CO2 tonnes per employee. As a company in growth, we are satisfied with our ability to decrease, slightly, our footprint per employee compared to 2015. For Sennheiser Communications the emission has increased from 0,81 CO2 tonnes per employee to 0,95 CO2 tonnes per employee due to an increase in the rented square meters in their headquarter office. The total CO2 emission for Sennheiser Communications reached 165 tonnes compared to 121 tonnes in 2015.

In 2016, William Demant Group CO2 emissions are split among electricity accounting for 74%, heating of buildings for 9%, and cars for 17%.

Topic

Product safety and restricted list

CDP

Environmental initiatives

Initiatives and results

Restricted list and substances' classes

Results

Actions and initiatives results

ENVIRONMENTAL PROTECTION

3.3. Environmental initiatives

Facility and IT related initiatives

Being responsible means acting both globally and locally in terms of environment, and having the right attitude. We constantly try to do better in this field. In every possible way, we aim to act responsibly when it comes to our environmental awareness. Seemingly trivial changes may have a relatively large impact on our energy consumption and hence on our environmental footprint.

In 2015, together with our energy provider SEAS-NVE, we have carried out a mapping and analysis of our energy consumption to easily process and suggest for saving energy. As suggested by the analysis, during 2016, a replacement of the uninterruptible power supply has been carried out, contributing to a 13% improved efficiency.

In addition to implementing initiatives with a view to reducing our energy consumption, we have initiated awareness projects with the potential of becoming best practices going forward. For instance, we run a so-called waste academy project that teaches our employees how to and what to recycle, and we run waste management analyses at some of our sites.

At our headquarter, we have recently implemented our circular economy initiative by collecting and recycling organic by-products by using it to supply green energy, biomass and fertiliser. The food waste we collect is used in the production of biogas, a green and CO₂-friendly alternative to incineration. The used cooking oil is recycled as biodiesel, which is a green substitute for fossil fuels.

By way of example, we have ambitious goals regarding IT infrastructure. Continuing our goals to optimize business agility and lower energy consumption when delivering IT solutions, our investments have proved beneficial in both these major areas for 2016. This year our service utilization had a 20 % increase in users, at our major data center. This increase have been consumed alongside with a vast consolidation effort while still maintaining to save on power consumption when compared to prior years.

Not only are the increase covered by our power saving initiatives, but we're also limiting the amount of less power effective solutions available when seen globally due to the consolidation. Hence the savings are even more vast than visualized below in KW/h.

Actual initiatives taken, are to scale and expand systems just in time, and when capacity increases are required.

This constantly keeps us at the best cost base and environmentally optimal solution, instead of procuring overcapacity for growth over multiple years.

Other measures have been to replace our main storage solution at our most predominant hosting location, and also replacing our backup power units there.

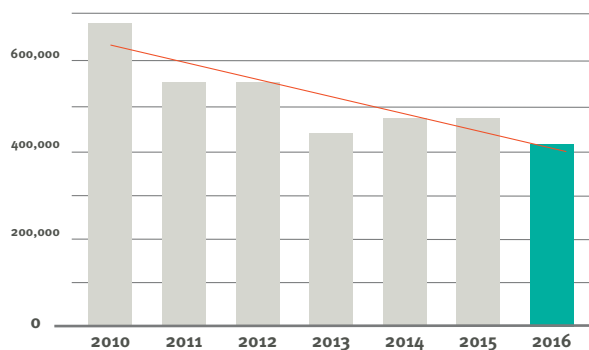
Based on our set goals and the measured power consumption, we've concluded that DGS have been successful in our goals to get more for less while maintaining agility.

These initiatives are to be further developed and scaled out in 2017.

Offshore windmills farm

Another example is our stake in the offshore windmills farm in the German North Sea, an investment that is capable of producing electricity to the equivalent consumption of 320000 households once all 78 wind turbines will be commissioned.

The investment of DKK 1.7 billion was made in early 2012 by the Oticon Foundation through William Demant Invest (WDI), our majority stakeholder and WDI's interest in the wind farm constitutes about 18%. The corresponding production of green power will be more than five times the total corporate consumption of electricity.



Energy consumption in server room at William Deamant headquarters. Level has significantly decreased since the establishment of server virtualisation in 2010.

BUSINESS ETHICS

4.1 Corruption and Bribery

We are convinced that our business can only flourish if based on sound business ethics. We develop innovative, high-quality products and our primary goal is for the users to benefit from our products. We therefore have no interest in supporting business conduct that contributes to distorting market mechanisms. Equally, we want to protect any end user data that we process.

In 2010, we adopted a formal business ethics policy that applies to all Group companies. The policy outlines how we want to act and how we want to be perceived, when it comes to the ethical aspects of doing business and interacting with customers. Specifically, the policy provides guidelines as to what is appropriate and inappropriate marketing, hospitality and other interaction with hearing healthcare professionals.

We do not offer, give, accept or receive bribery in any form and we discourage facilitation payments. Along these lines, it is important to note that situations where corruption is prevalent often occur in third-world countries in connection with public tenders and that these tenders represent a very limited part of our total revenue. By the nature of our business, challenges regarding corruption are thus extremely rare. Nevertheless, according to the policy, we have incorporated business ethics principles into contracts with third parties where relevant, and we have applied a set of principles to avoid misuse of payments and financial transactions.

Furthermore, we make an effort to communicate our business ethics to all our companies, thus making ethics a natural part of all managers' meetings and internal training sessions.

The Group adheres to the United Nations Convention Against Corruption, and the UK Bribery Act. Most of the Group's activities can be characterised as "relationship business", which frequently involves close interaction with clients, including consulting, training and entertaining hearing care professionals, for instance audiologists, hearing aid dispensers, ear-nose-and-throat specialists and clinic owners.

The Group's strong focus on ensuring the highest degree of business ethics possible has resulted in the fact that the Group has not received any reports on cases of either corruption or bribery in 2016. We believe that this is a direct result of the significant attention paid to the business ethics policy by employees and managers on all levels of the Group.

4.2 Data Privacy

We are aware and highly respectful of the sensitive nature of the personal data our customers and end-users trust us to process, and we are committed to protecting such personal data through high levels of security measures and responsible policies. Our ambition is to raise the awareness level regarding data privacy throughout our Group and to proactively manage and mitigate our data protection risk.

We have in 2016 established a data privacy project with the scope of ensuring data privacy compliance globally, and we are on the path to becoming GDPR compliant before May 2018.

CONCLUDING REMARKS

Concluding remarks

During 2016, William Demant carried out a thorough benchmark and compliance analysis of our CSR activities and structure. In respect of initiatives, processes, assessment and enabling systems, we found to be in compliance with the market standard in a spectrum of comparable companies. On this basis, we identified areas to which we want to direct our CSR attention, targets and strategy for the coming years. The areas are:

- Update our supplier risk assessment system with the objective to get more transparency on supplier compliance and save costs on audits.
- Update our Code of Conduct to lift content and processes to new level and include new standards, e.g. conflicting minerals.
- Analyse our compliancy with anti-bribery legislation and based on the conclusion of the analysis potentially roll-out an internal training system.
- Create and formalise a CSR Governance structure with the objective of getting a more clear governance structure, effective risk management and alignment of successes.

The last initiative has been completed in 2016 while the others are still in process. 2016 was also the year where EU legislation on reporting was updated, and our reporting resembles the new requirements such as company profile, clearer explanation of processes, risk assessments and KPI's.