The Chairman's report at William Demant Holding A/S' annual general meeting on Thursday 9 April 2015 at 4 pm

First, I would like to give a brief introduction of three overall themes in this year's report. I will then elaborate on the themes, and finally I will touch upon a number of other relevant topics:

- 2014 was an eventful and challenging year for the hearing aid industry and for the William Demant Group. At the beginning of the year, we were particularly challenged in the US where we lost market shares in a turbulent market. But with a solid performance delivered by our hearing aid business in the second half-year and continued growth in our Group's other business activities, we succeeded in recapturing the lost market shares. We ended the year on a high note, so when we look back on 2014 as a whole, I think that the Group did rather well.

- If we take a more long-term perspective, 2014 was also an exciting year in our transformation from being mainly a hearing aid manufacturer to becoming a global hearing healthcare company. As part of this long-term value creation process, we are developing new and exciting products, thereby securing access to new markets. William Demant is in a unique position: Today, we are the only player in the industry that is not only active in the field of hearing aids, but also in diagnostic instruments, retailing and implants – the latter even <u>both</u> in bone-anchored hearing systems <u>and</u> in cochlear implants. Since we invest considerable resources in the expansion of our implant business, the Group's overall profit margin will be diluted in the short run. After that, we expect to see a gradual improvement, as the implant business reaches critical mass.

- Apart from building a hearing healthcare group, we are also carrying out a series of initiatives to enable us to benefit from the common infrastructure in the William Demant Group. In doing so, we ensure operational improvements and synergies across our business activities. These initiatives include, among others, consolidating local production, establishing a fully automated warehouse and distribution centre in Poland and rolling out a new global IT system. All these initiatives are meant to support our long-term growth, but will at the same time dampen our short-term profitability. Looking back at the many exciting initiatives and activities carried out by our Group in 2014, I have today faith in the future. All in all and based on the Group's expected growth in revenue in 2015 and on our continued efforts to improve our efficiency and to build a future growth platform in the Hearing Implants business activitity, we are guiding for an operating profit for 2015 in the range of 1.7 to 2 billion Danish kroner.

Let me now revert to the events in 2014:

The Group's revenue rose by 6% in local currencies in 2014, and the underlying earnings per share were up by 11%. To this should be added that for the first time in the history of our Group, we delivered a free cash flow of more than 1 billion Danish kroner, corresponding to a rise of 28%. This cash flow was for the most part channelled back to you shareholders as part of the considerable share buy-back programme announced in 2014. The programme, which runs from 2014 to 2016, amounts to a total of 2.5 to 3 billion Danish kroner and will be maintained regardless of the outcome of the ongoing negotiations to take majority control in Audika. If successful, we will, of course, increase our debt in the short term, but this debt will still be at a very moderate level compared to other companies of a similar size and nature. Speaking of Audika, let me give you a brief outline of the process: In February 2015, we announced that William Demant had entered into exclusive negotiations to purchase a controlling interest in Audika, which is a major French retail chain. Our intention to acquire Audika is a natural continuation of the cooperation that already exists between our two companies, as we have for decades supplied hearing aids to Audika. If the acquisition becomes a reality, our cooperation will be strengthened further. The share purchase agreement for the purchase of a controlling interest of 54% of the share capital in Audika was signed recently and is now only subject to approval by the French competition authorities after which we can, according to plan, launch a mandatory public tender offer for the remaining 46% of the share capital.

The hearing aid industry has in recent years seen strong unit growth somewhat above our normal expectations of an annual unit growth rate of 3-4%. But as we also continue to see a falling average selling price, the value increment was limited in 2014 too. The fall in the average selling price is furthermore enhanced by changes in the so-called channel mix, as sales to chain stores and public channels, where prices are lower, are growing more than sales to other channels.

In 2014, Oticon launched a number of cosmetically attractive hearing aids, which once again set the standard for discreet hearing solutions. These products in particular helped drive growth in the second half-year. However, Oticon does not rest on the laurels and has in the first quarter of 2015 carried through the biggest and most extensive product and platform launch in the history of the company. The new platform called Inium Sense has 30% more signal processing power, which makes it possible to offer a range of very attractive features in our new instruments. The new products have been well received by the market. Hearing care professionals thus estimate that the new platform and the new features are a clear reinforcement of Oticon's product offering.

Having the strongest and broadest product portfolio in the market in terms of audiology, design and power consumption, Oticon has today a strong competitive advantage. The many new products were introduced in all markets and at all price points over a matter of weeks. That was actually quite an accomplishment, which the organisation should be proud of.

Our second hearing aid brand Bernafon had a tough start to the year. Bernafon is supplier to Costco, a large chain of department stores in the US. When a competitor started selling their premium brand to Costco, Bernafon lost significant sales to the chain. However, Bernafon managed to stabilise sales in the second half-year and launched their new premium product in the fourth quarter, which was well received by the market.

The Group's retail business is still an important channel, when it comes to safeguarding our distribution in the very competitive hearing aid market. Last year, the organic revenue growth generated in our retail business was on a par with market growth in the markets where we operate. It should, however, also be pointed out that our presence in retailing is not only a defensive move; our retail business in itself also contributes positively to the Group's financial results – and it must continue to do so.

For Oticon Medical, 2014 was another great year with a very high revenue growth rate of a whopping 36% of which 25 percentage points related to organic growth. This growth exceeds growth in the underlying market and was driven by the company's success in both bone-anchored hearing systems and cochlear implants from Neurelec, which we acquired in 2013. Both product segments are now marketed under the Oticon Medical name. The purpose is of course to benefit from the strong and global Oticon brand. The integration of Neurelec has proceeded according to plan. In 2015, we will reach an important milestone when we launch Neuro, which is the first cochlear implant system based on William Demant technology. The launch will demand considerable resources. Applying for approval of the products for sale on the large and extremely important US market is in itself a challenging process. Last but not least, we will continue to expand Oticon Medical's distribution network, which will in many countries lean heavily on the existing infrastructure of the William Demant Group.

As far as Diagnostic Instruments is concerned, it was a pleasure to see how in 2014 the business activity succeeded in generating very satisfactory growth in revenue of 11% of which by far the main part was organic growth. Diagnostic Instruments has thus once again captured substantial market shares despite the business activity's already market-leading position – and despite delivery bottlenecks at the beginning of 2014. We have now both production and distribution under better control. In 2015, we can look forward to a string of planned product launches, which are expected to contribute to continued growth in Diagnostic Instruments.

Again in 2014, Sennheiser Communications, which is our joint venture in headsets, saw considerable growth driven by Unified Communication. For those of us who are well on in years, the term Unified Communication covers roughly speaking telephony, headsets, data and software. The company's growth in revenue of 16% exceeded the market growth rate, and since the comparative year 2013 was positively impacted by one-off earnings, underlying growth in 2014 was in fact even higher.

As mentioned previously, I would like to touch upon the Group's current transformation process, which is the key to understanding our long-term strategic ambition. There are six major players in the traditional hearing aid industry, who all fight for market shares in a market that is only seeing limited growth. Growth must therefore be obtained by also being very visibly present in those segments that are expected to generate high growth rates in the years to come – and this approach will, in our opinion, be the right one when it comes to cochlear implants, bone-anchored hearing systems and diagnostic instruments. When you are present in all segments, you can also share infrastructure, R&D resources etc. across your organisation and thus achieve synergy with a view to obtaining satisfactory profitability. So William Demant's strategy is still clear:

We <u>want</u> to be one of the world's strongest hearing healthcare companies with the broadest and most comprehensive offering of solutions in the entire hearing healthcare area!

We have, however, not yet reached our destination on this journey. A transformation of this magnitude where we go from being mainly a hearing aid manufacturer to becoming a full-line hearing healthcare provider does not happen overnight. We believe, though, that over the years we have gained lots of experience when it comes to expanding our business, including the expansion of Diagnostic Instruments, which started off as a very small business back in 1996 with revenue of approximately 30 million Danish kroner. Today, this business activity turns over almost 1 billion Danish kroner a year and has a global market share of just under 40%. We have seen the same development in bone-anchored hearing systems and now also in cochlear implants where our acquisition of Neurelec has helped us gain a foothold in the market. Growth in the coming years must, however, be organic.

As already mentioned, it is our long-term ambition to become one of the world's leading manufacturers of implants. Even though implant sales only make up a minor part of the industry's overall sales today, we expect the strong growth to double the market for implants to 20 billion kroner within the next 5 to 7 years. We thus expect the market for implants to increase to as much as 40% of the hearing healthcare market from a level of approximately 25% in 2014. We believe that the great technological progress achieved in this area will continue, and our expectations are based on the assumption that this trend will continue. Furthermore, the market for implants benefits from more stable and higher subsidies and is also seeing less price pressure than the market for hearing aids. But it is also important to stress that the market differs from the traditional market for hearing aids in some respects: The market for implants has another risk profile, which means that for instance product approvals are subject to a longer and more complex process. This also means that planning for instance launches of implants is more difficult than planning launches of traditional hearing aids.

For us in William Demant, it is important to keep focus on stable and long-term value creation. We are of course not blind to the fact that in the past year, we have not quite been able to match the development in average share prices experienced by the other C20 companies. There is, however, reason to be happy that the share market seems to have given our 2014 annual accounts a positive reception, and if we take a longer perspective, the development of our share price has been satisfactory compared to the C20 index. And as already mentioned, the purpose of the transformation from being a hearing aid manufacturer to becoming a broadly-based hearing healthcare group is in fact to ensure long-term value creation. This is not to say that we are standing idly by from a more short-term perspective. We are moving ahead at full steam to improve efficiency, reduce costs and launch new products. It goes without saying that we also strive to be competitive here and now. The combination of ownership by a foundation and stock exchange listing is essential for us. On the one hand, it gives us the stability to make the best long-term and strategically sound decisions and on the other hand to deliver more short-term results. In this connection, I would like to mention that several Danish groups, which have the same form of ownership as us, are doing exceedingly well in their respective world markets, and the Danish foundation model is therefore being highly praised internationally.

Let me now comment on corporate governance, women in management and remuneration policy:

The Board of Directors and the Executive Board consider their work on corporate governance an ongoing process. We regularly assess the extent to which the recommendations should be implemented in the Company. In 2014, we also considered the revised *Recommendations for corporate governance* according to the so-called "comply or explain" principle, and we still comply with almost all the recommendations. A complete presentation is available on our website.

We wish to ensure diversity in our Group at any time, which also means increasing the number of women at the Group's various management levels. I am therefore pleased to announce that again in 2014 we increased the percentage of female managers. If we take a look at the development in the past five years, we have increased the percentage of female mid-level managers in the Group from 18% to 27% and the percentage of female managers in total from 14% to 21%. I must, however, stress that competencies are always key when it comes to filling positions at all levels in the Group.

The Group has for many years had a very simple remuneration policy, with the Board members' remuneration consisting of a fixed basic fee per member. The Chairman's remuneration is fixed at three times the basic fee and the Deputy Chairman's remuneration at twice the basic fee. For 2015, we propose that the basic fee remains unchanged. This means that the basic fee has not been changed since 2010. There are no special fees for the audit committee and the nomination committee. The Executive Board's remuneration is also fixed and has no variable components.

I would also like to take this opportunity to mention that in February 2015, we held an election of employee representatives to the Board of Directors. Ole Lundsgaard and Karin Ubbesen were both re-elected, and Thomas Duer was elected new Board member. All three were elected for a period of four years. I would like to thank Jørgen Møller Nielsen for his very active contribution in the past four years and at the same time welcome Thomas Duer as new Board member.

Before we proceed, I find it appropriate to thank the Group's many employees for their commitment and professional effort in 2014. With three hearing aid brands, our Oticon Medical business, our position as the world's biggest manufacturer of diagnostic instruments and a shared services organisation, our ambition to become one of the world's leading hearing healthcare groups is now well under way. In my opinion, this makes the William Demant Group an attractive place to work offering many opportunities and challenges – nationally as well as internationally. Our employees are our greatest asset, and I would therefore like to express my sincere thank you to every single one of the Group's now more than 10,000 employees, who have all made an admirable effort in 2014.

I will now give the floor to Niels Jacobsen, who will go through the accounts.

Niels, the floor is yours!