

The Chairman's report at William Demant Holding A/S' annual general meeting on Thursday 22 March 2018 at 4 pm

It is the first time I am standing here to report on the past year for William Demant Holding. It is something that I have looked very much forward to. And it gives me all the more pleasure to report that 2017 was a particularly good year for the Group. I know that I am speaking for my colleagues in the Board of Directors when I say that we look back on the past year with great satisfaction.

I would like to start my report by briefly outlining the financial results of the Group in 2017. I will then dive into the three main business activities in our hearing healthcare Group: Hearing Devices, Hearing Implants and Diagnostic Instruments. After an overall look at the strengths of our hearing healthcare strategy, I will comment on the fact that I am not the only person with a new role this year. Right after the general meeting last year, Søren Nielsen was appointed new President & CEO of the Company on 1 April. I will finish by addressing the specific topics that are an integral part of a general meeting.

Looking back at 2017

Let me start by summarising the key financial results of the year and our expectations of 2018:

- We achieved 9% organic growth and 25% growth in the underlying operating profit due to our broad hearing healthcare strategy and our dedication to innovation.
- The Group generated revenue of more than DKK 13 billion.
- The Group's operating profit rose to a record amount of DKK 2.5 billion before restructuring costs.
- All three business activities gained market share in 2017, resulting in organic growth rates of 8% in Hearing Devices, 28% in Hearing Implants and 11% in Diagnostic Instruments.
- We generated strong organic growth of as much as 11% in the wholesale of hearing aids.
- Our retail business delivered an organic growth rate of 4%.
- Earnings per share was DKK 6.84, which is an increase of 24% compared to 2016.
- In 2018, we expect to continue to generate significant organic growth, and we expect an operating profit in the DKK 2.55 billion to DKK 2.85 billion range before restructuring costs.

Those were the key figures, which Søren will elaborate on later. I would now like to dive into special events in our different business activities:

Hearing healthcare – our business activities one by one

Hearing Devices

The Hearing Devices business activity includes both wholesale and retail sale of hearing aids. Hearing Devices did very well in 2017 and achieved a growth rate of 10% in local currencies, with organic growth accounting for 8 percentage points.

Wholesale

2017 was a very strong year for our wholesale business. We are constantly using our deep audiological knowledge and applying highly advanced technology to make the best possible solutions for people with

hearing loss, and by doing so, we are also improving our product and sales channel mix. This means that all over the world, more people get a better solution for the treatment of their hearing loss and that we have succeeded in significantly increasing our global market share. There is no doubt that the strong growth we have seen is mainly due to the continued and very successful roll-out of Oticon Opn. But also new products from our two other hearing aid brands, Bernafon and Sonic, fuelled growth in the second half-year. In the first half of the year, growth was primarily driven by increased unit sales, while an increasing average selling price was the biggest contributor to growth in the second half.

Let us dwell on Oticon Opn for a minute. The hearing aid continues to receive outstanding feedback and recognition and has obtained a unique position in the market. It may in fact be said that no other product on the market has been able to seriously challenge Oticon Opn's position as the best performing hearing aid based on important parameters such as audiology, connectivity and battery efficiency. Lately, we have been met by the slightly traditional way of thinking that the product is approaching the end of the normal life cycle of hearing aids – but this is not true. Today, hearing aids are also modern software solutions, and the development of hearing aids is highly comparable to the development of mobile phones. We continuously develop the platform on which Opn is built and ensure that we keep adding new features and improving the performance.

In 2017, we launched a rechargeable solution, we added a tinnitus feature, and we made it possible to connect and stream stereo sound from all types of phones – and not only iPhones as was the case until recently. In fact, we have a strong connectivity platform, which is a solid testament to our unique ability to develop highly advanced radio chipsets with ultra-low power consumption. This constant flow of new, innovative products and technological breakthroughs enables our wholesale business to continue its strong growth due to a very strong global sales and distribution system that makes it possible for us to be very close to our customers.

Retail

Our retail business delivered organic growth of 4% in 2017, which is in line with the estimated overall market growth rate. The organic growth can be attributed to a mix of very good results in a number of European countries and in Canada, a pick-up in sales in the US market towards the end of the year and negative organic growth in Australia due to difficult market conditions.

In overall terms, our retail business is in a positive position. We continue to acquire businesses and enter into strategic collaborations, which requires us to be very good at quickly and effectively integrating new businesses into the Group. It is also good to see that our endeavours to optimise our IT systems, marketing efforts and sales activities have yielded good results.

We have over time developed a very big palette of brands in our retail business due to numerous acquisitions. We have reached a certain degree of complexity, which now makes us believe that we can harvest synergies by creating a more common identity and vision. We do that with “nuance matters” as our point of departure. We believe that retailers have a much broader aim than just looking at the clinical aspects of a hearing loss. The treatment of hearing loss is highly individual, and the nuances of the treatment make all the difference. We want our retail shops to be known for rendering personal service when it comes to establishing the best way of treating a hearing loss and indeed providing the best solution.

Hearing Implants

When we look at our Hearing Implants business activity under the Oticon Medical brand, we are proud to note that over a relatively short period of time, we have succeeded in building a highly competitive business. 2017 saw growth of no less than 28% in local currencies. Oticon Medical consists of two business areas: *Bone anchored hearing systems*, where we have a strong product portfolio and a solid market position, and *cochlear implants* – an area where we have not been active for that long, so we are still building relationships and establishing contacts with doctors and surgeons.

Just a little over than a year ago, we introduced a brand new bone anchored product called *Ponto 3 Super Power*. It is the most powerful sound processor on the market that offers ground-breaking sound quality and speech understanding. This innovative solution has caused the sales growth rate to exceed the estimated market growth rate.

A cochlear implant is a sophisticated means of treating hearing loss and in reality makes it possible for deaf people to hear. This is done through direct stimulation of the hearing nerve, which creates a completely new signal to the brain. In 2017, Oticon Medical continued the roll-out of Neuro, which is our first in-house developed cochlear implant. Now at the beginning of 2018, we are very proud to introduce the Neuro 2 sound processor as well as a brand new, state-of-the-art fitting system. It is the smallest sound processor ever developed and manufactured. It combines full discretion with extremely high sound quality and reliability. These are all elements that hearing-impaired people need in their daily life. We have high expectations of this product, which was approved by the European authorities at the beginning of the year, and users all over Europe are being fitted with it as we speak. Neuro 2 was developed by people here at the Group's headquarters, who have developed hearing aids for many years. It is the very exploitation of these synergies from the development of hearing aids that has enabled us to develop such a competitive processor for cochlear implants so quickly. It proves to me that it was indeed the right decision to enter this cutting-edge business area. It is my clear expectation that Oticon Medical will continue to grow and gain market shares in the years to come and thus significantly increase its earnings.

Diagnostic Instruments

2017 turned out to be a great year for Diagnostic Instruments with a growth of 11% in local currency and globally increasing market shares and, mind you, from a number one position already. We not only have a strong core business, but we also continue to develop new business areas. By way of example, we have gained strong momentum in hearing screening of newborn babies, and we have continued our development of the balance equipment area. The cornerstones of the success of our growth strategy are a high innovation level, a strong distribution set-up, a multi-brand strategy and the ability to successfully enter new business areas.

Digitalisation and automation have also moved into the diagnostics area. As market leader in hearing diagnostics, we benefit from this development, and in 2017, we launched Amtas. Amtas is a next-generation, tablet-based system that makes it possible to automatically screen and diagnose hearing loss. This is done very simply by using a tablet and a calibrated headset.

Personal Communication

Together with German Sennheiser, we own equal shares of the joint venture, Sennheiser Communications. Through our involvement in the joint venture, we gain useful insight into the market for consumer electronics, and we get the opportunity to act on a fast growing market. We do that by using a number of the competencies we have in especially advanced signal processing. The joint venture manufactures headsets and

solutions for the professional Call Center & Office market, or CC&O, and headsets for the Gaming and Mobile segments. In 2017, we saw strong, underlying growth driven by the CC&O segment in particular.

Our hearing healthcare strategy

I would now like to touch on our overall strategy: Many years ago now, we decided to get involved in all aspects of hearing healthcare across all product areas from hearing aids and hearing implants to diagnostic equipment. This is what we call our hearing healthcare strategy. We see this strategy creating significant value. This conviction that our services and products make life easier for people with a hearing loss permeates our entire Group. In a world where a clear and “attractive” objective is an important parameter if a company wants to attract the best competencies, this is an obvious strength.

In general, we see increasing focus on hearing healthcare. *Hearing care is healthcare*. This way of thinking is gaining currency, as an increasing number of surveys point to the fact that correct treatment of hearing loss is extremely important not only for the individual, but also for society. It is simply a matter of improving the quality of life of the hearing impaired, enabling them to lead a healthy life and ensuring that as a hearing-impaired person, it is still possible to interact socially and do well. In a world of an increasing elderly population, these are key parameters. Many of today’s 60-year-olds and older people as well want to live an active life and stay in shape both physically and mentally, and one of the ways to achieve this is to get the right treatment when it comes to hearing loss.

We are working with a long-term horizon instead of just focusing on quick, short-term results. Indeed, the results achieved in 2017 bear testament to the fact that it pays to work with a long-term horizon. We can now reap the benefits of years of work towards making our hearing healthcare a success.

We have, however, no intention of resting on our laurels. We are very conscious of the fact that there is still room for improvement. As far as digitalisation is concerned, we will continue to look into new ways of using technology in our business. We consider digitalisation more a way of expanding the existing market than so-called disruption. Digitalisation can also contribute to optimising the way our existing business works. It has significance for the way we interact with our stakeholders, and it can make it easier for our customers to interact with the end-users in a more professional manner. We have a good idea of how each of our business activities benefit from the new, digital opportunities. I have already mentioned a few examples in my review of the individual business activities.

We continue to invest in the future, and these years, we are implementing a number of initiatives to support and benefit from the Group’s common infrastructure. Our service organisation, which cuts across the business activities, is a strong contributor to ensuring our competitiveness. We follow the plans made when it comes to executing on our announced strategic initiatives. By way of example, we completed the transfer of our R&D activities from Switzerland to Poland and Denmark in 2017. We expect to complete the transfer of the remaining production activities from Thisted in Denmark to Poland by the end of 2018.

The closure of the Thisted production site, in particular, has been the object of a lot of attention in Denmark. We fully understand that. We have – wherever possible – tried to contribute constructively and explain why we have found it necessary to take this step. It is important for us to stress that closing the Thisted site is not a deselection of Denmark, but based on a careful assessment of how we achieve optimal production. We believe that we will achieve this by gathering everything under one roof instead of fanning out across more production sites. This is the best launch pad, if we want to ensure that the Company continues to be agile and drives growth. We are still creating a lot of jobs in Denmark – more than 100 in 2017 alone. The majority

of these jobs are here at our headquarters. Arriving this afternoon, you may have noticed that to the right of the main entrance, we have established temporary pavilions with office space for more than 100 employees. This has been done due to lack of space in the two main buildings and underscores a positive development of which we are proud.

There is great value in having a strong Danish head office to serve as a launch pad for our many global activities. The outside world is very interested in visiting a large, international hearing aid company like ours. Just recently, more than 400 people visited us in connection with the World Hearing Day at the beginning of March, and many more wanted to come. Not a week goes by without visits from business partners and healthcare stakeholders from all corners of the world.

Management and employees

Almost precisely one year ago today, Søren Nielsen was appointed new President & CEO of William Demant. His appointment represents both continuity and renewal. Continuity, because he had already been with the Company for more than 20 years at the time of his appointment. And renewal, because he stands for a new dynamic by virtue of both his personality and his professional background.

Søren was not appointed to CEO to turn the Group upside down. In fact, quite the contrary. He builds on the strong foundation of our hearing healthcare strategy that he was instrumental in defining in the years prior to his appointment. He sees the Group as a whole and is always on the lookout for new ways of generating growth. This is supported by his flair for spotting the potential of new development areas and markets. In the Annual Report 2017, Søren has shown that all business activities are doing very well – an achievement we all take pride in.

I am confident that with Søren Nielsen, whose background is in the innovative and technical areas, and René Schneider as CFO, we have a strong team ready to deal with the development of a dynamic and extremely competitive MedTech industry. And they are fortunate enough to be backed by a strong and experienced management team, consisting of our President of Diagnostic Instruments, Arne Boye Nielsen, our President of Retail, Niels Wagner, and our Executive Vice President of Finance, Svend Thomsen. Together with the other managers of the Group's many companies and business units, they safeguard the continued strong development of the William Demant Group.

I think that it is also appropriate to thank the Group's more than 13,000 employees for their great effort in the past year. Employee engagement is the driving force behind the impressive results we have seen in 2017, our capturing market shares and for our strong position for further progress. A big thank you to the Group's employees for really delivering.

Other matters

Before I round off, I would like to comment on our share buy-back, corporate governance, women in managerial positions and our remuneration policy.

Share buy-back

In recent years, we have bought back shares worth around DKK 1 billion a year and subsequently carried through a capital reduction. In doing so, we have channelled part of our earnings back to the shareholders. We will continue to do so in 2018, but we would like to accelerate our share buy-back. To that end, we have announced our intention to buy back shares worth DKK 1.5-2.0 billion in 2018, which is almost twice as much

as previously in value. However, to maintain our flexibility, this level of share buy-back may change, if further attractive acquisition opportunities should present themselves.

Corporate governance

The Board of Directors and Executive Board consider the work on corporate governance an ongoing process and regularly assess the extent to which the recommendations must be implemented in the Company. We have also in 2017 responded to the Danish *Recommendations on corporate governance* according to the “comply or explain” principle. We still comply largely with the recommendations. A complete report on corporate governance is available on our website.

Women in managerial positions

At top management level and down through the entire organisation, we strive towards ensuring diversity, which also means increasing the number of women at the Group’s different management levels. We have a defined policy that we work from and evaluate at regular intervals – concrete examples being initiatives in such areas as communication and recruitment. I would, however, like to stress that competencies are always key when positions are filled at all levels in the Group. Since we started to record this number, we have increased the total proportion of female managers from 11% in 2009 to 23% in 2017.

As far as the number of female Board members is concerned, we set a target in 2016 to the effect that by 2020, the Board of Directors must have at least two female members. Today, we have one female Board member.

Remuneration policy

The Group has a simple remuneration policy: The Chairman’s fee is three times the basic fee, and the Deputy Chairman’s fee is twice the basic fee. The basic fee is DKK 350,000 for Board members and DKK 50,000 for members of the audit committee. There are no separate fees for members of the nomination and remuneration committees. The Director’s fee in William Demant is at the low end of the level characteristic of the companies in the Danish C25 index.

The two members of the Executive Board receive a fixed remuneration. In addition to their fixed remuneration, the members of the Executive Board receive an annual stay-on payment with a variable element. The Board of Directors is of the opinion that the remuneration of the Executive Board is fair and competitive, as it ensures retention and recruitment of the best candidates.

Final remarks

Before I give the floor to Søren Nielsen, who will go through the Group’s financial statements for 2017, I would also like to thank you – the shareholders – both those of you who are here for the first time and those of you who have loyally followed and trusted in the development of our Group. You all make us do our very best every day.

Søren, the floor is yours.