

Corporate Governance

Statutory report on company management, cf. section 107 b of the Danish Financial Statements Act



2012 – Statutory report, cf. section 107 B of the Danish Financial Statements Act

William Demant Holding A/S is a Danish Company listed on Nasdaq OMX Copenhagen.

This statutory report on company management, cf. section 107(b) of the Danish Financial Statements Act, published on our website is part of Management's Review in the annual report for 2012 and covers the financial year ended **31 December 2012**.

Our report includes the following three areas:

1. A description of our Management bodies
2. A description of our internal control and risk management systems in connection with the financial reporting process
3. A review of how William Demant Holding A/S addresses the corporate governance recommendations

Our corporate governance review is not comprised by the auditors' statement concerning Management's Review in the annual report.

1. Management bodies

The Company has one ultimate shareholder, the Oticon Foundation, which directly or indirectly holds about 60% of the shares. Our Management bodies include a Board of Directors and an Executive Board.

Board of Directors

Under the Company's Articles of Association, the Board of Directors must consist of four to six Directors elected by the shareholders at the general meeting in addition to the Employee Directors. At present the Company's Board of Directors has seven members: Four elected by the shareholders and three elected by our employees. The Directors elected by the shareholders are elected for one year at a time and Employee Directors for four years at a time.

The Board of Directors is responsible for the overall strategic management as well as the financial and managerial supervision of the Company, and it currently evaluates the work of the Executive Board. The Board of Directors' duties and responsibilities are set out in its rules of procedure.

For the present the Board of Directors has only established an audit committee, cf. point 5.10 *Board Committees* in the schedule below.

Audit committee

The Board of Directors of William Demant Holding has discussed the general framework in respect of the role and function of the audit committee and decided to let the entire Board of Directors handle this task. The Board appoints the chairman of the audit committee who is not at the same time the Chairman of the Board of Directors.

Executive Board

The Company's Executive Board consists of Niels Jacobsen, President & CEO.

2. The Company's internal control and risk management systems in connection with the financial reporting process

The Board of Directors is in an ongoing dialogue with our Executive Board on the identification, description and handling of the business risks to which the Company may be exposed. Any material risks are described once a year in the

Annual Plan and Budget which is approved by the Board of Directors.

In the chapter on risk management activities in our annual report, William Demant Holding provides a review of the main elements of our internal control and risk management systems in connection with the financial reporting process. For the purpose of satisfying the rule of one overall review, the text below shows the relevant sections of the William Demant Holding annual report:

Financial reporting process and internal controls

Once a year, we carry through a very detailed planning and budgetary process, and any deviations from the plans and budgets resulting from this process are carefully monitored month by month. In terms of sales and costs, month-by-month development is very similar, so with the repetitive nature of our business even minor deviations will become visible fairly quickly.

To ensure high quality in the Group's financial reporting systems, the Board of Directors and the 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 effective internal control and risk management in connection with the financial reporting lies with the Executive Board.

The Board of Directors has assessed the Group's existing control environment and concluded that it is adequate and that there is no need for setting up an internal audit function.

3. Corporate Governance

The Company is comprised by the recommendations in respect of corporate governance which are available on the Committee's website www.corporategovernance.dk. The recommendations are part of the disclosure requirements laid down by NASDAQ OMX Copenhagen.

William Demant Holding's Board of Directors and Executive Board consider corporate governance an ongoing process and regularly assess whether their findings give rise to amendments to the Company's articles of association or managerial processes. The Board of Directors determines the extent to which the recommendations are to be implemented. A complete report is provided in the schedule below. We comply with 74 out of 79 recommendations. The deviations from the five recommendations that we do not comply with are well-founded and in the table below we explain what we have done instead.

New recommendations for corporate governance in 2013

On 7 January 2013, the Danish Committee on Corporate Governance submitted its proposal for updated recommendations for corporate governance. The new recommendations are expected to be adopted in April 2013 after which the Board of Directors will – as has been the case previously – consider the recommendations according to the "comply or explain" principle.

26 February 2013

Recommendation	The Company does not comply	According to the Danish Financial Statements Act, section 107b (1)(3), the Company must state the reason for not complying with certain parts of the recommendations. In the below schedule we explain why a certain recommendation has not been complied with, and what we have done instead.
	The Company complies	The Company is not obliged to explain if a recommendation has been complied with. However, in William Demant Holding we have decided to explain both our compliances with and deviations from the recommendations.

1. The role of the shareholders and their interaction with the management of the company

1.1 Dialogue between the company and its shareholders

1.1.1	The Committee recommends that the central governing body, for example through investor relations activities, ensure an ongoing dialogue between the company and its shareholders in order that the central governing body knows the shareholders' attitude, interests and views in relation to the company and that investor relations material be made available to all investors on the company's website	We comply	<p>William Demant Holding wants a high level of information to all existing and potential shareholders and communicates currently with its shareholders and investors at the annual general meeting and through shareholder meetings, investor presentations, e-mail, telephone, website, webcasts, capital market days, the annual report and company announcements etc., and we strive to communicate in both Danish and English.</p> <p>For environmental and resource purposes, it has been decided that - since the publication of the Annual Report 2009 - the Company's annual report is published in an electronic version only for download from the Company's website immediately upon publication. All registered shareholders are offered the possibility to receive an e-mail upon the Company's publication of the annual report, interim report and other company announcements. Shareholders who do not have access to the internet are, however, offered a printed summary of the annual report.</p> <p>We have set up an actual Investor Relations (IR) function in the Company, and Management also frequently participates in IR-related arrangements. By way of example, we typically hold about 400 individual meetings where existing and potential shareholders are able to ask questions to Company representatives. Often meetings are held at one of our addresses where stakeholders can get a deeper insight into our work and procedures.</p> <p>IR work is carried on in an open dialogue, and all stakeholders are able to get a response to their questions from a member of Company Management provided such response can be given without being detrimental to the Company or coming into conflict with Danish law including the rules governing the NASDAQ OMX Copenhagen.</p> <p>Management may also be contacted through our website.</p> <p>Investor presentations will be available on our website immediately after such presentation is made.</p> <p>Webcast presentations are available on our website.</p>
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1.2 Capital and share structure

1.2.1	1.2.1. The Committee recommends that the central governing body every year evaluate whether the company's capital and share structures continue to be in the interests of the shareholders and the company and account for this evaluation in the management commentary in the annual report and/or on the company's website.	We comply	<p>At regular intervals, the Board of Directors evaluates whether the Company's capital and share structures are in the best interest of the shareholders and the Company. The Company has one class of shares quoted on the NASDAQ OMX Copenhagen.</p> <p>For a number of years, the Board of Directors assessed that – if deemed sensible and not an obstacle to the Company's long-term development or credit rating – any excess cash flows were to be used for the buyback of Company shares with a view to writing down the</p>
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			<p>share capital, as in our opinion the buyback of shares enables a dynamic planning of dividend policies. Thus, the Board will – as in previous years – propose at the general meeting that all profits for 2012 be retained.</p> <p>In 2012, the Board of Directors again confirmed that the Group aims at keeping its interest-bearing debt at DKK 1.5-2.0 billion, and that any excess liquidity (excl. acquisitions) will be used for the purchase of treasury shares. The Board of Directors currently decides on the specific desired debt level. The Group however should not necessarily strive for the highest possible level of debt, but rather seek to ensure that it is able to act quickly and flexibly if attractive acquisition possibilities should arise. The Board's deliberations also include an assessment of gearing levels in major Danish companies and in companies in the European med-tech industry as we do not wish to deviate dramatically from practices in comparable enterprises.</p>
1.3. General Meeting			
1.3.1	The Committee recommends that the supreme governing body and the executive board promote active ownership, including shareholders' attendance at general meetings.	We comply	The Company's Board of Directors will submit to the general meeting that shareholders attend general meetings in person, thereby enabling our shareholders to meet our Directors and Executive Board. Moreover, we will seek to hold general meetings at our corporate head office allowing shareholders to visit our offices.
1.3.2	The Committee recommends that the central governing body resolve or submit to the general meeting the question whether the general meeting shall be conducted by physical attendance or as a partly or entirely electronic general meeting.	We comply	The Board of Directors will submit to the general meeting that such meeting is conducted by physical attendance. See also 1.3.1.
1.3.3	The Committee recommends that proxies given to the supreme governing body allow shareholders to consider each individual item on the agenda.	We comply	<p>Proxies for the Company's general meetings allow shareholders to consider each individual item on the agenda.</p> <p>A shareholder is entitled to attend the general meeting by proxy or accompanied by an adviser. A proxy must present a written and dated proxy. Written proxies can either be given to the Board of Directors or to a third party and the Company will place a written or electronic proxy form at the disposal of the shareholders.</p>
1.3.4	The Committee recommends that all members of the supreme governing body and the executive board be present at the general meeting.	We comply	The entire Board of Directors and the Executive Board are present at the Company's general meetings.
1.4 Takeover bids			
1.4.1	The Committee recommends that the central governing body, from the moment it obtains knowledge that a takeover bid will be submitted, do not, without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which in reality prevent the shareholders from deciding on the takeover bid.	We comply	<p>The Company's main shareholder, the Oticon Foundation, directly or indirectly holds 55-60% of the share capital and votes in William Demant Holding A/S. The Oticon Foundation has a statute according to which the Foundation should always – directly or indirectly – seek to hold the majority of shares in the Company, for which reason the probability of takeover attempts is considered small.</p> <p>If contrary to expectations, a takeover bid might be made, the Board of Directors will, from the moment it obtains knowledge of the takeover bid, not make any decisions or arrangements that in reality prevent the shareholders from deciding on such takeover bid.</p>
1.4.2	The Committee recommends that the central governing body give the shareholders the opportunity to decide whether or not they wish to dispose of their shares in the company under the terms offered.	We comply	See 1.4.1.
2. The role of stakeholders and their importance to the company and the company's corporate social responsibility			
2.1. The company's policy in relation to its stakeholders			
2.1.1	The Committee recommends that the central governing body identify the company's key stakeholders and their	We comply	The Board of Directors has identified a number of specific stakeholders, the most important being the Com-

	main interests in relation to the company.		pany's customers, end-users, shareholders, investors, employees, society, suppliers and other business partners. See also 2.1.2.
2.1.2	The Committee recommends that the central governing body adopt a policy on the company's relationship with its stakeholders, including the investors, and ensure that the interests of the stakeholders are respected in accordance with the company's policy on such issues.	We comply	<p>The Board of Directors will ensure good and constructive relations to the Company's stakeholders.</p> <p>The Company has adopted policies concerning our relations to all major stakeholders, including a <i>Code of Conduct</i> governing relations with our suppliers and <i>business ethics</i> in relation to our staff and their interaction with customers and other stakeholders. Selected policies and documents are available on our website.</p> <p>Stakeholders can find the Company's mission statement on the website describing our visions, strategies and goals. Furthermore, the Company's managerial policy builds on high standards of business conduct, including integrity, quality and fairness in the management of the Company as well as environmental and social responsibility.</p> <p>The Company is more than 100 years old and has a solid foundation for our activities and our interaction with stakeholders. Since its foundation, the Company has been committed to disseminating knowledge and enhancing the use of hearing aids, in particular, and assistive listening devices.</p> <p>It is William Demant Holding's policy to sell our products in the most professional manner, as a result of which we have invested heavily in the distribution of Group products. Products are becoming better and better, but also more and more complex to use for the Company's customers, as a result of which training and education play an increasingly important role. Therefore, we arrange targeted training and educational sessions when new products are introduced to enable the Company's customers to provide end-users with the best advice and service.</p> <p>Through relevant industry and user organisations, William Demant Holding also contributes funds, resources and know-how to disseminate knowledge of hearing impairments and of their remedial treatment.</p> <p>The Company's major business activities also build on independent mission statements, based partly on the specific business activity, partly on the mission statement of the William Demant Holding Group. For instance, the vision of the Group's biggest business activity, Oticon, builds on the philosophy of the Company's founder: "<i>To help people live the life they want, with the hearing they have.</i>"</p> <p>See also 1.1.1.</p>
2.2 Corporate social responsibility			
2.2.1	2.2.1. The Committee recommends that the central governing body adopt a policy on corporate social responsibility.	We comply	As part of our CSR efforts, we have adopted policies in respect of corporate social responsibility. See 2.1.2. and our website.
3. Openness and transparency			
3.1 Disclosure of information to the market			
3.1.1	The Committee recommends that the central governing body adopt a communication strategy.	We comply	<p>Through its <i>Internal rules to ensure the observance of duties of disclosure</i> and through a continuous close dialogue on specific communication issues, the Board of Directors has defined its policy with respect to information on and disclosure of information to stakeholders.</p> <p>The primary form of communication is company an-</p>

			<p>nouncements to NASDAQ OMX Copenhagen, including annual and interim reports. In some instances, a business unit may send out a press release. If so, the procedure and contents of such press release will be coordinated based on corporate communication policy.</p> <p>All information essential to shareholders and financial markets for their assessment of the Company and our activities is published as promptly as possible in compliance with the rules of the Danish Financial Supervisory Authority and NASDAQ OMX Copenhagen and is immediately thereafter published on our website.</p> <p>As a general rule, any statements to the press will be given by our President & CEO.</p>
3.1.2	The Committee recommends that information from the company to the market be published in both Danish and English.	We comply	<p>Information to the market such as Company announcements, financial statements and reports and other relevant documents will be drawn up in both Danish and English.</p> <p>We have so far chosen to present our website in English only, the assumption being that most stakeholders seeking information from our website are familiar with this language.</p> <p>However, the majority of the documents downloadable from our website is available in both Danish and English.</p>
3.1.3	The Committee recommends that the company publish quarterly reports.	We do not comply	<p>For the period between publication of the annual report and publication of the interim report, William Demant Holding has chosen to publish quarterly information on the development of the Company and the relevant markets, cf. the rules laid down by NASDAQ OMX Copenhagen. This information contains no financial details, as in Management's opinion actual quarterly reports, apart from the interim report, will not promote a better understanding of the Company's activities. The quarterly information contains a general description of the Group and its development.</p> <p>Competitive aspects are important reasons for the Company's decision not to draw up actual quarterly reports. The hearing aid industry consists of six major players. Although four of these are listed on the stock exchange or are part of listed groups, only three will report regularly on their hearing aid activities. Of the listed companies, only one company publishes quarterly reports. The two unlisted companies do not publish any information or very scarce information.</p> <p>We have currently had fair rankings for our entire IR communication, using the established reporting format in combination with other forms of communication to the stock market.</p>

4. The tasks and responsibilities of the supreme and the central governing bodies

4.1 Overall tasks and responsibilities

4.1.1	The Committee recommends that the central governing body determine the company's overall strategy at least once every year with a view to sustaining value creation in the company.	We comply	<p>On the recommendation of the Executive Board, the Board of Directors formulates and approves the Company's overall goals, strategies, action plans and investment policy, including their financial scope in a comprehensive Annual Plan and Budget.</p>
4.1.2	The Committee recommends that the supreme governing body at least once every year discuss and ensure that the necessary qualifications and financial resources are in place in order for the company to achieve its strategic goals.	We comply	<p>The Board of Directors decides whether the Company's available cash resources are always sufficient in respect of the operation of the Company.</p> <p>The Board of Directors supervises and evaluates on a continuous basis and at least once a year whether the Company is properly organised and managed in a satisfactory manner.</p>

4.1.3	The Committee recommends that the supreme governing body at least once every year define its most important tasks related to the financial and managerial control of the company, including how to supervise the work of the executive board.	We comply	<p>The Board of Directors is responsible for the overall strategic management as well as the financial and managerial supervision of the Company, and it currently evaluates the work of the Executive Board as for instance reflected in the annual plan and budget prepared for the Board of Directors. The Board's duties and responsibilities are set out in its rules of procedure, and the Executive Board's duties and responsibilities are provided in a set of instructions. Such rules of procedure and instructions are revised once a year.</p> <p>The Board of Directors' supervisory control with the Executive Board is primarily exercised through the reports received from the Executive Board, including financial data, through entries into the audit protocols and through discussions with the Executive Board at Board meetings.</p> <p>The Board of Directors ensures that accounting procedures and asset management are monitored in a satisfactory manner based on the Company's position and financial standing.</p>
4.1.4	The Committee recommends that the supreme governing body annually discuss the company's activities to ensure diversity at management levels, including equal opportunities for both sexes, and that the supreme governing body set measurable objectives and in the management commentary in the annual report and/or on the company's website give an account of both the objectives and the progress made in achieving the objective.	We comply	<p>Group companies are focussing more strongly on promoting women in executive positions. To this end, the Group already in 2012 established a diversity policy as well as specific initiatives aimed at better ensuring equal terms between the genders when it comes to both employment and promotion. Specific initiatives and measurements will be launched on an ongoing basis to follow up on this development.</p> <p>At least once a year, the Executive Board will review the development with the Board of Directors.</p> <p>The diversity policy will be published at the Company's website. The Group's stated objective is to increase the number of female managers at all levels.</p>
4.2 Procedures			
4.2.1	The Committee recommends that the supreme governing body review its rules of procedure annually to ensure that they are adequate and always match the activities and needs of the company.	We comply	<p>William Demant Holding's Board of Directors has agreed upon its rules of procedure, specifying the tasks and supervisory duties for which the Directors are responsible.</p> <p>Once a year, the Board of Directors reviews and, if necessary, revises its rules of procedure.</p>
4.2.2	The Committee recommends that the supreme governing body annually review and approve procedures for the executive board, including establish requirements for the executive board's timely, accurate and adequate reporting to the supreme governing body and for any other communication between the two governing bodies.	We comply	<p>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 Instructions for the Executive Board of William Demant Holding A/S. Once a year, the Board of Directors will assess and – if required – revise such instructions.</p> <p>Good communication has been established between the Executive Board and the Board of Directors including efficient reporting practices.</p>
4.3 The Chairman and deputy chairman of the supreme governing body			
4.3.1	The Committee recommends that a deputy chairman of the supreme governing body be appointed, who must be able to act in the chairman's absence and also act as an effective sounding board for the chairman.	We comply	<p>The Board of Directors has elected a Deputy Chairman to head Board meetings, should the Chairman be prevented from participating.</p> <p>The Chairman and the Deputy Chairman regularly discuss the work of the Board of Directors.</p>
4.3.2	The Committee recommends the preparation of a scope of work and task list specifying the tasks, duties and responsibilities of the chairman and deputy chairman.	We comply	The powers, duties and responsibilities of the Chairman and the Deputy Chairman are stated in the Board's rules of procedures and in the Company's Articles of Association.
4.3.3	The Committee recommends that the chairman of the supreme governing body organise, convene and chair	We comply	The Chairman chairs the meetings and ensures that the skills and expertise of Directors are used in the best

	meetings to ensure efficiency in the body's work and to create the best possible working conditions for the members, individually and collectively.		possible manner and that the frequency of meetings is planned for the Board of Directors to be an active sounding board for the Executive Board and Company Management as such.
4.3.4	The Committee recommends that, if the board of directors in exceptional cases asks its chairman to perform special tasks for the company, including briefly participate in the day-to-day management, a board resolution to that effect should be passed and precautions taken to ensure that the board of directors will maintain responsibility for the overall management and control function. A reasonable distribution of duties must be ensured between the chairman, the deputy chairman, the other members of the board of directors and the executive board. Information about agreements on the chairman's participation in the day-to-day management and the expected duration hereof must be disclosed in a company announcement.	We comply	This recommendation is incorporated into the rules of procedure of the Board of Directors.
5. Composition and organisation of the supreme governing body			
5.1 Composition			
5.1.1	The Committee recommends that the supreme governing body annually specify the skills it must have to best perform its tasks and that the specification be posted on the website. Proposals for the nomination/replacement of members of the supreme governing body to be submitted to the general meeting should be prepared in the light hereof.	We comply	The Board of Directors continuously strives to ensure that between them Directors have the relevant knowledge and professional experience required to fulfil the Company's needs. Our Board of Directors has therefore considered and specified the skills that the Board is required to have. A specification of such skills is available on our website.
5.1.2	The Committee recommends that the supreme governing body ensure a formal, thorough and transparent process for selection and nomination of candidates to the supreme governing body. When assessing its composition and nominating new candidates, the supreme governing body must take into consideration the need for integration of new talent and the need for diversity in relation to international experience, gender and age, etc.	We comply	The Board of Directors is composed so as to ensure the necessary diversity in relation to skills and experience etc. The selection process is thorough and proposals for candidates will be coordinated with the Company's main shareholder. In the annual evaluation of the Board of Directors' work, each member has the opportunity to comment on the collective competencies of the Board. The next time a current Board member elected by a general meeting is not standing for re-election, special emphasis will be put on nominating women as candidates. The candidates' professional competencies will, however, always be the paramount consideration.
5.1.3	The Committee recommends that a description of the nominated candidates' qualifications, including information about other executive functions, e.g. memberships of executive boards, boards of directors and supervisory boards, including board committees, held by the candidates in both Danish and foreign companies as well as information on demanding organisational tasks should accompany the notice convening the general meeting when election of members to the supreme governing body is on the agenda.	We comply	Th the notice convening a general meeting includes a description of the skills and experience of any candidates proposed for re-election with information on other executive offices in Danish or foreign companies. In the event of a potential new Director, whose election is proposed by the Board of Directors, a fairly extensive curriculum vitae will also be presented to the general meeting together with the proposal. All information on the professional qualifications of such candidate, which is deemed significant in respect of the Company, including any international experience, will be included in such presentation.
5.1.4	The Committee recommends that every year, the annual report contain an account of the composition of the supreme governing body, including its diversity, and of any special skills possessed by the individual members.	We comply	The composition and diversity of the Board of Directors in office at any time – including the skills and experience of each single Director – appear in our annual reports. Additional information is available on our website.
5.2 Training of members of the supreme governing body			
5.2.1	The Committee recommends that new members joining the supreme governing body be given an introduction to the company.	We comply	New Directors are given an introduction to the Company. When joining the Board of Directors, a Director is offered the opportunity to make himself acquainted with all important reports, budgets, strategy plans etc. that apply to and are used by the Company.

			The new Director is also offered the opportunity to make himself acquainted with the daily operation of the Company through, for instance, visits to the Group's most important facilities..
5.2.2	The Committee recommends that the supreme governing body annually assess whether the skills and expertise of its members need to be updated.	We comply	<p>The Chairman of the Board evaluates on a continuous basis any need to update a Director's knowledge of a specific sphere of competence.</p> <p>Directors are currently offered training in Board tasks and duties. Employee Directors have all participated in supplementary training sessions targeted specifically toward staff affected Directors.</p>
5.3 Number of members of the supreme governing body			
5.3.1	The Committee recommends that the supreme governing body have only so many members as to allow a constructive debate and an effective decision-making process enabling all members to play an active role.	We comply	<p>Under the Company's Articles of Association, the Board of Directors must consist of four to six Directors elected by the shareholders at the general meeting in addition to the Employee Directors.</p> <p>For the present, the Board of Directors consists of four members elected by shareholders and three members elected by employees. In the Board of Directors' opinion, this number is expedient to ensure a constructive debate and an effective decision-making process in the Board.</p>
5.3.2	The Committee recommends that in connection with the preparation for each year's general meeting, the supreme governing body consider whether the number of members is appropriate in relation to the requirements of the company.	We comply	The Chairman currently and at least once a year considers whether the activities and development plans of the Company will require a change in the number of Directors.
5.4 The independence of the supreme governing body			
5.4.1	<p>In order for the members of the supreme governing body to act independently of special interests, the Committee recommends that at least half of the members elected by the general meeting be independent persons.</p> <p>The independent supreme governing body member may not:</p> <ul style="list-style-type: none"> • be, or have been within the last five years, a member of the executive board/managerial staff of the company or an associated company, • have received significant additional remuneration from the company/roup or an associated company apart from a fee for its services in the capacity as a member of the supreme governing body, • represent the interests of a controlling shareholder, • within the last year, have had a material business relationship (e.g. personally or indirectly as a partner or an employee, shareholder, customer, supplier or member of a governing body of companies with similar relations) with the company or an associated company, • be, or have been within the last three years, an employee or partner of the external audit firm, • hold cross-memberships of governing bodies, • have been a member of the supreme governing body for more than 12 years, or • have close family ties with persons that are not regarded as independent persons. 	We comply	<p>We comply with the recommendation that half the Directors elected by shareholders be independent is thus satisfied.</p> <p>Two of the members elected by shareholders are independent whereas two (chairman and deputy chairman) are not considered independent.</p> <p>The underlying reasons for their not being considered independent are provided in the Company's annual report and on our website.</p>
5.4.2	The Committee recommends that at least once every year, the supreme governing body list the names of the members who are regarded as independent persons and also disclose whether new candidates for the supreme governing body are considered independent persons.	We comply	<p>The annual report and our website include a list of all Directors with all relevant details as well as information on whether the individual Director is considered independent.</p> <p>As regards new candidates for the Board of Directors, the recommendation to the shareholders will include information on whether the candidate is considered dependent or independent.</p>

5.5 Members of the supreme governing body elected by the employees			
5.5.1	The Committee recommends that the individual company explain, in the company's annual report or on its website, the system of employee-elected board members and the company's use hereof in companies where the employees have chosen to apply the provisions of the Companies Act on employee representation.	We comply	The Group's Danish employees elect representatives to the Company's Board of Directors from among their own number in compliance with the relevant provisions of the Danish Public Companies Act. The Company's use of the rules governing election of Employee Directors is explained on our website.
5.6 Meeting frequency			
5.6.1	The Committee recommends that the supreme governing body meet at regular intervals according to a predetermined meeting and work schedule or when meetings are deemed necessary or appropriate as required by the company and that the number of meetings held be disclosed in the annual report.	We comply	The Board of Directors schedules its meetings well in advance. In practice, Board meetings for a calendar year including the work programme are scheduled during the first three months of the preceding year. The Board of Directors holds five ordinary meetings a year as well as any extraordinary meetings, should the Executive Board or the Board of Directors consider such meetings necessary. The number of Board meetings held in the past financial year is shown in our annual report and on our website.
5.7 Expected time commitment and the number of other executive functions			
5.7.1	The Committee recommends that each member of the supreme governing body assess the expected time commitment for each function in order that the member does not take on more functions than he/she can manage in a satisfactory way for the company.	We comply	Prior to nominating a new Director, the Chairman will make sure that such Director has the time required for his or her duties on the Board of Directors.
5.7.2	The Committee recommends that the annual report contain the following information about the members of the supreme governing body: <ul style="list-style-type: none"> • the member's occupation, • the member's other executive functions, e.g. memberships of executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign companies as well as demanding organisational tasks, and • the number of shares, options, warrants, etc. that the member holds in the company and its consolidated companies • and any changes in such holdings during the financial year. 	We comply	Each Director's positions and executive functions are listed in the annual report and on the website. At year-end 2012, all Directors were shareholders in the Company. The shareholding of each Director and any changes in such holding in the past year will appear from our annual report. Any changes in Directors' shareholdings are published in each case in compliance with existing rules and are at the same time reported to the Danish Financial Supervisory Authority and to NASDAQ OMX Copenhagen. The changes are also published on the Company's website.
5.8 Retirement age			
5.8.1	The Committee recommends that the company's articles of association fix a retirement age for members of the supreme governing body and that the annual report contain information on such retirement age as well as the age of each member of the board of directors.	We comply	In compliance with the Company's Articles of Association Directors must resign from the Board no later than at the first general meeting following their 70 th birthday. The retirement age as well as the age of each Director are mentioned in the annual report and on our website.
5.9 Election period			
5.9.1	The Committee recommends that members of the supreme governing body elected by the general meeting be up for re-election every year at the annual general meeting.	We comply	In compliance with our Articles of Association, Directors elected by the shareholders are elected for one year at a time.
5.9.2	The Committee recommends that the annual report state when the individual member of the supreme governing body joined the body, whether the member was re-elected and when the current election period expires.	We comply	Our annual report and website provide information on when the individual Directors joined the Board of Directors, whether they were re-elected and that their election period is one year (four years for Employee Directors).
5.10 Board committees			
5.10.1	The Committee recommends that the company publish the following information in the management commentary in its annual report or on the company's website: <ul style="list-style-type: none"> • the terms of reference for the board committees, • important activities of the committees during the year and • the number of meetings held by each committee, and 	We comply	Apart from the audit committee, see 5.10.3, no independent Board committees have been nominated at the moment, as the Board of Directors deems such committees unnecessary, given the Company's business activities and the size of the Board. Information on audit committee members and the number of meetings held by the audit committee in the year under review is shown in our annual report. See

	<ul style="list-style-type: none"> the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications. 		<p>also 5.10.3.</p> <p>The terms of reference of the audit committee are available on our website.</p>
5.10.2	The Committee recommends that a majority of the members of a board committee be independent members.	We do not comply	<p>The audit committee which is the only Board committee at present consists of the entire Board of Directors. As stated in 5.4.1., half the Directors elected by our shareholders are considered independent. Consequently half, but not the majority, of audit committee members are independent.</p> <p>The Chairman of the audit committee is independent.</p>
5.10.3	The Committee recommends that the supreme governing body establish an actual audit committee.	We comply	<p>William Demant Holding's Board of Directors has established an audit committee.</p> <p>Since our Board of Directors only consists of four Directors elected by the shareholders at a general meeting, we have decided to let the entire Board constitute the audit committee. Audit committee meetings are planned to coincide with ordinary Board meetings, and prior to each meeting audit committee members will receive a separate agenda with fixed items and any special reports pre-determined in a full year wheel chart for the audit committee.</p> <p>The remuneration of audit committee members is included in the approved Directors' fee.</p>
5.10.4	<p>The Committee recommends that the following be taken into account in composing the audit committee:</p> <ul style="list-style-type: none"> the chairman of the supreme governing body should not be chairman of the audit committee, and between them, the members should possess such an amount of expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit conditions of companies whose shares are admitted to trading on a regulated market. 	We comply	<p>The Board of Directors appoints the chairman of the audit committee who is independent and who will not at the same time be the Chairman of the Board of Directors.</p> <p>The Board of Directors of William Demant Holding has discussed the general framework in respect of the role, function and expertise of the audit committee and decided to let the entire Board of Directors handle this task. In their considerations, the Directors have taken the Company's business activities, the size of the Board and the limited scope of estimates and assessments in relation to financial reporting into account.</p>
5.10.5	<p>The Committee recommends that, prior to the approval of the annual report and other financial reports, the audit committee monitor and report to the supreme governing body about:</p> <ul style="list-style-type: none"> significant accounting policies significant accounting estimates, related party transactions, and uncertainties and risks, including in relation to the outlook. 	We comply	<p>Audit committee meetings coincide with ordinary board meetings. Prior to each meeting, Directors will receive a separate agenda with fixed items and any special reports predetermined in a full year wheel chart for the audit committee. The wheel chart includes accounting policies, significant accounting estimates, related party transactions as well as uncertainties and risks etc.</p>
5.10.6	<p>The Committee recommends that the audit committee:</p> <ul style="list-style-type: none"> annually consider whether there is a need for an internal audit function, and if so, formulate recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function. 	We comply	<p>The Company has no internal audit function, but uses internal control systems that are currently monitored by the Board of Directors.</p> <p>Our auditors also assess the internal control systems in their communication with our Board of Directors.</p> <p>As part of the tasks of the audit committee, the committee will currently and at least once a year assess any need for an internal audit function. If such need should arise, the audit committee would provide a recommendation and framework for such internal audit function, and subsequently the audit committee would also monitor the Executive Board's followup on any conclusions or recommendations by the internal audit function.</p>
5.10.7	The Committee recommends that the supreme governing body establish a nomination committee with at least the following preparatory tasks:	We do not comply	<p>No nomination committee has been established, see 5.10.1.</p>

	<ul style="list-style-type: none"> describe the qualifications required in the two governing bodies and for a given position, state the expected time commitment for a position and evaluate the balance of skills, knowledge and experience available in the two governing bodies, annually evaluate the structure, size, composition and performance of the governing bodies and make recommendations to the supreme governing body with regard to any changes, annually evaluate the skills, knowledge and experience of the individual members of the governing bodies and report such details to the supreme governing body, consider proposals submitted by relevant persons, including shareholders and members of the governing bodies, for candidates for executive positions, and identify and recommend to the supreme governing body candidates for the governing bodies. 		<p>The Group has a relatively small Board of Directors. The tasks that fall under a nomination committee are part of the Directors' work and the Chairman's current considerations.</p> <p>In the Directors' opinion, a nomination committee is therefore not required.</p>
5-10.8	<p>The Committee recommends that the supreme governing body establish a remuneration committee with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> make proposals, for the approval of the supreme governing body prior to approval at the general meeting, on the remuneration policy, including the overall principles of incentive pay schemes, for members of the supreme governing body and the executive board, make proposals to the supreme governing body on remuneration for members of the supreme governing body and the executive board and ensure that the remuneration is consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the supreme governing body and the executive board receive from other companies in the group, and oversee that the information in the annual report on the remuneration of the supreme governing body and the executive board is correct, true and sufficient. 	We do not comply	<p>No remuneration committee has been established, see 5.10.1.</p> <p>The Board of Directors has adopted a very simple remuneration policy for the Directors as well as for the Executive Board. Our remuneration policy does not include any incentive pay or bonus schemes or other variable components.</p> <p>In the Directors' opinion, a remuneration committee is therefore not required, as the tasks defined under such committee are undertaken by the entire Board of Directors.</p>
5-10.9	<p>The Committee recommends that the remuneration committee do not consult with the same external advisers as the executive board of the company.</p>	We comply	<p>See 5.10.8.</p> <p>In questions relating to remuneration, our Board of Directors and our Executive Board do not use the same external advisers.</p>
5.11 Evaluation of the performance of the supreme governing body and the executive board			
5-11.1	<p>The Committee recommends that the supreme governing body undertake an annual evaluation of the performance and achievements of the supreme governing body and of the individual members of the body.</p>	We comply	<p>The Board of Directors has adopted a self-evaluation procedure, see 5.11.2.</p>
5-11.2	<p>The Committee recommends that the chairman be in charge of the evaluation of the supreme governing body, that the outcome be discussed in the supreme governing body and that the details of the procedure of self-evaluation and the outcome be disclosed in the annual report.</p>	We comply	<p>The Chairman evaluates the work done by the Board of Directors and reports back to the entire Board once a year. The Directors consider this evaluation satisfactory. The procedure and the results of the evaluation will be shown in our annual report and on our website.</p>
5-11.3	<p>The Committee recommends that the supreme governing body at least once every year evaluate the work and performance of the executive board in accordance with predefined criteria.</p>	We comply	<p>Once a year, the Chairman evaluates the work performed by the Executive Board and after consultation with the other Directors the Chairman adjusts the remuneration of the Executive Board once annually.</p>
5-11.4	<p>The Committee recommends that the executive board and the supreme governing body establish a procedure according to which their cooperation is evaluated annually through a formalised dialogue between the chairman of the supreme governing body and the chief executive officer and that the outcome of the evaluation be presented to the supreme governing body.</p>	We comply	<p>The Chairman currently evaluates the collaboration between our President & CEO and our Board of Directors and presents the outcome to the other Directors.</p>

6. Remuneration of members of the governing bodies			
6.1 Content and form of the remuneration policy			
6.1.1	The Committee recommends that the supreme governing body adopt a remuneration policy applicable to the supreme governing body and the executive board.	We comply	The Board of Directors has adopted a remuneration policy applicable to the Board of Directors and to the Executive Board.
6.1.2	The Committee recommends that the remuneration policy and any changes to the policy be approved by the general meeting of the company.	We comply	Our remuneration policy is explained in the annual report and on the website and is mentioned by the Chairman in his report at general meetings. Any future changes in our remuneration policy will be presented at the general meeting for adoption. We have no incentive pay or bonus schemes comprised by the Public Companies Act, section 139, in respect of the Executive Board and the Board of Directors. If such schemes were to be created, they would first be subject to adoption by the shareholders at a general meeting.
6.1.3	Committee recommends that the remuneration policy include a thorough description of the components of the remuneration for members of the supreme governing body and the executive board.	We comply	The remuneration policy which according to 6.1.2 is explained in the Company's annual report and on its website, is very simple. The Executive Board receives a fixed fee. Directors' fees also consist of a fixed basic fee per Director. The Chairman's fee is determined to be three times the basic fee and the Deputy Chairman receives twice the basic fee. Audit committee members' remuneration is included in the basic fee.
6.1.4	The Committee recommends that the remuneration policy include: <ul style="list-style-type: none"> • the reasons for choosing the individual components of the remuneration, and • a description of the criteria on which the balance between the individual components of the remuneration is based. 	We comply	See 6.1.3. In the opinion of the Board of Directors, the fixed fee reflects a competitive remuneration of the Board of Directors and the Executive Board.
6.1.5	The Committee recommends that, if the remuneration policy includes variable components, <ul style="list-style-type: none"> • limits be set on the variable components of the total remuneration package, • a reasonable and balanced linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long term, • there be clarity about performance criteria and measurability for award of variable components, and • there be criteria ensuring that vesting periods for variable components of remuneration agreements are longer than one calendar year. 	We comply	See 6.1.3.
6.1.6	The Committee recommends that remuneration of members of the supreme governing body do not include share or warrant programmes.	We comply	No incentive pay or bonus schemes comprised by the Public Companies Act, section 139, have been established in respect of the Board of Directors. No share option schemes or similar arrangements have been established in respect of the Board of Directors, see 6.1.3.
6.1.7	The Committee recommends that if members of the executive board receive share-based remuneration, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should not be exercisable earlier than three years from the date of grant. An explanation of the relation between the redemption price and the market price at the time of grant should be provided.	We comply	The Executive Board receives a fixed remuneration, see 6.1.3.

6.1.8	The Committee recommends that, in exceptional cases, companies should be able to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be manifestly mis-stated.	We comply	The Executive Board receives a fixed remuneration, and there are no variable bonuses or similar schemes, see 6.1.3.
6.1.9	The Committee recommends that termination payments should not amount to more than two years' annual remuneration.	We do not comply	If the Company terminates the employment of our President & CEO, the notice is 12 months with one month's extension for each calendar year of employment, albeit maximum 30 months. As our President & CEO has been employed in the Company since 1992, the notice on the part of the Company is 30 months at 31 December 2012. If he himself terminates his employment, the notice is six months.
6.2 Disclosure of the remuneration policy			
6.2.1	The Committee recommends that the remuneration policy be clear and easily understandable and that it be disclosed in the annual report and posted on the company's website.	We comply	The adopted remuneration policy is clear and simple and is mentioned in our annual report and on our website.
6.2.2	The Committee recommends that the company's remuneration policy and compliance with this policy be explained and justified in the chairman's statement at the company's general meeting.	We comply	The adopted remuneration policy and compliance with such policy will be explained in the Chairman's report at the annual general meeting.
6.2.3	The Committee recommends that the total remuneration granted to each member of the supreme governing body and the executive board by the company and other consolidated companies be disclosed in the (consolidated) financial statements and that the linkage with the remuneration policy be explained.	We comply	Our annual report includes information on the remuneration paid to the individual Director and the Executive Board in the particular period under review.
6.2.4	The Committee recommends that the details of any defined-benefit schemes offered to members of the supreme governing body or the executive board and the actuarial value of such schemes as well as changes during the year be included as part of the information on the total remuneration.	We comply	As regards our President & CEO, an arm's length termination and resignation clause applies according to which he acquires a seniority bonus matching one year's salary for every four years of employment after 2005. In the consolidated financial statements, this seniority bonus is recognised as a defined benefit plan commitment that will be paid out on termination of his employment.
6.2.5	The Committee recommends that the most important aspects of retention and severance programmes be disclosed in the company's annual report.	We comply	The Executive Board's retention and severance programmes are disclosed in the annual report.
6.2.6	The Committee recommends that the proposal for remuneration of the supreme governing body for the current financial year be approved by the shareholders at the general meeting.	We comply	A proposal in respect of remuneration to be paid to the Board of Directors for the current financial year is presented to the shareholders at the general meeting for adoption.
7. Financial reporting			
7.1 Other relevant information			
7.1.1	The Committee recommends that the annual report and other financial reports be supplemented by additional financial and non-financial information, if deemed necessary or relevant in relation to the information needs of the recipients.	We comply	As part of our communication strategy, we provide financial as well as non-financial information considered to be adequate in order to give stakeholders a true and fair view of the Company's activities and results. As an example, our decision to join the UN's Global Compact means that we must submit and publish an annual Communication on Progress (COP) that complies with the requirements made by the UN.
7.2 Going concern assumption			
7.2.1	The Committee recommends that, upon consideration and approval of the annual report, the supreme governing body decide whether the business is a going concern, including supporting assumptions or qualifications where necessary.	We comply	The assumption of a going concern is a fundamental element in the Directors' adoption of the annual report.

8. Risk management and internal control			
8.1 Identification of risks			
8.1.1	The Committee recommends that the central governing body at least once every year identify the most important business risks associated with the realisation of the company's strategy and overall goals as well as the risks associated with financial reporting.	We comply	<p>The Board of Directors is in an ongoing dialogue with our Executive Board on the identification, description and handling of the business risks to which the Company can be exposed. Any material risks are described in the Annual Plan and Budget which is approved by the Board of Directors.</p> <p>The main elements of our corporate internal control and risk management systems in relation to the financial reporting process are included in our annual report in the chapter on risk management activities and shown in the introduction to this document.</p>
8.1.2	The Committee recommends that the executive board currently report to the supreme governing body on the development within the most important areas of risk and compliance with adopted policies, frameworks etc. in order to enable the supreme governing body to track the development and make the necessary decisions.	We comply	<p>On preparation of the annual strategy, plan and budget, the Board of Directors considers the risks identified by the Company and reviews the scope of such risks, and estimates whether revised or altered working procedures and action plans may eliminate or reduce some of the risks.</p> <p>The reports made by the Executive Board at the ordinary Board meetings include current evaluations of any changes in risks compared with previous reports.</p> <p>Once a year, the Board of Directors reviews the Company's insurance policies, including any coverage of identified risks.</p>
8.2 Whistleblowing			
8.2.1	The Committee recommends that the supreme governing body decide whether to establish a whistleblowing scheme for expedient and confidential notification of possible or suspected wrongdoing.	We comply	<p>The Group has introduced an in-house "soft whistleblowing scheme" according to which staff may contact the Group's in-house legal advisers with information. The scheme is seen in our business ethics document, which is available on our website, cf. below:</p> <p><i>This Business Ethics Policy shall apply to all WDH employees as well as to anyone acting on our behalf.</i></p> <p><i>An employee who raises an issue in respect of this policy shall not be subject to any adverse impact on his or her employment as a result thereof. On the other hand, continued failure by an employee to work in accordance with this policy may result in disciplinary action.</i></p> <p>The Board of Directors regularly considers the need for an actual whistleblowing scheme.</p>
8.3 Openness about risk management			
8.3.1	The Committee recommends that the management commentary in the annual report include information about the company's management of business risks.	We comply	The Company describes its risk management activities in the annual report.
9. Audit			
9.1 Contact to auditor			
9.1.1	The Committee recommends that the supreme governing body maintain a regular dialogue and exchange of information with the auditor.	We comply	The Board of Directors and our auditors meet at least twice a year to maintain a dialogue and exchange information.
9.1.2	The Committee recommends that the auditor agreement and auditors' fee be agreed between the supreme governing body and the auditor on the basis of a recommendation from the audit committee.	We comply	The auditors' remuneration is agreed upon prior to the beginning of a financial year and subject to approval by the audit committee.
9.1.3	The Committee recommends that the supreme governing body and the audit committee meet with the auditor at least once every year without the executive board present. This also applies to the internal auditor, if any.	We comply	We comply with the recommendation.

9.2 Internal audit			
9.2.1	The Committee recommends that the supreme governing body, on the basis of a recommendation from the audit committee, once every year decide whether to establish an internal audit for support and control of the company's internal control and risk management systems and state the reasons for its decision in the annual report.	We comply	<p>The Company has no internal audit function, but uses internal control systems that are currently monitored by the Board of Directors.</p> <p>Our auditors assess the internal control systems in their communication with the Board of Directors.</p> <p>As part of the tasks of the audit committee, the committee will currently and at least once a year assess any need for an internal audit function. If such need should arise, the audit committee would provide a recommendation and framework for such internal audit function, and subsequently the audit committee would also monitor the Executive Board's followup on any conclusions or recommendations by the internal audit function.</p>

26 February 2013