

# Corporate Governance

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



## William Demant Holding 2014

### Statutory report, cf. section 107 b of the Danish Financial Statements Act

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William Demant Holding A/S is a Danish Company listed on Nasdaq Copenhagen and included in the OMX C20 Cap.

Pursuant to the Danish Financial Statements Act section 107 b, and section 4.3 of “Rules for issuers of shares” laid down by Nasdaq Copenhagen, Danish companies listed on Nasdaq Copenhagen shall give a statement on how they address the Recommendations on Corporate Governance, issued by the Committee on Corporate Governance.

This statutory report on company management, published on the Company’s website is part of Management’s commentary in the annual report and covers the financial year **1 January - 31 December 2014**.

The statement covers the following 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 the Company addresses the corporate governance recommendations

Our corporate governance review is not comprised by the auditors’ statement in connection with Management’s Commentary in the annual report.

#### 1. Management bodies

The Company’s Management bodies include a Board of Directors and an Executive Board. The Company has one ultimate shareholder, the Oticon Foundation, which directly or indirectly holds between 55-60% of the shares.

##### **Board of Directors**

Under the Company’s Articles of Association, the Board of Directors must consist of four to six Board members elected by the shareholders at the general meeting in addition to staff-elected Board members. At publication of the Annual Report 2014, the Company’s Board of Directors has seven members: Four elected by the shareholders and three elected by our employees in Denmark. The members elected by the shareholders are elected for one year at a time and members elected by staff 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.

##### **Board committees**

For the present, the Board of Directors of William Demant Holding has established an audit committee and a nomination committee, cf. section 3.4 Board committees in the following overview.

##### **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 2014:

### 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 efficient internal control and risk management in connection with 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

William Demant Holding A/S is subject to the rules governing the recommendations for corporate governance and is required to prepare a report on how we adhere to the recommendations laid down by the Committee of Corporate Governance, [www.corporategovernance.dk](http://www.corporategovernance.dk). The recommendations are also part of the disclosure requirements laid down by Nasdaq Copenhagen.

William Demant Holding's Board of Directors and Executive Board consider corporate governance an ongoing process and regularly assess to which extent the Company should comply with the recommendations and whether the recommendations give rise to amendments to the Company's articles of association or managerial processes.

The report has to be prepared according to the "comply-or-explain" principle, meaning that we must either follow the recommendations or explain why we have chosen not to follow a recommendation and what we do instead. The Board takes a stand on each individual recommendation and has chosen to give relevant and supplementary explanations also to the recommendations that we follow. Out of 47 recommendations there are only four that we do not adhere to. The deviations are well-founded and are explained in the report.

The complete report is provided in the schedule below.

26 February 2015

|  | Recommendation  | Compliance |   |
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| <b>1. Communication and interaction by the company with its investors and other stakeholders</b> |   |            |   |
| <b>1.1. Dialogue between company, shareholders and other stakeholders</b>                        |   |            |   |
| 1.1.1  | The Committee <b>recommends</b> that the board of directors ensure ongoing dialogue between the company and its shareholders in order for the shareholders to gain relevant insight into the company's potential and policies, and in order for the board of directors to be aware of the shareholders' views, interests and opinions on the company. | We comply  | <p>William Demant Holding wants to maintain 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.</p> <p>We have set up an actual Investor Relations function (IR) in the Company, and Management also frequently participates in IR-related arrangements. By way of example, we typically hold about 350 individual meetings per year where existing and potential shareholders are able to ask questions to Company representatives. Often meetings are held at one of our locations where stakeholders can get a deeper insight into how we work.</p> <p>IR work is carried out 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 becoming detrimental to the Company or coming into conflict with Danish law, including the rules governing Nasdaq Copenhagen.</p> <p>The primary form of communication is Company announcements to Nasdaq Copenhagen, including annual and interim reports. Immediately after publication, they are uploaded on our website, <a href="http://www.demant.com">www.demant.com</a>.</p> <p>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. Investor presentations will be available on our website at the same time as or immediately after such presentation is/has been made.</p> <p>On a current basis, Management gives feedback to the Board of Directors on the Company's IR work to enable the Board to get an insight into the dialogue with our shareholders.</p> <p>Management and the IR function may be contacted through our website.</p> |
| 1.1.2.   | The Committee <b>recommends</b> that the board of directors adopt policies on the company's relationship with its stakeholders, including shareholders and other investors, and that the board ensures that the interests of the shareholders are respected in accordance with company policies.  | We comply  | <p>The Company has identified a number of specific stakeholders, comprising our customers, end-users, shareholders, investors, employees, society, suppliers and other business partners.</p> <p>The Board of Directors has approved the Company's policies on relations with all important stakeholders</p>  |

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|        |  |                  | <p>and ensures on a current basis that good and constructive relations exist with such stakeholders. Some of these policies include a Code of Conduct governing relations with our suppliers and a Business Ethics Policy in relation to our staff and their interaction with customers and other stakeholders. Selected policies and documents are available on our website.</p> <p>As part of its CSR work, the Company has adopted policies on its corporate social responsibility. In 2009, we stated 14 principles, describing Management’s overall responsibility for and approach to business ethics, the environment, human rights and corporate governance. In 2010, the Company furthermore joined the UN’s Global Compact and the reporting system for CO2 emission through the Carbon Disclosure Project. You can read more on our website under CSR.</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 of and remedial treatment of hearing impairment. The Company’s managerial policy builds on high standards of integrity, quality and fairness in its business conduct, including responsibility for the environment and the surrounding society.</p> <p>The Company strives to sell its 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 sophisticated, as a result of which training and education play an increasingly important role. 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>It is the Company’s objective to safeguard a high and consistent level of information to stock market players with a view to forming the basis of a fair pricing of the Company’s shares. This flow of information will contribute to reducing the Company-specific risk associated with investing in Company shares and thus reducing the Company’s cost of capital.</p> |
| 1.1.3. | The Committee <b>recommends</b> that the company publish quarterly reports | We do not comply | 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 Copenhagen. Such quarterly information provides a general description of the Group and its devel-   |

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|  |   |           | <p>opment, but 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.</p> <p>Competitive aspects are also 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 companies 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> |
| <b>1.2 General meeting</b>                                     |   |           |  |
| 1.2.1  | The Committee <b>recommends</b> that when organizing the company's general meeting, the board of directors plans the meeting to support active ownership.   | We comply | <p>The Company's physical setting allows us to hold annual general meetings in-house, and in the opinion of the Board, it furthers active ownership that the Company's shareholders are able to meet our Board members and Executive Board and visit our head office.</p> <p>In continuation of the actual general meeting, all relevant documents will be uploaded on our website prior to and after the general meeting, and the meeting will also be webcast</p>  |
| 1.2.2.   | The Committee <b>recommends</b> that proxies granted for the general meeting allow shareholders to consider each individual item on the agenda.   | We comply | <p>Shareholders in the Company are entitled to attend the Company's general meetings by proxy or accompanied by an adviser. 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> <p>Proxies will be prepared in such a manner that they allow shareholders to consider each individual item on the agenda.</p>  |
| <b>1.3 . Takeover bids</b>                                     |   |           |  |
| 1.3.1  | The Committee <b>recommends</b> that the company set up contingency procedures in the event of takeover bids from the time that the board of directors has reason to believe that a takeover bid will be made. According to such contingency procedures, the board of directors should 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 themselves. | 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 is precluded from reducing its shareholdings to less than 50% through the sale of shares. This means that a takeover cannot be carried through, which would be communicated to a potential bidder.</p> <p>The rules of procedure for the Board of Directors include a short procedure to be followed, should such a situation occur.</p>   |
| <b>2. Tasks and responsibilities of the board of directors</b> |   |           |  |
| <b>2.1. Overall tasks and responsibilities</b>                 |   |           |  |
| 2.1.1.   | The Committee <b>recommends</b> that at least once a year the board of directors take a position on the matters related to the board's performance of its responsibilities.   | 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. 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. In order to ensure that the Board's</p>  |

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|        |  |           | tasks are performed in a timely manner, such tasks are predetermined in a full-year wheel chart for the Board of Directors.   |
| 2.1.2. | The Committee <b>recommends</b> that at least once a year the board of directors take a position on the overall strategy of the company with a view to ensuring value creation in the company.   | We comply | The Company's overall goals, strategies, action plans and investment policy, including their financial scope are presented in a comprehensive Annual Plan and Budget, which will be discussed and approved by the Board of Directors. Substantial changes to the plans made or strategies laid down will, however, not await the annual discussion by the Board, but will be discussed on a current basis, should the need arise.   |
| 2.1.3. | The Committee <b>recommends</b> that the board of directors ensure that the company has a capital and share structure ensuring that the strategy and longterm value creation of the company are in the best interest of the shareholders and the company, and that the board of directors presents this in the management commentary on the company's annual report and/or on the company's website. | We comply | 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 support the the Company's strategy and value creation. The Board of Directors and the Executive Board will at regular intervals review the share liquidity.<br><br>The Company uses its share buy-back programme to channel the Group's excess cash flow back to the shareholders. In line with the Group's normal practice, our share buy-back will on a current basis be adjusted to the extent of our acquisitions and investments.<br><br>In the Company's annual report, we account for the decisions made on the Company's share and capital structure.  |
| 2.1.4. | The Committee <b>recommends</b> that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board on timely, accurate and adequate reporting to the board of directors.  | We comply | The tasks, responsibilities and scope of the Executive Board as well as the guidelines in respect of the delegation of duties between the Board of Directors and the Executive Board are stipulated in the Instructions for the Executive Board. Once a year, the Board of Directors will assess and – if required – revise such instructions.<br><br>Good communication has been established between the Executive Board and the Board of Directors including efficient reporting practices.<br><br>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 and an ongoing dialogue with the Chairman of the Board. |
| 2.1.5. | The Committee <b>recommends</b> that at least once a year the board of directors discuss the composition of the executive board, as well as developments, risks and succession plans.  | We comply | The Chairman of the Board evaluates on a continuous basis and reviews at least once a year with the other Board members whether the Company is properly organised and managed in a satisfactory manner, including a review of the composition, development, risks and succession plans of the Executive Board.  |
| 2.1.6. | The Committee <b>recommends</b> that once a year the board of directors discuss the company's activities to ensure relevant diversity at management levels, including setting specific goals and accounting for its objectives and progress made in achieving the objectives in the management commentary on the   | We comply | In continuation of recent years' initiatives, recommendations and legislation on diversity at management levels, Group companies are focussing more strongly on promoting women in executive positions. To this end, the Group in 2012 established a diversity policy as well as specific initiatives aimed at ensuring equal   |

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|  | company's annual report and/or on the website of the company.   |           | <p>terms between the genders when it comes to both employment and promotion. Specific initiatives and measurements are 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 Company has chosen to publish its policy and objectives as well as an annual account of the development in this area on its website.</p>  |
| <b>2.2. Corporate social responsibility</b>                      |   |           |  |
| 2.2.1.   | The Committee <b>recommends</b> that the board of directors adopt policies on corporate social responsibility.  | We comply | As part of our CSR efforts, we have adopted policies in respect of corporate social responsibility. The policies are approved by the Board of Directors. Selected policies are available on our website.   |
| <b>2.3. Chairman and vice-chairman of the board of directors</b> |   |           |  |
| 2.3.1.   | The Committee <b>recommends</b> appointing a vice-chairman of the board of directors who will assume the responsibilities of the chairman in the event of the chairman's absence, and who will also act as effective sparring partner for the chairman.   | We comply | The Board of Directors has elected a Deputy Chairman to head Board meetings, should the Chairman be prevented from participating. The Chairman and the Deputy Chairman regularly discuss the work of the Board of Directors.   |
| 2.3.2.   | The Committee <b>recommends</b> ensuring that, if the board of directors, in exceptional cases, asks the chairman of the board of directors to perform special operating activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect be passed to ensure that the board of directors maintains its independent, overall management and control function. Resolutions on the chairman's participation in day-to-day management and the expected duration hereof should be published in a company announcement. | We comply | This recommendation is incorporated into the rules of procedure of the Board of Directors, should a situation arise that necessitates such action.   |
| <b>3. Composition and organization of the board of directors</b> |   |           |  |
| <b>3.1. Composition</b>  |   |           |  |
| 3.1.1.   | The Committee <b>recommends</b> that the board of directors annually accounts for <ul style="list-style-type: none"> <li>▪ the skills it must have to best perform its tasks,</li> <li>▪ the composition of the board of directors, and</li> <li>▪ the special skills of each member.</li> </ul>  | We comply | <p>The Board of Directors continuously strives to ensure that between them Board members have the relevant knowledge and professional experience required to fulfil the Company's needs.</p> <p>Our Board of Directors has therefore considered and specified the skills that the Board collectively is required to have. A listing of such skills is available on our website as well as the composition of the Board of Directors in office at any time and the skills and experience of each Board member.</p> <p>The Board members' profiles, their individual competences and other executive duties are also explained in the Company's annual report.</p> |
| 3.1.2.   | The Committee <b>recommends</b> that the selection and nomination of candidates for the board of directors be carried out through a thoroughly transparent process approved by the overall board of directors. When assessing its composition and nominating new candidates, the board of directors must take into consideration the need for integration of new  | We comply | <p>The Board of Directors has established a nomination committee. According to the charter of the committee one of its duties is to nominate and recommend candidates to the Board of Directors.</p> <p>In the composition of the Board of Directors focus is on ensuring the necessary skills and experience that</p>   |

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|  | talent and diversity in relation to age, international experience and gender.  |           | <p>must be present in order for the Board to be able to perform its tasks in the best possible way.</p> <p>In the annual evaluation of the Board of Directors' work, each member has the opportunity to comment on the collective competencies of the Board.</p> <p>As far as diversity is concerned, great importance is attached to international experience and management experience from listed companies. On nomination of new candidates, the appointment of female candidates will in future carry particular weight. However, the professional skills of the candidates will always outweigh other considerations.</p>  |
| 3.1.3.   | <p>The Committee <b>recommends</b> that a description of the nominated candidates' qualifications, including information about the candidates'</p> <ul style="list-style-type: none"> <li>▪ other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises, be accompanied by the notice convening the general meeting when election of members to the board of directors is on the agenda.</li> <li>▪ demanding organizational tasks, and information</li> <li>▪ about whether candidates to the board of directors are considered independent.</li> </ul>   | We comply | <p>The notice convening a general meeting includes a description of the skills and experience of any candidates proposed for re-election as well as information on other executive offices in Danish and foreign businesses.</p> <p>In the event of new candidates for the Board, 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.</p> <p>As regards both new and renominated candidates for the Board of Directors, the recommendation to the shareholders will include information on whether the candidate is considered dependent or independent.</p> |
| 3.1.4.   | The Committee <b>recommends</b> that the company's articles of association stipulate a retirement age for members of the board of directors.   | We comply | In compliance with the Company's Articles of Association, a Board member must resign from the Board no later than at the first ordinary general meeting following his or her 70 <sup>th</sup> birthday.  |
| 3.1.5.   | The Committee <b>recommends</b> that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.   | We comply | In compliance with our Articles of Association, Board members elected by the shareholders are elected for one year at a time.  |
| <b>3.2. Independence of the board of directors</b> |  |           |  |
| 3.2.1.   | <p>The Committee <b>recommends</b> that at least half of the members of the board of directors elected by the general meeting be independent persons, in order for the board of directors to be able to act independently of special interests. To be considered independent, this person may not:</p> <ul style="list-style-type: none"> <li>▪ be or within the past five years have been member of the executive board, or senior staff member in the company, a subsidiary undertaking or an associate,</li> <li>▪ within the past five years, have received larger emoluments from the company/group,</li> <li>▪ a subsidiary undertaking or an associate in another capacity than as member of the</li> <li>▪ board of directors,</li> <li>▪ represent the interests of a controlling shareholder,</li> </ul> | We comply | <p>With the present composition of the Board of Directors, we comply with the recommendation that at least half the Board members elected by shareholders must be independent.</p> <p>Of the four Board members elected by shareholders, two are independent, whereas two (Chairman and Deputy Chairman) are not considered independent. The reasons for their not being considered independent are provided in the Company's annual report and on our website.</p>  |

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|   | <ul style="list-style-type: none"> <li>▪ within the past year, have had significant business relations (e.g. personal or indirectly as partner or employee, shareholder, customer, supplier or member of the executive management in companies with corresponding connection) with the company, a subsidiary undertaking or an associate.</li> <li>▪ be or within the past three years have been employed or partner at the external auditor,</li> <li>▪ have been chief executive in a company holding cross-memberships with the company,</li> <li>▪ have been member of the board of directors for more than 12 years, or</li> <li>▪ have been close relatives with persons who are not considered independent.</li> </ul>   |           |   |
| <b>3.3. Members of the board of directors and the number of other executive functions</b> |   |           |   |
| 3.3.1.  | The Committee <b>recommends</b> that each member of the board of directors assesses the expected time commitment for each function in order that the member does not take on more functions than he/she can manage satisfactorily for the company.  | We comply | Prior to nominating a new Board member, the Chairman will make sure that such member has the time required to perform his or her duties on the Board of Directors and in their ongoing dialogue with the Chairman, the individual Board members will consider whether they have the necessary time to perform their duties as Board members.  |
| 3.3.2.  | <p>The Committee <b>recommends</b> that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the board of directors:</p> <ul style="list-style-type: none"> <li>▪ the position of the relevant person,</li> <li>▪ the age and gender of the relevant person,</li> <li>▪ whether the member is considered independent,</li> <li>▪ the date of appointment to the board of directors of the member,</li> <li>▪ expiry of the current election period,</li> <li>▪ other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises and</li> <li>▪ demanding organizational tasks, and</li> <li>▪ the number of shares, options, warrants and similar in the company, and other group companies of the company, owned by the member, as well as changes in the portfolio of the member of the securities mentioned which have occurred during the financial year.</li> </ul> | We comply | <p>The annual report and our website include a list of all Board members with all relevant details as well as information on whether the individual Board member is considered independent, when the individual member joined the Board of Directors, whether they were re-elected and that their election period is one year (four years for staff-elected Board members).</p> <p>At year-end 2014, all Board members were shareholders in the Company. The shareholding of each Board member and any changes in such holding in the past year will appear from our annual report.</p> |
| <b>3.4. Board committees</b>  |   |           |   |
| 3.4.1.  | <p>The Committee <b>recommends</b> that the company publish the following on the company's website:</p> <ul style="list-style-type: none"> <li>▪ the terms of reference of the board committees,</li> <li>▪ the most important activities of the committees during the year, and the number of meetings held by each committee, and</li> <li>▪ 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.</li> </ul>  | We comply | <p>At the end of 2014, the Company had established an audit committee and a nomination committee.</p> <p>The terms of reference of these committees as well as information on their members, the frequency of meetings etc. is available on the Company's website.</p>  |

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| 3.4.2. | The Committee <b>recommends</b> that a majority of the members of a board committee be independent.  | We do not comply | <p>Half, but not the majority, of audit committee members are independent. The Chairman of the audit committee is independent.</p> <p>None of the nomination committee members are independent.</p> <p>As far as the composition of these committees is concerned, we refer to the Company's website.</p>   |
| 3.4.3. | <p>The Committee <b>recommends</b> that the board of directors set up a formal <u>audit committee</u> composed such that</p> <ul style="list-style-type: none"> <li>▪ the chairman of the board of directors is not chairman of the audit committee, and</li> <li>▪ between them, the members should possess such expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit aspects of companies whose shares are admitted to trading on a regulated market.</li> </ul> | We comply        | <p>William Demant Holding's Board of Directors has established an audit committee.</p> <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>Audit committee meetings coincide with ordinary Board meetings. Prior to each meeting, a separate agenda is issued with fixed items and special reports predetermined in a full-year wheel chart for the audit committee.</p> <p>The audit committee members all have great financial knowledge and experience in accounting and auditing matters.</p> <p>The fee for the work carried out by the audit committee members is included in the approved Board of Directors' remuneration.</p> |
| 3.4.4. | <p>The Committee <b>recommends</b> that, prior to the approval of the annual report and other financial reports, the audit committee monitors and reports to the board of directors about:</p> <ul style="list-style-type: none"> <li>▪ significant accounting policies,</li> <li>▪ significant accounting estimates,</li> <li>▪ related party transactions, and</li> <li>▪ uncertainties and risks, including in relation to the outlook for the current year.</li> </ul>   | We comply        | <p>The audit committee's work is predetermined in a full-year wheel chart, including accounting policies, significant accounting estimates, related party transactions as well as uncertainties and risks etc.</p>  |
| 3.4.5. | <p>The Committee <b>recommends</b> that the audit committee:</p> <ul style="list-style-type: none"> <li>▪ annually assesses the need for an internal audit, and in such case, makes recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and</li> <li>▪ monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>   | 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 follow-up on any conclusions or recommendations by the internal audit function.</p>   |
| 3.4.6. | The Committee <b>recommends</b> that the board of directors establish a nomination committee chaired by the chairman of the board of directors with at least the following preparatory tasks:  | We comply        | <p>The Board of Directors of William Demant Holding has set up a nomination committee.</p> <p>The Chairman of the Board of Directors is Chairman of the nomination committee.</p>   |

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|   | <ul style="list-style-type: none"> <li>▪ describe the qualifications required by the board of directors and the executive board, and for a specific membership, state the time expected to be spent on having to carry out the membership, as well as assess the competences, knowledge and experience of the two governing bodies combined,</li> <li>▪ annually assess the structure, size, composition and results of the board of directors and the executive board, as well as recommend any changes to the board of directors,</li> <li>▪ annually assess the competences, knowledge and experience of the individual members of management, and report to the board of directors in this respect,</li> <li>▪ consider proposals from relevant persons, including shareholders and members of the board of directors and the executive board for candidates for the board of directors and the executive board, and</li> <li>▪ propose an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes.</li> </ul> |                  | <p>Nomination committee meetings are held as often as the Chairman finds it necessary however, at least once a year.</p> <p>The members of the committee and its terms of reference are published on our website.</p> <p>The fee for the work carried out by the nomination committee members is included in the approved Board of Directors' remuneration.</p>  |
| 3.4.7.  | <p>The Committee <b>recommends</b> that the board of directors establish a remuneration committee with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>▪ to recommend the remuneration policy (including the general guidelines for incentive-based remuneration) to the board of directors and the executive board for approval by the board of directors prior to approval by the general meeting,</li> <li>▪ make proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensure that the remuneration is in compliance with the company's remuneration policy and the assessment of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the board of directors and the executive board receive from other companies in the group, and</li> <li>▪ recommend a remuneration policy applicable for the company in general.</li> </ul>   | We do not comply | <p>The Board of Directors has adopted a very simple and clear remuneration policy for the Board members as well as for the Executive Board. The remuneration policy does not include any incentive pay or bonus schemes or other variable components.</p> <p>Proposals to change the adopted policy or the approved fee are discussed by the entire Board of Directors og forelægges generalforsamlingen til godkendelse.</p> <p>Due to the very simple remuneration policy the Board of Directors has determined that a remuneration committee is not required.</p> |
| 3.4.8.  | The Committee <b>recommends</b> that the remuneration committee do not consult with the same external advisers as the executive board of the company.  | We comply        | In questions relating to remuneration, our Board of Directors and our Executive Board do not use the same external advisers.   |
| <b>3.5. Evaluation of the performance of the board of directors and the executive board</b> |  |                  |  |
| 3.5.1.  | The Committee <b>recommends</b> that the board of directors establish an evaluation procedure where contributions and results of the board of directors and the individual members, as well as collaboration with the executive board are annually evaluated. Significant changes deriving from the evaluation should be included in the management commentary or on the company's website.  | We comply        | <p>The Board of Directors has adopted an evaluation procedure.</p> <p>The Chairman is in charge of an annual evaluation of the work done by the Board of Directors and reports back to the entire Board once a year. The Board members consider this evaluation satisfactory. The evaluation procedure is described on our website.</p>  |
| 3.5.2.  | The Committee <b>recommends</b> that in connection with preparation of the general meeting, the board  | We comply        | Under the Company's Articles of Association, the Board of Directors must consist of four to six Board members elected by the shareholders at the general   |

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|   | of directors consider whether the number of members is appropriate in relation to the requirements of the company. This should help ensure a constructive debate and an effective decision-making process in which all members are given the opportunity to participate actively.  |              | meeting in addition to the staff-elected Board members.<br><br>The Chairman of the Board and the nomination committee 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 Board members.   |
| 3.5.3.  | The Committee <b>recommends</b> that at least once every year the board of directors evaluate the work and performance of the executive board in accordance with predefined clear criteria.  | We comply    | In consultation with the other Board members, the Chairman of the Board evaluates once a year the work and results of the Executive Board.   |
| 3.5.4.  | The Committee <b>recommends</b> that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalized dialogue between the chairman of the board of directors and the chief executive officer and that the outcome of the evaluation be presented to the board of directors.   | We comply    | Once a year, the Chairman of the Board conducts an evaluation interview with the Executive Board where also the cooperation between the Executive Board and the Board of Directors is reviewed. The outcome of this evaluation is presented to the other Board members.  |
| <b>4. Remuneration of management</b>                    |  |              |  |
| <b>4.1. Form and content of the remuneration policy</b> |  |              |  |
| 4.1.1.  | The Committee <b>recommends</b> that the board of directors prepare a clear and transparent remuneration policy for the board of directors and the executive board, including <ul style="list-style-type: none"> <li>▪ a detailed description of the components of the remuneration for members of the board of directors and the executive board,</li> <li>▪ the reasons for choosing the individual components of the remuneration, and</li> <li>▪ a description of the criteria on which the balance between the individual components of the remuneration is based.</li> </ul> The remuneration policy should be approved by the general meeting and published on the company's website. | We comply    | The Board of Directors has adopted a very simple and transparent remuneration policy applicable to the Board of Directors and to the Executive Board. The policy is based on fixed remuneration. The policy is explained on the Company's website and is mentioned by the Chairman in his report at general meetings. Any future changes in the remuneration policy will be presented at the general meeting for adoption.<br><br>We have no incentive pay or bonus schemes covered by section 139 of the Danish Companies Act for the Executive Board or the Board of Directors. If such schemes are introduced, they will be subject to prior approval by the general meeting.<br><br>Board members' remuneration consists of a fixed basic fee per Board member. Presently, the Chairman's fee is determined to be three times the basic fee and the Deputy Chairman receives twice the basic fee. Audit committee and nomination committee members' remuneration is included in the basic fee.<br><br>In the opinion of the Board of Directors, the fixed fee reflects a competitive remuneration of the Board of Directors and the Executive Board. |
| 4.1.2.  | The Committee <b>recommends</b> that, <b>if the remuneration policy includes variable components,</b> <ul style="list-style-type: none"> <li>▪ limits be set on the variable components of the total remuneration package,</li> <li>▪ 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 terms,</li> <li>▪ there be clarity about performance criteria and measurability for award of variable components,</li> </ul>  | Not relevant | Remuneration of the Board of Directors and Executive Board is based solely on fixed fees for which reason this recommendation is not relevant at present.  |

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|   | <ul style="list-style-type: none"> <li>there be criteria ensuring that qualifying periods for variable components in remuneration agreements are longer than one calendar year, and</li> <li>an agreement is made which, in exceptional cases, entitles the company to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be misstated.</li> </ul> |                  |  |
| 4.1.3.  | The Committee <b>recommends</b> that remuneration of members of the board of directors does not include share options.  | We comply        | We have no incentive pay or bonus schemes covered by section 139 of the Danish Companies Act, including share option schemes or similar arrangements for the Board of Directors.   |
| 4.1.4.  | The Committee <b>recommends</b> that <b>if share-based remuneration is provided</b> , such programmes be established as roll-over programmes, i.e. the options are granted periodically and should have a maturity of at least three years from the date of allocation.   | Not relevant     | Remuneration of the Board of Directors and Executive Board is based solely on fixed fees for which reason this recommendation is not relevant at present.  |
| 4.1.5.  | The Committee <b>recommends</b> that agreements on termination payments should not amount to more than two years' annual remuneration.  | We do not comply | If the Company terminates the employment of the President & CEO, a notice period of 2.5 years has been agreed upon.  |
| <b>4.2. Disclosure of the remuneration policy</b>                                     |   |                  |  |
| 4.2.1.  | The Committee <b>recommends</b> that the company's remuneration policy and compliance with this policy be explained and justified annually in the chairman's statement at the company's general meeting.  | We comply        | The Company's remuneration policy and compliance with such policy will be explained in the Chairman's report at the annual general meeting.  |
| 4.2.2.  | The Committee <b>recommends</b> that the proposed remuneration for the board of directors 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.  |
| 4.2.3.  | The Committee <b>recommends</b> that the total remuneration granted to each member of the board of directors and the executive board by the company and other companies in the group, including information on the most important contents of retention and retirement/resignation schemes, be disclosed in the annual report and that the linkage with the remuneration policy be explained.                       | We comply        | Our annual report includes information on the remuneration paid to the individual Board members and the Executive Board in the period under review as well as the particulars of the Executive Board's retention and severance schemes.  |
| <b>5. Financial reporting, risk management and audits</b>                             |   |                  |  |
| <b>5.1. Identification of risks and transparency about other relevant information</b> |   |                  |  |
| 5.1.1.  | The Committee <b>recommends</b> that the board of directors in the management commentary review and account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.   | We comply        | The Board of Directors will consider essential strategic and business risks as well as risks in respect of the presentation of accounts and the Company's activities and results. Through dialogue with the Executive Board and the Company's auditors, the Board of Directors will get a good insight into the Company's risk profile. Furthermore, the Board of Directors is currently updated on market and business changes. The Company's risk management activities are outlined in our annual report. |
| <b>5.2. Whistleblower scheme</b>  |   |                  |  |
| 5.2.1.  | The Committee <b>recommends</b> that the board of directors decide whether to establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.   | We comply        | Once a year, the Board of Directors reviews the need for setting up a whistleblower scheme.<br><br>We have not yet set up a proper whistleblower scheme, but guidelines as to how staff may contact the Group's in-house legal advisers with information.  |

| <b>5.3. Contact to auditor</b> |  |           |   |
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| 5.3.1.                         | The Committee <b>recommends</b> that the board of directors ensure regular dialogue and exchange of information between the auditor and the board of directors, including that the board of directors and the audit committee at least once a year meet with the auditor without the executive board present. This also applies to the internal auditor, if any. | We comply | The Board of Directors and our auditors meet at least twice a year to maintain a dialogue and exchange information. Once a year, at the meeting where the financial statements are approved, the auditors and the Board of Directors also meet without the presence of the Executive Board. |
| 5.3.2.                         | The Committee <b>recommends</b> that the audit agreement and auditors' fee be agreed between the board of directors and the auditor on the basis of a recommendation from the audit committee.   | We comply | Prior to start-up of the auditing process, the auditors' remuneration and the audit agreement are agreed upon with the auditors. The auditors' remuneration is subject to approval by the audit committee and the Board of Directors.   |

26 February 2015