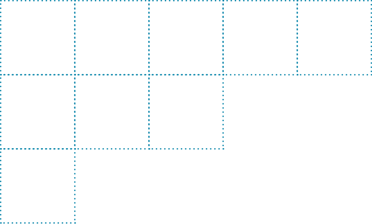
ANNUAL REPORT 2013

William Demant



The front cover shows images from Oticon's Speech Guard E technology film. Speech Guard E, which is available in Oticon's Premium hearing solutions, Alta, Alta Pro and Sensei Pro, preserves the natural characteristics of each voice and makes it easier for the user to intuitively engage in conversations.

BUILDING A UNIQUE POSITION IN HEARING HEALTHCARE 4
THE YEAR AT A GLANCE 6
KEY FIGURES AND FINANCIAL RATIOS 8
MANAGEMENT COMMENTARY 10
SHAREHOLDER INFORMATION 20
RISK MANAGEMENT ACTIVITIES 22
CORPORATE SOCIAL RESPONSIBILITY 24
CORPORATE GOVERNANCE 26
MANAGEMENT AND ORGANISATION 28
MANAGEMENT STATEMENT 31
INDEPENDENT AUDITOR'S REPORT 32
GROUP ACCOUNTING POLICIES 34
CONSOLIDATED FINANCIAL STATEMENTS 43
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 48
PARENT ACCOUNTING POLICIES 74
PARENT FINANCIAL STATEMENTS 75
NOTES TO PARENT FINANCIAL STATEMENTS 79
SUBSIDIARIES AND ASSOCIATES 86

BUILDING A UNIQUE POSITION IN HEARING HEALTHCARE

Dear reader,

With Oticon's introduction of a new technological platform, Inium, in early 2013 and also the launch of a new Premium family called Oticon Alta, our largest hearing aid brand embarked on a new journey offering not only a new platform, but also a new product portfolio, both of which generated renewed momentum for the Group. Alta became an important growth driver in 2013, and we succeeded in substantially increasing our market share in the Premium segment of the market. Now at the beginning of 2014, Oticon has almost completed the renewal of its entire product portfolio with the launch of new Inium-based hearing instrument families in basically all product segments and at all price points. Also, both Bernafon and Sonic now benefit from having updated product portfolios. The second half of 2013 turned out to be what is probably the busiest launch period the Group has ever had. Thus, 2013 proved to be an important turning point for the Group after a difficult 2012 where we suffered under a partly outdated product portfolio and tough comparative figures. 2014 is expected to be another good year for the Group, as all our business activities are well-positioned for further growth.

"Our Group is now the company in the world with the strongest offering of hearing solutions and equipment for the measurement and treatment of hearing loss"

To enhance our hearing healthcare activities, we decided to enter the cochlear implant market by acquiring the French manufacturer Neurelec in 2013. This is a major milestone for the Group, as this acquisition has significantly cemented our position as one of the world's strongest hearing healthcare companies. Our main ambition is to have the industry's broadest and deepest product offering that covers all aspects of hearing care; is based on true innovation; is delivered to customers and end-users through a multi-brand approach and is backed by a comprehensive global distribution set-up and efficient shared services.

By acquiring Neurelec, we got access to know-how, skills, technologies and a strong platform for fully implantable hearing solutions in a market segment characterised by significant, long-term growth potential. The decision to acquire Neurelec was the natural continuation of our successful efforts in bone-anchored hearing systems – an area in which we have, within a few years, captured more than a quarter of the world market.

However, the size of our investment in Neurelec, which amounted to DKK 428 million, does not really reflect the actual strategic importance of this acquisition to the Group as a whole. With a global market share of just 2% at the time of acquisition, we are obviously not a market leader in the field of cochlear implants, but we now have a solid platform to grow from, so in the longer run, the clear goal is to become one of the leading players in cochlear implants. The fact that we now have the potential to benefit from the solid growth rates to be found in the cochlear implant field in the next many years and thus to significantly outgrow the cochlear implant market will strengthen the Group's overall growth profile, but will, not surprisingly, dilute our profitability at the beginning. Over time, Neurelec is however expected to generate a profit ratio which will at least be on a par with the profitability ratio delivered by the Group's other business activities.

All in all, the three major business areas, i.e. traditional hearing aids, implantable devices and diagnostic instruments, complement each other in the best possible way. Our Group is now the company in the world with the strongest offering of hearing solutions and equipment for the measurement and treatment of hearing loss. The Group thus has a unique position in terms of alleviation of all kinds of hearing losses.

Over time, we expect to harvest significant synergies from this unique position, especially in research and development, but also in areas such as manufacturing and global wholesale distribution, and also from cross-selling between our business activities. Overall, we feel that we are in a strong position to meet our long-term strategic ambition. Also, we have gained a strong foothold in a number of markets, when it comes to fitting hearing instruments through our own network of hearing clinics.

In general, it is important to acknowledge that with a somewhat weak growth outlook for the traditional hearing instrument market, if measured in value, we have in part redirected our investment focus and investment capacity towards other areas within hearing healthcare. Obvious examples are our entry into the markets for bone-anchored hearing systems (BAHS) and cochlear implants (CI), respectively, under the Oticon Medical umbrella. Our decision to continue to acquire distribution activities and our ongoing focus on innovation and end-user benefits are other examples of how we keep investing in future growth opportunities despite the fact that these activities have a margin-dilutive impact in the short to mid term. This is particularly true for BAHS and CI where the major part of our total investment in future growth is recognised and expensed as research and development and marketing costs in the income statement as opposed to investments in fully established companies with dominant market positions and substantial market shares.

To support the Group's top-line growth and to ensure a continuously high level of profitability, we have based our future global business model on a clear structure: The sales organisation focuses on sales, and shared services centres deliver all back-office services, such as IT, HR and Finance, as well as Production, Supply Chain and Quality. To that end, we established DGS in early 2013 as the new identity for the internal shared services organisation with a view to ensuring a dedi-

cated effort towards consolidating back-office functions across Group companies and optimising our global supply chain. The vision of DGS is to support the William Demant Group's international brands and businesses through superior shared services, cost efficiency and customer insight. Our DGS set-up and the philosophy behind it will ensure higher flexibility when we acquire new businesses and also facilitate the availability of more specialised competencies when needed.*

Establishing DGS is a continuation of the efficiency efforts made in previous years and a natural part of our cost-conscious corporate culture. Examples of our current and most recent DGS activities are many: Expanding our production and distribution set-up in Poland; streamlining our global supply chain; offering ITE production and repair services to our European distribution companies; upgrading our global IT business infrastructure; expanding the number of local and regional DGS functions etc.

For the past two decades, basically all William Demant businesses have gained significant market shares, first and foremost achieved through innovation and effective execution and fuelled further by a selective acquisition strategy. Combined with continuous, high investments in research and development and global distribution, our multi-brand strategy is the right medicine to counterbalance the impact of increasingly fierce competition in the traditional hearing instrument market. Admittedly, this part of the market has been rather challenging in the last couple of years. Nevertheless, we have clearly demonstrated in the last few technology cycles that with dedicated focus on innovation, sound quality, speech understanding and customer orientation, it is indeed possible to outperform the market.

Another good example of our commitment to innovation and to meeting end-user needs is Oticon joining Apple's Made for iPhone programme in spring 2014 with Oticon's first Made for iPhone (MFi) connectivity solution for hearing instruments. In order to ensure that as many end-users as possible will be able to benefit from Oticon's MFi solution, availability will not be restricted to specific price segments. In fact, Oticon's MFi solution will be available for all existing and future users of Oticon's ConnectLine instruments across the price spectrum, including an installed base of around two million current users of Oticon hearing instruments. Based on 2.4 GHz wireless technology, our new MFi solution enables iPhone remote control of Oticon's ConnectLine hearing instruments, without compromising the audiological benefits and low power consumption that are indeed the hallmarks of Oticon's hearing instruments.

With the Group's entry in 2013 into the market for fully implantable devices and given the fact that – in all aspects of hearing healthcare – we now already have either a strong market position or a promising platform to grow from, we have obtained a very unique position in the market. In my view, this is a privilege, so it is our obligation to make sure that we get the most out of it.

Finally, I would like to take this opportunity to thank all our dedicated and talented employees around the world for their performance and solid contribution to the results achieved in 2013. The right employees and their various skills are essential in order for us to fulfil our high ambitions – both in 2014 and in the years to come.

Niels Jacobsen
President & CEO

THE YEAR AT A GLANCE

In 2013, the Group's consolidated revenue exceeded DKK 9.2 billion, corresponding to a 10% growth rate in local currencies. Exchange rates had a negative impact of 2 percentage points, and organic growth and acquisitions contributed by more than 3 and 6 percentage points, respectively. Earnings per share were DKK 23.1, which is 14% above the level realised in 2012.

Operating profit (EBIT) amounted to DKK 1,784 million, or an increase of 8%, and was mainly driven by solid growth in our gross profit, even if this growth was dampened by deteriorating sales in Denmark and the Netherlands. In 2013, our profit margin was 19.4% and thus on a par with the margin realised in 2012. When considering the significant dilutive effect of acquisitions, such as Neurelec and various distribution networks, and also the changes to reimbursement systems in Denmark and the Netherlands, we find our profit margin satisfactory.

In 2013, the global demand for hearing aids again proved to be stable, and the industry saw positive volume growth rates slightly exceeding our normal expectations of 2-4% volume growth. In our estimation, the average selling price on the market for hearing aids declined by approximately the same percentage as volumes increased in 2013, primarily due to changes in channel mix and reimbursement systems. The high demand by the NHS (National Health Service) in the UK and the changes to hearing healthcare systems in Denmark and the Netherlands clearly had a negative impact on average wholesale prices. In terms of value, the overall market growth rate in 2013 was, in our estimation, flat.

In our core business, wholesale of hearing aids, the organic growth rate exceeded 5%, when adjusting for the impact from the Danish and Dutch markets. Unadjusted, we realised 3% organic growth in a market estimated to have seen flat growth in terms of value.

With the launch of the Premium product Oticon Alta in January 2013, Oticon launched its first hearing instrument based on the new Inium platform. The secret behind Alta is Oticon's unique feature, Speech Guard E, enabling outstanding performance in the most difficult listening situations. Alta became an important growth driver in 2013, and we succeeded in substantially increasing our market share in the Premium segment of the market.

With the launch in autumn of the mid-priced product Oticon Nera and a completely new and very advanced paediatric family called Oticon Sensei, the renewal of Oticon's product portfolio continued. For Bernafon, growth was driven by the launch of the high-end instruments called Acriva and the new mid-priced instruments called Carista. Sonic saw fair growth in 2013 and is expected to continue its growth path in 2014.

With the acquisition of the French manufacturer of cochlear implants, Neurelec, the Group took a crucial step towards becoming a full-line hearing implant manufacturer and thus a true hearing healthcare company. Now a part of the Group,

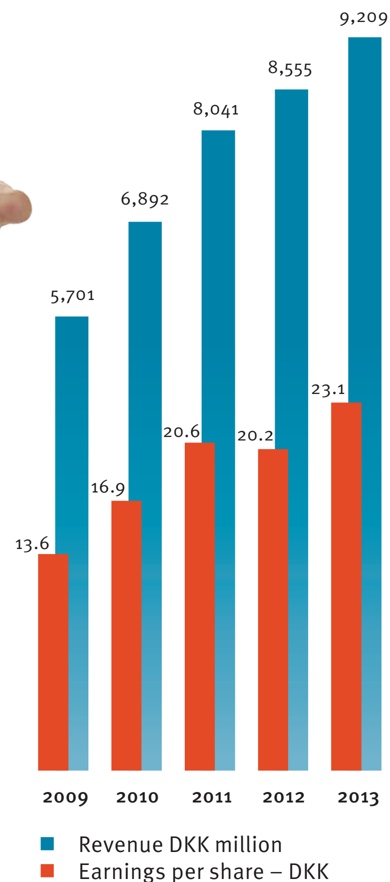
Neurelec will gain access to state-of-the-art sound processing, wireless technologies, audiological knowledge, a strong capital base and a global distribution network. Since the acquisition of Neurelec in April 2013, sales have been in tune with the initial plans made, including a high and increasing level of research and development activities with a dilutive effect on earnings.

Oticon Medical's activities in bone-anchored hearing systems (BAHS) saw satisfactory growth in 2013 and once again captured market shares. We also saw the rapid penetration of the introduced tissue preservation surgical techniques. A new wireless Ponto Plus sound processor based on the Oticon Inium platform was released for sale late in the year, and feedback from our customers has been very positive. Ponto Plus is expected to be the main growth driver in 2014 for this part of the Group, and we are confident that it will help us strengthen our position in both existing and new markets.

The Group's retail activities, which are part of our Hearing Devices business activity, realised a double-digit growth rate in 2013, which was to a large extent driven by acquisitions. After a few years of intense acquisition activities, we do, however, expect the acquisition pace to slow down in the years to come. In the period under review, development in our retail activities was in line with development on the markets where we operate.

Revenue in Diagnostic Instruments totalled DKK 883 million, or an 8% increase in local currencies. Half of this growth was organic growth. Diagnostic Instruments accounted for 10% of consolidated revenue in 2013. The total global market for diagnostic equipment is estimated to have grown by 3-4% in 2013, which means that this business activity has increased its market share due to a combination of organic and acquisitive growth.

Personal Communication generated revenue of DKK 379 million in 2013, matching an increase of as much as 28% in local currencies. The strong growth in Personal Communication was mainly driven by strong growth in Sennheiser Communications, especially in the CC&O segment driven by Unified Communication (UC).

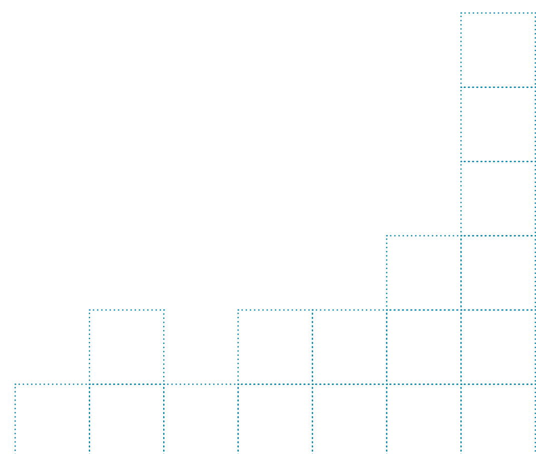


KEY FIGURES AND FINANCIAL RATIOS – DKK

	2013	2012	2011	2010	2009
INCOME STATEMENT, DKK MILLION					
Revenue	9,209	8,555	8,041	6,892	5,701
Gross profit	6,672	6,127	5,777	4,959	4,035
Research and development costs	664	652	633	615	576
EBITDA	2,079	1,920	1,942	1,654	1,341
Amortisation and depreciation etc.	295	267	233	224	192
Operating profit (EBIT)	1,784	1,653	1,709	1,430	1,149
Net financial items	-72	-132	-103	-116	-94
Profit before tax	1,712	1,521	1,606	1,314	1,055
Profit for the year	1,311	1,151	1,199	988	795
BALANCE SHEET, DKK MILLION					
Net interest-bearing debt	2,249	1,804	1,548	1,869	1,575
Assets	10,357	8,777	7,646	6,786	4,626
Equity	5,080	4,059	3,304	2,443	1,302
OTHER KEY FIGURES, DKK MILLION					
Investment in property, plant and equipment, net	394	310	382	251	181
Cash flow from operating activities (CFFO)	1,320	1,272	1,381	826	950
Free cash flow	851	782	895	494	656
Average number of employees	9,120	8,025	7,392	6,318	5,674
FINANCIAL RATIOS					
Gross profit ratio	72.5%	71.6%	71.8%	71.9%	70.8%
EBITDA margin	22.6%	22.4%	24.2%	24.0%	23.5%
Profit margin (EBIT margin)	19.4%	19.3%	21.3%	20.7%	20.2%
Return on equity	28.5%	31.8%	41.7%	49.5%	87.2%
Equity ratio	49.0%	46.2%	43.2%	36.0%	28.1%
Earnings per share (EPS), DKK*	23.1	20.2	20.6	16.9	13.6
Cash flow per share (CFPS), DKK*	23.3	22.3	23.7	14.1	16.3
Free cash flow per share, DKK*	15.0	13.7	15.4	8.5	11.2
Dividend per share, DKK*	0	0	0	0	0
Equity value per share, DKK*	89.7	71.2	56.7	41.9	22.3
Price earnings (P/E)	23	24	23	24	29
Share price, DKK*	527	484	478	414	393
Market cap. adjusted for treasury shares, DKK million	29,754	27,419	27,397	24,173	22,894
Average number of shares outstanding, million	56.62	57.02	58.24	58.35	58.31

Financial ratios are calculated in accordance with "Recommendations and Financial Ratios 2010" from the Danish Society of Financial Analysts. The free cash flow is calculated as the sum of cash flow from operating activities (CFFO) and investing activities (CFFI) before acquisition of enterprises, participating interests and activities. On computation of the return on equity, average equity is calculated duly considering the buy-back of shares.

**Per share of DKK 1.*



KEY FIGURES AND FINANCIAL RATIOS – EUR**

	2013	2012	2011	2010	2009
INCOME STATEMENT, EUR MILLION					
Revenue	1,235	1,147	1,078	924	764
Gross profit	895	822	775	665	541
Research and development costs	89	87	85	83	77
EBITDA	279	257	260	222	180
Amortisation and depreciation etc.	40	36	31	30	26
Operating profit (EBIT)	239	222	229	192	154
Net financial items	-10	-18	-14	-15	-13
Profit before tax	230	204	215	176	141
Profit for the year	176	154	161	133	107
BALANCE SHEET, EUR MILLION					
Net interest-bearing debt	301	242	207	251	211
Assets	1,388	1,176	1,025	910	620
Equity	681	544	443	327	175
OTHER KEY FIGURES, EUR MILLION					
Investment in property, plant and equipment, net	53	42	51	34	24
Cash flow from operating activities (CFFO)	177	171	185	111	127
Free cash flow	114	105	120	66	88
Average number of employees	9,120	8,025	7,392	6,318	5,674
FINANCIAL RATIOS					
Gross profit ratio	72.5%	71.6%	71.8%	71.9%	70.8%
EBITDA margin	22.6%	22.4%	24.2%	24.0%	23.5%
Profit margin (EBIT margin)	19.4%	19.3%	21.3%	20.7%	20.2%
Return on equity	28.5%	31.8%	41.7%	49.5%	87.2%
Equity ratio	49.0%	46.2%	43.2%	36.0%	28.1%
Earnings per share (EPS), EUR*	3.1	2.7	2.8	2.3	1.8
Cash flow per share (CFPS), EUR*	3.1	3.0	3.2	1.9	2.2
Free cash flow per share, EUR*	2.0	1.8	2.1	1.1	1.5
Dividend per share, EUR*	0	0	0	0	0
Equity value per share, EUR*	12.0	9.5	7.6	5.6	3.0
Price earnings (P/E)	23	24	23	24	29
Share price, EUR*	71	65	64	56	53
Market cap. adjusted for treasury shares, EUR million	3,988	3,675	3,672	3,240	3,069
Average number of shares outstanding, million	56.62	57.02	58.24	58.35	58.31

Financial ratios are calculated in accordance with "Recommendations and Financial Ratios 2010" from the Danish Society of Financial Analysts. The free cash flow is calculated as the sum of cash flow from operating activities (CFFO) and investing activities (CFFI) before acquisition of enterprises, participating interests and activities. On computation of the return on equity, average equity is calculated duly considering the buy-back of shares.

**Per share of DKK 1.*
***On the translation of key figures and financial ratios from Danish kroner to euro, Danmarks Nationalbank's rate of exchange at 30 December 2013 of 746.03 has been used for balance sheet items, and the average rate of exchange of 745.80 has been used for income statement and cash flow items.*

MANAGEMENT COMMENTARY

Market conditions

The hearing aid market in general

In 2013, the global demand for hearing aids again proved to be stable, and the industry saw positive volume growth rates, slightly exceeding our normal expectations of 2-4% volume growth. Growth estimates are mainly based on available statistics from a number of key markets, and despite the fact that they only cover some two thirds of the approximately 11 million units sold per year, these statistics should serve as a reasonable proxy for determining global unit growth.

US growth in line with global growth

With a 5% unit growth rate in 2013, the rate of growth on the US market, the world's largest single market for hearing aids, was in line with the global market growth rate. Once again, the US Government's demand through Veterans Affairs (VA) exceeded growth in the commercial market. Overall, demand by VA rose by 7%, while the unit growth rate in the private sector of the US market was 4%, which is in line with the historical average for this part of the market.

European growth positively impacted by the NHS

European growth in 2013 was influenced by unusual circumstances in several key markets, resulting in some fluctuations throughout the year: Growth in Denmark and the Netherlands was adversely affected by a reduction in subsidies at the beginning of 2013. Structural changes in hearing healthcare services in Norway reduced growth in this market in the first half-year due to postponed invoicing. Germany changed its subsidy system as of 1 November, and following a wait-and-see approach prior to these changes, the German market came out of 2013 with improved momentum. In the UK, 2013 was characterised by a low double-digit volume growth rate, which was to a high degree due to strong demand by the National Health Service (NHS). Part of the growth experienced by the NHS is attributable to the Any Qualified Provider (AQP) scheme according to which some NHS hearing instruments are dispensed to end-users via Specsavers Hearing Centres. Growth in the commercial part of the UK market was within the expected range of 2-4%.

The overall European unit growth rate in 2013 is estimated to have exceeded the historical growth rate. However, a considerable part can be attributed to the significant contribution by the NHS.

Slowdown in Japanese growth

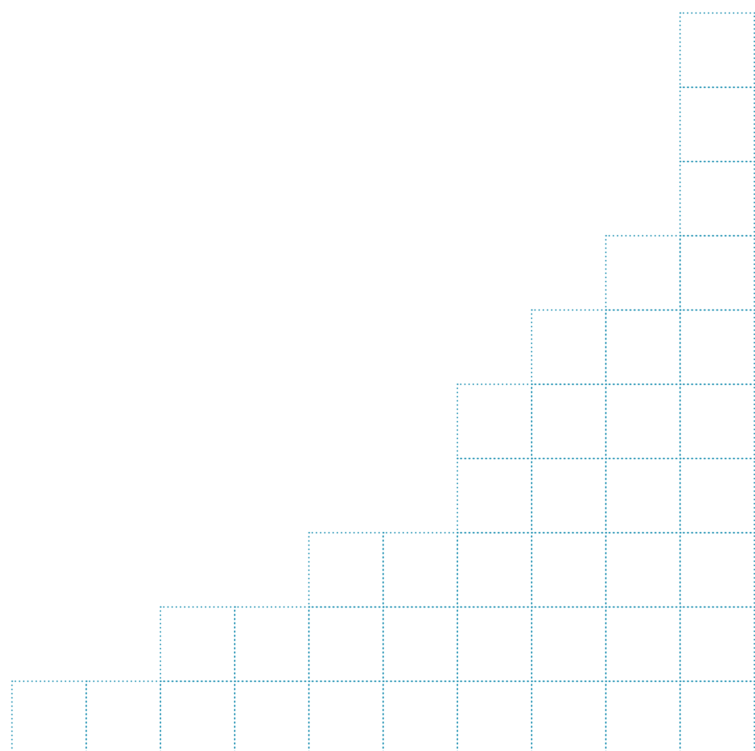
After some years with fair growth on the Japanese market, we witnessed a gradual slowdown in the period under review, and the growth rate is thus thought to be lower than the global growth rate. The Japanese market still has a lower penetration rate than most developed markets for hearing aids and therefore appears to hold unexploited potential.

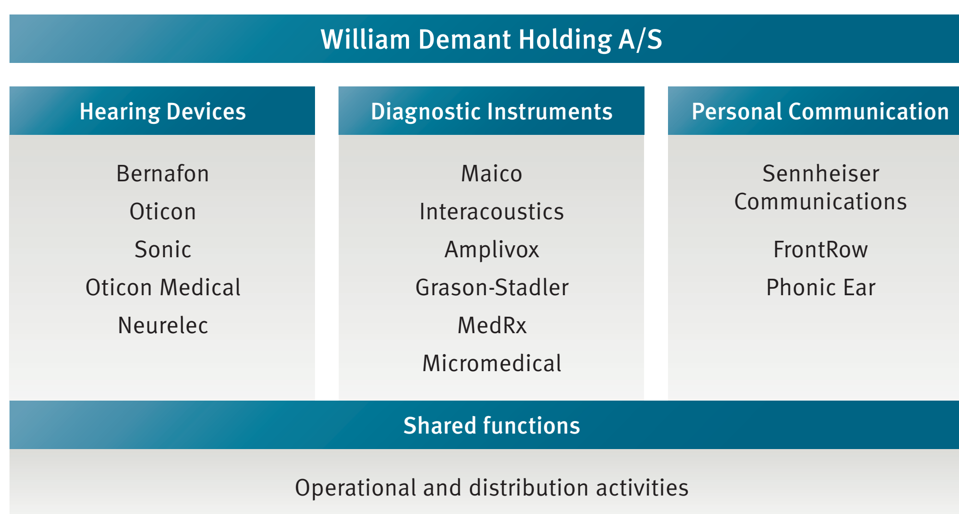
Average selling prices

The global average selling price is to a greater extent than global unit growth based on an estimate, since data on market prices and product mixes are limited. In our estimation, the average selling price on the market for hearing aids declined by approximately the same percentage as volumes increased in 2013, primarily due to changes in channel mix and reimbursement systems. The high demand by the NHS and changes to hearing healthcare systems in Denmark and the Netherlands clearly had a negative impact on average selling prices. In terms of value, the overall market growth rate was, in our estimation, flat.

Focus on user needs

By continuously developing and delivering increasingly discreet and user-friendly solutions, hearing aid manufacturers considerably help to counter the stigmatisation that many hearing-impaired people see as the greatest impediment to investing in a hearing aid and thus alleviating their hearing loss. The cosmetic aspect is, however, only one prerequisite for meeting the goal of satisfying users. Above all, solutions must enable users to live an active life and interact effortlessly with others in social contexts regardless of age and skills. One of our industry's major challenges is thus to ensure proper fitting of the right hearing solutions in order for the user to get maximum joy and benefit from the hearing aid. Audiologists and hearing care professionals therefore play an increasingly vital role in relation to end-users, both before and after the fitting, and thus help to ensure that the user gets maximum benefit from the new hearing aid and its wireless accessories.





The William Demant Group is a leading international hearing healthcare company, which develops, manufactures and sells products and equipment designed to aid people with hearing loss in their individual communication. Focus areas are: Hearing Devices, Diagnostic Instruments and Personal Communication. The Group operates in a global market with own companies in more than 25 countries, a total staff of over 9,000 employees and revenue of over DKK 9 billion.

Hearing Devices

Market share gains driven by new products

In the period under review, Hearing Devices, including Oticon Medical and our retail activities, realised an overall growth rate of 9% in local currencies (8% excluding Oticon Medical). The Group's core activities, or the development, manufacture and wholesale of hearing aids, realised an organic growth rate of 3%, thereby exceeding the market growth rate by approximately 3 percentage points. This development can be attributed to a strong product offering. Due to our relatively strong position in Denmark and the Netherlands, the structural changes in these two markets had a noticeably adverse effect on organic growth of DKK 120-140 million in total. If we disregard these two markets, our organic growth in the wholesale of hearing aids did in fact exceed 5%.

Oticon's product launches

With the introduction of the Premium product Oticon Alta in January 2013, Oticon launched its first hearing instrument based on the new Inium platform. The secret behind Alta is Oticon's unique feature, Speech Guard E, that maintains the natural dynamics of sound, thereby enabling outstanding performance in the most difficult listening situations. The ideal hearing solution should not just amplify sound and thus enable the user to hear sound. The challenge is to amplify sound without distorting or corrupting it, thereby retaining all the subtle nuances of sound and in particular the clarity of sound. The brain will thus get all the information it needs in order to easily and effortlessly understand speech, process messages and respond to such messages. This is where Alta stands out from other good hearing aids.

A few weeks after its launch, Alta was available in all styles on all the Group's main markets. The substantial improvements in Alta compared with previous Premium instruments, such as twice the working memory, a significantly improved anti-feedback system and a unique customisation tool, resulted in very positive responses from both end-users and dispensers. Alta became an important growth driver in 2013, and we succeeded in substantially increasing our market share in the Premium segment of the market.

Our practice of launching products in only one price category at a time meant that for the first three quarters of the year, Oticon's product portfolio consisted of ageing mid-priced products. Since most of our competitors have changed their launch strategies and decided to launch their latest platforms in all price points at the same time, we saw fiercer competition in the mid-priced segment, which dampened our overall growth. With the launch of the mid-priced product Oticon Nera at the end of the third quarter of 2013, we have strengthened our product portfolio significantly. Built on the Inium platform, Oticon Nera offers features that have not previously been available in the mid-priced segment, including true binaural processing, feedback shield and YouMatic. Nera was well received by hearing aid dispensers and end-users alike and is expected to contribute positively to growth in the coming quarters.

With the introduction of Oticon Ria in the Essential category in February 2014, we now have a completely updated product offering in all three Performance categories – and all of them based on the Inium platform. September 2013 also saw the introduction of Oticon Sensei, which is Oticon's most advanced paediatric hearing aid family so far. This milestone in audiology for children is the result of extensive cooperation with a string of leading experts in this area. Some of the areas in which Sensei excels are speech understanding and ease of fitting, and the product family thus supports our efforts to strengthen our position in this niche segment. The many product launches in 2013 and 2014 should put us in a relatively stronger position than the competition in the following quarters.

In spring 2014, Oticon will join Apple's Made for iPhone programme with Oticon's first Made for iPhone (MFi) connectivity solution for hearing instruments. In order to ensure that as many end-users as possible will be able to benefit from Oticon's MFi solution, availability will not be restricted to specific price segments. In fact, Oticon's MFi solution will be available to all existing and future users of Oticon's ConnectLine instruments across the price spectrum, including an installed base of around two million current users of wireless Oticon hearing instruments. Based on 2.4 GHz wireless technology, our new MFi solution enables iPhone remote control of Oticon's ConnectLine hearing instruments, without compromising the audiological benefits and low power consumption that are indeed the hallmarks of Oticon's hearing instruments. The controllable functions include program choice, volume control etc., and this is a clear signal that we are further exploiting the potential benefits to be derived from the new wireless technologies.

Updated product portfolios securing growth in Bernafon and Sonic

For Bernafon, growth in 2013 was driven by important product introductions of particularly the high-end instruments called Acriva 9/7 in April and the mid-priced instruments called Carista 5/3 in September. Bernafon's now very strong product offering must in 2014 be used to attract, among others, new large-volume customers in more markets, such as retail chains and purchase groups, and also for government tenders.

In 2013, Sonic continued the positive trend of re-establishing itself as a viable brand with new interesting product concepts based on new technology. A completely reshaped business, today's Sonic is in stark contrast to the business that joined the William Demant Group at the end of 2010. Sonic saw fair growth in 2013 and is expected to continue its growth path in 2014.

NHS and VA

Our Group remains the largest supplier of hearing aids to the NHS in the UK although we saw a small drop in market share in 2013, which is due to the fact that we do not supply hearing aids to Specsavers Hearing Centres through the NHS' Any Qualified Provider (AQP) programme. Sales to VA in the USA were realised below expectations, as we lost market share with VA in 2013. A few, but important shortcomings prevented us from growing our sales to VA, but we expect to bypass them in 2014 and going forward.

Retail activities

In the period under review, development in our corporate retail activities was in line with development on the markets where we operate. A few markets, such as Australia and the Netherlands, saw negative growth rates, which of course impacted our ability to grow. However, in overall terms 2013 was a fairly satisfactory year for our retail activities, which saw double-digit growth rates, mainly driven by acquisitions made in 2012 and 2013. Organic growth in this part of the Group's activities matched growth in the markets in which we have distribution activities. We have incurred additional expenses in connection with the integration and reorganisation of our acquired retail businesses, and we expect our continued efforts to optimise our retail operations to result in improved profitability in this part of our business in the years to come.

Entering the cochlear implant market – a major milestone for Oticon Medical

With the acquisition of the French manufacturer of cochlear implants (CI), Neurelec SA, the William Demant Group has taken a crucial step towards becoming a full-line hearing implant manufacturer and thus a true hearing healthcare company, offering a full range of hearing solutions. The William Demant Group's entry into this part of the implant market, which is characterised by significant growth potential, is a natural continuation of our successful stake in bone-anchored hearing systems (BAHS) – an area in which we have, within a few years, captured about a fourth of the world market. We will keep focusing on bringing high-quality cochlear implants to the market, and we will benefit from Neurelec's strong history in terms of patient safety, quick surgery and good clinical support, which are some of the reasons why several of the world's leading surgeons have decided to work with our cochlear implants. Being part of the William Demant Group is crucial for the future expansion of the cochlear implant

business, as it gives access to state-of-the-art sound processing, wireless technologies, audiological knowledge, a strong capital base and a global distribution network. Since the acquisition in April 2013, sales have been in tune with the initial plans made, including a high and increasing level of research and development activities with a dilutive effect on earnings.

The BAHS business of Oticon Medical saw satisfactory growth in 2013 and once again captured market shares. We also saw the rapid penetration of the introduced tissue preservation surgical techniques, and surgeons have been quick to adapt to these new methods. On 1 November, the new wireless Ponto Plus sound processor family based on the Oticon Inium platform was released for sale. The product range is very well received by our customers. The Ponto Plus family of processors enables users to hear more everyday sounds by providing more power and a range of wireless communication options and by reducing feedback by means of the well proven Inium feedback shield. Oticon Medical's tissue preservation surgical techniques and the Ponto Plus family were cleared by the FDA in late December 2013. Both will be the main growth drivers in 2014, and we are confident that they will help us strengthen our position in existing as well as new markets.

Diagnostic Instruments

Diagnostic Instruments, a global market leader in diagnostic equipment, grew satisfactorily in 2013 by 8% in local currencies. Half of this growth was driven by the acquisition of mainly SIDs (Special Instrument Distributors) in the USA. The total global market for diagnostic equipment is estimated to have grown by 3-4% in 2013, and Diagnostic Instruments has increased its market share due to a combination of organic and acquisitive growth.

As a result of our active participation in recent years' industry consolidation, our Diagnostic Instruments business activity today consists of six audiometer companies, and with the acquisition of SIDs, not only our distribution, but indeed our business has been further strengthened, as we have managed to increase the sale of own products through these SIDs. We will continue to look for new acquisition opportunities, but we will first and foremost focus on integrating and developing the companies already acquired. Today, this business activity enjoys strong market positions in most product categories, and with its multi-brand strategy, it covers every major customer segment in all the important geographic regions. The fact that Diagnostic Instruments now consists of many brands and offers a broad product programme makes it possible to focus on specific product areas and customer segments for each brand, thus ensuring continued organic growth. The multiple product introductions by Maico, Grason-Stadler and Interacoustics in autumn 2013 have further strengthened our competitiveness and will be among the drivers of continued growth in 2014.

Personal Communication

In 2013, Personal Communication realised a satisfactory 28% growth rate in local currencies. This growth was to a large extent driven by strong organic growth in Sennheiser Communications, especially in the CC&O (Call Center and Office) segment driven by Unified Communication (UC).

Personal Communication comprises Phonic Ear (including FrontRow), a manufacturer of assistive listening devices and wireless sound systems, and our joint venture Sennheiser Communications, a manufacturer of both professional and consumer headsets for the PC, mobile phone and CC&O segments. As mentioned in our Interim Report 2013, Sennheiser Communications has moved its inventory closer to the customers, as the inventory was acquired by Sennheiser AG. The full-year impact of this one-off sale of inventory accounts for only one third of the overall growth generated in Personal Communication. In the same period, FrontRow, whose primary activity is the sale of sound systems to schools and public institutions, has come back on the growth track and has done well, realising a double-digit growth rate in revenue in local currencies. Phonic Ear, which sells assistive listening devices and systems designed for hearing-impaired people, saw flat development in revenue.

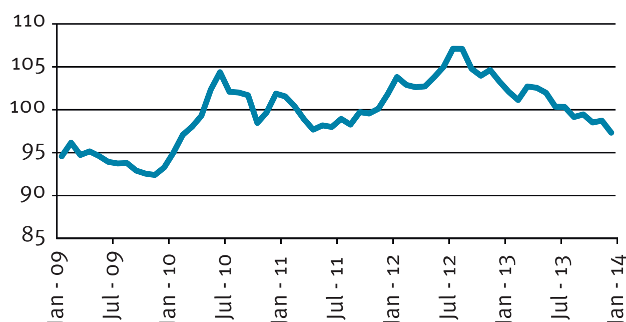
Financial review 2013

Revenue and foreign exchange

In 2013, we achieved satisfactory financial results in line with the outlook previously announced. Our consolidated revenue amounted to DKK 9,209 million, corresponding to a rate of growth of 10% in local currencies. Exchange rates had a negative impact of 2 percentage points, whereas organic growth and acquisitions contributed by more than 3 and 6 percentage points, respectively.

With 98% of consolidated sales being invoiced in foreign currencies, reported revenue is significantly affected by movements in corporate trading currencies. Based on the distribution of consolidated revenue in 2013 among the respective trading currencies, the graph below shows month-by-month trends in the Group's currency basket.

The Group's currency basket – indexed development



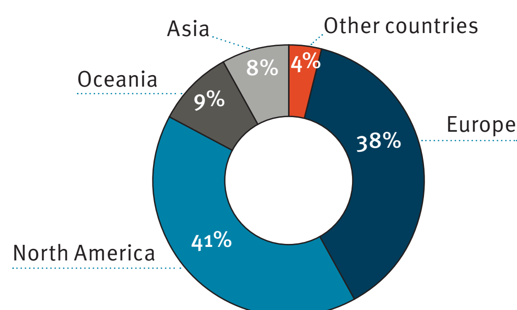
Index 100 = average for 2013

The negative exchange rate impact on consolidated revenue is in particular attributable to a weakening of some of our major invoicing currencies, such as the US dollar, the Japanese yen, the Canadian dollar and the Australian dollar. Based on average exchange rates, the US dollar depreciated by 3% in 2013 and the Japanese yen, Canadian dollar and Australian dollar by as much as 21%, 6% and 10%, respectively.

The year's total negative exchange rate impact on revenue of about 2% is composed of a negative currency translation effect of 4% and a positive transaction effect of 2%. The latter is the net effect of realised gains or losses on forward exchange contracts, which are used for hedging exchange rate risks and are recognised in the financial statements together with the revenue in foreign currencies that such forward exchange contracts are designed to hedge.

In 2013, the Group generated growth in North America of almost 14% in local currencies of which a considerable part was driven by acquisitions of mainly distribution networks for hearing instruments and diagnostic instruments. Our market share with Veterans Affairs (VA) dropped in 2013, and we have not managed to benefit from the high growth rates in this channel in the reporting year. This development is below our expectations, but we do expect our sales to VA to increase in the future, as we will intensify our focus on and our product offering to this customer. Both Diagnostic Instruments and Personal Communication realised high single-digit growth rates in local currencies in North America. North America accounted for 41% of total consolidated revenue.

Revenue by geographic region



Consolidated revenue in Europe grew by more than 6% in local currencies in 2013, with acquisitions accounting for most of this increase. Previously mentioned changes to subsidy systems in especially Denmark and the Netherlands adversely affected organic growth in Hearing Devices. However, adjusting for these unusual circumstances, we did well in Europe. Our two other business activities also delivered fair growth in Europe, especially Personal Communication, which realised a strong double-digit growth rate. Europe accounted for 38% of total consolidated revenue.

Revenue by business activity

			Percentage change	
DKK million	2013	2012	DKK	Local currency
Hearing Devices	7,947	7,410	7%	9%
Diagnostic Instruments	883	844	5%	8%
Personal Communication	379	301	26%	28%
Total	**9,209**	**8,555**	**8%**	**10%**

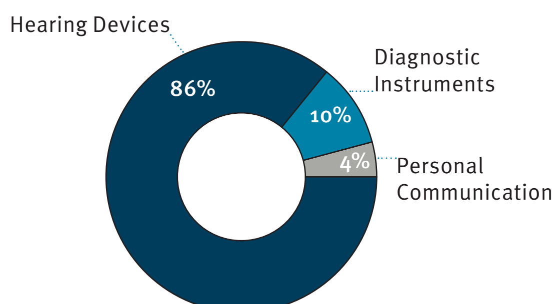
In 2013, our core business, wholesale of hearing aids, realised an organic growth rate of 3%. Growth was driven by multiple product introductions by our three hearing aid brands, but was partly offset by a noticeably adverse effect of the structural changes in Denmark and the Netherlands on organic growth to the tune of DKK 120-140 million. When adjusting for these unusual circumstances in Denmark and the Netherlands, our organic growth rate in the wholesale of hearing aids exceeded 5%.

The Group's retail activities, which are part of our Hearing Devices business activity, realised a double-digit growth rate in 2013, which was to a large extent driven by acquisitions. After a few years of intense acquisition activities, we do, however, expect these activities to slow down in the years to come.

In the period under review, revenue in Diagnostic Instruments totalled DKK 883 million, or an 8% increase in local currencies half of which growth was organic growth. Diagnostic Instruments accounted for 10% of consolidated revenue in 2013.

Personal Communication generated revenue of DKK 379 million in 2013, matching an increase of as much as 28% in local currencies. Sennheiser Communications was the main contributor to this strong growth. Personal Communication accounted for 4% of total consolidated revenue.

Revenue by business activity



Gross profit

In 2013, consolidated gross profit rose by 9% to DKK 6,672 million. The consolidated gross profit margin of 72.5% represents a rise of 0.9 percentage point compared with 2012. This improvement in our gross profit margin is the result of economies of scale and the continuous optimisation of production and procurement, especially in the wholesale of hearing instruments and diagnostic instruments, all of which has helped us lower our unit costs. We furthermore saw a positive effect from the addition of distribution activities to Hearing Devices and Diagnostic Instruments, whereas the positive effect of an improved product mix in the wholesale of hearing instruments was partly offset by lower sales in Denmark and the Netherlands as well as channel mix changes. Generally speaking, growing sales of Streamers and other wireless equipment have a negative impact on the gross profit margin, as these products are typically not sold at the same high gross profit margins as hearing aids.

Similarly, our strategy to forward integrate in the value chain through the acquisition of distribution activities is an ongoing effort that creates value for the Group and our shareholders, even if it does dilute the profit margin at the beginning and until we have streamlined and integrated the acquired units.

Capacity costs

Consolidated capacity costs in local currencies rose by 13% in 2013. Almost two thirds of this increase are, however, directly attributable to acquisitions. In addition to our many acquisitions, we are constantly planting seeds to reap the benefits of future growth opportunities, meaning that additional capacity costs will dilute our short-term profitability, but definitely have the potential of becoming margin-accretive in the longer term. Oticon Medical has taken the first major steps on this journey and in 2013, we took another big step by acquiring Neurelec. Of course, this acquisition had a dilutive effect on our EBIT margin in 2013, but holds great future potential in terms of profitability.

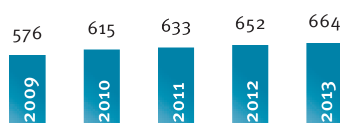
Capacity costs

			Percentage change	
DKK million	**2013**	**2012**	**DKK**	**Local currency**
R&D costs	664	652	2%	2%
Distribution costs	3,673	3,311	11%	16%
Administrative expenses	551	523	5%	9%
Total	**4,888**	**4,486**	**9%**	**13%**

Research and development costs

Driven by the acquisition of Neurelec, consolidated research and development costs in local currencies rose to DKK 664 million in the reporting period, or a modest increase of 2% in local currencies. This growth is, however, considerably below growth in revenue, as we are harvesting the synergies of our optimised research and development set-up, thereby supporting our multi-brand strategy of sharing core technologies across brands.

R&D costs – DKK million



Distribution costs

In terms of local currencies, distribution costs rose by 16%, two thirds of which are attributable to acquisitions. The rise in consolidated distribution costs, excluding acquisitions, therefore exceeds our organic growth in revenue. 2013 saw the further strengthening of corporate distribution activities, especially in Hearing Devices, including Oticon Medical, and in Diagnostic Instruments. After several years of intense acquisition activities and with the addition of multiple new entities and businesses all over the world, we are now in the process of optimising our global supply chain and back-office functions through various initiatives.

Administrative expenses

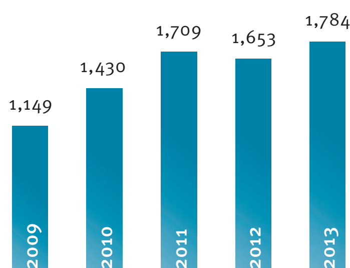
In 2013, consolidated administrative expenses in local currencies rose by 9%, with acquisitions accounting for one quarter of this increase. Part of this increase can be attributed to the strengthening of our IT platforms, which will enable us to become even more efficient when it comes to running our business.

Profit for the year

In the period under review, consolidated operating profit (EBIT) amounted to DKK 1,784 million, or an increase of 8% compared with 2012. This improvement was first and foremost due to solid growth in our gross profit, even if this growth was dampened by deteriorating sales in Denmark and the Netherlands. It has not been possible to adjust our cost bases in these two difficult markets to reflect the lower revenue, which has had a natural negative impact on our operating profit (EBIT). In 2013, our profit margin was 19.4% and thus on a par with the margin realised in 2012. When

considering the significant dilutive effect of acquisitions, such as Neurelec and various distribution networks, and also the changes to reimbursement systems in Denmark and the Netherlands, we find our profit margin satisfactory.

Operating profit (EBIT) – DKK million



As it appears from *Risk management activities* on page 22, we intend to hedge changes in exchange rates by matching positive and negative cash flows in the main currencies as much as possible and by entering into forward exchange contracts. With our current use of such contracts, forecast cash flows in the main currencies are hedged with a horizon of up to 24 months.

In addition to hedging by means of forward exchange contracts, we typically raise loans in foreign currencies to balance out net receivables.

At the end of the reporting year, the Group had entered into forward exchange contracts at a contractual value of DKK 681 million (DKK 1,093 million at 31 December 2012) and a fair value of DKK 42 million (DKK 26 million at 31 December 2012). As at 31 December 2013, our material contracts hedged the following currencies:

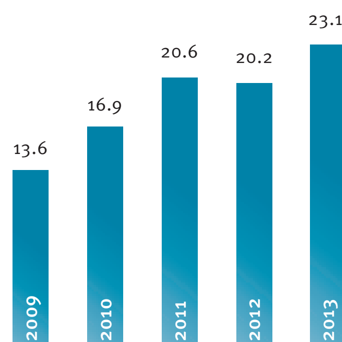
Forward exchange contracts at 31 December 2013

Currency	Hedging period	Hedging rate
USD	4 months	562
JPY	9 months	6.70
AUD	6 months	519
GBP	10 months	878
CAD	3 months	525

In 2013, consolidated net financial items amounted to DKK -72 million against DKK -132 million in 2012. The main reasons for this reduction in our financial expenses are lower interest rates and the extraordinary interest payment of DKK 37 million made in 2012 in connection with the now closed ETG case.

Consolidated profit before tax amounted to DKK 1,712 million, a satisfactory increase of 13% on 2012. Tax on the year's profit amounted to DKK 401 million, matching an effective tax rate of 23.4% (24.3% in 2012). Consolidated profit after tax amounted to DKK 1,311 million, or an increase of as much as 14%. Earnings per share (EPS) were DKK 23.1, which is a rise of over 14% on last year.

Earnings per share – DKK



At the annual general meeting, our Board of Directors will propose that the entire profit for the year be retained and transferred to reserves.

Equity and capital structure

Consolidated equity was DKK 5,080 million at 31 December 2013 (DKK 4,059 million at 31 December 2012), matching an equity ratio of 49.0%. The increase in equity is mainly due to retained earnings of DKK 1,311 million and to a lesser extent to a negative exchange rate effect of DKK 225 million. We continuously seek to have a net interest-bearing debt of DKK 2.0-2.5 billion and at 31 December 2013, our net interest-bearing debt, amounting to DKK 2,249 million, was well within this range. In 2013, the Company bought back shares worth DKK 101 million and at the end of the year held a total of 201,525 treasury shares acquired at an average price of DKK 500 since the launch of our current buy-back programme in August 2013. We did not carry through any capital increases in the period under review.

Consolidated equity

DKK million	2013	2012
Equity at 1.1.	**4,059**	**3,304**
Foreign currency translation adj., subsidiaries	-225	3
Value adjustments, hedging instruments	26	133
Profit for the year	1,311	1,151
Other adjustments including buy-back of shares	-91	-532
Equity at 31.12.	**5,080**	**4,059**

Consolidated cash flow

Consolidated cash flow from operating activities totalled DKK 1,320 million in 2013, which is an increase of 4% on the year before. Income tax paid in 2013 aggregated DKK 380 million, DKK 281 million of which was paid in Denmark.

The free cash flow grew by 9%, amounting to DKK 851 million, an increase of DKK 69 million compared with 2012. The improved cash flow can be attributed to an increase in the cash flow from operating activities and a slightly lower level of investing activities compared with 2012. In 2013, cash flow from investing activities (exclusive of acquisitions) totalled DKK 469 million (DKK 490 million in 2012). For 2014, we expect a similar level of investment.

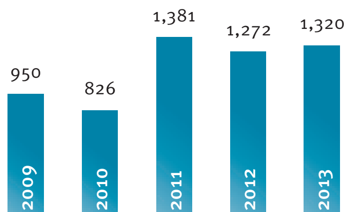
Cash flow by main items

DKK million	2013	2012
Operating profit (EBIT)	**1,784**	**1,653**
Cash flow from operating activities	1,320	1,272
Cash flow from investing activities	-469	-490
Free cash flow	**851**	**782**
Acquisition of enterprises, interests and activities	-1,176	-682
Financing activities	41	-600
Cash flow for the year	**-284**	**-500**

In 2013, we made a number of acquisitions, the largest acquisition being Neurelec, the French developer and manufacturer of cochlear implants, and also a number of acquisitions strengthening our distribution. The cash acquisition amount in respect of the acquisition of enterprises, participating interests and activities amounted to DKK 1,176 million for the year, including earn-out payments relating to prior-year acquisitions.

Financing activities in 2013, totalling DKK 41 million (DKK -600 million in 2012), relate to the buy-back of shares worth DKK 101 million (DKK 497 million in 2012). In 2013, we also took out new debt in the amount of DKK 652 million and repaid DKK 510 million.

Cash flow from operating activities – DKK million



Balance sheet

At 31 December 2013, the consolidated balance sheet sum was DKK 10,357 million, which is an increase of 18% compared with the balance sheet total at year-end 2012. The majority of this increase is attributable to goodwill, which at year-end 2013 was DKK 3,548 million (DKK 2,568 million at year-end 2012) and results from acquisitions, and the residual increase in the balance sheet can be attributed to organic growth. The balance sheet total includes a negative exchange rate impact of around 5%.

We continuously provide loans to our customers and at 31 December 2013, such loans amounted to DKK 429 million, which is a fall of DKK 48 million on the year before. This fall can be attributed to debt repayments and exchange rate impacts. The loan amount is expected to grow going forward and therefore also in 2014, however at a modest pace.

In 2013, our Board of Directors decided to raise the target for the Group’s net interest-bearing debt to DKK 2.0-2.5 billion from our previous range of DKK 1.5-2.0 billion. The consolidated net interest-bearing debt rose by DKK 445 million, amounting to DKK 2,249 million at the end of 2013. This rise can be attributed to acquisitions. Our continuous buy-back of shares can be adjusted to reflect the actual acquisition and investment level, so that the consolidated net interest-bearing debt is kept within the desired interval of DKK 2.0-2.5 billion. In 2013, we saw an increase in working capital due to increases in inventories and trade receivables.

In 2013, net financial contracts were positive by DKK 34 million. This amount is composed of unrealised gains and losses on forward exchange contracts of DKK 45 million and DKK 3 million, respectively, and of unrealised losses on interest swaps in the amount of DKK 8 million.

There have been no events that materially affect the assessment of this Annual Report after the balance sheet date and until today.

Board of Directors and employees

At our annual general meeting on 9 April 2013, Lars Nørby Johansen, Peter Foss, Niels B. Christiansen and Thomas Hofman-Bang were re-elected for one year. After the general meeting, the Directors elected Lars Nørby Johansen Chairman and Peter Foss Deputy Chairman of the Board of Directors.

At year-end, our Group had 9,514 employees (8,290 in 2012) of whom 1,553 were employed in Denmark (1,546 in 2012). The average number of staff (full-time equivalent) was 9,120 in 2013 (8,025 in 2012).

A significant reason for our success in 2013 is our many employees, who have made a great effort to ensure corporate progress. The Board would like to take this opportunity to thank everyone for their commitment and professionalism throughout the year.

Knowledge resources

Our aim for continuous growth in revenue and operating profit (EBIT) is rooted in our mission statement, which says that we must strive for a high level of innovation through a flexible and knowledge-based organisation. The prerequisite for the Group's continued competitiveness is extensive audiological know-how and a broad spectrum of competencies, such as further developing wireless technology, designing integrated circuits for sophisticated analogue and digital processing of sound signals, developing software for optimum fitting of hearing aids, designing micro-amplifiers and related acoustic systems as well as developing and manufacturing micromechanic components. An example of our dedicated focus on R&D is our acquisition of Neurelec, which for several years to come will drive a high level of R&D activities in order for us to realise the full potential of this acquisition and to benefit from our entry into the cochlear implant market.

The Group's products are made through the cooperation of a wide range of specialists, each with thorough knowledge of their own field, in-depth understanding of other professional areas and appreciation of the corporate approach. In order to utilise competencies and knowledge across the organisation, substantial resources are channelled into communication and knowledge sharing through a shared IT platform, a high degree of openness and the secondment of employees to other corporate companies.

Our corporate development centre in Denmark is a major catalyst for ongoing as well as future innovation projects. Eriksholm, our corporate research centre, also plays a key role in our endeavours to always be at the forefront of development, enabling us to deliver the most innovative solutions and giving end-users and hearing care professionals the most advantages.

The Oticon Foundation

William Demant Holding's majority shareholder, the Oticon Foundation, whose full name is *William Demants og Hustru Ida Emilies Fond*, was founded in 1957 by William Demant, son of the Company's founder Hans Demant. Its primary goal is to safeguard and expand the William Demant Group's business and provide support for various commercial and charitable causes with particular focus on the field of audiology. At the end of 2011, the majority of the Oticon Foundation's shares in William Demant Holding were transferred to its wholly-owned subsidiary, William Demant Invest. Charitable tasks are thus handled by the Foundation itself and the Foundation's business activities by William Demant Invest. Voting rights and decisions to buy or sell William Demant Holding shares are still exercised and made, respectively, by the Oticon Foundation.

In accordance with the Oticon Foundation's investment strategy, the Foundation's investments – apart from ownership in William Demant Holding – also include other assets, as the Foundation can make active investments in companies whose business models and structures resemble those of the William Demant Group, but are outside our strategic sphere of interest. The Foundation has made a management agreement on a commercial arm's length basis with William Demant Holding to the effect that the latter will handle the administration of the investments made through William Demant Invest.

Sound liquidity and a satisfactory free flow are important to obtain fair pricing of our shares at NASDAQ OMX Copenhagen. In autumn 2005, the Oticon Foundation therefore announced that in future it would strive to retain a direct or indirect ownership interest of 55-60% through, if necessary, the continuous sale of shares in the market. Any sale of shares by the Foundation is independent of any purchase of shares by the Company.

Market and business conditions going forward

The present outlook for the global hearing aid market – and thus for the Group – is subject to greater uncertainty than in the past owing to a range of structural factors, including growth in markets and distribution channels with lower average selling prices. Even though unit sales in the wholesale market for hearing instruments are expected to continue to grow steadily within the usual range of 2-4% per year, it is our best estimate that in terms of value, the global market for hearing aids is currently recording very modest growth at best. This situation is not likely to change in the short to mid term.

In this context of uncertainty, it is also worth noting that in January and February 2014, North America has been adversely impacted by unusual weather conditions with heavy snowfall and very low temperatures. Consequently, 2014 was off to a relatively slow start in North America, although we expect to see at least part of this pent-up demand being unleashed in the following months.

In the past years, we have successfully expanded and optimised our manufacturing facilities in Poland in order to secure an even better and more efficient production set-up for the Group. In 2014, we will complete the establishment of our new global distribution centre in Poland, a major project, leading to some restructuring costs in 2014, which is partly due to a temporary doubling of various functions until the new distribution set-up is in full operation. However, we expect efficiency gains in the new distribution centre in Poland from 2015 and onwards.

Our entry into the cochlear implant market through the acquisition of Neurelec is a major milestone for the Group, as it has significantly cemented our position as one of the world's strongest hearing healthcare companies. We will in the coming years not only be able to benefit from the solid growth rates to be found in the cochlear implant field, but also be able to significantly outgrow this market. This will definitely support the Group's overall growth profile, even if the first phase of integration and the initial research and development investments will have a dilutive impact on the Group's profitability. Over time, Neurelec is however expected to generate

a profit ratio which will at least be on a par with the profitability ratio delivered by the Group's other business activities.

With Oticon's introduction of a new technological platform, Inium, in 2013 and also with the launch of new Inium-based hearing instrument families in all product segments and at all price points, our largest hearing aid brand embarked on a new journey with a view to innovating the entire product portfolio. Also, both Bernafon and Sonic now benefit from having updated product portfolios. We have now been through what is probably the busiest launch period we have ever had, and we are solidly positioned for future market share gains.

Our three major business areas, i.e. traditional hearing aids, implantable devices and diagnostic instruments, complement each other very well. Our Group is now one of the largest hearing healthcare companies in the world with the broadest and deepest offering of hearing healthcare solutions and equipment for the measurement and treatment of hearing loss. Also, we have gained a strong foothold in a number of markets, when it comes to fitting hearing instruments through our own distribution network. However, acquiring distribution activities will usually generate revenue growth in the Group, but such acquisitions will dilute profitability, especially in the first couple of years. Despite the fact that the Group has made a large number of acquisitions since late 2012, we have – based on continuous improvements and economies of scale – succeeded in maintaining the Group's overall profitability. However, going forward we still have some room for improving profitability in our acquired businesses.

Over time, we expect to harvest significant synergies from our unique position in the hearing healthcare market, especially in research and development, but also in areas such as manufacturing and global wholesale distribution, and also from cross-selling between our business activities. Overall, we do feel that we are very well positioned to maintain our current position as one of the world's strongest hearing healthcare companies.

The Group's implementation of new IFRS accounting standards eliminates the option of proportionate consolidation of joint ventures from 1 January 2014. As described in detail on page 34 in this Annual Report, the changes will in particular affect the consolidation of the Group's 50% investment in the headset manufacturer Sennheiser Communications for which the result after tax will be recognised as a net amount in *Share of profit after tax, associates and joint ventures*. If these changes had been implemented already in the previous year, we would in 2013 have seen a reduction in consolidated revenue of DKK 250 million and a decrease in gross profit and operating profit (EBIT) of DKK 128 million and DKK 17 million, respectively. However, there would have been no impact on the Group's net result.

Outlook 2014

In the global hearing healthcare market, the Group holds a unique and very strong position, which we believe can be further strengthened in the years to come. At the same time, we as a Group are exposed to obvious uncertainties and challenges, including channel mix changes, price competition, short- to mid-term margin dilution from acquired distribution activities and the establishment of future growth platforms like our investment in cochlear implants. The structure and contents of the Group's outlook for 2014 are in essence a reflection of this balance.

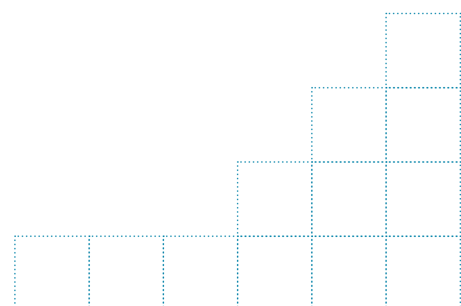
In 2014, we expect to continue to deliver growth in all of our business activities. As far as wholesale of hearing instruments is concerned, our growth will mainly be driven by fully updated and very competitive product portfolios combined with the ongoing conversion to Group-manufactured products in acquired distribution activities. For Oticon, growth will be backed by the Inium platform and further supported by Oticon joining Apple's Made for iPhone programme in spring 2014, result-ing in Oticon's first Made for iPhone connectivity solution for wireless hearing aids.

Acquisitions are expected to contribute by 3-4% to Group revenue in 2014, mainly driven by acquisitions made in 2013. Based on foreign exchange levels in late February, more than half of the positive impact from acquisitions will be offset by changes in exchange rates.

In consideration of a weakened set of invoicing currencies as well as gains from our hedging activities, exchange rates are expected to negatively affect the Group's operating profit (EBIT) in 2014 by around DKK 100 million compared with 2013.

In 2013, the Group once again generated a strong cash flow, reflected in a cash conversion ratio (CFFO/EBIT) of 74%. Also in 2014, we expect to deliver a high cash conversion ratio. Keeping in mind that our near-term acquisition opportunities are rather limited and that our net interest-bearing debt target is DKK 2.0-2.5 billion, we expect to be able to buy back Company shares worth more than DKK 500 million in 2014. In order to maintain a high level of flexibility, this level of share buy-back is subject to change, should additional attractive acquisition opportunities present themselves.

All in all, the Group will continue to deliver growth in earnings in 2014. Following a 14% growth rate in the Group's net profit and earnings per share (EPS) in 2013, we expect to see growth in EPS of 5-10% in 2014.



SHAREHOLDER INFORMATION

Capital

At 31 December 2013, the Company's authorised share capital was nominally DKK 56,661,638 divided into as many shares of DKK 1. The shares are not divided into classes and have the same rights.

William Demants og Hustru Ida Emilies Fond (the Oticon Foundation) has notified the Company that at 31 December 2013, the Foundation – directly or indirectly – held approximately 56% of the share capital. The Foundation has previously communicated its intention to maintain an ownership interest of 55-60% of William Demant Holding's share capital. The Capital Group Companies, Inc. (including accounts whose portfolios are managed by the company and its direct or indirect subsidiaries) holds more than 5% of the share capital in William Demant Holding A/S.

About 30% of the Group's employees are shareholders in the Company. All members of the Board and the Executive Board are shareholders in the Company. Shares held by employees and by members of the Board and the Executive Board account for just over 1% of the total share capital. In 2013, the Company bought back 201,525 shares at a total price of DKK 101 million.

As a result of a decision made by the general meeting, the Company cancelled its entire holding of treasury shares in the first half of 2013. The capital was reduced by nominally DKK 1,688,237 or as many treasury shares.

Share information

DKK	2013	2012	2011	2010	2009
Highest share price	544	597	495	480	396
Lowest share price	444	451	352	352	167
Share price, year-end	527	484	478	414	393
Market capitalisation*	29,754	27,419	27,397	24,173	22,894
Average no. of shares**	56,62	57.02	58.24	58.35	58.31
No. of shares at 31.12.**	56,46	56.66	57.64	58.35	58.35
Treasury shares at 31.12.***	0.202	1.688	0.709	0	0.606

* *DKK million excluding treasury shares.*
** *Million shares excluding treasury shares.*
*** *Million shares.*

Specification of movements in share capital

DKK 1,000	2013	2012	2011	2010	2009
Share capital at 1.1.	58,350	58,350	58,350	58,956	58,956
Capital increase	0	0	0	0	0
Capital reduction	-1,688	0	0	-606	0
Share capital at 31.12.	**56,662**	**58,350**	**58,350**	**58,350**	**58,956**

Powers relating to share capital

The annual general meeting of shareholders has authorised the Board of Directors to increase the share capital by up to nominally DKK 1,179,527 in connection with the issue of employee shares at a subscription price to be determined by the Board, however minimum DKK 1.05 per share of DKK 1. The authorisation is valid until 1 January 2016, but is no longer relevant due to new tax regulation adopted by the Danish Parliament in 2011. An employee share ownership plan was most recently implemented in 2010. For other purposes, the Board of Directors has, until 1 January 2016, been authorised to further increase the share capital by up to DKK 6,664,384. The subscription price will be determined by the Board of Directors.

Until the next annual general meeting, the Board of Directors has been authorised to have the Company buy back shares at a nominal value of up to 10% of the share capital. The purchase price may, however, not deviate by more than 10% from the price listed on NASDAQ OMX Copenhagen.

Dividend

At the general meeting, the Board of Directors will, as in prior years, propose that all profits for the 2013 financial year be retained. The Board has previously decided that the Company's substantial cash flow from operating activities is first and foremost to be used for investments and acquisitions. Any excess liquidity will as a rule be used for the continuous buy-back of shares. As mentioned earlier, we aim to keep our net interest-bearing debt at DKK 2.0-2.5 billion and expect to use future free cash flows (with the deduction of acquisitions) for the buy-back of shares.

Insider rules

The Group's insider rules and in-house procedures comply with the provisions of the Danish Securities Trading Act under which members of the Executive Board and the Board of Directors and their related parties are obliged to inform the Company of their transactions with the Company's securities with a view to subsequent publication and reporting to the Danish Financial Supervisory Authority. In 2013, there was one such announcement. Such announcements can be seen on the Company's website under *Investor, Announcements*. As part of its internal rules, the Company operates an insider register, containing mainly leading staff members, who – through their involvement in the Company – have regular access to price-affecting knowledge of the Group's internal affairs. Persons entered in the insider register may only trade in Company shares for a period of six weeks following publication of the annual report and the interim report.

IR policy and investor information

It is the aim of William Demant Holding to ensure a steady and consistent flow of information to IR stakeholders to promote a basis for the fair pricing of Company shares – pricing that at any time reflects corporate strategies, financial capabilities and prospects for the future. The flow of information will contribute to a reduction of the Company-specific risk associated with investing in William Demant Holding shares, thereby leading to a reduction of the Company's cost of capital.

We aim to reach this goal by continuously providing relevant, correct and adequate information in our Company announcements. The Company also maintains an active and open dialogue with analysts as well as current and potential investors. Through presentations, individual meetings and participation in investor conferences, we aim to maintain an ongoing dialogue with a broad section of IR stakeholders. In 2013, we held approximately 420 investor meetings and presentations. The Company also uses its website, www.demant.com, for communication with the share market. At the end of 2013, 30 equity analysts were covering William Demant Holding.

Investors and analysts may also contact Stefan Ingildsen, Senior Vice President, Finance; Søren B. Andersson, Vice President, IR; or Rasmus Sørensen, IR Officer, by phone +45 3917 7300 or by e-mail to william@demant.com.

Stefan Ingildsen

Søren B. Andersson

Rasmus Sørensen

Amendments to articles of association

If amendments to the articles of association other than those listed in section 107 of the Danish Companies Act are to be adopted, at least 51% of the share capital must be represented at the general meeting, and the resolution must be approved by a two-thirds majority of the votes cast and of the represented share capital, which is entitled to vote. If 51% of the share capital is not represented at the general meeting, but two thirds of the votes cast and of the represented share capital, which is entitled to vote, have approved the proposal, the Board shall call an extraordinary general meeting within 14 days at which meeting the proposal may be adopted by a two-thirds majority of the votes cast, irrespective of the size of the share capital represented.

Company announcements in 2013

26 February	Annual Report 2012
11 March	Notice annual general meeting
2 April	Acquisition of Neurelec
9 April	Annual general meeting
7 May	Interim information, first quarter 2013
15 May	Capital reduction
16 August	Interim Report 2013
5 November	Interim information, third quarter 2013
18 December	Financial calendar 2014

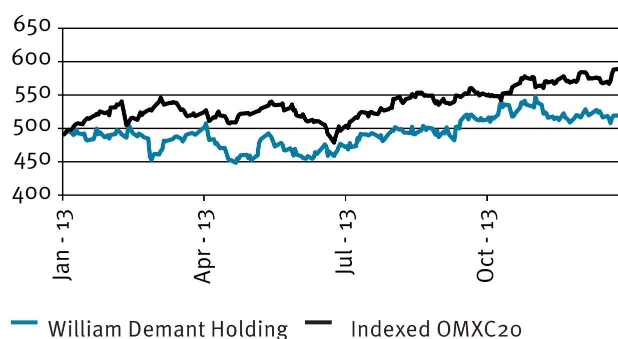
Financial calendar 2014

25 February	Deadline for submission of items for the agenda of the annual general meeting
27 February	Annual Report 2013
9 April	Annual general meeting
8 May	Interim information, first quarter 2014
14 August	Interim Report 2014
13 November	Interim information, third quarter 2014

Annual general meeting

The annual general meeting will be held on Wednesday, 9 April 2014, at 4 p.m. at the Company's head office Kongebakken 9, 2765 Smørum, Denmark.

Development in share price



RISK MANAGEMENT ACTIVITIES

Risk management activities in the William Demant Group first and foremost focus on the business-related and financial risks to which the Company is fairly likely to be exposed. In general, we act in a stable market with a limited number of players. In normal circumstances, the risks to which the Company may be exposed do not change on the short term. There has been no change in the Company's immediate risk exposure compared to recent years, and the development in the demand for Group products has thus been stable. In connection with the preparation of the Group's strategic, budgetary and annual plans, the Board of Directors considers the risks identified in these processes.

Business risks

The major risks to which the William Demant Group may be exposed are of a business nature – be they risks within the Company's control or external risks due to, for instance, the behaviour of the competition.

The market in which we act is a highly product-driven market. Our significant research and development initiatives help underpin our market position. It is therefore also vital in the long term to maintain our innovative edge and to attract the most qualified and competent staff. Product risks relate mainly to delays in connection with product launches, but due to our constant focus on all links in the value chain, such delays rarely occur. Furthermore, we closely monitor the supply situation and seek to ensure that we always have an inventory level that can counter any interruptions in production.

Taking out, protecting and keeping patents in the hearing aid industry are indeed complicated processes. We therefore develop and maintain our competencies in this area on an ongoing basis. The William Demant Group is involved in a few disputes, however Management is of the opinion that these disputes do not or will not significantly affect the Group's financial position. We seek to make adequate provisions for legal proceedings. It is our policy to take out patents for our own groundbreaking development and technology and currently monitor that third-party products do not infringe our patents and that our products do not infringe third-party patents.

Financial risks

Financial risk management concentrates on exchange rate, interest rate, credit and liquidity risks with a view to protecting the Group against potential losses and ensuring that Management's forecasts for the current year are only to a limited extent affected by changes or events in the surrounding world – be they changes in exchange rates or in interest rate levels. It is corporate policy to exclusively hedge commercial risks and not to undertake any financial transactions of a speculative nature.

Exchange rate risks

The Group seeks to hedge against any exchange rate risks through forward exchange contracts and other hedging instruments. Hedging thus gives Management the opportunity – and necessary time – to redirect business arrangements in the event of persistent changes in foreign exchange rates. The Group aims to hedge such changes in foreign exchange rates by seeking to match positive and negative cash flows in the main currencies as much as possible and by entering into forward exchange contracts. By entering into such contracts, we can hedge estimated cash flows with a horizon of up to 24 months.

The table below shows the impact on the year's operating profit (EBIT) given a change of 5% in selected currencies.

Effect on EBIT, 5% positive exchange rate impact*

(DKK million)	2013	2012
USD	+35	+35
GBP	+12	+15
AUD	+12	+10
CAD	+10	+10
JPY	+5	+5

** Estimated, on a non-hedged basis, i.e. the total annual exchange rate impact excluding forward exchange contracts.*

The exchange rate risk has been calculated on the basis of a simple addition of the operating profits (EBITs) of Group enterprises in local currencies. Whereas the addition of EBITs includes all Group enterprises, the net foreign exchange flow is identical to the flow in Oticon A/S. We estimate that approximately 90% of all foreign currency translation is made in Oticon A/S and that the analysis therefore gives a fair presentation of the flow in the entire Group. The foreign exchange flow includes actual foreign currency translation as well as changes in net receivables, i.e. trade receivables, trade payables and bank balances.

The table below shows the impact on equity given a change of 5% in selected currencies.

Effect on equity, 5% positive exchange rate impact

(DKK million)	2013	2012
USD	+70	+45
GBP	+10	+10
AUD	+10	+10
CAD	+25	+25
JPY	+2	+2

Interest rate risks

Hedging interest rate risks on corporate loans is limited, as the Group has limited debt compared to its volume of corporate activities. A fixed interest rate swap on corporate floating loans worth EUR 100 million expired in the first half-year 2013. In this connection, it was decided to keep the majority of our

corporate loans on floating terms and with limited long-term commitment. This decision was based on the Group's high level of cash generation and a relatively low financial gearing, resulting in a significant lowering of our interest expenses due to the steep interest rate curve.

Since spring 2011, our pool of assets and cash flow has grown considerably driven by both organic growth and the completion of acquisitions. At the same time, we have seen some stabilisation on the financial markets. In 2013, our Board of Directors therefore decided to raise the target for the Group's net interest-bearing debt to DKK 2.0-2.5 billion from a previous range of DKK 1.5-2.0 billion. Based on the net debt of DKK 2.25 billion at the end of the 2013 financial year, a rise of 1 percentage point in the general interest rate level will cause an increase in consolidated annual interest expenses before tax of DKK 20 million (less than DKK 1 million in 2012).

Credit risks

Corporate credit risks relate primarily to trade receivables and loans to customers or business partners. Our customer base is fragmented, so credit risks only involve minor losses on individual customers. Together, our five largest customers account for less than 10% of total consolidated revenue. We therefore estimate that we have no major credit exposure, which is supported by our track record of only insignificant losses on bad debts. When granting loans to customers or business partners, we require that they provide security in their business. The maximum credit risk relating to receivables matches the carrying amounts of such receivables. The Group has no major deposits in particular financial institutions for which reason the credit risk of such deposits is considered to be low.

Liquidity risks

The Group aims to have sufficient cash resources to be able to continuously take appropriate steps in case of unforeseen fluctuations in cash outflows. We have access to considerable undrawn credit facilities, and the liquidity risk is therefore considered to be low. We are of the opinion that the Group has a strong cash flow and satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions. The Group has neither in the financial year 2013 nor in the comparative year 2012 failed to perform or defaulted on any loan agreements.

Financial reporting process and internal control

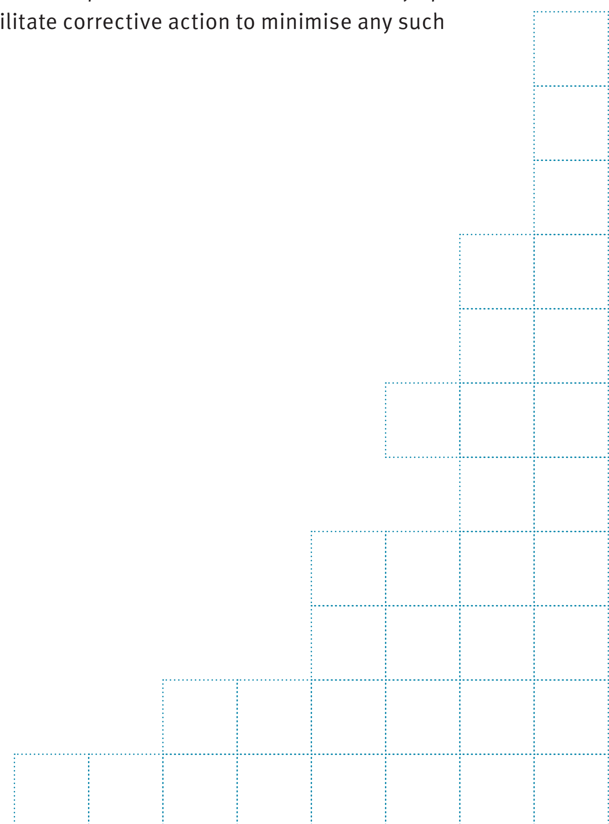
Once a year, we carry through a very detailed planning and budgetary process, and any deviations from the plans and budgets resulting from this process are carefully monitored month by month. In terms of sales and costs, month-by-month development is very similar, so with the repetitive nature of our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

Safeguarding corporate assets

Management continuously seeks to minimise any financial consequences of damage to corporate assets, including any operating losses incidental to potential damage. We currently invest in security and surveillance systems to prevent damage and to minimise such damage, should it arise. Major risks, which cannot be adequately minimised, are identified by the Company's Management who will on a continuous basis ensure that appropriate insurance policies are taken out under the Group's global insurance programme administered by recognised and credit-rated insurance brokers, and that such insurances are taken out with insurance companies with high credit ratings. The Group's insurance programme has deductible clauses in line with normal market terms. The Board of Directors review the Company's insurance policies once a year, including the coverage of identified risks, and are regularly briefed on developments in identified risks. The purpose of this reporting is to keep the members of the Board fully updated and to facilitate corrective action to minimise any such risks.



CORPORATE SOCIAL RESPONSIBILITY

Deeply rooted in our corporate culture is an ongoing effort to meet the social and environmental responsibilities within our sphere of influence. The ethics we live by – and indeed require our business partners to live up to – and our integrity in business affairs are high. In fact, in many cases our standards are above the legislative requirements imposed upon us in the markets where we operate.

Our CSR principles and policies as well as more detailed information on our work in this area are available on our website under *CSR:* www.demant.com/csr.cfm.

Report on corporate social responsibility

Our corporate social responsibility report is prepared in compliance with section 99 a of the Danish Financial Statements Act according to which we are accountable for our social activities and obliged to publicise our business strategies and activities, in such areas as human and labour rights, environmental protection, anti-corruption and climate.

By signing the UN Global Compact and by submitting annual Communication of Progress reports, we comply with the rules of law as long as our annual report states where information on corporate social responsibility is published. The advantages of joining the UN Global Compact are twofold: The progress report ensures our compliance with section 99 a of the Danish Financial Statements Act, and the UN Global Compact serves as a recognised global framework for further systematising and publicising our work with responsibility.

Having joined the UN Global Compact in 2010, we submitted our first progress report for the 2010 reporting year in spring 2011, and we have now published our fourth report covering the reporting year 2013.

All reports, including the latest report for the 2013 reporting year, are available on the UN Global Compact website, www.unglobalcompact.org/COP, and on our website under *CSR, Downloads:* www.demant.com/downloadcsr.cfm.

Environmental awareness

In 2008, we joined the Carbon Disclosure Project (CDP), providing us with a means of measuring and recording our environmental footprint, and each year we submit CDP reports on corporate CO_2 emissions and climate strategy. At the time of writing, there are no available data for the 2013 calendar year, but a look at the development from 2011 to 2012 reveals, according to our CDP reports, that emissions in the countries in which we manufacture our products have risen by 3.7% compared to a rise in revenue of 6.4%. CO_2 emissions per employee are calculated at 3.16 tonnes per year, which is low for a manufacturing company, even if emissions rose by 3.7% from 2011 to 2012.

In every possible way, we aim to act responsibly when it comes to environmental awareness. A concrete example of this is a packaging project we have carried out on the substantial NHS market (National Health Service) in the UK where we have succeeded in reducing the consumption of paper for instruction materials by a whopping 70-75%. The paper we use is recyclable and now certified by the Forest Stewardship Council (FSC), and we have replaced plastic boxes by paper boxes.

Social responsibility

To us, acting responsibly means meeting certain principles and always complying with local legislation. However, it also means doing more than what is required by law. In this context, we find it relevant to mention that our majority shareholder, the Oticon Foundation, awarded over DKK 90 million for social, cultural and scientific causes in 2013. The primary focus of the Foundation, according to its deed, is to support measures for the alleviation of hearing loss. In 2013, the Foundation thus donated DKK 76 million for educational causes and research projects within the audiological field.

In this connection, we would like to point out a special project: Funded by the Oticon Foundation with just over DKK 6 million, a new research group based at the Technical University of Denmark (DTU) was established in 2013. The purpose of the group is to do research into the hearing diagnostic field. The project is – in popular terms – the "missing link" between the DTU and Oticon, which already have a close cooperation through the Centre for Applied Hearing Research (CAHR), the Centre for Acoustics and Micro Mechanics (CAMM) and the Oticon Centre of Excellence – all heavily funded by grants from the Oticon Foundation. Thus, the new diagnostic research group is a natural addition to the applied and basic research conducted by CAHR and the Oticon Centre of Excellence in the field of audiology.

New rules for female board members and managers

On 1 April 2013, new rules for the gender-specific composition of top management in all large Danish companies became effective. The new rules aim to ensure that the proportion of women in managerial positions in large companies is increased significantly in the coming years.

The new rules oblige the companies to set a target for the representation of the under-represented gender on the company's board and to set a deadline for achievement of such target.

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

Lastly, the new rules provide that once a year, namely on publication of its annual report, the company must publicise its targets and adopted policies as well as the progress made

in the period under review; please refer to section 99 b (1) of the Danish Financial Statements Act.

The Board of Directors of William Demant has chosen the reporting procedure outlined below:

- The Company's targets for and status on the share of female Board members are mentioned in this Annual Report and on our website under *CSR, Downloads:* www.demant.com/downloadcsr.cfm (UN Global Compact Progress Report 2013); please refer to section 99 b (1) of the Danish Financial Statements Act.

- The Company's statutory policy for women in other managerial positions is available on our website under *CSR:* www.demant.com/csr.cfm; please refer to section 99 b (2) of the Danish Financial Statements Act.

- Details on how the Company follows up on its policy in respect of women in other managerial positions are mentioned in this Annual Report and may also be found on our website under *CSR, Downloads:* www.demant.com/downloadcsr.cfm (UN Global Compact Progress Report 2013); please refer to section 99 b (2) of the Danish Financial Statements Act.

In April 2013, the Board of Directors of William Demant set the following target and deadline in respect of female Board members: Within a period of four years, one woman must be elected to the Board of Directors. On publication of this Annual Report, the Board reassessed the target set, but found no reason to change it. On 26 February 2014, a female Board member has not yet been elected, which means that in order to meet the target, a woman must be elected within the next three years.

As far as the number of female managers at the Group's other management levels is concerned, corporate companies focus on furthering the number of women in managerial positions, and the trend is positive. Thus, over the last five years the total ratio of female managers has risen from 11% in 2009 to 18% in 2013. In senior management, the percentage has doubled from 7% to 14%.

At the beginning of 2012, we defined a diversity policy and also took concrete initiatives to ensure that equal opportunities for the genders will to a greater extent than previously be created in terms of both recruitments and promotions.

Initiatives in 2013

At the end of 2013, concrete initiatives supporting the policy were decided upon.

One initiative is about taking a "talent management approach" with a view to furthering gender distribution and female advancement. The outcome of this new approach will be greater focus for managers on guiding and nudging female talents towards pursuing opportunities for promotion.

With regard to the external recruitment process to increase the base of female employees and thus the number of potential female managers, relevant departments in the William Demant Group must prioritise sending female employees to job fairs. In job advertisements and in our general employer branding material, we will further balance the tone of voice between "male" and "female" connotations in our communication, ensuring the use of female employees in employer branding visuals. Also, when cooperating with external recruiting agencies, we require qualified female candidates in the second round.

It is important, however, to keep in mind that all these initiatives do not change our basic recruiting goal, which is to always seek, hire and promote the best qualified employees – gender set aside.

CORPORATE GOVERNANCE

New recommendations for corporate governance in 2013

In May 2013, the Danish Committee on Corporate Governance issued revised recommendations on corporate governance.

Recommendations by the Committee are best-practice guidelines for the management of companies admitted to trading on a regulated market, including NASDAQ OMX Copenhagen. The recommendations should be viewed together with the statutory requirements, including not least the Danish Companies Act and the Danish Financial Statements Act, but also European Union company law etc. and the OECD Principles of Corporate Governance.

The work on corporate governance is an ongoing process for our Board of Directors and Executive Board, who determine the extent to which the Company should comply with the recommendations and regularly assess whether the recommendations give rise to amendments to our rules of procedure or managerial processes. The Company's reporting on corporate governance follows the "comply or explain" approach, meaning that if we fail to meet a recommendation, we will explain why we have chosen differently and what we have chosen to do instead.

With the new recommendations from May 2013, we comply with 43 out of 47 recommendations. The deviations from the four recommendations that we do not comply with are well-founded, and we explain what we have done instead. A complete schematic presentation of the recommendations, *Corporate governance 2013 – Statutory report on company management, cf. section 107 b of the Danish Financial Statements Act*, is available on our website under *Corporate Governance:* www.demant.com/governance.cfm.

Through our reference to the website, we meet the requirement that the annual report review is to include a statutory report on company management, cf. section 107 b of the Danish Financial Statements Act. Since we attach great importance to corporate governance in the operation of the Company, we find it relevant to accentuate a number of aspects and supplementary information on corporate governance in the William Demant Group in this chapter.

Communication and interaction by the Company with investors and other stakeholders

The Board of Directors has identified a number of specific stakeholders, the most important being the Company's customers, end-users, shareholders, investors, employees, society, suppliers and other business partners. The Board of Directors will ensure good and constructive relations with the Company's stakeholders, and the Company has adopted policies concerning our relations with all major stakeholders, including a Code of Conduct governing relations with our suppliers and business ethics in relation to our staff and their interaction with customers and other stakeholders. Selected policies and documents are available on our website.

William Demant strives towards providing a high level of information to all existing and potential shareholders, and we communicate on a current basis with our 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, Company announcements etc. All information necessary for the assessment of the Company and its activities by shareholders and financial markets is published as promptly as possible in compliance with the rules of the Danish Financial Supervisory Authority and NASDAQ OMX Copenhagen.

In compliance with the Danish Securities Trading Act, we publish annual and interim reports. In the time span between such reports, we publish quarterly information rather than actual quarterly reports. Such quarterly information gives a general outline of the Group and its financial position and results, including important events and transactions which have taken place in the period under review, but it does not contain actual financial information, as we believe that quarterly figures will not promote a better understanding of our activities. Competitive aspects are important reasons for our decision not to draw up actual quarterly reports: The hearing aid industry consists of six major players of which only three are listed companies. The unlisted companies do not publish such information at all or only to a very limited extent, and of the listed companies, only one publishes actual quarterly reports.

Tasks and responsibilities of the Board of Directors

The Board of Directors is responsible for the overall strategic management as well as the financial and managerial supervision of the Company, the ultimate goal being to ensure that the Company creates value. The Board of Directors 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.

Composition and organisation of the Board of Directors

Currently, the Board has seven members: four members elected by the shareholders at the general meeting and three members elected by staff in Denmark. Shareholders elect Board members for a term of one year and staff elect Board members for a term of four years. Staff-elected members are elected in accordance with the provisions of the Danish Companies Act. The next staff election will take place in 2015. A Board member cannot be re-elected once he or she has reached the age of 70. Half the Board members elected by shareholders at the annual general meeting are independent.

Although the Board members elected by the general meeting are up for election every year, the individual Board members are traditionally re-elected and sit on the Board for an ex-

tended number of years. This ensures consistency and maximum insight into the conditions prevailing within the Company and the industry and is considered extremely important for the value that the Board members bring to the Company. All four Board members up for election by the general meeting in 2013 were re-elected.

The composition of the Board focuses on ensuring the right combination of competencies and experience, including international managerial experience. This also applies when electing new Board candidates. Board experience from major listed companies will carry particular weight. On our website under *About Us, Executive Board and Board of Directors, Board of Directors:* www.demant.com/management.cfm, a description is available of the competencies and qualifications that the Board of Directors deems necessary to have at its overall disposal in order for the Board to be able to perform its tasks for the Company.

The Board of Directors' shareholdings

As at 27 February 2014, all Board members are shareholders in the Company holding shares as follows (including movements in 2013): Lars Nørby Johansen, Chairman, 4,278 shares (movement in 2013: + 510); Peter Foss, Deputy Chairman, 2,588 shares (unchanged); Niels B. Christiansen 502 shares (unchanged); Thomas Hofman-Bang 2,500 shares (unchanged); Ole Lundsgaard 1,056 shares (unchanged); Jørgen Møller Nielsen 55 shares (unchanged); Karin Ubbesen 97 shares (unchanged).

Board committees

Audit committee

The Company's Board of Directors has set up an audit committee. The Board of Directors appoints the chairman of the audit committee, who is independent and who is not Chairman of the Board of Directors.

In 2013, the audit committee held three meetings in connection with the ordinary Board meetings.

The terms of reference of the audit committee as well as its members are available on our corporate website under *About Us, Executive Board and Board of Directors, Audit Committee:* www.demant.com/audit.cfm.

Nomination committee

The Company's Board of Directors has established a nomination committee. The members are the Chairman and the Deputy Chairman of the Company, the Chairman and the Deputy Chairman of the Company's major shareholder, the Oticon Foundation, and the President & CEO of the Company.

The Chairman of the Company also chairs the nomination committee.

The terms of reference of the nomination committee can be found on our corporate website under *About Us, Executive Board and Board of Directors, Nomination Committee:* www.demant.com/nomination.cfm.

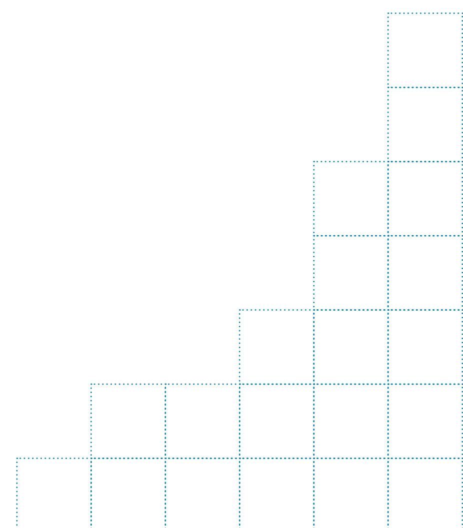
Evaluation of the performance of the Board of Directors

Once a year, the Chairman of the Board evaluates the Board's work. Every other year, the Chairman performs such evaluation through personal, individual interviews with the Board members, and every other year, the evaluation is carried out by means of questionnaires filled out by the Board members. In both instances, the results of the evaluation are discussed at the subsequent Board meeting.

Board of Directors' and Executive Board's remuneration

Once a year, the Board of Directors assesses the remuneration paid to its members and to the Executive Board. The basis for the assessment is a competitive and reasonable level that will attract and retain the most suitable and competent candidates.

Board members' remuneration consists of a fixed basic remuneration per member of DKK 300,000 per year. The Chairman receives three times the basic remuneration and the Deputy Chairman twice the basic remuneration. The Executive Board too receives a fixed remuneration. Consequently, such remuneration does not include any variable bonuses. It is the opinion of the Board of Directors that the fixed remuneration reflects a competitive remuneration of the Board of Directors and the Executive Board.



BOARD OF DIRECTORS

LARS NØRBY JOHANSEN

Chairman
(born 1949)

Joined the Board of Directors in 1998 and was most recently re-elected in 2013 for one year. Because of his seat on the Board for more than 12 years, he is not considered an independent Board member.

- Codan A/S and one subsidiary, chairman of the board
- The Danish Growth Council, chairman
- Dansk Vækstkapital, chairman of the board
- Falck A/S and one subsidiary, chairman of the board
- University of Southern Denmark, chairman of the board
- The Rockwool Foundation, deputy chairman of the board
- Arp-Hansen Hotel Group A/S, board member
- Index Award A/S, board member

Lars Nørby Johansen holds a Master's degree in Social Sciences. His strengths include extensive international experience as a corporate executive, including extensive board experience from listed companies, and he has profound knowledge of the challenges resulting from globalisation. He is also well versed in the political aspects of business.

PETER FOSS

Deputy Chairman
(born 1956)

Joined the Board of Directors in 2007 and was most recently re-elected in 2013 for one year. Because of his seat on the boards of the Oticon Foundation and William Demant Invest A/S, he is not considered an independent Board member.

- FOSS A/S, chairman of the board
- N. Foss & Co. A/S, chairman of the board
- The Oticon Foundation, deputy chairman of the board
- William Demant Invest A/S, deputy chairman of the board
- A.R. Holding af 1999 A/S, board member
- TrackMan A/S, board member

Peter Foss holds a Master of Science degree in engineering from the Technical University of Denmark (DTU) and also holds a diploma degree in finance and credit law. He has extensive managerial experience from global, market-leading, industrial companies that have extensive product development. In addition, he has board experience from different lines of business.

NIELS B. CHRISTIANSEN

(born 1966)

Joined the Board of Directors in 2008 and was most recently re-elected in 2013 for one year. He is considered an independent Board member.

- Danfoss A/S, President & CEO and board memberships in three subsidiaries
- Axcel A/S, chairman of the board
- Danske Bank A/S, deputy chairman of the board

Niels B. Christiansen holds a Master of Science degree in engineering from the Technical University of Denmark (DTU) and also holds an MBA from INSEAD in France. His experience from international management of major, global, industrial, hi-tech corporations is comprehensive. He also has extensive board experience from listed companies as well as experience from different lines of business.

THOMAS HOFMAN-BANG

(born 1964)

Joined the Board of Directors in 2009 and was most recently re-elected in 2013 for one year. He is chairman of the audit committee. He is considered an independent Board member.

- KPMG 2014 P/S, CEO and Senior Partner (from 1 February 2014)
- The Bikuben Foundation, board member
- Danish Committee on Corporate Governance, member

Thomas Hofman-Bang holds a Master of Science degree in business economics and auditing and is a state-authorised public accountant. He has considerable experience in the management of large, global, industrial corporations, including special competencies within economic and financial affairs. He also has board experience from listed companies as well as experience from different lines of business.

EXECUTIVE BOARD

OLE LUNDSGAARD

(born 1969)

Staff-elected Board member. Joined the Board of Directors in 2003 and was most recently re-elected in 2011 for a term of four years.

- Interacoustics A/S, staff-elected board member since 2003 and deputy chairman of the joint consultative committee.

Ole Lundsgaard was trained as an electronics mechanic at the University of Odense, Institute of Biology. He holds the position of Technical Product Manager in Diagnostic Instruments and has been employed with Interacoustics A/S since 1993.

JØRGEN MØLLER NIELSEN

(born 1962)

Staff-elected Board member. Elected to the Board of Directors in 2011 for a term of four years.

- Deputy chairman of the local business group under The Danish Society of Engineers (IDA).

Jørgen Møller Nielsen holds a Master of Science degree in engineering (electrical engineering) and also holds a diploma in business administration (organisation and strategy). He is Project Manager within microelectronics at the Group's amplifier factory in Ballerup, Denmark, and has been with the Company since 2001.

KARIN UBBESEN

(born 1962)

Staff-elected Board member. Elected to the Board of Directors in 2011 for a term of four years.

- Oticon A/S, shop steward, staff-elected board member since 2007.

Karin Ubbesen is employed at the Group's factory in Thisted, Denmark, as a fitter and has been with the Company since 1987.

NIELS JACOBSEN

President & CEO

(born 1957)

Joined the Company in 1992 as Executive Vice President and was appointed President & CEO in 1998.

Niels Jacobsen holds a Master of Science in Economics, 1983, from Aarhus University.

- LEGO A/S, chairman of the board
- A.P. Møller - Mærsk A/S, deputy chairman of the board
- KIRKBI A/S, deputy chairman of the board
- Thomas B. Thriges Fond (Thomas B. Thrige Foundation), chairman

In addition, Niels Jacobsen holds the following executive positions and board memberships in the William Demant Group: William Demant Invest A/S (Managing Director); board positions in a number of Group-owned subsidiaries and in the following partly owned companies: Össur hf. (chairman of the board); Sennheiser Communications A/S (chairman of the board); HIMPP A/S (chairman of the board); HIMSA A/S (chairman of the board) and HIMSA II A/S (board member).

Age limit for members of the Board of Directors

In compliance with the Company's articles of association, Board members must resign from the Board no later than at the first general meeting following their 70th birthday.

Remuneration of the Board of Directors

In 2013, the basic remuneration of a Board member amounted to DKK 300,000. The Chairman's remuneration is determined to be three times the basic remuneration and the Deputy Chairman's remuneration twice the basic remuneration.

There are no separate fees for audit committee or nomination committee members.

Evaluation of the Board

Once a year, the Chairman of the Board performs an evaluation of the Board's work. Every other year, such evaluation is performed through personal, individual interviews with the Board members by the Chairman of the Board, and every other year, the evaluation is carried out by means of questionnaires to be filled out by the Board members. In both instances, the results of the evaluation are presented and discussed at the subsequent Board meeting.

In connection with the evaluation in December 2013, the Board of Directors again expressed great satisfaction with the manner in which the Board works, including its cooperation with Management.

Board meetings in 2013

In 2013, the Board of Directors convened on five occasions.

Board committees

The Board of Directors has established an audit committee and a nomination committee. In 2013, the audit committee convened on three occasions in connection with ordinary Board meetings. The nomination committee was established towards the end of 2013 and held its first meeting in early 2014.

Annual general meeting

In 2013, the annual general meeting took place on 9 April.
In 2014, the annual general meeting will take place on 9 April.

Auditor

Deloitte Statsautoriseret Revisionspartnerselskab.

MANAGEMENT STATEMENT

We have today discussed and approved the Annual Report 2013 of William Demant Holding A/S for the financial year 1 January – 31 December 2013.

The consolidated financial statements have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent financial statements have been prepared and presented in accordance with the Danish Financial Statements Act. Further, the Annual Report 2013 has been prepared in accordance with Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the Parent financial statements give a true and fair view of the Group's and the Parent's assets, liabilities and financial position at 31 December 2013 as well as of the consolidated financial performance and cash flows and the Parent's financial performance for the financial year 1 January – 31 December 2013.

We also believe that Management commentary contains a fair review of the development in the Group's and the Parent's business and financial position, the results for the year and the Group's and the Parent's financial position as a whole as well as a description of the principal risks and uncertainties that they face.

We recommend the Annual Report 2013 for adoption at the annual general meeting.

Smørum, 27 February 2014

Executive Board:

Niels Jacobsen
President & CEO

Board of Directors:

Lars Nørby Johansen
Chairman

Peter Foss
Deputy Chairman

Niels B. Christiansen

Thomas Hofman-Bang

Ole Lundsgaard

Jørgen Møller Nielsen

Karin Ubbesen

INDEPENDENT AUDITOR'S REPORT

To the shareholders of William Demant Holding A/S

Report on the consolidated financial statements and Parent financial statements

We have audited the consolidated financial statements and Parent financial statements of William Demant Holding A/S for the financial year 1 January – 31 December 2013, which comprise the income statement, balance sheet, statement of changes in equity and notes, including the accounting policies, for the Group as well as the Parent and the statement of comprehensive income and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies, and the Parent financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility for the consolidated and Parent financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies as well as the preparation of Parent financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and Parent financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements and Parent financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and Parent financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and Parent financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the consolidated financial statements and Parent financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements and Parent financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by Management as well as the overall presentation of the consolidated financial statements and Parent financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2013 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2013 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

Further, in our opinion, the Parent financial statements give a true and fair view of the Parent's financial position at 31 December 2013 and of the results of its operations for the financial year 1 January – 31 December 2013 in accordance with the Danish Financial Statements Act.

Statement on Management review

Pursuant to the Danish Financial Statements Act, we have read the Management review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and Parent financial statements.

On this basis, it is our opinion that the information provided in the Management commentary is consistent with the consolidated financial statements and Parent financial statements.

Copenhagen, 27 February 2014

Deloitte
Statsautoriseret Revisionspartnerselskab

Erik Holst Jørgensen
State Authorised Public Accountant

Kirsten Aaskov Mikkelsen
State Authorised Public Accountant

GROUP ACCOUNTING POLICIES

General

The consolidated financial statements are presented in compliance with International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements for annual reports published by reporting class D (listed) companies, cf. the Danish executive order on IFRS issued in compliance with the Danish Financial Statements Act. The registered office of William Demant Holding A/S is in Denmark.

The consolidated financial statements are presented in Danish kroner (DKK), which is the presentation currency for Group activities and the functional currency for the Parent.

The consolidated financial statements are presented on the basis of historical cost, except for obligations for contingent consideration in connection with business combinations, derivatives and financial assets classified as available for sale, which are measured at their fair values.

The financial statements for the Parent are presented separately from the consolidated financial statements and are shown on the last pages of this Annual Report. The Parent's accounting policies are also shown on the last pages of this report in connection with the financial statements for the Parent.

The accounting policies remain unchanged for the consolidated financial statements compared to 2012. However, insignificant reclassifications in the comparative figures for 2012 have been made.

Effect of new accounting standards

The Group has implemented all the new, updated and amended standards and interpretations as approved by the EU and applicable to the 2013 financial year. None of these new, updated and amended standards or interpretations resulted in any changes to the accounting policies for the Group or had any significant impact on recognitions or measurements in the consolidated financial statements for 2013. As far as presentation and disclosure are concerned, impacts are outlined below:

Amendments to IAS 1 Presentation of Financial Statements require that items recognised in other comprehensive income are classified in items that, in compliance with other standards, may be reclassified subsequently to the income statement or will not be reclassified subsequently to the income statement.

Amendments to IAS 19 Employee Benefits replace the return on plan assets in the income statement with an imputed finance income that is calculated on the plan assets and recognised as part of operating profit (EBIT). The application of this change does not have a significant impact on the consolidated financial statements.

IFRS 13 Fair Value Measurement replaces requirements regarding fair value measurement and disclosure previously contained in individual standards. The standard has a small impact on our disclosures regarding fair value, but no significant impact on measurement.

Effect of new accounting standards not yet in force

Revised or new standards and interpretations issued, but not yet effective or approved by the EU at the time of publication of this Annual Report, have not been incorporated into this Annual Report.

The effects of the Group's implementation of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures have been analysed to evaluate their effect on the consolidated financial statements of the Group. These standards became effective on 1 January 2013 and were approved by the EU with an effective date from 1 January 2014. Following a concrete assessment, it has been found that the amendments are expected to result in the Group's joint ventures from 2014 being recognised using the equity method. Joint ventures are currently included in the consolidated financial statements via proportionate consolidation. The amendments are not expected to affect the classification of entities currently being recognised as associates, and these will therefore continue to be recognised using the equity method. Similarly, the assessment of the classification of entities as subsidiaries is expected to remain unchanged.

Based on the 2013 financial figures, Management expects the impacts of the above amendments to be as follows:

- A fall in revenue of DKK 250 million.
- A fall in gross profit of DKK 128 million.
- A fall in operating profit (EBIT) of DKK 17 million.
- No impact on profit for the year.
- Some impact on line items in the balance sheet, as items previously consolidated proportionately will be recognised as a single net amount in investments in associates and joint ventures.

Accounting estimates and assumptions

Many items can only be estimated rather than accurately measured. Such estimates are based on the most recent information available on preparation of the financial statements. Estimates and assumptions are therefore reassessed on an ongoing basis. Actual figures may however deviate from these estimates. Any changes in accounting estimates will be recognised in the reporting period in which such changes are made. In connection with the practical application of the accounting policies, Management has made usual accounting estimates and assessments concerning development costs and business combinations as well as valuation of non-current assets, inventories, receivables and liabilities.

In our opinion, the product development undertaken by the Group today cannot meaningfully be allocated to either the development of new products or the further development of existing products. Further, as our products are subject to various authority approvals, it is difficult to determine the final completion of new corporate products.

Definition of materiality

IFRS contain extensive disclosure requirements. The Group discloses the information required according to IFRS, unless such information is deemed immaterial or irrelevant.

Consolidated financial statements

The consolidated financial statements comprise William Demant Holding A/S (the Parent) and the enterprises in which the Parent can or actually exercises control by either directly or indirectly holding more than 50% of the voting rights, or in which the Parent in some other manner exercises control.

Enterprises in which the Group holds 20-50% of the voting rights and/or in some other manner can or actually does exercise significant influence are considered to be associates and are incorporated proportionately into the consolidated financial statements using the equity method.

Consolidation principles

The consolidated financial statements are prepared on the basis of the financial statements for the Parent and its subsidiaries by aggregating uniform items. Enterprises which, by agreement, are managed jointly with one or more other enterprises are included through proportionate consolidation. The financial statements included in the consolidated financial statements are prepared in accordance with the Group's accounting policies. Intra-Group income, expenses, shareholdings, balances and dividends as well as unrealised intra-Group profits on inventories are eliminated.

The accounting items of subsidiaries are recognised 100% in the consolidated financial statements. On initial recognition, minority interests are measured either at their fair value or at their proportionate share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. The particular method is chosen for each individual transaction. Minority interests are subsequently adjusted according to their proportional share of changes in equity of the particular subsidiary. Comprehensive income is allocated to minority interests whether or not, as a result hereof, the value of such interests will be negative.

Buying or selling minority interests in a subsidiary, which does not result in control or discontinuation of control of such subsidiary, is treated as an equity transaction in the consolidated financial statements, and any difference between the consideration and the carrying amount is allocated to the Parent's share of the equity.

Business combinations

Newly acquired or newly established enterprises are recognised in the consolidated financial statements from the time of acquisition or formation. The time of acquisition is the date when control of the enterprise is transferred to the Group. Enterprises either divested or discontinued are recognised up until the date of divestment or discontinuation. The date of divestment is the date when control is actually transferred to a third party. In respect of newly acquired enterprises, comparative figures and key figures will not be restated.

On acquiring new enterprises of which the Group obtains control, the purchase method is applied according to which their identified assets, liabilities and contingent liabilities are measured at their fair values on the acquisition date. Any non-current assets acquired for the purpose of resale are, however, measured at their fair values less expected costs to sell. Restructuring costs are solely recognised in the pre-acquisition balance sheet if they are a liability for the acquired enterprise. Any tax effect of revaluations will be taken into account.

The cost of an acquired enterprise consists of the fair value of the consideration paid for such an enterprise. If the final consideration is conditional upon one or more future events, the consideration will be recognised at the fair value on the acquisition date. Any subsequent adjustment of contingent consideration is recognised directly in the income statement, unless the adjustment is the result of new information about conditions prevailing on the acquisition date, and this information becomes available up to 12 months after the acquisition date. Acquisition costs are recognised directly in the income statement when incurred.

If cost exceeds the fair values of the assets, liabilities and contingent liabilities identified on acquisition, any remaining positive differences (goodwill) are recognised in the balance sheet under intangible assets and tested for impairment at least annually. If the carrying amount of an asset exceeds its recoverable amount, it will be written down to such lower recoverable amount.

If, on the acquisition date, there are any uncertainties with respect to identifying or measuring acquired assets, liabilities or contingent liabilities or uncertainty with respect to determining their cost, initial recognition will be made on the basis of provisionally calculated values. Such provisionally calculated values may be adjusted, or additional assets or liabilities may be recognised up to 12 months after the acquisition date, if new information becomes available about conditions prevailing on the acquisition date, which would have affected the calculation of values on that day, had such information been known.

Profit or loss from the divestment or winding up of subsidiaries and associates

Profit or loss from the divestment or winding up of subsidiaries and associates, resulting in the Group no longer having a controlling or significant interest, will be determined as the difference between the carrying amount and the sum of the fair value of the sales proceeds or disposal consideration and the fair value of any remaining investment in the given enterprise. Any such profits or losses will be recognised in the income statement together with any accumulated foreign currency translation adjustments previously recognised in other comprehensive income.

Foreign currency translation

On initial recognition, transactions in foreign currencies are translated at the exchange rates prevailing at the date of the transaction. The functional currencies of the enterprises are determined by the economic environment in which they operate (normally the local currency).

Receivables, payables and other monetary items in foreign currency are translated into Danish kroner at the exchange rates prevailing at the balance sheet date. Realised and unrealised foreign currency translation adjustments are recognised in the income statement under gross profit or net financial items, depending on the purpose of the underlying transaction.

Property, plant and equipment, intangible assets, inventories and other non-monetary assets purchased in foreign currency and measured on the basis of historical cost are translated at the exchange rates prevailing at the transaction date. Non-monetary items, which are revalued at their fair values, are translated using the exchange rates at the revaluation date.

On recognition in the consolidated financial statements of enterprises presenting their financial statements in a functional currency other than Danish kroner, the income statement is translated using average exchange rates for the months of the year in question, unless they deviate materially from actual exchange rates at the transaction dates. In case of the latter, actual exchange rates are applied. Balance sheet items are translated at the exchange rates prevailing at the balance sheet date. Goodwill is considered as belonging to the acquired enterprise in question and is translated at the exchange rate prevailing at the balance sheet date.

All foreign currency translation adjustments are recognised in the income statement, with the exception of the following, which are recognised in other comprehensive income:

- The translation of net assets of foreign subsidiaries using exchange rates prevailing at the balance sheet date
- The translation of income statements of foreign subsidiaries using monthly average exchange rates for the months of the year, whereas their balance sheet items are translated using exchange rates at the balance sheet date
- The translation of non-current, intra-Group receivables that are considered to be an addition to or deduction from net investments in foreign subsidiaries
- The translation of investments in associates

Derivatives

On initial recognition, derivatives are measured at their fair values at the settlement date. After initial recognition, derivatives are measured at their fair values at the balance sheet date. Any positive or negative fair values of derivatives are recognised as separate items in the balance sheet. Forward exchange contracts and interest swaps are measured based on current market data and by use of commonly recognised valuation methods.

Any changes in fair values of derivatives classified as hedging and satisfying the criteria for hedging of the fair value of a recognised asset or a recognised liability are recognised in the income statement together with any changes in the fair value of the hedged asset or hedged liability.

Any changes in fair values of derivatives classified as hedging and satisfying the criteria for effective hedging of future transactions are recognised in other comprehensive income. The ineffective portion is recognised directly in the income statement. On realisation of the hedged transactions, the accumulated changes are recognised together with the particular transactions.

Derivatives not fulfilling the conditions for treatment as hedging instruments are considered trading portfolios and measured at their fair values, with fair value adjustments being recognised, on an ongoing basis, in the income statement.

Share-based incentive programmes

Share-based incentive programmes entitling staff to buy shares in the Parent only (equity schemes) are measured at the fair value of such equity instruments at the time of allocation and are recognised in the income statement under staff costs over the period in which staff earn the right to buy such shares. The set-off is recognised directly in equity.

Income statement

Income and costs are recognised on an accruals basis. The income statement is broken down by function, and all costs, including depreciation, amortisation and impairment losses, are therefore charged to production, distribution, administration and research and development.

Revenue

Revenue is recognised in the income statement upon delivery and transfer of risk to buyer. Revenue from services, including service packages and extended warranties, is recognised on a straight-line basis in line with the delivery of such services.

Revenue is measured at the fair value of the agreed consideration excluding charges. Any discounts and profits on goods

expected to be returned are set off against revenue. Revenue from agency-like business is measured at the value of the agency commission.

Production costs
Production costs are costs incurred to generate revenue. Distribution companies recognise cost of sales under production costs. Production companies recognise cost of raw materials, consumables, production staff as well as maintenance of and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets used in the production process under production costs.

Research and development costs
Research costs are always recognised in the income statement in step with the incurrence of such costs.

Development costs include all costs not satisfying capitalisation criteria, but incurred in connection with development, prototype construction, development of new business concepts and amortisation of capitalised development costs.

Distribution costs
Distribution costs include costs relating to training, sales, marketing, promotion materials, distribution, bad debts as well as depreciation, amortisation and impairment losses on assets used for distribution purposes.

Administrative expenses
Administrative expenses include administrative staff costs, office expenses as well as depreciation, amortisation and impairment losses on assets used for administrative purposes.

Public subsidies
Public subsidies are recognised when there is reasonable certainty that the conditions for such subsidies are satisfied and that they will be granted.

Subsidies received as compensation for costs incurred are recognised proportionately in the income statement over the periods in which the related costs are recognised in the income statement and are set off against costs incurred. Public subsidies relating to the acquisition of non-current assets are deducted from the cost of such asset.

Net financial items
Net financial items mainly consist of interest income and expenses and also include interest on finance leases, unwinding of discounts on financial assets and liabilities as well as certain realised and unrealised foreign exchange gains and losses.

Interest income and expenses are accrued based on the principal amount and the effective rate of interest. The effective rate of interest is the discount rate used for discounting expected future payments attaching to the financial asset or financial liability in order for the present value to match the carrying amount of such asset or liability.

Tax
Tax on the year's profit includes current tax and any changes in deferred tax. Current tax includes taxes payable determined on the basis of the estimated taxable income for the year and any prior-year tax adjustments. Tax on changes in equity and other comprehensive income is recognised directly in equity and in other comprehensive income, respectively. Foreign currency translation adjustments of deferred tax are recognised as part of the year's adjustments of deferred tax.

Current tax liabilities or tax receivables are recognised in the balance sheet and determined as tax calculated on the year's taxable income adjusted for any tax on account. The tax rates prevailing at the balance sheet date are used for calculation of the year's taxable income.

Deferred tax is recognised using the balance sheet liability method on any temporary differences between the tax base of assets and liabilities and their carrying amounts, except for deferred tax on temporary differences arisen either on initial recognition of goodwill or on initial recognition of a transaction that is not a business combination, with the temporary difference ascertained on initial recognition affecting neither net profits nor taxable income.

Deferred tax is determined on the basis of the tax rules and rates prevailing at the balance sheet date in the particular countries. The effect on deferred tax of any changes in tax rates is included in tax on the year's profit, unless such deferred tax is attributable to items previously recognised directly in equity or in other comprehensive income. In the latter case, such changes will also be recognised directly in equity or in other comprehensive income. The tax base of a loss, if any, which may be set off against future taxable income, is carried forward and set off against deferred tax in the same legal tax entity and jurisdiction. Deferred tax assets, including the tax value of any tax losses allowed for carryforward, are recognised in the balance sheet at the estimated realisable value of such assets either by a set-off against a deferred tax liability or as a net asset to be set off against future positive taxable income. At the balance sheet date, an assessment is made as to whether it is probable that sufficient taxable income will be available in the future against which the deferred tax asset can be utilised. Deferred tax on temporary differences between the carrying amounts and the tax values of investments in subsidiaries and associates is recognised, unless the Parent is able to control the time of realisation of such deferred tax, and it is probable that such deferred tax will not be released as current tax in the foreseeable future.

Deferred tax is recognised in respect of eliminations of intra-Group profits and losses.

Balance sheet

Intangible assets

On initial recognition, goodwill is recognised and measured as the difference between the cost of the acquisition – including the value of minority interests in the acquired enterprise and the fair value of any existing investment in the acquired enterprise – and the fair value of the acquired assets, liabilities and contingent liabilities, see description under *Business combinations*.

On recognition of goodwill, goodwill is allocated to corporate activities that generate independent payments (cash-generating units). The definition of a cash-generating unit is in line with the corporate managerial structure as well as internal financial management and reporting.

Goodwill is not amortised, but is tested for impairment at least once a year. If the recoverable amount of a cash-generating unit is lower than the carrying amounts of the property, plant and equipment and intangible assets, including goodwill, attributable to the particular cash-generating unit, the particular assets will be written down.

Patents and licences acquired from a third party are measured at cost less accumulated amortisation and impairment losses.

Patents and licences are amortised over their estimated economic lives, however maximum 20 years.

Other intangible assets, including intangible assets acquired in connection with a business combination, are measured at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised on a straight-line basis over their estimated useful lives of 3-5 years.

Property, plant and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation and impairment losses. Cost is defined as the acquisition price and costs directly relating to the acquisition until such time as the particular asset is ready for use. As regards assets produced by the Group, cost includes all costs directly attributable to the production of such assets, including materials, components, sub-supplies and payroll. In respect of financially leased assets, cost is calculated as the fair value or the present value of future lease payments, whichever is lower.

Interest expenses on loans for financing of the production of property, plant and equipment are recognised in the cost of the assets if such expenses pertain to the manufacturing period. Other borrowing costs are recognised in the income statement.

If the acquisition or the use of an asset requires the Group to defray costs for the demolition or restoration of such asset, the calculated costs hereof are recognised as a provision and as part of the cost of the particular asset, respectively.

The cost of a total asset is divided into various elements, which will be depreciated separately if their useful lives are not the same.

The depreciation basis is cost less the estimated residual value of an asset after the end of its useful life. The residual value is the estimated amount, which could after deduction of costs to sell be obtained through the sale of the asset today, such asset already having the age and being in the state of repair expected after the end of its useful life. The residual value is determined at the time of acquisition and is reviewed annually. If the residual value exceeds the carrying amount, depreciation will be discontinued.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Land is not depreciated.

Buildings	33-50 years
Technical installations	10 years
Plant and machinery	3-5 years
Other plant, fixtures and operating equipment	3-5 years
IT hardware and software	3 years
Leasehold improvements	over the lease period

Depreciation methods, useful lives and residual values are reviewed annually.

Property, plant and equipment are written down to their recoverable amounts, if these are lower than their carrying amounts.

Investments in associates

Investments in associates are recognised and measured using the equity method, i.e. investments are recognised in the balance sheet at their proportionate share of the equity value determined in accordance with the Group's accounting policies after the deduction of and with the addition of proportionate intra-Group gains and losses, respectively, and with the addition of the carrying amount of any goodwill. The proportionate shares of profit after tax of associates are recognised in the income statement after the year's changes in unrealised intra-Group profits less any impairment loss relating to goodwill.

The proportionate shares of all transactions and events which have been recognised in other comprehensive income for the associate are recognised in consolidated other comprehensive income.

On the acquisition of investments in associates, the acquisition method is applied.

Impairment of intangible assets, property, plant and equipment and investments in associates
The carrying amounts of property, plant and equipment and intangible assets with definite useful lives as well as investments in associates are reviewed at the balance sheet date to determine whether there are indications of impairment. If so, the recoverable amount of the particular asset is calculated to determine the need for impairment, if any. The recoverable amounts of goodwill and other intangible assets with indefinite useful lives will be estimated whether or not there are indications of impairment.

The recoverable amount is estimated for the smallest cash-generating unit that the asset is part of. The recoverable amount is determined as the higher of the fair value of the asset or cash-generating unit less costs to sell or the value in use of such asset or unit. On determination of the value in use, estimated future cash flows will be discounted to their present values by using a discount rate that reflects partly current market valuations of the time value of money, and partly the special risks attaching to the particular asset or cash-generating unit for which no adjustment has been made in the estimated future cash flows. If the recoverable amount of a particular asset or cash-generating unit is lower than its carrying amount, such asset or unit is written down to its recoverable amount.

Impairment losses are recognised in the income statement. On any subsequent reversal of impairment losses due to changes in the assumptions on which the calculation of the recoverable amount is based, the carrying amount of an asset or cash-generating unit is increased to the adjusted estimate of the recoverable amount, however not exceeding the carrying amount of the asset or cash-generating unit, had the particular asset or cash-generating unit not been written down. Amortisation of goodwill is not reversed.

Other investments
On initial recognition, other investments are classified as ”assets available for sale”, recognised at their fair values and subsequently measured at their fair values. Unrealised value adjustments are recognised in other comprehensive income. On realisation, value adjustments are transferred to net financial items in the income statement.

The determination of fair values is based on their equity values.

Inventories
Raw materials, components and goods for resale are measured at cost according to the FIFO principle (according to which the most recent supplies are considered to be in stock) or at their net realisable value, whichever is lower. Group-manufactured products and work in progress are measured at the value of direct cost, direct payroll costs, consumables and at a proportionate share of indirect production costs (IPO), which are allocated on the basis of the normal capacity of the production facility. IPO include the proportionate share of capacity costs directly relating to Group-manufactured products and work in progress.

The net realisable value of inventories is calculated as the estimated selling price less costs of completion and costs to sell.

Receivables
Receivables include trade receivables and other receivables. Receivables are included in the category loans and receivables, which are financial assets with fixed or determinable payments, which are not listed on an active market and are not derivatives.

On initial recognition, receivables are measured at their fair values with the addition of transaction costs. Receivables with a definite maturity date are measured at amortised cost. Receivables without a definite maturity date are measured at cost. Current receivables arisen due to the Group’s ordinary activities are measured at their nominal value. Based on assessments of the risk of losses on individual receivables and groups of similar receivables, provisions for impairment are made for bad debts using an allowance account.

Prepaid expenses
Prepaid expenses recognised under assets include costs relating to the following financial year. Prepaid expenses are measured at cost.

Equity
Foreign currency translation reserve includes foreign currency adjustments on translation of financial statements of foreign subsidiaries or associates from their respective functional currencies into Danish kroner. Foreign currency translation adjustments are recognised in the income statement on realisation of the net investment.

Hedging reserve includes fair value adjustments of derivatives or loans satisfying the criteria for hedging of future transactions. The amounts are recognised in the income statement or the balance sheet in step with recognition of the hedged transactions.

Treasury shares and dividend
On the buy-back of shares or sale of treasury shares, the purchase price or selling price, respectively, is recognised directly in equity under other reserves (retained earnings). A capital reduction through the cancellation of treasury shares will reduce the share capital by an amount corresponding to the nominal value of such shares.

Proposed dividends are recognised as a liability at the time of adoption at the annual general meeting.

Pension liabilities and similar commitments

The Group has pension benefit plans and similar agreements with some of its employees. As regards defined contribution plans, the Group pays regular, fixed contributions to independent pension companies. Contributions are recognised in the income statement for the period in which employees have performed work entitling them to such pension contributions. Contributions due are recognised in the balance sheet as a liability.

As regards defined benefit plans, the Group is obliged to pay a certain contribution when an employee covered by such a plan retires, for instance a fixed amount or a percentage of the employee's final salary. In relation to defined benefit plans, an actuarial calculation is made periodically of the accrued present value of future benefits to which employees through their past employment with the Group are entitled and which are payable under the benefit plan. This defined benefit obligation is calculated annually using the projected unit credit method on the basis of assumptions in respect of the future development in, among other things, wage levels, interest rates and inflation rates. The defined benefit obligation less the fair value of any assets relating to the benefit plan is recognised in the balance sheet under provisions.

Defined benefit costs are categorised as follows:

- Service costs including current service costs, past service costs as well as gains and losses on curtailments and settlements
- Net interest expense or income
- Remeasurement

Remeasurement, comprising actuarial gains and losses, the effect of changes to the asset ceiling, if applicable, and the return on plan assets excluding interest, is reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which it occurs. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Service costs and net interest expense or income are included in the income statement as staff costs.

Other non-current employee benefits are recognised also using actuarial calculation. Actuarial gains or losses on such benefits are recognised directly in the income statement.

Provisions

Provisions are recognised where, as a result of an earlier event, the Group has a legal or constructive obligation and where the settlement of such an obligation is expected to draw on corporate financial resources, but where there is uncertainty about the timing or amount of the obligation. Provisions are measured on a discounted basis based on Management's best estimate of the amount at which a particular liability may be settled. The discount effect of any changes in the present value of provisions is recognised as a financial expense.

Lease commitments

Lease commitments concerning assets held under a finance lease are recognised in the balance sheet as a liability and are measured on signing of the particular lease at the fair value of the leased asset or the present value of future lease payments, whichever is lower. After initial recognition, lease commitments are measured at amortised cost. The difference between the present value and the nominal value of lease payments is recognised in the income statement as a financial expense over the lease period.

Lease payments concerning operating leases are recognised on a straight-line basis in the income statement over the lease period.

Other financial liabilities

Debts to credit institutions are recognised at the date of borrowing at their proceeds less transaction costs. For subsequent periods, financial liabilities are measured at amortised cost in order for the difference between proceeds and the nominal value to be recognised as a financial expense over the term of the loan.

On initial recognition, other financial liabilities are measured at their fair values and subsequently at amortised cost using the effective interest method, and the difference between proceeds and the nominal value is recognised in the income statement as a financial expense over the term of the loan.

Earn-out obligations from acquisition of enterprises and activities

Earn-out obligations arising from the acquisition of enterprises and activities are recognised at fair value at the time of acquisition. The obligations are reevaluated on a recurring basis at fair value.

Other non-financial liabilities

Other non-financial liabilities are recognised where, as a result of an earlier event, the Group has a legal or constructive obligation and where the settlement of such an obligation is expected to draw on corporate financial resources. Other non-financial liabilities are measured on a discounted basis, and the discount effect of any changes in the present value of the liabilities is recognised as a financial expense.

On the sale of products with a right of return, a liability is recognised in respect of the profit on products expected to be returned and of any costs connected with the return of such products. Warranty commitments include the obligation to remedy faulty or defective products in the warranty period.

Deferred income
Deferred income includes income received relating to the following financial year. Deferred income is measured at cost.

Cash flow statement
The cash flow statement is prepared according to the indirect method and reflects the consolidated net cash flow broken down into operating, investing and financing activities.

Cash flow from operating activities includes inflows from the year's operations adjusted for non-cash operating items, changes in working capital, financial income received and expenses paid, realised foreign currency translation gains and losses and income tax paid.

Cash flow from investing activities includes payments in respect of the acquisition or divestment of enterprises and financial assets as well as the purchase, development, improvement or sale of intangible assets and property, plant and equipment.

Finance leases are considered transactions that do not have a cash flow effect. Cash flow relating to finance leases is recognised as payment of interest and repayment of debt.

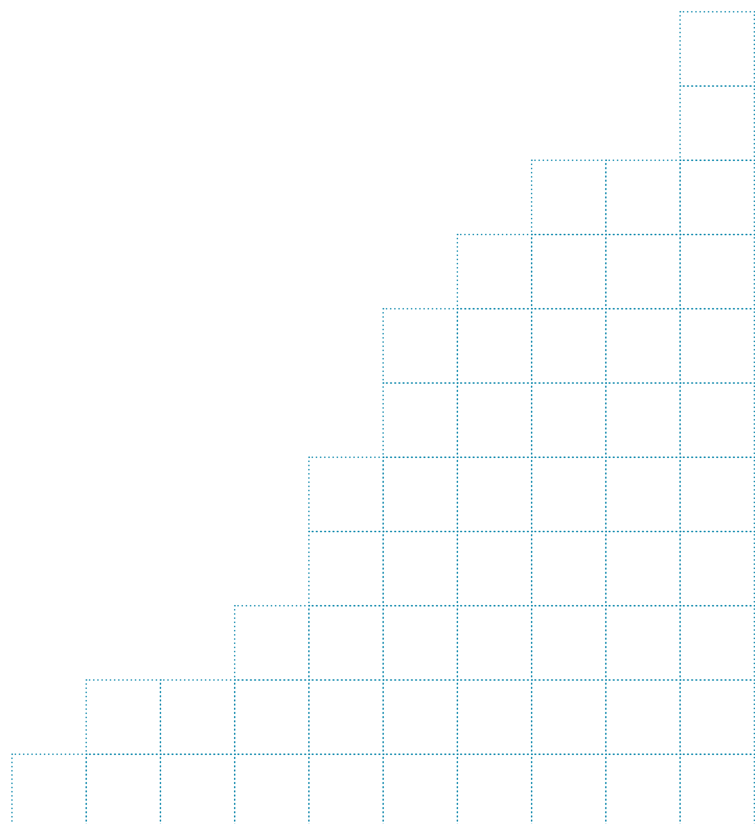
Cash flow from financing activities includes payments to and from shareholders and the raising and repayment of non-current and current debt not included in working capital.

Cash flow in currencies other than the functional currency is recognised at average exchange rates for the months of the year, unless they deviate significantly from actual exchange rates on the transaction dates.

Cash and cash equivalents are cash less interest-bearing, current bank debt.

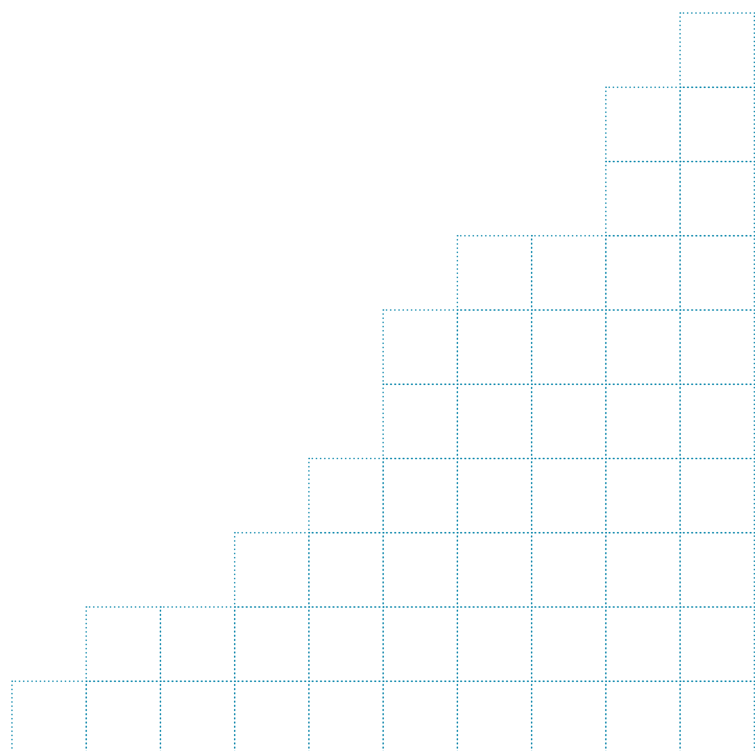
Segment information
Based on the aggregation criteria in IFRS 8 *Operating Segments* and the internal reporting model used by Management for the assessment of results and the use of resources, we have identified one operating segment, the development, manufacture and sale of products and equipment designed to facilitate people's hearing and communication, which complies with our approach to the organisation and management of activities.

A geographical distribution of revenue and non-current assets is also presented.



CONSOLIDATED INCOME STATEMENT

(DKK million)	Note	2013	2012
Revenue	1	9,209	8,555
Production costs	2/3/12	-2,537	-2,428
Gross profit		**6,672**	**6,127**
Research and development costs	2/3	-664	-652
Distribution costs	2/3	-3,673	-3,311
Administrative expenses	2/3/4	-551	-523
Share of profit after tax, associates	10	0	12
Operating profit (EBIT)		**1,784**	**1,653**
Financial income	5	52	44
Financial expenses	5	-124	-176
Profit before tax		**1,712**	**1,521**
Tax on profit for the year	6	-401	-370
Profit for the year		**1,311**	**1,151**
Profit for the year attributable to:			
William Demant Holding A/S' shareholders		1,310	1,153
Minority interests		1	-2
		1,311	**1,151**
Earnings per share (EPS), DKK	7	23.1	20.2
Diluted earnings per share (DEPS), DKK	7	23.1	20.2

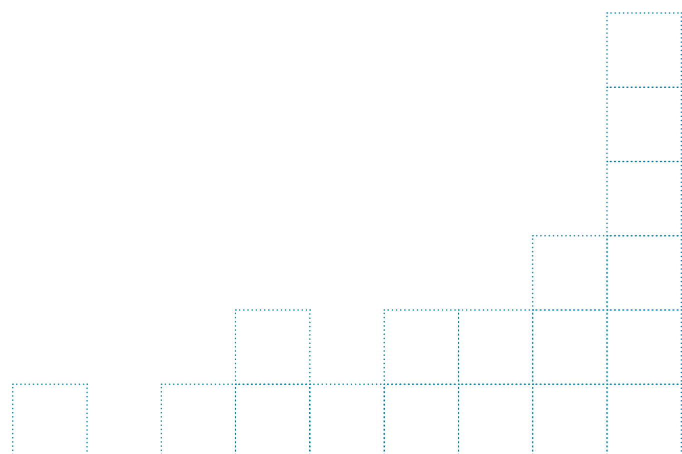


CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(DKK million)	2013	2012
Profit for the year	**1,311**	**1,151**
Other comprehensive income:		
Items that have been or may subsequently be reclassified to the income statement:		
Foreign currency translation adjustment, foreign enterprises	-225	3
Value adjustment of hedging instruments:		
Value adjustment for the year	83	4
Value adjustment transferred to revenue	-68	101
Value adjustment transferred to financial expenses	11	28
Tax on items that have been or may subsequently be reclassified to the income statement	6	-27
Items that have been or may subsequently be reclassified to the income statement	**-193**	**109**
Items that will not subsequently be reclassified to the income statement:		
Actuarial gains/(losses) on defined benefit plans	5	-8
Tax on items that will not subsequently be reclassified to the income statement	-1	0
Items that will not subsequently be reclassified to the income statement	**4**	**-8**
Other comprehensive income	**-189**	**101**
Comprehensive income	**1,122**	**1,252**
Comprehensive income attributable to:		
William Demant Holding A/S' shareholders	1,121	1,254
Minority interests	1	-2
	1,122	**1,252**
Breakdown of tax on other comprehensive income:		
Foreign currency translation adjustment, foreign enterprises	12	6
Value adjustment of hedging instruments for the year	-20	-1
Value adjustment of hedging instruments transferred to revenue	17	-25
Value adjustment of hedging instruments transferred to financial expenses	-3	-7
Actuarial gains/(losses) on defined benefit plans	-1	0
Tax on other comprehensive income	**5**	**-27**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2013	2012
Assets			
Goodwill		3,548	2,568
Patents and licences		35	47
Other intangible assets		35	33
Intangible assets	8	**3,618**	**2,648**
Land and buildings		651	686
Plant and machinery		176	159
Other plant, fixtures and operating equipment		289	259
Leasehold improvements		173	170
Prepayments and assets under construction		207	98
Property, plant and equipment	9	**1,496**	**1,372**
Investments in associates	10	424	278
Receivables from associates	10/15	151	124
Other investments	10/15	11	12
Other receivables	10/13/15	566	623
Deferred tax assets	11	267	268
Other non-current assets		**1,419**	**1,305**
Non-current assets		**6,533**	**5,325**
Inventories	12	1,147	1,014
Trade receivables	13/15	1,881	1,754
Receivables from associates	15	3	12
Income tax		66	88
Other receivables	13/15	211	142
Unrealised gains on financial contracts	15	45	31
Prepaid expenses		108	104
Cash	15	363	307
Current assets		**3,824**	**3,452**
Assets		**10,357**	**8,777**



CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2013	2012
Equity and liabilities			
Share capital		57	58
Other reserves		5,024	4,003
Equity attributable to William Demant Holding A/S' shareholders		5,081	4,061
Equity attributable to minority interests		-1	-2
Equity		**5,080**	**4,059**
Interest-bearing debt	15	81	76
Deferred tax liabilities	11	146	148
Provisions	14	132	121
Other liabilities	15/16	221	136
Deferred income		34	1
Non-current liabilities		**614**	**482**
Interest-bearing debt	15	3,112	2,637
Trade payables	15	367	351
Income tax		65	54
Provisions	14	16	36
Other liabilities	15/16	899	936
Unrealised losses on financial contracts	15	11	26
Deferred income		193	196
Current liabilities		**4,663**	**4,236**
Liabilities		**5,277**	**4,718**
Equity and liabilities		**10,357**	**8,777**

	Note
Operating lease commitments	17
Contingent liabilities	18
Related parties	19
Acquisition of enterprises and activities	20
Government grants	21
Specifications to consolidated cash flow statement	22
Events after the balance sheet date	23
Approval and publication	24
Shareholders	25
Board of Directors and Executive Board	26

CONSOLIDATED CASH FLOW STATEMENT

(DKK million)	Note	2013	2012
Operating profit (EBIT)		1,784	1,653
Non-cash items etc.	22	263	237
Change in receivables etc.		-72	-31
Change in inventories		-68	89
Change in trade payables and other liabilities etc.		-112	-81
Change in provisions		-13	-84
Cash flow from operating profit		**1,782**	**1,783**
Financial income etc. received		39	38
Financial expenses etc. paid		-121	-171
Realised foreign currency translation adjustments		0	2
Income tax paid		-380	-380
Cash flow from operating activities (CFFO)		**1,320**	**1,272**
Acquisition of enterprises, participating interests and activities		-1,176	-682
Investments in and disposal of intangible assets		-2	-14
Investments in property, plant and equipment		-410	-329
Disposal of property, plant and equipment		16	19
Investments in other non-current assets		-186	-273
Disposal of other non-current assets		113	107
Cash flow from investing activities (CFFI)		**-1,645**	**-1,172**
Repayment on non-current debt		-510	-148
Proceeds from borrowings		652	42
Buy-back of shares		-101	-497
Other adjustments		0	3
Cash flow from financing activities (CFFF)		**41**	**-600**
Cash flow for the year, net		**-284**	**-500**
Cash and cash equivalents at the beginning of the year		-1,338	-846
Foreign currency translation adjustment of cash and cash equivalents		56	8
Cash and cash equivalents at the end of the year		**-1,566**	**-1,338**
Breakdown of cash and cash equivalents at the end of the year:			
Cash	15	363	307
Interest-bearing current bank debt	15	-1,929	-1,645
Cash and cash equivalents at the end of the year		**-1,566**	**-1,338**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(DKK million)	Share capital	Other reserves			William Demant Holding A/S' shareholders' share	Minority interests' share	Equity
		Foreign currency translation reserve	Hedging reserve	Retained earnings			
Equity at 1.1.2012	**58**	**92**	**-88**	**3,238**	**3,300**	**4**	**3,304**
Comprehensive income in 2012:							
Profit for the year	-	-	-	1,153	1,153	-2	1,151
Other comprehensive income:							
Foreign currency translation adjustment, foreign enterprises	-	3	-	-	3	0	3
Value adjustment of hedging instruments:							
Value adjustment, year	-	-	4	-	4	-	4
Value adjustment transferred to revenue	-	-	101	-	101	-	101
Value adjustment transferred to financial expenses	-	-	28	-	28	-	28
Actuarial gains/(losses) on defined benefit plans	-	-	-	-8	-8	0	-8
Tax on other compr. income	-	6	-33	0	-27	0	-27
Other comprehensive income	-	9	100	-8	101	0	101
Comprehensive income, year	**-**	**9**	**100**	**1,145**	**1,254**	**-2**	**1,252**
Buy-back of shares	-	-	-	-497	-497	-	-497
Other changes in equity	-	-	-	4	4	-4	0
Equity at 31.12.2012	**58**	**101**	**12**	**3,890**	**4,061**	**-2**	**4,059**
Comprehensive income in 2013:							
Profit for the year	-	-	-	1,310	1,310	1	1,311
Other comprehensive income:							
Foreign currency translation adjustment, foreign enterprises	-	-225	-	-	-225	-	-225
Value adjustment of hedging instruments:							
Value adjustment, year	-	-	83	-	83	-	83
Value adjustment transferred to revenue	-	-	-68	-	-68	-	-68
Value adjustment transferred to financial expenses	-	-	11	-	11	-	11
Actuarial gains/(losses) on defined benefit plans	-	-	-	5	5	0	5
Tax on other compr. income	-	12	-6	-1	5	0	5
Other comprehensive income	-	-213	20	4	-189	0	-189
Comprehensive income, year	**-**	**-213**	**20**	**1,314**	**1,121**	**1**	**1,122**
Buy-back of shares	-	-	0	-101	-101	-	-101
Capital reduction through cancellation of treasury shares	-1	-	-	1	0	0	0
Other changes in equity	-	-	-	0	0	0	0
Equity at 31.12.2013	**57**	**-112**	**32**	**5,104**	**5,081**	**-1**	**5,080**

For changes in share capital, please refer to *Parent statement of changes in equity* on page 78.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

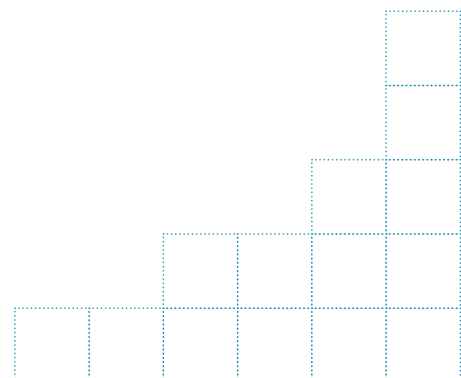
Note 1 – Segment information by geographic region and business activity

(DKK million)	Revenue		Non-current assets	
Revenue and non-current assets by geographic region:	**2013**	**2012**	**2013**	**2012**
Denmark	126	170	1,047	920
Other Europe	3,403	3,158	1,618	963
North America	3,758	3,349	3,399	2,989
Oceania	857	877	345	356
Asia	682	650	98	81
Other countries	383	351	26	16
Total	**9,209**	**8,555**	**6,533**	**5,325**

Consolidated revenue mainly derives from the sale of goods and is broken down by the customers' geographical location. The five largest single customers together account for less than 10% of total consolidated revenue. Non-current assets are broken down by the geographical domicile of such assets.

	Revenue	
Revenue by business activity:	**2013**	**2012**
Hearing Devices	7,947	7,410
Diagnostic Instruments	883	844
Personal Communication	379	301
Total	**9,209**	**8,555**

	2013	**2012**
Value adjustments transferred from equity relating to derivatives made for hedging revenue	68	-101



Note 2 – Employees

(DKK million)

	2013	2012
Staff costs:		
Wages and salaries	3,238	2,916
Defined contribution plans	56	61
Defined benefit plans (note 14)	19	13
Social security costs etc.	224	206
Total	**3,537**	**3,196**
Cash remuneration for Executive Board and Board of Directors:		
Executive Board, salary	12	12
Executive Board, bonus and pension	0	0
Board of Directors, remuneration	3	3

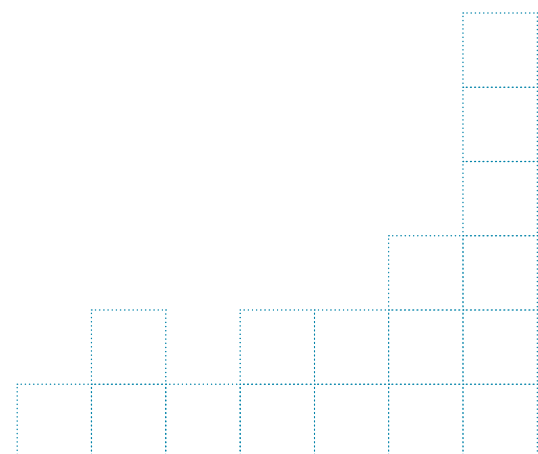
The President & CEO of William Demant Holding is entitled to a seniority bonus, equivalent to one year's salary for every four years of employment after 2005. This seniority bonus is recognised as a defined benefit plan commitment and will be paid out on termination of his employment. In 2013, the basic remuneration for a member of the Parent's Board of Directors was DKK 300,000 (DKK 300,000 in 2012). The Chairman of the Board of Directors receives three times the basic remuneration and the Deputy Chairman twice the basic remuneration.

	2013	2012
Staff costs by function:		
Production costs	672	644
Research and development costs	435	439
Distribution costs	2,088	1,782
Administrative expenses	342	331
Total	**3,537**	**3,196**
Average number of full-time employees	9,120	8,025

The number of employees in proportionately consolidated companies is included with the Group's proportionate ownership interest in the particular enterprises. The average number of such employees is 114 (472 in 2012) of which 57 (290 in 2012) have been proportionally consolidated in the William Demant Group.

Note 3 – Amortisation, depreciation and impairment losses

(DKK million)	2013	2012
Amortisation of intangible assets	-23	-20
Depreciation on property, plant and equipment	-234	-218
Impairment of property, plant and equipment	-10	0
Total	**-267**	**-238**
Amortisation, depreciation and impairment losses by function:		
Production costs	-63	-55
Research and development costs	-35	-39
Distribution costs	-129	-103
Administrative expenses	-40	-41
Total	**-267**	**-238**
Net gains from sale of assets	0	5
Total	**0**	**5**
Net proceeds from sale of assets by function:		
Production costs	-2	0
Distribution costs	2	4
Administrative expenses	0	1
Total	**0**	**5**



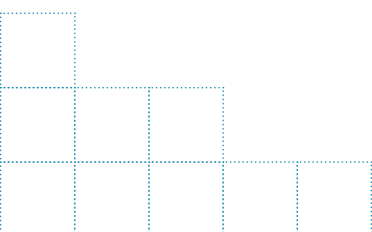
Note 4 – Fees to Parent's auditors appointed at the annual general meeting

(DKK million)	2013	2012
Statutory audit	8	8
Other assurance engagements	0	0
Tax and VAT advisory services	2	3
Other services	2	1
Total	**12**	**12**

A few Group enterprises are not audited by the appointed auditors or their foreign affiliates.

Note 5 – Net financial items

(DKK million)	2013	2012
Interest on bank deposits etc.	23	24
Interest on receivables	19	19
Other financial income	1	1
Financial income from financial assets not measured at fair value in the income statement	**43**	**44**
Foreign exchange gains, net	9	0
Financial income	**52**	**44**
Interest on bank debt, mortgages etc.	-53	-96
Value adjustment transferred from equity relating to derivatives made for hedging loans	-11	-28
Interest on finance lease debt	-1	-1
Financial expenses on financial liabilities not measured at fair value in the income statement	**-65**	**-125**
Foreign exchange losses, net	0	-3
Unwinding of discounts	-2	-1
Transaction costs	-57	-47
Financial expenses	**-124**	**-176**



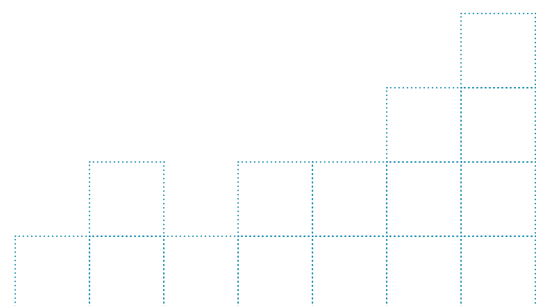
Note 6 – Tax

(DKK million)

	2013	2012
Tax on profit for the year:		
Current tax on profit for the year	-415	-342
Adjustment of current tax, prior years	11	0
Change in deferred tax	-11	-45
Adjustment of deferred tax, prior years	6	18
Impact of changes in corporate tax rates	8	-1
Total	**-401**	**-370**
Reconciliation of tax rates:		
Danish corporate tax rate	25.0%	25.0%
Differences in tax rates of non-Danish enterprises from Danish corporate tax rate	-0.3%	0.2%
Impact of changes in corporate tax rates	-0.5%	0.0%
Use of tax assets not previously recognised	-0.1%	0.0%
Permanent differences	-1.3%	-0.2%
Other items, including prior-year adjustments	0.6%	-0.7%
Effective tax rate	**23.4%**	**24.3%**

Note 7 – Earnings per share

	2013	2012
William Demant Holding A/S' shareholders' share of profit for the year, DKK million	1,310	1,153
Average number of shares, million	57.3	58.3
Average number of treasury shares, million	-0.7	-1.3
Average number of shares outstanding, million	**56.6**	**57.0**
Earnings per share (EPS), DKK	**23.1**	**20.2**
Diluted earnings per share (DEPS), DKK	**23.1**	**20.2**



Note 8 – Intangible assets

(DKK million)	Goodwill	Patents and licences	Other intangible assets	Total intangible assets
Cost at 1.1.2013	**2,568**	**100**	**74**	**2,742**
Foreign currency translation adjustments	-153	0	-2	-155
Additions during the year	0	0	1	1
Additions relating to acquisitions	1,133	0	13	1,146
Cost at 31.12.2013	**3,548**	**100**	**86**	**3,734**
Amortisation at 1.1.2013	-	-53	-41	-94
Foreign currency translation adjustments	-	0	1	1
Amortisation for the year	-	-12	-11	-23
Amortisation at 31.12.2013	**-**	**-65**	**-51**	**-116**
Carrying amount at 31.12.2013	**3,548**	**35**	**35**	**3,618**
Cost at 1.1.2012	**1,976**	**88**	**65**	**2,129**
Foreign currency translation adjustments	2	0	0	2
Additions during the year	0	12	2	14
Additions relating to acquisitions	590	0	7	597
Cost at 31.12.2012	**2,568**	**100**	**74**	**2,742**
Amortisation at 1.1.2012	**-**	**-44**	**-30**	**-74**
Foreign currency translation adjustments	-	0	0	0
Amortisation for the year	-	-9	-11	-20
Amortisation at 31.12.2012	**-**	**-53**	**-41**	**-94**
Carrying amount at 31.12.2012	**2,568**	**47**	**33**	**2,648**

Impairment testing is carried out annually on preparation of the annual report or on indication of impairment in which discounted values of future cash flows are compared with carrying amounts. Group enterprises cooperate closely on research and development, purchasing, production, marketing and sales, as the use of resources in the individual markets is coordinated and monitored by Management in Denmark. Group enterprises are thus highly integrated. Consequently, Management considers the overall business as one cash-generating unit. Certain business activities, which to a higher degree act with more autonomy in relation to the Group, and whose profitability can be measured independently of the other activities, constitute a separate cash-generating unit. In relation to the existing integration in the Group and the recognised goodwill, neither at 31 December 2013 nor at 31 December 2012, had any separate cash-generating units been identified to which goodwill can be allocated. The annual impairment test was thus based on the Group as a whole. Based on the impairment test, a material excess value was identified compared to the carrying amounts for which reason no impairment of goodwill was made at 31 December 2013 and 31 December 2012. Future cash flows are based on the budget for 2014, on strategy plans and on projections hereof. Projections extending beyond 2014 are based on general parameters, such as expected market growth, selling prices and profitability assumptions. The terminal value for the period after 2014 is determined on the assumption of 2% growth (2% in 2012). The discount rate is 9% (9% in 2012). Sensitivity calculations show that even a significant increase in the discount rate or a significant reduction of the growth assumptions will not change the outcome of the impairment test. Apart from goodwill, all intangible assets have limited useful lives.

Note 9 – Property, plant and equipment

(DKK million)	Land and buildings	Plant and machinery	Other plant, fixtures and operating equipment	Leasehold improvements	Prepayments and assets under construction	Total property, plant and equipment
Cost at 1.1.2013	**832**	**736**	**920**	**353**	**98**	**2,939**
Foreign currency translation adjustments	-8	-14	-33	-21	-1	-77
Additions during the year	4	33	65	41	238	381
Additions relating to acquisitions	0	7	16	8	1	32
Disposals during the year	0	-12	-29	-4	-4	-49
Transferred to/from other items	0	45	74	6	-125	0
Cost at 31.12.2013	**828**	**795**	**1,013**	**383**	**207**	**3,226**
Depreciation and impairment losses at 1.1.2013	**-146**	**-577**	**-661**	**-183**	**-**	**-1,567**
Foreign currency translation adjustments	2	11	23	11	-	47
Depreciation for the year	-23	-61	-108	-42	-	-234
Impairment losses for the year	-10	0	0	0	-	-10
Disposals during the year	0	8	22	4	-	34
Transferred to/from other items	0	0	0	0	-	0
Depreciation and impairment losses at 31.12.2013	**-177**	**-619**	**-724**	**-210**	**-**	**-1,730**
Carrying amount at 31.12.2013	**651**	**176**	**289**	**173**	**207**	**1,496**
Of which financially leased assets	**24**	**2**	**0**	**0**	**0**	**26**
Cost at 1.1.2012	**799**	**669**	**827**	**305**	**68**	**2,668**
Foreign currency translation adjustments	5	-1	-1	4	0	7
Additions during the year	28	54	80	48	89	299
Additions relating to acquisitions	5	3	9	2	1	20
Disposals during the year	-5	-21	-22	-6	-1	-55
Transferred to/from other items	0	32	27	0	-59	0
Cost at 31.12.2012	**832**	**736**	**920**	**353**	**98**	**2,939**
Depreciation and impairment losses at 1.1.2012	**-127**	**-537**	**-577**	**-151**	**-**	**-1,392**
Foreign currency translation adjustments	0	2	2	-1	-	3
Depreciation for the year	-19	-59	-104	-36	-	-218
Disposals during the year	0	17	18	5	-	40
Transferred to/from other items	0	0	0	0	-	0
Depreciation and impairment losses at 31.12.2012	**-146**	**-577**	**-661**	**-183**	**-**	**-1,567**
Carrying amount at 31.12.2012	**686**	**159**	**259**	**170**	**98**	**1,372**
Of which financially leased assets	**43**	**0**	**0**	**0**	**0**	**43**

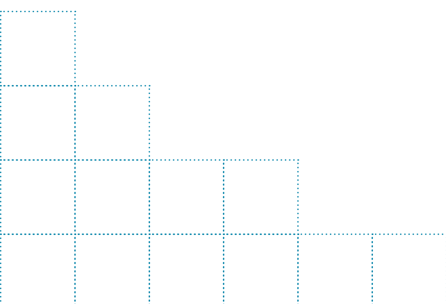
Group property, plant and equipment with a carrying amount of DKK 1 million (DKK 2 million in 2012) have been provided in security of debt to credit institutions of DKK 1 million (DKK 2 million in 2012). Financial leases mainly concern properties acquirable at favourable prices on expiry of the term of such leases. At year-end, the contractual obligation as regards the acquisition of property, plant and equipment amounted to DKK 62 million (DKK 0 million in 2012). Neither in 2013 nor in 2012, have changes been made in material estimates in respect of property, plant and equipment, except for the recognition of DKK 10 million (DKK 0 million in 2012) in respect of impairment of a property expected to be sold in 2-3 years.

In 2013, borrowing costs of DKK 2 million (DKK 0 million in 2012) have been capitalised as part of property, plant and equipment. The capitalisation rate used has been 2.5-3.5% depending on the financing of the asset.

Note 10 – Other non-current assets

(DKK million)	Investments in associates	Receivables from associates	Other investments	Other receivables
Cost at 1.1.2013	**270**	**124**	**20**	**665**
Foreign currency translation adjustments	-1	-5	0	-36
Additions during the year	188	138	2	166
Additions relating to acquisitions	0	0	0	1
Disposals during the year	-30	-106	-3	-188
Cost at 31.12.2013	**427**	**151**	**19**	**608**
Value adjustments at 1.1.2013	**8**	**0**	**-8**	**-42**
Foreign currency translation adjustments	0	0	0	2
Share of profit after tax	0	-	-	-
Dividends received	0	-	-	-
Disposals during the year	-6	0	0	0
Other adjustments	-5	0	0	-2
Value adjustments at 31.12.2013	**-3**	**0**	**-8**	**-42**
Carrying amount at 31.12.2013	**424**	**151**	**11**	**566**
Cost at 1.1.2012	**95**	**83**	**16**	**519**
Foreign currency translation adjustments	1	-1	0	-4
Additions during the year	183	42	4	255
Disposals during the year	-9	0	0	-105
Cost at 31.12.2012	**270**	**124**	**20**	**665**
Value adjustments at 1.1.2012	**1**	**0**	**-7**	**-32**
Foreign currency translation adjustments	0	0	0	0
Share of profit after tax	12	-	-	-
Dividends received	-1	-	-	-
Disposals during the year	-4	0	0	0
Other adjustments	0	0	-1	-10
Value adjustments at 31.12.2012	**8**	**0**	**-8**	**-42**
Carrying amount at 31.12.2012	**278**	**124**	**12**	**623**

Please refer to *Subsidiaries and associates* on page 86 for a list of associates. Ownership interest equals share of voting rights. For further details on associates, please refer to note 19 *Related parties*.



Note 11 – Deferred tax

(DKK million)

	2013	2012
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax assets	267	268
Deferred tax liabilities	-146	-148
Deferred tax, net at 31.12.	**121**	**120**
Deferred tax, net at 1.1.	120	165
Foreign currency translation adjustments	-18	-2
Changes in deferred tax assets	-11	-45
Additions relating to acquisitions	11	8
Adjustment of deferred tax, prior years	6	18
Impact of changes in corporate tax rates	8	-1
Deferred tax relating to changes in equity, net	5	-24
Other adjustments	0	1
Deferred tax, net at 31.12.	**121**	**120**

The tax value of deferred tax assets not recognised is DKK 78 million (DKK 83 million in 2012) and relates mainly to tax losses for which there is considerable uncertainty about their future utilisation. The tax losses will not expire in the near future. Any sale of shares in subsidiaries and associates at the balance sheet date is estimated to result in tax in the amount of DKK 0 million (DKK 0 million in 2012).

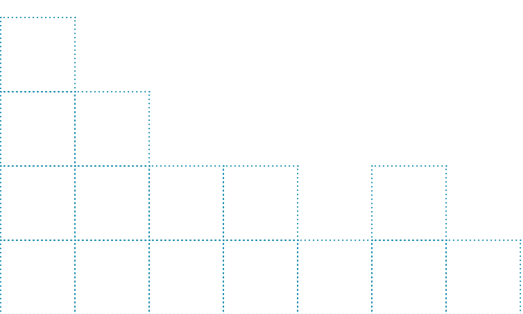
Breakdown of the Group's temporary differences and changes:

	Temporary differences at 1.1.2013	Foreign currency translation adjustments	Acquisitions	Recognised in profit for the year	Recognised in other comprehen-sive income	Temporary differences at 31.12.2013
Intangible assets	-29	0	-6	-43	0	-78
Property, plant and equipment	-49	-1	0	13	0	-37
Inventories	119	-1	0	19	0	137
Receivables	9	0	0	-2	0	7
Provisions	34	-5	0	-16	0	13
Tax losses	68	-5	5	-21	0	47
Other	-32	-6	12	53	5	32
Total	**120**	**-18**	**11**	**3**	**5**	**121**

Note 12 – Inventories

(DKK million)	2013	2012
Raw materials and purchased components	540	528
Work in progress	35	18
Finished goods and goods for resale	572	468
Inventories	**1,147**	**1,014**
Write-downs included in the above	133	141
Carrying amount of inventories recognised at fair value after deduction of costs to sell	0	0
Included in the income statement under production costs:		
Write-downs of inventories for the year, net	12	32
Cost of goods sold for the year	2,006	1,867

Write-downs for the year are shown net, as breakdown into reversed write-downs and new write-downs is not possible. Inventories are generally expected to be sold within one year.



Note 13 – Receivables

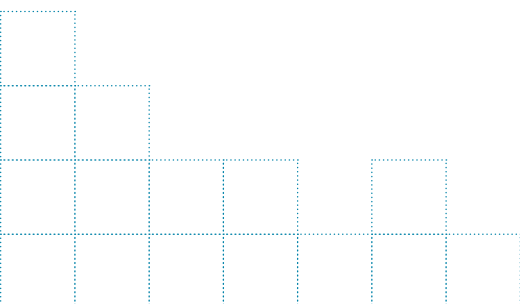
(DKK million)	2013	2012
Trade receivables	1,881	1,754
Other non-current receivables	566	623
Other current receivables	211	142
Total	**2,658**	**2,519**
Non-impaired receivables by age:		
Balance not due	1,974	1,885
0-3 months	387	379
3-6 months	149	125
6-12 months	68	78
Over 12 months	80	52
Total	**2,658**	**2,519**
Breakdown of allowance for impairment:		
Allowance for impairment at 1.1	-134	-118
Foreign currency translation adjustments	4	0
Applied during the year	14	16
Additions during the year	-31	-32
Reversals during the year	4	0
Allowance for impairment at 31.12.	**-143**	**-134**

The Group makes provisions for anticipated credit losses using an allowance account to record individual impairments. The value of a receivable is tested for impairment based on an assessment of the particular debtor's and uniform groups of debtors' ability to pay. Receivables are computed at net realisable value, and write-downs are recognised on an allowance account. For information on security or collateral, please see *Risk management activities* on page 22.

Note 14 – Provisions

(DKK million)	2013	2012
Other non-current employee benefits	44	41
Miscellaneous provisions	34	51
Other provisions	78	92
Defined benefit plan liabilities, net	70	65
Provisions at 31.12.	**148**	**157**
Breakdown of provisions:		
Non-current provisions	132	121
Current provisions	16	36
Provisions at 31.12.	**148**	**157**
Other provisions:		
Other provisions at 1.1.	92	179
Foreign currency translation adjustments	-8	-2
Reclassifications	-14	0
Additions relating to acquisitions	3	4
Provisions during the year	7	13
Applied during the year	-1	-95
Reversals during the year	-1	-7
Other provisions at 31.12.	**78**	**92**
Defined benefit plan costs recognised in the income statement:		
Current service cost	18	14
Calculated interest on net plan liabilities	1	-1
Costs recognised in the income statement (note 2)	**19**	**13**
Defined benefit plan costs by function:		
Research and development costs	5	4
Distribution costs	6	2
Administrative expenses	8	7
Total	**19**	**13**
Accumulated actuarial loss recognised in the statement of comprehensive income	**-30**	**-36**

Miscellaneous provisions relate to provisions for disputes etc. and are essentially expected to be applied within the next two years. In 2012, the provision for the US patent case against ETG was offset against damages, legal costs and interests.



Note 14 – Provisions – *continued*

(DKK million)	2013	2012
Present value of defined benefit plan liabilities:		
Defined benefit plan liabilities at 1.1.	194	161
Foreign currency translation adjustments	-2	1
Additions relating to acquisitions	33	0
Current service costs	18	14
Calculated interest on plan liabilities	3	3
Actuarial losses/(gains), demographic assumptions	-1	0
Actuarial losses/(gains), financial assumptions	1	0
Actuarial losses/(gains), experience assumptions	0	12
Benefits paid	-1	1
Contributions from plan participants	10	2
Defined benefit plan liabilities at 31.12.	**255**	**194**
Fair value of plan assets:		
Plan assets at 1.1.	129	108
Foreign currency translation adjustments	-2	1
Additions relating to acquisitions	33	0
Expected return on plan assets	2	4
Actuarial gains/(losses)	5	4
Contributions	19	11
Benefits paid	-1	1
Plan assets at 31.12.	**185**	**129**
Net plan liabilities recognised in the balance sheet	**70**	**65**
Return on plan assets:		
Actual return on plan assets	7	8
Expected return on plan assets	2	4
Actuarial gains/(losses) on plan assets	**5**	**4**
Assumptions:		
Discount rate	2.0%	2.0%
Expected return on plan assets	2.0%	4.0%
Future salary increase rate	1.5%	1.5%

Generally, the Group does not offer defined benefit plans, but it has such plans in Switzerland and the Netherlands, where they are required by law. Moreover, the President & CEO of the Company has a seniority bonus. Plan assets at 31 December 2013 include: bonds (41%), shares (22%), other securities (17%), cash and cash equivalents (6%) and other assets (14%). Plan assets at 31 December 2012 included: bonds (42%), shares (23%), other securities (21%), cash and cash equivalents (1%) and other assets (13%). All plan assets except other assets are quoted on active markets. The Group expects to pay approximately DKK 18 million in 2014 (DKK 12 million in 2013) into defined benefit plans. Defined benefit obligations in the amount of DKK 28 million will mature within 1-5 years and obligations in the amount of DKK 227 million after 5 years.

If the discount rate were 0.5% higher (lower), the defined benefit obligation would decrease by 7% (increase by 8%). If the expected salary growth rate were 0.5% higher (lower), the defined benefit obligation would increase by 3% (decrease by 3%).

Note 15 – Financial instruments and financial risks

Categories of financial instruments

(DKK million)	2013	2012
Unrealised gains on financial contracts	45	31
Financial assets used as hedging instruments	**45**	**31**
Receivables from associates	154	136
Other receivables	777	759
Trade receivables	1,881	1,754
Cash	363	307
Receivables and cash	**3,175**	**2,956**
Other investments	11	12
Financial assets available for sale	**11**	**12**
Unrealised losses on financial contracts	-6	-18
Financial liabilities used as hedging instruments	**-6**	**-18**
Unrealised losses on financial contracts	-5	-8
Financial liabilities at fair value through the income statement	**-5**	**-8**
Finance lease debt	-10	-14
Debt to credit institutions etc.	-1,254	-1,054
Interest-bearing bank debt	-1,929	-1,645
Trade payables	-367	-351
Other liabilities	-934	-906
Financial liabilities measured at amortised cost	**-4,494**	**-3,970**

As was the case in 2012, most financial liabilities fall due within one year. As regards financial assets and liabilities, their carrying amounts approximate their fair values. The following non-financial items are included in the balance sheet and represent the difference between the table above and the balance sheet: other receivables DKK 0 million (DKK 6 million in 2012) and other liabilities DKK -186 million (DKK -166 million in 2012).

Policies relating to financial risk management and capital structure
Financial risk management concentrates on exchange rate, interest rate, credit and liquidity risks with a view to protecting the Group against potential losses and ensuring that Management's forecasts for the current year are only to a limited extent affected by changes or events in the surrounding world – be they changes in exchange rates or in interest rate levels. It is corporate policy to exclusively hedge commercial risks and not to undertake any financial transactions of a speculative nature.

Since spring 2011, our pool of assets and cash flow has grown considerably driven by both organic growth and the completion of acquisitions. At the same time, we have seen some stabilisation on the financial markets. In 2013, our Board of Directors therefore decided to raise the target for the Group's net interest-bearing debt to DKK 2.0-2.5 billion from a previous range of DKK 1.5-2.0 billion.

Exchange rate risks
The Group seeks to hedge against any exchange rate risks through forward exchange contracts and other hedging instruments. Hedging thus gives Management the opportunity – and necessary time – to redirect business arrangements in the event of persistent changes in foreign exchange rates. The Group aims to hedge such changes in foreign exchange rates by seeking to match positive and negative cash flows in the main currencies as much as possible and by entering into forward exchange contracts. By entering into such contracts, we can hedge estimated cash flows with a horizon of up to 24 months.

Note 15 – Financial instruments and financial risks – *continued*

Interest rate risks

Hedging interest rate risks on corporate loans is limited, as the Group has limited debt compared to its volume of corporate activities. A fixed interest rate swap on corporate floating loans worth EUR 100 million expired in the first half-year 2013. In this connection, it was decided to keep the majority of our corporate loans on floating terms and with limited long-term commitment. This decision was based on the Group's high level of cash generation and a relatively low financial gearing, resulting in a significant lowering of our interest expenses due to the steep interest rate curve.

Credit risks

Corporate credit risks relate primarily to trade receivables and loans to customers or business partners. Our customer base is fragmented, so credit risks only involve minor losses on individual customers. Together, our five largest customers account for less than 10% of total consolidated revenue. We therefore estimate that we have no major credit exposure, which is supported by our track record of only insignificant losses on bad debts. When granting loans to customers or business partners, we require that they provide security in their business. The maximum credit risk relating to receivables matches the carrying amounts of such receivables. The Group has no major deposits in particular financial institutions for which reason the credit risk of such deposits is considered to be low.

Liquidity risks

The Group aims to have sufficient cash resources to be able to continuously take appropriate steps in case of unforeseen fluctuations in cash outflows. We have access to considerable undrawn credit facilities, and the liquidity risk is therefore considered to be low. We are of the opinion that the Group has a strong cash flow and satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions. The Group has neither in the financial year 2013 nor in the comparative year 2012 failed to perform or defaulted on any loan agreements.

Exchange rate risks

Exchange rate risks relating to future cash flows

Open forward exchange contracts at the balance sheet date may be specified as shown below, with contracts for sale of currencies being shown with their negative contract values. The expiry dates reflect the periods in which the hedged cash flows are expected to be realised.

Realised forward exchange contracts are recognised in the income statement together with the items, typically the revenue in foreign currency, that such contracts are designed to hedge. In 2013, our forward exchange contracts realised a gain of DKK 68 million (loss of DKK 101 million in 2012), which increased reported revenue for the year. In addition, we raised loans in foreign currencies to balance out net receivables. At year-end 2013, we had entered into forward exchange contracts with a contractual value of DKK 681 million (DKK 1,093 million in 2012) and a fair value of DKK 42 million (DKK 26 million in 2012).

Note 15 – Financial instruments and financial risks – *continued*

Forward exchange contracts

(DKK million)

	2013					2012				
	Expiry	Contractual value	Fair value	Positive fair value at year-end	Negative fair value at year-end	Expiry	Contractual value	Fair value	Positive fair value at year-end	Negative fair value at year-end
USD	2014	-169	7	7	0	2013	-233	7	7	0
JPY	2014	-117	27	27	0	2013/14	-231	18	18	0
AUD	2014	-114	8	8	0	2013	-172	-2	0	2
CAD	2014	-79	3	3	0	2013	-232	6	6	0
GBP	2014	-202	-3	0	3	2013	-225	-3	0	3
		-681	**42**	**45**	**3**		**-1,093**	**26**	**31**	**5**

Sensitivity analysis in respect of foreign currencies

The below table shows the impact on the year's operating profit (EBIT) and consolidated equity given a change of 5% in the currencies with the largest exposures. The exchange rate risk has been calculated on the basis of a simple addition of the operating profits (EBITs) of Group enterprises in local currencies. Whereas the addition of EBITs includes all Group enterprises, the net foreign exchange flow is identical to the flow in Oticon A/S. We estimate that approximately 90% of all foreign currency translation is made in Oticon A/S and that the analysis therefore gives a fair presentation of the flow in the entire Group. The foreign exchange flow includes actual foreign currency translation as well as changes in net receivables, i.e. trade receivables, trade payables and bank balances.

Effect on EBIT, 5% positive exchange rate impact*

DKK million	2013	2012
USD	+35	+35
GBP	+12	+15
AUD	+12	+10
CAD	+10	+10
JPY	+5	+5

** Estimated, on a non-hedged basis, i.e. the total annual exchange rate impact excluding forward exchange contracts.*

Effect on equity, 5% positive exchange rate impact

DKK million	2013	2012
USD	+70	+45
GBP	+10	+10
AUD	+10	+10
CAD	+25	+25
JPY	+2	+2

Note 15 – Financial instruments and financial risks – *continued*

Liquidity and interest rate risks

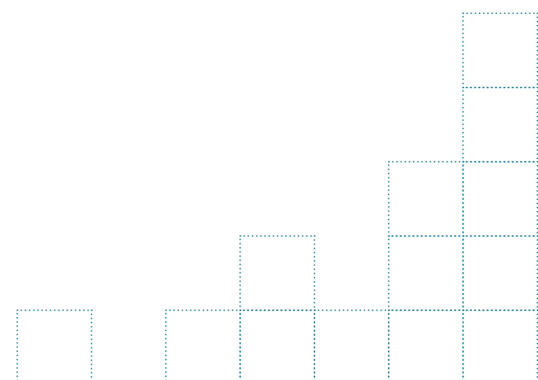
(DKK million)	Contractual cash flows				Carrying amount	Weighted average effective interest rate
	Less than 1 year	1-5 years	More than 5 years	Total		
2013						
Interest-bearing receivables	95	290	338	723	581	
Cash	363	0	0	363	363	
Interest-bearing assets	**458**	**290**	**338**	**1,086**	**944**	**2.0%**
Finance lease debt	-1	-10	0	-11	-10	
Debt to credit institutions etc.	-1,185	-73	0	-1,258	-1,254	
Interest-bearing bank debt	-1,929	0	0	-1,929	-1,929	
Interest-bearing liabilities	**-3,115**	**-83**	**0**	**-3,198**	**-3,193**	**1.3%**
Net position	**-2,657**	**207**	**338**	**-2,112**	**-2,249**	**1.0%**
2012						
Interest-bearing receivables	80	415	228	723	602	
Cash	307	0	0	307	307	
Interest-bearing assets	**387**	**415**	**228**	**1,030**	**909**	**3.1%**
Finance lease debt	-6	-8	0	-14	-14	
Debt to credit institutions etc.	-1,001	-73	0	-1,074	-1,054	
Interest-bearing bank debt	-1,645	0	0	-1,645	-1,645	
Interest-bearing liabilities	**-2,652**	**-81**	**0**	**-2,733**	**-2,713**	**2.6%**
Net position	**-2,265**	**334**	**228**	**-1,703**	**-1,804**	**2.3%**

Cash consists primarily of bank deposits of which DKK 28 million (DKK 3 million in 2012) relate to joint ventures.

Contractual cash flows of finance lease debt equal the minimum lease payments.

Trade payables and other liabilities have a contractual maturity of less than one year, with the exception of other liabilities of DKK 221 million (DKK 136 million in 2012), which have a contractual maturity of 1-5 years. The contractual cash flows approximate their carrying amounts.

Interest-bearing debt broken down by currency: 24% in euros (31% in 2012), 6% in Danish kroner (10% in 2012), 57% in US dollars (47% in 2012), 11% in Canadian dollars (10% in 2012) and 2% in other currencies (2% in 2012).



Note 15 – Financial instruments and financial risks – *continued*

The Group has fixed the interest rates on part of its non-current debt through interest swaps.

Interest swaps

(DKK million)

	2013					2012				
	Expiry	Fixed interest rate	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end	Expiry	Fixed interest rate	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end
USD/USD	2016	2.3%	135	0	5	2016	2.3%	141	0	8
EUR/EUR	-	-	0	0	0	2013	4.0%	746	0	9
DKK/DKK	2015	3.5%	40	0	3	2015	3.5%	40	0	4
			175	**0**	**8**			**927**	**0**	**21**

The fair value of outstanding interest swaps at the balance sheet date is DKK -8 million (DKK -21 million in 2012). The contractual value of outstanding interest swaps is DKK 175 million (DKK 927 million in 2012), such swaps running up to and including 2016. This includes one interest swap that is not designated as hedging. This swap has a fair value of DKK -5 million (DKK -8 million in 2012). There has been no ineffectiveness on interest swaps in 2013 or 2012.

Sensitivity analysis in respect of interest rates

Based on the net debt at the end of the 2013 financial year, a rise of 1 percentage point in the general interest rate level will cause an increase in consolidated annual interest expenses before tax of DKK 20 million (less than DKK 1 million in 2012). About 6% of the interest-bearing debt is subject to fixed interest rates, partly due to interest swaps being made at floating interest rates, and partly due to loans being raised at fixed interest rates.

Methods and assumptions for calculation of fair values

Other investments

Other investments are assessed on the basis of their equity value.

Derivatives

Forward exchange contracts are assessed using discounted cash flow valuation techniques. Future cash flows are based on forward exchange rates from observable forward exchange rates at the end of the reporting period and contractual forward rates discounted at a rate that reflects the credit risk of various counterparties.

Interest swaps are assessed using discounted cash flow valuation techniques. Future cash flows are based on forward observable yield curves at the end of the reporting period and contractual interest rates discounted at a rate that reflects the credit risk of various counterparties.

Fair value hierarchy for financial instruments measured at fair value in the balance sheet

The following classification of financial instruments measured at fair value is divided according to the fair value hierarchy:

- Listed prices in an active market for the same type of instrument (level 1).
- Listed prices in an active market for similar assets or liabilities or other valuation methods, with all significant inputs being based on observable market data (level 2).
- Valuation methods, with any significant inputs not being based on observable market data (level 3).

Note 15 – Financial instruments and financial risks – *continued*

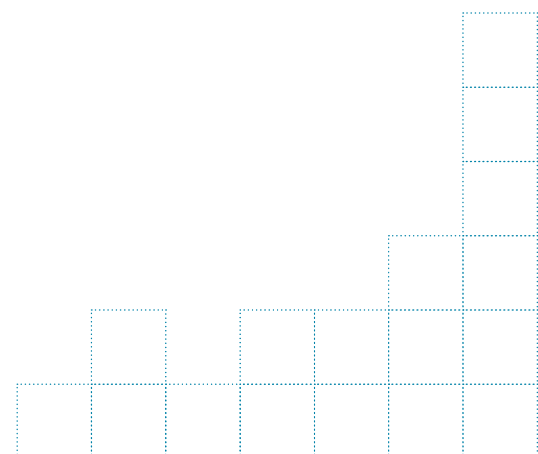
(DKK million)	2013				2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets used as hedging instruments	0	45	0	**45**	0	31	0	**31**
Other investments (available for sale)	0	0	11	**11**	0	0	12	**12**
Financial liabilities used as hedging instruments	0	-6	0	**-6**	0	-18	0	**-18**
Financial liabilities at fair value through the income statement	0	-5	0	**-5**	0	-8	0	**-8**

There are no transfers between levels 1 and 2 in the 2013 and 2012 financial years.

Financial instruments measured at fair value in the balance sheet based on valuation methods, with any significant inputs not being based on observable market data (level 3):

Financial assets available for sale

(DKK million)	2013	2012
Carrying amount at 1.1.	12	9
Foreign currency translation adjustment	0	0
Purchase	2	4
Sale	-3	0
Other adjustments	0	-1
Transferred to/from level 3	0	0
Carrying amount at 31.12.	**11**	**12**



Note 16 – Other liabilities

(DKK million)	2013	2012
Product-related liabilities	186	166
Staff-related liabilities	277	251
Other debt, public authorities	129	105
Debt relating to acquisitions	262	329
Other costs payable	266	221
Other liabilities	**1,120**	**1,072**
Due within 1 year	899	936
Due within 1-5 years	221	136

Product-related liabilities include service packages, warranties, returned products etc. Our liabilities in respect of service packages and warranties have been calculated on the basis of information on products sold, related service and warranty periods and past experience of costs incurred by our Group to fulfil our service and warranty liabilities. Our liabilities in respect of returns have been calculated based on information on products sold, related rights concerning returns and past experience of products returned in the various markets. Consolidated product-related liabilities are the sum of a large number of small items, the sum changing constantly due to a large number of transactions.

Staff-related liabilities include holiday pay and payroll costs due.

The carrying amount of other liabilities approximate the fair value of the liabilities.

Note 17 – Operating lease commitments

(DKK million)	2013	2012
Rent	520	543
Other operating leases	29	24
Total	**549**	**567**
Operating leases, less than 1 year	161	159
Operating leases, 1-5 years	272	291
Operating leases, over 5 years	116	117
Total	**549**	**567**

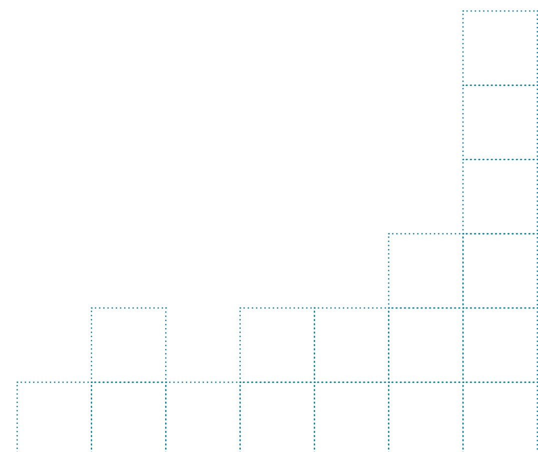
Operating leases are recognised in the income statement at an amount of DKK 288 million (DKK 253 million in 2012). The Group's operating leases mainly relate to rent and vehicles.

Note 18 – Contingent liabilities

The William Demant Group is involved in a few disputes, lawsuits etc. Management is of the opinion that disputes do not or will not significantly affect the Group's financial position. The Group seeks to make adequate provisions for legal proceedings.

As part of our business activities, the Group has entered into normal agreements with customers and suppliers etc. as well as agreements for the purchase of shareholdings.

For the purposes of section 17 of the Republic of Ireland Companies (Amendment) Act, William Demant Holding A/S has undertaken to indemnify the creditors of its subsidiaries incorporated in the Republic of Ireland in respect of all losses and liabilities as referred to in section 5c of said act for the financial year ending on 31 December 2013 or any amended financial period incorporating the said financial year. The Company does not expect any material loss to arise from this guarantee.



Note 19 – Related parties

William Demants og Hustru Ida Emilies Fond (the Oticon Foundation) Kongebakken 9, 2765 Smørum, Denmark is the only related party with a controlling interest. Controlling interest is achieved through a combination of the Oticon Foundation's own shareholding and the shareholding of William Demant Invest A/S for which the Oticon Foundation exercises the voting rights. Associated enterprises of William Demant Invest A/S are related parties to the William Demant Group.

Related parties with significant influence are the Company's Executive Board, Board of Directors and their related parties. Furthermore, related parties are companies in which the above persons have significant interests.

Subsidiaries, joint ventures and associates as well as the William Demant Group's ownership interests in these companies appear from the *Subsidiaries and associates* list on page 86.

The Oticon Foundation lets office and production premises to the joint venture, Sennheiser Communications A/S. In 2013, the rental expense amounted to DKK 3 million (DKK 2 million in 2012). In 2013, the Oticon Foundation and William Demant Invest A/S paid administration fees to the Group of DKK 2 million (DKK 2 million in 2012) and DKK 5 million (DKK 5 million in 2012), respectively. In 2013, Unisense FertiliTech A/S paid consultancy fees to the Group of less than DKK 1 million (DKK 0 million in 2012).

In 2012 and 2013, William Demant Invest A/S advanced a loan to the Group. At the end of 2013, the loan amounted to DKK 0 million (DKK 56 million in 2012) and the Group paid interest in the amount of DKK 3 million on the loan in 2013 (DKK 1 million in 2012). In 2012 and 2013, the Group settled Danish tax on account and residual tax with William Demant Invest A/S, the administration company for the joint taxation.

Sales to joint ventures not eliminated in the consolidated financial statements amounted to DKK 1 million (DKK 23 million in 2012). At year-end, non-eliminated receivables, net, with joint ventures totalled DKK 0 million (DKK 4 million in 2012).

In 2013, the Group received royalties from and paid licence fees amounting to DKK 2 million (DKK 2 million in 2012) to associates and also received dividends from associates in the amount of DKK 0 million (DKK 0 million in 2012). In 2013, the Group received interest income from associates in the amount of DKK 5 million (DKK 5 million in 2012).

There have been no transactions with the Executive Board and the Board of Directors apart from normal remuneration, please refer to note 2 *Employees*. The Executive Board has 30 months' notice in the event of dismissal.

In the reporting period, transactions with related parties were made on an arm's length basis.

(DKK million)

	2013	2012
The consolidated financial statements include the following amounts related to joint ventures:		
Revenue	251	377
Costs	201	344
Non-current assets	10	8
Current assets	55	54
Non-current liabilities	0	0
Current liabilities	33	30
Financial information in respect of associates:		
Revenue	854	386
Net profit for the year	-12	27
Assets	554	348
Liabilities	412	274

In 2013, Sennheiser Communications A/S was the only joint venture activity in the Group and was proportionately consolidated in the consolidated financial statements based on the Group's ownership interest of 50%. In 2012, the Group's joint venture activities consisted of Sennheiser Communications A/S and Hearing Healthcare Management Inc., which were both proportionately consolidated in the consolidated financial statements based on the Group's ownership interests of 50% and 65%, respectively. At the end of 2012, the Group obtained 100% ownership of Hearing Healthcare Management Inc. In compliance with the shareholder agreements, the Group has exercised a joint controlling interest in both these companies together with the other shareholders. There are no significant contingent liabilities in the Group's joint ventures.

Note 20 – Acquisition of enterprises and activities

(DKK million)	North America	Oceania	Europe/ Asia	Total
	Fair value on acquisition			
2013				
Intangible assets	12	0	1	13
Property, plant and equipment	6	1	25	32
Other non-current assets	1	0	18	19
Inventories	5	0	60	65
Current receivables	31	0	79	110
Cash and bank debt	11	0	13	24
Non-current liabilities	-151	0	-77	-228
Current liabilities	-33	0	-121	-154
Acquired net assets	**-118**	**1**	**-2**	**-119**
Goodwill	481	32	620	1,133
Acquisition cost	**363**	**33**	**618**	**1,014**
Minority interests' share of acquisition cost	0	0	0	0
Fair value of non-controlling interests on obtaining control	-54	0	-32	-86
Earn-outs and deferred payments	-106	-7	-32	-145
Acquired cash and bank debt	-11	0	-13	-24
Cash acquisition cost	**192**	**26**	**541**	**759**
2012				
Intangible assets	6	0	1	7
Property, plant and equipment	14	2	4	20
Other non-current assets	16	0	1	17
Inventories	13	1	6	20
Current receivables	23	0	9	32
Cash and bank debt	17	0	5	22
Non-current liabilities	-2	0	0	-2
Current liabilities	-29	-2	-21	-52
Acquired net assets	**58**	**1**	**5**	**64**
Goodwill	487	34	69	590
Acquisition cost	**545**	**35**	**74**	**654**
Minority interests' share of acquisition cost	-1	0	-2	-3
Fair value of non-controlling interests on obtaining control	-118	0	-9	-127
Earn-out and deferred payments	-47	-2	-10	-59
Acquired cash and bank debt	-17	0	-5	-22
Cash acquisition cost	**362**	**33**	**48**	**443**

Note 20 – Acquisitions – *continued*

Our most significant acquisition in 2013 was the purchase of the French manufacturer of cochlear implants, Neurelec SA. The acquisition was finalised on 2 April 2013 and included all shares in the company against an acquisition cost of DKK 428 million. Identifiable assets accounted for DKK 22 million and goodwill for DKK 406 million. Goodwill is attributable to estimated synergies between activities in Neurelec and the Group's existing activities, to the future growth opportunities and to the value of staff competencies in Neurelec. In the above geographical segmentation of total acquisitions, the acquisition of Neurelec is included under Europe/Asia.

The Group's other acquisitions in the period under review include distribution enterprises in North America and Europe relating to Diagnostic Instruments as well as partial or full ownership of distribution entities in North America, Oceania and Europe/Asia relating to Hearing Devices. In respect of these acquisitions, we paid acquisition costs exceeding the fair values of the acquired assets, liabilities and contingent liabilities. Such positive balances in value can be attributed to expected synergies between the activities of the acquired entities and our existing activities, to the future growth opportunities and to the value of staff compentencies in the acquired entities. These synergies are not recognised separately from goodwill, as they are not separately identifiable.

At the time of acquisition, minority investors' shares of acquisitions were measured at their proportionate shares of the total fair values of the acquired entities including goodwill. In connection with step acquisitions, non-controlling interests were at the time of achieving control included at their fair values with fair value adjustments in the income statement.

In 2013, a few adjustments were made to the preliminary recognition of acquisitions made in 2012 and to the recognition of acquisitions made in 2009 and recognised via goodwill in compliance with IFRS 3 (2004). These adjustments are due to adjustments to payments in the amount of DKK 1 million and to estimated earn-outs of DKK -5 million, resulting in a goodwill adjustment of DKK -4 million. In relation to acquisitions with final recognition in 2010 to 2012, adjustments were made in 2013 in respect of estimated earn-outs. Such adjustments are recognised in the income statement in compliance with IFRS 3 (2008).

The total positive impact on the income statement due to the fair value adjustment of non-controlling interests in step acquisitions (DKK 50 million) and adjustments of estimated earn-outs (DKK 46 million) amounted to DKK 96 million, which was recognised in distribution costs.

Of the total acquisition costs in 2013, including adjustments to preliminarily recognised acquisitions of DKK -5 million (DKK -1 million in 2012), the fair values of estimated contingent considerations in the form of discounted earn-outs or deferred payments accounted for DKK 145 million (DKK 59 million in 2012). Contingent considerations are measured at their fair values based on non-observable inputs (level 3), such as the financial performance and purchasing patterns of the acquired enterprises in a period of typically one to 1-5 years after the dates of acquisition. The maximum contingent consideration on acquisitions made in 2013 is DKK 159 million. In 2013, payment of contingent considerations totalled DKK 137 million and foreign currency translation adjustments DKK -29 million. Contingent consideration on the balance sheet is specified in note 16 *Other liabilities* on page 67.

The acquired assets included contractual receivables amounting to DKK 85 million (DKK 29 million in 2012) of which DKK 5 million (DKK 0 million in 2012) was thought to be uncollectible at the date of acquisition. Of total goodwill in the amount of DKK 1,133 million (DKK 590 million in 2012), DKK 71 million (DKK 209 million in 2012) can be amortised for tax purposes. Neither in 2012 nor in 2013, were contingent liabilities recognised on acquisition.

The above statement of fair values of the respective acquired enterprises is not considered final until 12 months after acquisition.

Transaction costs in connection with acquisitions in 2013 amounted to DKK 4 million (DKK 5 million in 2012), which has been recognised under distribution costs.

The revenue and profit of the acquired enterprises since our acquisition in 2013 amounted to DKK 311 million (DKK 185 million in 2012) and DKK 17 million (DKK 15 million in 2012), respectively. Had such revenue and profit been consolidated on 1 January 2013, the consolidated revenue and profit are pro forma estimated to have been DKK 9,471 million (DKK 8,644 million in 2012) and DKK 1,325 million (DKK 1,156 million in 2012), respectively. In our opinion, these pro forma figures reflect the level of consolidated earnings after our acquisition of the enterprises and consequently, the amounts can form a basis for comparison in subsequent financial years.

From the balance sheet date and until the date of financial reporting in 2014, we have acquired a few minor distribution enterprises. We are in the process of calculating their fair values. The acquisition cost is expected to relate primarily to goodwill.

Note 21 – Government grants

In 2013, the William Demant Group received government grants in the amount of DKK 12 million (DKK 1 million in 2012). Grants are offset against research and development costs.

Note 22 – Specifications to consolidated cash flow statement

(DKK million)	2013	2012
Amortisation and depreciation etc.	295	267
Share of profit after tax, associates	0	-12
Gain on sale of intangible assets and property, plant and equipment	0	-5
Other non-cash items	-32	-13
Non-cash items etc.	**263**	**237**

Note 23 – Events after the balance sheet date

There have been no events that materially affect the assessment of the Annual Report after the balance sheet date and until today.

Note 24 – Approval and publication

At the Board meeting on 27 February 2014, our Board of Directors approved this Annual Report for publication. The Annual Report will be presented to the shareholders of William Demant Holding A/S for adoption at the annual general meeting on 9 April 2014.

Note 25 – Shareholders

The names of the shareholders listed below are recorded in the register of shareholders as owners of minimum 5% of the votes or minimum 5% of the share capital:

William Demant Invest A/S and this company's parent, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation), Kongebakken 9, 2765 Smørum, Denmark. Ownership interest is approximately 56%. William Demant Invest A/S prepares consolidated financial statements in which the William Demant Group is included.

The Capital Group Companies Inc., Los Angeles, USA. Ownership interest (including ownership interests of customers whose portfolios are administered by the company and companies owned directly or indirectly by the company) is 5-10%.

Note 26 – Board of Directors and Executive Board

The members of the Board of Directors and Executive Board of William Demant Holding A/S hold other executive positions as specified below:

Board of Directors	Other executive positions
Lars Nørby Johansen, Chairman	Codan A/S and one subsidiary, chairman of the board The Danish Growth Council, chairman Dansk Vækstkapital, chairman of the board Falck A/S and one subsidiary, chairman of the board University of Southern Denmark, chairman of the board The Rockwool Foundation, deputy chairman of the board Arp-Hansen Hotel Group A/S, board member Index Award A/S, board member
Peter Foss, Deputy Chairman	FOSS A/S, chairman of the board N. Foss & Co. A/S, deputy chairman of the board The Oticon Foundation, deputy chairman of the board William Demant Invest A/S, deputy chairman of the board A.R. Holding af 1999 A/S, board member TrackMan A/S, board member
Niels B. Christiansen	Danfoss A/S, President & CEO and directorships in three subsidiaries Axcel A/S, chairman of the board Danske Bank A/S, deputy chairman of the board
Thomas Hofman-Bang	KPMG 2014 P/S, CEO and Senior Partner (from 1 February 2014) The Bikuben Foundation, board member Danish Committee on Corporate Governance, member
Ole Lundsgaard	Interacoustics A/S, staff-elected board member and deputy chairman of the joint consultative committee
Jørgen Møller Nielsen	Deputy chairman of the local business group under The Danish Society of Engineers (IDA)
Karin Ubbesen	Oticon A/S, shop steward, staff-elected board member

Executive Board	
Niels Jacobsen, President & CEO	LEGO A/S, chairman of the board A.P. Møller - Mærsk A/S, deputy chairman of the board KIRKBI A/S, deputy chairman of the board Thomas B. Thriges Fond (Thomas B. Thrige Foundation), chairman

PARENT ACCOUNTING POLICIES

The financial statements for the Parent, William Demant Holding A/S, are presented in accordance with the provisions of the *Danish Financial Statements Act* for large class D entities.

The Parent financial statements are presented in Danish kroner (DKK), which is also the functional currency for the Parent. The accounting policies are the same as last year.

The Parent's accounting policies in respect of recognition and measurement are generally consistent with the Group's accounting policies. The instances in which the Parent's accounting policies deviate from those of the Group are described below.

Income statement

Tax

The Parent is jointly taxed with its Danish subsidiaries and its Parent, William Demant Invest A/S. Current income tax is allocated to the jointly taxed Danish companies in proportion to their taxable incomes.

Balance sheet

Goodwill

Goodwill is amortised on a straight-line basis over 20 years, which is the useful life determined on the basis of Management's experience in respect of the individual business activities. Goodwill is written down to its recoverable amount if lower than its carrying amount.

Rights

Rights acquired are amortised on a straight-line basis over their estimated useful lives and measured at cost less accumulated amortisation and impairment losses. The amortisation period is five years. Rights acquired are written down to their recoverable value if lower than their carrying value.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured using the equity method, i.e. interests are measured at the proportionate share of the equity values of such subsidiaries or associates with the addition or deduction of the carrying amount of goodwill and with the addition or deduction of unrealised intra-Group profits or unrealised intra-Group losses, respectively.

The Parent's proportionate shares of profits or losses in subsidiaries and associates are recognised in the income statement after elimination of unrealised intra-Group profits or losses less amortisation and impairment, if any, of goodwill.

Subsidiaries and associates with negative equity values are measured at DKK 0, and any receivables from such companies are written down with the Parent's share of the negative equity value, to the extent that such receivable is considered irrecoverable. If the negative equity value exceeds receivables, if any, such residual amounts will be recognised under provisions, to the extent that the Parent has a legal or constructive obligation to cover liabilities incurred by the particular subsidiary or associate.

On distribution of profit or loss, net revaluation and net impairment loss of investments in subsidiaries and associates are transferred to reserves for net revaluation according to the equity method under equity.

Other investments

On initial recognition, other investments are measured at cost. Subsequently, they are measured at their fair values on the balance sheet date, and any changes in fair values are recognised in the income statement under net financial items.

Provisions

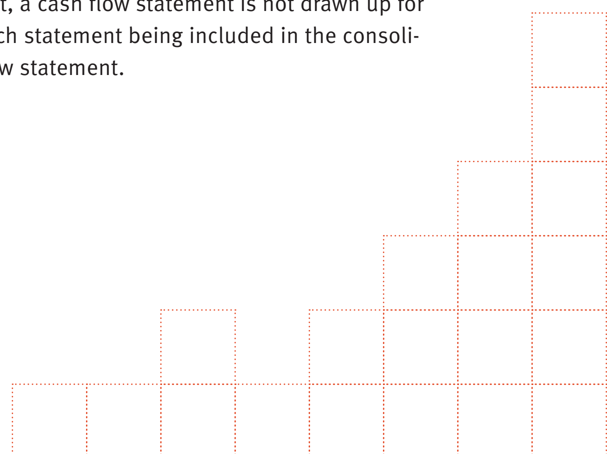
Provisions include liabilities, which are uncertain in respect of the amount or the timing of their settlement. Provisions may include different types of liabilities, such as deferred tax liabilities, onerous contracts, pension obligations as well as provisions for disputes etc.

Statement of changes in equity

In compliance with the format requirements of the Danish Financial Statements Act, any items included under comprehensive income in the consolidated financial statements are recognised directly in equity in the Parent financial statements, with the exception of actuarial gains and losses on plan assets and plan liabilities, which in the Parent are recognised in the income statement.

Cash flow statement

In compliance with section 84(4) of the Danish Financial Statements Act, a cash flow statement is not drawn up for the Parent, such statement being included in the consolidated cash flow statement.

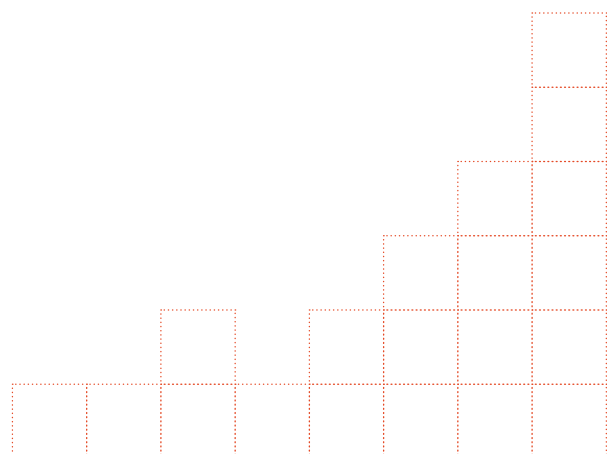


PARENT INCOME STATEMENT

(DKK million)	Note	2013	2012
Administrative expenses	1/2	-60	-57
Other operating income and expenses		34	-1
Operating loss (EBIT)		**-26**	**-58**
Share of profit after tax, subsidiaries	7	1,184	1,091
Share of profit after tax, associates	7	-5	3
Financial income	3	31	32
Financial expenses	3	-38	-58
Profit before tax		**1,146**	**1,010**
Tax on profit for the year	4	11	19
Profit for the year		**1,157**	**1,029**
Proposed distribution of net profit:			
Transferred to reserves for net revaluation according to the equity method		607	236
Retained earnings		550	793
		1,157	**1,029**

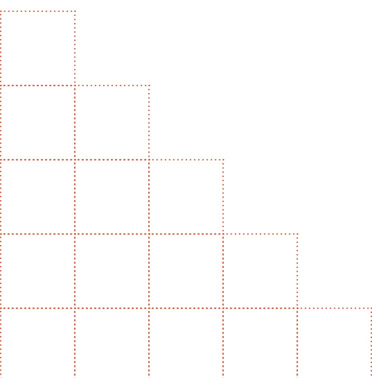
PARENT BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2013	2012
Assets			
Goodwill		52	56
Rights		1	3
Intangible assets	5	**53**	**59**
Land and buildings		24	24
Other plant, fixtures and operating equipment		2	2
Property, plant and equipment	6	**26**	**26**
Investments in subsidiaries	7	6,070	4,617
Receivables from subsidiaries	7	1,795	1,527
Investments in associates	7	40	46
Receivables from associates		13	13
Other investments	7	2	4
Other receivables	7	7	15
Financial assets		**7,927**	**6,222**
Non-current assets		**8,006**	**6,307**
Income tax		7	0
Prepaid expenses		3	1
Receivables		**10**	**1**
Cash		**0**	**0**
Current assets		**10**	**1**
Assets		**8,016**	**6,308**



PARENT BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2013	2012
Equity and liabilities			
Share capital		57	58
Other reserves		1,814	1,402
Retained earnings		3,152	2,700
Total equity		**5,023**	**4,160**
Other provisions		30	25
Deferred tax liabilities	4	11	15
Provisions		**41**	**40**
Interest-bearing debt	8	12	25
Other debt	8	50	68
Non-current liabilities		**62**	**93**
Interest-bearing debt		1,128	897
Debt to parent		0	56
Debt to subsidiaries		1,722	1,020
Income tax		0	8
Other debt	8	40	34
Current liabilities		**2,890**	**2,015**
Liabilities		**2,952**	**2,108**
Equity and liabilities		**8,016**	**6,308**
Contingent liabilities	9		
Related parties	10		
Shareholders	11		
Events after the balance sheet date	12		



PARENT STATEMENT OF CHANGES IN EQUITY

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Other reserves: Reserve according to equity method	Retained earnings	Total equity
Equity at 1.1.2012	**58**	**-88**	**-24**	**1,173**	**2,404**	**3,523**
Profit for the year	-	-	-	236	793	1,029
Foreign currency translation adjustment of investments in subsidiaries etc.	-	-4	-	4	-	0
Other changes in equity in subsidiaries	-	-	-	87	0	87
Value adjustment of hedging instruments	-	-	22	-	-	22
Tax relating to changes in equity	-	1	-5	-	-	-4
Buy-back of shares	-	-	-	-	-497	-497
Other changes in equity	-	-	-	-	0	0
Equity at 31.12.2012	**58**	**-91**	**-7**	**1,500**	**2,700**	**4,160**
Profit for the year	-	-	-	607	550	1,157
Foreign currency translation adjustment of investments in subsidiaries etc.	-	-8	-	-213	-	-221
Other changes in equity in subsidiaries	-	-	-	18	-	18
Value adjustment of hedging instruments	-	-	9	-	-	9
Tax relating to changes in equity	-	2	-2	-	-	-
Buy-back of shares	-	-	-	-	-101	-101
Capital reduction through cancellation of treasury shares	-1	-	-	-	1	0
Other changes in equity	-	-	-	- 1	2	1
Equity at 31.12.2013	**57**	**-97**	**0**	**1,911**	**3,152**	**5,023**

Changes in share capital:	**2013**	**2012**	**2011**	**2010**	**2009**
Share capital at the beginning of the year	58	58	58	59	59
Reduction of share capital through cancellation of treasury shares	-1	0	0	-1	0
Share capital at the end of the year	**57**	**58**	**58**	**58**	**59**

At year-end 2013, the share capital was nominally DKK 57 million (DKK 58 million in 2012) divided into the corresponding number of shares of DKK 1. There are no restrictions on the negotiability or voting rights of the shares. At year-end 2013, the number of shares outstanding was 56,460,113 (56,661,638 in 2012). For additional information, please refer to note 11 *Shareholders*.

	2013		2012	
	Treasury shares	Percentage of share capital	Treasury shares	Percentage of share capital
Holding of treasury shares:				
Treasury shares at 1.1.	1,688,237	2.9%	708,870	1.2%
Cancellation of treasury shares	-1,688,237	-2.9%	0	0.0%
Buy-back of shares	201,525	0.4%	979,367	1.7%
Treasury shares at 31.12.	**201,525**	**0.4%**	**1,688,237**	**2.9%**

As part of the Company's share buy-back programme, the Company bought back 201,525 shares in 2013 (979,367 shares in 2012) worth a total of DKK 101 million (DKK 497 million in 2012).

NOTES TO PARENT FINANCIAL STATEMENTS

Note 1 – Employees

(DKK million)	2013	2012
Staff costs:		
Wages and salaries	32	31
Pension plans	0	0
Total	**32**	**31**
Cash remuneration for Executive Board and Board of Directors:		
Executive Board, salary	12	12
Executive Board, bonus and pension	0	0
Board of Directors, remuneration	3	3

For a description of seniority bonus, reference is made to note 2 *Employees* in the consolidated financial statements. In 2013, the basic remuneration for a member of the Parent's Board of Directors was DKK 300,000 (DKK 300,000 in 2012). The Chairman of the Board of Directors receives three times the basic remuneration and the Deputy Chairman twice the basic remuneration.

	2013	2012
Average number of full-time employees	15	15

Note 2 – Fees to Parent's auditors appointed at the annual general meeting

(DKK million)	2013	2012
Statutory audit	1	1
Total	**1**	**1**

Note 3 – Net financial items

(DKK million)	2013	2012
Interest from subsidiaries	26	31
Interest income	2	1
Foreign exchange gains, net	3	0
Financial income	**31**	**32**
Interest to subsidiaries	-13	-12
Interest expenses	-24	-42
Transaction costs	-1	-2
Foreign exchange losses, net	0	-2
Financial expenses	**-38**	**-58**

Note 4 – Tax on profit for the year and deferred tax

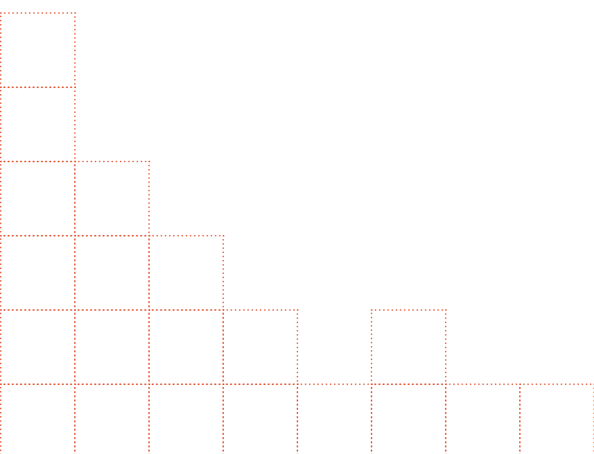
(DKK million)

	2013	2012
Tax on profit for the year:		
Current tax on profit for the year	7	10
Adjustment of current tax, prior years	0	-1
Change in deferred tax	1	10
Adjustment of deferred tax, prior years	2	0
Impact of changes in corporate tax rates	1	0
Total	**11**	**19**
Reconciliation of tax rates:		
Tax on profit for the year	11	24
Tax on entries on equity	0	-5
Total	**11**	**19**
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax assets	0	0
Deferred tax liabilities	-11	-15
Deferred tax, net at 31.12.	**-11**	**-15**
Deferred tax, net at 1.1.	-15	-25
Change in deferred tax assets	1	10
Adjustment of deferred tax, prior years	2	0
Impact of changes in corporate tax rates	1	0
Deferred tax, net at 31.12.	**-11**	**-15**

Note 5 – Intangible assets

(DKK million)	Goodwill	Rights	Total intangible assets
Cost at 1.1.2013	65	7	72
Additions during the year	0	0	0
Cost at 31.12.2013	65	7	72
Amortisation at 1.1.2013	-9	-4	-13
Amortisation for the year	-4	-2	-6
Amortisation at 31.12.2013	-13	-6	-19
Carrying amount at 31.12.2013	52	1	53
Cost at 1.1.2012	65	7	72
Additions during the year	0	0	0
Cost at 31.12.2012	65	7	72
Amortisation at 1.1.2012	-6	-2	-8
Amortisation for the year	-3	-2	-5
Amortisation at 31.12.2012	-9	-4	-13
Carrying amount at 31.12.2012	56	3	59

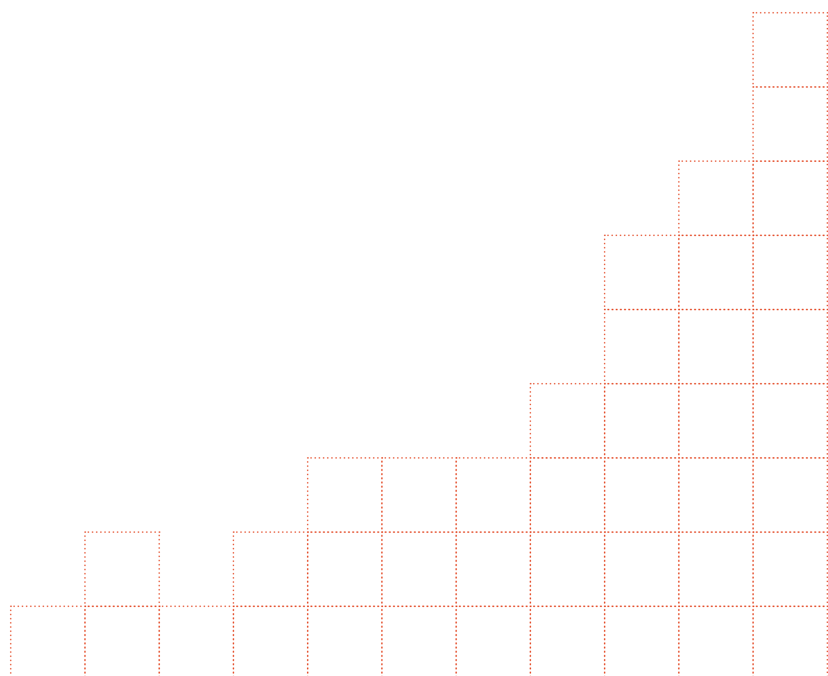
Goodwill is amortised over 20 years, reflecting the useful life estimated by Management.



Note 6 – Property, plant and equipment

(DKK million)	Land and buildings	Other plant, fixtures and operating equipment	Total property, plant and equipment
Cost at 1.1.2013	**30**	**2**	**32**
Additions during the year	0	0	0
Cost at 31.12.2013	**30**	**2**	**32**
Depreciation and impairment losses at 1.1.2013	**-6**	**0**	**-6**
Depreciation for the year	0	0	0
Depreciation and impairment losses at 31.12.2013	**-6**	**0**	**-6**
Carrying amount at 31.12.2013	**24**	**2**	**26**
Cost at 1.1.2012	**30**	**2**	**32**
Additions during the year	0	0	0
Cost at 31.12.2012	**30**	**2**	**32**
Depreciation and impairment losses at 1.1.2012	**-6**	**0**	**-6**
Depreciation for the year	0	0	0
Depreciation and impairment losses at 31.12.2012	**-6**	**0**	**-6**
Carrying amount at 31.12.2012	**24**	**2**	**26**

The Parent has no financially leased assets.



Note 7 – Financial assets

(DKK million)	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates	Other investments	Other receivables
Cost at 1.1.2013	**3,118**	**1,527**	**46**	**3**	**15**
Foreign currency translation adjustments	0	-8	0	0	0
Additions during the year	1,041	300	16	0	7
Additions relating to acquisitions	0	5	0	0	0
Disposals during the year	0	-29	-18	-2	-15
Cost at 31.12.2013	**4,159**	**1,795**	**44**	**1**	**7**
Value adjustments at 1.1.2013	**1,499**	**0**	**0**	**1**	**0**
Foreign currency translation adjustments	-213	0	0	0	0
Share of profit after tax	1,184	-	-5	-	-
Dividends received	-577	-	0	-	-
Disposals during the year	0	0	1	0	0
Other adjustments	18	0	0	0	0
Value adjustments at 31.12.2013	**1,911**	**0**	**-4**	**1**	**0**
Carrying amount at 31.12.2013	**6,070**	**1,795**	**40**	**2**	**7**
Cost at 1.1.2012	**2,823**	**1,517**	**20**	**3**	**14**
Foreign currency translation adjustments	0	1	0	0	0
Additions during the year	295	73	32	0	5
Disposals during the year	0	-64	-6	0	-4
Cost at 31.12.2012	**3,118**	**1,527**	**46**	**3**	**15**
Value adjustments at 1.1.2012	**1,176**	**0**	**-3**	**1**	**0**
Foreign currency translation adjustments	3	0	0	0	0
Share of profit after tax	1,091	-	3	-	-
Dividends received	-855	-	-1	-	-
Disposals during the year	0	0	-3	0	0
Other adjustments	84	0	4	0	0
Value adjustments at 31.12.2012	**1,499**	**0**	**0**	**1**	**0**
Carrying amount at 31.12.2012	**4,617**	**1,527**	**46**	**4**	**15**

The carrying amounts of investments in subsidiaries include capitalised goodwill in the net amount of DKK 3,400 million (DKK 2,398 million in 2012). Amortisation of consolidated capitalised goodwill for the year is DKK 169 million (DKK 113 million in 2012). Receivables from subsidiaries of DKK 1,795 million (DKK 1,527 million in 2012) are considered additions to the total investments in the particular enterprises and are therefore considered non-current. Other receivables worth DKK 7 million (DKK 15 million in 2012) will fall due after five years. Please refer to the *Subsidiaries and associates* list on page 86 for further information on subsidiaries, joint ventures and associates.

Note 8 – Other debt

(DKK million)	2013	2012
Staff-related liabilities	1	1
Other debt, public authorities	1	5
Liabilities relating to acquisitions	84	83
Other costs payable	4	4
Unrealised losses on financial contracts	0	9
Other debt	**90**	**102**
Due within 1 year	40	34
Due within 1-5 years	50	68

Staff-related liabilities include holiday pay and payroll costs due. The carrying amount of other debt matches the fair value of the debt.

Of the non-current interest-bearing debt in the amount of DKK 12 million (DKK 25 million in 2012), DKK 0 million (DKK 0 million in 2012) will fall due after five years.

Note 9 – Contingent liabilities

William Demant Holding A/S has provided security in respect of credit facilities established by Danish subsidiaries. In 2013, these credit facilities totalled DKK 1,713 million (DKK 1,287 million in 2012) of which DKK 1,194 million were drawn (DKK 830 million in 2012). Moreover, we have established a mutual guarantee with Oticon A/S in the amount of DKK 400 million (DKK 400 million in 2012), which is being drawn upon on a current basis.

William Demant Holding A/S has provided security in respect of rent as well as guarantees concerning the continuous operation and payment of liabilities in 2014 to some of our subsidiaries.

The parent is jointly taxed with William Demant Invest A/S, which is the administration company. Under the Danish Corporation Tax Act, the parent is liable for any obligation to withhold tax at source in respect of interest, royalties and dividends in relation to the jointly taxed enterprises

For the purposes of section 17 of the Republic of Ireland Companies (Amendment) Act, William Demant Holding A/S has undertaken to indemnify the creditors of its subsidiaries incorporated in the Republic of Ireland in respect of all lossses and liabilities as referred to in section 5 c of said act for the financial year ending on 31 December 2013 or any amended financial period incorporating the said financial year. The Company does not expect any material loss to arise from this guarantee.

Note 10 – Related parties

William Demants og Hustru Ida Emilies Fond (the Oticon Foundation) Kongebakken 9, 2765 Smørum, Denmark, is the only related party with a controlling interest. Controlling interest is achieved through a combination of the Oticon Foundation's own shareholding and the shareholding of William Demant Invest A/S for which the Oticon Foundation exercises the voting rights. Associated enterprises of William Demant Invest A/S are related parties to William Demant Holding A/S.

Related parties with significant influence are the Company's Executive Board, Board of Directors and their related parties. Furthermore, related parties are companies in which the above persons have significant interests.

Note 11 – Shareholders

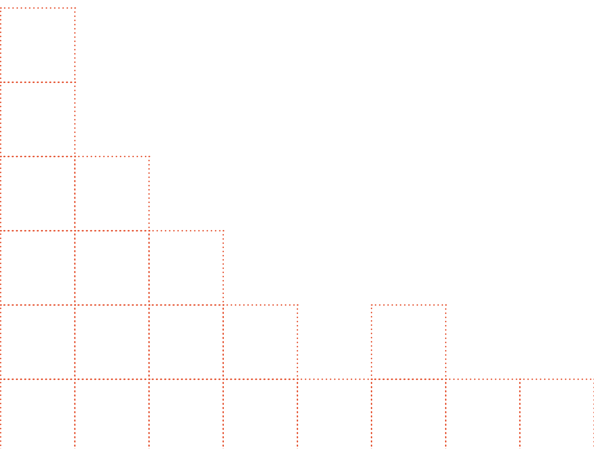
The names of the shareholders listed below are recorded in the register of shareholders as owners of minimum 5% of the votes or minimum 5% of the share capital:

William Demant Invest A/S and this company's parent, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation), Kongebakken 9, 2765 Smørum, Denmark. Ownership interest is approximately 56%. The Oticon Foundation prepares consolidated financial statements in which the William Demant Group is included.

The Capital Group Companies Inc., Los Angeles, USA. Ownership interest (including ownership interests of customers whose portfolios are administered by the company and companies owned directly or indirectly by the company) is 5-10%.

Note 12 – Events after the balance sheet date

Please refer to note 23 *Events after the balance sheet date* in the consolidated financial statements.



SUBSIDIARIES AND ASSOCIATES

Company	*Interest*
William Demant Holding A/S	**Parent**
Oticon A/S, Denmark*	100%
Oticon AS, Norway*	100%
Oticon AB, Sweden*	100%
Oy Oticon Ab, Finland*	100%
Oticon GmbH, Germany	100%
Oticon Nederland B.V., the Netherlands*	100%
Oticon S.A., Switzerland*	100%
Oticon Italia S.r.l., Italy*	100%
Oticon España S.A., Spain	100%
Oticon Polska Sp. z o.o., Poland*	100%
Oticon Limited, United Kingdom*	100%
Oticon Inc., USA	100%
Oticon Canada Ltd., Canada*	100%
Oticon Australia Pty. Ltd., Australia*	100%
Oticon New Zealand Ltd., New Zealand*	100%
Oticon K.K., Japan*	100%
Oticon Singapore Pte Ltd., Singapore*	100%
Oticon Shanghai Hearing Technology Co. Ltd., China*	100%
Oticon International Trading Shanghai Co. Ltd., China*	100%
Oticon South Africa (Pty) Ltd., South Africa*	100%
Oticon Korea Co. Ltd., Korea*	100%
Oticon Malaysia Sdn, Malaysia*	100%
Oticon Medical A/S, Denmark*	100%
Oticon Medical AB, Sweden	100%
Oticon Medical Inc., USA	100%
Bernafon AG, Switzerland*	100%
Bernafon Hörgeräte GmbH, Germany	100%
Bernafon S.r.l., Italy*	100%
Bernafon LLC, USA	100%
Bernafon Canada Ltd., Canada	100%
Bernafon Australia Pty. Ltd., Australia*	100%
Bernafon New Zealand Pty. Ltd., New Zealand	100%
Bernafon K.K., Japan	100%
Bernafon Nederland B.V., the Netherlands*	100%
Bernafon AB, Sweden*	100%
Bernafon Ibérica S.L.U., Spain*	100%
DGS Poland Sp. z o.o., Poland	100%
ACS Sluchmed Sp. z o.o, Poland	100%
Acustic Aparaty Stuchowe Sp. z o.o., Poland	100%
Acustica Sp. z o.o., Poland*	100%
AD Styla Sp. z o.o., Poland	100%
Akoustica Medica M EPE, Greece	100%
American Hearing Aid Associates, Inc., USA	100%
Amplivox Ltd., United Kingdom	100%
Audiola Sp. z o.o., Poland	100%

Company	*Interest*
Audiomed Tibbi Cihazlar Malzeme ve Implant, Turkey	100%
Audionomerna Sweden AB, Sweden	100%
Canada Hearing Centre Ltd., Canada	100%
Centro Auditivo Telex S.A., Brazil	100%
Danacom Høreapparater A/S, Denmark*	100%
Det Lille Høreapparat ApS, Denmark*	100%
Diagnostic Group LLC, USA	100%
Diatec AG, Switzerland*	100%
Diatec Spain, S.L.U., Spain	100%
Digital Hearing (UK) Ltd., United Kingdom	100%
Fonikon Biernacki K.A. & Konopka A.K. Sp. z o.o., Poland	100%
Gordon N. Stowe and Associates Inc., USA	100%
Hearing Healthcare Management Inc., USA	100%
Hidden Hearing (Portugal), Unipessoal Lda., Portugal	100%
Hidden Hearing (UK) Ltd., United Kingdom	100%
Hidden Hearing Limited, Ireland	100%
Hörsam AB, Sweden*	100%
Hörmittelzentralen AG, Switzerland	100%
HZ Satellit GmbH, Switzerland	100%
IDEA Isitme Sistemleri Sanayi ve Ticaret A.S., Turkey	100%
Interacoustics A/S, Denmark*	100%
Interacoustics Pty. Ltd., Australia*	100%
Kuulopiiri Oy, Finland*	100%
M.S.R. West, Inc., USA	100%
Maico Diagnostic GmbH, Germany*	100%
Maico S.r.l., Italy*	100%
Med-Acoustics Inc., USA	100%
MedRx Inc., USA	100%
Micromedical Technologies Inc., USA	100%
Multifon Aparaty Sluchowe Sp. z o.o., Poland	100%
Neurelec GmbH, Germany	100%
Neurelec Maroc Sarlau, Morocco	100%
Neurelec S.A., France*	100%
Ostrea Holding AG, Switzerland*	100%
Phonic Ear A/S, Denmark*	100%
Prodition S.A., France*	100%
Sensory Devices Inc., USA	100%
SES Isitme Cihazlari Sanayi ve Ticaret A.S., Turkey	100%
Sonic Innovations Inc., USA	100%
Sonic Innovations Pty Ltd., Australia	100%
Trilogy Audiometrics Inc., USA	100%
Van Boxtel Hoorwinkels B.V., the Netherlands	100%
FrontRow Calypso LLC, USA	75%
Sennheiser Communications A/S, Denmark	50%
nEarcom LLC, USA	33%
HIMSA A/S, Denmark	25%

The list above includes the Group's active companies.
**Directly owned by the Parent.*

William Demant Holding A/S
Kongebakken 9
DK-2765 Smørum
Denmark
Phone +45 3917 7300
Fax +45 3927 8900
william@demant.com
www.demant.com
CVR no. 71186911

Editing, design and production:
William Demant Holding A/S