INTERIM REPORT

# 2014

## 1 JANUARY – 30 JUNE

William Demant

# KEY FIGURES AND FINANCIAL RATIOS

| | 1st half 2014 | 1st half 2013 | Change H1/H1 | Full year 2013 |
|---|---|---|---|---|
| **INCOME STATEMENT, DKK MILLION** | | | | |
| Revenue | 4,539 | 4,403 | 3% | 8,959 |
| Gross profit | 3,320 | 3,207 | 4% | 6,518 |
| Research and development costs | 350 | 319 | 10% | 634 |
| EBITDA | 981 | 1,009 | -3% | 2,059 |
| Amortisation and depreciation etc. | 147 | 140 | 5% | 292 |
| Operating profit (EBIT) | 834 | 869 | -4% | 1,767 |
| Net financial items | -30 | -38 | -21% | -71 |
| Profit before tax | 804 | 831 | -3% | 1,696 |
| Profit for the period | 627 | 637 | -2% | 1,311 |
| **BALANCE SHEET, DKK MILLION** | | | | |
| Net interest-bearing debt | 2,236 | 2,140 | 4% | 2,277 |
| Assets | 10,728 | 9,803 | 9% | 10,325 |
| Equity | 5,352 | 4,645 | 15% | 5,080 |
| **OTHER KEY FIGURES, DKK MILLION** | | | | |
| Investment in property, plant and equipment, net | 204 | 154 | 32% | 391 |
| Cash flow from operating activities (CFFO) | 706 | 723 | -2% | 1,289 |
| Free cash flow | 450 | 525 | -14% | 826 |
| Average number of employees | 9,594 | 8,679 | 11% | 9,063 |
| **FINANCIAL RATIOS** | | | | |
| Gross profit ratio | 73.1% | 72.8% | | 72.8% |
| EBITDA margin | 21.6% | 22.9% | | 23.0% |
| Profit margin (EBIT margin) | 18.4% | 19.7% | | 19.7% |
| Return on equity | 23.9% | 29.3% | | 36.3% |
| Equity ratio | 49.9% | 47.4% | | 49.2% |
| Earnings per share (EPS), DKK* | 11.2 | 11.2 | 0% | 23.1 |
| Cash flow per share (CFPS), DKK* | 12.6 | 12.8 | -2% | 22.8 |
| Free cash flow per share, DKK* | 8.0 | 9.3 | -14% | 14.6 |
| Dividend per share, DKK* | 0 | 0 | | 0 |
| Equity value per share, DKK* | 95.4 | 82.0 | 16% | 89.7 |
| Price earnings (P/E) | 22.1 | 21.2 | 4% | 20.9 |
| Share price, DKK* | 494 | 474 | 4% | 527 |
| Market cap. adjusted for treasury shares, DKK million | 27,534 | 26,852 | 3% | 29,754 |
| Average number of shares outstanding, million | 56.13 | 56.66 | -1% | 56.62 |

*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 flows 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 purchase of treasury shares.*

*Per share of nominally DKK 1.

## Market conditions and business trends

**The hearing aid market**

In the global market for hearing aids, unit growth in the first half-year is estimated to have exceeded the Group's general assumption of 2-4% unit growth in the market. After a soft start to the year, market growth rate in North America improved towards the end of the period. The growth rate in the North American market was 3% in the first half-year with growth rates in the private sector and VA of 2% and 7%, respectively. We believe that unit growth in the major European markets for hearing aids has developed favourably and that total unit sales in Europe in the first half-year grew at a faster pace than usual.

It is estimated that the average selling price (ASP) on the global hearing aid market is still under pressure, mainly due to mix shifts in channels, fiercer competition for major tenders and changes to public subsidy schemes. However, the unavailability of official statistics on market selling prices means that estimating trends in average selling prices is rather uncertain. We do, however, estimate that in terms of value, the global market for hearing aids has seen flat to slightly positive growth in the first half-year.

**Hearing Devices**

In the first half of 2014, total growth in Hearing Devices, including Retail and Oticon Medical, was 8% in local currencies and 3% organically.

Our core business – the development, manufacture and wholesale of hearing aids – achieved unit growth, clearly exceeding market development. Our updated hearing aid offering in the mid-priced and low-end product categories was the main growth driver, and growth was especially pronounced in Europe. The Group's sales in the beginning of the year in North America were adversely impacted by low market growth caused by unusual winter weather. However, renewed market growth in March in North America combined with market share gains in our business marked a turning point and increased our sales momentum gradually during the first half-year – a trend that has continued into the second half-year. The expected mix changes relating to products, channels and countries have resulted in a decline in the Group's average selling price. The organic growth rate in the core business was 1%.

Oticon's Made for iPhone (MFi) connectivity solution for hearing aids launched at the AudiologyNOW! convention this year has significantly strengthened Oticon's total product offering. Available to all present and future users of Oticon's wireless hearing aids using a Streamer and available in the entire price spectrum, our solution was very well received by hearing care professionals and end-users. However, it is important to stress that the launch of a number of different MFi solutions has, in our opinion, so far not expanded the market, despite the high level of enthusiasm created in the dispensing community.

In the third quarter, Oticon plans to bring several new interesting products to market, all of which will further strengthen Oticon's current product portfolio. Oticon will thus launch Oticon designRITE, which is a cosmetically highly attractive design hearing aid based on our Inium platform, combining the better of two worlds – cosmetics and speech understanding in noise. It will be launched as a new style in the Alta, Nera and Ria families and will be based on a small 10A battery. In addition, we will launch wireless Invisible-In-the-Canal (IIC) and Completely-In-the-Canal (CIC) instruments, which will meet the demand for discreetness by first-time users. To support the dispenser in the fitting process, we will also update and expand our fitting solutions with the connectLINK wireless programmer.

In the first half-year, the Group's two other hearing aid brands, Bernafon and Sonic, continued to deliver fair unit growth. Bernafon will introduce an exciting new high-end product family at the EUHA congress to take place in Germany in the fourth quarter.

In the period under review, our retail activities delivered a satisfactory improvement in revenue driven by a combination of organic growth and acquisitions made in 2013.

Oticon Medical continued to deliver double-digit sales growth, both in bone-anchored hearing systems (BAHS) and in cochlear implants (CI). The feedback provided on our CI products at the recently held CI conference in Munich was very encouraging – strongly supported by an independent study, demonstrating in three out of four tests the superior performance of our Saphyr Neo speech processor compared to speech processors from our competitors. In the first half-year, we continued the hiring of key personnel, particularly in R&D and distribution, which will obviously increase the cost level, but on the other hand enable Oticon Medical to achieve its future ambition of becoming one of the leading global implant companies.

Phonic Ear, which sells assistive listening devices and systems designed for hearing-impaired people, saw flat development in revenue, and FrontRow, whose primary activity is the sale of sound systems to schools and public institutions, realised revenue slightly below the level realised in the same period last year. Phonic Ear and FrontRow were previously included in the business activity Personal Communication. However, as a consequence of IFRS changes, Personal Communication now only makes up an insignificant part of consolidated revenue, so we no longer show Personal Communication as a separate business activity, but now include revenue from Phonic Ear and FrontRow in the business activity Hearing Devices.

In the first half-year, the Group announced a reduction in the workforce at our production site in Thisted, affecting a total of 85 employees. In that connection and also in relation to the changes taking place in our diagnostic facility in Assens, it is essential for the Board of Directors to express its gratitude to all employees in the Group and particularly to the employees in Thisted and Assens, who have all made and continue to make a great effort for the Group, despite the announced layoffs.

**Diagnostic Instruments**

In the first six months of 2014, Diagnostic Instruments realised 6% growth in local currencies of which organic growth accounted for two thirds. Further growth was, however, impeded by delivery problems due to the upgrade of our ERP system and the transfer of production to a new manufacturing facility. We expect to handle most of the pent-up orders in the second half of 2014. With a strong sales momentum going into the third quarter, we believe that we are back on track and well-positioned to gain further market shares in 2014.

## Revenue and results

In the reporting period, the Group realised 8% growth in local currencies, corresponding to revenue of DKK 4,539 million. The improvement in revenue is attributable to organic and acquired growth of 3 and 5 percentage points, respectively. Exchange rates had a negative impact of 5 percentage points on revenue.

**Revenue by business activity**

| DKK million | 1st half 2014 | 1st half 2013 | Change DKK | Change Local Currency |
|---|---|---|---|---|
| Hearing Devices | 4,102 | 3,976 | 3% | 8% |
| Diagnostic Instruments | 437 | 427 | 2% | 6% |
| **Total** | **4,539** | **4,403** | **3%** | **8%** |

In the period under review, consolidated gross profit totalled DKK 3,320 million, or a 4% increase on the same period last year. The gross profit ratio was 73.1%, or an improvement of 0.3 percentage point compared with the same period last year. The improvement in the gross profit ratio should be viewed in the light of the Group's focus on unit costs and the reduction of such costs. A steadily increasing share of Group products being manufactured in Poland and the growth in hearing aid unit sales, enabling us to realise economies of scale, also contributed to this improvement. We have, however, witnessed substantial growth in sales to the NHS pulling in the opposite direction.

**Capacity costs**

| DKK million | 1st half 2014 | 1st half 2013 | Change DKK | Change Local currency |
|---|---|---|---|---|
| R&D costs | 350 | 319 | 10% | 10% |
| Distribution costs | 1,891 | 1,782 | 6% | 11% |
| Administrative expenses | 263 | 273 | -4% | -1% |
| **Total** | **2,504** | **2,374** | **5%** | **9%** |

In the first half-year, capacity costs totalled DKK 2,504 million, or a 5% increase compared with the same period last year (9% in local currencies), with acquisitions accounting for more than two thirds of this growth.

Consolidated research and development costs amounted to DKK 350 million in the period under review, matching an increase of 10% on the same period last year (10% in local currencies). Distribution costs were DKK 1,891 million in the first half-year, which is a 6% rise on the first half-year last year (11% in local currencies). Two thirds of this increase can be attributed to acquisitions relating to the distribution of hearing aids as well as Oticon Medical and diagnostic products. Consolidated administrative expenses fell by 4% (1% in local currencies).

Operating profit (EBIT) was negatively impacted by foreign exchange rates of DKK 60-70 million, and the ongoing process of optimising Group operations, i.e. supply chain and IT infrastructure, and expanding Oticon Medical carried additional operational costs in the period under review. Furthermore, as previously communicated Sennheiser Communications disposed of its inventory to Sennheiser KG in the first half of 2013, which increased our EBIT in the comparative period. Operating profit (EBIT) amounted to DKK 834 million, which is DKK 35 million below the level realised in the same period of 2013. The profit margin (EBIT margin) was 18.4%, matching a decrease of 1.3 percentage points on the same period last year. This fall was the result of higher growth in the underlying capacity costs than in organic revenue and also the result of a high level of acquisitions by the Group.

Despite a higher consolidated net interest-bearing debt, interest expenses were lower than in the same period last year, as the Group has benefitted from a generally lower interest level as well as the refinancing of a sizeable debt at a lower interest rate in the second quarter of 2013. In the period under review, consolidated net financial items amounted to DKK -30 million, or an improvement of DKK 8 million on the same period last year. Tax on profit for the period was DKK 177 million, corresponding to an effective tax rate of 22.0%

(23.3% in the first half of 2013). Earnings per share (EPS) amounted to DKK 11.2, corresponding to last year's level.

## Cash flows and balance sheet

With our current use of forward exchange contracts, forecast cash flows are hedged in the main currencies with a horizon of up to 24 months. Realised forward exchange contracts are recognised in the income statement together with the items that such contracts are designed to hedge. In addition to hedging by means of forward exchange contracts, we raise loans in foreign currencies to balance out net receivables.

At the end of the reporting period, we had entered into forward exchange contracts at a contractual value of DKK 615 million (DKK 604 million at 30 June 2013) and a fair value of DKK -2 million (DKK 49 million at 30 June 2013). At 30 June 2014, the major contracts hedged the following currencies:

**Forward exchange contracts at 30 June 2014**

| Currency | Hedging period | Hedging rate |
|---|---|---|
| USD | 3 months | 548 |
| JPY | 5 months | 6.39 |
| AUD | 3 months | 502 |
| GBP | 13 months | 896 |
| CAD | 4 months | 497 |

**Cash flow by main items**

| DKK million | 1st half 2014 | 1st half 2013 |
|---|---|---|
| Operating profit (EBIT) | 834 | 869 |
| Cash flow from operating activities | 706 | 723 |
| Cash flow from investing activities | -256 | -198 |
| **Free cash flow** | **450** | **525** |
| Acquisition of enterprises, participating interests and activities | -103 | -952 |
| Financing activities | -5 | 322 |
| **Net cash flow for the period** | **342** | **-105** |

In the first half of 2014, consolidated cash flows from operating activities were DKK 706 million against DKK 723 million in the same period last year. Apart from a slightly lower operating profit (EBIT), the decrease in operating cash flow is mainly due to an increase in trade receivables and also due to the high dividend paid by Sennheiser Communications as a consequence of the sale of its inventory to Sennheiser KG in the first half of 2013. Cash flows from investing activities (excluding the acquisition of enterprises, participating interests and activities) in the reporting period amounted to DKK 256 million, which is above the level in the first half of 2013 and is partly due to investments in a new distribution centre in Mierzyn, Poland, and the expansion of the Group's headquarters in Smørum, Denmark. Free cash flows (excluding the acquisition of enterprises, participating interests and activities) totalled DKK 450 million against DKK 525 million in the first half of 2013. The cash sum for the acquisition of enterprises, participating interests and activities was DKK 103 million, which is considerably below the level realised in the same period last year, when the corresponding amount was DKK 952 million due to the acquisition of Neurelec and acquisitions made in distribution and by Diagnostic Instruments.

Consolidated assets totalled DKK 10,728 million at 30 June 2014, or a rise of 4% on year-end 2013. This increase is partly attributable to an increase in assets relating to the new distribution centre in Poland and the expansion of the Group's headquarters in Denmark. Furthermore, foreign exchange rates have positively impacted the balance sheet by 1% since year-end 2013.

At 30 June 2014, the consolidated net interest-bearing debt was DKK 2,236 million, or 2% below the level reported at year-end 2013. Consolidated equity was DKK 5,352 million towards the end of the period under review (DKK 5,080 million at 31 December 2013), matching an equity ratio of 49.9%, or 0.7 percentage point higher than at the beginning of the year. The increase in equity is mainly due to retained earnings of DKK 627 million, which were partly offset by the Company's buy-back of shares, whereas the combined impact of currencies and other items was neglectable.

As of today, the Company has bought back a total of 999,058 shares worth DKK 493 million, bringing the total number of treasury shares to 1,200,583, corresponding to 2.1% of the share capital.

Over the years, we have continuously used our share buy-back programme to channel the Group's surplus cash flow back to the shareholders, while ensuring that we have a capital structure that provides the Company with sufficient financial flexibility to fund investments and acquisitions.

On an ongoing basis, the Board of Directors evaluates the Group's capital structure. Based on the expectation of continued strong cash flow from operating activities and rather limited acquisition and investment opportunities in the near future, the Board of Directors has concluded that a somewhat higher net interest-bearing debt than the current level can be targeted in the years to come. In the period 2014-2016, the Company consequently plans to buy back shares worth DKK 2.5-3.0 billion of which DKK 0.8-1.0 billion is expected to be spent already in 2014, including the shares worth DKK 493 million repurchased year-to-date. In the period 2014-2016, we thus expect to see a modest and gradual increase in the Group's gearing multiple towards a level of 1.5, measured as net interest-bearing debt relative to EBITDA. Should attractive acquisition or investment opportunities arise during this period, the Company will reconsider the targeted gearing level and the announced buy-back programme with a view to ensuring a high level of financial flexibility and value creation in the Group.

At the end of the first half-year, our Group had 9,706 employees (9,001 at the end of the first half of 2013). More than half of this increase can be attributed to acquisitions.

## Accounting policies as well as financial estimates and judgements

Our Interim Report is presented in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU, and further Danish disclosure requirements in respect of interim reports for listed companies. We have not drawn up any separate interim report for the Parent. The Interim Report is presented in Danish kroner (DKK), which is the functional currency of the Parent.

The accounting policies used in this Interim Report are the same as used in the consolidated financial statements for 2013, with the exception of the implementation of new and amended standards as described below. We refer to the consolidated financial statements for 2013 for a full description of our accounting policies.

The Group has adopted all new, amended or revised accounting standards and interpretations as published by the IASB and adopted by the EU effective for the accounting period beginning on 1 January 2014. The implementation of IFRS 10, Consolidated Financial Statements; IFRS 11, Joint Arrangements, and the amendments to IAS 28, Investments in Associates and Joint Ventures, has affected the consolidated financial statements, as the Group's joint ventures, which were previously pro rata consolidated, are now recognised using the equity method. The figures for 2013 have been amended to reflect this change in policies, and the effect of this change appears from note 2 to this Interim Report, which also shows the effect of some minor reclassifications due to an amendment in internal classification principles.

## Events after the balance sheet date

There have been no events to change the assessment of the Interim Report after the balance sheet date and until today.

## Outlook for the 2014 financial year

Based on the assumptions of market and business trends described in our Annual Report 2013 and confirmed in our interim information in May 2014, the Group maintains its full-year expectations for 2014.

In 2014, we expect to continue to deliver growth in both our business activities. 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 of acquisitions will be offset by changes in exchange rates.

In consideration of a weakened set of invoicing currencies compared to 2013 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, based on February currency assumptions. Of this amount, DKK 60-70 million were realised in the first six months. Since the end of the first half-year, several of the Group's invoicing currencies have gained some strength, and if these higher levels remain for the rest of the year, the negative impact of exchange rates on EBIT will be somewhat lower than DKK 30-40 million.

In 2013, the Group once again generated a strong cash flow, reflected in a cash conversion ratio (CFFO/EBIT) of 73%. Also in 2014, we expect to deliver a high cash conversion ratio. Keeping in mind that our near-term acquisition opportunities are rather limited, we expect to be able to buy back Company shares worth DKK 0.8-1.0 billion in 2014, which supports our initial expectation of "more than DKK 500 million". In order to maintain a high level of flexibility, this level of share buyback 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.

In the second half of 2014, Group revenue and earnings will be supported by a sequential improvement compared to the first-half year on a number of parameters, including continued sales momentum in the US, which was adversely impacted by unusual weather conditions in the beginning of the year. Furthermore, the second half-year will benefit from the usual seasonality in Oticon Medical with revenue bias towards year-end and also from the expected further improvement in Diagnostic Instruments, as the delivery issues are in the process of being resolved. In addition, the staff reduction in Thisted, affecting 85 employees who will leave their positions in the second half-year, will reduce our cost base.

## MANAGEMENT STATEMENT

We have today discussed and approved the Interim Report for the first half of 2014 for William Demant Holding A/S.

Our Interim Report has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU and further Danish disclosure requirements in respect of interim reports for listed companies. The Interim Report has not been audited or reviewed by our auditors.

In our opinion, the Interim Report gives a true and fair view of the Group's assets, liabilities and financial position at 30 June 2014 as well as of the results of our activities and cash flows for the first six months of 2014.

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

*Smørum, 14 August 2014*

*Executive Board:*

Niels Jacobsen

*Board of Directors:*

| | |
|---|---|
| Lars Nørby Johansen<br>Chairman | Peter Foss<br>Deputy Chairman |
| Niels B. Christiansen | Benedikte Leroy |
| Ole Lundsgaard | Jørgen Møller Nielsen |

Karin Ubbesen

# INCOME STATEMENT

GROUP (DKK million)

| | 1st half 2014 | 1st half 2013 | Full year 2013 |
|---|---|---|---|
| Revenue | 4,539 | 4,403 | 8,959 |
| Production costs | -1,219 | -1,196 | -2,441 |
| **Gross profit** | **3,320** | **3,207** | **6,518** |
| | | | |
| Research and development costs | -350 | -319 | -634 |
| Distribution costs | -1,891 | -1,782 | -3,621 |
| Administrative expenses | -263 | -273 | -545 |
| Share of profit after tax, associates and joint ventures | 18 | 36 | 49 |
| **Operating profit (EBIT)** | **834** | **869** | **1,767** |
| | | | |
| Financial income | 18 | 26 | 52 |
| Financial expenses | -48 | -64 | -123 |
| **Profit before tax** | **804** | **831** | **1,696** |
| | | | |
| Tax on profit for the period | -177 | -194 | -385 |
| **Profit for the period** | **627** | **637** | **1,311** |
| | | | |
| **Profit for the period attributable to:** | | | |
| William Demant Holding A/S' shareholders | 627 | 637 | 1,310 |
| Minority interests | 0 | 0 | 1 |
| | **627** | **637** | **1,311** |
| | | | |
| Earnings per share (EPS), DKK | 11.2 | 11.2 | 23.1 |
| Diluted earnings per share (DEPS), DKK | 11.2 | 11.2 | 23.1 |

# STATEMENT OF COMPREHENSIVE INCOME

GROUP (DKK million)

| | 1st half 2014 | 1st half 2013 | Full year 2013 |
|---|---|---|---|
| **Profit for the period** | **627** | **637** | **1,311** |
| **Other comprehensive income:** | | | |
| **Items that have been or may subsequently be reclassified to the income statement:** | | | |
| Foreign currency translation adjustment, foreign enterprises | 58 | -79 | -225 |
| Value adjustment of hedging instruments: | | | |
| Value adjustment for the period | -19 | 50 | 83 |
| Value adjustment transferred to revenue | -25 | -28 | -68 |
| Value adjustment transferred to financial expenses | 1 | 10 | 11 |
| Tax on items that have been or may subsequently be reclassified to the income statement | 11 | -4 | 6 |
| **Items that have been or may subsequently be reclassified to the income statement** | **26** | **-51** | **-193** |
| **Items that will not subsequently be reclassified to the income statement:** | | | |
| Actuarial gains/(losses) on defined benefit plans | 0 | 0 | 5 |
| Tax on items that will not subsequently be reclassified to the income statement | 0 | 0 | -1 |
| **Items that will not subsequently be reclassified to the income statement** | **0** | **0** | **4** |
| **Other comprehensive income** | **26** | **-51** | **-189** |
| **Comprehensive income** | **653** | **586** | **1,122** |
| **Comprehensive income attributable to:** | | | |
| William Demant Holding A/S' shareholders | 653 | 586 | 1,121 |
| Minority interests | 0 | 0 | 1 |
| | **653** | **586** | **1,122** |

## BALANCE SHEET – ASSETS

GROUP (DKK million)

| | 30 June 2014 | 30 June 2013 | 31 Dec. 2013 |
|---|---|---|---|
| Goodwill | 3,591 | 3,069 | 3,545 |
| Patents and licences | 31 | 41 | 35 |
| Other intangible assets | 34 | 29 | 35 |
| **Intangible assets** | **3,656** | **3,139** | **3,615** |
| | | | |
| Land and buildings | 739 | 675 | 651 |
| Plant and machinery | 170 | 153 | 171 |
| Other plant, fixtures and operating equipment | 264 | 253 | 289 |
| Leasehold improvements | 168 | 172 | 171 |
| Prepayments and assets under construction | 227 | 140 | 206 |
| **Property, plant and equipment** | **1,568** | **1,393** | **1,488** |
| | | | |
| Investments in associates and joint ventures | 448 | 487 | 459 |
| Receivables from associates and joint ventures | 220 | 217 | 151 |
| Other investments | 11 | 12 | 11 |
| Other receivables | 598 | 650 | 566 |
| Deferred tax assets | 273 | 271 | 266 |
| **Other non-current assets** | **1,550** | **1,637** | **1,453** |
| | | | |
| **Non-current assets** | **6,774** | **6,169** | **6,556** |
| | | | |
| Inventories | 1,146 | 1,035 | 1,142 |
| Trade receivables | 1,990 | 1,900 | 1,869 |
| Receivables from associates and joint ventures | 17 | 11 | 3 |
| Income tax | 44 | 41 | 65 |
| Other receivables | 180 | 155 | 202 |
| Unrealised gains on financial contracts | 12 | 45 | 45 |
| Prepaid expenses | 126 | 103 | 108 |
| Cash | 439 | 344 | 335 |
| **Current assets** | **3,954** | **3,634** | **3,769** |
| | | | |
| **Assets** | **10,728** | **9,803** | **10,325** |

## BALANCE SHEET – EQUITY AND LIABILITIES

GROUP (DKK million)

| | 30 June 2014 | 30 June 2013 | 31 Dec. 2013 |
|---|---|---|---|
| Share capital | 57 | 57 | 57 |
| Other reserves | 5,297 | 4,590 | 5,024 |
| Equity attributable to William Demant Holding A/S' shareholders | 5,354 | 4,647 | 5,081 |
| Equity attributable to minority interests | -2 | -2 | -1 |
| **Equity** | **5,352** | **4,645** | **5,080** |
| | | | |
| Interest-bearing debt | 66 | 69 | 81 |
| Deferred tax liabilities | 131 | 143 | 146 |
| Provisions | 139 | 125 | 132 |
| Other liabilities | 180 | 139 | 220 |
| Deferred income | 39 | 0 | 34 |
| **Non-current liabilities** | **555** | **476** | **613** |
| | | | |
| Interest-bearing debt | 3,253 | 3,116 | 3,112 |
| Trade payables | 344 | 392 | 348 |
| Income tax | 103 | 108 | 65 |
| Provisions | 10 | 43 | 16 |
| Other liabilities | 897 | 825 | 887 |
| Unrealised losses on financial contracts | 19 | 9 | 11 |
| Deferred income | 195 | 189 | 193 |
| **Current liabilities** | **4,821** | **4,682** | **4,632** |
| | | | |
| **Liabilities** | **5,376** | **5,158** | **5,245** |
| | | | |
| **Equity and liabilities** | **10,728** | **9,803** | **10,325** |

# CASH FLOW STATEMENT

GROUP (DKK million)

| | 1st half 2014 | 1st half 2013 | Full year 2013 |
|---|---|---|---|
| Operating profit (EBIT) | 834 | 869 | 1,767 |
| Non-cash items etc. | 149 | 103 | 211 |
| Change in receivables etc. | -145 | -134 | -73 |
| Change in inventories | -5 | -13 | -90 |
| Change in trade payables and other liabilities etc. | -2 | -6 | -115 |
| Change in provisions | 2 | 11 | -13 |
| **Cash flow from operating profit** | **833** | **830** | **1,687** |
| Dividends received | 30 | 50 | 50 |
| Financial income etc. received | 17 | 20 | 39 |
| Financial expenses etc. paid | -48 | -63 | -121 |
| Realised foreign currency translation adjustments | -1 | 0 | 0 |
| Income tax paid | -125 | -114 | -366 |
| **Cash flow from operating activities (CFFO)** | **706** | **723** | **1,289** |
| | | | |
| Acquisition of enterprises, participating interests and activities | -103 | -952 | -1,176 |
| Investments in and disposal of intangible assets | -9 | 0 | 4 |
| Investments in property, plant and equipment | -221 | -159 | -404 |
| Disposal of property, plant and equipment | 17 | 5 | 13 |
| Investments in other non-current assets | -91 | -100 | -189 |
| Disposal of other non-current assets | 48 | 56 | 113 |
| **Cash flow from investing activities (CFFI)** | **-359** | **-1,150** | **-1,639** |
| | | | |
| Repayment on non-current debt | -1,120 | -285 | -510 |
| Proceeds from borrowings | 1,495 | 607 | 651 |
| Buy-back of shares | -380 | 0 | -101 |
| **Cash flow from financing activities (CFFF)** | **-5** | **322** | **40** |
| | | | |
| **Cash flow for the period, net** | **342** | **-105** | **-310** |
| Cash and cash equivalents at the beginning of the period | -1,594 | -1,341 | -1,341 |
| Foreign currency translation adjustment of cash and cash equivalents | 12 | 0 | 57 |
| **Cash and cash equivalents at the end of the period** | **-1,240** | **-1,446** | **-1,594** |
| | | | |
| **Breakdown of cash and cash equivalents at the end of the period:** | | | |
| Cash | 439 | 344 | 335 |
| Interest-bearing current bank debt | -1,679 | -1,790 | -1,929 |
| **Cash and cash equivalents at the end of the period** | **-1,240** | **-1,446** | **-1,594** |

## STATEMENT OF CHANGES IN EQUITY IN 2013

GROUP (DKK million)

| | Share capital | Other reserves: Foreign currency translation reserve | Other reserves: Hedging reserve | Other reserves: Retained earnings | William Demant Holding A/S' share-hold-ers' share | Minority interests' share | Equity |
|---|---|---|---|---|---|---|---|
| **Equity at 1.1.2013** | **58** | **101** | **12** | **3,890** | **4,061** | **-2** | **4,059** |
| **Compr. income for the period:** | | | | | | | |
| Profit for the period | - | - | - | 637 | 637 | 0 | 637 |
| **Other comprehensive income:** | | | | | | | |
| Foreign currency translation adjustment, foreign enterprises | - | -79 | - | - | -79 | - | -79 |
| Value adjustment of hedging instruments: | | | | | | | |
| Value adjustment, period | - | - | 50 | - | 50 | - | 50 |
| Value adjustment transferred to revenue | - | - | -28 | - | -28 | - | -28 |
| Value adjustment transferred to financial expenses | - | - | 10 | - | 10 | - | 10 |
| Tax on other compr. income | - | 1 | -5 | 0 | -4 | 0 | -4 |
| Other comprehensive income | - | -78 | 27 | 0 | -51 | 0 | -51 |
| **Compr. income for the period** | **-** | **-78** | **27** | **637** | **586** | **0** | **586** |
| Buy-back of shares | - | - | - | 0 | - | - | - |
| Addition/disposal of minority interests | - | - | - | 0 | - | - | - |
| Capital reduction through can-cellation of treasury shares | -1 | - | - | 1 | - | - | - |
| **Equity at 30.06.2013** | **57** | **23** | **39** | **4,528** | **4,647** | **-2** | **4,645** |

## STATEMENT OF CHANGES IN EQUITY IN 2014

GROUP (DKK million)

| | Share capital | Other reserves: Foreign currency translation reserve | Other reserves: Hedging reserve | Other reserves: Retained earnings | William Demant Holding A/S' share-holders' share | Minority interests' share | Equity |
|---|---|---|---|---|---|---|---|
| **Equity at 1.1.2014** | **57** | **-112** | **32** | **5,104** | **5,081** | **-1** | **5,080** |
| **Compr. income for the period:** | | | | | | | |
| Profit for the period | - | - | - | 627 | 627 | 0 | 627 |
| **Other comprehensive income:** | | | | | | | |
| Foreign currency translation adjustment, foreign enterprises | - | 58 | - | - | 58 | - | 58 |
| Value adjustment of hedging instruments: | | | | | | | |
| Value adjustment, period | - | - | -19 | - | -19 | - | -19 |
| Value adjustment transferred to revenue | - | - | -25 | - | -25 | - | -25 |
| Value adjustment transferred to financial expenses | - | - | 1 | - | 1 | - | 1 |
| Tax on other compr. income | - | - | 11 | 0 | 11 | 0 | 11 |
| Other comprehensive income | - | 58 | -32 | - | 26 | 0 | 26 |
| **Compr. income for the period** | **-** | **58** | **-32** | **627** | **653** | **0** | **653** |
| Buy-back of shares | - | - | 0 | -380 | -380 | - | -380 |
| Addition/disposal of minority interests | - | - | - | - | - | -1 | -1 |
| Capital reduction through cancellation of treasury shares | - | - | 0 | 0 | - | - | - |
| **Equity at 30.6.2014** | **57** | **-54** | **-** | **5,351** | **5,354** | **-2** | **5,352** |

# NOTE 1 – ACQUISITION OF ENTERPRISES AND ACTIVITIES

GROUP (DKK million)

| | North America | Oceania | Europe/Asia | 1st half 2014 | 1st half 2013 |
|---|---|---|---|---|---|
| | Fair value on acquisition | | | | |
| Intangible assets | 0 | 0 | 0 | 0 | 1 |
| Property, plant and equipment | 0 | 0 | 0 | 0 | 18 |
| Inventories | 0 | 0 | 0 | 0 | 36 |
| Current receivables | 0 | 0 | 3 | 3 | 60 |
| Cash and bank debt | 0 | 0 | 2 | 2 | 3 |
| Non-current liabilities | 0 | 0 | -7 | -7 | -26 |
| Current liabilities | 0 | -1 | -6 | -7 | -52 |
| **Acquired net assets** | **0** | **-1** | **-8** | **-9** | **40** |
| Goodwill | 9 | 0 | 11 | 20 | 540 |
| **Acquisition cost** | **9** | **-1** | **3** | **11** | **580** |
| Fair value of non-controlling interests on obtaining control | 0 | 0 | 0 | 0 | -12 |
| Earn-outs and deferred payments | -2 | 1 | 0 | -1 | -26 |
| Acquired cash and bank debt | 0 | 0 | -2 | -2 | -3 |
| **Cash acquisition cost** | **7** | **0** | **1** | **8** | **539** |

Consolidated acquisitions in the reporting period relate to a number of small retail acquisitions, primarily in North America and Europe.

In the first half-year, a few adjustments were made to the preliminary recognition of acquisitions made in 2013. These adjustments are due to a reduction of estimated earn-out payments and goodwill in the amount of DKK 3 million (DKK 1 million in the first half of 2013). Furthermore, we have revised down earn-outs relating to the final recognition of acquisitions amounting to DKK 36 million (DKK 43 million in the first half of 2013); an amount that was recognised in distribution costs.

Of the total acquisition cost in the reporting period, the fair value of estimated contingent consideration in the form of earn-outs or deferred payments accounted for DKK 1 million (DKK 26 million in the first half of 2013). Such payments depend on the results of the acquired entities in a period of 1-5 years after takeover and can maximum total DKK 1 million (DKK 32 million in the first half of 2013).

The above statements of the fair values of acquisitions made in the first half of 2014 and in the first half of 2013 are not considered final until 12 months after takeover. Recognised in distribution costs, transaction costs in connection with acquisitions made in the reporting period are DKK 0 (DKK 3 million in the first half of 2013).

As part of our ordinary activities, we have made acquisitions in the period between the balance sheet day and the presentation of this Interim Report. We are in the process of calculating their fair values. Acquisition costs are expected to relate primarily to goodwill.

# NOTE 2 – EFFECT OF CHANGE IN ACCOUNTING POLICIES

The implementation of IFRS 10, Consolidated Financial Statements; IFRS 11, Joint Arrangements, and amendments to IAS 28, Investments in Associates and Joint Ventures, has resulted in an update of the income statement, balance sheet and cash flow statement for 2013. Below, this effect is shown for the first half of 2013 and for the full year 2013. Due to a change in the internal reporting guidelines, the tables also show a small reclassification of certain packaging materials.

## Income statement and other comprehensive income

| GROUP (DKK million) | 1st half 2013 | | | | Full year 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | According to previous accounting policies | Effect of change in accounting policies | Effect of change in class. principle | According to new accounting policies | According to previous accounting policies | Effect of change in accounting policies | Effect of change in class. principle | According to new accounting policies |
| **Revenue** | **4,541** | **-138** | | **4,403** | **9,209** | **-250** | | **8,959** |
| Production costs | -1,249 | 66 | -13 | -1,196 | -2,537 | 122 | -26 | -2,441 |
| **Gross profit** | **3,292** | **-72** | **-13** | **3,207** | **6,672** | **-128** | **-26** | **6,518** |
| Research and development costs | -331 | 12 | | -319 | -664 | 30 | | -634 |
| Distribution costs | -1,807 | 12 | 13 | -1,782 | -3,673 | 26 | 26 | -3,621 |
| Administrative expenses | -276 | 3 | | -273 | -551 | 6 | | -545 |
| Share of profit after tax, associates and joint ventures | 2 | 34 | | 36 | 0 | 49 | | 49 |
| **Operating profit (EBIT)** | **880** | **-11** | **0** | **869** | **1,784** | **-17** | **0** | **1,767** |
| Financial income | 26 | 0 | | 26 | 52 | 0 | | 52 |
| Financial expenses | -64 | 0 | | -64 | -124 | 1 | | -123 |
| **Profit before tax** | **842** | **-11** | **0** | **831** | **1,712** | **-16** | **0** | **1,696** |
| Tax on profit for the period | -205 | 11 | | -194 | -401 | 16 | | -385 |
| **Profit for the period** | **637** | **0** | **0** | **637** | **1,311** | **0** | **0** | **1,311** |
| Other comprehensive income | -51 | 0 | | -51 | -189 | 0 | | -189 |
| **Comprehensive income for the period** | **586** | **0** | **0** | **586** | **1,122** | **0** | **0** | **1,122** |

## Cash flow

| GROUP (DKK million) | 1st half 2013 | | | | Full year 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | According to previous accounting policies | Effect of change in accounting policies | Effect of change in class. principle | According to new accounting policies | According to previous accounting policies | Effect of change in accounting policies | Effect of change in class. principle | According to new accounting policies |
| Cash flow from operating profit | 866 | -36 | 0 | 830 | 1,782 | -95 | 0 | 1,687 |
| Cash flow from operating activities | 704 | 19 | 0 | 723 | 1,320 | -31 | 0 | 1,289 |
| Cash flow from investing activities | -1,148 | -2 | 0 | -1,150 | -1,645 | 6 | 0 | -1,639 |
| Cash flow from financing activities | 322 | 0 | 0 | 322 | 41 | -1 | 0 | 40 |
| Cash flow for the period, net | -122 | 17 | 0 | -105 | -284 | -26 | 0 | -310 |

# NOTE 2 – EFFECT OF CHANGE IN ACCOUNTING POLICIES

## Balance sheet

| GROUP (DKK million) | 30 June 2013 | | | 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | According to previous accounting policies | Effect of change in accounting policies | According to new accounting policies | According to previous accounting policies | Effect of change in accounting policies | According to new accounting policies |
| **Intangible assets** | **3,143** | **-4** | **3,139** | **3,618** | **-3** | **3,615** |
| **Property, plant and equipment** | **1,399** | **-6** | **1,393** | **1,496** | **-8** | **1,488** |
| Investments in associates and joint ventures | 466 | 21 | 487 | 424 | 35 | 459 |
| Receivables from associates | 217 | 0 | 217 | 151 | 0 | 151 |
| Other investments | 12 | 0 | 12 | 11 | 0 | 11 |
| Other receivables | 651 | -1 | 650 | 566 | 0 | 566 |
| Deferred tax assets | 273 | -2 | 271 | 267 | -1 | 266 |
| **Other non-current assets** | **1,619** | **18** | **1,637** | **1,419** | **34** | **1,453** |
| **Non-current assets** | **6,161** | **8** | **6,169** | **6,533** | **23** | **6,556** |
| Inventories | 1,043 | -8 | 1,035 | 1,147 | -5 | 1,142 |
| Trade receivables | 1,954 | -54 | 1,900 | 1,881 | -12 | 1,869 |
| Receivables from associates | 11 | 0 | 11 | 3 | 0 | 3 |
| Income tax | 33 | 8 | 41 | 66 | -1 | 65 |
| Other receivables | 157 | -2 | 155 | 211 | -9 | 202 |
| Unrealised gains on financial contracts | 45 | 0 | 45 | 45 | 0 | 45 |
| Prepaid expenses | 103 | 0 | 103 | 108 | 0 | 108 |
| Cash | 344 | 0 | 344 | 363 | -28 | 335 |
| **Current assets** | **3,690** | **-56** | **3,634** | **3,824** | **-55** | **3,769** |
| **Assets** | **9,851** | **-48** | **9,803** | **10,357** | **-32** | **10,325** |
| **Equity** | **4,645** | **0** | **4,645** | **5,080** | **0** | **5,080** |
| Interest-bearing debt | 69 | 0 | 69 | 81 | 0 | 81 |
| Deferred tax liabilities | 143 | 0 | 143 | 146 | 0 | 146 |
| Provisions | 125 | 0 | 125 | 132 | 0 | 132 |
| Other liabilities | 139 | 0 | 139 | 221 | -1 | 220 |
| Deferred income | 0 | 0 | 0 | 34 | 0 | 34 |
| **Non-current liabilities** | **476** | **0** | **476** | **614** | **-1** | **613** |
| Interest-bearing debt | 3,131 | -15 | 3,116 | 3,112 | 0 | 3,112 |
| Trade payables | 401 | -9 | 392 | 367 | -19 | 348 |
| Income tax | 108 | 0 | 108 | 65 | 0 | 65 |
| Provisions | 43 | 0 | 43 | 16 | 0 | 16 |
| Other liabilities | 848 | -23 | 825 | 899 | -12 | 887 |
| Unrealised losses on financial contracts | 9 | 0 | 9 | 11 | 0 | 11 |
| Deferred income | 190 | -1 | 189 | 193 | 0 | 193 |
| **Current liabilities** | **4,730** | **-48** | **4,682** | **4,663** | **-31** | **4,632** |
| **Liabilities** | **5,206** | **-48** | **5,158** | **5,277** | **-32** | **5,245** |
| **Equity and liabilities** | **9,851** | **-48** | **9,803** | **10,357** | **-32** | **10,325** |

William Demant Holding A/S
Kongebakken 9
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

THE GLOBAL COMPACT
WE SUPPORT

William Demant