ANNUAL REPORT 2015

William Demant

DEAR READER

2015 was a good year for the William Demant Group. Our core business delivered a very solid performance, particularly in the second half of the year when we grew organically by 8%. To me, this proves that we have regained momentum and that market share gains are indeed possible when bringing true innovation to the market in an efficient manner. On the back of several years of strong growth rates in our Diagnostic Instruments and Hearing Implants business activities, we saw, however, a temporary slowdown in 2015 caused by reduced sales to a few oil-dependent emerging markets. The turbulent conditions in Russia and Belarus significantly impacted our Diagnostic Instruments business, whereas we saw a satisfactory growth rate outside these two markets. We successfully reached a major milestone in 2015 with the prelaunch of our new CI system, but sales were dampened in anticipation of the new system combined with a postponed tender in Algeria. I remain confident in the potential and the fundamental attractiveness of our implant business, which is destined to be an important growth driver in the years to come. I see short-term fluctuations as an inevitable part of the process of improving all our businesses and building the hearing healthcare company of the future.

For a number of years, William Demant has been on an exciting journey from being a hearing aid company to becoming a global hearing healthcare company. On this journey, we have demonstrated our ability to transform new business segments and even greenfield-type of projects into global, market-leading and profitable businesses. Besides growing the global market share of our hearing aid business from around 8% in the late 90s to our current share of almost a quarter of the market, we have at the same time succeeded in establishing ourselves as a global market leader in diagnostic hearing equipment. Starting from a very low market share, we have thus captured 40% of the market. Since 2009, we have furthermore managed to capture approximately one third of the bone-conduction market, basically starting from scratch. Clearly, this gave us the confidence to enter the cochlear implant market in 2013. As it takes longer to grow a business organically than to grow it through major acquisitions, and as it has a dilutive effect on the Group's margins in the short to medium term, we strongly believe that by entering the cochlear implant market, we build new capabilities in our Group, we expand the Group's existing product range and we create the most value in the long term. Finally, we have expanded our customer universe to also include direct sale to end-users through our own retail network.

Bringing true innovation to the market in an efficient manner

A shared global operational infrastructure is a prerequisite for delivering on our ambitious goals, and we have for the past several years been dedicated to streamlining this infrastructure. To that end, we have moved the volume production of hearing aids and diagnostic instruments to Poland where we have also established our new, global distribution centre. Also, we are in the process of further consolidating our multiple, local, custom-made ITE production and repair shops into regional hubs, thereby facilitating the swift delivery of custom-made hearing aids directly to the customer. In this process, we have identified the need for a new IT infrastructure, including an ERP system to enable a seamless information and product flow in the entire value chain. This process will continue in the coming years with ERP roll-outs in both our wholesale and our retail businesses. Of course, such roll-outs require a lot in terms of investments, resources and time, but they are critical in order to support our continued top-line growth and to realise significant cost savings.

On our hearing healthcare journey we have grown the Company significantly

Let me just for a brief moment expand on our hearing healthcare journey where we have grown the Company significantly in terms of size. By way of example, the number of employees has almost doubled in the past five years. Such a large-scale transition and expansion of our Group has required us to rethink our organisational set-up. To ensure sufficient management competencies when we embark on the next phase of this journey, we extended the Executive Board by promoting Søren Nielsen to COO and employing René Schneider as CFO. We feel comfortable that with these appointments, we have created the right basis for growing all of our hearing healthcare businesses.

Based on William Demant technology, our first-ever cochlear implant system called Neuro has been further developed since the acquisition of Neurelec in 2013 and was prelaunched in a few markets in the latter part of 2015. This is indeed an important milestone in our ambitious journey in the hearing implant field. Reactions by patients, surgeons and key opinion leaders have been extremely positive, and this gives me confidence that Neuro will help Oticon Medical reinforce its position in a number of markets. We are fully aware that the road to becoming a strong, viable player in the hearing implant market will not be without challenges, just as we are humble about our relatively small position and the fact that at the moment, we have no access to key markets like the US and China. We are of course working hard to gain access in these – and other – important markets, but it takes time to diligently conduct trials and go through the regulatory processes. This, however, has not dampened our overall growth ambitions, and in both 2016 and 2017, we are positioned to generate significant growth in a number of our key markets.

I am truly proud of our upcoming introduction in 2016 of the world's first dual-radio hearing aid, which is a landmark in itself and combines the audiological advantages of our new near field magnetic induction system for ear-to-ear communication and a 2.4 GHz system for streamer-free connectivity. This industry-first introduction scheduled for the end of the second quarter is not only a technical quantum leap that opens a world of opportunities, but just as important a completely new audiological platform that delivers new groundbreaking technology and unmatched end-user benefits.

Against the backdrop of the sound momentum created in 2015 combined with significant product launches by all business activities and the extension of our distribution platform in multiple markets, such as France after the successful acquisition of Audika, I am confident that having now entered a new year, our Group is in a very favourable position to deliver strong growth in both revenue and earnings in 2016. Delivering on such ambitious goals requires a lot of hard work and dedication. I know that all employees worldwide are committed to contributing to these goals, so I would like to take this opportunity to thank our more than 10,000 dedicated and talented employees around the world for their performance and solid contribution to the results realised in 2015. I look forward to taking our Company to the next level in 2016 where we will exceed the 2 billion kroner milestone in operating income for the first time in the history of our Company.

I would like to thank our more than 10,000 dedicated and talented employees around the world

Niels Jacobsen
President & CEO

THE YEAR AT A GLANCE

In 2015, consolidated revenue amounted to DKK 10.7 billion, corresponding to a growth rate of 14% or 7% in local currencies. Organic growth and acquisitions contributed by 4 and 3 percentage points, respectively, with organic growth accelerating through the year.

Operating profit (EBIT) amounted to DKK 1,878 million, or an increase of 7% compared with reported EBIT in 2014 and within the most recently announced guidance range of DKK 1,800-2,000 million. In 2015, our profit margin was 17.6%, corresponding to a drop of 1.2 percentage points compared with the reported profit margin in 2014. Significant exchange rate movements, hedging and one-off elements in 2014 and 2015 have affected our EBIT and diluted our reported EBIT margin. When adjusting for these effects, we have seen an underlying EBIT margin of 19.4% or an improvement of 0.5 percentage point. Furthermore, the expansion of our Hearing Implants business activity had a clear, dilutive effect on our profit margin. Bearing this in mind, we find the development in our profit margin satisfactory. Earnings per share (EPS) amounted to 26.6, representing an increase of 12%.

In 2015, the global demand for **hearing aids** by end-users was stable with key growth drivers, such as the increasing elderly population, remaining intact. With a unit growth rate of 7% in 2015, total sales generated on the US hearing aid market exceeded our expectations, whereas growth in Europe was in the low single digits mainly due to negative growth in Germany because of strong comparative figures for 2014. We estimate that the global unit growth rate was approximately 5%. We estimate that the average selling price (ASP) on the hearing aid market declined by a few percentage points in 2015, primarily due to product and channel mix shifts and generally intense competition, which were, however, partly offset by a positive country mix driven by strong growth in the US. In terms of value, the overall market growth rate was, in our estimation, 1-3%.

Our core business – the development, manufacture and wholesale of hearing aids – realised an organic growth rate of 8% in the second half-year, which is twice as high as the organic growth rate realised in the first half-year. The full-year organic growth rate of 6% was driven by a unit growth rate of 6% and a stable ASP, which means that we continued to gain market share. The primary growth driver was the successful launch of Oticon's ultra-fast Inium Sense platform, which was the biggest and broadest product launch ever undertaken by Oticon. The platform was launched in all styles, at all price points and in all markets in the course of only a few weeks. With the launch in the fourth quarter of 2015 of three new innovative Power solutions built on the Inium Sense platform, the strengthening and renewal of Oticon's product portfolio continued. In 2015, North America was the biggest contributor to growth in our wholesale business, especially in the independent channel. We increased our sales and market share with the National Health Service (NHS) in the UK, whereas our market share with Veterans Affairs (VA), which represents the public sector in the US market, remains unchanged at around 8%.

Also Bernafon and Sonic delivered encouraging growth, especially in the second half of the year after a weak first half-year.

At the end of the second quarter of 2016, Oticon's position as technology leader will be reaffirmed with the launch of the first-ever dual-radio hearing aid, combining the audiological advantages of our new near field magnetic induction system for ear-to-ear communication and a 2.4 GHz system for streamer-free connectivity and programming. This very

exciting hearing aid is based on a completely new platform offering multiple new advantages not seen in existing solutions in the market, and we are proud to take hearing aid performance to an entirely new level. The global launch will be an important growth driver in our core business in the second half of 2016.

Also in 2015, we continued expanding our retail activities, especially with the acquisition of Audika, and our retail business realised satisfactory growth in revenue driven by a combination of organic and acquisitive growth. The latter can mainly be attributed to the aforementioned acquisition of Audika, which had an equity value of DKK 1,254 million and an impact on the Group's consolidated revenue in 2015 of DKK 220 million, whereas the organic growth rate was in line with the market growth rate in the markets where we operate.

Oticon's position as technology leader will be reaffirmed with the launch of the first-ever dual-radio hearing aid

In 2015, our **Hearing Implants** business activity generated a 12% reported growth rate, or 7% in local currencies, of which the main part could be attributed to organic growth.

In 2015, we have seen slightly lower-than-normal market growth, which we consider to be a temporary slowdown, reflecting the fact that cochlear implants (CI) are among the most successful hearing rehabilitation devices. The Group's CI sales grew in line with growth in the underlying market. Our new CI system, Neuro, was not commercially launched until the beginning of 2016, so in the second half of 2015 we saw a slowdown in sales of our older CI system, as clinics were awaiting the new CI system. Growth was in many markets higher than in the underlying market despite significant fluctuations across regions. Growth was driven by high unit sales in parts of the world where the ASP is relatively low, whereas unit sales in more developed markets were modest, as these markets mainly request products like the new Neuro system. Based on our prelaunch clinical activities and the commercial launch of Neuro, we expect it to be a door opener for us in our endeavours to sell into several new developed markets.

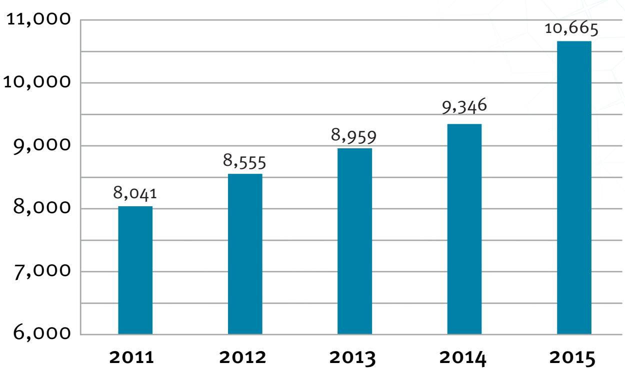
In 2015, the total BAHS market, consisting of both the percutaneous and the transcutaneous segments, saw an estimated unit growth rate in the high single digits, albeit below the historical level. In our BAHS business, we saw satisfactory growth in 2015, and we gained market share in the traditional percutaneous segment of the market. We have no commercially available products in the transcutaneous segment.

With three new product launches in 2015, we continued strengthening our product portfolio in the BAHS market. One of the launches carried out in 2015 was the launch of MIPS (Minimally Invasive Ponto Surgery), which is a completely new surgical technique that significantly enhances the effects of surgery in terms of cosmetics and surgical complexity. In 2016, we will further expand our product portfolio with additional launches, including the Ponto BHX implant, which is the first implant with a laser-ablated titanium surface promoting faster and stronger bone-bonding and strengthening the bone-to-implant interface by more than 150%.

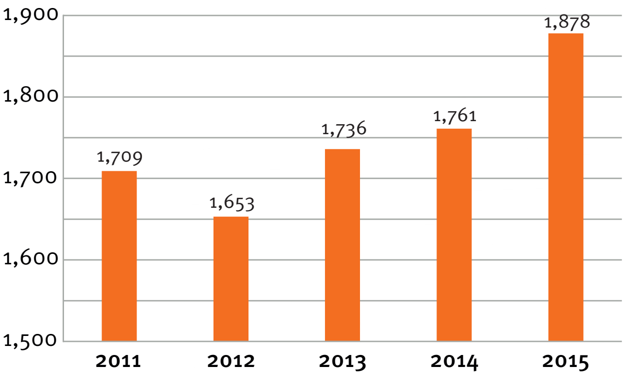
In 2015, the global market for **diagnostic equipment** slowed down and is estimated to have grown by a mere 0-2%. Our Diagnostic Instruments business activity did not fully meet the initial expectations set, mainly due to the mentioned market slowdown and unusually low tender activity, especially in Russia and Belarus. The business activity delivered 0% growth in local currencies (10% on a reported basis), which is clearly below the previous five-year CAGR of almost 18% in local currencies. Outside Russia and Belarus, our Diagnostic Instruments business activity delivered a 4% growth rate in local currencies.

In 2015, **Sennheiser Communications**, which is our joint venture with Sennheiser KG, realised a satisfactory 16% organic growth rate, thereby exceeding the market growth rate. The biggest contributor to growth was the CC&O (Call Center and Office) segment, driven by the Unified Communication (UC), whereas the two other business segments, Gaming and Mobile, only saw modest growth. Going forward, we expect to continue to see UC as a key growth driver for Sennheiser Communications.

Revenue – DKK million



Operating profit (EBIT) – DKK million



KEY FIGURES AND FINANCIAL RATIOS – DKK

	2015	2014	2013	2012	2011
INCOME STATEMENT, DKK MILLION					
Revenue	10,665	9,346	8,959	8,555	8,041
Gross profit	7,895	6,813	6,518	6,127	5,777
Research and development costs	763	680	634	652	633
EBITDA	2,203	2,055	2,028	1,920	1,942
Amortisation and depreciation etc.	325	294	292	267	233
Operating profit (EBIT)	1,878	1,761	1,736	1,653	1,709
Net financial items	-69	-70	-72	-132	-103
Profit before tax	1,809	1,691	1,664	1,521	1,606
Profit for the year	1,439	1,327	1,286	1,151	1,199
BALANCE SHEET, DKK MILLION					
Net interest-bearing debt	3,703	2,405	2,284	1,804	1,548
Assets	14,390	11,219	10,318	8,777	7,646
Equity	6,500	5,584	5,056	4,059	3,304
OTHER KEY FIGURES, DKK MILLION					
Investment in property, plant and equipment, net	375	354	391	310	382
Cash flow from operating activities (CFFO)	1,592	1,495	1,282	1,272	1,381
Free cash flow	1,129	1,044	819	782	895
Average number of employees	10,803	9,799	9,063	8,025	7,392
FINANCIAL RATIOS					
Gross profit margin	74.0%	72.9%	72.8%	71.6%	71.8%
EBITDA margin	20.7%	22.0%	22.6%	22.4%	24.2%
Profit margin (EBIT margin)	17.6%	18.8%	19.4%	19.3%	21.3%
Return on equity	23.7%	24.7%	28.0%	31.8%	41.7%
Equity ratio	45.2%	49.8%	49.0%	46.2%	43.2%
Earnings per share (EPS), DKK*	26.6	23.8	22.7	20.2	20.6
Cash flow per share (CFPS), DKK*	29.5	26.9	22.6	22.3	23.7
Free cash flow per share, DKK*	20.9	18.8	14.5	13.7	15.4
Dividend per share, DKK*	0	0	0	0	0
Equity value per share, DKK*	120.3	100.4	89.3	71.2	56.7
Price earnings (P/E)	25	20	23	24	23
Share price, DKK*	657	468	527	484	478
Market cap. adjusted for treasury shares, DKK million	35,126	25,545	29,754	27,419	27,397
Average number of shares outstanding, million	54.03	55.63	56.62	57.02	58.24

Financial ratios are calculated in accordance with "Recommendations and Financial Ratios 2015" 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.

Key figures and financial ratios for 2011 and 2012 have not been adjusted to the changes in accounting policies from 2014.

*Per share of DKK 1.

KEY FIGURES AND FINANCIAL RATIOS – EUR**

	2015	2014	2013	2012	2011
INCOME STATEMENT, EUR MILLION					
Revenue	1,430	1,253	1,201	1,147	1,078
Gross profit	1,059	913	874	821	775
Research and development costs	102	91	85	87	85
EBITDA	295	276	272	257	260
Amortisation and depreciation etc.	44	39	39	36	31
Operating profit (EBIT)	252	236	233	222	229
Net financial items	-9	-9	-10	-18	-14
Profit before tax	243	227	223	204	215
Profit for the year	193	178	172	154	161
BALANCE SHEET, EUR MILLION					
Net interest-bearing debt	496	322	306	242	207
Assets	1,928	1,503	1,383	1,176	1,025
Equity	871	748	678	544	443
OTHER KEY FIGURES, EUR MILLION					
Investment in property, plant and equipment, net	50	47	52	42	51
Cash flow from operating activities (CFFO)	213	200	172	171	185
Free cash flow	151	140	110	105	120
Average number of employees	10,803	9,799	9,063	8,025	7,392
FINANCIAL RATIOS					
Gross profit margin	74.0%	72.9%	72.8%	71.6%	71.8%
EBITDA margin	20.7%	22.0%	22.6%	22.4%	24.2%
Profit margin (EBIT margin)	17.6%	18.8%	19.4%	19.3%	21.3%
Return on equity	23.7%	24.7%	28.0%	31.8%	41.7%
Equity ratio	45.2%	49.8%	49.0%	46.2%	43.2%
Earnings per share (EPS), EUR*	3.6	3.2	3.0	2.7	2.8
Cash flow per share (CFPS), EUR*	4.0	3.6	3.0	3.0	3.2
Free cash flow per share, EUR*	2.8	2.5	1.9	1.8	2.1
Dividend per share, EUR*	0	0	0	0	0
Equity value per share, EUR*	16.1	13.5	12.0	9.5	7.6
Price earnings (P/E)	25	20	23	24	23
Share price, EUR*	88	63	71	65	64
Market cap. adjusted for treasury shares, EUR million	4,707	3,423	3,987	3,674	3,671
Average number of shares outstanding, million	54.03	55.63	56.62	57.02	58.24

Financial ratios are calculated in accordance with "Recommendations and Financial Ratios 2015" 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.

Key figures and financial ratios for 2011 and 2012 have not been adjusted to the changes in accounting policies from 2014.

**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 2015 of 746.25 has been used for balance sheet items, and the average rate of exchange of 745.86 has been used for income statement and cash flow items.*

Market conditions

The hearing aid market in general

For a number of years, the global hearing aid market has seen unit growth rates of 3-4% per year, but in the last few years, growth rates have been slightly higher according to official market statistics. We believe that one of the reasons for this development is the fact that the baby boomer generation is now entering the age group of our usual end-users, i.e. people in their 70s, which is also our main target group. We consider this development in the number of potential end-users favourable, stable and fairly predictable, and we have therefore revised our forward-looking estimates of annual growth rates in unit sales from 3-4% to 4-5%.

In 2015, the total global demand for hearing aids by end-users was stable despite regional fluctuations, and key growth drivers, such as the increasing elderly population, have remained intact. We estimate that the global unit growth rate was approximately 5%. Our growth estimates are mainly based on available statistics from a number of key markets, covering some three quarters of the more than 12 million units sold per year. These statistics serve as a reliable indicator of the global unit growth rate.

Strong market growth in the US

With a unit growth rate of 7% in 2015, total sales generated on the US hearing aid market, which is the world's largest single market for hearing aids, exceeded our expectations. The unit growth rate in the private sector of the US market was as high as 8% and thus above the unit growth rate in sales to Veterans Affairs (VA) for the first time in many years. Sales to VA rose by almost 5%.

European growth negatively impacted by strong comparative figures for 2014

It is estimated that in 2015 the overall European unit growth rate was in the low single digits, which is slightly below the historical growth rate. Growth in Germany was negative because of strong comparative figures for 2014, but several other European markets, such as France and Italy, recorded above-normal unit growth rates. We estimate the growth rate in Germany to be negative by 4%, which is mainly due to a very weak first half-year. In the UK, the commercial market saw unit growth rates above the historical level, and unit sales to the National Health Service (NHS) for the full year met our expectations despite significant quarterly fluctuations.

Encouraging market growth in Japan

Partly driven by weak comparative figures for 2014, the Japanese market saw strong growth in 2015, slightly exceeding the global market growth rate.

Average selling prices

The global average selling price is to a greater extent than the global unit growth rate based on an estimate, since data on market prices and product mixes are limited. We estimate that the average selling price on the hearing aid market declined by a few percentage points in 2015, primarily due to product and channel mix shifts and generally intense competition, which were, however, partly offset by a positive country mix driven by strong growth in the US. In terms of value, the overall market growth rate was, in our estimation, 1-3%.

Group business activities

Hearing Devices

Organic growth rate of 8% in core business in second half-year

Our core business – the development, manufacture and wholesale of hearing aids – realised an organic growth rate of 8% in the second half-year, which is twice as high as the organic growth rate realised in the first half-year, resulting in a full-year organic growth rate of 6%. In 2015, organic growth was driven by a unit growth rate of 6% and a stable average selling price (ASP), which means that we continued to gain market share. The Hearing Devices business activity, covering the Group's wholesale business, retail activities and two minor business entities, realised an overall growth rate of 8% in local currencies in 2015.

In 2015, North America was the biggest contributor to growth in our wholesale business followed by a number of Asian markets, including Japan. Europe realised satisfactory revenue growth, especially when we take the tough comparative figures for 2014 for the German market into account. We have grown sales in all channels, but the independent channel was the main contributor to sales growth, especially in North America.

Growth can primarily be attributed to the successful launch of Oticon's ultra-fast Inium Sense platform. The launch was the biggest and broadest product launch ever undertaken by Oticon. The platform was launched in all styles, at all price points and in all markets in the course of only a few weeks. In the fourth quarter, Oticon strengthened its product portfolio by launching three new innovative Power solutions. Built on the

Inium Sense platform, the new Power solutions deliver higher gain and output, they improve the feedback control and they give the user a more personalised listening experience. Our two additional brands, Bernafon and Sonic, both delivered encouraging growth in the second half-year after a weak first half-year.

Oticon takes a quantum leap in innovation
At the end of the second quarter of 2016, Oticon's position as technology leader will be reaffirmed with the launch of the first-ever dual-radio hearing aid, combining the audiological advantages of our new near field magnetic induction system for ear-to-ear communication and a 2.4 GHz system for streamer-free connectivity and programming. This very exciting hearing aid is based on a completely new platform offering multiple new advantages not seen in existing solutions in the market, and we are proud to take hearing aid performance to an entirely new level. The global launch will be an important growth driver in our core business in the second half of 2016.

NHS and VA
In 2015, we increased our sales to and market share with the NHS in the UK. The Group therefore remains the largest supplier of hearing aids to the NHS. Compared to 2014, our market share with Veterans Affairs (VA) in the US remained unchanged at around 8%. This market share is not satisfactory, but we continue to work towards improving sales by bringing new innovative products to the contract, and we generally strive to match our service, support and processes to the needs of the VA clinics.

Retail activities
After a slow start to the year, especially in the US, our retail business gradually picked up momentum in 2015 and thus realised a satisfactory increase in revenue driven by a combination of organic growth and acquisitions. In 2015, our organic growth rate was in line with the market growth rate in the markets where we operate, and in the second half of the year, we even saw growth acceleration. Acquisition growth exceeded organic growth, which can mainly be attributed to the recent acquisition of Audika, but also to a number of minor acquisitions. In 2015, we focused on improving the performance of our existing entities and on consolidating the acquired entities. This work will continue in 2016 for the purpose of improving our profitability in the years to come.

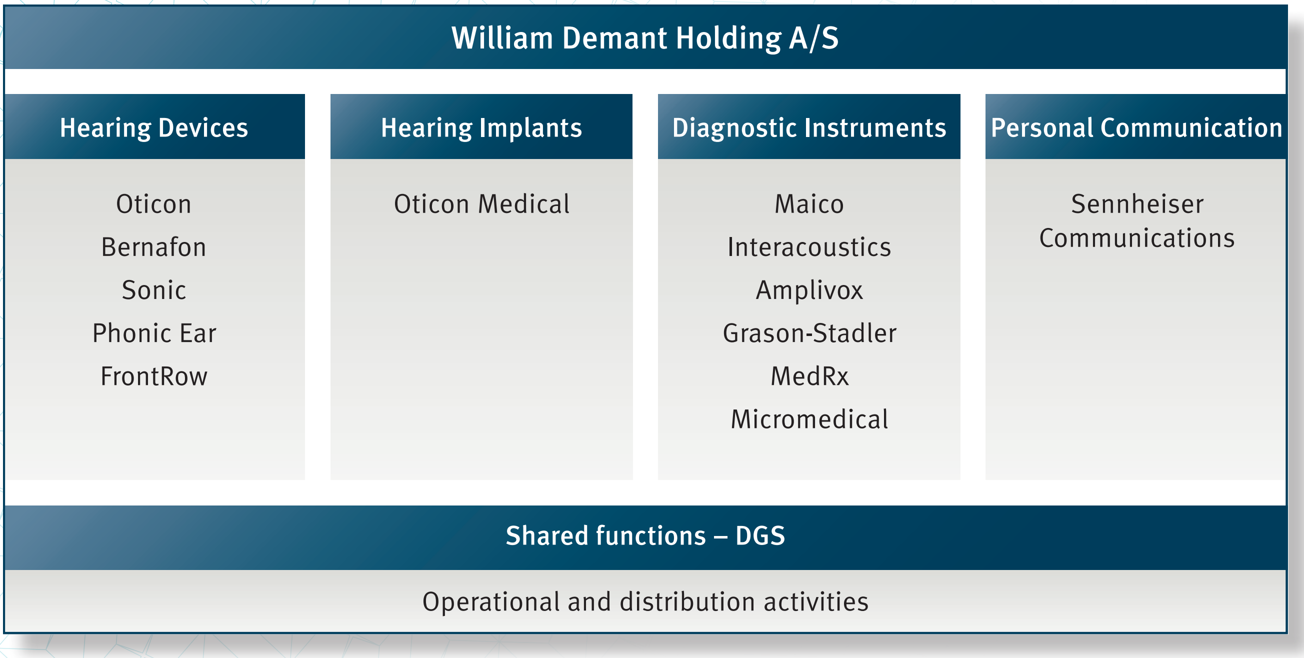
Headquartered in Paris, Audika is a leading French network of hearing care providers with more than 460 points of sale across France. In 2014, Audika recorded revenue of EUR 98.7 million (DKK 736.3 million) and an operating profit (EBIT) of EUR 12.1 million (DKK 90 million), or an EBIT margin of 12.2%. William Demant's acquisition of Audika was a natural continuation of the partnership that already existed between the two companies. For decades, William Demant has been a supplier of hearing instruments to Audika, and with the acquisition, the partnership is bound to be strengthened even further. We have great confidence in Audika's strategy, market position and the current management team, and we are very pleased that they have agreed to stay on board.

The entire Audika transaction had an equity value of DKK 1,254 million. The take-over of Audika positively impacted the Group's consolidated revenue in 2015 by DKK 220 million. Transaction costs and other non-recurring costs relating to the take-over have been expensed, and the impact of the transaction on the Group's operating profit (EBIT) in 2015 was therefore limited.

Hearing Implants
Oticon Medical reaches another milestone with the launch of a new CI system
In 2015, the business activity generated a 12% reported growth rate, or 7% in local currencies, of which the main part could be attributed to organic growth. Our growth rate was close to the estimated market growth rate despite the fact that in 2015, we had access to less than half of the global CI market and also to the fact that we only offer commercial products in the percutaneous product segment of the market for bone-anchored hearing systems (BAHS).

Cochlear implants (CI)
In 2015, we have seen slightly lower-than-normal market growth, which we consider to be a temporary slowdown. Going forward, the CI industry is expected to deliver a double-digit unit growth rate, reflecting the fact that CIs are among the most successful hearing rehabilitation devices. Low penetration, an increasing pool of elderly people needing a CI, product innovation, improved reimbursement schemes in some markets, increasing general awareness, wealth and new indications, such as single-sided deafness, are all important drivers that will contribute to significant growth.

Group CI sales grew in line with the underlying market. The new CI system, Neuro, was not commercially launched until the beginning of 2016, so in the second half of 2015 we saw a slowdown in sales of our older CI system, as clinics were awaiting the new CI system. Growth was in many markets higher than in the underlying market, but we have also seen a signi-



The William Demant Group develops, manufactures and sells products and equipment designed to aid the hearing and communication of individuals. The Group focuses on four areas: Hearing Devices, Hearing Implants, Diagnostic Instruments and Personal Communication. Group companies collaborate in many areas and to a wide extent also share resources and technologies. Sennheiser Communications is a joint venture not consolidated into the Group's financial statements.

ficant slowdown in Russia due to the political situation and also in Algeria where we won a tender in the second half-year 2014. The contract that was supposed to take effect in 2015 has, however, been postponed to 2016. Growth was driven by high unit sales in parts of the world where the average selling price (ASP) is relatively low, whereas unit sales in more developed markets were modest, as these markets mainly request products like the new Neuro system.

In late 2015, we successfully completed the prelaunch clinical activities in France, Denmark, Germany and the Netherlands pertaining to the first-ever CI system to carry the Oticon Medical name with excellent results. The completion of prelaunch clinical activities followed by the current commercial launch activities, which hinge on obtaining approvals in each market, are all complex and time-consuming processes – not least for a relatively small organisation like Oticon Medical. The new Neuro CI system benefits from the Group's position in implantable technologies, from its more than 100 years of hearing expertise and from its decades of practical experience with and knowledge of cochlear implants. The ultra-thin and compact shape of the Neuro Zti implant has been developed to make surgery as simple and safe as possible. The implant is designed to be robust and reliable and can be adapted to MRI scanning. The Neuro Zti implant features an entirely new internal chip design that is flexible and powerful enough to work together with current and future advanced sound processors developed by Oticon Medical. The Neuro One sound processor uses Oticon's advanced technologies, providing enhanced listening and speech understanding as well as automatic and adaptive control of all the advanced features. The Neuro One signal processing is the most advanced combination of hearing aid and cochlear implant sound processing and is designed to provide significant benefits to the end-user. Our new CI system is expected to be a door opener for us in our endeavours to sell into several new developed markets. On the short term, especially European markets will be targeted and within a few years, we will target key markets, such as the US and China.

The commercial risks associated with the launch of the Neuro CI system are higher than normal, and the consequences can vary on the short term. The risks are unavoidable, but by managing them in a proper way, we expect to be in a favourable position to deliver considerable growth in 2016 and onwards.

Bone-anchored hearing systems (BAHS)

In 2015, the total BAHS market, consisting of both the percutaneous and transcutaneous segments, saw an estimated unit growth rate in the high single digits, albeit below the historical level. However, we expect this slowdown in the market to be only temporary, and we expect to see the annual unit growth rate return to the usual 10-15% level, as new attractive solutions are launched.

Our BAHS business saw satisfactory growth in 2015, and we gained market share in the traditional percutaneous segment of the market, whereas we have no commercially available products in the transcutaneous segment. In the fourth quarter of 2015, we carried through three exciting launches, such as the launch of MIPS (Minimally Invasive Ponto Surgery), which is a completely new surgical technique, using tailor-made equipment that significantly enhances the effects of surgery in terms of cosmetics and reduces surgical complexity. MIPS is a unique and innovative offer to the surgeons and should help us build even closer relations with the clinics we already cooperate with and to be accepted as a supplier by new ones. At the beginning of 2016, we will further strengthen our product offering with our Ponto BHX implant, which is the first implant with a laser-ablated titanium surface, promoting faster and stronger bone-bonding and strengthening the bone-to-implant interface

by more than 150%. As the last, but not the least important product, the beginning of 2016 will see the launch of an abutment extender that makes it easy to fine-tune the length of an abutment and will provide freedom of choice for all BAHS users. Also, we have made considerable investments in numerous new product concepts in the BAHS field, for instance in the active transcutaneous bone conduction implant solution, our BCI project, which will give us access to a larger proportion of the total bone conduction market. We expect the BCI solution to become one of the important vehicles for growing the total market for implantable bone conduction solutions. However, we do not expect to see any impact in 2016.

Diagnostic Instruments

The global market for hearing-diagnostic equipment slowed down in 2015 and is estimated to have grown by a mere 0-2%. The low market growth rate is mainly a consequence of an unusually low tender activity level and can be directly attributed to the very weak markets, Russia and Belarus. Conversely, we have seen encouraging market growth in Asia.

A global market leader in diagnostic equipment, our Diagnostic Instruments business activity today consists of six audiometer companies, which enjoy strong market positions in most product categories and cover every major customer segment in all the key geographic regions. Our global market share is estimated to be approximately 40% measured in value.

In 2015, the business activity did not fully meet the initial expectations set, mainly due to the mentioned market slowdown, but also due to the delayed launch of our new clinical impedance product from Grason-Stadler. The business activity thus delivered 0% growth in local currencies (10% on a reported basis), which is clearly below the previous five-year average growth rate (CAGR) of almost 18% in local currencies. Outside Russia and Belarus, our Diagnostic Instruments business activity delivered a 4% growth rate in local currencies. Our strong market position and strong product portfolio should therefore enable us to generate further growth in 2016. Recent years' industry consolidation has limited the opportunities for future acquisitions and consequently, we expect most of the growth to be generated to be organic growth.

Other business areas

Sennheiser Communications, our 50/50 joint venture with Sennheiser KG, manufactures both professional and consumer headsets for the Gaming, Mobile and CC&O (Call Center and Office) segments. In the financial statements, Sennheiser Communications is recognised under Share of profit after tax, associates and joint ventures. However, a full income statement for Sennheiser Communications is shown below.

Income statement – Sennheiser Communications (100%)

DKK million	2015	2014
Revenue	668	576
Gross profit	**289**	**279**
Gross margin	43.3%	48.4%
Capacity costs	-163	-125
Operating profit (EBIT)	**126**	**154**
EBIT margin	18.9%	26.7%
Tax on profit for the year	-30	-37
Profit for the year	96	117
William Demant Holding share of profit, 50%	**48**	**59**

In 2015, Sennheiser Communications realised a satisfactory 16% organic growth rate, which clearly exceeds the market growth rate. Driven by Unified Communication (UC), the CC&O segment was the main growth contributor, whereas the two other business segments, Gaming and Mobile, only saw modest growth. Going forward, we expect to continue to see high market growth in the UC segment, even if the UC market is becoming increasingly cost-intensive and complex. In 2016, we therefore expect to continue the significant investments made in 2015, which includes hiring staff in several key areas. This may dilute profitability on the short term. The additional investments in our UC business will significantly strengthen our product portfolio, global distribution and access to global accounts, so UC is also expected to be a key growth driver for Sennheiser Communications going forward.

Financial review 2015

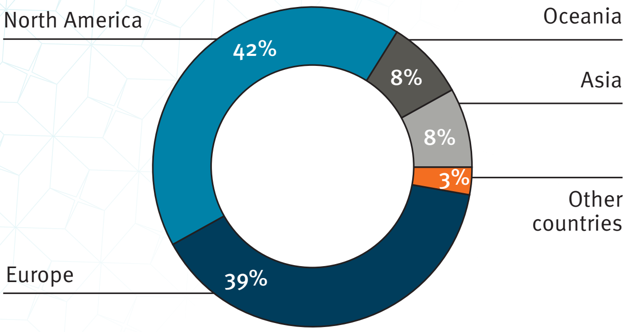
Revenue and foreign exchange

In the reporting period, consolidated revenue amounted to DKK 10,665 million, corresponding to a growth rate of 14% or 7% in local currencies. Organic growth and acquisitions contributed by 4 and 3 percentage points, respectively, with organic growth accelerating through the year.

The positive currency translation effect on consolidated revenue of 9% is to a great extent attributable to the strengthening of some of our major invoicing currencies, especially the US dollar, the British pound sterling and the Japanese yen. However, we have also seen a negative currency transaction effect of 2%, and having now entered the second half-year, we have also seen the depreciation of several unhedged currencies with long payment terms, e.g. the Brazilian real, the Turkish lira and the South African rand. Consequently, we have seen a total positive exchange rate impact on revenue of 7% in 2015, but a negative impact on our operating profit (EBIT).

The currency transaction effect is the net effect of realised gains or losses on forward exchange contracts, which are used for hedging exchange rate risks. Such gains or losses are recognised in the financial statements.

Revenue by geographic region



North America

In 2015, the Group generated growth in North America of 5% in local currencies of which the main part was organic growth. Both the US and Canada contributed to this growth. Our core business was a significant contributor to growth, especially in the independent segment where we took market shares. Growth was furthermore a result of our continued focus on increasing sales of Group-manufactured hearing aids to our own retail. Our market share with Veterans Affairs (VA) remained unchanged compared to 2014, which is however not satisfactory. Our two other business activities, Diagnostic Instruments and Hearing Implants, both realised single-digit growth rates in local currencies in North America. North America accounted for 42% of total consolidated revenue.

Europe

Consolidated revenue in Europe grew by 10% in local currencies in 2015, with the acquisition of Audika accounting for most of this increase. The modest organic growth in Europe is partly due to tough comparative figures for 2014 for the German hearing aid market because of changes to the reimbursement system, and partly to lower-than-normal growth rates in Diagnostic Instruments and Hearing Implants. Europe accounted for 39% of total consolidated revenue.

Other regions

Asia delivered very satisfactory double-digit growth rates in local currencies, while the two other regions – Oceania and Other countries – both realised mid-single-digit growth rates in local currencies.

Revenue by business activity

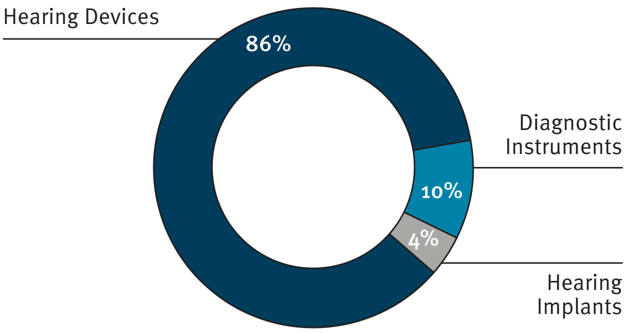
DKK million	2015	2014	% change DKK	% change LCY
Hearing Devices	9,213	8,033	15%	8%
Diagnostic Instruments	1,072	975	10%	0%
Hearing Implants	380	338	12%	7%
Total	**10,665**	**9,346**	**14%**	**7%**

In 2015, our core business, wholesale of hearing aids, realised an organic growth rate of 6%. The fact that the Group's organic growth rate in the second half-year was twice as high as in the first half-year clearly indicates that we gained momentum in our core business during the year. Growth was primarily driven by Oticon's Inium Sense platform, as the launch included very competitive products in all styles, at all price points and in all markets.

Our retail activities, which are part of our Hearing Devices business activity, realised a double-digit growth rate in 2015 in local currencies of which approximately three quarters can be attributed to acquisitions, and in particular the acquisition of Audika, even if this acquisition only had an impact on revenue in the fourth quarter.

In the period under review, revenue in Diagnostic Instruments totalled DKK 1,072 million, corresponding to 0% growth in local currencies. Diagnostic Instruments accounted for 10% of consolidated revenue in 2015. Hearing Implants generated revenue of DKK 380 million in 2015, corresponding to an increase of 7% in local currencies of which most was organic growth. Hearing Implants accounted for 4% of total consolidated revenue.

Revenue by business activity



Gross profit

In 2015, consolidated gross profit rose by 16% to DKK 7,895 million. The consolidated gross profit margin of 74% is an all-time high and 1.1 percentage points higher than in 2014. The improvement in the gross profit margin can mainly be attributed to a combination of higher hearing aid sales and lower unit costs, but also to the acquisition of Audika.

Capacity costs

Consolidated capacity costs in local currencies rose by 11% in 2015. Almost half of this increase is, however, directly attributable to acquisitions. Acquired entities, such as a retail chain like Audika, typically have relatively higher capacity costs than the Group as a whole. However, on the longer term these businesses hold great potential in terms of profitability. Furthermore, we are in the process of building a global hearing implant business. In 2015, growth in capacity costs in our Hearing Implants substantially exceeded revenue growth in this business activity, resulting in the further dilution of our profitability in the short term.

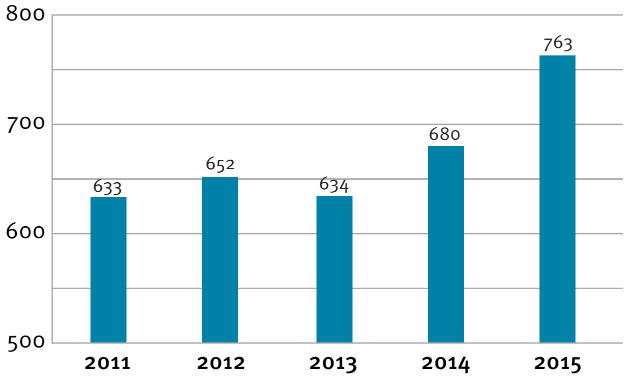
Capacity costs

			% change	
DKK million	**2015**	**2014**	**DKK**	**LCY**
R&D costs	763	680	12%	9%
Distribution costs	4,689	3,877	21%	12%
Administrative expenses	613	560	9%	4%
Total	**6,065**	**5,117**	**19%**	**11%**

Research and development costs

Partly due to the strengthening of the Swiss franc, research and development costs rose by 12%, whereas the rise was 9% in local currencies. This rise in local currencies is purely organic growth. A significant part of the increase relates to Diagnostic Instruments and Hearing Implants, but also our core business where we have stepped up the activities to ensure that we deliver on the upcoming launches account for a considerable part of the increase. As has been the case in the past three years, our R&D to sales ratio in 2015 remained at a level of around 7%. However, if we only look at R&D-dependent wholesale activities and adjust for our retail activities' increased impact on the Group's total sales, we have actually seen an increase in the R&D to sales ratio, mainly driven by our Hearing Implant business activity.

R&D costs – DKK million



Distribution costs

Distribution costs rose by 12% in local currencies of which approximately half can be attributed to acquisitions. In 2014, our distribution costs were affected both negatively by the one-off loss of DKK 40 million on a customer loan and positively by earn-out adjustments of DKK 95 million (DKK 13 million in 2015). In 2015, we have further strengthened our global distribution, in particular in our retail and Hearing Implants activities, as we believe that this will give us an important competitive edge.

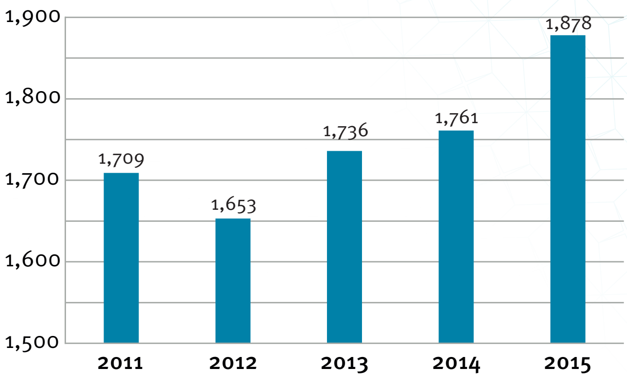
Administrative expenses

Primarily driven by acquisitions, administrative expenses rose by 4% in local currencies in 2015.

Profit for the year

In the period under review, reported operating profit (EBIT) amounted to DKK 1,878 million, or an increase of 7% compared with reported EBIT in 2014. Our reported profit margin was 17.6%, corresponding to a drop of 1.2 percentage points compared with the reported profit margin in 2014. Significant exchange rate movements, hedging and one-off elements in 2014 and 2015 have affected our EBIT and diluted our reported EBIT margin. When adjusting for these effects, we have seen an underlying EBIT margin of 19.4% or an improvement of 0.5 percentage point. Furthermore, the expansion of our Hearing Implants business activity had a clear dilutive effect on our profit margin. Bearing this in mind, we find the development in our profit margin satisfactory.

Operating profit (EBIT) – DKK million



The total impact on the income statement of the fair value adjustment of non-controlling interests as well as adjustments of estimated earn-outs amounted to DKK 12 million in 2015 (DKK 95 million in 2014).

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 1,121 million (DKK 1,608 million at 31 December 2014) and a fair value of DKK -61 million (DKK -68 million at 31 December 2014). As at 31 December 2015, our material contracts hedged the following currencies:

Forward exchange contracts at 31 December 2015

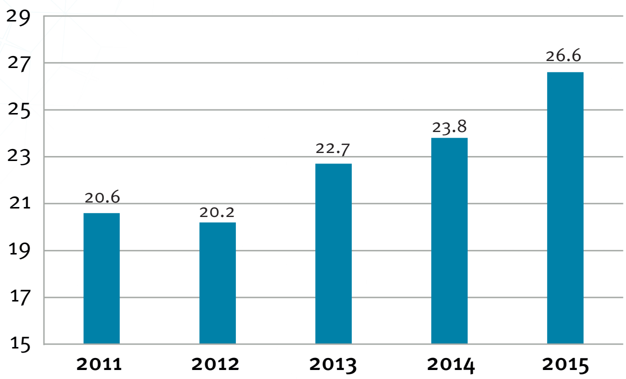
Currency	Hedging period	Average hedging rate
USD	12 months	634
JPY	6 months	5.51
CAD	3 months	508
GBP	5 months	1,060

In 2015, consolidated net financial items amounted to DKK -69 million (DKK -70 million in 2014). Net financial items mainly consist of credit card fees and bank fees, whereas the Group's net interest expenses are limited due to interest income on receivables and customer loans.

Consolidated profit before tax amounted to DKK 1,809 million, representing an increase of 7% on 2014. Tax on the year's profit amounted to DKK 370 million, matching an effective tax rate of 20.5% (21.5% in 2014). Consolidated profit after tax amounted to DKK 1,439 million, or an increase of 8% on 2014. Earnings per share (EPS) were DKK 26.6, which is an increase of 12% on last year.

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

Earnings per share – DKK



Equity and capital structure

Consolidated equity was DKK 6,500 million at 31 December 2015 (DKK 5,584 million at 31 December 2014), matching an equity ratio of 45.2%. The increase in equity is mainly due to profit for the year of DKK 1,439 million and was offset by the Company's buy-back of shares amounting to DKK 605 million.

The Board of Directors evaluates the Group's capital structure on an ongoing basis, and a revision of the Group's capital structure policy was announced in our Interim Report 2014.

Based on the expectation of continued, strong cash flow from operating activities and rather limited acquisition and investment opportunities, the Board of Directors concluded that a somewhat higher net interest-bearing debt level could be targeted going forward. We thus expected to see an increase in the Group's gearing multiple towards a level of 1.5, measured as net interest-bearing debt (NIBD) relative to EBITDA. Should attractive acquisition or investment opportunities arise, the Company may 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. As a consequence of the Audika acquisition, the Group's NIBD/EBITDA was 1.7 at the end of 2015. Neither this temporarily higher gearing multiple nor the acquisition of Audika has changed our plans with regard to the announced gearing level and share buy-back plan. In the period from 2014 to 2016, the Company plans to buy back shares worth DKK 2.5-3.0 billion of which DKK 887 million was spent in 2014, DKK 605 million was spent in 2015, and DKK 152 million has been spent year-to-date – or a total of DKK 1,644 million from 2014 up to now.

Consolidated equity

DKK million	2015	2014
Equity at 1.1.	**5,584**	**5,056**
Foreign currency translation adj., subsidiaries	84	212
Value adjustments, hedging instruments	7	-108
Profit for the year	1,439	1,327
Other adjustments including buy-back of shares	-614	-903
Equity at 31.12.	**6,500**	**5,584**

Consolidated cash flow

Consolidated cash flow from operating activities totalled DKK 1,592 million in 2015, which is an increase of 6% on the year before. Income tax paid in 2015 aggregated DKK 325 million of which DKK 203 million was paid in Denmark.

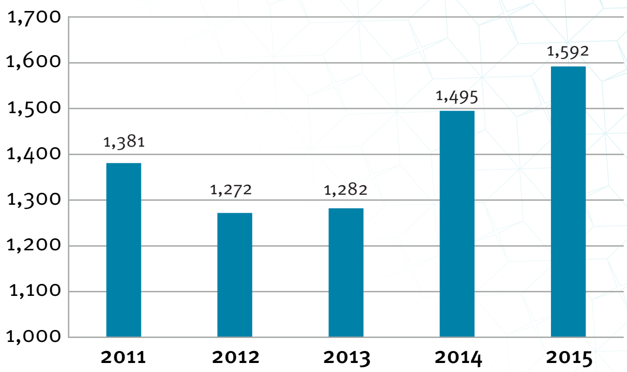
The free cash flow amounted to DKK 1,129 million, corresponding to an increase of 8%. In 2015, cash flow from investing activities (exclusive of acquisitions) totalled DKK 463 million (DKK 451 million in 2014). For 2016, we expect a similar level of investment.

Cash flow by main items

DKK million	2015	2014
Operating profit (EBIT)	**1,878**	**1,761**
Cash flow from operating activities	1,592	1,495
Cash flow from investing activities	-463	-451
Free cash flow	**1,129**	**1,044**
Acquisition of enterprises, interests and activities	-1,633	-231
Buy-back of shares	-605	-887
Other financing activities	1,654	-253
Cash flow for the year	**545**	**-327**

In 2015, we made acquisitions of mainly minor distributors as well as the sizeable acquisition of Audika as mentioned above. The cash amount relating to the acquisition of enterprises, participating interests and activities amounted to DKK 1,633 million for the year (DKK 231 million in 2014), including earn-out payments relating to prior-year acquisitions.

Cash flow from operating activities (CFFO) – DKK million



Financing activities in 2015, totalling DKK 1,049 million (DKK -1,140 million in 2014), mainly relate to proceeds from borrowings. In 2015, we repaid debt in the amount of DKK 1,449 million and took out new debt in the amount of DKK 3,103 million, primarily with the European Investment Bank (EIB) and the Nordic Investment Bank (NIB) at favourable interest rates.

Balance sheet

At 31 December 2015, consolidated assets totalled DKK 14,390 million, which is an increase of 28% compared with the balance sheet total at year-end 2014. This increase is mainly due to goodwill resulting from acquisitions and a positive exchange rate effect of 4%.

We provide loans to our customers on an ongoing basis and at 31 December 2015, such loans amounted to DKK 584 million (DKK 601 million in 2014).

Our net interest-bearing debt rose by DKK 1,298 million, amounting to DKK 3,703 million at the end of 2015. The significant increase can mainly be attributed to the acquisition of Audika in 2015.

In 2015, the Group's net working capital grew by 11%. This increase is firstly due to increases in inventories and receivables and secondly due to exchange rate effects.

In 2015, net financial contracts were negative by DKK 62 million. This amount is composed of unrealised gains and losses on forward exchange contracts of DKK 12 million and DKK 73 million, respectively, and of unrealised losses on interest swaps in the amount of DKK 1 million.

There have been no events that materially affect the assessment of this Annual Report 2015 after the balance sheet date and up to today.

Outlook 2016

As far as the hearing aid market is concerned, we expect to see a unit growth rate of 4-5%, which will however be partly offset by a decline in the market's average selling price due to continued mix changes and fierce competition. In terms of value, we expect the market to grow slightly in 2016.

In 2016, we expect to generate growth in sales in all the Group's three business activities: Hearing Devices, Hearing Implants and Diagnostic Instruments. Based on exchange rates in early 2016 and including the impact of exchange rate hedging, we expect the exchange rate impact on revenue to be neutral in 2016. Acquisitions made in 2015 will impact consolidated revenue by approximately 6% in 2016.

In 2016, we plan to continue to buy back shares and complete the announced buy-back of shares in the amount of DKK 2.5-3.0 billion for the period from 2014 to 2016. From 2014 to 1 March 2016, the Company has bought back shares at a total price of DKK 1.64 billion.

All in all, we are guiding for an operating profit (EBIT) of DKK 2.0-2.3 billion.

Other matter

Employees

At year-end, our Group had 11,887 employees (10,175 in 2014) of whom 1,446 were employed in Denmark (1,441 in 2014). The average number of staff (full-time equivalent) was 10,803 in 2015 (9,799 in 2014).

Throughout 2015, our many employees have made a great effort and shown a high level of commitment and professionalism, thereby ensuring progress for the Company. To ensure the continuous development of our organisation, we value the presence of highly professional and motivated candidates to make sure that we always attract the best applicants for our open positions.

The Graduate Programme

William Demant's Graduate Programme is a two-year programme in the course of which young candidates can explore the Company and develop their personal and professional skills through four job rotations, each lasting six months. Each period enhances their business understanding both functionally and geographically. The graduates go through the following streams in Denmark and abroad: Finance, Operations, IT, Sales & Marketing, Quality and Retail.

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 and hearing implants, designing micro-amplifiers and related acoustic systems as well as developing and manufacturing micromechanic components.

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 Group companies.

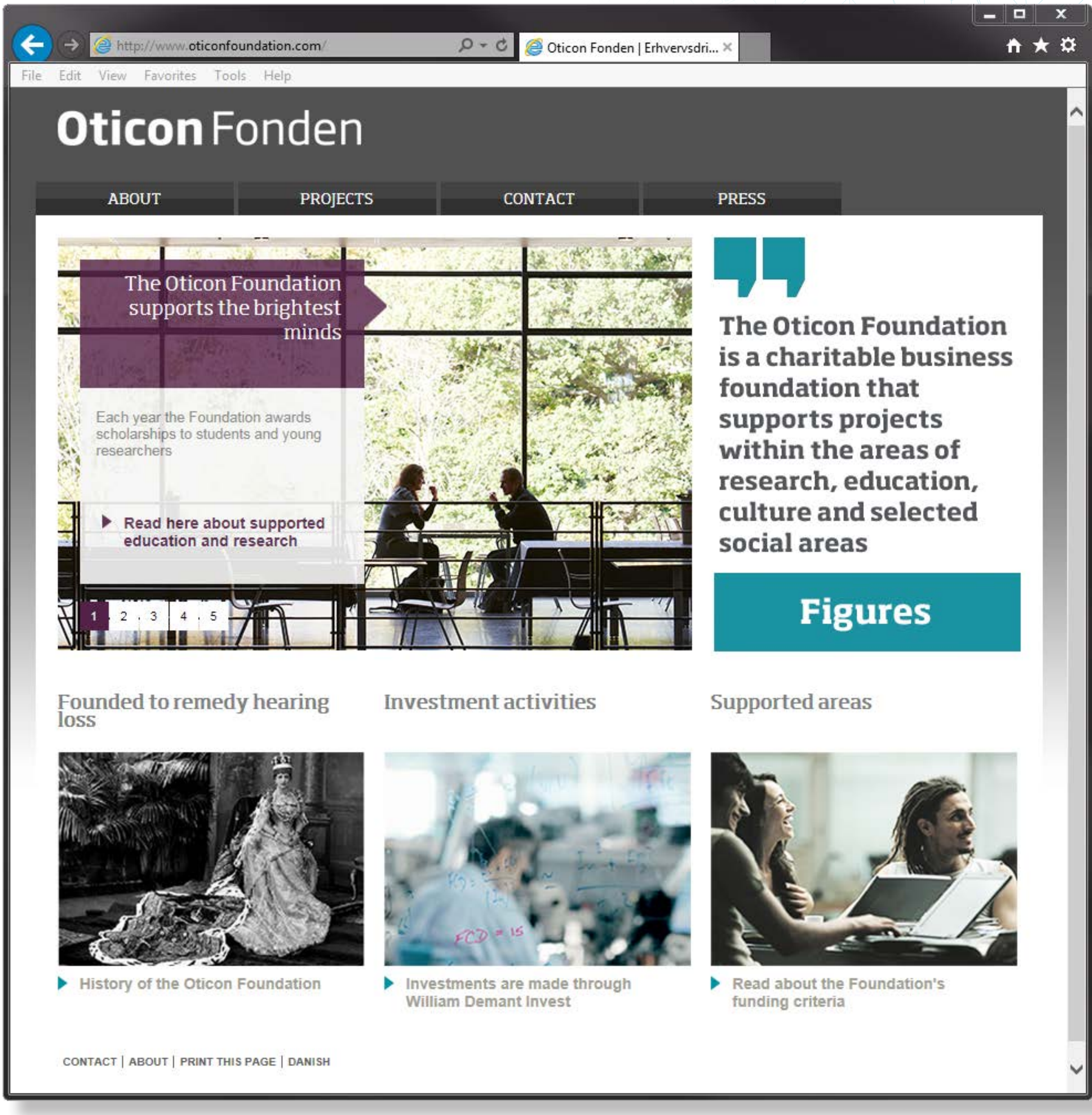
Our development centre in Denmark is a major catalyst for ongoing as well as future innovation projects. Eriksholm, our research centre, also plays a key role in our endeavours to always be at the forefront of development, enabling us to deliver the most innovative solutions and offer the most advantages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

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 an ownership interest 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 fall outside the Group's 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 of shares are important to obtain fair pricing of our shares at Nasdaq Copenhagen. In autumn 2005, the Oticon Foundation therefore announced that in future it would strive to retain a direct or indirect equity 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. As of 31 December 2015, the Foundation – directly or indirectly – held approximately 58% of the shares outstanding.



SHAREHOLDER INFORMATION

Capital

At 31 December 2015, the Company's authorised share capital was nominally DKK 54,425,235 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 2015, the Foundation – directly or indirectly – held approximately 58% of the shares outstanding. The Foundation has previously communicated its intention to maintain an ownership interest of 55-60% of William Demant Holding's share capital.

About 20% of the Group's employees are shareholders in the Company, and shares held by employees and by members of the Board of Directors and the Executive Board account for approximately 1% of the total share capital. In 2015, the Company bought back 1,095,954 shares at a total price of DKK 605 million. As of 1 March 2016, the Company has bought back an additional 248,515 shares at a total price of DKK 152 million.

At 31 December 2015, the Company held 960,355 treasury shares purchased at a nominal price of DKK 541 million.

Share information

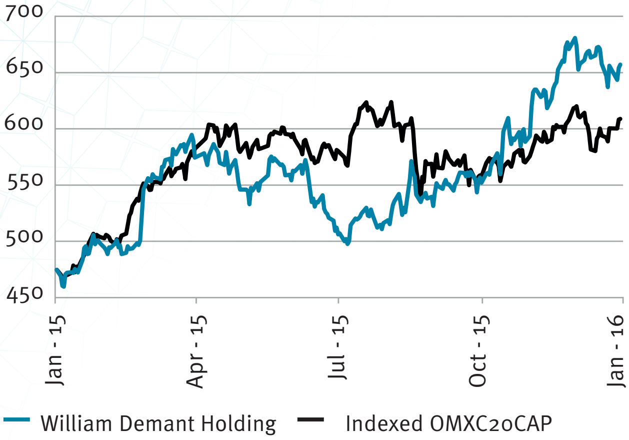
DKK	2015	2014	2013	2012	2011
Highest share price	690	538	544	597	495
Lowest share price	457	410	444	451	352
Share price, year-end	657	468	527	484	478
Market capitalisation*	35,126	25,545	29,754	27,419	27,397
Average number of shares**	54.03	55.63	56.62	57.02	58.24
Number of shares at 31.12.**	53.46	54.56	56.46	56.66	57.64
Treasury shares at 31.12.***	960	2.101	0.202	1.688	0.709

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

Specification of movements in share capital

DKK 1,000	2015	2014	2013	2012	2011
Share capital at 1.1.	56,662	56,662	58,350	58,350	58,350
Capital increase	0	0	0	0	0
Capital reduction	-2,236	0	-1,688	0	0
Share capital at 31.12.	**54,425**	**56,662**	**56,662**	**58,350**	**58,350**

Development in share price



Powers relating to share capital

The annual general meeting of shareholders has previously 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 of Directors, however minimum DKK 1.05 per share of DKK 1. An employee share ownership plan was most recently implemented in 2010. For other purposes, the Board of Directors has been authorised to further increase the share capital by up to DKK 6,664,384 at a subscription price to be determined by the Board of Directors. Both authorisations expired on 1 January 2016, and the Board of Directors will set forth a proposal to renew them for another five-year period at the annual general meeting in 2016.

Dividend and share buy-back

At the annual general meeting, the Board of Directors will, as in prior years, propose that all profits for the 2015 financial year be retained. The Board of Directors 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. Until the next annual general meeting in April 2016, the Board of Directors has been authorised to allow the Company to 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 Copenhagen.

As mentioned earlier, we aim to buy back shares worth DKK 2.5-3.0 billion from 2014 to 2016. As of 1 of March 2016, we have bought back shares at a total price of DKK 1,644 million in the period 2014 to 2016. In order to maintain a high level of flexibility, this level of share buy-back is subject to change, if additional attractive acquisition opportunities present themselves.

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 the Group's 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. We also maintain 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 2015, we held approximately 400 investor meetings and presentations. The Company also uses its website, www.demant.com, to communicate with the share market. At the end of 2015, 29 equity analysts were covering William Demant Holding.

Investors and analysts are welcome to contact Søren B. Andersson, Vice President, IR, or Rasmus Sørensen, IR Officer, by phone +45 3917 7300 or by e-mail to william@demant.com.

Søren B. Andersson

Rasmus Sørensen

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 FSA. Such announcements appear from the Company's website under *Investor, Announcements*. In 2015, there were no such announcements. As part of its internal rules, the Company maintains 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 after publication of the annual report and the interim report.

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 are entitled to vote, have approved the proposal, the Board of Directors 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 2015

17 February	Negotiations to take over Audika
26 February	Annual Report 2014
11 March	Notice annual general meeting
9 April	Annual general meeting
7 May	Interim Information, first quarter 2015
16 June	Extension of the Executive Board
14 August	Interim Report 2015
29 September	Closing of acquisition of Audika
12 November	Interim Information, third quarter 2015
15 December	Financial calendar 2016

Financial calendar 2016

24 February	Deadline for submission of agenda items for the annual general meeting
1 March	Annual Report 2015
7 April	Annual general meeting
10 May	Interim Information, first quarter 2016
17 August	Interim Report 2016
10 November	Interim Information, third quarter 2016

Annual general meeting 2016

The annual general meeting will be held on Thursday, 7 April 2016, at 4 p.m. at the Company's head office Kongebakken 9, 2765 Smørum, Denmark.

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. In 2015, there has been no major 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. The launch of our new CI system towards the end of 2015 implies a slightly higher risk with respect to any technical teething problems and also with respect to obtaining local approvals. 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 hearing healthcare 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. Product recalls also constitute a business risk in relation to bone-anchored hearing systems and cochlear implants manufactured by Oticon Medical, specifically in relation to claims-related costs, such as the cost of replacing products, medical expenses, compensation for actual damages as well as legal fees. The risks associated with tenders mainly relate to the timing of such tenders, and we therefore consider the business risk modest.

Taking out, protecting and maintaining patents in the hearing healthcare 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. At the beginning of 2016, several patent disputes with GN ReSound were, however, completely settled with immediate effect. The settlement included a broad-based cross-licensing agreement related to pending as well as potential future disputes. The settlement included an annual net license payment to William Demant.

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 continuously monitor that third-party products do not infringe our patents and that our products do not infringe third-party patents.

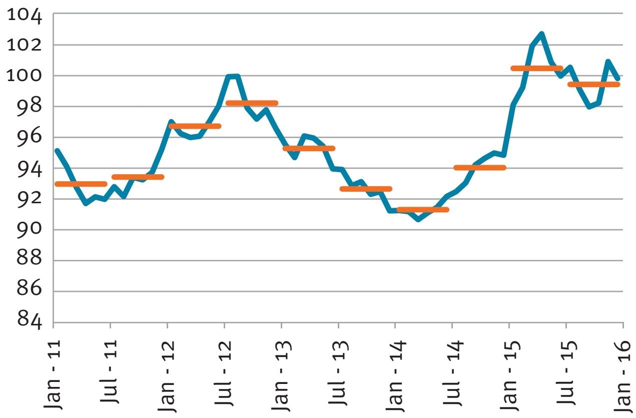
Financial risks

Financial risk management concentrates on identifying risks in respect of exchange rates, interest rates, credit and liquidity 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 rates. It is Group policy to exclusively hedge commercial risks and not to undertake any financial transactions of a speculative nature.

Exchange rate risks

With 98% of consolidated sales being invoiced in foreign currencies, reported revenue is significantly affected by movements in the Group's trading currencies. Based on the distribution of consolidated revenue in 2015 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 2015.

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 5% increase in selected exchange rates.

Effect on EBIT, 5% positive exchange rate impact*

(DKK million)	2015	2014
USD	+40	+35
AUD	+15	+13
GBP	+13	+13
CAD	+13	+11
JPY	+5	+3

**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 currency 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 currency 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 5% increase in selected exchange rates.

Effect on equity, 5% positive exchange rate impact

(DKK million)	2015	2014
USD	+80	+60
AUD	+18	+12
GBP	+13	+10
CAD	+45	+45
JPY	+3	+2

Interest rate risks

In previous years, we only hedged interest rate risks on Group loans to a limited extent, as the Group only had limited debt compared to its volume of activities. Because of the Group's high level of cash generation, relatively low financial gearing and a steep interest curve, the majority of our loans are raised on floating terms and predominantly as short-term commitments, resulting in a low level of interest expenses. In order to secure relatively low interest rates for the Group on the long term and as a consequence of our attractive funding possibilities in the financial market, the Group now partly funds its debt by medium-term committed facilities with fixed rates.

In 2014, our Board of Directors decided to raise the target for the Group's net interest-bearing debt (NIBD) over the coming years by announcing a share buy-back programme of DKK 2.5-3.0 billion from 2014 to 2016. We thus expect to see an increase towards a gearing multiple of 1.5 (NIBD/EBITDA) in the period from 2014 to 2016. As a consequence of the Audika acquisition, the Group's NIBD/EBITDA was 1.7 at the end of 2015. Neither this temporarily higher target gearing multiple nor the acquisition of Audika has changed our plans with regard to the announced share buy-back plan. Based on the Group's net interest-bearing debt of DKK 3,703 million at the end of the 2015 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 21 million (DKK 22 million in 2014).

Credit risks

The Group's credit risks relate primarily to trade receivables and loans to customers or business partners. Our customer base is fragmented, so credit risks in general only involve minor losses on individual customers. Together, our nine largest customers account for less than 10% of total consolidated revenue. We therefore estimate that we have no major credit exposure. 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 with 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 strong cash flows and a satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions. Neither in previous years nor in the financial year 2015 has the Group 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 due to the repetitive nature of our business, deviations will normally 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 have invested 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 reviews the Company's insurance policies once a year, including the coverage of identified risks, and is 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

Integrity and ethical behaviour

Our integrity and our ethical behaviour 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 ongoing effort to meet the social and environmental responsibilities within our sphere of influence is deeply rooted in our foundation and culture.

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.

Reporting on corporate social responsibility

Our corporate social responsibility report is prepared in compliance with section 99 a of the Danish Financial Statements Act. Under this act, we are obliged to account for our social activities and report on our business strategies and activities, including human and labour rights, gender equality, environmental protection, anti-corruption and climate.

Having signed the UN Global Compact and by submitting annual Communication on Progress reports, we automatically comply with the rules of law, as long as our annual report states where the information is published. The advantages of joining the UN Global Compact are two-sided: Not only does the progress report ensure our compliance with section 99 a of the Danish Financial Statements Act, but the UN Global Compact also serves as a recognised global framework for further systematising and reporting on our work with responsibility.

Having joined the UN Global Compact in 2010, we submitted in spring 2011 our first progress report for the 2010 reporting year. In 2016, we thus submitted our sixth report covering the 2015 reporting year.

All reports, including the latest report covering the 2015 reporting year, are available on UN Global Compact's website www.unglobalcompact.org/COP and on our website under *CSR, Downloads:* www.demant.com/downloadcsr.cfm.

Environmental awareness

In 2008, we joined the CDP (formerly known as the Carbon Disclosure Project), providing us with a means of measuring and recording our environmental footprint. Every year, we submit the CDP report on corporate CO_2 emissions and climate strategy. All reports are available on our website under *CSR, Downloads:* www.demant.com/downloadcsr.cfm.

In 2015, our Group's CO_2 emissions reached 14,406 tonnes, representing 2.36 CO_2 tonnes per employee, which is a decrease of 3.7% from 2014. We are proud to see that our effort towards environmental responsibility has resulted in concrete improvements, but this is an ongoing effort, so we will strive to do even better in the years to come. In 2015, we saw an increase of 6% in our total CO_2 emissions compared to 2014 which is satisfactory in the light of an increase of 7% in revenue in local currencies.

In every possible way, we aim to act responsibly when it comes to environmental awareness. In 2015, together with our energy provider SEAS-NVE, we carried out a mapping and analysis of our energy consumption with a view to finding new ways of saving energy.

Seemingly trivial changes may have a relatively large impact on our energy consumption and hence on our environmental footprint. By way of example, we have in 2015 started optimising our ventilation systems, and we have implemented systems to reduce our water and electricity consumption. Another example is William Demant Invests' stake in a gigantic wind farm, which has been erected off the German North Sea coast and will from June 2016 produce green energy matching the consumption of 285,000 households.

In addition to implementing initiatives with a view to reducing our energy consumption and contributing to the production of green energy, we have initiated awareness projects with the potential of becoming best practices going forward. For instance, we have initiated a so-called waste academy project that teaches our employees how to and what to recycle, and we run waste management analyses at some of our sites. Additionally, we reduce our offline marketing materials on an ongoing basis and replace them by online materials.

Social responsibility

To us, acting responsibly means following certain principles and always complying with local legislation, but it also means doing more than just the minimum and in many instances doing more than what is required by law. In this context, we find it relevant to mention that in 2015, our Parent, the Oticon Foundation, made a number of donations to social, cultural and scientific projects, totalling almost DKK 102 million. The objects clause of the Foundation's deed states the alleviation of hearing loss as the Foundation's primary focus. Thus, in 2015 approx. DKK 55 million was donated to educational

institutions and research projects in the field of audiology. For instance, the Technical University of Denmark (DTU) and Aalborg University both received substantial donations to support research groups and individual projects.

We would like to mention a few special projects to show the broad scope of donations made by the Oticon Foundation: In 2015, the Oticon Foundation supported a number of initiatives aimed at strengthening and supporting the propagation of audiological knowledge and services in China. One of these initiatives was to support the establishment of a mobile hearing clinic to reach rural areas of China with no or little access to hearing care.

The Oticon Foundation also supports broader causes through donations to special social projects, such as fundraising for humanitarian organisations within poverty relief (the Denmark Collection), disease research, specifically cancer (Cure for Cancer) and children's helpline (the Children's Collection) – all arranged by Danish TV channels and broadcast as large TV shows.

In 2015, the Oticon Foundation supported the publication of the book *Tal til mig nu* ("Talk to me now") written by a Danish mother of a child with a severe hearing loss to help other parents cope in the difficult period after their child has been diagnosed with a hearing loss.

Diversity and gender equality

In terms of corporate governance, diversity at management level addresses age, international experience and gender.

In recent years, soft law and statutory requirements have focused specifically on gender equality. On 1 April 2013, new rules for the gender-specific composition of top management in all large Danish companies became effective. The rules aim to ensure that the proportion of women in managerial positions in large companies is increased significantly in the coming years.

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

Moreover, companies must adopt general 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 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, either in the company's annual report or on its corporate website. Please refer to section 99 b (1) of the Danish Financial Statements Act. Having signed the UN Global Compact and by submitting annual Communication on Progress reports, we automatically comply with the rules of law. Our annual progress reports are available on our website under *CSR:* www.demant.com/csr.cfm.

Gender equality in the Board of Directors

In 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. At the annual general meeting in April 2014, a female Board member was elected by the general meeting. Thus, the target was reached within only one year after the target was set.

At the annual general meeting in April 2015, there were no changes to the number of women serving on the Board. In connection with publication of our Annual Report 2015, the Board has therefore set a new target: In or before 2020, the Board aims to have at least two female members.

Gender equality at other management levels

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 within the Group, for instance:

- When cooperating with external recruiting agencies, we require qualified female candidates in the second round.
- When advertising for new employees and also in connection with general employer branding materials, we will further balance the use of "male" and "female" connotations and ensure that female employees are used in our communication.
- In order 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.

It is important, however, to keep in mind that these initiatives do not change our basic recruiting goal, which is to always seek, hire and promote the best qualified employees – gender set aside. It is worth mentioning that the underlying recruitment basis in terms of key competencies for the development of hearing aids – to a large extent engineers – is still biased towards male rather than female candidates.

Development in 2015

As far as the number of female managers at the Group's different management levels is concerned, we are pleased to see that our increased focus on furthering the number of women in managerial positions seems to be bearing fruit. Since we started recording these numbers in 2009, the male/female manager ratio in our Danish companies has thus improved from 89/11 in 2009 to 80/20 in 2015. In middle and first-line management, the ratio has increased from 84/16 in 2009 to 76/24 in 2015. The percentage development in 2015 shows a slight decrease compared to 2014. However, in actual numbers the decrease only represents a few persons. The year-over-year development since 2009 is available from our 2015 UN Global Compact Communication on Progress report, which can be found on our corporate website under *CSR, Downloads:* www.demant.com/downloadcsr.cfm.

CORPORATE GOVERNANCE

Recommendations on corporate governance

Recommendations issued by the the Danish Committee on Corporate Governance and adopted by Nasdaq Copenhagen are best-practice guidelines for the management of companies admitted to trading on a regulated market. 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 and the OECD Principles of Corporate Governance.

A complete schematic presentation of the recommendations and how we comply, *Statutory report on corporate governance, cf. section 107 b of the Danish Financial Statements Act*, is available on our website under *Corporate Governance:* www.demant.com/governance.cfm. Through this reference to our website, we meet the requirement that the annual report must include a statutory report on company management, cf. section 107 b of the Danish Financial Statements Act.

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. When reporting on corporate governance, we follow the "comply or explain" principle, which means that failure to comply with a recommendation does not constitute a breach, as long as we explain why we have chosen not to follow a given recommendation and also explain what we do instead. The few cases where we have chosen to deviate from a recommendation are well-founded, and we explain what we do instead. To further increase transparency we have decided to provide supplementary and relevant information, even when we follow the recommendations.

We find it relevant to accentuate a number of aspects and supplementary information on corporate governance in the William Demant Group in this chapter.

The Company's communication and interaction 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, suppliers and other business partners as well as society as such, with whom the Board of Directors wishes to ensure good and constructive relations.

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 FSA and Nasdaq Copenhagen.

For several years, listed companies in Denmark have been subject to rules, requiring them to publish quarterly reports or quarterly statements. We do not believe that quarterly reports will promote a better understanding of our activities, so for the past many years, we have published quarterly trading statements without actual figures, but with updates on the Group and its financial position and results in relation to the full-year outlook, including important events and transactions in the period under review. Following a change to the Danish Securities Trading Act in November 2015, it is no longer a statutory requirement to publish quarterly reports or quarterly statements. However, we still believe that trading statements after the first and the third quarters provide the market with valuable information, so we will continue to publish such statements, even though this is no longer required.

Executive Board

In September 2015, the Board of Directors extended the Executive Board of William Demant Holding A/S by two

members: Søren Nielsen was promoted to Chief Operating Officer and René Schneider was employed to fill a newly created position as Chief Financial Officer. Thus, the Executive Board now consists of three members headed by President & CEO, Niels Jacobsen.

Søren Nielsen has been employed with William Demant since 1995. For the past two decades, he has held different positions with the Group, and since 2008, he has been President of Oticon A/S.

René Schneider came from a position as CFO with Auriga Industries, which he had held since 2013. He has formerly been employed with NNIT, Novo Nordisk and NeuroSearch.

Board of Directors

Tasks and responsibilities of the Board of Directors

The Board of Directors is responsible for the overall strategic management and for 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 most recent staff election took take place in 2015 with effect from the annual general meeting in April 2015.

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 extended number of years. This ensures consistency and maximum insight into the conditions prevailing within the Company and the industry, and such consistency and insight are considered extremely important in order for the Board members to bring value to the Company. Presently, half the Board members elected by shareholders at the annual general meeting are independent.

The Board is composed to ensure the right combination of competencies and experience, with extensive international managerial experience and board experience from major listed companies carrying particular weight. This also applies when new Board candidates are selected. On our website under *About Us, Executive Board and Board of Directors, Board of Directors:* www.demant.com/management.cfm, we describe 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.

Age limit for members of the Board of Directors

In compliance with the Company's articles of association, Board members cannot be re-elected once they have reached the age of 70, and they must resign from the Board no later than at the first general meeting following their 70th birthday.

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 must be independent and who must not be Chairman of the Board of Directors.

The terms of reference of the audit committee and the composition of the committee 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 set up a nomination committee. The members are the Chairman and the Deputy Chairman of the Company's Board of Directors, 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 Board 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 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 individual Board members. In both instances, the results of the evaluation are presented and discussed at the subsequent Board meeting. In connection with the assessment in December 2015, the Board of Directors expressed great satisfaction with the manner in which the Board works, emphasising the many constructive discussions.

The Board of Directors' shareholdings
As of 1 March 2016, all Board members are shareholders in the Company, holding shares as follows (including movements in 2015): Lars Nørby Johansen, Chairman, 4,278 shares (unchanged); Peter Foss, Deputy Chairman, 2,588 shares (unchanged); Niels B. Christiansen 502 shares (unchanged); Thomas Duer 267 shares (unchanged); Benedikte Leroy 600 shares (unchanged); Ole Lundsgaard 1,056 shares (unchanged); Karin Ubbesen 97 shares (unchanged).

Board of Directors' and Executive Board's remuneration
In respect of the Executive Board and the Board of Directors, the Company has for many years adhered to a very simple remuneration policy without variable components, incentive pay or bonus schemes.

At the general meeting in April 2016, the Board of Directors will propose the adoption of new guidelines for incentive pay, allowing agreements on incentive pay for the Executive Management, as changes to the remuneration policy are subject to adoption by the shareholders at the general meeting, before such changes can be implemented.

Board members' fees consist of a fixed basic fee. The Chairman receives three times the basic fee and the Deputy Chairman receives twice the basic fee. The basic fee has remained unchanged at DKK 300,000 since 2010. At the general meeting in April 2016, the Board will propose an increase of the basic fee by DKK 50,000 to DKK 350,000.

Up to now, audit committee members and nomination committee members have not received additional remuneration for their work in these committees. At the general meeting in April 2016, the Board will propose that going forward, the members of the audit committee receive remuneration for their work on the committee, i.e. members of the audit committee receive a basic fee of DKK 50,000, and the chairman of the committee receives three times the basic fee. There is no proposal to introduce a fee for the nomination committee members.

Meetings in 2015

In 2015, the Board of Directors convened on six occasions. The audit committee held three meetings in connection with ordinary Board meetings. The nomination committee held one meeting in 2015.

Annual general meeting

At the Company's annual general meeting on 9 April 2015, Lars Nørby Johansen, Peter Foss, Niels B. Christiansen and Benedikte Leroy were re-elected for one year. After the general meeting, the Board members elected Lars Nørby Johansen Chairman and Peter Foss Deputy Chairman of the Board of Directors.

In 2016, the annual general meeting will take place on 7 April at the Company's headquarters in Denmark.

Auditor

Deloitte Statsautoriseret Revisionspartnerselskab.

EXECUTIVE BOARD

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 degree in Economics from Aarhus University.

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

As a consequence of his position as President & CEO of William Demant Holding, Niels Jacobsen holds the following Group-related management duties:

- William Demant Invest A/S, Managing Director
- Jeudan A/S, deputy chairman
- Össur hf., chairman
- Sennheiser Communications A/S, board member
- HIMPP A/S, chairman
- HIMSA A/S, chairman
- HIMSA II A/S, board member

SØREN NIELSEN

COO (Deputy CEO)
(born 1970)

Joined the Company in 1995 and has worked within multiple areas of the Company, but mainly in the hearing instrument business and within shared services such as IT, HR and Operations.

Søren Nielsen holds a Master of Science degree in Industrial Management and Product Development from the Technical University of Denmark.

- President of Oticon A/S

RENÉ SCHNEIDER

CFO
(born 1973)

Joined the Company in 2015 as Chief Financial Officer (CFO).

René Schneider holds a Master of Science degree in Economics from Aarhus University.

BOARD OF DIRECTORS

Lars Nørby Johansen
Chairman
(born 1949)

Joined the Board of Directors in 1998 and was most recently re-elected in 2015 for a term of one year. He is chairman of the nomination committee and a member of the audit committee. Because of his seat on the Board for more than 12 years, he is not considered independent.

- Codan A/S and one subsidiary, chairman
- The Danish Growth Council, chairman
- Dansk Vækstkapital, chairman
- Copenhagen Airports A/S, chairman
- Montana Møbler A/S, chairman
- University of Southern Denmark, chairman
- The Rockwool Foundation, chairman and member of the executive committee
- Arp-Hansen Hotel Group A/S, deputy chairman
- Index Award A/S, board member
- Fonden for Entreprenørskab – Young Enterprise, chairman

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

Peter Foss
Deputy Chairman
(born 1956)

Joined the Board of Directors in 2007 and was most recently re-elected in 2015 for a term of one year. He is a member of the nomination committee and the audit committee. Because of his seat on the boards of the Oticon Foundation and William Demant Invest A/S, he is not considered independent.

- FOSS A/S and two affiliated companies, chairman
- The Oticon Foundation, deputy chairman
- William Demant Invest A/S, deputy chairman
- 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 Graduate Diploma in Business Administration (Finance). He has extensive managerial experience from global, market-leading, industrial companies with comprehensive 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 2015 for a term of one year. He is chairman of the audit committee and is considered independent.

- Danfoss A/S, President & CEO and board memberships in five subsidiaries
- Axcel Industriinvestor A/S, chairman
- A.P. Møller - Mærsk A/S, board member
- Technical University of Denmark (DTU), board member

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 international experience from the management of major, global, industrial, hi-tech corporations is comprehensive. He also has extensive board experience from listed companies as well as strong insight into industrial policy.

BOARD OF DIRECTORS

Thomas Duer
(born 1973)

Staff-elected Board member. Elected to the Board of Directors in 2015 for a term of four years.

- Danske Sprogseminarer A/S, board member since 2009
- Oticon A/S, staff-elected board member since 2011

Thomas Duer holds a Master of Science degree in Electrical Engineering from the Technical University of Denmark (DTU). He is Head of Integration & Verification in Oticon's R&D and has been with Oticon since 2002.

Benedikte Leroy
(born 1970)

Joined the Board of Directors in 2014 and was most recently re-elected in 2015 for a term of one year. She is a member of the audit committee and is considered independent.

- Dell Computer Corporation, VP & EMEA General Counsel
- Dell GmbH, Germany, chairman of the supervisory board

Benedikte Leroy holds a Master of Law degree from the University of Copenhagen. She has significant international management experience from large, global technology companies within both consumer and business-to-business segments and has lived and worked in the UK and Belgium for many years.

Ole Lundsgaard
(born 1969)

Staff-elected Board member. Joined the Board of Directors in 2003 and was most recently re-elected in 2015 for a term of four years.

- Interacoustics A/S, staff-elected board member since 2003

Ole Lundsgaard trained as an electronics mechanic at the University of Odense, Institute of Biology. He is Senior Product Manager in Diagnostic Instruments where he is responsible for the hearing aid fitting systems area and has been with Interacoustics A/S since 1993.

Karin Ubbesen
(born 1962)

Staff-elected Board member. Joined the Board of Directors in 2011 and was most recently re-elected in 2015 for a term of four years.

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

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

MANAGEMENT STATEMENT

We have today discussed and approved the Annual Report 2015 of William Demant Holding A/S for the financial year 1 January – 31 December 2015.

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 2015 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 2015 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 2015.

We also believe that the 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 2015 for adoption at the annual general meeting.

Smørum, 1 March 2016

Executive Board:

Niels Jacobsen, *President & CEO*

Søren Nielsen, *COO*

René Schneider, CFO

Board of Directors:

Lars Nørby Johansen, *Chairman*

Peter Foss, *Deputy Chairman*

Niels B. Christiansen

Thomas Duer

Benedikte Leroy

Ole Lundsgaard

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 2015, 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 2015 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2015 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 2015 and of the results of its operations for the financial year 1 January – 31 December 2015 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, 1 March 2016

Deloitte
Statsautoriseret Revisionspartnerselskab
Central Business Registration No 33 96 35 56

Anders Vad Dons
State Authorised Public Accountant

Kirsten Aaskov Mikkelsen
State Authorised Public Accountant

CONSOLIDATED INCOME STATEMENT

(DKK million)	Note	2015	2014
Revenue	1.1	10,665	9,346
Production costs	1.2 1.3 1.5	-2,770	-2,533
Gross profit		**7,895**	**6,813**
Research and development costs	1.2 1.3	-763	-680
Distribution costs	1.2 1.3	-4,689	-3,877
Administrative expenses	1.2 1.3 8.2	-613	-560
Share of profit after tax, associates and joint ventures	3.3 6.2	48	65
Operating profit (EBIT)		**1,878**	**1,761**
Financial income	4.2	44	39
Financial expenses	4.2	-113	-109
Profit before tax		**1,809**	**1,691**
Tax on profit for the year	5.1	-370	-364
Profit for the year		**1,439**	**1,327**
Profit for the year attributable to:			
William Demant Holding A/S' shareholders		1,436	1,326
Minority interests		3	1
		1,439	**1,327**
Earnings per share (EPS), DKK	1.4	26.6	23.8
Diluted earnings per share (DEPS), DKK	1.4	26.6	23.8

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(DKK million)	2015	2014
Profit for the year	**1,439**	**1,327**
Other comprehensive income:		
Items that have been or may subsequently be reclassified to the income statement:		
Foreign currency translation adjustment, foreign enterprises	84	212
Value adjustment of hedging instruments:		
Value adjustment for the year	-152	-98
Value adjustment transferred to revenue	158	-11
Value adjustment transferred to financial expenses	1	1
Tax on items that have been or may subsequently be reclassified to the income statement	14	-2
Items that have been or may subsequently be reclassified to the income statement	**105**	**102**
Items that will not subsequently be reclassified to the income statement:		
Actuarial gains/(losses) on defined benefit plans	-8	-14
Tax on items that will not subsequently be reclassified to the income statement	1	2
Items that will not subsequently be reclassified to the income statement	**-7**	**-12**
Other comprehensive income	**98**	**90**
Comprehensive income	**1,537**	**1,417**
Comprehensive income attributable to:		
William Demant Holding A/S' shareholders	1,534	1,416
Minority interests	3	1
	1,537	**1,417**
Breakdown of tax on other comprehensive income:		
Foreign currency translation adjustment, foreign enterprises	14	-26
Value adjustment of hedging instruments for the year	35	21
Value adjustment of hedging instruments transferred to revenue	-35	3
Value adjustment of hedging instruments transferred to financial expenses	0	0
Actuarial gains/(losses) on defined benefit plans	1	2
Tax on other comprehensive income	**15**	**0**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2015	2014
Assets			
Goodwill		5,660	3,831
Patents and licences		22	28
Other intangible assets		275	37
Prepayments and assets under development		20	107
Intangible assets	3.1	**5,977**	**4,003**
Land and buildings		900	749
Plant and machinery		183	173
Other plant, fixtures and operating equipment		285	265
Leasehold improvements		246	171
Prepayments and assets under construction		154	199
Property, plant and equipment	3.2	**1,768**	**1,557**
Investments in associates and joint ventures	3.3	525	527
Receivables from associates and joint ventures	3.3 4.3 4.4	357	264
Other investments	3.3 4.3 4.5	12	12
Other receivables	1.6 3.3 4.3 4.4	567	569
Deferred tax assets	5.2	376	238
Other non-current assets		**1,837**	**1,610**
Non-current assets		**9,582**	**7,170**
Inventories	1.5	1,324	1,203
Trade receivables	1.6 4.3	2,203	1,994
Receivables from associates and joint ventures	4.3	53	12
Income tax		77	94
Other receivables	1.6 4.3 4.4	277	183
Unrealised gains on financial contracts	2.3 4.3 4.5	12	7
Prepaid expenses		188	113
Cash	4.3 4.4	674	443
Current assets		**4,808**	**4,049**
Assets		**14,390**	**11,219**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2015	2014
Equity and liabilities			
Share capital		54	57
Other reserves		6,445	5,529
Equity attributable to William Demant Holding A/S' shareholders		6,499	5,586
Equity attributable to minority interests		1	-2
Equity		**6,500**	**5,584**
Interest-bearing debt	4.3 4.4	2,080	9
Deferred tax liabilities	5.2	125	134
Provisions	7.1	273	154
Other liabilities	4.3 7.2	119	120
Deferred income		164	36
Non-current liabilities		**2,761**	**453**
Interest-bearing debt	4.3 4.4	3,050	3,503
Trade payables	4.3	486	342
Payables to associates and joint ventures		2	1
Income tax		145	68
Provisions	7.1	16	4
Other liabilities	4.3 7.2	1,098	956
Unrealised losses on financial contracts	2.3 4.3 4.4 4.5	74	80
Deferred income		258	228
Current liabilities		**5,129**	**5,182**
Liabilities		**7,890**	**5,635**
Equity and liabilities		**14,390**	**11,219**

CONSOLIDATED CASH FLOW STATEMENT

(DKK million)	Note	2015	2014
Operating profit (EBIT)		1,878	1,761
Non-cash items etc.	1.7	326	295
Change in receivables etc.		-220	-134
Change in inventories		-96	-60
Change in trade payables and other liabilities etc.		8	46
Change in provisions		12	-20
Dividends received		79	31
Cash flow from operating profit		**1,987**	**1,919**
Financial income etc. received		44	33
Financial expenses etc. paid		-113	-105
Realised foreign currency translation adjustments		-1	-1
Income tax paid		-325	-351
Cash flow from operating activities (CFFO)		**1,592**	**1,495**
Acquisition of enterprises, participating interests and activities		-1,633	-231
Investments in and disposal of intangible assets		-48	-69
Investments in property, plant and equipment		-393	-383
Disposal of property, plant and equipment		18	29
Investments in other non-current assets		-230	-143
Disposal of other non-current assets		190	115
Cash flow from investing activities (CFFI)		**-2,096**	**-682**
Repayments of borrowings		-1,449	-2,022
Proceeds from borrowings		3,103	1,769
Buy-back of shares		-605	-887
Cash flow from financing activities (CFFF)		**1,049**	**-1,140**
Cash flow for the year, net		**545**	**-327**
Cash and cash equivalents at the beginning of the year		-2,055	-1,601
Foreign currency translation adjustment of cash and cash equivalents		-194	-127
Cash and cash equivalents at the end of the year		**-1,704**	**-2,055**
Breakdown of cash and cash equivalents at the end of the year:			
Cash		674	443
Interest-bearing current bank debt	4.3 4.4	-2,378	-2,498
Cash and cash equivalents at the end of the year	4.3 4.4	**-1,704**	**-2,055**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Other reserves: Retained earnings	William Demant Holding A/S' shareholders' share	Minority interests' share	Equity
Equity at 1.1.2014	**57**	**-111**	**32**	**5,079**	**5,057**	**-1**	**5,056**
Comprehensive income in 2014:							
Profit for the year	-	-	-	1,326	1,326	1	1,327
Other comprehensive income:							
Foreign currency translation adjustment, foreign enterprises	-	212	-	-	212	-	212
Value adjustment of hedging instruments:							
Value adjustment, year	-	-	-98	-	-98	-	-98
Value adjustment transferred to revenue	-	-	-11	-	-11	-	-11
Value adjustment transferred to financial expenses	-	-	1	-	1	-	1
Actuarial gains/(losses) on defined benefit plans	-	-	-	-14	-14	0	-14
Tax on other compr. income	-	-26	24	2	0	0	0
Other comprehensive income	-	186	-84	-12	90	0	90
Comprehensive income, year	**-**	**186**	**-84**	**1,314**	**1,416**	**1**	**1,417**
Buy-back of shares	-	-	-	-887	-887	-	-887
Other changes in equity	-	-	-	0	0	-2	-2
Equity at 31.12.2014	**57**	**75**	**-52**	**5,506**	**5,586**	**-2**	**5,584**
Comprehensive income in 2015:							
Profit for the year	-	-	-	1,436	1,436	3	1,439
Other comprehensive income:							
Foreign currency translation adjustment, foreign enterprises	-	84	-	-	84	-	84
Value adjustment of hedging instruments:							
Value adjustment, year	-	-	-152	-	-152	-	-152
Value adjustment transferred to revenue	-	-	158	-	158	-	158
Value adjustment transferred to financial expenses	-	-	1	-	1	-	1
Actuarial gains/(losses) on defined benefit plans	-	-	-	-8	-8	0	-8
Tax on other compr. income	-	14	-	1	15	0	15
Other comprehensive income	-	98	7	-7	98	0	98
Comprehensive income, year	**-**	**98**	**7**	**1,429**	**1,534**	**3**	**1,537**
Buy-back of shares	-	-	0	-605	-605	-	-605
Capital reduction through cancellation of treasury shares	-3	-	-	3	0	-	0
Acquisition of entities	-	-	-	-	-	578	578
Transactions with minority shareholders	-	-	-	-15	-15	-578	-593
Other changes in equity	-	-	-	-1	-1	-	-1
Equity at 31.12.2015	**54**	**173**	**-45**	**6,317**	**6,499**	**1**	**6,500**

For changes in share capital, please refer to *Parent statement of changes in equity* on page 84.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

When relevant, if a note contains a figure that directly refers to the consolidated income statement, statement of comprehensive income or balance sheet, this will be indicated by the following references:

IS – Consolidated income statement
OCI – Consolidated other comprehensive income
BS – Consolidated balance sheet

SECTION 1
OPERATING ACTIVITIES AND CASH FLOW

10,665
Revenue – DKK million

1,129
Free cash flow – DKK million

85%
Cash conversion ratio (CFFO/EBIT)

1.1 REVENUE BY GEOGRAPHIC REGION AND BUSINESS ACTIVITY

(DKK million)

	2015	2014
Revenue by geographic region:		
Denmark	169	142
Other Europe	3,967	3,541
North America	4,472	3,746
Oceania	859	839
Asia	815	693
Other countries	383	385
Total IS	**10,665**	**9,346**

Consolidated revenue mainly derives from the sale of goods and is broken down by the customers' geographical location. The nine largest single customers together account for less than 10% of total consolidated revenue.

	2015	2014
Revenue by business activity:		
Hearing Devices	9,213	8,033
Diagnostic Instruments	1,072	975
Hearing Implants	380	338
Total IS	**10,665**	**9,346**

	2015	2014
Value adjustments transferred from equity relating to derivatives made for hedging revenue OCI	-158	11

ACCOUNTING POLICIES

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.

Based on 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. This reflects Management's approach to the organisation and management of activities.

1.2 EMPLOYEES

(DKK million)

	2015	2014
Staff costs:		
Wages and salaries	4,011	3,411
Defined contribution plans	55	40
Defined benefit plans (note 7.1)	18	20
Social security costs etc.	317	243
Total	**4,401**	**3,714**
Staff costs by function:		
Production costs	803	699
Research and development costs	502	461
Distribution costs	2,604	2,155
Administrative expenses	492	399
Total	**4,401**	**3,714**
Average number of full-time employees	10,803	9,799

Remuneration:	2015	2014
Board of Directors	3	3
Executive Board:		
Niels Jacobsen, President & CEO	13	13
Søren Nielsen, COO	2	-
René Schneider, CFO	1	-

In 2015, the basic remuneration of a member of the Parent's Board of Directors was DKK 300,000 (DKK 300,000 in 2014). The Chairman of the Board of Directors receives three times the basic remuneration and the Deputy Chairman twice the basic remuneration.

The remuneration of the Executive Board includes cash remuneration, short-term benefits, social security and pension contributions. The President & CEO of William Demant Holding is entitled to a seniority bonus, matching 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.

The President & CEO has 30 months' notice in the event of dismissal. The other members of the Executive Board can have up to 24 months' notice in the event of dismissal, dependent on their seniority at the time of dismissal. The COO currently has 24 months' and the CFO has 12 months' notice.

Søren Nielsen and René Schneider joined the Executive Board on 1 September 2015.

1.3 AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

(DKK million)	2015	2014
Amortisation of intangible assets	-28	-22
Depreciation of property, plant and equipment	-271	-248
Total	**-299**	**-270**
Amortisation, depreciation and impairment losses by function:		
Production costs	-67	-67
Research and development costs	-39	-35
Distribution costs	-157	-129
Administrative expenses	-36	-39
Total	**-299**	**-270**
Net gains from sale of assets	4	2
Total	**4**	**2**
Net gains from sale of assets by function:		
Production costs	0	0
Distribution costs	3	3
Administrative expenses	1	-1
Total	**4**	**2**

For accounting policies on amortisation and depreciation, please refer to note 3.1 and note 3.2.

1.4 EARNINGS PER SHARE

	2015	2014
William Demant Holding A/S' shareholders' share of profit for the year, DKK million IS	1,436	1,326
Average number of shares, million	55.32	56.66
Average number of treasury shares, million	-1.29	-1.03
Average number of shares outstanding, million	**54.03**	**55.63**
Earnings per share (EPS), DKK IS	**26.6**	**23.8**
Diluted earnings per share (DEPS), DKK IS	**26.6**	**23.8**

1.5 INVENTORIES

(DKK million)	2015	2014
Raw materials and purchased components	601	562
Work in progress	39	31
Finished goods and goods for resale	684	610
Inventories BS	**1,324**	**1,203**
Write-downs included in the above	184	163
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	31	36
Cost of goods sold during the year	1,987	1,828

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.

ACCOUNTING POLICIES

Raw materials, components and goods for resale are measured at cost according to the FIFO principle (according to which the most recently purchased items 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 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.

1.6 RECEIVABLES

(DKK million)	2015	2014
Trade receivables BS	2,203	1,994
Other non-current receivables BS	567	569
Other current receivables BS	277	183
Total	**3,047**	**2,746**
Non-impaired receivables by age:		
Balance not due	2,202	2,005
0-3 months	465	391
3-6 months	144	107
6-12 months	97	117
Over 12 months	139	126
Total	**3,047**	**2,746**
Breakdown of allowance for impairment:		
Allowance for impairment at 1.1.	-214	-143
Foreign currency translation adjustments	-10	-4
Applied during the year	30	14
Additions during the year	-67	-86
Reversals during the year	4	5
Allowance for impairment at 31.12.	**-257**	**-214**

Of the total amount of trade receivables, DKK 215 million (DKK 152 million in 2014) is expected to be collected after 12 months. For information on security and collateral, please refer to *Credit risks* in note 4.1.

ACCOUNTING POLICIES

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.

1.7 SPECIFICATIONS TO CONSOLIDATED CASH FLOW STATEMENT

(DKK million)	2015	2014
Amortisation and depreciation etc.	325	294
Share of profit after tax, associates and joint ventures IS	-48	-65
Gain on sale of intangible assets and property, plant and equipment	-4	-2
Other non-cash items	53	68
Non-cash items etc.	**326**	**295**

SECTION 2
FOREIGN CURRENCIES AND HEDGING

98%

Sales invoiced in foreign currencies

1,121

Contractual value of forward exchange contracts – DKK million

2.1 EXCHANGE RATE RISK POLICY

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.

2.2 SENSITIVITY ANALYSIS IN RESPECT OF EXCHANGE RATES

The below tables show the impact on the year's operating profit (EBIT) and consolidated equity, given a change of 5% in the currencies with the highest 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 currency 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 currency 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)	2015	2014
USD	+40	+35
AUD	+15	+13
GBP	+13	+13
CAD	+13	+11
JPY	+5	+3

** 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)	2015	2014
USD	+80	+60
AUD	+18	+12
GBP	+13	+10
CAD	+45	+45
JPY	+3	+2

2.3 HEDGING AND FORWARD EXCHANGE CONTRACTS

Open forward exchange contracts at the balance sheet date may be specified as shown below, with contracts for sale of currencies being shown at 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 2015, our forward exchange contracts realised a loss of DKK 158 million (gain of DKK 11 million in 2014), which reduced reported revenue for the year. In addition, we raised loans in foreign currencies to balance out net receivables. At year-end 2015, we had entered into forward exchange contracts with a contractual value of DKK 1,121 million (DKK 1,608 million in 2014) and a fair value of DKK -61 million (DKK -68 million in 2014).

Forward exchange contracts

2015

	Expiry	Hedging period*	Average hedging rate	Contractual value	Fair value	Positive fair value at year-end	Negative fair value at year-end
				(DKK million)			
USD	2016/2017	12 months	634	-888	-68	3	71
GBP	2016	5 months	1,060	-133	6	6	0
CAD	2016	3 months	508	-63	2	2	0
JPY	2016	6 months	5.51	-63	-2	0	2
Other	2016	-	-	26	1	1	0
				-1,121	**-61**	**12**	**73**

2014

	Expiry	Hedging period*	Average hedging rate	Contractual value	Fair value	Positive fair value at year-end	Negative fair value at year-end
				(DKK million)			
USD	2015/2016	15 months	579	-1,093	-60	0	60
AUD	2015	6 months	515	-113	4	4	0
GBP	2015	8 months	904	-181	-9	0	9
CAD	2015	6 months	510	-166	-6	0	6
JPY	2015	6 months	5.47	-55	3	3	0
				-1,608	**-68**	**7**	**75**

** Hedging periods represent the estimated periods for which the currency exposure of a relative share of our revenue in a currency will be covered by forward exchange contracts.*

ACCOUNTING POLICIES

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 instruments 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 instruments 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 related transactions.

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

2.4 EXCHANGE RATES

The Group's presentation currency is Danish kroner. Denmark participates in the European Exchange Rate Mechanism ERM 2 at a central rate of 746.038 kroner per 100 euro. Denmark has concluded an agreement with the European Central Bank (ECB) and the euro area member states on an ERM 2 fluctuation band of +/- 2.25%. This means that the exchange rate of the Danish krone can only fluctuate between 762.824 and 729.252 per 100 euro.

The following table shows the exchange rates for our key currencies, according to the central bank of Denmark. Depending on the phasing of revenue, EBIT and payments, the exchange rate impact on the concolidated income statement can vary from the below averages.

Exchange rate DKK per 100

Average	2015	2014	Change
EUR	746	746	0.0%
USD	673	562	19.8%
AUD	503	507	-0.8%
GBP	1,028	925	11.1%
CAD	526	509	3.3%
JPY	5.56	5.32	4.5%

Year-end	2015	2014	Change
EUR	746	744	0.3%
USD	683	612	11.6%
AUD	498	500	-0.4%
GBP	1,011	952	6.2%
CAD	492	527	-6.6%
JPY	5.67	5.12	10.7%

ACCOUNTING POLICIES

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 currencies 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 curencies 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 respective months of the year, whereas their balance sheet items are translated using exchange rates prevailing 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 and joint ventures

SECTION 3
ASSET BASE

5,977
Intangible assets – carrying amount – DKK million

1,768
Property, plant and equipment – carrying amount – DKK million

3.1 INTANGIBLE ASSETS

(DKK million)	Goodwill	Patents and licences	Other intangible assets	Prepayments and assets under development	Total intangible assets
Cost at 1.1.2015	**3,831**	**99**	**103**	**107**	**4,140**
Foreign currency translation adjustments	179	0	6	0	185
Additions during the year	0	1	8	39	48
Additions relating to acquisitions	1,650	0	124	0	1,774
Transferred to/from other items	0	0	126	-126	0
Cost at 31.12.2015	**5,660**	**100**	**367**	**20**	**6,147**
Amortisation at 1.1.2015	**-**	**-71**	**-66**	**-**	**-137**
Foreign currency translation adjustments	-	0	-5	-	-5
Amortisation for the year	-	-7	-21	-	-28
Amortisation at 31.12.2015	**-**	**-78**	**-92**	**-**	**-170**
Carrying amount at 31.12.2015 BS	**5,660**	**22**	**275**	**20**	**5,977**
Cost at 1.1.2014	**3,545**	**96**	**86**	**47**	**3,774**
Foreign currency translation adjustments	196	0	7	0	203
Additions during the year	0	3	6	60	69
Additions relating to acquisitions	90	0	0	0	90
Transferred to/from other items	0	0	4	0	4
Cost at 31.12.2014	**3,831**	**99**	**103**	**107**	**4,140**
Amortisation at 1.1.2014	**-**	**-61**	**-51**	**-**	**-112**
Foreign currency translation adjustments	-	0	-3	-	-3
Amortisation for the year	-	-10	-12	-	-22
Amortisation at 31.12.2014	**-**	**-71**	**-66**	**-**	**-137**
Carrying amount at 31.12.2014 BS	**3,831**	**28**	**37**	**107**	**4,003**

In 2015, borrowing costs of DKK 3 million (DKK 1 million in 2014) were capitalised as part of intangible assets. The capitalisation rate used was 1.15% (1.15% in 2014).

ACCOUNTING POLICIES

On initial recognition, goodwill is recognised and measured as the difference between the acquisition cost – 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, please refer to *Accounting policies* in note 6.1.

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.

ACCOUNTING POLICIES – *CONTINUED*

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 third parties 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, except certain assets that are amortised over a period of up to ten years.

3.2 PROPERTY, PLANT AND EQUIPMENT

(DKK million)	Land and buildings	Plant and machinery	Other plant, fixtures and operating equipment	Leasehold improve-ments	Prepayments and assets under construction	Total property, plant and equipment
Cost at 1.1.2015	**950**	**809**	**1,048**	**414**	**199**	**3,420**
Foreign currency translation adjustments	25	1	25	6	0	57
Additions during the year	57	36	95	57	122	367
Additions relating to acquisitions	1	0	30	62	1	94
Disposals during the year	0	-29	-36	-5	-4	-74
Transferred to/from other items	98	42	17	7	-164	0
Cost at 31.12.2015	**1,131**	**859**	**1,179**	**541**	**154**	**3,864**
Depreciation and impairment losses at 1.1.2015	**-201**	**-636**	**-783**	**-243**	**-**	**-1,863**
Foreign currency translation adjustments	-4	0	-15	-3	-	-22
Depreciation for the year	-26	-66	-125	-54	-	-271
Disposals during the year	0	26	29	5	-	60
Transferred to/from other items	0	0	0	0	-	0
Depreciation and impairment losses at 31.12.2015	**-231**	**-676**	**-894**	**-295**	**-**	**-2,096**
Carrying amount at 31.12.2015 BS	**900**	**183**	**285**	**246**	**154**	**1,768**
Of which financially leased assets	**22**	**0**	**0**	**0**	**0**	**22**
Cost at 1.1.2014	**828**	**769**	**1,010**	**381**	**159**	**3,147**
Foreign currency translation adjustments	22	4	35	10	-1	70
Additions during the year	2	35	61	43	223	364
Additions relating to acquisitions	0	0	3	1	0	4
Disposals during the year	-16	-28	-95	-21	-1	-161
Transferred to/from other items	114	29	34	0	-181	-4
Cost at 31.12.2014	**950**	**809**	**1,048**	**414**	**199**	**3,420**
Depreciation and impairment losses at 1.1.2014	**-177**	**-598**	**-721**	**-210**	**-**	**-1,706**
Foreign currency translation adjustments	-3	-4	-27	-7	-	-41
Depreciation for the year	-25	-61	-118	-44	-	-248
Disposals during the year	4	26	84	18	-	132
Transferred to/from other items	0	1	-1	0	-	0
Depreciation and impairment losses at 31.12.2014	**-201**	**-636**	**-783**	**-243**	**-**	**-1,863**
Carrying amount at 31.12.2014 BS	**749**	**173**	**265**	**171**	**199**	**1,557**
Of which financially leased assets	**22**	**1**	**0**	**0**	**0**	**23**

Financial leases mainly concern properties acquirable at favourable prices on expiry of the term of such leases.

In 2015, borrowing costs of DKK 1 million (DKK 3 million in 2014) were capitalised as part of tangible assets. The capitalisation rate used was approximately 0.9% (1.1% to 3.0% in 2014), depending on the financing of the asset.

At year-end, the contractual obligation in respect of the acquisition of property, plant and equipment amounted to DKK 6 million (DKK 48 million in 2014).

ACCOUNTING POLICIES

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 construction 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.

3.3 OTHER NON-CURRENT ASSETS

(DKK million)	Investments in associates and joint ventures	Receivables from associates and joint ventures	Other investments	Other receivables
Cost at 1.1.2015	**554**	**264**	**20**	**671**
Foreign currency translation adjustments	25	26	0	30
Additions during the year	50	71	0	164
Additions relating to acquisitions	0	0	0	9
Disposals during the year	-36	-4	0	-189
Cost at 31.12.2015	**593**	**357**	**20**	**685**
Value adjustments at 1.1.2015	**-27**	**0**	**-8**	**-102**
Foreign currency translation adjustments	-3	0	0	-6
Share of profit after tax IS	48	-	-	-
Dividends received	-79	-	-	-
Disposals during the year	-1	0	0	6
Other adjustments	-6	0	0	-16
Value adjustments at 31.12.2015	**-68**	**-**	**-8**	**-118**
Carrying amount at 31.12.2015 BS	**525**	**357**	**12**	**567**
Cost at 1.1.2014	**513**	**151**	**19**	**608**
Foreign currency translation adjustments	25	17	1	50
Additions during the year	24	112	0	179
Additions relating to acquisitions	0	0	0	0
Disposals during the year	-8	-16	0	-166
Cost at 31.12.2014	**554**	**264**	**20**	**671**
Value adjustments at 1.1.2014	**-54**	**0**	**-8**	**-42**
Foreign currency translation adjustments	-1	0	0	-2
Share of profit after tax IS	65	-	-	-
Dividends received	-31	-	-	-
Other adjustments	-6	0	0	-58
Value adjustments at 31.12.2014	**-27**	**0**	**-8**	**-102**
Carrying amount at 31.12.2014 BS	**527**	**264**	**12**	**569**

Please refer to *Subsidiaries, associates and joint ventures* on page 93 for a list of associates and joint ventures. Ownership interest equals share of voting rights. For further details on associates and joint ventures, please refer to note 6.2.

3.4 NON-CURRENT ASSETS BY GEOGRAPHIC REGION

(DKK million)	2015	2014
Non-current assets by geographic region:		
Denmark	1,376	1,183
Other Europe	3,653	1,758
North America	3,930	3,737
Oceania	476	353
Asia	120	109
Other countries	27	30
Total BS	**9,582**	**7,170**

Non-current assets are broken down by the geographical domicile of such assets. For accounting policies on segment information, please refer to note 1.1.

3.5 IMPAIRMENT TESTING

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 sale, 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 largely act with autonomy in relation to the Group and whose profitability can be measured independently of the other activities, constitute separate cash-generating units. In relation to the existing integration in the Group and the recognised goodwill, neither at 31 December 2015 nor at 31 December 2014, 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 2015 and 31 December 2014. Future cash flows are based on the budget for 2016, on strategy plans and on projections hereof. Projections extending beyond 2016 are based on general parameters, such as expected market growth, selling prices and profitability assumptions. The terminal value for the period after 2016 is determined on the assumption of 2% growth (2% in 2014). The discount rate is 8% (8% in 2014). 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.

ACCOUNTING POLICIES

The carrying amounts of property, plant and equipment and intangible assets with definite useful lives as well as investments in associates and joint ventures 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 of 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 of which the asset is part. The recoverable amount is determined as the higher of the fair value of the asset or cash-generating unit less costs to sell and 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 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. Impairment of goodwill is not reversed.

SECTION 4
CAPITAL STRUCTURE AND FINANCIAL MANAGEMENT

3,703
Net interest-bearing debt
– DKK million

1.68
Gearing multiple
NIBD/EBITDA

69
Net financial expenses
– DKK million

4.1 FINANCIAL RISK MANAGEMENT AND CAPITAL STRUCTURE

Policies relating to financial risk management and capital structure
Financial risk management concentrates on identifying risks in respect of exchange rates, interest rates, credit and liquidity 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 rates. It is Group policy to exclusively hedge commercial risks and not to undertake any financial transactions of a speculative nature.

Interest rate risks
In previous years, we only hedged interest rate risks on Group loans to a limited extent, as the Group only had limited debt compared to its volume of activities. Because of the Group's high level of cash generation, relatively low financial gearing and a steep interest curve, the majority of our loans are raised on floating terms and predominantly as short-term commitments, resulting in a low level of interest expenses. In order to secure relatively low interest rates for the Group on the long term and as a consequence of our attractive funding possibilities in the financial market, the Group now partly funds its debt by medium-term committed facilities with fixed rates.

In 2014, our Board of Directors decided to raise the target for the Group's net interest-bearing debt (NIBD) over the coming years by announcing a share buy-back programme of DKK 2.5-3.0 billion from 2014 to 2016. We thus expect to see an increase towards a gearing multiple of 1.5 (NIBD/EBITDA) in the period from 2014 to 2016. As a consequence of the Audika acquisition, the Group's NIBD/EBITDA was 1.7 at the end of 2015. Neither this temporarily higher gearing multiple nor the acquisition of Audika has changed our plans with regard to the announced share buy-back plan.

Credit risks
The Group's credit risks relate primarily to trade receivables and loans to customers or business partners. Our customer base is fragmented, so credit risks in general only involve minor losses on individual customers. Together, our nine largest customers account for less than 10% of total consolidated revenue. We therefore estimate that we have no major credit exposure. 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 with 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 strong cash flows and a satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions. Neither in previous years nor in the financial year 2015 has the Group defaulted on any loan agreements.

Exchange rate risks
Please refer to the Group's *Exchange rate risk policy* in note 2.1.

4.2 NET FINANCIAL ITEMS

(DKK million)	2015	2014
Interest on cash and bank deposits	3	2
Interest on receivables, customer loans etc.	38	34
Other financial income	3	3
Financial income from financial assets not measured at fair value in the income statement	**44**	**39**
Foreign exchange gains, net	0	0
Financial income IS	**44**	**39**
Interest on bank debt, mortgages etc.	-40	-40
Value adjustment transferred from equity relating to derivatives made for hedging loans	-1	-1
Interest on finance lease debt	0	0
Financial expenses on financial liabilities not measured at fair value in the income statement	**-41**	**-41**
Foreign exchange losses, net	-1	-8
Unwinding of discounts	-1	-1
Credit card and bank fees etc.	-70	-59
Financial expenses IS	**-113**	**-109**

ACCOUNTING POLICIES

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.

4.3 CATEGORIES OF FINANCIAL INSTRUMENTS

(DKK million)	2015	2014
Unrealised gains on financial contracts BS	12	7
Financial assets used as hedging instruments	**12**	**7**
Receivables from associates and joint ventures BS	410	276
Other receivables BS	844	752
Trade receivables BS	2,203	1,994
Cash BS	674	443
Receivables and cash	**4,131**	**3,465**
Other investments BS	12	12
Financial assets available for sale	**12**	**12**
Unrealised losses on financial contracts	-73	-76
Financial liabilities used as hedging instruments	**-73**	**-76**
Unrealised losses on financial contracts	-1	-4
Financial liabilities at fair value through the income statement	**-1**	**-4**
Finance lease debt	-9	-9
Debt to credit institutions etc.	-2,743	-1,005
Interest-bearing bank debt	-2,378	-2,498
Trade payables BS	-486	-342
Other liabilities	-967	-836
Financial liabilities measured at amortised cost	**-6,583**	**-4,690**

As was the case in 2014, most financial liabilities fall due within one year. As regards financial assets and liabilities, their carrying amounts approximate their fair values. Other liabilities in the balance sheet include non-financial liabilities of DKK -250 million (DKK -240 million in 2014) that represent the difference between the table above and the balance sheet.

ACCOUNTING POLICIES

Debt to credit institutions is recognised at the date of borrowing at the proceeds received 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.

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.

4.4 NET INTEREST-BEARING DEBT, 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		
2015						
Interest-bearing receivables	95	275	558	928	753	
Cash BS	674	0	0	674	674	
Interest-bearing assets	**769**	**275**	**558**	**1,602**	**1,427**	**1.9%**
Finance lease debt	-1	-8	0	-9	-9	
Debt to credit institutions etc.	-688	-1,956	-166	-2,810	-2,743	
Interest-bearing bank debt	-2,378	0	0	-2,378	-2,378	
Interest-bearing liabilities BS	**-3,067**	**-1,964**	**-166**	**-5,197**	**-5,130**	**0.9%**
Net interest-bearing debt	**-2,298**	**-1,689**	**392**	**-3,595**	**-3,703**	**0.6%**
2014						
Interest-bearing receivables	90	272	449	811	664	
Cash BS	443	0	0	443	443	
Interest-bearing assets	**533**	**272**	**449**	**1,254**	**1,107**	**1.9%**
Finance lease debt	-1	-8	0	-9	-9	
Debt to credit institutions etc.	-1,004	-1	0	-1,005	-1,005	
Interest-bearing bank debt	-2,498	0	0	-2,498	-2,498	
Interest-bearing liabilities BS	**-3,503**	**-9**	**0**	**-3,512**	**-3,512**	**1.1%**
Net interest-bearing debt	**-2,970**	**263**	**449**	**-2,258**	**-2,405**	**0.8%**

Contractual cash flows for 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 119 million (DKK 120 million in 2014), which have a contractual maturity of 1-5 years. The contractual cash flows approximate their carrying amounts.

Interest-bearing debt broken down by currency: 35% in US dollars (50% in 2014), 38% in Danish kroner (47% in 2014), 25% in euros (0% in 2014), 1% in Canadian dollars (0% in 2014) and 1% in other currencies (3% in 2014).

4.4 NET INTEREST-BEARING DEBT, LIQUIDITY AND INTEREST RATE RISKS – *CONTINUED*

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

Interest swaps

(DKK million)

	2015					2014				
	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%	171	0	1	2016	2.3%	153	0	4
DKK/DKK	2015	-	0	0	0	2015	3.5%	40	0	1
			171	**0**	**1**			**193**	**0**	**5**

The fair value of interest swaps outstanding at the balance sheet date is DKK -1 million (DKK -5 million in 2014). The contractual value of interest swaps outstanding is DKK 171 million (DKK 193 million in 2014), such swaps running up to and including 2016. The remaining interest swap is not designated as hedging. This swap has a fair value of DKK -1 million (DKK -4 million in 2014). There has been no ineffectiveness on interest swaps in 2015 or 2014.

Sensitivity analysis in respect of interest rates

Based on the Group's net debt at the end of the 2015 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 approximately DKK 21 million (DKK 22 million in 2014). About 31% of the interest-bearing debt is subject to fixed interest rates, partly due to interest swaps being used to fix floating interest rates, and partly due to loans being raised at fixed interest rates.

4.5 FAIR VALUE HIERARCHY

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 on contractual forward exchange 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 observable forward yield curves at the end of the reporting period and on contractual interest rates discounted at a rate that reflects the credit risk of various counterparties.

Contingent considerations

Contingent considerations are measured at their fair values based on the contractual terms of the contingent considerations and on non-observable inputs (level 3), such as the financial performance and purchasing patterns of the acquired enterprises for a period of typically 1-5 years after the date of acquisition.

Fair value hierarchy for assets and liabilities measured at fair value in the balance sheet

The following financial instruments measured at fair value are broken down 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)

(DKK million)	2015				2014			
	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets used as hedging instruments	0	12	0	**12**	0	7	0	**7**
Other investments (available for sale)	0	0	12	**12**	0	0	12	**12**
Financial liabilities used as hedging instruments	0	-73	0	**-73**	0	-76	0	**-76**
Financial liabilities at fair value through the income statement	0	-1	0	**-1**	0	-4	0	**-4**
Contingent considerations	0	0	-109	**-109**	0	0	-136	**-136**

There are no transfers between levels 1 and 2 in the 2015 and 2014 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):

Level 3 assets and liabilities (DKK million)	Financial assets available for sale		Contingent considerations	
	2015	**2014**	**2015**	**2014**
Carrying amount at 1.1.	12	11	-136	-262
Foreign currency translation adjustment	0	1	-13	-21
Acquisitions	0	0	-38	-12
Sale and settlements	0	0	66	83
Other adjustments	0	0	12	76
Transferred to/from level 3	0	0	0	0
Carrying amount at 31.12.	**12**	**12**	**-109**	**-136**

Of adjustments to contingent considerations, DKK 6 million (DKK 30 million in 2014) is recognised as income in distribution costs relating to contingent considerations still held at year-end.

ACCOUNTING POLICIES

On initial recognition, other investments are classified as "assets available for sale", recognised at fair value and subsequently measured at fair value. 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 equity values.

Contingent considerations arising from the acquisition of enterprises and activities are recognised at fair value at the time of acquisition. The obligations are re-evaluated on a recurring basis at fair value.

SECTION 5
TAX

203
Corporate tax paid in Denmark
– DKK million

20.5%
Effective tax rate

5.1 TAX ON PROFIT

(DKK million)

	2015	2014
Tax on profit for the year:		
Current tax on profit for the year	-441	-333
Adjustment of current tax, prior years	-6	5
Change in deferred tax	85	-36
Adjustment of deferred tax, prior years	6	-1
Impact of changes in corporate tax rates	-14	1
Total IS	**-370**	**-364**
Reconciliation of tax rates:		
Danish corporate tax rate	23.5%	24.5%
Differences between tax rates of non-Danish enterprises and Danish corporate tax rate	-5.7%	0.1%
Impact of changes in corporate tax rates	0.8%	-0.1%
Use of tax assets not previously recognised	-0.5%	-0.5%
Permanent differences	-0.1%	-1.2%
Other items, including prior-year adjustments	2.5%	-1.3%
Effective tax rate	**20.5%**	**21.5%**

ACCOUNTING POLICIES

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.

5.2 DEFERRED TAX

(DKK million)

	2015	2014
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax assets BS	376	238
Deferred tax liabilities BS	-125	-134
Deferred tax, net at 31.12.	**251**	**104**
Deferred tax, net at 1.1.	104	120
Foreign currency translation adjustments	3	10
Changes in deferred tax assets	85	-36
Additions relating to acquisitions	60	0
Adjustment of deferred tax, prior years	6	-1
Impact of changes in corporate tax rates	-14	1
Deferred tax relating to changes in equity, net	7	10
Deferred tax, net at 31.12.	**251**	**104**

The tax value of deferred tax assets not recognised is DKK 72 million (DKK 78 million in 2014) and relates mainly to tax losses for which there is considerable uncertainty about their future utilisation. The tax losses carried forward will not expire in the near future. Any sale of shares in subsidiaries, associates and joint ventures at the balance sheet date is estimated to result in tax in the amount of DKK 0 million (DKK 0 million in 2014).

Breakdown of the Group's temporary differences and changes:	Temporary differences at 1.1.2015	Foreign currency translation adjustments	Acquisitions	Recognised in profit for the year	Recognised in other comprehen-sive income	Temporary differences at 31.12.2015
Intangible assets	-84	-11	-22	98	0	-19
Property, plant and equipment	-49	-2	0	-8	0	-59
Inventories	132	-2	4	38	0	172
Receivables	11	1	0	10	0	22
Provisions	-6	5	66	-25	0	40
Tax losses	53	5	0	-10	0	48
Other	47	7	12	-26	7	47
Total	**104**	**3**	**60**	**77**	**7**	**251**

ACCOUNTING POLICIES

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 by 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, associates and joint ventures 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 realised as current tax in the foreseeable future. Deferred tax is recognised in respect of eliminations of intra-Group profits and losses.

SECTION 6
ACQUISITIONS, ASSOCIATES AND JOINT VENTURES

909
Acquisition cost – DKK million

48
Share of profit after tax, associates and joint ventures – DKK million

6.1 ACQUISITION OF ENTERPRISES AND ACTIVITIES

(DKK million)	North America	Oceania	Europe/ Asia	Total
	Fair value on acquisition			
2015				
Intangible assets	6	2	116	124
Property, plant and equipment	5	0	89	94
Other non-current assets	0	0	69	69
Inventories	2	0	44	46
Current receivables	3	1	231	235
Cash and bank debt	3	0	83	86
Non-current liabilities	-2	0	-222	-224
Current liabilities	-4	0	-426	-430
Acquired net assets	**13**	**3**	**-16**	**0**
Goodwill	120	8	1,522	1,650
Acquisition cost	**133**	**11**	**1,506**	**1,650**
Minority interests' share of acqusition cost	0	0	-578	-578
Fair value of non-controlling interests on obtaining control	0	0	-39	-39
Contingent considerations and deferred payments	-30	0	-8	-38
Acquired cash and bank debt	-3	0	-83	-86
Cash acquisition cost	**100**	**11**	**798**	**909**
2014				
Intangible assets	0	0	0	0
Property, plant and equipment	1	0	3	4
Other non-current assets	0	0	5	5
Inventories	0	0	2	2
Current receivables	1	0	11	12
Cash and bank debt	0	0	10	10
Non-current liabilities	-1	0	-18	-19
Current liabilities	-5	-1	-14	-20
Acquired net assets	**-4**	**-1**	**-1**	**-6**
Goodwill	32	7	51	90
Acquisition cost	**28**	**6**	**50**	**84**
Fair value of non-controlling interests on obtaining control	0	0	0	0
Contingent considerations and deferred payments	-6	-1	-5	-12
Acquired cash and bank debt	0	0	-10	-10
Cash acquisition cost	**22**	**5**	**35**	**62**

6.1 ACQUISITION OF ENTERPRISES AND ACTIVITIES – *CONTINUED*

Our most significant acquisition in 2015 was the purchase of Audika Groupe, one of the leading networks of hearing healthcare providers in France. The acquisition was made in steps: acquisition of the controlling block of 53.9% of the shares on 29 September 2015 against an acquisition cost of DKK 676 million, and acquisition of the remaining 46.1% of the shares through a tendering and squeeze-out process finalised on 28 December 2015 against an acquisition cost of DKK 578 million. Identifiable net assets accounted for DKK -31 million and goodwill for DKK 1,285 million. Goodwill is attributable to estimated synergies between activities in Audika Groupe and existing activities in the William Demant Group, to the future growth opportunities and to the value of staff competencies in Audika Groupe. In the above geographical segmentation of total acquisitions, the acquisition of Audika Groupe is included under Europe/Asia.

The Group's other acquisitions in 2015 consist of a number of minor hearing healthcare distribution enterprises. In respect of these acquisitions, we paid acquisition cost 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 competencies in the acquired entities. These synergies are not recognised separately from goodwill, as they are not separately identifiable.

At the time of acquisition, minority interests' shares of acquisitions were measured at their proportionate shares of the total fair values of the acquired entities including goodwill. On obtaining a controlling interest through step acquisitions, previously held non-controlling interests are at the time of achieving control included at their fair values with fair value adjustments in the income statement.

In 2015, a few adjustments were made to the preliminary recognition of acquisitions made in 2014. These adjustments were made in respect to payments made, contingent considerations provided and net assets and goodwill acquired below DKK 0 million. In relation to acquisitions with final recognition in 2011 to 2014, adjustments were made in 2015 in respect of estimated contingent considerations. Such adjustments are recognised in the income statement.

The total impact on the income statement of fair value adjustments of non-controlling interests in step acquisitions amounted to DKK -1 million (DKK 0 million in 2014), and adjustments of estimated contingent considerations amounted to DKK 13 million (DKK 95 million in 2014), which is recognised under distribution costs.

Of the total acquisition cost in 2015, including adjustments to preliminarily recognised acquisitions of DKK 0 million (DKK -1 million in 2014), the fair values of estimated contingent considerations in the form of discounted earn-outs or deferred payments accounted for DKK 38 million (DKK 12 million in 2014). The maximum contingent consideration in respect of acquisitions made in 2015 is DKK 38 million.

The acquired assets include contractual receivables amounting to DKK 104 million (DKK 10 million in 2014) of which DKK 9 million (DKK 0 million in 2014) was thought to be uncollectible at the date of acquisition. Of the total goodwill in the amount of DKK 1,650 million (DKK 90 million in 2014), DKK 128 million (DKK 15 million in 2014) can be amortised for tax purposes. A contingent liability related to purchase agreement obligations in 2016 to 2018 in the amount of DKK 68 million has been recognised in respect of acquisitions in 2015. The contingent liability is based on expected purchasing patterns. No contingent liabilities were recognised in respect of acquisitions in 2014.

Transaction costs in connection with acquisitions made in 2015 amounted to DKK 6 million (DKK 1 million in 2014), which has been recognised under distribution costs.

The revenue and profit of the acquired enterprises since our acquisition in 2015 amount to DKK 306 million (DKK 12 million in 2014) and DKK 11 million (DKK 1 million in 2014), respectively. Had such revenue and profit been consolidated on 1 January 2015, we estimate that consolidated pro forma revenue and profit would have been DKK 11,266 million (DKK 9,366 million in 2014) and DKK 1,484 million (DKK 1,328 million in 2014), 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 the basis for comparison in subsequent financial years.

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

From the balance sheet date and until the date of financial reporting in 2016, we have acquired additional distribution enterprises. We are in the process of calculating their fair values. The acquisition cost is expected to relate primarily to goodwill.

ACCOUNTING POLICIES

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. For the Group accounting policies on control, please refer to *Consolidated financial statements* in note 9.1. 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 acquisition cost of an 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 acquisition. 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. Transaction costs are recognised directly in the income statement when incurred. If costs exceed 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.

6.2 ASSOCIATES AND JOINT VENTURES

In 2015, the Group received royalties from and paid licence fees to associates and joint ventures amounting to DKK 1 million (DKK 0 million in 2014) and also received dividends from associates and joint ventures in the amount of DKK 79 million (DKK 31 million in 2014). Furthermore, in 2015 the Group recharged costs of DKK 11 million (DKK 5 million in 2014) to associates. In 2015, the Group received interest income from associates and joint ventures in the amount of DKK 9 million (DKK 6 million in 2014).

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

	Associates		Joint ventures	
(DKK million)	**2015**	**2014**	**2015**	**2014**
Financial information (Group share):				
Revenue	442	346	333	286
Net profit for the year	2	7	48	58
Comprehensive income	2	7	48	58

Under the provisions of contracts concluded with associates and joint ventures, the Group is not entitled to receive dividends from certain associates and joint ventures. This is reflected in the profit included in the income statement, as no profit is recognised if the Group is not entitled to receive dividends.

ACCOUNTING POLICIES

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

The proportionate shares of all transactions and events which have been recognised in other comprehensive income in associates and joint ventures are recognised in consolidated other comprehensive income. On the acquisition of interests in associates and joint ventures, the acquisition method is applied.

SECTION 7 PROVISIONS, OTHER LIABILITIES ETC.

289
Provisions
– DKK million

1,217
Other liabilities
– DKK million

7.1 PROVISIONS

(DKK million)	2015	2014
Other non-current employee benefits	48	42
Miscellaneous provisions	78	12
Other provisions	126	54
Defined benefit plan, net liabilities	163	104
Provisions at 31.12.	**289**	**158**
Breakdown of provisions:		
Non-current provisions BS	273	154
Current provisions BS	16	4
Provisions at 31.12.	**289**	**158**
Other provisions:		
Other provisions at 1.1.	54	78
Foreign currency translation adjustments	0	2
Reclassifications	0	-27
Additions relating to acquisitions	73	3
Provisions during the year	9	7
Applied during the year	0	0
Reversals during the year	-10	-9
Other provisions at 31.12.	**126**	**54**
Defined benefit plan costs recognised in the income statement:		
Current service costs	17	19
Calculated interest on defined benefit plan, net liabilities	1	1
Costs recognised in the income statement (note 1.2)	**18**	**20**
Defined benefit plan costs by function:		
Research and development costs	7	6
Distribution costs	4	7
Administrative expenses	7	7
Total	**18**	**20**
Accumulated actuarial loss recognised in the statement of comprehensive income	**-56**	**-44**

Miscellaneous provisions relate to provisions for disputes etc. and are essentially expected to be applied within the next five years.

7.1 PROVISIONS – *CONTINUED*

(DKK million)	2015	2014
Present value of defined benefit obligations:		
Defined benefit obligations at 1.1.	309	255
Foreign currency translation adjustments	27	3
Reclassifications	-53	10
Additions relating to acquisitions	36	0
Current service costs	17	19
Calculated interest on defined benefit obligations	4	4
Actuarial losses/(gains), demographic assumptions	0	0
Actuarial losses/(gains), financial assumptions	3	12
Actuarial losses/(gains), experience assumptions	7	5
Benefits paid	-8	-6
Contributions from plan participants	7	7
Defined benefit obligations at 31.12.	**349**	**309**
Fair value of defined benefit assets:		
Defined benefit assets at 1.1.	205	185
Foreign currency translation adjustments	22	3
Reclassifications	-53	0
Additions relating to acquisitions	0	0
Expected return on defined benefit assets	3	3
Actuarial gains/(losses)	2	3
Contributions	15	17
Benefits paid	-8	-6
Defined benefit assets at 31.12.	**186**	**205**
Defined benefit obligations recognised in the balance sheet, net	**163**	**104**
Return on defined benefit assets:		
Actual return on defined benefit assets	5	6
Expected return on defined benefit assets	3	3
Actuarial gains/(losses) on defined benefit assets	**2**	**3**
Assumptions:		
Discount rate	1.0%	1.5%
Expected return on defined benefit assets	1.0%	1.5%
Future salary increase rate	1.5%	1.5%

Generally, the Group does not offer defined benefit plans, but it has such plans in Switzerland, France, Germany and the Netherlands, where they are required by law. Moreover, the President & CEO of the Company has a seniority bonus.

Defined benefit assets at 31 December 2015 include: bonds (35%), shares (28%), other securities (21%), cash and cash equivalents (4%) and other assets (12%). Defined benefit assets at 31 December 2014 included: bonds (41%), shares (26%), other securities (16%), cash and cash equivalents (4%) and other assets (13%). All defined benefit assets, except other assets, are quoted on active markets.

The Group expects to pay approximately DKK 10 million in 2016 (DKK 11 million in 2015) into defined benefit plans.

Defined benefit obligations in the amount of DKK 66 million will mature within 1-5 years (DKK 42 million in 2014) and obligations in the amount of DKK 283 million after five years (DKK 267 million in 2014).

If the discount rate were 0.5% higher (lower), the defined benefit obligation would decrease by 7% (increase by 7%). If the expected salary growth rate were 0.5% higher (lower), the defined benefit obligation would increase by 1% (decrease by 2%).

7.1 PROVISIONS – *CONTINUED*

ACCOUNTING POLICIES

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.

The Group has defined 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 defined 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 for instance wage levels, interest rates and inflation rates. The defined benefit obligation less the fair value of any assets relating to the defined benefit plan is recognised in the income statement 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
- Remeasurements

Remeasurements, comprising actuarial gains and losses, any effects of changes to the asset ceiling and return on defined benefit assets excluding interest, are reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which it occurs. Remeasurements recognised in other comprehensive income are 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 using actuarial calculation. Actuarial gains or losses on such benefits are recognised directly in the income statement.

7.2 OTHER LIABILITIES

(DKK million)	2015	2014
Product-related liabilities	250	240
Staff-related liabilities	387	306
Other debt, public authorities	219	141
Contingent considerations	109	136
Other costs payable	252	253
Other liabilities	**1,217**	**1,076**
Due within 1 year BS	1,098	956
Due within 1-5 years BS	119	120

Product-related liabilities include service packages, warranties, returned products etc. Liabilities in respect of service packages and warranties have been calculated based on information on products sold, related service and warranty periods and past experience of costs incurred by our Group to perform our service and warranty commitments. 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.

ACCOUNTING POLICIES

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 incurred with the return of such products. Warranty commitments include the obligation to remedy faulty or defective products during the warranty period.

7.3 OPERATING LEASE COMMITMENTS

(DKK million)	2015	2014
Rent	629	519
Other operating leases	56	46
Total	**685**	**565**
Operating leases, less than 1 year	201	173
Operating leases, 1-5 years	357	263
Operating leases, over 5 years	127	129
Total	**685**	**565**

Operating leases are recognised in the income statement at an amount of DKK 367 million (DKK 309 million in 2014). The Group's operating leases mainly relate to rent and vehicles.

7.4 CONTINGENT LIABILITIES

The William Demant Group is involved in a few disputes, lawsuits etc. Management is of the opinion that such 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 5 c of said act for the financial year ending on 31 December 2015 or any amended financial period incorporating the said financial year. The Company does not expect any material loss to arise from this guarantee.

SECTION 8
OTHER DISCLOSURE REQUIREMENTS

8.1 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, associates and joint ventures as well as the William Demant Group's ownership interests in these companies appear from the *Subsidiaries, associates and joint ventures* list on page 93, and financial information on associates and joint ventures can be found in note 6.2.

In 2015, the Oticon Foundation and William Demant Invest A/S paid administration fees to the Group of DKK 2 million (DKK 2 million in 2014) and DKK 5 million (DKK 5 million in 2014), respectively. In 2015, the Group paid service fees to Össur hf. of DKK 14 million (DKK 1 million in 2014) and received service fees of DKK 4 million from Össur hf. (DKK 0 million in 2014).

In 2014 and 2015, William Demant Invest A/S advanced a loan to the Group. At the end of 2015, the loan amounted to DKK 0 million (DKK 0 million in 2014) and the Group paid interest of less than DKK 1 million on the loan in 2015 (DKK 2 million in 2014). In 2014 and 2015, the Group settled Danish tax on account and residual tax with William Demant Invest A/S, which is the administration company for the joint taxation.

There have been no transactions with the Executive Board and the Board of Directors apart from normal remuneration. Please refer to note 1.2.

8.2 FEES TO PARENT'S AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

(DKK million)	2015	2014
Statutory audit	9	7
Other assurance engagements	0	0
Tax and VAT advisory services	4	3
Other services	1	1
Total	**14**	**11**

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

8.3 GOVERNMENT GRANTS

In 2015, the William Demant Group received foreign government grants in the amount of DKK 14 million (DKK 15 million in 2014). Grants are offset against research and development costs.

ACCOUNTING POLICIES
Government grants are recognised when there is reasonable certainty that the conditions for such grants are satisfied and that they will be awarded. Grants 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 offset against costs incurred. Government grants relating to the acquisition of non-current assets are deducted from the cost of such asset.

8.4 EVENTS AFTER THE BALANCE SHEET DATE

There have been no events that materially affect the assessment of this Annual Report 2015 after the balance sheet date and up to today.

8.5 APPROVAL AND PUBLICATION

At the Board meeting on 1 March 2016, 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 7 April 2016.

8.6 SHAREHOLDERS

The name of the shareholder below is recorded in the register of shareholders as owner 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. The ownership interest is approximately 57% of the share capital (58% of shares outstanding). William Demant Invest A/S prepares consolidated financial statements in which the William Demant Group is included.

SECTION 9
BASIS FOR PREPARATION

9.1 GROUP ACCOUNTING POLICIES

The Group's general accounting policies are described below. In addition to this, specific accounting policies are described in each of the individual notes to the consolidated financial statements as outlined here:

1.1 Revenue and segment information
1.5 Inventories
1.6 Receivables
2.3 Derivatives
2.4 Foreign currency translation
3.1 Intangible assets
3.2 Property, plant and equipment
3.5 Impairment testing
4.2 Net financial items
4.3 Other financial liabilities
4.5 Other investments and contingent considerations
5.1 Tax on profit
5.2 Deferred tax
6.1 Business combinations
6.2 Associates and joint ventures
7.1 Provisions
7.2 Other non-financial liabilities
8.3 Government grants

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 2014, with the exception of the implementation of new and amended standards as described below. Also, insignificant reclassifications in the comparative figures for 2014 have been made.

Effect of new accounting standards

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 2015. 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 the consolidated financial statements for 2015.

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.

Issued in May 2014, IFRS 15 Revenue from Contracts with Customers establishes a single comprehensive model for entities to be used in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue and related interpretations when it becomes effective. Management has not yet evaluated the expected future impact on the amounts reported and disclosed by the Group from the application of IFRS 15. IFRS 15 is expected to take effect on 1 January 2017.

IFRS 9 Financial Instruments was issued in 2009 and has been revised several times since then. Management anticipates that the future application of IFRS 9 may impact the reporting and disclosure of the Group's financial instruments and hedging instruments. Management has not yet evaluated the expected future impact on the amounts reported and disclosed by the Group from the application of IFRS 9. IFRS 9 is expected to take effect on 1 January 2018.

Issued in January 2016, IFRS 16 Leases requires lessees to recognise nearly all leases on the balance sheet. Management has not yet evaluated the expected future impact on the amounts reported and disclosed by the Group from the application of IFRS 16. IFRS 16 is expected to take effect on 1 January 2019.

Accounting estimates and assumptions
Management makes a number of accounting estimates and judgements in the preparation of the consolidated financial statements. These relate to the recognition, measurement and classification of assets and liabilities. 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 valuations 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 products.

Allowance for impairment is calculated for both trade receivables and other receivables. For trade receivables, the allowance is calculated for anticipated credit losses based on an assessment of the ability to pay. This assessment is made by local management and is made for uniform groups of debtors based on a maturity analysis. When indicated by special circumstances, impairments are made for individual debtors. Other receivables, including customer loans, are evaluated on an individual basis. Allowance is made for those receivables in respect of which it is estimated that there will not be full recoverability.

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 or joint ventures 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 recognised using the equity method. 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 proportionate 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 obtaining or discontinuing 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.

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.

Production costs
Production costs are costs incurred to generate revenue. Distribution companies recognise costs to sell 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.

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

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

Equity
Foreign currency translation reserve includes foreign currency translation adjustments on the translation of financial statements of foreign subsidiaries, associates and joint ventures 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 reserves include fair value adjustments of derivatives and 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.

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 with no 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.

PARENT INCOME STATEMENT

(DKK million)	Note	2015	2014
Administrative expenses	10.1 10.2	-52	-53
Other operating income and expenses		35	65
Operating profit/(loss) (EBIT)		**-17**	**12**
Share of profit after tax, subsidiaries	10.7	1,143	1,030
Share of profit after tax, associates	10.7	48	58
Financial income	10.3	26	28
Financial expenses	10.3	-34	-34
Profit before tax		**1,166**	**1,094**
Tax on profit for the year	10.4	5	1
Profit for the year		**1,171**	**1,095**
Proposed distribution of net profit:			
Transferred to reserves for net revaluation according to the equity method		360	230
Retained earnings		811	865
		1,171	**1,095**

PARENT BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2015	2014
Assets			
Goodwill		46	49
Rights		1	0
Intangible assets	10.5	**47**	**49**
Land and buildings		24	24
Other plant, fixtures and operating equipment		0	0
Property, plant and equipment	10.6	**24**	**24**
Investments in subsidiaries		8,964	6,814
Receivables from subsidiaries		1,426	1,670
Investments in associates and joint ventures		92	105
Receivables from associates and joint ventures		12	4
Other investments		1	2
Other receivables		23	7
Financial assets	10.7	**10,518**	**8,602**
Non-current assets		**10,589**	**8,675**
Income tax		3	2
Other receivables		4	0
Prepaid expenses		4	1
Receivables		**11**	**3**
Current assets		**11**	**3**
Assets		**10,600**	**8,678**

PARENT BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2015	2014
Equity and liabilities			
Share capital		54	57
Other reserves		2,583	2,121
Retained earnings		3,322	3,129
Total equity		**5,959**	**5,307**
Other provisions		41	35
Deferred tax liabilities	10.4	14	15
Provisions		**55**	**50**
Interest-bearing debt	10.8	2,071	0
Debt to subsidiaries		0	11
Other debt	10.8	7	15
Non-current liabilities		**2,078**	**26**
Interest-bearing debt		1,083	962
Debt to subsidiaries		1,407	2,315
Other debt	10.8	18	18
Current liabilities		**2,508**	**3,295**
Liabilities		**4,586**	**3,321**
Equity and liabilities		**10,600**	**8,678**

Contingent liabilities	10.9
Related parties	10.10
Shareholders	10.11
Events after the balance sheet date	10.12
Parent accounting policies	10.13

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 1.1.2014	**57**	**-97**	**0**	**1,888**	**3,151**	**4,999**
Profit for the year	-	-	-	230	865	1,095
Foreign currency translation adjustment of investments in subsidiaries etc.	-	15	-	201	-	216
Other changes in equity in subsidiaries	-	-	-	-112	-	-112
Tax relating to changes in equity	-	-4	0	-	-	-4
Buy-back of shares	-	-	-	-	-887	-887
Capital reduction through cancellation of treasury shares	0	-	-	-	0	0
Other changes in equity	-	-	-	0	0	0
Equity at 31.12.2014	**57**	**-86**	**0**	**2,207**	**3,129**	**5,307**
Profit for the year	-	-	-	360	811	1,171
Foreign currency translation adjustment of investments in subsidiaries etc.	-	11	-	70	-	81
Other changes in equity in subsidiaries	-	-	-	24	-	24
Tax relating to changes in equity	-	-3	0	-	-	-3
Buy-back of shares	-	-	-	-	-605	-605
Capital reduction through cancellation of treasury shares	-3	-	-	-	3	0
Other changes in equity	-	-	-	0	-16	-16
Equity at 31.12.2015	**54**	**-78**	**0**	**2,661**	**3,322**	**5,959**

	2015	2014	2013	2012	2011
Changes in share capital:					
Share capital at the beginning of the year	57	57	58	58	58
Reduction of share capital through cancellation of treasury shares	-3	0	-1	0	0
Share capital at the end of the year	**54**	**57**	**57**	**58**	**58**

At year-end 2015, the share capital was nominally DKK 54 million (DKK 57 million in 2014) divided into a corresponding number of shares of DKK 1. There are no restrictions on the negotiability or voting rights of the shares. At year-end 2015, the number of shares outstanding was 53,464,880 (54,560,834 in 2014). For additional information, please refer to note 10.11.

	2015 Treasury shares	2015 Percentage of share capital	2014 Treasury shares	2014 Percentage of share capital
Holding of treasury shares:				
Treasury shares at 1.1.	2,100,804	3.7%	201,525	0.4%
Cancellation of treasury shares	-2,236,403	-3.9%	0	0.0%
Buy-back of shares	1,095,954	2.0%	1,899,279	3.3%
Treasury shares at 31.12.	**960,355**	**1.8%**	**2,100,804**	**3.7%**

As part of the Company's share buy-back programme, the Company bought back 1,095,954 shares in 2015 (1,899,279 shares in 2014) worth a total of DKK 605 million (DKK 887 million in 2014).

SECTION 10
NOTES TO PARENT FINANCIAL STATEMENTS

10.1 EMPLOYEES

(DKK million)	2015	2014
Staff costs:		
Wages and salaries	34	33
Total	**34**	**33**
Average number of full-time employees	13	15

Remuneration:	2015	2014
Board of Directors	3	3
Executive Board:		
Niels Jacobsen, President & CEO	13	13
Søren Nielsen, COO	2	-
René Schneider, CFO	1	-

For a description of remuneration for the Board of Directors and Executive Board, please refer to note 1.2 in the consolidated financial statements.

Søren Nielsen and René Schneider joined the Executive Board on 1 September 2015. In 2015, remuneration to Søren Nielsen was expensed in the fully owned subsidiary Oticon A/S.

10.2 FEES TO PARENT'S AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

(DKK million)	2015	2014
Statutory audit	1	1
Total	**1**	**1**

10.3 NET FINANCIAL ITEMS

(DKK million)	2015	2014
Interest from subsidiaries	25	27
Interest income	1	1
Financial income IS	**26**	**28**
Interest to subsidiaries	-21	-18
Interest expenses	-9	-12
Transaction costs	-1	-1
Foreign exchange losses, net	-3	-3
Financial expenses IS	**-34**	**-34**

10.4 TAX ON PROFIT AND DEFERRED TAX

(DKK million)

	2015	2014
Tax on profit for the year:		
Current tax on profit for the year	5	5
Adjustment of current tax, prior years	-1	0
Change in deferred tax	1	-4
Total IS	**5**	**1**
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax assets	0	0
Deferred tax liabilities BS	-14	-15
Deferred tax, net at 31.12.	**-14**	**-15**
Deferred tax, net at 1.1.	-15	-11
Changes in deferred tax assets	1	-4
Deferred tax, net at 31.12.	**-14**	**-15**

10.5 INTANGIBLE ASSETS

(DKK million)	Goodwill	Rights	Total intangible assets
Cost at 1.1.2015	**65**	**7**	**72**
Additions during the year	0	1	1
Cost at 31.12.2015	**65**	**8**	**73**
Amortisation at 1.1.2015	**-16**	**-7**	**-23**
Amortisation for the year	-3	0	-3
Amortisation at 31.12.2015	**-19**	**-7**	**-26**
Carrying amount at 31.12.2015 BS	**46**	**1**	**47**
Cost at 1.1.2014	**65**	**7**	**72**
Additions during the year	0	0	0
Cost at 31.12.2014	**65**	**7**	**72**
Amortisation at 1.1.2014	**-13**	**-6**	**-19**
Amortisation for the year	-3	-1	-4
Amortisation at 31.12.2014	**-16**	**-7**	**-23**
Carrying amount at 31.12.2014 BS	**49**	**0**	**49**

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

10.6 PROPERTY, PLANT AND EQUIPMENT

(DKK million)	Land and buildings	Other plant, fixtures and operating equipment	Total property, plant and equipment
Cost at 1.1.2015	**30**	**0**	**30**
Disposals during the year	0	0	0
Cost at 31.12.2015	**30**	**0**	**30**
Depreciation and impairment losses at 1.1.2015	**-6**	**0**	**-6**
Depreciation for the year	0	0	0
Disposals during the year	0	0	0
Depreciation and impairment losses at 31.12.2015	**-6**	**0**	**-6**
Carrying amount at 31.12.2015 BS	**24**	**0**	**24**
Cost at 1.1.2014	**30**	**2**	**32**
Additions during the year	0	-2	-2
Cost at 31.12.2014	**30**	**0**	**30**
Depreciation and impairment losses at 1.1.2014	**-6**	**0**	**-6**
Depreciation for the year	0	-1	-1
Disposals during the year	0	1	1
Depreciation and impairment losses at 31.12.2014	**-6**	**0**	**-6**
Carrying amount at 31.12.2014 BS	**24**	**0**	**24**

The Parent has no financially leased assets.

10.7 FINANCIAL ASSETS

(DKK million)	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Receivables from associates and joint ventures	Other investments	Other receivables
Cost at 1.1.2015	**4,556**	**1,670**	**132**	**4**	**1**	**7**
Foreign currency translation adjustments	0	12	-1	0	0	1
Additions during the year	1,697	188	48	8	0	19
Additions relating to acquisitions	0	0	0	0	0	0
Disposals during the year	0	-444	-30	0	-1	-4
Cost at 31.12.2015	**6,253**	**1,426**	**149**	**12**	**0**	**23**
Value adjustments at 1.1.2015	**2,258**	**0**	**-27**	**0**	**1**	**0**
Foreign currency translation adjustments	70	0	0	-	0	0
Share of profit after tax IS	1,143	-	49	-	-	-
Dividends received	-783	-	-79	-	-	-
Disposals during the year	0	0	0	-	0	0
Other adjustments	23	0	0	-	0	0
Value adjustments at 31.12.2015	**2,711**	**0**	**-57**	**0**	**1**	**0**
Carrying amount at 31.12.2015 BS	**8,964**	**1,426**	**92**	**12**	**1**	**23**
Cost at 1.1.2014	**4,075**	**1,795**	**127**	**13**	**1**	**7**
Foreign currency translation adjustments	0	14	0	0	0	1
Additions during the year	481	8	5	4	0	0
Additions relating to acquisitions	0	0	0	0	0	0
Disposals during the year	0	-147	0	-13	0	-1
Cost at 31.12.2014	**4,556**	**1,670**	**132**	**4**	**1**	**7**
Value adjustments at 1.1.2014	**1,939**	**0**	**-55**	**0**	**1**	**0**
Foreign currency translation adjustments	201	0	0	-	0	0
Share of profit after tax IS	1,030	-	58	-	-	-
Dividends received	-800	-	-30	-	-	-
Disposals during the year	0	0	0	-	0	0
Other adjustments	-112	0	0	-	0	0
Value adjustments at 31.12.2014	**2,258**	**0**	**-27**	**0**	**1**	**0**
Carrying amount at 31.12.2014 BS	**6,814**	**1,670**	**105**	**4**	**2**	**7**

The carrying amounts of investments in subsidiaries and associated entities include capitalised goodwill in the net amount of DKK 4,920 million (DKK 3,503 million in 2014). Amortisation of consolidated capitalised goodwill for the year is DKK 247 million (DKK 210 million in 2014). Receivables from subsidiaries of DKK 1,426 million (DKK 1,670 million in 2014) are considered additions to the total investments in the particular enterprises and are therefore considered non-current. Other receivables worth DKK 23 million (DKK 7 million in 2014) will fall due after five years. Please refer to *Subsidiaries, associates and joint ventures* on page 93.

10.8 OTHER DEBT

(DKK million)	2015	2014
Staff-related liabilities	1	1
Other debt, public authorities	1	3
Liabilities relating to acquisitions	21	27
Other costs payable	2	2
Other debt	**25**	**33**
Due within 1 year BS	18	18
Due within 1-5 years BS	7	15

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 2,071 million (DKK 0 million in 2014), DKK 164 million (DKK 0 million in 2014) will fall due after five years.

10.9 CONTINGENT LIABILITIES

William Demant Holding A/S has provided security in respect of credit facilities established by Danish subsidiaries. These credit facilities totalled DKK 2,052 million in 2015 (DKK 1,500 million in 2014) of which DKK 352 million were drawn (DKK 971 million in 2014). Moreover, we have established a mutual guarantee with Oticon A/S in the amount of DKK 650 million (DKK 650 million in 2014), 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 2016 for 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 the 31 December 2015 or any amended financial period incorporating the said financial year. The Company does not expect any material loss to arise from this guarantee.

10.10 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.

10.11 SHAREHOLDERS

The name of the shareholder below is recorded in the register of shareholders as owner 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. The ownership interest is approximately 57% of the share capital (58% of shares outstanding). William Demant Invest A/S prepares consolidated financial statements in which the William Demant Group is included.

10.12 EVENTS AFTER THE BALANCE SHEET DATE

Please refer to note 8.4 in the consolidated financial statements.

10.13 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 class D entities.

The financial statements for the Parent 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 and 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 the value of receivables, if any, such residual amount 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 losses on investments in subsidiaries and associates are transferred to reserves for net revaluation according to the equity method.

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 defined benefit assets and obligations, 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.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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 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 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 LLC, USA	100%
Bernafon AG, Switzerland*	100%
Bernafon Hörgeräte GmbH, Germany	100%
Bernafon S.r.l., Italy*	100%
Bernafon LLC, USA	100%
Bernafon Australia Pty. Ltd., Australia*	100%
Bernafon New Zealand Pty. Ltd., New Zealand	100%
Bernafon K.K., Japan	100%
Bernafon AB, Sweden*	100%
Bernafon Ibérica S.L.U., Spain*	100%
DGS Diagnostics Sp. z o.o., Poland	100%
DGS Poland Sp. z o.o., Poland	100%
ACS Sluchmed Sp. z o.o., Poland	100%
Acustica Sp. z o.o., Poland*	100%
Acoustic Metrology Limited, United Kingdom	100%
Akoustica Medica M EPE, Greece*	100%
American Hearing Aid Associates, Inc., USA	100%
Amplivox Ltd., United Kingdom	100%
Audika Groupe S. A., France*	100%
Audionomerna & Hörsam AB, Sweden*	100%
Audmet Canada LTD., Canada	100%

Company	*Interest*
Audmet S.r.l., Italy*	100%
Audmet B.V., the Netherlands*	100%
Canada Hearing Centre Ltd., Canada*	100%
Centro Auditivo Telex Ltda., Brazil*	100%
Danacom Høreapparater A/S, Denmark*	100%
Din Hørelse ApS, Denmark*	100%
Diagnostic Group LLC, USA	100%
Diatec AG, Switzerland*	100%
Diatec Spain, S.L.U., Spain*	100%
e3 diagnostic Inc., USA	100%
Guymark UK Limited, United Kingdom	100%
Hear Better Centres LLC, USA	100%
Hearing Healthcare Management Inc., USA	100%
Hearing Screening Associates LLC, USA	100%
Hidden Hearing (Portugal), Unipessoal Lda., Portugal*	100%
Hidden Hearing Limited, United Kingdom	100%
Hidden Hearing Limited, Ireland*	100%
HZ Hörmittelzentralen AG, Switzerland*	100%
IDEA Isitme Sistemleri Sanayi ve Ticaret A.S., Turkey	100%
Interacoustics A/S, Denmark*	100%
Interacoustics GmbH, Germany*	100%
Interacoustics Pty. Ltd., Australia*	100%
Kuulopiiri Oy, Finland*	100%
LeDiSo Italia S.r.l., Italy*	100%
Maico Diagnostic GmbH, Germany*	100%
Maico S.r.l., Italy*	100%
MedRx Inc., USA	100%
Micromedical Technologies Inc., USA	100%
Neurelec GmbH, Germany	100%
Neurelec Maroc Sarlau, Morocco	100%
Neurelec S.A.S., France*	100%
New Zealand Audiology Limited, New Zealand*	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%
Udicare S.r.l., Italy*	100%
Van Boxtel Hoorwinkels B.V., the Netherlands	100%
FrontRow Calypso LLC, USA	75%
Sennheiser Communications A/S, Denmark*	50%
BC Implants AB, Sweden*	49%
HIMSA A/S, Denmark	25%

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

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WE SUPPORT