ANNUAL REPORT 2016

Årsrapport 2016

William Demant Holding A/S
CVR-nr. 71186911
Kongebakken 9
2765 Smørum
Danmark

Regnskabsperiode: 1. januar – 31. december 2016

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Dirigent:
Advokat Jesper Schultz Larsen

Oticon Opn marks a paradigm shift in hearing care technology and is a fundamental step forward in improving speech understanding in complex environments with multiple speakers – while preserving the user's mental energy. In addition to being a superior hearing aid, Oticon Opn provides hassle-free wireless connection to devices used in everyday life, such as iPhone®, iPad®, TVs, radios and laptops. And with the Oticon ON App, users are able to control their hearing aids from their mobile phone.

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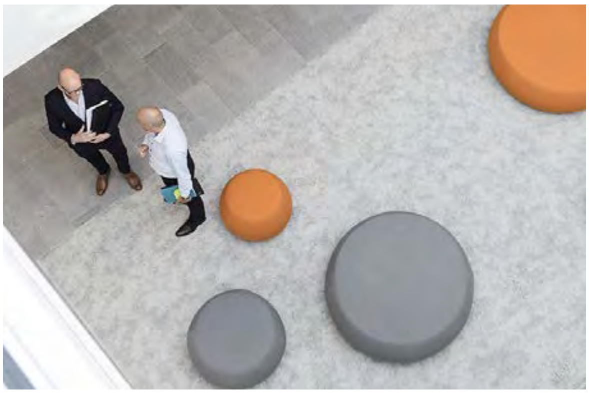

INSIGHTS AND HIGHLIGHTS

OUR BUSINESS

SHAREHOLDER INFORMATION AND CORPORATE GOVERNANCE

FINANCIAL REPORT

KEY FIGURES AND FINANCIAL RATIOS – DKK

	2016	2015	2014	2013	2012
INCOME STATEMENT, DKK MILLION					
Revenue	12,002	10,665	9,346	8,959	8,555
Gross profit	9,030	7,895	6,813	6,518	6,127
Gross profit – adjusted	9,102	7,895	-	-	-
R&D costs	839	763	680	634	652
EBITDA	2,346	2,203	2,055	2,028	1,920
Amortisation and depreciation etc.	404	325	294	292	267
Operating profit (EBIT)	1,942	1,878	1,761	1,736	1,653
Operating profit (EBIT) – adjusted	2,130	1,902	-	-	-
Net financial items	-101	-69	-70	-72	-132
Profit before tax	1,841	1,809	1,691	1,664	1,521
Profit for the year	1,464	1,439	1,327	1,286	1,151
BALANCE SHEET, DKK MILLION					
Net interest-bearing debt	4,036	3,703	2,405	2,284	1,804
Assets	15,548	14,390	11,219	10,318	8,777
Equity	6,966	6,500	5,584	5,056	4,059
OTHER KEY FIGURES, DKK MILLION					
Investment in property, plant and equipment, net	299	375	354	391	310
Cash flow from operating activities (CFFO)	1,679	1,592	1,495	1,282	1,272
Cash flow from operating activities (CFFO) – adjusted	1,756	1,602	-	-	-
Free cash flow	1,223	1,129	1,044	819	782
Average number of employees	12,339	10,803	9,799	9,063	8,025
FINANCIAL RATIOS					
Gross profit margin	75.2%	74.0%	72.9%	72.8%	71.6%
Gross profit margin – adjusted	75.8%	74.0%	-	-	-
EBITDA margin	19.5%	20.7%	22.0%	22.6%	22.4%
Profit margin (EBIT margin)	16.2%	17.6%	18.8%	19.4%	19.3%
Profit margin (EBIT margin) – adjusted	17.7%	17.8%	-	-	-
Return on equity	21.5%	23.7%	24.7%	28.0%	31.8%
Equity ratio	44.8%	45.2%	49.8%	49.0%	46.2%
Earnings per share (EPS), DKK*	5.5	5.3	4.8	4.5	4.0
Cash flow per share (CFPS), DKK*	6.4	5.9	5.4	4.5	4.5
Free cash flow per share, DKK*	4.6	4.2	3.8	2.9	2.7
Dividend per share, DKK*	0	0	0	0	0
Equity value per share, DKK*	26.4	24.1	20.1	17.9	14.2
Price earnings (P/E)	22	25	20	23	24
Share price, DKK*	123	131	94	105	97
Market cap. adjusted for treasury shares, DKK million	31,829	35,126	25,545	29,754	27,419
Average number of shares outstanding, million*	263.75	270.13	278.13	283.11	285.11

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 flows from operating activities (CFFO) and investing activities (CFFI) before acquisition and disposal 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 2012 have not been adjusted to the changes in accounting policies from 2014.

** In 2016, the nominal value of all shares outstanding was changed from DKK 1.00 to DKK 0.20, and comparative figures for 2012-2015 have been adjusted accordingly.*

KEY FIGURES AND FINANCIAL RATIOS – EUR**

	2016	2015	2014	2013	2012
INCOME STATEMENT, EUR MILLION					
Revenue	1,612	1,432	1,255	1,203	1,149
Gross profit	1,213	1,060	915	875	823
Gross profit – adjusted	1,223	1,060	-	-	-
R&D costs	113	102	91	85	88
EBITDA	315	296	276	272	258
Amortisation and depreciation etc.	54	44	39	39	36
Operating profit (EBIT)	261	252	237	233	222
Operating profit (EBIT) – adjusted	286	255	-	-	-
Net financial items	-14	-9	-9	-10	-18
Profit before tax	247	243	227	223	204
Profit for the year	197	193	178	173	155
BALANCE SHEET, EUR MILLION					
Net interest-bearing debt	543	498	323	307	243
Assets	2,091	1,936	1,509	1,388	1,181
Equity	937	874	751	680	546
OTHER KEY FIGURES, EUR MILLION					
Investment in property, plant and equipment, net	40	50	48	53	42
Cash flow from operating activities (CFFO)	226	214	201	172	171
Cash flow from operating activities (CFFO) – adjusted	236	215	-	-	-
Free cash flow	164	152	140	110	105
Average number of employees	12,339	10,803	9,799	9,063	8,025
FINANCIAL RATIOS					
Gross profit margin	75.2%	74.0%	72.9%	72.8%	71.6%
Gross profit margin – adjusted	75.8%	74.0%	-	-	-
EBITDA margin	19.5%	20.7%	22.0%	22.6%	22.4%
Profit margin (EBIT margin)	16.2%	17.6%	18.8%	19.4%	19.3%
Profit margin (EBIT margin) – adjusted	17.7%	17.8%	-	-	-
Return on equity	21.5%	23.7%	24.7%	28.0%	31.8%
Equity ratio	44.8%	45.2%	49.8%	49.0%	46.2%
Earnings per share (EPS), EUR*	0.7	0.7	0.6	0.6	0.5
Cash flow per share (CFPS), EUR*	0.9	0.8	0.7	0.6	0.6
Free cash flow per share, EUR*	0.6	0.6	0.5	0.4	0.4
Dividend per share, EUR*	0	0	0	0	0
Equity value per share, EUR*	3.6	3.2	2.7	2.4	1.9
Price earnings (P/E)	22	25	20	23	24
Share price, EUR*	17	18	13	14	13
Market cap. adjusted for treasury shares, EUR million	4,281	4,725	3,436	4,002	3,688
Average number of shares outstanding, million*	263.75	270.13	278.13	283.11	285.11

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 flows from operating activities (CFFO) and investing activities (CFFI) before acquisition and disposal of enterprises, participating interests and activities. On computation of the return on equity, average equity is calculated duly considering the buy-back of shares.

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*** On the translation of key figures and financial ratios from Danish kroner to euro, Danmarks Nationalbank's rate of exchange at 30 December 2016 of 743.44 has been used for balance sheet items, and the average rate of exchange of 744.52 has been used for income statement and cash flow items.*

> **We have a clear objective and ambition to generate growth, and we have indeed been successful in the past year; overall, our activities resulted in another record year for our Group**

Niels Jacobsen
President & CEO

CEO LETTER FROM NIELS JACOBSEN

Hearing loss is complicated, but when sufficiently treated, it significantly improves the quality of life of the hearing impaired. Diagnosing, treating and ultimately alleviating hearing loss require not only dedicated people in all parts of our business, but also highly specialised knowledge. Thus, in hearing healthcare themes like cognitive science, audiology, acoustics, advanced algorithms, electro-mechanics and software engineering as well as behavioural science and communication technology are the backbone of R&D. We are convinced that this combination of scientific and technological innovation, global sales support and strong customer focus go hand in hand and give the end-user the best possible experience.

From clinical research to end-user practice, William Demant has been broadly involved in hearing healthcare for the past many years. The fact that we no longer focus on just one business area, but on all aspects of hearing healthcare – Hearing Devices, Diagnostic Instruments and Hearing Implants – means that we have access to an altogether larger and growing market. We have a clear objective and ambition to generate growth, and we have indeed been successful in the past year: Overall, our activities resulted in another record year for our Group, and I am pleased that we continue to deliver consistently and at a steady pace on our plans.

Our presence in all product segments of hearing healthcare enables us to harvest synergies and obtain economies of scale, and leveraging on our R&D, global infrastructure and distribution network across the Group gives us a truly competitive edge. To that end, we have launched several strategic initiatives. By simplifying our set-up and thereby forming the basis for exploiting synergies across the Group, we are preparing for future growth.

In addition to our ambition to deliver growth, we are also determined to work with a long-term horizon, which means that we are not afraid to choose the road less travelled and initiate ambitious – and at times – complex plans. Our activities in cochlear implants are indeed ambitious, and although we saw an improvement in the second half-year, growth was slower than initially expected. We are, however, still convinced that investing in this business activity is the right decision, and the positive trends we saw in 2016 stand as testament to this. Oticon Medical's latest product, a bone-anchored hearing system called Ponto 3, was launched at the end of 2016 and fuelled growth in our Hearing Implants business activity. In addition, Oticon Medical has worked extremely hard on rolling out Neuro – our first, proprietary cochlear implant – which was launched in late 2015. In a highly specialised market, the introduction of a complete cochlear implant system only takes place once every 10 to 15 years, so this is indeed a great achievement. Our presence on key markets has facilitated the all-important access to leading audiology clinics and to doctors and hearing care professionals, and we are happy to report that feedback has been very positive.

Choosing the road less travelled also requires strong leadership, and our record of accomplishment shows that we have exactly that: We are highly successful in hearing aids, diagnostic instruments, bone-anchored hearing solutions and in office and leisure headsets. We welcomed French retailer Audika into our Group in 2015. In the past year, we have been very pleased to see how well Audika has been integrated into the Group and also to see the high performance they have delivered in their first full year as a member of the William Demant Group.

Another high performer in 2016 was Oticon's hearing aid Opn. Based on the powerful Velox platform – in itself a paradigm shift as far as facilitating a better understanding of multiple speech in noise is concerned – the world's first Internet-connected hearing aid saw the light of day. I would like to highlight three key elements, which were pivotal in this most significant event of the year: Our scientifically based power of innovation and continuous R&D investments; our long-term and extremely valuable relationship with our main stakeholders, i.e. audiologists, hearing aid dispensers, ear-nose-and-throat specialists and clinic owners; and our constant focus on end-user demands. Based on our experience from the first six months on the market and the findings of a recent customer satisfaction survey, the conclusion is obvious: Opn is an outstanding hearing aid that opens the sound environment and gives a much better hearing experience than ever seen before. And I know what I am talking about, because I use Oticon Opn myself.

In R&D, software development has become increasingly important for us to meet future end-user, digital and eHealth demands. In fact, our Diagnostic Instruments business activity was the first to introduce a new, patented, software-based assessment tool. For the same reason, we have expanded heavily in this area in the past year.

In 2016, our long-term and broad hearing healthcare strategy resulted in satisfactory revenue of DKK 12 billion and a record-high operating profit of DKK 2.1 billion. Approximately 12,000 employees contributed to reaching the year's result, which is in line with our expectations for the year. I would like to thank all our skilled and dedicated employees, who have once again stepped up to the mark and delivered on our ambitious goals and plan. In our Group, we have high seniority, which provides continuity and stability, and I am very happy and proud to be able to celebrate my 25th anniversary and to have been part of our Group's remarkable growth journey at the helm of this fantastic company.

The William Demant Group is a leading, broadly based and growth-oriented hearing healthcare company. We develop, manufacture and sell products and equipment that directly or indirectly help people with hearing loss connect and communicate with the world around them.

Ambition to grow
We want to continue to take market shares in the hearing aid market, considerably grow our Hearing Implants business and maintain our leading position in diagnostics. Below is each business activity's share of the Group's revenue.

GLOBAL PRESENCE
+ 130 countries

HEARING DEVICES
88%

PEOPLE SUFFERING FROM HEARING LOSS
1:10

HEARING IMPLANTS
3%

A GROWING HEARING AID MARKET
4-6% unit growth

DIAGNOSTIC INSTRUMENTS
9%

NUMBER OF EMPLOYEES
12,671

GROUP REVENUE
12 billion DKK
(+13%)

EBIT
2,130* million DKK
(+12%)

** Before announced restructuring costs*

Business model
We focus on three business activities, Hearing Devices, Hearing Implants and Diagnostic Instruments, and in addition use our know-how to develop and expand our joint venture in Personal Communication, Sennheiser Communications, which is an important player on the growing market for communication headsets.

WILLIAM DEMANT HOLDING A/S			
HEARING DEVICES	HEARING IMPLANTS	DIAGNOSTIC INSTRUMENTS	PERSONAL COMMUNICATION
oticon bernafon® SONIC Phonic Ear frontrow	oticon MEDICAL	MAICO Interacoustics amplivox gsi Grason-Stadler MedRx Micromedical Technologies	SENNHEISER COMMUNICATIONS
SHARED FUNCTIONS – DGS			
OPERATIONAL AND DISTRIBUTION ACTIVITIES			

At year-end, our Group had 12,671 employees (11,887 in 2015) of whom 1,516 were employed in Denmark (1,446 in 2015). The average number of staff (full-time equivalent) was 12,339 in 2016 (10,803 in 2015).

CFFO

1,756* million DKK

(+10%)

EBIT (2017 OUTLOOK)

2.2-2.5*

billion DKK

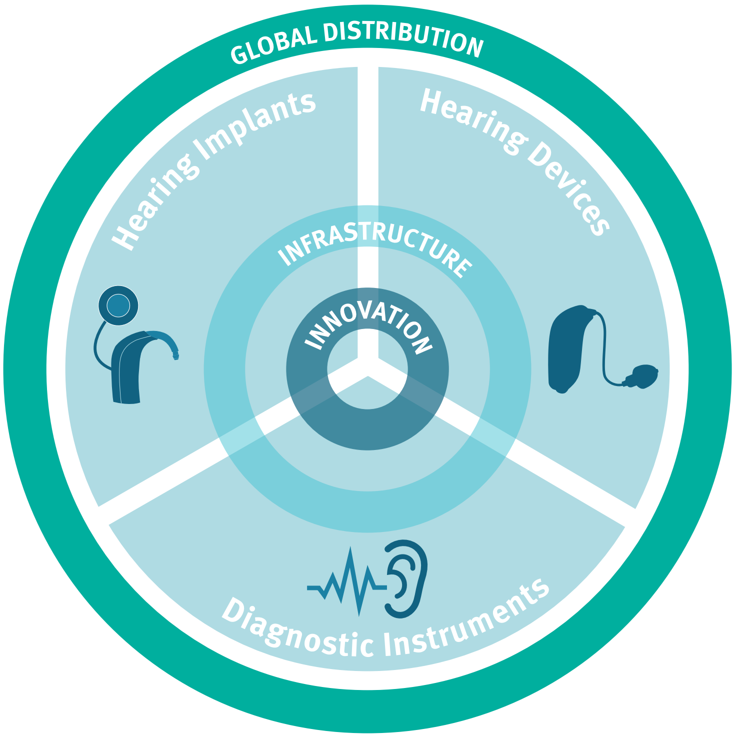
** Before announced restructuring costs*

Strategy

The Group continues its development from once having been a pure hearing aid company to now being a broadly based and growth-oriented hearing healthcare company. This position has been strengthened further in recent years with the introduction of the first in-house developed cochlear implant (CI), the acquisition of the French retailer Audika in 2015, the launch of the hearing aid Velox platform in 2016 and additional focus on strategic initiatives.

William Demant has a strong record of successfully developing businesses from smaller players to market-leading players. In the past decades, we have thus succeeded in building businesses to become market-leading entities in the fields of diagnostics and bone-anchored hearing systems (BAHS), while our Hearing Devices business activity has gained material market shares supported by expansion in own retail. It is therefore our clear ambition to also develop our CI business to obtain a significant market share in the coming years, which will further strengthen our position as a broadly based hearing healthcare company.

Our long-term strategic ambition is to further develop our position as a leading hearing healthcare company with the broadest and deepest product offering based on true innovation – delivered to customers and end-users through a multi-brand approach backed by a comprehensive global distribution set-up and efficient infrastructure.



Our vision is to make a life-changing difference to people living with hearing loss.

Each company in the Group has its own position and unique business model.

STRATEGIC FOCUS AREAS

MULTI-BRAND STRATEGY

Grow our top line by continuing to realise our multi-brand hearing aid wholesale strategy – market by market.

LEADERSHIP IN R&D

Strengthen our product innovation skills by keeping our leadership position in R&D through the application of improved and effective processes and further sharing of technology platforms across our business activities.

RESPOND TO MARKET CONSOLIDATION

Ensure access to wholesale of hearing aids in all markets. In some cases, this means entering into partnerships with retailers or expanding our own retail network into select markets.

EXPAND DIAGNOSTIC INSTRUMENTS

Continue to grow our diagnostics business by making select acquisitions with a view to enhancing our distribution network, product portfolio and technologies and by continuing to develop new business models, e.g. hearing screening of newborns.

STRENGTHEN HEARING IMPLANTS

Oticon Medical will continue to strengthen its position in the market for hearing implants by benefitting from the William Demant technology platform and by investing in R&D as well as in sales and marketing.

IMPLEMENT GLOBAL, COST-EFFICIENT SHARED SERVICES

Continue to build shared services functions across the Group, which will ultimately cover all back-office functions, and by upgrading our global IT business infrastructure with a view to increasing efficiency, obtaining cost savings and exploiting synergies.

Our R&D organisation is a major catalyst for innovation projects. Eriksholm, our research centre, plays a key role in our endeavours to always be at the forefront of development, enabling us to deliver the most innovative solutions to customers and end-users.

FINANCIAL REVIEW

HEARING AIDS WHOLESALE

6% organic growth

HEARING IMPLANTS BUSINESS

7% organic growth

RETAIL BUSINESS

8% organic growth

DIAGNOSTIC INSTRUMENTS BUSINESS

1% organic growth

The financial highlights for the Group in 2016 are shown below. Please see the following pages for a more detailed financial review.

Financial highlights

- Consolidated revenue totalled DKK 12,002 million, matching a growth rate of 13% in local currencies of which organic and acquisitive growth accounted for 6 and 7 percentage points, respectively. Exchange rates had a minor negative impact on revenue of less than 1%.

- Driven by the very successful launch of Oticon Opn, the Group saw 6% organic growth in the wholesale of hearing aids. Our retail business saw very satisfactory revenue growth of 30% in local currencies of which 8 percentage points can be attributed to organic growth. Europe was the main contributor to growth, which consists of a combination of organic growth and growth due to the acquisition of Audika, whereas our US retail activities delivered below expectations.

- Our Hearing Implants business activity delivered 7% organic growth, despite a slower-than-expected uptake of the Neuro cochlear implant and adverse market conditions in several oil-dependent markets. Performance in the second half-year was significantly better than in the first half-year, as momentum improved.

- Even though our Diagnostic Instruments business activity delivered modest 3% growth in local currencies – mainly due to the economic slowdown in a number of oil-dependent markets – we cemented our leading position in the market for diagnostic equipment.

- Supported by a strong finish to the year, EBIT increased by 12% to a record-high DKK 2,130 million before restructuring costs of DKK 188 million, which compares favourably to our expectations of an EBIT in the lower half of the EBIT range of DKK 2-2,300 million. EBIT in the second half-year amounted to DKK 1,238 million before restructuring costs, corresponding to an EBIT margin of 20.0% (full-year EBIT margin of 17.7%). The reported EBIT in 2016 was DKK 1,942 million.

- Cash flow from operating activities (CFFO) increased by a solid 10% to DKK 1,756 million before restructuring costs (reported CFFO of DKK 1,679 million).

- In 2017, we expect to generate solid growth in our three business activities, and we are guiding for an operating profit (EBIT) in the range of DKK 2.2-2.5 billion before the announced restructuring costs of around DKK 200 million. Free cash flow after acquisitions will be spent on buying back shares, and we aim at a target gearing multiple of 1.5-2.0 measured as net interest-bearing debt (NIBD) relative to EBITDA.

As previously announced, the Group has initiated a restructuring programme, and the commentary below to our financial results is based on figures adjusted for restructuring costs, unless otherwise indicated.

Adjusted income statement (DKK million)	Reported 2016	Restructuring costs	Adjusted 2016	Adjusted 2015	Growth
Revenue	12,002	0	12,002	10,665	13%
Production costs	-2,972	-72	-2,900	-2,770	5%
Gross profit	**9,030**	**-72**	**9,102**	**7,895**	**15%**
Gross profit margin	75.2%		75.8%	74.0%	
R&D costs	-839	-55	-784	-763	3%
Distribution costs	-5,654	-36	-5,618	-4,675	20%
Administrative expenses	-676	-25	-651	-603	8%
Share of profit after tax, associates and joint ventures	81	0	81	48	69%
Operating profit (EBIT)	**1,942**	**-188**	**2,130**	**1,902**	**12%**
Profit margin (EBIT margin)	16.2%		17.7%	17.8%	

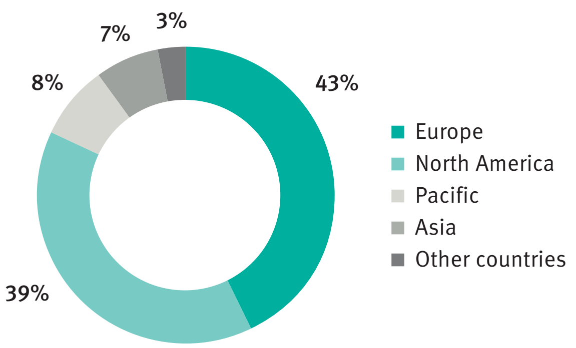
Revenue and foreign exchange
In the reporting period, Group revenue amounted to DKK 12,002 million, corresponding to a growth rate of 13%, including a negative exchange rate effect of less than 1 percentage point. Organic growth contributed by 6 percentage points and acquisitions by 7 percentage points.

The translation effect on Group revenue was negative by almost 2 percentage points. The primary driver was the significant depreciation of the British pound, but also the Canadian dollar had a negative effect. The appreciation of the Japanese yen during the year had a positive effect, while the effect on revenue by the US dollar was almost neutral. The negative translation effect was almost offset by a positive transaction effect of 1 percentage point from hedging instruments. The resulting net exchange rate effect on revenue was negative by less than 1 percentage point.

Revenue by geographic region

DKK million	2016	2015	% change DKK	% change LCY
Europe	5,123	4,136	24%	26%
North America	4,719	4,472	6%	5%
Pacific	911	859	6%	7%
Asia	861	815	6%	6%
Other countries	388	383	1%	5%
Total	**12,002**	**10,665**	**13%**	**13%**

Revenue by geographic region



North America
In 2016, the Group generated revenue in North America of DKK 4,719 million, corresponding to 6% growth. In local currencies, revenue growth was 5%. Our wholesale business saw moderate organic growth, the main contributor being the independent segment. After a long period with a relatively stable – albeit low – market share with Veterans Affairs (VA), the launch of Oticon Opn to this channel in November 2016 resulted in a remarkable jump in market share from 7% in October to 11% in November measured in units. Organic growth in our US retail business was slightly negative due to ongoing integration activities, whereas our retail business in Canada saw strong organic growth. Both Diagnostic Instruments and Hearing Implants saw lower-than-expected growth in the single-digit range. In total, North America accounted for 39% of total Group revenue.

FINANCIAL REVIEW

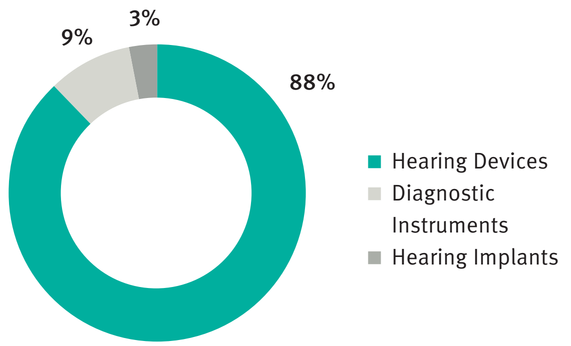
Europe
Group revenue in Europe saw strong growth of 24% to DKK 5,123 million, or 26% in local currencies, driven by solid performances in both our wholesale and our retail businesses. Particularly in the second half-year, our wholesale business saw solid organic growth following the launch of Oticon Opn, which had a positive impact on the average selling price (ASP). Our European retail business grew significantly as a result of both strong organic growth and significant growth from acquisitions, the latter mainly being the result of the acquisition of the French retail chain, Audika, which has performed very well. Diagnostic Instruments saw both organic and acquisitive growth in the low single digits, while exchange rates had a negative effect on revenue. In our Hearing Implants business activity, we realised double-digit growth in local currencies, but growth was nevertheless below expectations. In 2016, Europe accounted for 43% of total Group revenue.

Other regions
Both Asia and Oceania delivered growth in the mid-single digits, with China and South Korea delivering particularly strong growth, whereas growth in *Other countries* was more or less flat, albeit positive. Growth was significantly higher in the second half than in the first half in all three regions. In total, Oceania, Asia and *Other countries* accounted for 18% of total Group revenue.

Revenue by business activity

DKK million	2016	2015	% change DKK	% change LCY
Hearing Devices	10,515	9,213	14%	14%
Diagnostic Instruments	1,089	1,072	2%	3%
Hearing Implants	398	380	5%	7%
Total	**12,002**	**10,665**	**13%**	**13%**

Revenue by business activity



Hearing Devices
In 2016, revenue in Hearing Devices grew by 14%. Acquisitive growth was slightly higher than organic growth, whereas exchange rate effects were neutral. Our core business, wholesale of hearing aids, realised an organic growth rate of 6%, which is attributable to unit growth, whereas the ASP was flat compared to 2015. With the early announcement of Oticon Opn, sales in the high-end segment slowed down in the months prior to the launch in June, but the strong uptake and exceptionally positive end-user feedback following the launch drove sales and had a positive impact on the ASP in the second half-year. Overall and despite tougher comparative figures, growth in our wholesale business was higher in the second than in the first half.

Driven by the acquisition of Audika and solid organic growth, our retail activities had a strong year. Geographically, organic growth was broadly based across all regions, except in the US where organic growth was negative due to the ongoing integration and consolidation of our fragmented retail businesses.

Diagnostic Instruments
Growth in Diagnostic Instruments was 3% in local currencies, with organic growth only contributing by a modest 1%, as a number of oil-dependent markets saw significant negative growth. On the positive side, organic growth was strong in China and in the Pacific region. Diagnostic Instruments accounted for 9% of total Group revenue in 2016.

Hearing Implants
For Hearing Implants, growth in 2016 was below expectations, but performance in the second half of the year was significantly better than in the first half-year, as momentum improved. Hearing Implants saw 7% growth in local currencies, which was almost entirely organic growth, and accounted for 3% of total Group revenue in 2016.

Gross profit
In 2016, the Group's gross profit increased by 15% to DKK 9,102 million, which is mainly attributable to improved production efficiency and a higher share of retail sales, particularly following the acquisition of Audika. The gross profit margin was 75.8%, which is 1.8 percentage points higher than in 2015 and a new all-time high.

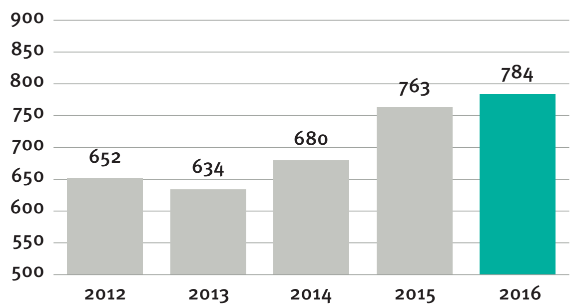
Capacity costs
Total capacity costs amounted to DKK 7,053 million in 2016, which is 17% higher than in 2015. A significant part of this growth can be attributed to acquisitions, as retailers such as Audika have relatively higher capacity costs than the Group as a whole.

Capacity costs adjusted for restructuring costs

			% change	
DKK million	2016	2015	DKK	LCY
R&D costs	784	763	3%	3%
Distribution costs	5,618	4,675	20%	22%
Administrative expenses	651	603	8%	10%
Total	**7,053**	**6,041**	**17%**	**18%**

R&D costs
R&D costs amounted to DKK 784 million in 2016, or 3% growth compared with 2015. R&D costs for the second half of 2016 decreased slightly compared to the first half-year despite an unprecedented high level of ongoing R&D projects, as the consolidation of activities in Poland and Denmark resulted in savings already in the second half of 2016. Our adjusted R&D costs to sales ratio remained unchanged at 7% in 2016.

R&D costs – DKK million*

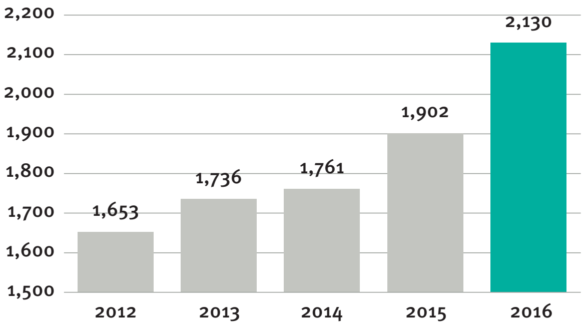


** The figures for 2015 and 2016 are shown on an adjusted basis.*

Distribution costs
Distribution costs rose by 20% to DKK 5,618 million in 2016, mainly driven by acquisitions accounting for roughly two thirds of this growth and organic growth accounting for roughly one third. While the Audika acquisition was obviously the most significant contributor, the overall increase in distribution costs also reflects marketing spend related to the launch of Oticon Opn as well as our general and continued focus on strengthening our global distribution, not least in Hearing Implants.

Administrative expenses
Administrative expenses increased by 8% to DKK 651 million driven by acquisitions. Organic growth was negative, while exchange rate effects also contributed to lowering our administrative expenses.

Operating profit (EBIT) – DKK million*



** The figures for 2015 and 2016 are shown on an adjusted basis.*

Operating profit
With a strong finish to the year, the Group reached a record-high EBIT for 2016 of DKK 2,130 million before restructuring costs of DKK 188 million, which compares to our expectations of an EBIT in the lower half of the EBIT range of DKK 2-2,300 million. This is an increase of 12% compared to 2015. The resulting EBIT margin was 17.7% compared to 17.8% in 2015, but margins improved substantially in the course of the year and reached 20.0% for the second half-year. The marginally lower EBIT margin for the full year compared to 2015 is mainly a result of the change in the Group's cost structure, with an increasing share of total sales originating from the retail business. Also, Hearing Implants continued to have a dilutive effect on the Group's EBIT margin of more than 1 percentage point, whereas the launch of Oticon Opn had a positive impact on the EBIT margin in 2016. Sennheiser Communications' contribution to the Group's EBIT increased slightly compared to 2015. In summary, the Group's EBIT margin reflects a strong performance by Hearing Devices,

mainly driven by the very successful launch of Oticon Opn and strong growth in retail in most markets.

Restructuring costs totalled DKK 188 million in 2016, and reported EBIT was DKK 1,942 million. Please refer to *Strategic Group initiatives* on page 30 for more details.

The total impact on the income statement of the fair value adjustment of non-controlling interests as well as adjustments of estimated earn-outs was DKK 35 million in 2016 (DKK 12 million in 2015) of which DKK 9 million is recognised under *Distribution costs* and DKK 26 million under *Share of profit after tax, associates and joint ventures*. Please refer to Note 6.1 for more details.

Financial items

In 2016, net financial items amounted to DKK -101 million (DKK -69 million in 2015). The increase is mainly related to the increase in interest expenses caused by a higher net debt as well as higher credit card and bank fees. The Group's interest expenses are partly offset by interest income from receivables and customer loans.

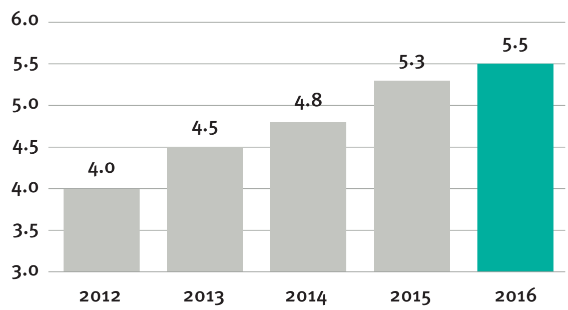
Profit for the year

The Group's reported profit before tax amounted to DKK 1,841 million (DKK 1,809 million in 2015), which is an increase of 2%. Tax on the year's profit amounted to DKK 377 million, corresponding to an effective tax rate of 20.5% (20.5% in 2015). Reported profit after tax amounted to DKK 1,464 million (DKK 1,439 million in 2015), which is also a 2% increase.

Reported earnings per share (EPS) was DKK 5.5, which is an increase of 4% on 2015.

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

Earnings per share – DKK*



** The figures for 2015 and 2016 are shown on an adjusted basis.*

Equity and capital structure

The Group's equity was DKK 6,966 million at 31 December 2016 (DKK 6,500 million at 31 December 2015), matching an equity ratio of 44.8%. The increase in equity is mainly due to profit for the year of DKK 1,464 million and was partly offset by the Company's buy-back of shares amounting to DKK 1,050 million.

Based on the strong cash flow from operating activities (CFFO) in 2016 and the expectation of future growth in CFFO, we will continue to prioritise value-adding investment opportunities and acquisitions. Any available cash not being used for investment or acquisition purposes will be used for buying back shares. We aim at a target gearing multiple of 1.5-2.0 measured as net interest-bearing debt (NIBD) relative to EBITDA. At 31 December 2016, the Company's NIBD/EBITDA ratio was 1.7, which is on par with the level in 2015.

Should attractive investment or acquisition opportunities arise, we may temporarily slow down the buy-back of shares and/or reconsider the targeted gearing level with a view to ensuring a high level of financial flexibility and value creation in the Group.

In 2016, we completed our share buy-back programme, which was announced in 2014 and covered the period from 2014 to 2016. The purpose of the programme was to buy back shares worth a total of DKK 2.5-3.0 billion. For the duration of the programme, we spent DKK 2,541 million in total of which DKK 887 million was spent in 2014, DKK 604 million in 2015 and DKK 1,050 million in 2016. Our acquisition of Audika in 2015 is the reason why we ended at the lower end of the range.

Group equity	**2016**	**2015**
(DKK million)		
Equity at 1.1.	**6,500**	**5,584**
Foreign currency translation adjustments, subsidiaries	43	84
Value adjustments, hedging instruments	26	7
Profit for the year	1,464	1,439
Other adjustments including buy-back of shares	-1,067	-614
Equity at 31.12.	**6,966**	**6,500**

Cash flow

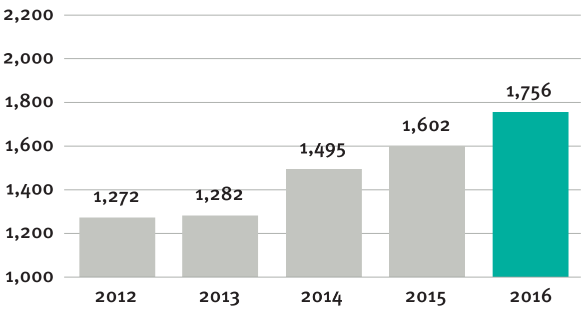
Adjusted CFFO totalled DKK 1,756 million in 2016, which is an increase of 10% on the year before. The defined strategic initiatives had a negative impact on reported CFFO for 2016 of DKK 77 million, with the first half-year accounting for DKK 27 million. Income tax paid in 2016 aggregated DKK 426 million of which DKK 280 million was paid in Denmark.

The reported free cash flow amounted to DKK 1,223 million, corresponding to an increase of 8%. Excluding acquisitions and divestments, cash flow from investing activities (CFFI) totalled DKK 456 million in 2016 (DKK 463 million in 2015). Reported cash flow for the year totalled DKK 258 million, corresponding to a drop of DKK 287 million compared to 2015, which is attributable to a mix of higher spending on share buy-back, lower spending on acquisitions and, as a result of the latter, lower contribution from other financing activities.

Cash flow by main items	2016	2015
(DKK million)		
Adjusted operating profit (EBIT)	**2,130**	**1,902**
Adjusted cash flow from operating activities	**1,756**	**1,602**
Cash flow impact from strategic initiatives	-77	-10
Reported cash flow from operating activities	1,679	1,592
Cash flow from investing activities	-456	-463
Free cash flow	**1,223**	**1,129**
Acquisition and divestment of enterprises, participating interests and activities	-336	-1,633
Cash flow from financing activities	-629	1,049
Cash flow for the year	**258**	**545**

The amount relating to the acquisition and divestment of enterprises, participating interests and activities of DKK 336 million in 2016 (DKK 1,633 million in 2015) includes earn-out payments relating to prior-year acquisitions. The significantly higher amount in 2015 relates to our acquisition of Audika.

Cash flow from operating activities (CFFO) – DKK million*



** The figures for 2015 and 2016 are shown on an adjusted basis.*

Cash flow from financing activities (CFFF), totalling DKK -629 million in 2016 (DKK 1,049 million in 2015), mainly relates to share buy-back. In 2016, we repaid debt in the amount of DKK 350 million (DKK 1,449 million in 2015) and took out new debt in the amount of DKK 774 million (DKK 3,103 million in 2015).

Balance sheet

At 31 December 2016, the Group's assets totalled DKK 15,548 million, which is an increase of 8% on the balance sheet total at year-end 2015. This increase is mainly due to goodwill resulting from acquisitions and an increase in the Group's trade receivables.

We provide loans to our customers on an ongoing basis and at 31 December 2016, such loans amounted to DKK 582 million (DKK 584 million in 2015).

Our net interest-bearing debt rose by DKK 333 million, amounting to DKK 4,036 million at the end of 2016. This increase can mainly be attributed to an increase in our short-term interest-bearing debt of DKK 497 million.

The Group's net working capital amounted to DKK 2,201 million in 2016, consisting of current assets of DKK 4,262 and current liabilities of DKK 2,061 million, which is on par with the level in 2015.

At the end of 2016, the fair value of the Group's forward exchange contracts was DKK -34 million, consisting of unrealised gains of DKK 11 million and losses of DKK 45 million, and the change in the fair value of an interest rate cap amounted to an unrealised loss of DKK 1 million. Consequently, the Group's net financial contracts were negative by DKK 35 million at the end of 2016.

There have been no events that materially affect the assessment of this Annual Report 2016 after the balance sheet date and up to today.

OUTLOOK

Market and business conditions going forward
We expect unit sales in the wholesale market for hearing instruments to grow steadily and to exceed the historical growth rate. However, as several new products are soon to be launched, the competitive environment is likely to intensify and lead to an increased fight for market shares. Furthermore, in some markets we are likely to see more aggressive behaviour from our competitors, as far as retail acquisitions are concerned. Such factors can add some uncertainty for the Group in the short to medium term as reflected in our outlook for 2017.

As Oticon Medical, Diagnostic Instruments and retail are generally subject to seasonality and typically experience a stronger second half-year than first half-year, we see seasonal fluctuations in our results. Results generated in our hearing aid businesses, on the other hand, are more evenly distributed across the year and are not so much impacted by the seasons, but rather by the timing of product introductions.

Outlook 2017
As far as the hearing aid market is concerned, we expect to see a unit growth rate of 4-6%. We expect a low, single-digit percentage decline in the market's average wholesale price due to competition and possible mix effects. In terms of value, we thus expect the wholesale market to grow by 1-3% in 2017, as was also the case in 2016.

In 2017, 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 2017 and including the impact of exchange rate hedging, we expect a positive exchange rate impact on revenue of around 1% in 2017. Acquisitions made in 2016 will also impact consolidated revenue by approximately 1% in 2017.

In 2017, we expect continued strong cash flow from operating activities (CFFO) and to continue to buy back shares. We will continue to prioritise value-adding investment opportunities and acquisitions, and any additional cash will be spent on buying back shares. We aim at a target gearing multiple of 1.5-2.0 measured as net interest-bearing debt (NIBD) relative to EBITDA.

We are guiding for an operating profit (EBIT) of DKK 2.2-2.5 billion before the announced restructuring costs of around DKK 200 million.

OUR BUSINESS

Very satisfactory growth in Hearing Devices driven by strong performance in our retail business and a very successful launch of Oticon Opn™.

Market conditions and business trends
We believe that in 2016 the unit growth rate was in line with our updated estimate of 4-6% growth and that the main explanations for this are the baby boomer generation of 70+ years reaching the average age of a first-time user as well as higher penetration rates. The latter is true both for the more mature Western markets and for emerging markets, mainly Asia where improved healthcare systems and higher average income have increased the access to hearing aids. These factors, combined with a growing elderly population, seem to drive additional global demand for hearing aids.

We estimate that the global average selling price (ASP) was slightly down in 2016, due – among other factors – to fierce competition, especially in the low-end and mid-priced segments, and to channel mix shifts. Measured in value, we thus estimate that the market growth rate was 1-3%.

The hearing aid industry continues to be a highly competitive business environment where the six major manufacturers compete for market shares. Recent years' industry consolidation at retail level continued in 2016, most notably with Sonova's acquisition of the European retailer AudioNova, but many minor acquisitions also underpinned the forward integration that continues to take place in the hearing aid industry.

Hearing Devices
Our Hearing Devices business activity (wholesale and retail of hearing aids) showed strong performance in 2016 with a growth rate of 14% in local currencies (6% organic growth), mainly driven by very satisfactory performance in our retail

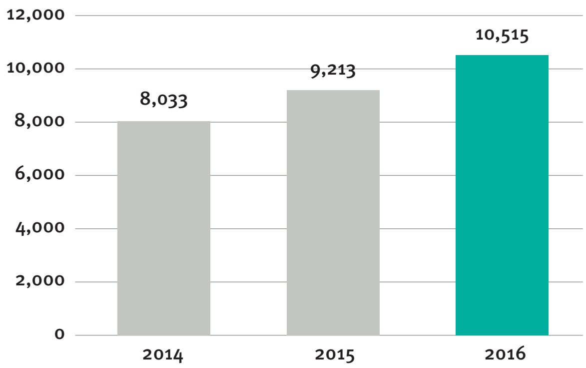
REVENUE

10,515 million DKK

GROWTH

14% in local currencies

REVENUE (DKK million)



business and the launch of Oticon Opn at the end of the first half-year, which contributed to strong sales in our wholesale business throughout the rest of the year.

Wholesale
Our core business – the development, manufacture and wholesale of hearing aids – saw strong organic revenue growth in the second half-year, mainly due to the launch of Oticon Opn in June 2016, resulting in a full-year organic revenue growth rate of 6%. Our two other hearing aid brands, Bernafon and Sonic, saw satisfactory revenue growth in the first half-year, which was however followed by a slowdown in the second half-year.

The organic growth rate recorded in the first half-year was negatively impacted by the early announcement of Oticon Opn, which caused a slowdown in customers' buying pattern in the months leading up to the actual launch. In addition to that, some delay in the introduction of Opn in some markets hampered growth in the first half-year.

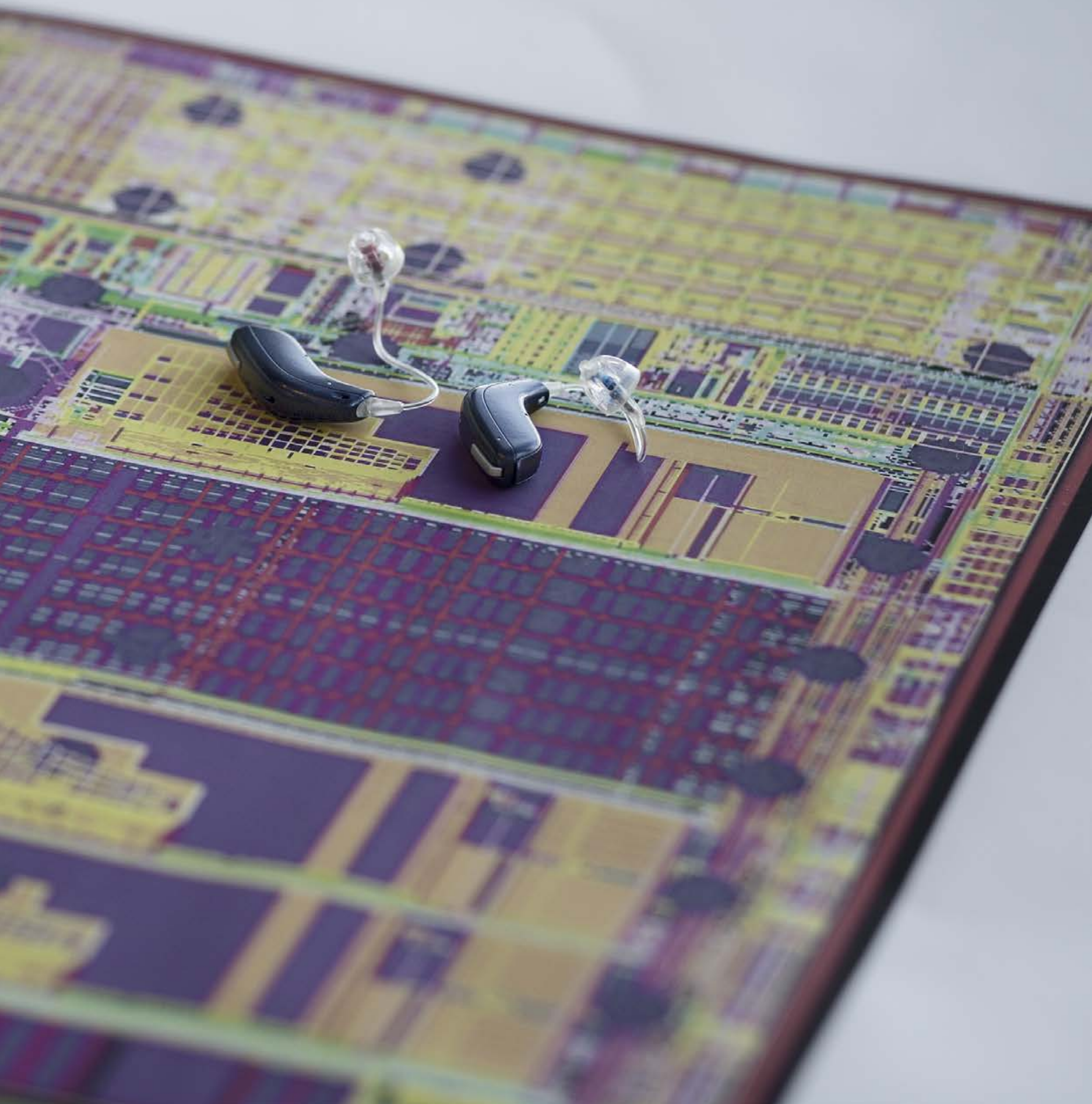
Organic growth was driven by solid unit growth of 6% and favourable ASP development in the second half-year, resulting in a flat full-year ASP after a decrease of 4% in the first half-year. The latter can primarily be explained by the negative effects of product mix shifts due to the early announcement of Opn, which caused the above-mentioned slowdown in customers' buying pattern, especially in the high-end segment. Measured in value, we thus gained market shares in 2016.

Growth was broadly based with Europe as the main positive, whereas growth in the US was slightly below our expectations due to soft performance by our own retail business and lost sales attributable to acquisitions made by our competitors. As far as the rest of the world is concerned, we have seen solid growth and gained market shares in many markets.

Successful launch of Oticon Opn™
With the launch of the Velox platform and Oticon Opn, Oticon introduced a new paradigm and created strong momentum in the market. We have had very positive reactions to Oticon Opn, surpassing anything we have ever seen before. This was confirmed by an internal study published in The Hearing Review in January 2017, showing unprecedented satisfaction rates. Based on the first 700 users' experience with Opn, 70% of the users were "very satisfied" with the product. By comparison, 47% of users are "very satisfied" with a new product according to the most recent MarkeTrak 9 study. The 70% rate also exceeds the satisfaction rate recorded after our most recent high-end product launch of Oticon Alta 2 in 2015, when 54% of the users responded "very satisfied".

In late 2016, the Opn family was extended further by Opn 2 and Opn 3, which had a positive impact on the growth we saw in the second half-year. This extension also included new features at all three price points. We will continue to strengthen the Opn product range in 2017 and further leverage on our current technological edge, which will be an important growth driver in 2017.

HEARING DEVICES



VA/NHS
In 2016, we continued to increase our market share with the NHS in the UK where we remain the largest supplier of hearing aids.

After a long period where our market share with Veterans Affairs (VA) in the US has been stable, albeit unsatisfactory, we enjoyed a steep increase in our market share in November, following the introduction of Opn into VA. Measured in units, our market share jumped from 7% to 11%. We feel confident that the positive performance will continue in 2017, as we build on the momentum in this channel with the launch of new features to the Opn product range.

Retail
Our retail business saw very satisfactory revenue growth of 30% in local currencies in 2016, driven by both significant organic growth (8 percentage points) and acquisitions (22 percentage points), with our French retail chain, Audika, being the major contributor to our acquisitive growth.

Especially in Europe, we have seen very strong growth in our well-established retail organisations. The integration of Audika into the Group has been very successful. Audika has realised substantial organic growth, and the conversion to William Demant products is progressing well. On the other hand, we have seen slightly negative organic growth in our US retail business, which is mainly due to the ongoing consolidation of our highly fragmented retail businesses, involving the roll-out and implementation of our new ERP system. It is a time-consuming process to integrate and consolidate different operating models into one joint retail operating model. We have therefore taken a number of initiatives to accelerate these processes, and we are pleased to report that the initiatives are progressing according to plan.

We are confident that we will continue to deliver growth in 2017, as we expect to see continuously strong performance in the more mature businesses and markets that performed well in 2016, while we keep strong focus on improving performance in markets that are currently challenged.

Other matters
On 7 December 2016, the FDA published a new guidance document, addressing, among other topics, the medical examination to be carried out prior to dispensing a hearing aid as well as recommendations regarding a regulatory framework for over-the-counter (OTC) hearing aids issued by the President's Council of Advisors on Science and Technology (PCAST) and the National Academies of Sciences, Engineering and Medicine (NAS) .

According to the new guidance, the FDA does not intend to enforce a medical evaluation to be carried out prior to dispensing certain hearing aid devices to individuals aged 18 years and above. We believe that this change will only have insignificant impact on the hearing aid industry, as a medical examination has as a matter of routine been waivered by end-users for years.

The FDA will also consider and address PCAST and NAS recommendations regarding the FDA's regulation of hearing aid dispensing, including recommendations regarding the establishment of a regulatory framework for dispensing OTC hearing aids. In this regard, the FDA is committed to seeking additional public input before proposing such an approach.

We support the governing by the FDA of the hearing aid market and a potential future OTC hearing aid category.

2016 HIGHLIGHTS

- **Successful launch of Oticon Opn™ in June**
- **Expansion of Oticon Opn™ product family by new price points**

2017 PIPELINE

- **Additional features and styles to be added to the Oticon Opn™ product family**
- **New strong product portfolios in Bernafon and Sonic**

HEARING IMPLANTS

Solid growth in Hearing Implants, albeit below expectations, with improved momentum towards the end of the year on the back of very strong new product offerings in both CI and BAHS.

In 2016, our Hearing Implants business activity under the Oticon Medical brand realised 7% growth in local currencies, which was almost entirely organic growth, while reported growth was 5% due to negative exchange rate effects. Even though this was below our original expectations and below the overall market growth rate, growth was significantly stronger at the end of the year than at the beginning with improved momentum for the Neuro CI system and the successful launch in the fourth quarter of the Ponto 3 bone-anchored sound processor.

Cochlear implants

It is estimated that in terms of unit sales, the market growth rate for cochlear implants (CI) was at the same low, double-digit level in 2016 as in recent years, and we expect the same level for 2017. A key driver is the increasing recognition of the CI as a very effective way of rehabilitating adults with profound hearing loss and habilitating children born with profound hearing loss or complete deafness. Other drivers include: increasing elderly populations in key markets, growing wealth in some emerging markets, product innovation as well as new indications, such as single-sided deafness and severe tinnitus.

Our CI sales growth rate was slightly below the market growth rate and thus below our expectations. Despite very positive feedback from clinics, the time span between evaluating the results of their first implantations and scheduling new ones is longer than anticipated, which has slowed down the uptake of the Neuro implant compared to initial expectations. Furthermore, the approval to start implanting Neuro was delayed in France, which is a key market, and is now expected in the first half of 2017. Approvals in Russia and Brazil are expected to follow later

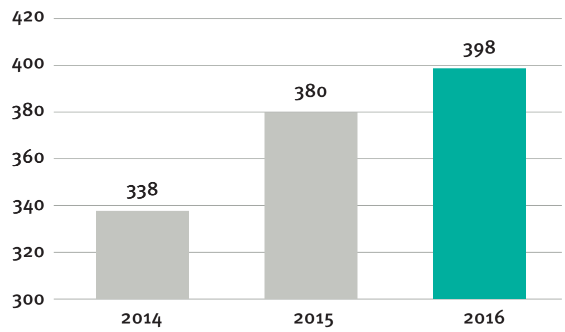
REVENUE

398 million DKK

GROWTH

7 % in local currencies

REVENUE (DKK million)



in 2017, and in January 2017, we initiated a clinical study with a view to obtaining regulatory approval in the US. Sales of former CI product generations did not contribute to growth as expected, as performance was soft in a number of oil-dependent key markets.

Despite the slower-than-expected uptake, clinics in 17 countries have now performed Neuro implantations, and so far the results gathered from more than 350 active users are very encouraging. The launch of the Neuro implant marked the first phase of the introduction of a completely revamped CI product portfolio, and 2017 will see the start of the second phase, which will focus on a very small and cosmetically very attractive BTE platform and on a completely new generation of updated fitting software.

Bone-anchored hearing systems

In the market for bone-anchored hearing systems (BAHS), unit growth in 2016 is estimated at around 10%, driven by innovation and improved product offerings from other manufacturers, targeting people with conductive hearing loss or single-sided deafness.

In 2016, growth in the Group's BAHS sales was below expectations and below the estimated market growth rate due to new product launches from the competition in combination with the introduction of Ponto 3 late in the year. While sound processor sales grew less than expected, the implant part of the business, however, saw satisfactory growth due to the success of the new Minimally Invasive Ponto Surgery (MIPS) technique.

In the fourth quarter of 2016, we began the launch of our new Ponto 3 family of bone-anchored sound processors in selected markets, and the roll-out will continue in a number of key markets in the first part of 2017. In terms of audiological performance, Ponto 3 significantly benefits end-users, and the revolutionary Ponto 3 Super Power offers the highest output ever by an abutment-level sound processor and can be used for hearing losses down to 65 dB. This means that people with severe hearing loss will have the opportunity to get a cosmetically more attractive solution than ever seen before.

Overall, our Hearing Implants business activity will in 2017 focus on improving growth and once again gaining market shares with Neuro and Ponto 3 as the key drivers. We will continue our strong commitment to innovation and growth as well as to further geographical expansion.

2016 HIGHLIGHTS

- **Introduction of Neuro CI**
- **Launch of Ponto 3 BAHS**

2017 PIPELINE

- **Regulatory approvals expected for Neuro CI in France, Australia, Argentina, Russia, Brazil and in a few smaller countries in Eastern Europe**
- **Regulatory approvals expected for Ponto BAHS in Russia and India and in a few smaller countries in Eastern Europe**
- **Clinical study initiated in January 2017 with a view to subsequent regulatory approval of Neuro CI in the US**
- **New BTE platform for Neuro CI**

The growth rate in Diagnostic Instruments was in line with the market growth rate driven by strong performance in Asia and the Pacific region, despite challenging market conditions in a number of oil-dependent markets.

The global market for hearing-diagnostic equipment and accessories is estimated to have grown by 0-2% in 2016, amounting to around DKK 2.7 billion. The low market growth rate is primarily due to unusually low tender activities in a number of oil-dependent markets, including the Middle East, Africa as well as South and Central America where we have seen negative growth in 2016. Currently, there are no signs of material improvements, so we expect the challenging market conditions to continue in 2017. In the Pacific region, we saw strong double-digit growth rates, especially driven by very satisfactory growth in Australia, and in Asia, we continued to see encouraging growth, with China being the biggest single contributor with growth above 20%.

Our Diagnostic Instruments business activity, which includes, among others, six audiometer companies, i.e. Grason-Stadler (USA), Amplivox (UK), Maico (Germany and USA), MedRx (USA), Micromedical (USA) and Interacoustics (Denmark), continues to enjoy strong market positions in most product categories and across different customer segments. In 2016, Diagnostic Instruments did not, however, quite meet the initial expectations set for 2016, mainly due to the market slowdown mentioned above, and we realised a full-year growth rate of 3% in local currencies. Even if this is above the growth rate realised in 2015, it is clearly below the previous five years' average growth rate of 10%. In view of an estimated market growth rate for hearing-diagnostic equipment in the range of 0-2%, we cemented our leading market position.

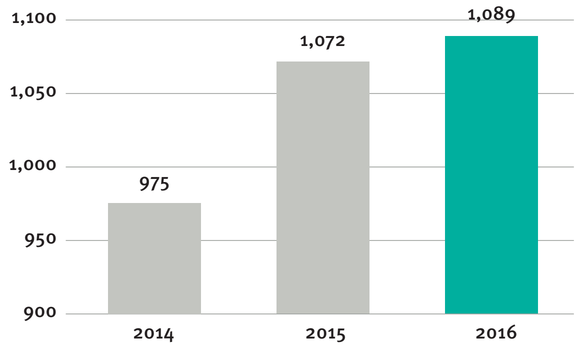
REVENUE

1,089 million DKK

GROWTH

3% in local currencies

REVENUE (DKK million)



In 2016, we successfully executed on various projects: We established a newborn hearing screening business in the US with a proven business model and significant growth potential, we moved our production of diagnostic equipment to a separate production centre in Poland and thus increased operational efficiency, Grason-Stadler (GSI) launched a new mid-level audiometer called Pello, and Maico and Interacoustics launched new impedance product lines. Furthermore, we introduced a new, patented, software-based, self-administered assessment tool for automatic diagnostic audiometry, which was introduced to Veterans Affairs (VA) in the US in the latter part of 2016 and will be commercialised and introduced to the broader market for audiology in 2017.

Having entered 2017 with positive sales momentum and having successfully executed on the above-mentioned projects, we are confident that we will continue to deliver growth, especially in the more mature markets, albeit with sizeable performance volatility in a number of oil-dependent markets.

2016 HIGHLIGHTS

- **Establishment of a newborn hearing screening business in the US based on a proven business model**
- **Several new product introductions, e.g. a new, patented, software-based, self-administered assessment tool for automatic diagnostic audiometry**

2017 PIPELINE

- **Introduction of new competitive products**
- **Continued expansion and development of our newborn hearing screening business**
- **Further efficiency improvements in our operational processes**

Solid performance in Personal Communication, with all three segments, Mobile, Gaming and CC&O, contributing to growth.

Sennheiser Communications, our 50/50 joint venture with Sennheiser KG, manufactures headsets and solutions for the professional Call Center and Office (CC&O) market, including Unified Communication (UC), and consumer headsets for the Gaming and Mobile markets. In 2016, all three markets saw high single-digit value growth, which is expected to continue in 2017. Competition is fierce in all segments, so continued focus on distribution and product innovation is necessary, as offerings based on more fully integrated solutions are becoming increasingly important.

Sennheiser Communications is recognised under *Share of profit after tax, associates and joint ventures* in the consolidated financial statements. However, the full income statement for Sennheiser Communications is shown below.

(DKK million)	2016	2015
Revenue	749	668
Gross profit	**320**	**289**
Gross margin	42.7%	43.3%
Capacity costs	-188	-163
Operating profit (EBIT)	**132**	**126**
EBIT margin	17.6%	18.9%
Tax on profit for the year	-29	-30
Profit for the year	103	96
William Demant Holding share of profit, 50%	**51**	**48**

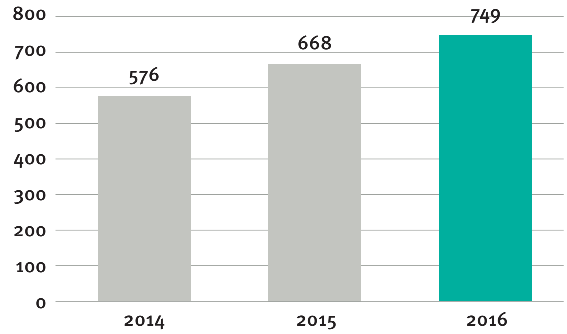
REVENUE

749 million DKK

GROWTH

12 % in local currencies

REVENUE (DKK million)



In 2016, Sennheiser Communications grew its revenue by 12% to DKK 749 million driven by solid growth in all three segments. Gaming performed particularly well, realising above-market growth rates. The Mobile segment saw growth slightly above the estimated market growth rate and exceeded expectations at the beginning of the year. In the CC&O segment, growth was in line with the general market growth rate, but below expectations, which was largely due to a slowdown in sales on the US market in the first half-year. However, we won large orders with a number of global UC accounts in the second half and managed to improve the run rate towards the end of the year.

Product mix effects from the relative shift of revenue from the CC&O to the Gaming segment adversely impacted the EBIT margin. Increasing capacity costs relating to continued focus on product development and distribution, particularly in UC, also had a negative impact on profitability. We will maintain this focus, and we therefore expect capacity costs to increase further in 2017 and thus continue to dilute our profitability on the short term. However, the resulting improved product portfolio and improved global distribution will help position Sennheiser Communications for future growth, not least as far as improved solutions for the UC market are concerned.

2016 HIGHLIGHTS

- **Launch of a wide range of products, including the very successful MB660 for the CC&O segment**

2017 PIPELINE

- **Introduction of new innovative products in all three segments: Mobile, Gaming and CC&O**
- **Continued focus on strong, integrated, solutions-based offerings for the CC&O market, including UC**

STRATEGIC GROUP INITIATIVES

In our Interim Report 2016, we announced several strategic initiatives to be implemented in 2016 to 2018 with a view to ensuring continuous cost efficiency gains and supporting our future scalability at a lower cost. These initiatives mainly relate to operational activities and R&D.

The initiatives with the largest expected financial impact are the transfer of operational activities from Denmark to Poland, the expansion of our shared services and repair facility in Mexico and the consolidation of our hearing aid R&D at two locations, i.e. in Denmark and in Poland. All are activities that will help us execute on our strategy and thus make our business stronger and simpler going forward. We consider cost-efficient and strong set-ups in Operations and R&D some of the key drivers of future profit growth in the hearing aid industry.

Our execution on the announced initiatives is progressing according to plan. Activities related to the ITE service and repair facility in Eagan (Minneapolis, USA) were fully transferred to Mexico in 2016, and the transfer of our remaining operational activities from Thisted (Denmark) to Poland was initiated in the second half of 2016 and is expected to be completed before the end of 2018. Furthermore, we have initiated the consolidation of our R&D and Quality activities at fewer locations, and we have started to transfer our R&D activities from Switzerland to Poland and Denmark and expect the transfer from Switzerland to be complete by the end of 2017.

We expect all the defined projects to impact costs in the income statement by around DKK 500 million in total for the entire period, corresponding to a negative impact on the cash flow from operating activities (CFFO) of around DKK 400 million. In 2016, we recognised total costs of around DKK 188 million against an expected amount of DKK 200 million of which DKK 52 million was recognised in the first half-year. The negative impact on the CFFO for 2016 was DKK 77 million, with the first half-year accounting for DKK 27 million.

When fully implemented after 2018, the initiatives are expected to result in annual cost savings of around DKK 200 million compared to the cost base for 2016 and also in future scale effects. The cost savings will materialise gradually in 2017 and 2018, as we execute on the defined initiatives, and will support our long-term profit growth and secure cost-efficient set-ups in key areas. In 2017, we expect to recognise total restructuring costs of around DKK 200 million.

Impact of restructuring costs in 2016

(DKK million)	2016
Revenue	0
Production costs	-72
Gross profit	**-72**
R&D costs	-55
Distribution costs	-36
Administrative expenses	-25
Capacity costs	**-116**
Share of profit after tax, associates and joint ventures	0
Operating profit (EBIT)	**-188**

SHAREHOLDER INFORMATION AND CORPORATE GOVERNANCE

SHAREHOLDER INFORMATION

Share capital and price development

As of 31 December 2016, William Demant Holding's nominal share capital was DKK 53,216,365 divided into 266,081,825 shares of DKK 0.20 each. All shares are the same class and carry one vote each.

The change compared to the year before is due to the reduction of the Company's nominal share capital by DKK 1,208,870 through the cancellation of treasury shares approved at the annual general meeting on 7 April 2016. Furthermore, the annual general meeting approved a share split at a ratio of 1:5, resulting in a reduction of the nominal value per share from DKK 1.00 to DKK 0.20.

The Board of Directors has been authorised by the annual general meeting to increase the Company's share capital by a nominal value of up to DKK 6,664,384. Furthermore, the Board of Directors has been authorised to increase the share capital by an additional nominal value of up to DKK 2,500,000 in connection with the issued shares being offered to employees. Both authorisations are valid until 1 April 2021.

The price of William Demant Holding shares decreased by 6.5% in 2016, and at 31 December 2016, the share price was DKK 122.80, corresponding to a market capitalisation of DKK 31.8 billion (excluding treasury shares). The average daily trading turnover was DKK 63.1 million. The Company is a constituent of the OMXC20CAP (C20) index, which covers the 20 largest and most frequently traded shares on Nasdaq Copenhagen. The C20 index decreased by 1.9% during the year.

Specification of movements in share capital

DKK 1,000	2016	2015	2014	2013	2012
Share capital at 1.1.	54,425	56,662	56,662	58,350	58,350
Capital increase	0	0	0	0	0
Capital reduction	-1,209	-2,236	0	-1,688	0
Share capital at 31.12.	**53,216**	**54,425**	**56,662**	**56,662**	**58,350**
– Nominal value per share (DKK)	0.20	1.00	1.00	1.00	1.00
– Total number of shares	266,081	54,425	56,662	56,662	58,350

Share information

DKK[1]	2016	2015	2014	2013	2012
Highest share price	145.0	138.00	107.60	108.80	119.40
Lowest share price	105.60	91.40	82.00	88.80	90.20
Share price, year-end	122.80	131.40	93.60	105.40	96.80
Market capitalisation[2]	31,829	35,126	25,545	29,754	27,419
Average trading turnover[2]	63.1	68.5	50.5	44.7	46.0
Average number of shares[3]	263.7	270.1	278.1	283.1	285.1
Number of shares at 31.12.[3]	259.2	267.3	272.8	282.3	283.3
Number of treasury shares at 31.12.[4]	6.9	4.8	10.5	1.0	8.4

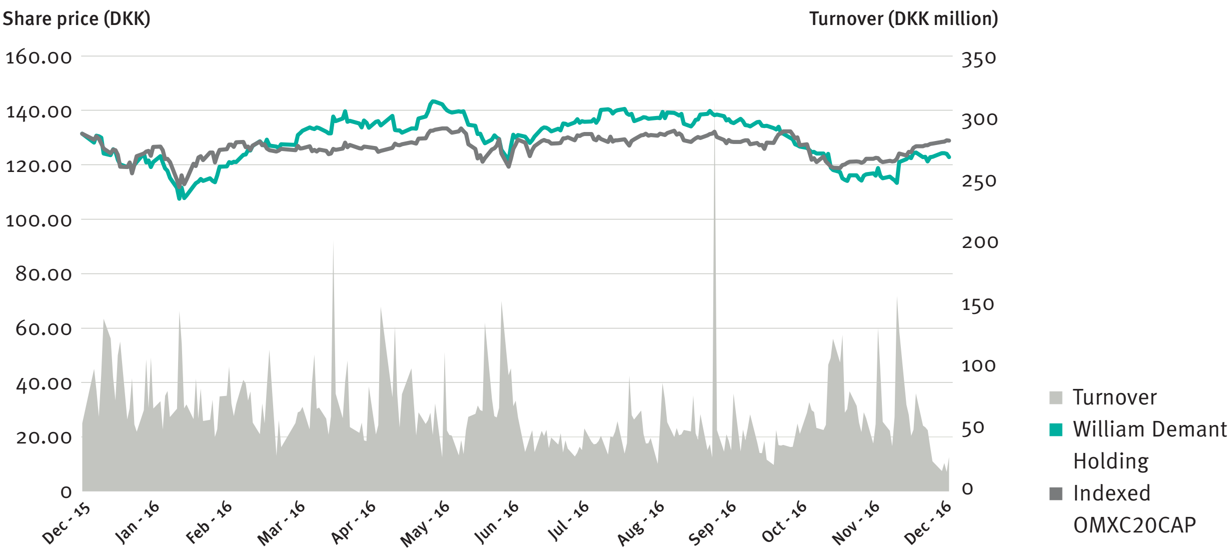
[1] In 2016, the nominal value of all shares outstanding was changed from DKK 1.00 to DKK 0.20, and comparative figures for 2012-2015 have been adjusted accordingly.

[2] DKK million excluding treasury shares.

[3] Million shares excluding treasury shares.

[4] Million shares.

Development in share price and turnover



SHAREHOLDER INFORMATION

Ownership
William Demants og Hustru Ida Emilies Fond (the Oticon Foundation) holds the majority of shares in William Demant Holding and has previously communicated its intention to maintain an ownership interest of 55-60% of William Demant Holding's share capital. Any sale of shares by the Foundation is independent of any purchase of shares by the Company. At 31 December 2016, the Oticon Foundation held – either directly or indirectly – approximately 59% of the shares outstanding (excluding treasury shares).

No other shareholders had flagged an ownership interest of 5% or more as of 31 December 2016.

At 31 December 2016, the Company held 6,887,399 treasury shares, corresponding to 2.6% of the shares outstanding.

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 and 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.

Dividend and share buy-back
The Company will primarily use its substantial cash flow from operating activities 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 2017, 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 previously communicated, the Company has been running a share buy-back programme with the aim of buying back shares worth DKK 2.5-3.0 billion in the period from 2014 to 2016. When the programme ended on 31 December 2016, the Company had bought back shares worth DKK 2,541,400,193 at an average price of DKK 109.99.

SHAREHOLDER INFORMATION

Investor Relations
William Demant Holding strives to ensure a steady and consistent flow of information to IR stakeholders in order to promote a basis for a fair pricing of the Company's shares – pricing that will at any time reflect the Company's strategies, financial capabilities and outlook 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, which helps us stay updated on the views, interests and opinions of various stakeholders in respect of the Company. Through presentations, individual meetings and participation in investor conferences, we aim to maintain an ongoing dialogue with a broad spectrum of IR stakeholders, and in 2016, we held approximately 430 investor meetings and presentations. We also use our website, www.demant.com, as a means of communication with our stakeholders. At the end of 2016, 30 equity analysts were covering William Demant Holding. We refer to our website for a full list of analyst coverage.

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

Søren B. Andersson   Mathias Holten Møller

Main Company announcements in 2016

7 January	GN ReSound and William Demant settle all patent disputes
1 March	Publication of Annual Report 2015
9 March	Notice convening the annual general meeting 2016
7 April	Annual general meeting
13 April	Landmark product introduction from Oticon
29 April	Change in the number of voting rights
10 May	Interim information
19 May	Completion of capital reduction
19 May	Completion of share split
17 August	Interim Report 2016
4 October	Financial calendar 2017
10 November	Interim Management Statement
16 December	New staff-elected member of the Board of Directors

Financial calendar 2017

13 February	Deadline for submission of items for the agenda of the annual general meeting
23 February	Annual Report 2016
27 March	Annual general meeting
9 May	Interim Management Statement
14 August	Interim Report 2017
9 November	Interim Management Statement

William Demant Holding has a three-week quiet period prior to publication of annual reports, interim reports and interim management statements where communication with IR stakeholders is restricted.

Annual general meeting 2017
The annual general meeting will be held on Monday, 27 March 2017, 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 connection with the preparation of the Group's strategic, budgetary and annual plans, the Board of Directors considers the risks identified in these activities.

In general, we act in a stable market with a limited number of players, and under normal circumstances, the risks to which the Company may be exposed do not change in the short term. In 2016, 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 been stable.

Business risks

The major risks to which the 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 where our significant R&D initiatives help underpin our market position. It is thus vital in the long term to maintain our innovative edge and to attract the most qualified and competent staff. Our continuous development of new products brings with it inherent product risks, mainly related to delays of new product launches. However, due to our constant focus on all links in the value chain, such delays rarely occur. We closely monitor our 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 damage as well as legal fees.

In 2016, the Group announced several strategic initiatives, including the relocation of some production and R&D sites, which will be implemented in 2016 to 2018. Such initiatives carry inherent operational and executional risks, but are so far progressing according to plan. Please refer to *Financial review* on page 30 for more details on the progress of the strategic Group initiatives.

An important part of our ongoing product innovation is to take out, protect and maintain patents for our own groundbreaking development and technology. These are indeed complicated processes in the hearing healthcare industry, and we therefore maintain and develop our competencies in this area on an ongoing basis. It is our policy to continuously monitor that third-party products do not infringe our patents and that our products do not infringe third-party patents. The Group is involved in a few legal disputes, but Management is of the opinion that these do not or will not significantly affect the Group's financial position. As a rule, we seek to make adequate provisions for legal proceedings.

As a major player in the hearing healthcare market, the Group is also exposed to certain regulatory risks in terms of changes to product requirements, reimbursement schemes and public tenders in the markets where we operate. However, we feel well positioned to respond to any such changes, and our broad presence in the hearing healthcare market should help minimise any impact on the Group as a whole.

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 financial risks arising from our commercial activities and not to undertake any financial transactions of a speculative nature.

Exchange rate risks

With 98% of the Group's sales being invoiced in foreign currencies, reported revenue is significantly affected by movements in the Group's trading currencies. The Group seeks to hedge against such 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 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.

RISK MANAGEMENT ACTIVITIES

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	2016	2015
USD	+40	+40
AUD	+15	+15
GBP	+15	+13
CAD	+15	+13
JPY	+5	+5

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

The exchange rate risk has been calculated on the basis of a simple addition of the operating profits (EBITs) of Group enterprises in local currencies. Whereas the addition of EBITs includes all Group enterprises, the net foreign 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	2016	2015
USD	+90	+80
AUD	+20	+18
GBP	+13	+13
CAD	+50	+45
JPY	+3	+3

The material forward exchange contracts in place at 31 December 2016 to hedge against the Group's exposure to movements in exchange rates appear from the table below.

Material forward exchange contracts at 31 December 2016

Currency	Hedging period	Average hedging rate
USD	14 months	673
JPY	18 months	6.29
AUD	6 months	510
CAD	8 months	513
GBP	4 months	867

At the end of 2016, the fair value of the Group's forward exchange contracts was DKK -34 million, consisting of unrealised gains of DKK 11 million and losses of DKK 45 million, and the change in the fair value of an interest rate cap amounted to an unrealised loss of DKK 1 million. Consequently, the Group's net financial contracts were negative by DKK 35 million at the end of 2016. Please refer to Note 2.3 for more details.

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 and relatively low financial gearing, 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 through medium-term committed facilities with fixed rates and through financial instruments, which limits the interest rate risk.

The Group's net interest-bearing debt was DKK 4,036 million at 31 December 2016, corresponding to a gearing ratio of 1.7 (NIBD/EBITDA). Based on this level, a rise of 1 percentage point in the general interest rate level will cause an increase in annual interest expenses before tax of DKK 13 million (DKK 21 million in 2015).

The Group will continue to prioritise value-adding investment and acquisition opportunities. Any available cash not being used for investment or acquisition purposes will be spent on buying back shares. The Group aims at a target gearing multiple of 1.5-2.0 measured as net interest-bearing debt (NIBD) relative to EBITDA. Should attractive investment or acquisition opportunities arise, we may temporarily slow down the buy-back of shares and/or reconsider the targeted gearing level with a view to ensuring a high level of financial flexibility and value creation in the Group.

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 ten largest customers account for less than 12% of total consolidated revenue. Furthermore, when granting loans, we require that our counterparts provide security in their business. Overall, we therefore estimate that we have no major credit exposure on Group level.

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 deposits is considered to be low.

Liquidity risks
The Group aims to have sufficient cash resources to be able to 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 2016, 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-over-month development is very similar from one year to the other, and 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 resulting from such 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, which will ensure that appropriate insurance policies are, on a continuous basis, 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 briefed regularly on developments in identified risks. The purpose of this reporting is to keep the Board members fully updated and to facilitate corrective action to minimise any such risks.

CORPORATE GOVERNANCE

Recommendations on corporate governance
Recommendations issued by 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 in Denmark. 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, www.demant.com/about/responsibility/#governance. 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 if we do not comply with a recommendation, this 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 to provide 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, website, webcasts, capital markets 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 applicable rules.

In addition to the required publication of the annual report and interim report, we publish quarterly interim management statements 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. The interim management statements do not include actual figures, since we do not believe that such figures will promote a better understanding of our activities.

Executive Board
The Company's Executive Board presently consists of President & CEO Niels Jacobsen, Chief Operating Officer Søren Nielsen and Chief Financial Officer René Schneider.

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. On an ongoing basis, the Board of Directors 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
The Board has eight members: five members elected by the shareholders at the annual general meeting and three members elected by staff in Denmark. At the annual general meeting in 2016, the Board was extended by a new member elected by the shareholders. 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.

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, three of 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, www.demant.com/about/management/, 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.

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 website.

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 website.

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 a questionnaire 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 2016, the Board of Directors expressed satisfaction with the manner in which the Board works, emphasising the constructive working climate in the Board.

The Board of Directors' shareholdings

As of 23 February 2017, all Board members are shareholders in the Company, holding shares as follows (due to the share split carried out last year, all shareholdings have been multiplied by five, but remain unchanged compared to last year): Lars Nørby Johansen, Chairman, 21,390 shares; Peter Foss, Deputy Chairman, 12,940 shares; Niels B. Christiansen 2,510 shares; Thomas Duer 1,335 shares; Benedikte Leroy 3,000 shares; Ole Lundsgaard 5,280 shares; Jørgen Møller Nielsen 100 shares; Lars Rasmussen 7,500 shares.

Board of Directors' and Executive Board's remuneration

At the annual general meeting in 2016, new guidelines for incentive pay were adopted, allowing agreements on incentive pay for the Executive Board. Up to now, each member of the Executive Board has received fixed remuneration. Now, in addition to the fixed remuneration and in order to provide further incentive for the Executive Board of the Company to continue their services to the Company and to align the interests of the Executive Board with the interests of the shareholders of the Company, the Board of Directors has offered the members of the Executive Board to join a cash-settled, share-based remuneration programme. The share-based programme has vesting conditions under which the members of the Executive Board must remain employed for three years to receive the remuneration.

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. At the annual general meeting in 2016, the basic fee was increased by DKK 50,000 to DKK 350,000.

At the annual general meeting in 2016, it was decided that the members of the audit committee should 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. Nomination committee members do not receive additional remuneration for their work on the committee.

Meetings in 2016

In 2016, the Board of Directors convened on four occasions. The audit committee held three meetings in connection with ordinary Board meetings. The nomination committee held one meeting in 2016.

Annual general meeting

At the Company's annual general meeting on 7 April 2016, Lars Nørby Johansen, Peter Foss, Niels B. Christiansen and Benedikte Leroy were re-elected for a term of one year. Lars Rasmussen was elected new member of the Board of Directors. After the annual general meeting, the Board members elected Lars Nørby Johansen Chairman and Peter Foss Deputy Chairman of the Board of Directors.

Care for other people is our very foundation

We live in a complex and dynamic world where the ability to hear is one of the keys to cognitive development, social interaction and an active lifestyle. For more than 100 years, the William Demant Group has been driven by and has invested in helping people living with a hearing loss.

The story of our Company starts at the beginning of the twentieth century with one man's passion to help his wife lead a better life, unhindered by her hearing loss. Hans Demant founded the Company in 1904, and when he passed away some years later, his son William Demant picked up the baton and carried on the business.

William Demant was an energetic and visionary man driven by a strong personal interest in hearing and the treatment of hearing loss. He created Oticon and in 1957, he established *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation), the purpose of which was – and still is today – to ensure that Oticon (now part of the William Demant Group) continues as a business based on a humanistic philosophy. Today, more than 50 years after its creation, the Oticon Foundation's focal point is still to care for other people.

High standards

With the Oticon Foundation as the majority shareholder of William Demant Holding, not only the name of the Company's major driving force remains, but the Company's vision is still to make a life-changing difference to people suffering from hearing loss.

Within the Company's natural sphere of influence, we strive to actively improve people's quality of life and minimise the adverse effects of our activities. This is achieved by ensuring that business results are financially viable, socially balanced and environmentally sustainable.

Sustainability framework

In William Demant Holding, we organise our work with corporate social responsibility within a framework that comprises four different categories, corporate governance, people and society, environmental protection and business ethics, and entails 14 principles.

The principles provide guidance for our Management and all our employees, and we promote similar practices among our suppliers and business partners.

The Group makes a positive contribution to the communities in which it operates through job generation, economic growth, tax payment and the marketing of products that contribute to enhancing people's quality of life. We want to help people hear better, to communicate effortlessly to be an active part of society.

We aim to adopt a responsible approach with a view to minimising our environmental footprint, to undertake initiatives that promote environmental responsibility and to encourage the development and diffusion of environmentally friendly technologies.

It is natural for us to comply with all current environmental rules and regulations in all the countries in which we operate. Our product-related environmental impact is limited: By way of example, a hearing aid weighs just 2-6 grammes and contains no harmful substances.

Benchmark analysis

In 2016, William Demant carried out a thorough benchmark and compliance analysis of our CSR activities and structure and on this basis identified new areas of attention as well as targets and strategies to be pursued. Also in 2016, the EU updated its legislation on CSR reporting, and we are pleased to report that we meet the new requirements, e.g. company profile, clearer explanation of processes, risk assessments and KPIs.

> Everybody is committed to high standards of ethics, quality and fairness and dedicated to meeting our environmental and social responsibilities.
>
> *Niels Jacobsen, President & CEO of William Demant Holding*

78 million DKK

Donations to research, education, culture and care

2.32 tonnes

CO_2 emission per employee – a slight reduction compared to 2015

REPORTING ON RESPONSIBILITY

Every year, we prepare a corporate social responsibility (CSR) report, which describes the commitment of William Demant Holding's Management to ensure that the Group acts in accordance with corporate governance rules and business ethics and that it meets its social and environmental responsibilities.

The report also serves as the Group's Communication on Progress (COP) report to the UN Global Compact and as William Demant Holding's statement on the UK Modern Slavery Act. In addition, the report serves as the statutory report to be presented under ss 99 a and 99 b of the Danish Financial Statements Act. The full report is available on our website, www.demant.com/media/#media-documents.

DONATIONS BY THE OTICON FOUNDATION

In 2016, the Oticon Foundation donated DKK 78 million to projects in such areas as research, education, culture and care. A total of DKK 42 million was donated to projects aiming at alleviating hearing loss all over the world and to education and research projects within hearing healthcare. One example of our global philanthropic activities was the Mobile Hearing Clinic project – a hearing clinic on wheels that can reach the rural districts of China.

Supporting institutions and research projects in the field of audiology is an important part of the Oticon Foundation's activities. In 2016, the Oticon Foundation donated DKK 11 million to audiological research at leading universities around the world in for instance the Netherlands, the US, South Africa, Italy and in the Nordic countries. In Denmark, the Oticon Foundation co-founded the establishment of CASPR, a new research centre at Aalborg University, with a contribution of DKK 8 million.

DIVERSITY AND GENDER EQUALITY

In terms of corporate governance, diversity at management level addresses age, international experience and gender. We have defined a diversity policy and taken specific initiatives to increase the share of female managers in the Group, and we will continue to take concrete initiatives to support the policy, ranging from communication to recruitment and onboarding. The policy and a description of the developments made are available in our CSR report and on our website, www.demant.com/about/responsibility,

Since we started recording these numbers in 2009, the male/female manager ratio in our Danish companies has improved from 89/11 in 2009 to 81/19 in 2016. In middle and first-line management, the ratio has increased from 84/16 in 2009 to 79/21 in 2016.

In terms of gender equality, the Board set a new target in February 2016: Before the end of 2020, the Board of Directors aims to have at least two female members. Today, the Board has one female member.

CONCRETE EMISSION IMPROVEMENTS

As a means of measuring and recording our environmental footprint, we submit the CDP (formerly known as the Carbon Disclosure Project) report on corporate CO_2 emissions and climate strategy.

In 2016, our Group's CO_2 emissions reached 14,973 tonnes, corresponding to 2.32 tonnes per employee. By way of example, emissions reached a total of 14,406 tonnes in 2015, or 2.36 tonnes per employee. As a growth company, we are satisfied that we have decreased – albeit slightly – our CO_2 footprint per employee compared to 2015.

EXECUTIVE BOARD

René Schneider Søren Nielsen Niels Jacobsen

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 also has 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.

- Oticon A/S, President
- Sennheiser Communications A/S, board member

René Schneider
CFO
(born 1973)

Joined the Company in 2015 as Chief Financial Officer (CFO). René Schneider has broad business and financial experience from various management positions with major companies, including listed companies. His areas of responsibility in William Demant Holding include Finance, Operations, IT, Investor Relations and Legal Affairs.

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 2016 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
- Arp-Hansen Hotel Group A/S, deputy chairman
- Fonden for Entreprenørskab – Young Enterprise, chairman

Lars Nørby Johansen holds a Master of Social Sciences degree. His qualifications 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 2016 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 2016 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 six subsidiaries
- Axcel, 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.

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 department 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 2016 for a term of one year. She is a member of the audit committee and is considered independent.

- Dell Technologies, SVP & 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 she 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 he has been with Interacoustics A/S since 1993.

Jørgen Møller Nielsen
(born 1962)

Staff-elected Board member. Joined the Board of Directors in 2017 after having been elected substitute Board member in 2015 for a term of four years.

Jørgen Møller Nielsen holds a Master of Science degree in Electrical Engineering from the Technical University of Denmark (DTU) and holds a Diploma in Business Administration (Organisation and Strategy). He is Project Manager at the Group's facility in Ballerup, Denmark, and he has been with the Company since 2001.

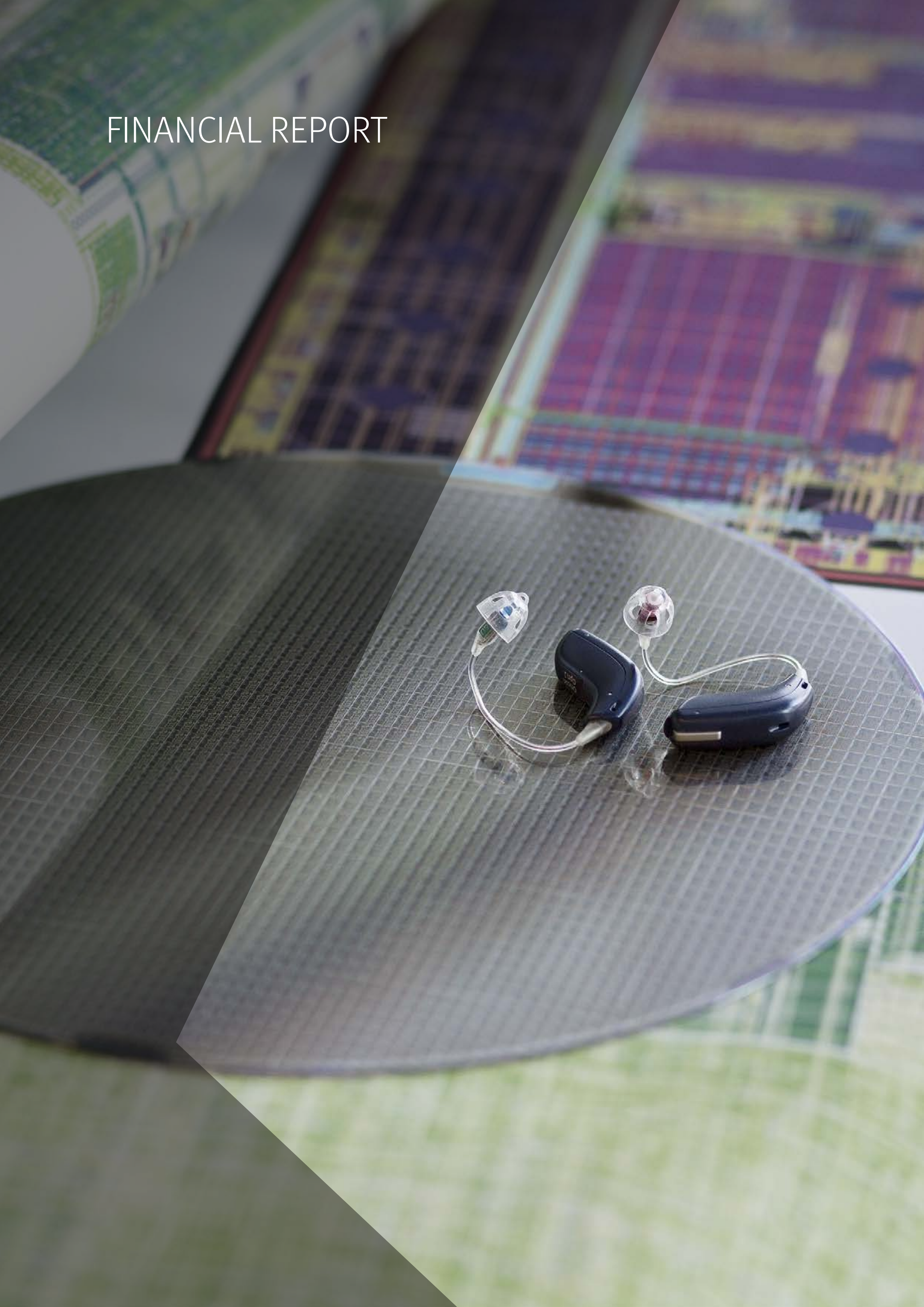
Lars Rasmussen
(born 1959)

Elected to the Board of Directors in 2016 for a term of one year. He is a member of the audit committee and is considered independent.

- Coloplast A/S, President & CEO
- H. Lundbeck A/S, chairman

Lars Rasmussen holds a Bachelor of Science degree in Engineering from Aalborg University and an Executive MBA from SIMI. He has considerable executive management experience from global MedTech functions. Lars Rasmussen's qualifications include management and board experience from listed companies, innovation, globalisation, business-to-business and business-to-consumer sales models, and he has extensive experience with globalisation and efficiency improvements.

FINANCIAL REPORT



MANAGEMENT STATEMENT

We have today discussed and approved the Annual Report 2016 of William Demant Holding A/S for the financial year 1 January – 31 December 2016.

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 2016 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 2016 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 2016.

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 2016 for adoption at the annual general meeting.

Smørum, 23 February 2017

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

Jørgen Møller Nielsen

Lars Rasmussen

INDEPENDENT AUDITOR'S REPORT

To the shareholders of William Demant Holding A/S

Opinion
We have audited the consolidated financial statements and the parent financial statements of William Demant Holding A/S for the financial year 1 January 2016 to 31 December 2016, which comprise the income statement, balance sheet, statement of changes in equity and notes, including the summary of significant accounting policies, for the Group as well as the Parent and the consolidated cash flow statement and the consolidated statement of comprehensive income. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act, and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2016 and of the results of its operations and cash flows for the financial year 1 January 2016 to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at 31 December 2016 and of the results of its operations for the financial year 1 January 2016 to 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January 2016 to 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for business combinations
Refer to Note 6.1 in the consolidated financial statements.

With regard to the purchase of BC Implants AB ("BCI"), Management has performed a fair value calculation of BCI and the related acquired technology in order to determine the fair value of the previously held ownership interest in BCI, as well as the value allocated to the acquired technology. These calculations include judgements and estimates, including the cost and potential future viability and market potential of BCI's technology and discount rate applied.

The Group furthermore completed additional individually immaterial business combinations for a total purchase price of DKK 439 million, resulting in the recognition of goodwill of DKK 509 million and other intangible assets of DKK 52 million.

The allocation of the purchase price in business combinations to other intangible assets acquired also relies on assumptions and judgements made by Management. Management has performed a fair value calculation which includes judgements and estimates, including the future cash flow anticipated from the acquired customer base and the discount rate applied.

How the matter was addressed in the audit
We have tested internal controls that address the accounting for business combinations and tested the reasonableness of the key assumptions, including market potential, revenue and cash flow growth and discount rates. We assessed and challenged Management's assumptions used in its fair value models for BCI, BCI's technology, and for other intangible assets in the remaining business combinations, including:

- The forecast of market potential and future cash flow projections by discussing with Management and key employees.

- Consulted with subject matter experts regarding the valuation methodologies applied.

- Obtained supporting documentation of Management's estimates and key assumptions and corroborated certain information – including the applied discount rates – with third party sources.

- Tested the mathematical accuracy of the calculations in the model.

- Considered the impact of reasonably possible changes in key assumptions and performed sensitivity calculations to quantify the impact of potential downside changes to Management's models.

Statement on the Management commentary
Management is responsible for the Management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the Management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the Management commentary and, in doing so, consider whether the Management commentary is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management commentary.

Management's responsibility for the consolidated financial statements and the 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 additional requirements of the Danish Financial Statements Act, 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.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and the parent financial statements.

As part of an audit conducted in accordance with International Standards on Auditing and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

- Obtain an understanding of internal control relevant to the audit 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 Group's and the Parent's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

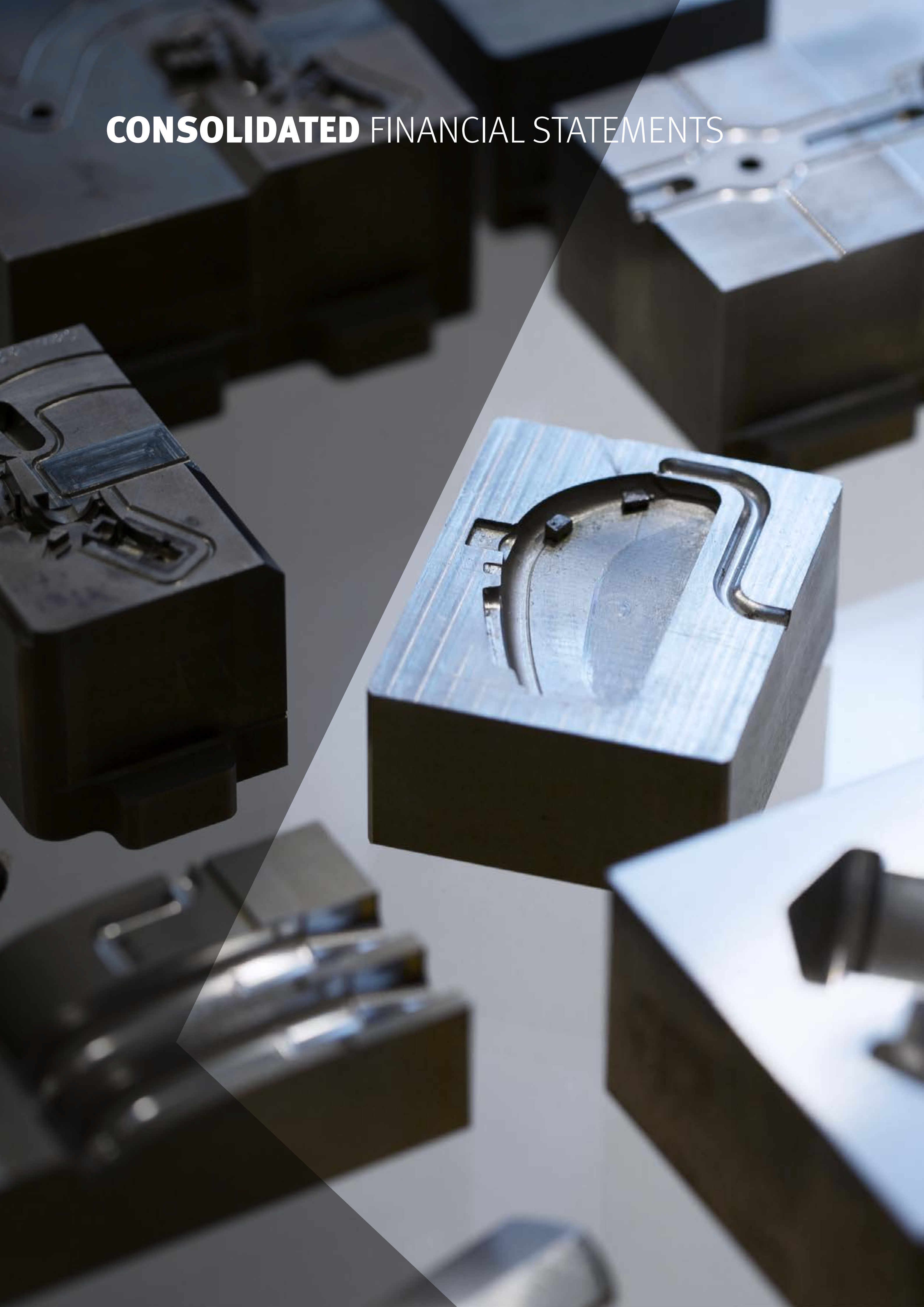
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 23 February 2017

Deloitte
Statsautoriseret Revisionspartnerselskab
Central Business Registration No 33 96 35 56

Anders Vad Dons
State-Authorised
Public Accountant

CONSOLIDATED FINANCIAL STATEMENTS



CONSOLIDATED INCOME STATEMENT

(DKK million)	Note	2016	2015
Revenue	1.1	12,002	10,665
Production costs	1.2 / 1.3 / 1.5 / 1.8	-2,972	-2,770
Gross profit		**9,030**	**7,895**
R&D costs	1.2 / 1.3 / 1.8 / 8.3	-839	-763
Distribution costs	1.2 / 1.3 / 1.8	-5,654	-4,689
Administrative expenses	1.2 / 1.3 / 1.8 / 8.2	-676	-613
Share of profit after tax, associates and joint ventures	3.3 / 6.3	81	48
Operating profit (EBIT)		**1,942**	**1,878**
Financial income	4.2	42	44
Financial expenses	4.2	-143	-113
Profit before tax		**1,841**	**1,809**
Tax on profit for the year	5.1	-377	-370
Profit for the year		**1,464**	**1,439**
Profit for the year attributable to:			
William Demant Holding A/S' shareholders		1,459	1,436
Minority interests		5	3
		1,464	**1,439**
Earnings per share (EPS), DKK	1.4	5.5	5.3
Diluted earnings per share (DEPS), DKK	1.4	5.5	5.3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(DKK million)	2016	2015
Profit for the year	**1,464**	**1,439**
Other comprehensive income:		
Items that have been or may subsequently be reclassified to the income statement:		
Foreign currency translation adjustment, subsidiaries	43	84
Value adjustment of hedging instruments:		
Value adjustment for the year	-20	-152
Value adjustment transferred to revenue	46	158
Value adjustment transferred to financial expenses	0	1
Tax on items that have been or may subsequently be reclassified to the income statement	-9	14
Items that have been or may subsequently be reclassified to the income statement	**60**	**105**
Items that will not subsequently be reclassified to the income statement:		
Actuarial gains/(losses) on defined benefit plans	-7	-8
Tax on items that will not subsequently be reclassified to the income statement	1	1
Items that will not subsequently be reclassified to the income statement	**-6**	**-7**
Other comprehensive income	**54**	**98**
Comprehensive income	**1,518**	**1,537**
Comprehensive income attributable to:		
William Demant Holding A/S' shareholders	1,513	1,534
Minority interests	5	3
	1,518	**1,537**
Breakdown of tax on other comprehensive income:		
Foreign currency translation adjustment, subsidiaries	-3	14
Value adjustment of hedging instruments for the year	4	35
Value adjustment of hedging instruments transferred to revenue	-10	-35
Value adjustment of hedging instruments transferred to financial expenses	0	0
Actuarial gains/(losses) on defined benefit plans	1	1
Tax on other comprehensive income	**-8**	**15**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2016	2015
Assets			
Goodwill		6,276	5,660
Patents and licences		51	22
Other intangible assets		289	275
Prepayments and assets under development		152	20
Intangible assets	3.1	**6,768**	**5,977**
Land and buildings		878	900
Plant and machinery		220	183
Other plant, fixtures and operating equipment		290	285
Leasehold improvements		263	246
Prepayments and assets under construction		91	154
Property, plant and equipment	3.2	**1,742**	**1,768**
Investments in associates and joint ventures	3.3	583	525
Receivables from associates and joint ventures	3.3 / 4.3 / 4.4	383	357
Other investments	3.3 / 4.3 / 4.5	8	12
Other receivables	1.6 / 3.3 / 4.3 / 4.4	539	567
Deferred tax assets	5.2	396	376
Other non-current assets		**1,909**	**1,837**
Non-current assets		**10,419**	**9,582**
Inventories	1.5	1,300	1,324
Trade receivables	1.6 / 4.3	2,440	2,203
Receivables from associates and joint ventures	4.3	71	53
Income tax		146	77
Other receivables	1.6 / 4.3 / 4.4	259	277
Unrealised gains on financial contracts	2.3 / 4.3 / 4.5	11	12
Prepaid expenses		192	188
Cash	4.3 / 4.4	710	674
Current assets		**5,129**	**4,808**
Assets		**15,548**	**14,390**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2016	2015
Equity and liabilities			
Share capital		53	54
Other reserves		6,908	6,445
Equity attributable to William Demant Holding A/S' shareholders		6,961	6,499
Equity attributable to minority interests		5	1
Equity		**6,966**	**6,500**
Interest-bearing debt	4.3 / 4.4	1,960	2,080
Deferred tax liabilities	5.2	152	125
Provisions	7.1	295	273
Other liabilities	4.3 / 7.2	171	119
Deferred income		170	164
Non-current liabilities		**2,748**	**2,761**
Interest-bearing debt	4.3 / 4.4	3,547	3,050
Trade payables	4.3	513	486
Payables to associates and joint ventures		2	2
Income tax		148	145
Provisions	7.1	32	16
Other liabilities	4.3 / 7.2	1,244	1,098
Unrealised losses on financial contracts	2.3 / 4.3 / 4.4 / 4.5	46	74
Deferred income		302	258
Current liabilities		**5,834**	**5,129**
Liabilities		**8,582**	**7,890**
Equity and liabilities		**15,548**	**14,390**

CONSOLIDATED CASH FLOW STATEMENT

(DKK million)	Note	2016	2015
Operating profit (EBIT)		1,942	1,878
Non-cash items etc.	1.7	374	326
Change in receivables etc.		-293	-220
Change in inventories		40	-96
Change in trade payables and other liabilities etc.		136	8
Change in provisions		10	12
Dividends received		9	79
Cash flow from operating profit		**2,218**	**1,987**
Financial income etc. received		31	44
Financial expenses etc. paid		-137	-113
Realised foreign currency translation adjustments		-7	-1
Income tax paid		-426	-325
Cash flow from operating activities (CFFO)		**1,679**	**1,592**
Acquisition of enterprises, participating interests and activities		-363	-1,633
Disposal of enterprises, participating interests and activities	6.2	27	0
Investments in and disposal of intangible assets		-152	-48
Investments in property, plant and equipment		-319	-393
Disposal of property, plant and equipment		20	18
Investments in other non-current assets		-199	-230
Disposal of other non-current assets		194	190
Cash flow from investing activities (CFFI)		**-792**	**-2,096**
Repayments of borrowings		-350	-1,449
Proceeds from borrowings		774	3,103
Dividends to minority interests		-3	0
Buy-back of shares		-1,050	-605
Cash flow from financing activities (CFFF)		**-629**	**1,049**
Cash flow for the year, net		**258**	**545**
Cash and cash equivalents at the beginning of the year		-1,704	-2,055
Foreign currency translation adjustment of cash and cash equivalents		-82	-194
Cash and cash equivalents at the end of the year		**-1,528**	**-1,704**
Breakdown of cash and cash equivalents at the end of the year:			
Cash		710	674
Short-term bank facilities	4.3 / 4.4	-2,238	-2,378
Cash and cash equivalents at the end of the year	4.3 / 4.4	**-1,528**	**-1,704**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(DKK million)	Share capital	Other reserves			William Demant Holding A/S' shareholders' share	Minority interests' share	Equity
		Foreign currency translation reserve	Hedging reserve	Retained earnings			
Equity at 1.1.2015	**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, subsidiaries	-	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	0	-1
Equity at 31.12.2015	**54**	**173**	**-45**	**6,317**	**6,499**	**1**	**6,500**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – *CONTINUED*

(DKK million)	Share capital	Other reserves			William Demant Holding A/S' shareholders' share	Minority interests' share	Equity
		Foreign currency translation reserve	Hedging reserve	Retained earnings			
Equity at 1.1.2016	**54**	**173**	**-45**	**6,317**	**6,499**	**1**	**6,500**
Comprehensive income in 2016:							
Profit for the year	-	-	-	1,459	1,459	5	1,464
Other comprehensive income:							
Foreign currency translation adjustment, subsidiaries	-	43	-	-	43	-	43
Value adjustment of hedging instruments:							
Value adjustment, year	-	-	-20	-	-20	-	-20
Value adjustment transferred to revenue	-	-	46	-	46	-	46
Value adjustment transferred to financial expenses	-	-	-	-	-	-	-
Actuarial gains/(losses) on defined benefit plans	-	-	-	-7	-7	0	-7
Tax on other compr. income	-	-3	-6	1	-8	0	-8
Other comprehensive income	-	40	20	-6	54	0	54
Comprehensive income, year	**-**	**40**	**20**	**1,453**	**1,513**	**5**	**1,518**
Buy-back of shares	-	-	0	-1,050	-1,050	-	-1,050
Capital reduction through cancellation of treasury shares	-1	-	-	1	0	0	0
Transactions with minority shareholders	-	-	-	-1	-1	2	1
Other changes in equity	-	-	-	0	0	-3	-3
Equity at 31.12.2016	**53**	**213**	**-25**	**6,720**	**6,961**	**5**	**6,966**

For changes in share capital, please refer to *Parent statement of changes in equity* on page 120.

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
CF – Consolidated cash flow statement

SECTION 1 OPERATING ACTIVITIES AND CASH FLOW

12,002 DKK million

Revenue

1,223 DKK million

Free cash flow

1.1 REVENUE BY GEOGRAPHIC REGION AND BUSINESS ACTIVITY

(DKK million)

	2016	2015
Revenue by geographic region:		
Denmark	186	169
Other Europe	4,937	3,967
North America	4,719	4,472
Oceania	911	859
Asia	861	815
Other countries	388	383
Total IS	**12,002**	**10,665**

Consolidated revenue mainly derives from the sale of goods and is broken down by the customers' geographical location. The ten largest single customers together account for less than 12% of total consolidated revenue.

	2016	2015
Revenue by business activity:		
Hearing Devices	10,515	9,213
Diagnostic Instruments	1,089	1,072
Hearing Implants	398	380
Total IS	**12,002**	**10,665**

	2016	2015
Value adjustments transferred from equity relating to derivatives made for hedging revenue OCI	-46	-158

§ 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.

ACCOUNTING ESTIMATES AND ASSUMPTIONS

Operating segments

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.

Discounts, returns etc.

Discounts, loyalty programmes and other revenue reductions are estimated and accrued when the related revenue is recorded. To make such estimates requires use of judgement, as all conditions are not known at the time of sale, e.g. the number of units sold to a given customer or the expected utilisation of loyalty programmes. Liabilities in respect of sales discounts, rebates and loyalty programmes are adjusted, as we gain better information on the likelihood that they will be realised and the value at which they are expected to be realised.

Depending on local legislation and the conditions given on actual sales, some customers have the option of returning purchased goods for a refund. Based on historical return rates, an estimate is made of the expected returns and a liability is recognised. This liability is updated, as returns are recognised or when we collect more accurate data on return rates.

1.2 EMPLOYEES

(DKK million)	Note	2016	2015
Staff costs:			
Wages and salaries		4,580	4,011
Share-based remuneration		1	0
Defined contribution plans		64	55
Defined benefit plans	7.1	3	18
Social security costs etc.		419	317
Total		**5,067**	**4,401**
Staff costs by function:			
Production costs		785	803
R&D costs		502	502
Distribution costs		3,191	2,604
Administrative expenses		589	492
Total		**5,067**	**4,401**
Average number of full-time employees		12,339	10,803

Remuneration to Executive Board and Board of Directors (included in staff costs)

(DKK million)	2016				2015			
	Wages and salaries*	Seniority bonus**	Share-based remuneration**	Total	Wages and salaries*	Seniority bonus**	Share-based remuneration**	Total
Niels Jacobsen, President & CEO	14.1	5.2	-	19.3	13.4	4.6	-	18.0
Søren Nielsen, COO	7.9	-	0.4	8.3	2.0	-	0	2.0
René Schneider, CFO	4.7	-	0.2	4.9	1.4	-	0	1.4
Executive Board	**26.7**	**5.2**	**0.6**	**32.5**	**16.8**	**4.6**	**0**	**21.4**
Fee to Board of Directors				**3.9**				**3.0**

** No member of the Executive Board has remuneration in the form of pension or other benefits of more than DKK 0.5 million (DKK 0.5 million in 2015). These expenses are therefore included in wages and salaries.*
*** In 2016, DKK 0 million (DKK 0 million in 2015) of the share-based remuneration and seniority bonus was paid out.*

The President & CEO of William Demant Holding is entitled to a seniority bonus, matching one year's salary for every four years of employment from 2005-2016. This seniority bonus is recognised as a defined benefit plan and will be paid out on termination of his employment. The total recognised liability at 31 December 2016 is DKK 42 million (DKK 37 million in 2015).

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 has 24 months' and the CFO has 13 months' notice. Søren Nielsen and René Schneider both joined the Executive Board on 1 September 2015. Their remuneration has been included from this date.

In 2016, the basic remuneration for a member of the Parent's Board of Directors was DKK 350,000 (DKK 300,000 in 2015). The Chairman of the Board of Directors receives three times the basic remuneration and the Deputy Chairman twice the basic remuneration. The members of the audit committee each receive a basic remuneration of DKK 50,000 (DKK 0 in 2015), and the Chairman of the audit committee receives three times the basic remuneration (DKK 0 in 2015).

1.2 EMPLOYEES – *CONTINUED*

In 2016, part of the Executive Board and other senior members of Management enrolled in a number of cash-settled, share-based remuneration programmes. These share-based programmes have vesting conditions under which Management must stay employed for three years to receive the remuneration.

Members of Management enrolled in the share-based remuneration programme are entitled to “shadow shares” of a value equal to a certain number of months’ salary. The fair value at the time of granting is determined based on this.

At 31 December 2016, the Group had liabilities of DKK 1 million related to the share-based remuneration programmes (DKK 0 in 2015). The liability is recognised on a straight-line basis, as the service is rendered. The liability is remeasured at each reporting date and at the settlement date based on the fair value of the “shadow shares”. Fair value adjustments are recognised as financial income or financial expenses. If relevant, the liability is adjusted to reflect the expected risk of non-vesting as a result of resignations. Any changes in the liability are recognised in the income statement. None of the “shadow shares” were vested in 2016. The Group bought back shares to cover the financial risk of share price fluctuations related to the programmes.

At 31 December 2016, the remaining average contractual life of cash-settled remuneration programmes was less than three years.

Share-based remuneration in 2016

(DKK million)	Granted this year	Expensed this year	Settled this year	Liability at 31.12.	Unrecognised commitment* at 31.12.
Executive Board	2.2	0.6	0	0.6	1.7
Other senior members of Management	3.9	0.6	0	0.6	3.1
Total	**6.1**	**1.2**	**0**	**1.2**	**4.8**

** Unrecognised commitment is the part of granted ”shadow shares” not expensed at 31 December 2016.*

ACCOUNTING ESTIMATES AND ASSUMPTIONS

Management must evaluate the likelihood of vesting requirements for the cash-settled, share-based programmes being fulfilled. Vesting is entirely dependent on the persons enrolled in the share-based programmes remaining employed until the end of the vesting period. The estimate made based on this likelihood is used to calculate the fair value of the share-based programmes. Furthermore, the shares must be valued. For this purpose, Management uses the share price published at Nasdaq Copenhagen.

1.3 AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

(DKK million)	2016	2015
Amortisation of intangible assets	59	28
Depreciation of property, plant and equipment	296	271
Impairment of property, plant and equipment	23	0
Total	**378**	**299**
Amortisation, depreciation and impairment losses by function:		
Production costs	95	67
R&D costs	41	39
Distribution costs	201	157
Administrative expenses	41	36
Total	**378**	**299**
Net gains from sale of assets	3	4
Total	**3**	**4**
Net gains from sale of assets by function:		
Production costs	0	0
Distribution costs	3	3
Administrative expenses	0	1
Total	**3**	**4**

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

1.4 EARNINGS PER SHARE

	2016	2015
William Demant Holding A/S' shareholders' share of profit for the year, DKK million IS	1,459	1,436
Average number of shares, million	268.59	276.60
Average number of treasury shares, million	-4.84	-6.47
Average number of shares outstanding, million	**263.75**	**270.13**
Earnings per share (EPS), DKK IS	5.5	5.3
Diluted earnings per share (DEPS), DKK IS	5.5	5.3

In 2016, the nominal value of all shares outstanding was changed from DKK 1.00 to DKK 0.20, and comparative figures for 2015 have been adjusted accordingly.

1.5 INVENTORIES

(DKK million)	2016	2015
Raw materials and purchased components	577	601
Work in progress	49	39
Finished goods and goods for resale	674	684
Inventories BS	**1,300**	**1,324**
Write-downs included in the above	177	184
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	43	31
Cost of goods sold during the year	2,080	1,987

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.

ACCOUNTING ESTIMATES AND ASSUMPTIONS

Indirect production cost allocations to inventory

Indirect production cost allocations are based on relevant assumptions related to capacity utilisation at the production facility, production time and other product-related factors. The assumptions are reviewed regularly to ensure that inventories are measured at their actual production cost. Changes in assumptions may affect gross profit margins as well as the valuation of work in progress, finished goods and goods for resale.

Obsolescence provision

The obsolescence provision for inventories is based on the expected sales forecast for the individual types of hearing devices, diagnostic equipment and hearing implants. Sales forecasts are based on Management's expectations of market conditions and trends, and the obsolescence provision is subject to changes in these assumptions.

1.6 RECEIVABLES

(DKK million)	2016	2015
Trade receivables BS	2,440	2,203
Other non-current receivables BS	539	567
Other current receivables BS	259	277
Total	**3,238**	**3,047**
Non-impaired receivables by age:		
Balance not due	2,325	2,202
0-3 months	480	465
3-6 months	184	144
6-12 months	105	97
Over 12 months	144	139
Total	**3,238**	**3,047**
Breakdown of allowance for impairment:		
Allowance for impairment at 1.1.	-257	-214
Foreign currency translation adjustments	-6	-10
Applied during the year	40	30
Additions during the year	-78	-67
Reversals during the year	10	4
Allowance for impairment at 31.12.	**-291**	**-257**

Of the total amount of trade receivables, DKK 225 million (DKK 215 million in 2015) 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 loans and receivables category and 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 as a result of 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.

ACCOUNTING ESTIMATES AND ASSUMPTIONS

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 where it is estimated that there will not be full recoverability.

1.7 SPECIFICATIONS TO CONSOLIDATED CASH FLOW STATEMENT

(DKK million)	Note	2016	2015
Amortisation and depreciation etc.		404	325
Share of profit after tax, associates and joint ventures IS		-81	-48
Gain on sale of intangible assets and property, plant and equipment	1.3	-3	-4
Other non-cash items		54	53
Non-cash items etc. CF		**374**	**326**

1.8 RESTRUCTURING COSTS

The Group has defined several strategic initiatives to be implemented in 2016 to 2018 with the aim to ensure continuous cost efficiency gains and to support our future scalability at a lower cost. In 2015 and 2016, the costs of these initiatives impacted the income statement and the cash flow statement as indicated below.

(DKK million)	2016	2015
Restructuring costs by function:		
Production costs	72	0
R&D costs	55	0
Distribution costs	36	14
Administrative expenses	25	10
Total	**188**	**24**
Effect of restructuring costs on cash flow:		
Operating profit (EBIT)	-188	-24
Non-cash items etc.	58	14
Change in trade payables and other liabilities etc.	6	0
Change in provisions	45	0
Cash flow from operating profit	**-79**	**-10**
Income tax recovered	2	0
Cash flow from operating activities (CFFO)	**-77**	**-10**

SECTION 2 FOREIGN CURRENCIES AND HEDGING

98%

Sales invoiced in foreign currencies

1,694 DKK million

Contractual value of forward exchange contracts

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)	2016	2015
USD	+40	+40
AUD	+15	+15
GBP	+15	+13
CAD	+15	+13
JPY	+5	+5

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

Effect on equity, 5% positive exchange rate impact

(DKK million)	2016	2015
USD	+90	+80
AUD	+20	+18
GBP	+13	+13
CAD	+50	+45
JPY	+3	+3

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 the sale of currencies being shown at their negative contractual 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 revenue in foreign currency, that such contracts are designed to hedge. In 2016, our forward exchange contracts realised a loss of DKK 46 million (loss of DKK 158 million in 2015), which reduced reported revenue for the year. In addition, we raised loans in foreign currencies to balance out net receivables. At year-end 2016, we had entered into forward exchange contracts with a contractual value of DKK 1,694 million (DKK 1,121 million in 2015) and a fair value of DKK -34 million (DKK -61 million in 2015).

Forward exchange contracts

2016

	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	2017/2018	14 months	673	-1,164	-40	0	40
AUD	2017	6 months	510	-153	2	2	0
GBP	2017	4 months	867	-121	0	1	1
CAD	2017	8 months	513	-210	-3	0	3
JPY	2017/2018	18 months	6.29	-179	7	7	0
Other	2017	-	-	133	0	1	1
				-1,694	**-34**	**11**	**45**

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**

** Hedging periods represent the estimated periods for which the exchange rate 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.

2.3 HEDGING AND FORWARD EXCHANGE CONTRACTS – *CONTINUED*

§ **ACCOUNTING POLICIES - *CONTINUED***

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 main trading currencies according to the central bank of Denmark. Depending on the phasing of revenue, EBIT and payments, the exchange rate impact on the consolidated income statement can deviate from the below averages.

Exchange rate DKK per 100

Average	2016	2015	Change	Year-end	2016	2015	Change
EUR	745	746	-0.1%	EUR	743	746	-0.4%
USD	673	673	0.0%	USD	705	683	3.2%
AUD	501	503	-0.4%	AUD	509	498	2.2%
GBP	911	1,028	-11.4%	GBP	868	1,011	-14.1%
CAD	508	526	-3.4%	CAD	524	492	6.5%
JPY	6.21	5.56	11.7%	JPY	6.02	5.67	6.2%

2.4 EXCHANGE RATES – *CONTINUED*

§ **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 currencies 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 ASSETS BASE

1,742 DKK million

Property, plant and equipment

1,909 DKK million

Other non-current assets

3.1 INTANGIBLE ASSETS

(DKK million)	Goodwill	Patents and licences	Other intangible assets	Prepayments and assets under development	Total intangible assets
Cost at 1.1.2016	**5,660**	**100**	**367**	**20**	**6,147**
Foreign currency translation adjustments	68	0	6	0	74
Additions during the year	0	35	9	113	157
Additions relating to acquisitions	560	0	52	41	653
Disposals relating to divestments	-12	0	-14	0	-26
Disposals during the year	0	0	-7	0	-7
Transferred to/from other items	0	6	16	-22	0
Cost at 31.12.2016	**6,276**	**141**	**429**	**152**	**6,998**
Amortisation at 1.1.2016	**-**	-78	-92	**-**	-170
Foreign currency translation adjustments	-	0	-4	-	-4
Amortisation for the year	-	-12	-47	-	-59
Disposals relating to divestments	-	0	1	-	1
Disposals during the year	-	0	2	-	2
Amortisation at 31.12.2016	**-**	**-90**	**-140**	**-**	**-230**
Carrying amount at 31.12.2016 BS	**6,276**	**51**	**289**	**152**	**6,768**
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
Disposals relating to divestments	0	0	0	0	0
Disposals during the year	0	0	0	0	0
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
Disposals relating to divestments	-	0	0	-	0
Disposals during the year	-	0	0	-	0
Amortisation at 31.12.2015	**-**	**-78**	**-92**	**-**	**-170**
Carrying amount at 31.12.2015 BS	**5,660**	**22**	**275**	**20**	**5,977**

In 2016, borrowing costs of DKK 0 million (DKK 3 million in 2015) were capitalised as part of intangible assets. The capitalisation rate used was 1.15% in 2015.

3.1 INTANGIBLE ASSETS – *CONTINUED*

§ 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 our internal financial management reporting.

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

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

Patents and licences are amortised over their estimated useful 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.

ACCOUNTING ESTIMATES AND ASSUMPTIONS

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 R&D, 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. Any business activity, which largely acts with autonomy in relation to the Group and whose profitability can be measured independently of the other activities, constitutes a separate cash-generating unit. In relation to the existing integration in the Group and the recognised goodwill, neither at 31 December 2016 nor at 31 December 2015, had any separate cash-generating units been identified to which goodwill could be allocated. The annual impairment test was thus based on the Group as a whole.

It is Management's opinion that 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. Moreover, as the products are subject to approval by various authorities, it is difficult to determine the final completion of new products.

3.2 PROPERTY, PLANT AND EQUIPMENT

(DKK million)	Land and buildings	Plant and machinery	Other plant, fixtures and operating equipment	Leasehold improvements	Prepayments and assets under construction	Total property, plant and equipment
Cost at 1.1.2016	**1,131**	**859**	**1,179**	**541**	**154**	**3,864**
Foreign currency translation adjustments	-2	3	4	-4	-2	-1
Additions during the year	5	20	84	75	112	296
Additions relating to acquisitions	-1	0	13	11	0	23
Disposals relating to divestments	0	0	-2	-5	0	-7
Disposals during the year	0	-16	-74	-27	-4	-121
Transferred to/from other items	24	84	51	10	-169	0
Cost at 31.12.2016	**1,157**	**950**	**1,255**	**601**	**91**	**4,054**
Depreciation and impairment losses at 1.1.2016	**-231**	**-676**	**-894**	**-295**	**-**	**-2,096**
Foreign currency translation adjustments	0	-3	-5	2	-	-6
Depreciation for the year	-25	-66	-132	-73	-	-296
Impairment losses for the year	-23	0	0	0	-	-23
Disposals relating to divestments	0	0	1	4	-	5
Disposals during the year	0	15	65	24	-	104
Depreciation and impairment losses at 31.12.2016	**-279**	**-730**	**-965**	**-338**	**-**	**-2,312**
Carrying amount at 31.12.2016 BS	**878**	**220**	**290**	**263**	**91**	**1,742**
Of which financially leased assets	**29**	**0**	**0**	**0**	**0**	**29**
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 relating to divestments	0	0	0	0	0	0
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
Impairment losses for the year	0	0	0	0	-	0
Disposals relating to divestments	0	0	0	0	-	0
Disposals during the year	0	26	29	5	-	60
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**

3.2 PROPERTY, PLANT AND EQUIPMENT – *CONTINUED*

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

In 2016, borrowing costs of DKK 0 million (DKK 1 million in 2015) were capitalised as part of tangible assets. The capitalisation rate used in 2015 was approximately 0.9%, 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 0 million (DKK 6 million in 2015).

In 2016, the Group recognised an impairment loss on a building in connection with the transfer of our operational activities in Thisted (Denmark) to Poland, amounting to DKK 23 million (DKK 0 million in 2015). The impairment loss is based on broker valuations of the building and on the value in use of the building until 2018.

§ 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. For 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 1.1.2016	**593**	**357**	**20**	**685**
Foreign currency translation adjustments	5	7	0	24
Additions during the year	30	55	0	169
Additions relating to acquisitions	0	0	0	0
Disposals, repayments etc. during the year	-19	-36	-4	-214
Cost at 31.12.2016	**609**	**383**	**16**	**664**
Value adjustments at 1.1.2016	**-68**	**0**	**-8**	**-118**
Foreign currency translation adjustments	-1	0	0	-3
Share of profit after tax IS	55	-	-	-
Dividends received	-9	-	-	-
Disposals during the year	1	0	0	2
Other adjustments	-4	0	0	-6
Value adjustments at 31.12.2016	**-26**	**0**	**-8**	**-125**
Carrying amount at 31.12.2016 BS	**583**	**383**	**8**	**539**
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, repayments etc. 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**	**0**	**-8**	**-118**
Carrying amount at 31.12.2015 BS	**525**	**357**	**12**	**567**

Please refer to *Subsidiaries, associates and joint ventures* on page 130 for a list of associates and joint ventures. The ownership interest equals share of voting rights. Please refer to Note 6.3 for further details.

3.4 NON-CURRENT ASSETS BY GEOGRAPHIC REGION

(DKK million)

	2016	2015
Non-current assets by geographic region:		
Denmark	1,436	1,376
Other Europe	3,935	3,653
North America	4,360	3,930
Oceania	506	476
Asia	137	120
Other countries	45	27
Total BS	**10,419**	**9,582**

Non-current assets are broken down by the geographical domicile of such assets. Please refer to Note 1.1 for further information on segments.

3.5 IMPAIRMENT TESTING

Impairment testing is carried out for the Group's one cash-generating unit. Based on the impairment test, a material excess value was identified compared to the carrying amount for which reason no impairment of goodwill was made at 31 December 2016 and at 31 December 2015. Future cash flows are based on the budget for 2017, on strategy plans and on projections hereof. Projections extending beyond 2017 are based on general parameters, such as expected market growth, selling prices and profitability assumptions. The terminal value for the period after 2017 is determined on the assumption of 2% growth (2% in 2015). The pre-tax discount rate is 7.5% (8% in 2015). 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.

The market capitalisation of the Company on Nasdaq Copenhagen by far exceeds the equity value of the Company, lending further support to the conclusion that we had no need for impairment in 2016 and 2015.

In 2016, the Group recognised an impairment loss on a building in connection with the transfer of our operational activities in Thisted (Denmark) to Poland. Please refer to Note 3.2.

§ 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 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

4,036 DKK million

Net interest-bearing debt

1.7 NIBD/EBITDA

Gearing multiple

-101 DKK million

Net financial items

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 and relatively low financial gearing, 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 through medium-term committed facilities with fixed rates and through financial instruments, which limits the interest rate risk.

In 2014, our Board of Directors announced a share buy-back programme of DKK 2.5-3.0 billion between 2014 and 2016. The programme formally ended on 31 December 2016. Together with the acquisition of Audika in 2015, we have, as a result of this programme, seen an increase in the Group's net interest-bearing debt to DKK 4,036 million as at 31 December 2016, corresponding to a gearing ratio of 1.7 (NIBD/EBITDA).

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 ten largest customers account for less than 12% of total consolidated revenue. Furthermore, when granting loans, we require that our counterparts provide security in their business. Overall, we therefore estimate that we have no major credit exposure on Group level.

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 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 2016 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)	2016	2015
Interest on cash and bank deposits	4	3
Interest on receivables, customer loans etc.	36	38
Other financial income	2	3
Financial income from financial assets not measured at fair value in the income statement	**42**	**44**
Foreign exchange gains, net	0	0
Financial income IS	**42**	**44**
Interest on bank debt, mortgages etc.	-59	-40
Value adjustment transferred from equity relating to derivatives made for hedging loans	0	-1
Interest on finance lease debt	0	0
Financial expenses on financial liabilities not measured at fair value in the income statement	**-59**	**-41**
Foreign exchange losses, net	-6	-1
Unwinding of discounts	0	-1
Credit card and bank fees etc.	-78	-70
Financial expenses IS	**-143**	**-113**
Net financial items	**-101**	**-69**

§ ACCOUNTING POLICIES

Net financial items mainly consist of interest income and interest expenses and also include interest on finance leases, unwinding of discounts on financial assets and liabilities, fair value adjustments of "shadow shares" under the share-based remuneration programmes as well as certain realised and unrealised foreign exchange gains and losses. Interest income and interest expenses are accrued based on the principal amount and the effective interest rate.

The effective interest rate 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)	2016	2015
Unrealised gains on financial contracts BS	11	12
Financial assets used as hedging instruments	**11**	**12**
Receivables from associates and joint ventures BS	454	410
Other receivables BS	798	844
Trade receivables BS	2,440	2,203
Cash BS	710	674
Receivables and cash	**4,402**	**4,131**
Other investments BS	8	12
Financial assets available for sale	**8**	**12**
Unrealised losses on financial contracts	-46	-73
Financial liabilities used as hedging instruments	**-46**	**-73**
Unrealised losses on financial contracts	0	-1
Financial liabilities at fair value through the income statement	**0**	**-1**
Finance lease debt	-8	-9
Debt to credit institutions etc.	-3,261	-2,743
Short-term bank facilities	-2,238	-2,378
Trade payables BS	-513	-486
Other liabilities	-1,132	-967
Financial liabilities measured at amortised cost	**-7,152**	**-6,583**

As was the case in 2015, most financial liabilities fall due within one year. As regards financial assets and liabilities, their carrying amounts approximate their fair values. The following non-financial item is included in the balance sheet and represents the difference between the table above and the balance sheet: Other liabilities of DKK -283 million (DKK -250 million in 2015).

§ 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		
2016						
Interest-bearing receivables	108	295	526	929	761	
Cash BS	710	0	0	710	710	
Interest-bearing assets	**818**	**295**	**526**	**1,639**	**1,471**	**1,9%**
Finance lease debt	0	-8	0	-8	-8	
Debt to credit institutions etc.	-1,320	-1,938	-55	-3,313	-3,261	
Short-term bank facilities	-2,238	0	0	-2,238	-2,238	
Interest-bearing liabilities BS	**-3,558**	**-1,946**	**-55**	**-5,559**	**-5,507**	**1,1%**
Net interest-bearing debt	**-2,740**	**-1,651**	**471**	**-3,920**	**-4,036**	**0,9%**
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	
Short-term bank facilities	-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%**

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 171 million (DKK 119 million in 2015), which have a contractual maturity of 1-5 years. The contractual cash flows approximate their carrying amounts.

Interest-bearing debt broken down by currency: 41% in US dollars (35% in 2015), 42% in Danish kroner (38% in 2015), 15% in euros (25% in 2015), 1% in Canadian dollars (1% in 2015) and 1% in other currencies (1% in 2015).

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)	2016					2015				
	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	-	0	0	0	2016	2.3%	171	0	1
			0	**0**	**0**			**171**	**0**	**1**

There are no outstanding interest swaps at the balance sheet date, and there has been no ineffectiveness on interest swaps in 2016 or 2015.

The Group has limited the maximum interest rates on part of its non-current debt through an interest cap.

Interest cap

(DKK million)	2016					2015				
	Expiry	Interest rate/strike	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end	Expiry	Interest rate/strike	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end
DKK/DKK	2019	0%	650	0	1	-	-	0	0	0
			650	**0**	**1**			**0**	**0**	**0**

The fair value of the Group's interest cap (a strip of call options) outstanding at the balance sheet date is DKK -1 million, and the contractual value of this interest cap is DKK 650 million. The cap will run until 2019.

Sensitivity analysis in respect of interest rates

Based on the Group's net debt at the end of the 2016 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 13 million (DKK 21 million in 2015). About 49% of the Group's interest-bearing debt is subject to fixed or limited interest rates, partly due to a bought cap (a strip of call options) 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 related to 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 related to various counterparties.

The value of a cap is assessed using discounted cash flow valuation techniques. A cap consists of a series of interest rate options (IRGs) with the same strike rate. The individual interest rate options each cover an interest period. The key elements when pricing interest rate options are strike rate, forward rate, maturity and volatility. The value of an interest rate option is made up of the intrinsic value and the time value of such option. The value of a cap is the combined value of the individual IRGs.

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

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)

4.5 FAIR VALUE HIERARCHY – *CONTINUED*

(DKK million)	2016				2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets used as hedging instruments	0	11	0	**11**	0	12	0	**12**
Other investments (assets available for sale)	0	0	8	**8**	0	0	12	**12**
Financial liabilities used as hedging instruments	0	-46	0	**-46**	0	-73	0	**-73**
Financial liabilities at fair value through the income statement	0	0	0	**0**	0	-1	0	**-1**
Contingent considerations	0	0	-183	**-183**	0	0	-109	**-109**

There are no transfers between level 1 and 2 in the 2016 and 2015 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	Financial assets available for sale		Contingent considerations	
(DKK million)	2016	2015	2016	2015
Carrying amount at 1.1.	12	12	-109	-136
Foreign currency translation adjustment	0	0	-6	-13
Acquisitions	0	0	-118	-38
Sale and settlements	-4	0	43	66
Other adjustments	0	0	7	12
Transferred to/from level 3	0	0	0	0
Carrying amount at 31.12.	**8**	**12**	**-183**	**-109**

Of adjustments to contingent considerations, DKK 0 million (DKK 6 million in 2015) 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

280 DKK million

Corporate tax paid in Denmark

20.5%

Effective tax rate

5.1 TAX ON PROFIT

(DKK million)	2016	2015
Tax on profit for the year:		
Current tax on profit for the year	-381	-441
Adjustment of current tax, prior years	17	-6
Change in deferred tax	2	85
Adjustment of deferred tax, prior years	-14	6
Impact of changes in corporate tax rates	-1	-14
Tax on profit for the year IS	**-377**	**-370**
Reconciliation of tax rates:		
Danish corporate tax rate	22.0%	23.5%
Differences between tax rates of non-Danish enterprises and Danish corporate tax rate	1.6%	-5.7%
Impact of changes in corporate tax rates	0.0%	0.8%
Use of tax assets not previously recognised	-0.9%	-0.5%
Permanent differences	-0.2%	-0.1%
Other items, including prior-year adjustments	-2.0%	2.5%
Effective tax rate	**20.5%**	**20.5%**

§ 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)	2016	2015
Deferred tax recognised in the balance sheet:		
Deferred tax assets BS	396	376
Deferred tax liabilities BS	-152	-125
Deferred tax, net at 31.12.	**244**	**251**
Deferred tax, net at 1.1.	251	104
Foreign currency translation adjustments	2	3
Changes in deferred tax assets	2	85
Additions relating to acquisitions	12	60
Adjustment of deferred tax, prior years	-14	6
Impact of changes in corporate tax rates	-1	-14
Deferred tax relating to changes in equity, net	-8	7
Deferred tax, net at 31.12.	**244**	**251**

The tax value of deferred tax assets not recognised is DKK 55 million (DKK 72 million in 2015) 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 2015).

Breakdown of the Group's temporary differences and changes:	Temporary differences at 1.1.2016	Foreign currency translation adjustments	Acquisitions	Recognised in profit for the year	Recognised in other comprehensive income	Temporary differences at 31.12.2016
Intangible assets	-19	-2	-13	-60	0	-94
Property, plant and equipment	-59	-1	0	0	0	-60
Inventories	172	0	0	13	0	185
Receivables	22	1	1	4	0	28
Provisions	40	2	0	28	0	70
Tax losses	48	1	15	47	0	111
Other	47	1	9	-45	-8	4
Total	**251**	**2**	**12**	**-13**	**-8**	**244**

5.2 DEFERRED TAX – *CONTINUED*

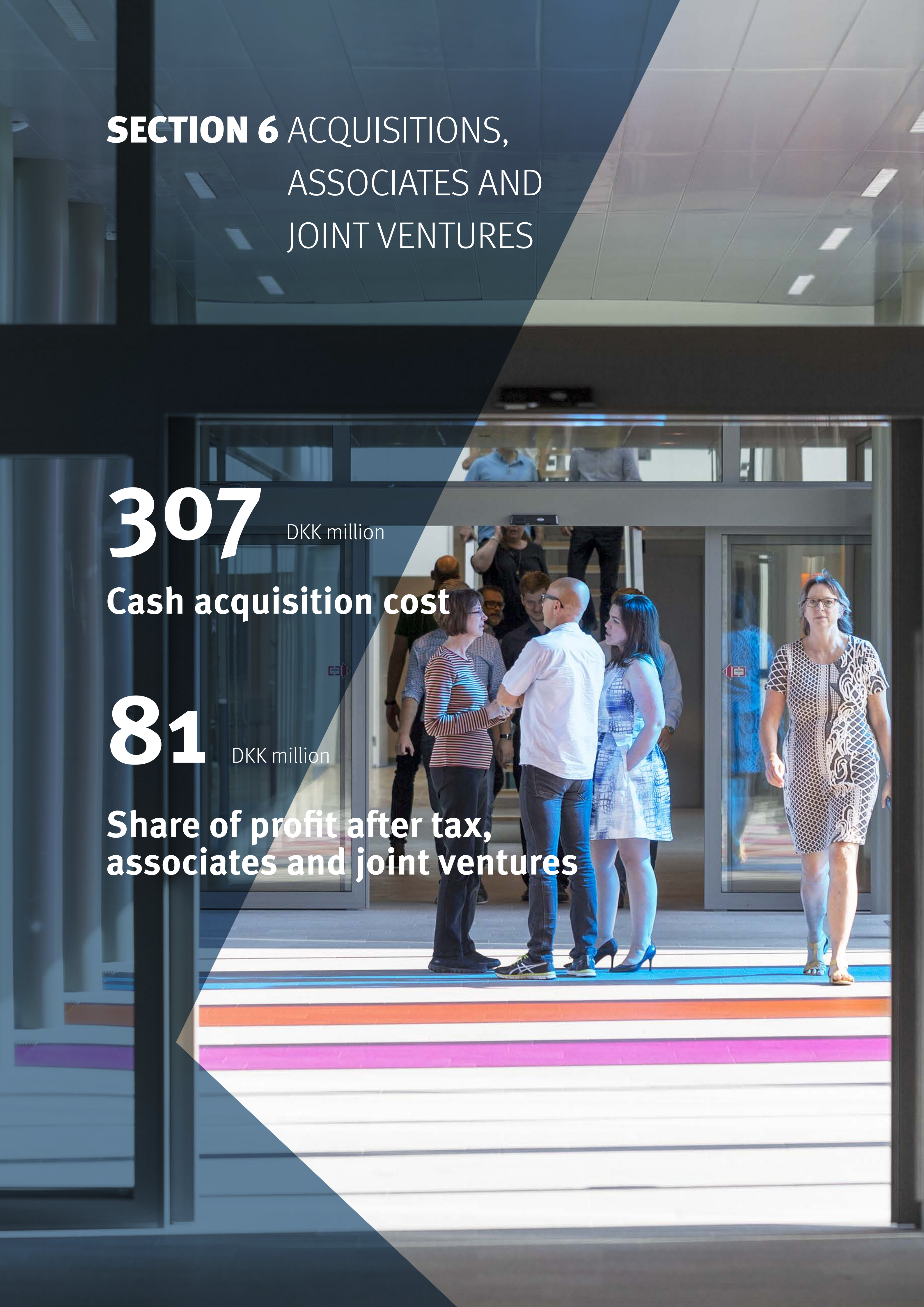
§ ACCOUNTING POLICIES

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 a particular country. The effect of any changes in tax rates on deferred tax 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.

ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

307 DKK million

Cash acquisition cost

81 DKK million

Share of profit after tax, associates and joint ventures

6.1 ACQUISITION OF ENTERPRISES AND ACTIVITIES

(DKK million)	North America	Oceania	Europe/ Asia	South America	Total
	Fair value on acquisition				
2016					
Intangible assets	30	0	60	3	93
Property, plant and equipment	8	0	15	0	23
Other non-current assets	0	0	15	0	15
Inventories	2	0	7	0	9
Current receivables	5	0	34	0	39
Cash and bank debt	7	0	12	0	19
Non-current liabilities	0	0	-208	0	-208
Current liabilities	-15	-1	-34	0	-50
Acquired net assets	**37**	**-1**	**-99**	**3**	**-60**
Goodwill	235	6	312	7	560
Acquisition cost	**272**	**5**	**213**	**10**	**500**
Minority interests' share of acqusition cost	-11	0	0	0	-11
Fair value of non-controlling interests on obtaining control	-5	0	-30	-10	-45
Contingent considerations and deferred payments	-102	0	-16	0	-118
Acquired cash and bank debt	-7	0	-12	0	-19
Cash acquisition cost	**147**	**5**	**155**	**0**	**307**
2015					
Intangible assets	6	2	116	0	124
Property, plant and equipment	5	0	89	0	94
Other non-current assets	0	0	69	0	69
Inventories	2	0	44	0	46
Current receivables	3	1	231	0	235
Cash and bank debt	3	0	83	0	86
Non-current liabilities	-2	0	-222	0	-224
Current liabilities	-4	0	-426	0	-430
Acquired net assets	**13**	**3**	**-16**	**0**	**0**
Goodwill	120	8	1,522	0	1,650
Acquisition cost	**133**	**11**	**1,506**	**0**	**1,650**
Minority interests' share of acqusition cost	0	0	-578	0	-578
Fair value of non-controlling interests on obtaining control	0	0	-39	0	-39
Contingent considerations and deferred payments	-30	0	-8	0	-38
Acquired cash and bank debt	-3	0	-83	0	-86
Cash acquisition cost	**100**	**11**	**798**	**0**	**909**

6.1 ACQUISITION OF ENTERPRISES AND ACTIVITIES – *CONTINUED*

The Group's acquisitions in 2016 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.

In 2016, the Group made one significant acquisition in the hearing implant area. The purchased company, BCI Implants AB, was an associated company in which the Group purchased the remaining shares in 2016, thereby getting full ownership. The purchase price of the remaining shares was DKK 31 million, including estimated contingent considerations, and the Group recognised a gain of DKK 26 million, reflecting the increase in fair value of its existing investment. The purchase price allocation resulted in the recognition of intangible assets related to the technology developed by BCI of DKK 40 million and goodwill of DKK 51 million. The determination of the fair value of contingent considerations as well as the gain on the value of the existing investment and the value of technology and goodwill have involved a number of assumptions and judgements made by Management, among these the potential future viability and market potential of BCI's technology and the relevant discount rate.

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

In 2016, a few adjustments were made to the preliminary recognition of acquisitions made in 2015. These adjustments were made in respect of payments made, contingent considerations provided and net assets and goodwill acquired and totalled DKK -13 million. In relation to acquisitions with final recognition in 2010-2015, adjustments were made in 2016 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 28 million (DKK -1 million in 2015) of which DKK 26 million is recognised under *Share of profit from associates*, and DKK 2 million (DKK -1 million 2015) is recognised under *Distribution costs*. Adjustments of estimated contingent considerations amounted to DKK 7 million (DKK 13 million in 2015) and are recognised under *Distribution costs*.

Of the total acquisition cost in 2016, including adjustments to preliminarily recognised acquisitions of DKK 0 million (DKK 0 million in 2015), the fair values of estimated contingent considerations in the form of discounted earn-outs or deferred payments accounted for DKK 118 million (DKK 38 million in 2015). The maximum contingent consideration in respect of acquisitions made in 2016 was DKK 133 million.

The acquired assets include contractual receivables amounting to DKK 21 million (DKK 104 million in 2015) of which DKK 4 million (DKK 9 million in 2015) was thought to be uncollectible at the date of the acquisition. Of total goodwill in the amount of DKK 560 million (DKK 1,650 million in 2015), DKK 244 million (DKK 128 million in 2015) can be amortised for tax purposes. In 2016, no contingent liability related to purchase agreement obligations was recognised (DKK 68 million in 2015).

Transaction costs in connection with acquisitions made in 2016 amounted to DKK 1 million (DKK 6 million in 2015), which has been recognised under *Distribution costs*.

Revenue and profit generated by the acquired enterprises since our acquisition in 2016 amount to DKK 206 million (DKK 306 million in 2015) and DKK 5 million (DKK 11 million in 2015), respectively. Had such revenue and profit been consolidated on 1 January 2016, we estimate that consolidated pro forma revenue and profit would have been DKK 12,113 million (DKK 11,266 million in 2015) and DKK 1,468 million (DKK 1,484 million in 2015), respectively. In our opinion, these pro forma figures reflect the level of consolidated earnings after our acquisition of the enterprises, and consequently the amounts can form a basis for comparison in subsequent financial years.

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 2017, 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.

6.1 ACQUISITION OF ENTERPRISES AND ACTIVITIES – *CONTINUED*

§ 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 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 the 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.

ACCOUNTING ESTIMATES AND ASSUMPTIONS

Identification of assets and liabilities

On recognition of assets and liabilities from business combinations, Management judgements may be required for the following areas:

- Intangibles assets resulting from technology, customer relationships, client lists or brand names
- Contingent consideration arrangements

Contingent consideration

Business combinations may include provisions that additional payments of contingent considerations be paid to the previous owners, when certain events occur or certain results are obtained. Management assesses on a regular basis the assumptions made in respect of the particular acquisitions, taking sales run rates of the acquired entity into account.

6.2 DIVESTMENT OF ENTERPRISES AND ACTIVITIES

(DKK million)	2016	2015
Goodwill	12	0
Other intangible assets	13	0
Property, plant and equipment	2	0
Carrying amount of net assets divested	**27**	**0**
Proceeds from divestments CF	**27**	**0**

The divestment of entreprises and activities includes the divestment of a number of distribution enterprises.

6.3 ASSOCIATES AND JOINT VENTURES

In 2016, the Group received royalties from and paid licence fees to associates and joint ventures amounting to net expenses of DKK 1 million (net income of DKK 1 million in 2015) and received dividends from associates and joint ventures in the amount of DKK 9 million (DKK 79 million in 2015). Furthermore, in 2016 the Group recharged expenses of DKK 12 million (DKK 11 million in 2015) to associates. In 2016, the Group received interest income from associates and joint ventures in the amount of DKK 10 million (DKK 9 million in 2015).

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

	Associates		Joint ventures	
(DKK million)	**2016**	**2015**	**2016**	**2015**
Financial information (Group share):				
Revenue	497	442	372	333
Net profit for the year	4	2	51	48
Comprehensive income	4	2	51	48

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 relating 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.

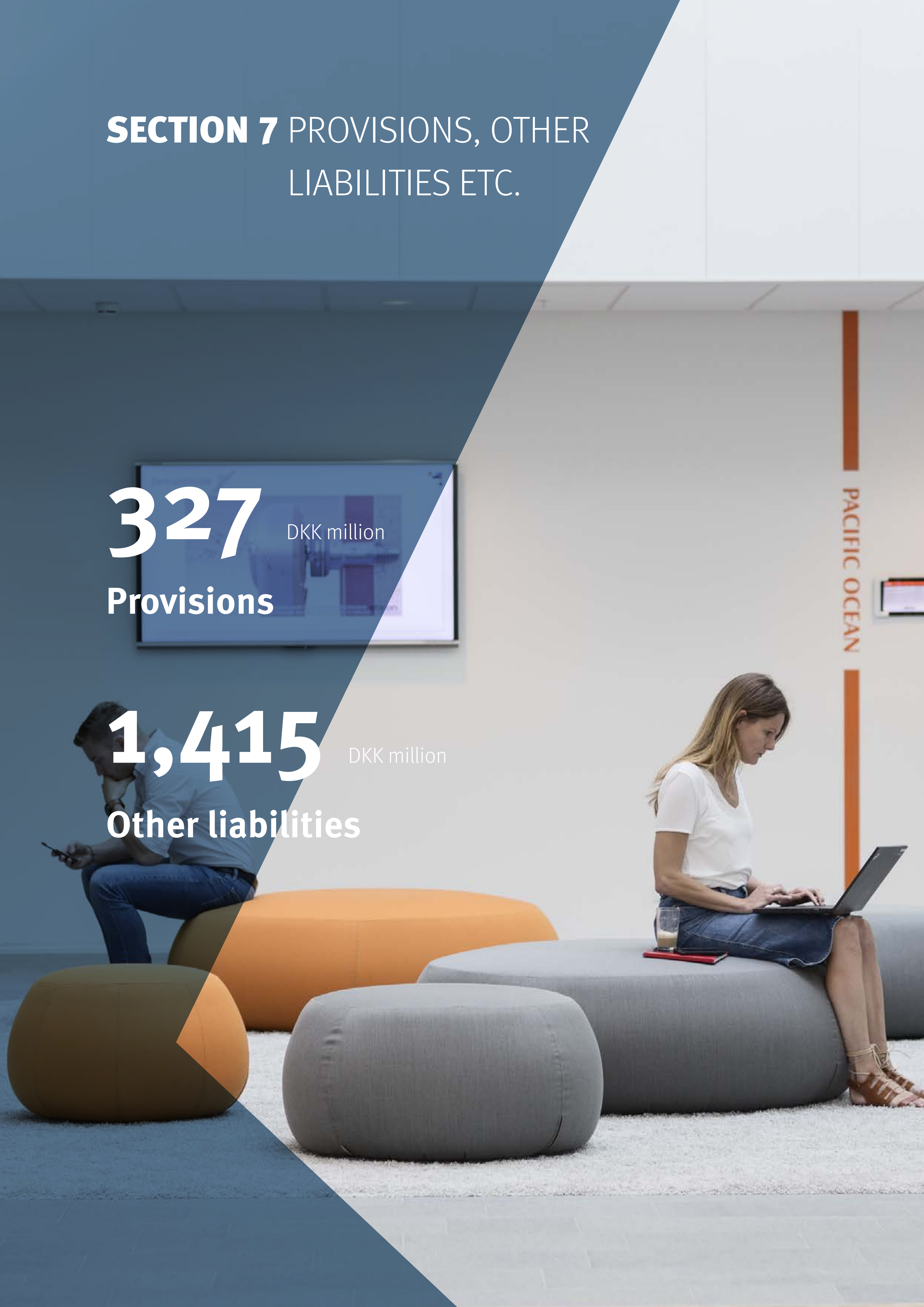
SECTION 7 PROVISIONS, OTHER LIABILITIES ETC.

327 DKK million

Provisions

1,415 DKK million

Other liabilities



7.1 PROVISIONS

(DKK million)	2016	2015
Restructuring cost provisions	45	0
Staff-related provisions	54	48
Miscellaneous provisions	30	78
Other provisions	129	126
Defined benefit plan liabilities, net	198	163
Provisions at 31.12.	**327**	**289**
Breakdown of provisions:		
Non-current provisions	295	273
Current provisions	32	16
Provisions at 31.12.	**327**	**289**

Other provisions

(DKK million)	Restructuring costs	Staff-related	Miscellaneous	Total
Other provisions at 1.1.2016	**0**	**48**	**78**	**126**
Foreign currency translation adjustments	0	1	1	2
Additions relating to acquisitions	0	0	14	14
Provisions during the year	46	5	6	57
Applied during the year	-1	0	-60	-61
Reversals during the year	0	0	-9	-9
Other provisions at 31.12.2016	**45**	**54**	**30**	**129**
Breakdown of provisions:				
Non-current provisions BS	29	54	14	97
Current provisions BS	16	0	16	32
Provisions at 31.12.2016	**45**	**54**	**30**	**129**
Other provisions at 1.1.2015	**0**	**42**	**12**	**54**
Foreign currency translation adjustments	0	1	-1	0
Additions relating to acquisitions	0	2	71	73
Provisions during the year	0	3	6	9
Applied during the year	0	0	0	0
Reversals during the year	0	0	-10	-10
Other provisions at 31.12.2015	**0**	**48**	**78**	**126**
Breakdown of provisions:				
Non-current provisions BS	0	48	62	110
Current provisions BS	0	0	16	16
Provisions at 31.12.2015	**0**	**48**	**78**	**126**

7.1 PROVISIONS – *CONTINUED*

(DKK million)	Note	2016	2015
Defined benefit plan costs recognised in the income statement:			
Current service costs		25	17
Curtailment		-23	0
Calculated interest on defined benefit plan liabilities, net		1	1
Costs recognised in the income statement	1.2	**3**	**18**
Defined benefit plan costs by function:			
R&D costs		-16	7
Distribution costs		12	4
Administrative expenses		7	7
Defined benefit plan costs		**3**	**18**
Accumulated actuarial loss recognised in the statement of comprehensive income		**-63**	**-56**

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)	2016	2015
Present value of defined benefit obligations:		
Defined benefit obligations at 1.1.	349	309
Foreign currency translation adjustments	1	27
Reclassifications	37	-53
Additions relating to acquisitions	106	36
Current service costs	25	17
Curtailment	-23	0
Calculated interest on defined benefit obligations	3	4
Actuarial losses/(gains), demographic assumptions	5	0
Actuarial losses/(gains), financial assumptions	2	3
Actuarial losses/(gains), experience assumptions	2	7
Benefits paid	-23	-8
Contributions from plan participants	11	7
Defined benefit obligations at 31.12.	**495**	**349**
Fair value of defined benefit assets:		
Defined benefit assets at 1.1.	186	205
Foreign currency translation adjustments	1	22
Reclassifications	37	-53
Additions relating to acquisitions	64	0
Expected return on defined benefit assets	2	3
Actuarial gains/(losses)	2	2
Contributions	28	15
Benefits paid	-23	-8
Defined benefit assets at 31.12.	**297**	**186**
Defined benefit obligations recognised in the balance sheet, net	**198**	**163**
Return on defined benefit assets:		
Actual return on defined benefit assets	4	5
Expected return on defined benefit assets	2	3
Actuarial gains/(losses) on defined benefit assets	**2**	**2**
Assumptions:		
Discount rate	0.5%	1.0%
Expected return on defined benefit assets	1.0%	1.0%
Future salary increase rate	1.5%	1.5%

7.1 PROVISIONS – *CONTINUED*

Generally, the Group does not offer defined benefit plans, but it has such plans in Switzerland, France and Germany, where they are required by law. Moreover, the President & CEO of the Company has a seniority bonus, please refer to Note 1.2.

Defined benefit assets at 31 December 2016 include: bonds (34%), shares (23%), other securities (23%), cash and cash equivalents (7%) and other assets (13%). Defined benefit assets at 31 December 2015 included: bonds (35%), shares (28%), other securities (21%), cash and cash equivalents (4%) and other assets (12%). All plan assets, except other assets, are quoted on active markets.

The Group expects to pay approximately DKK 16 million in 2017 (DKK 10 million in 2016) into defined benefit plans.

Defined benefit obligations in the amount of DKK 149 million will mature within 1-5 years (DKK 66 million in 2015) and obligations in the amount of DKK 346 million after five years (DKK 283 million in 2015).

If the discount rate is 0.5% higher (lower), the defined benefit obligation will decrease by 6% (increase by 6%). If the expected salary growth rate is 0.5% higher (lower), the defined benefit obligation will increase by 1% (decrease by 2%).

7.1 PROVISIONS – *CONTINUED*

§ ACCOUNTING POLICIES

Provisions are recognised if, as a result of an earlier event, the Group has a legal or constructive obligation, and if the settlement of such an obligation is expected to draw on corporate financial resources, but 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. 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 the income statement. 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.

ACCOUNTING ESTIMATES AND ASSUMPTIONS

Management assesses, on an ongoing basis, provisions for restructuring costs and the likely outcome of pending and probable lawsuits etc. (other provisions). When assessing the likely outcome of lawsuits, Management bases its assessment on internal and external legal advice and established precedent. Provisions for restructuring costs are based on the estimated costs of implementing restructuring initiatives and thus on a number of assumptions about future costs and events. For all provisions, the outcome and final expense depend on future events, which are by nature uncertain.

7.2 OTHER LIABILITIES

(DKK million)	2016	2015
Product-related liabilities	283	250
Staff-related liabilities	435	387
Other debt, public authorities	249	219
Contingent considerations	183	109
Other costs payable	265	252
Other liabilities	**1,415**	**1,217**
Due within 1 year BS	1,244	1,098
Due within 1-5 years BS	171	119

Product-related liabilities include service packages, warranties, returned products etc. Staff-related liabilities include holiday pay and payroll costs due.

The carrying amount of other liabilities approximates the fair value of such liabilities.

§ ACCOUNTING POLICIES

Other non-financial liabilities are recognised if, as a result of an earlier event, the Group has a legal or constructive obligation, and if 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.

ACCOUNTING ESTIMATES AND ASSUMPTIONS

Liabilities in respect of service packages and warranties have been calculated on the basis of information on products sold, related service and warranty periods and past experience of costs incurred by our Group to fulfil our service and warranty liabilities. Liabilities in respect of returns have been calculated based on information on products sold, related rights concerning returns and past experience of products being 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.

7.3 OPERATING LEASE COMMITMENTS

(DKK million)	2016	2015
Rent	849	629
Other operating leases	74	56
Total	**923**	**685**
Operating leases, less than 1 year	310	201
Operating leases, 1-5 years	450	357
Operating leases, over 5 years	163	127
Total	**923**	**685**

Operating leases are recognised in the income statement at an amount of DKK 470 million (DKK 367 million in 2015). The Group's operating leases mainly relate to rent and vehicles of which some have renewal options.

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 357 of the Republic of Ireland Companies Act 2014, 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 for the financial year ending on 31 December 2016 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 130, and financial information on associates and joint ventures can be found in Note 6.3.

In 2016, the Oticon Foundation and William Demant Invest A/S paid administration fees to the Group of DKK 2 million (DKK 2 million in 2015) and DKK 5 million (DKK 5 million in 2015), respectively. In 2016, the Group paid service fees to Össur hf. of DKK 19 million (DKK 14 million in 2015) and received service fees of DKK 7 million from Össur hf. (DKK 4 million in 2015).

In 2015 and 2016, 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)	2016	2015
Statutory audit	10	9
Other assurance engagements	0	0
Tax and VAT advisory services	5	4
Other services	1	1
Total	**16**	**14**

A few Group enterprises are not audited by the Parent's appointed auditors or the auditors' foreign affiliates.

8.3 GOVERNMENT GRANTS

In 2016, the William Demant Group received government grants in the amount of DKK 14 million (DKK 14 million in 2015). Grants are offset against R&D 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 2016 after the balance sheet date and up to today.

8.5 APPROVAL AND PUBLICATION

At the Board meeting on 23 February 2017, our Board of Directors approved this Annual Report 2016 for publication. The report will be presented to the shareholders of William Demant Holding A/S for adoption at the annual general meeting on 27 March 2017.

8.6 SHAREHOLDERS

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

William Demant Invest A/S and this company's parent, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation), Kongebakken 9, 2765 Smørum, Denmark. The ownership interest is approximately 58% of the share capital (59% of the 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
6.3 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, share-based remuneration, derivatives and financial assets classified as assets available for sale, which are measured at their fair values.

The financial statements for the Parent as well as the Parent's accounting policies are presented separately from the consolidated financial statements and are shown on the last pages of this Annual Report 2016.

The accounting policies remain unchanged for the consolidated financial statements compared to 2015, with the exception of the implementation of new and amended standards as described below. Also, insignificant reclassifications in the comparative figures for 2015 have been made.

Effect of new accounting standards
The Group has adopted all new, amended and revised accounting standards and interpretations as published by the IASB and adopted by the EU effective for the accounting period beginning on 1 January 2016. None of these new, updated and amended standards and interpretations resulted in any changes to the accounting policies for the Group or had any significant impact on the consolidated financial statements for 2016.

Effect of new accounting standards not yet in force
Revised and new standards and interpretations issued, but not yet effective or approved by the EU at the time of publication of this Annual Report 2016, have not been incorporated into this 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 analysed the impact of IFRS 15 and will continue this work in the coming year. It is Management's expectation that the new standard will have some impact on the timing of revenue recognition, on net or gross recognition of principal and agent relationships and on the disclosure of revenue. The value of the impact of these changes has not been estimated yet, but is at this stage expected to have some, but not material, impact. IFRS 15 will take effect on 1 January 2018.

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 Group's reporting on and disclosure of financial instruments and hedging instruments. Management is in the process of evaluating the impact and prospects of the revised standard and the option to hedge net positions (i.e. EBIT) instead of hedging revenue. The new rules on provisions for loans and receivables are expected to have very limited impact on our financial statements. IFRS 9 will take effect on 1 January 2018.

9.1 GROUP ACCOUNTING POLICIES – *CONTINUED*

Issued in January 2016, IFRS 16 Leases requires lessees to recognise nearly all leases on the balance sheet. Management is in the process of evaluating the expected future impact of the application of IFRS 16 on the amounts reported and disclosed by the Group. Management expects the implementation of this standard to have a material impact on the recognition of tangible assets and financial debt on the balance sheet. The standard will also impact the classification of expenses in the income statement, the classification of cash flows in the cash flow statement as well as the related key figures. IFRS 16 is expected to take effect on 1 January 2019.

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

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 does exercise 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 that, 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 is 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 R&D.

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.

9.1 GROUP ACCOUNTING POLICIES – *CONTINUED*

R&D 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 subsequent financial years. Prepaid expenses are measured at cost.

Deferred income
Deferred income includes income received relating to the subsequent 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 short-term bank facilities, which consist of uncommitted bank facilities and cash pool accounts that are part of the Group's cash management.

9.2 ACCOUNTING ESTIMATES AND ASSUMPTIONS

On the preparation of the consolidated financial statements, Management makes a number of accounting estimates and judgements. 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.

Specific accounting estimates and assumptions are described in each of the individual notes to the consolidated financial statements as outlined here:

1.1 Revenue and segment information
1.2 Employees
1.5 Inventories
1.6 Receivables
3.1 Intangible assets
5.2 Deferred tax
6.1 Acqusition of enterprises and activities
7.1 Provisions
7.2 Other non-financial liabilities

PARENT FINANCIAL STATEMENTS

PARENT INCOME STATEMENT

(DKK million)	Note	2016	2015
Administrative expenses	10.1 / 10.2	-77	-52
Other operating income and expenses		35	35
Operating profit/(loss) (EBIT)		**-42**	**-17**
Share of profit after tax, subsidiaries	10.7	1,115	1,143
Share of profit after tax, associates and joint ventures	10.7	49	48
Financial income	10.3	19	26
Financial expenses	10.3	-39	-34
Profit before tax		**1,102**	**1,166**
Tax on profit for the year	10.4	13	5
Profit for the year		**1,115**	**1,171**
Proposed distribution of net profit:			
Transferred to reserves for net revaluation according to the equity method		-1,006	360
Retained earnings		2,121	811
		1,115	**1,171**

PARENT BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2016	2015
Assets			
Goodwill		43	46
Rights and other intangible assets		3	1
Intangible assets	10.5	**46**	**47**
Land and buildings		24	24
Property, plant and equipment	10.6	**24**	**24**
Investments in subsidiaries		8,317	8,964
Receivables from subsidiaries		1,395	1,426
Investments in associates and joint ventures		143	92
Receivables from associates and joint ventures		0	12
Other investments		1	1
Other receivables		8	23
Financial assets	10.7	**9,864**	**10,518**
Non-current assets		**9,934**	**10,589**
Income tax		14	3
Other receivables		0	4
Prepaid expenses		5	4
Receivables		**19**	**11**
Current assets		**19**	**11**
Assets		**9,953**	**10,600**

PARENT BALANCE SHEET AT 31 DECEMBER

(DKK million)	Note	2016	2015
Equity and liabilities			
Share capital		53	54
Other reserves		1,638	2,583
Retained earnings		4,393	3,322
Total equity		**6,084**	**5,959**
Other provisions		43	41
Deferred tax liabilities	10.4	14	14
Provisions		**57**	**55**
Interest-bearing debt	10.8	1,959	2,071
Debt to subsidiaries		0	0
Other debt	10.8	14	7
Non-current liabilities		**1,973**	**2,078**
Interest-bearing debt		1,547	1,083
Debt to subsidiaries		288	1,407
Other debt	10.8	4	18
Current liabilities		**1,839**	**2,508**
Liabilities		**3,812**	**4,586**
Equity and liabilities		**9,953**	**10,600**

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 1.1.2015	**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**
Profit for the year	-	-	-	-1,006	2,121	1,115
Foreign currency translation adjustment of investments in subsidiaries etc.	-	-4	-	37	-	33
Other changes in equity in subsidiaries	-	-	-	24	-	24
Tax relating to changes in equity	-	1	0	-	-	1
Buy-back of shares	-	-	-	-	-1,050	-1,050
Capital reduction through cancellation of treasury shares	-1	-	-	-	1	0
Other changes in equity	-	-	-	3	-1	2
Equity at 31.12.2016	**53**	**-81**	**0**	**1,719**	**4,393**	**6,084**

(DKK 1,000)	2016	2015	2014	2013	2012
Specification of movements in share capital:					
Share capital at 1.1.	54,425	56,662	56,662	58,350	58,350
Capital increase	0	0	0	0	0
Capital reduction	-1,209	-2,237	0	-1,688	0
Share capital at 31.12.	**53,216**	**54,425**	**56,662**	**56,662**	**58,350**

At year-end 2016, the share capital was nominally DKK 53 million (DKK 54 million in 2015) divided into a corresponding number of shares of DKK 0.20. There are no restrictions on the negotiability or voting rights of the shares. At year-end 2016, the number of shares outstanding was 259,194,426 (267,324,400 in 2015). For additional information, please refer to Note 10.11.

	2016 Treasury shares*	2016 Percentage of share capital	2015 Treasury shares*	2015 Percentage of share capital
Holding of treasury shares:				
Treasury shares at 1.1.	4,801,775	1.8%	10,504,020	3.7%
Cancellation of treasury shares	-6,044,350	-2.2%	-11,182,015	-3.9%
Buy-back of shares	8,129,974	3.0%	5,479,770	2.0%
Treasury shares at 31.12.	**6,887,399**	**2.6%**	**4,801,775**	**1.8%**

As part of the Company's share buy-back programme, the Company bought back 8,129,974 shares in 2016 (5,479,770* shares in 2015) worth a total of DKK 1,050 million (DKK 605 million in 2015).

** In 2016, the nominal value of all shares outstanding was changed from DKK 1.00 to DKK 0.20, and comparative figures for 2015 have been adjusted accordingly.*

SECTION 10 NOTES TO PARENT FINANCIAL STATEMENTS

10.1 EMPLOYEES

(DKK million)	2016	2015
Staff costs:		
Wages and salaries	41	29
Share-based remuneration	1	0
Defined benefit plans	5	5
Total	**47**	**34**
Average number of full-time employees	**19**	**13**

Remuneration to Executive Board and Board of Directors (included in staff costs)

(DKK million)	2016				2015			
	Wages and salaries*	Seniority bonus**	Share-based remunera-tion**	Total	Wages and salaries*	Seniority bonus**	Share-based remunera-tion**	Total
Niels Jacobsen, President & CEO	14.1	5.2	-	19.3	13.4	4.6	-	18.0
Søren Nielsen, COO	7.9	-	0.4	8.3	2.0	-	0	2.0
René Schneider, CFO	4.7	-	0.2	4.9	1.4	-	0	1.4
Executive Board	**26.7**	**5.2**	**0.6**	**32.5**	**16.8**	**4.6**	**0**	**21.4**
Fee to Board of Directors				**3.9**				**3.0**

** No member of the Executive Board has remuneration in the form of pension or other benefits of more than DKK 0.5 million (DKK 0.5 million in 2015). These expenses are therefore included in wages and salaries.*
*** In 2016, DKK 0 million (DKK 0 million in 2015) of the share-based remuneration and seniority bonus was paid out.*

For further details on remuneration to the Executive Board and the Board of Directors and the share-based remuneration programme, please refer to Note 1.2 in the consolidated financial statements.

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

(DKK million)	2016	2015
Statutory audit	1	1
Total	**1**	**1**

10.3 NET FINANCIAL ITEMS

(DKK million)	2016	2015
Interest from subsidiaries	18	25
Interest income	1	1
Financial income IS	**19**	**26**
Interest to subsidiaries	-5	-21
Interest expenses	-26	-9
Transaction costs	-1	-1
Foreign exchange losses, net	-7	-3
Financial expenses IS	**-39**	**-34**
Net financial items	**-20**	**-8**

10.4 TAX ON PROFIT AND DEFERRED TAX

(DKK million)	2016	2015
Tax on profit for the year:		
Current tax on profit for the year	13	5
Adjustment of current tax, prior years	0	-1
Change in deferred tax	-1	1
Adjustment of deferred tax, prior years	1	0
Tax on profit for the year IS	**13**	**5**
Deferred tax recognised in the balance sheet:		
Deferred tax assets	0	0
Deferred tax liabilities BS	-14	-14
Deferred tax, net at 31.12.	**-14**	**-14**
Deferred tax, net at 1.1.	-14	-15
Changes in deferred tax assets	-1	1
Adjustment of deferred tax, prior years	1	0
Deferred tax, net at 31.12.	**-14**	**-14**

10.5 INTANGIBLE ASSETS

(DKK million)	Goodwill	Rights and other intan-gible assets	Total intan-gible assets
Cost at 1.1.2016	**65**	**8**	**73**
Additions during the year	0	3	3
Cost at 31.12.2016	**65**	**11**	**76**
Amortisation at 1.1.2016	**-19**	**-7**	**-26**
Amortisation for the year	-3	-1	-4
Amortisation at 31.12.2016	**-22**	**-8**	**-30**
Carrying amount at 31.12.2016 BS	**43**	**3**	**46**
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**

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

10.6 PROPERTY, PLANT AND EQUIPMENT

(DKK million)	Land and buildings
Cost at 1.1.2016	**30**
Disposals during the year	0
Cost at 31.12.2016	**30**
Depreciation and impairment losses at 1.1.2016	**-6**
Depreciation for the year	0
Disposals during the year	0
Depreciation and impairment losses at 31.12.2016	**-6**
Carrying amount at 31.12.2016 BS	**24**
Cost at 1.1.2015	**30**
Disposals during the year	0
Cost at 31.12.2015	**30**
Depreciation and impairment losses at 1.1.2015	**-6**
Depreciation for the year	0
Disposals during the year	0
Depreciation and impairment losses at 31.12.2015	**-6**
Carrying amount at 31.12.2015 BS	**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 1.1.2016	**6,253**	**1,426**	**149**	**12**	**0**	**23**
Foreign currency translation adjustments	32	-6	0	0	0	0
Additions during the year	340	290	13	17	0	0
Disposals, repayments etc. during the year	0	-315	-4	-29	0	-15
Cost at 31.12.2016	**6,625**	**1,395**	**158**	**0**	**0**	**8**
Value adjustments at 1.1.2016	**2,711**	**0**	**-57**	**0**	**1**	**0**
Foreign currency translation adjustments	4	0	1	-	0	0
Share of profit after tax IS	1,115	-	49	-	-	-
Dividends received	-2,162	-	-8	-	-	-
Disposals during the year	0	0	0	-	0	0
Other adjustments	24	0	0	-	0	0
Value adjustments at 31.12.2016	**1,692**	**0**	**-15**	**0**	**1**	**0**
Carrying amount at 31.12.2016 BS	**8,317**	**1,395**	**143**	**0**	**1**	**8**
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
Disposals, repayments etc. 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**

The carrying amounts of investments in subsidiaries, associates and joint ventures include capitalised goodwill in the net amount of DKK 5,402 million (DKK 4,920 million in 2015). Amortisation of consolidated capitalised goodwill for the year is DKK 321 million (DKK 247 million in 2015). Receivables from subsidiaries of DKK 1,395 million (DKK 1,426 million in 2015) are considered additions to the total investments in the particular enterprises and are therefore considered non-current. Other receivables worth DKK 8 million (DKK 23 million in 2015) will fall due after five years. Please refer to *Subsidiaries, associates and joint ventures* on page 130.

10.8 OTHER DEBT

(DKK million)	2016	2015
Staff-related liabilities	1	1
Other debt, public authorities	2	1
Liabilities relating to acquisitions	13	21
Other costs payable	1	2
Unrealised losses on financial contracts	1	0
Other debt	**18**	**25**
Due within 1 year BS	4	18
Due within 1-5 years BS	14	7

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 1,959 million (DKK 2,071 million in 2015), DKK 55 million (DKK 164 million in 2015) 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 1,635 million in 2016 (DKK 2,052 million in 2015) of which DKK 283 million was drawn (DKK 352 million in 2015). Moreover, we have established a mutual guarantee with Oticon A/S in the amount of DKK 650 million (DKK 650 million in 2015), 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 2017 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 357 of the Republic of Ireland Companies Act 2014, 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 for the financial year ending on 31 December 2016 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 names of the shareholders listed below are recorded in the register of shareholders as owners of minimum 5% of the votes or minimum 5% of the share capital:

William Demant Invest A/S and this company's parent, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation), Kongebakken 9, 2765 Smørum, Denmark. Ownership interest is approximately 58% of the share capital (59% of the 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 of 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 Parent financial statements are presented in Danish kroner (DKK), which is also the functional currency for the Parent. The accounting policies are the same as last year.

In respect of recognition and measurement, the Parent's accounting policies 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 income.

10.13 PARENT ACCOUNTING POLICIES – *CONTINUED*

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%
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 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%
Audmet OY, Finland*	100%
Audmet Australia Pty. Ltd., Australia*	100%
Audmet B.V., the Netherlands*	100%
Audmet Canada LTD., Canada	100%
Audmet K.K., Japan*	100%
Audmet New Zealand Limited, New Zealand*	100%
Audmet S.r.l., Italy*	100%
Bernafon AG, Switzerland*	100%
Bernafon Hörgeräte GmbH, Germany	100%
Bernafon S.r.l., Italy*	100%
Bernafon LLC, USA	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%
Demant Technology Centre 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 AG, Switzerland*	100%
Audika Groupe S.A., France*	100%

Company	*Interest*
Audionomerna & Hörsam AB, Sweden*	100%
Audio Seleccion S.L., Spain*	100%
BC Implants AB, Sweden*	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 Diagnostics GmbH, Germany*	100%
Diatec Spain, S.L.U., Spain*	100%
e3 diagnostics Inc., USA	100%
Guymark UK Limited, United Kingdom	100%
Hear Better Centers LLC, USA	100%
Hearing Healthcare Management LLC, 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%
IDEA Isitme Sistemleri Sanayi ve Ticaret A.S., Turkey*	100%
Interacoustics A/S, Denmark*	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.S., 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%
HIMSA A/S, Denmark	25%

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

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