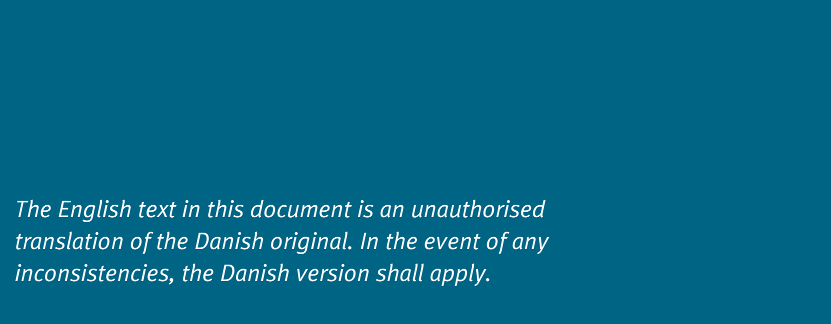
Annual Report 2010

William Demant



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Broadly embedded growth bodes well for the future

Dear reader

2010 was a landmark year for the William Demant Holding Group, the year in which we regained our position as the industry's fastest-growing player. I am proud of our impressive growth in 2010, which is solid proof that we have emerged stronger from the rather challenging years from 2007-2009. During this period, we saw decent growth and also captured market shares, although not to the full height of our ambitions and historic capabilities. In 2010, it was therefore particularly satisfying to note that the Group was firmly back on the growth track – and so convincingly that no peer company could rival us.

Obviously, numerous factors have contributed to this success, and the spring introduction of the Premium product Oticon Agil undeniably played a significant part. From the outset, high demand propelled Agil to a ranking as the world's best-selling high-end hearing aid in just a few months. The response from all markets and distribution channels the world over was the same: with Agil, we had raised the bar for sound quality and wireless features. During the year, many of our competitors also launched new products in the Premium segment, but in our opinion, none of these products has to date equalled the performance and user benefits offered by Oticon Agil.

The Agil launch clearly shows that the right combination of new audiological concepts, user-friendly wireless features, modern compact design, a strong global distribution network and well-established partnerships with worldwide hearing care professionals can create the product triumph that all hearing aid manufacturers strive for, but only few achieve. The absolute winners are of course the thousands of hearing-impaired Agil users who have experienced a distinct improvement in their hearing and thus a significant boost in life quality.

However, the Agil success has also shown that wireless technology in hearing aids is no longer a new and untested innovation to which hearing care professionals and end-users must first grow accustomed. Since we launched our first generation of wireless hearing aids back in 2007, we have noted a marked increase in demand. As the individual manufacturers have furthermore decided to invest in developing their own wireless platforms, and as the manufacturers are furthermore at varying stages of development, the industry has now entered an era where manufacturers can truly stand out in terms of products. I am convinced that our massive investment in wireless technologies for hearing aids and our strong support concept for good loyal customers have given us a good head start that is clearly manifest now, but will also stand us in good stead for many years to come.

Fortunately, the Group's renewed growth momentum does not stem from Oticon Agil alone. Thanks to a wealth of other product introductions – among them Oticon Safari for children and the Super Power hearing aid, Chili – the product portfolios in our hearing aid businesses are currently more comprehensive and competitive than ever before. Likewise, Bernafon's numerous launches in recent years have significantly reinforced the Bernafon brand, an enhancement that has also boosted Bernafon's sales.

Our distribution power in the hearing aid field also intensified in the past year. With the acquisition of Otix Global and thus the Sonic brand towards the end of 2010, we acquired a third brand of hearing aids to supplement the Oticon and Bernafon brands. Each with its own unique profile, the three brands give us a solid growth platform for better addressing different customer needs in future. Acquiring Otix Global has naturally presented us with a major integration and restructuring challenge. We have laid a detailed plan for this work which is already well underway.

I am also pleased to report that in 2010 we managed to successfully establish Oticon Medical as a serious player in the market for bone-anchored hearing systems. In this area too, we have proved that with the right combination of audiological and technological insight, we can create products that set entirely new standards for user benefits.

Although we have only just embarked on this long journey, I foresee considerable growth in this new business activity in the coming years.

Diagnostic Instruments has also made a highly positive contribution to corporate growth. In 2010, this business activity generated revenues surpassing the half-billion kroner mark for the first time, making us by far the largest player in the market for audiometers and diagnostic equipment. With the industry's largest and most dedicated development department and four strong brands – Grason-Stadler, Interacoustics, Maico and Amplivox – we are well armed to continue capturing market shares.

As far as Personal Communications is concerned, our joint venture in the headset area, Sennheiser Communications, is truly back on the growth track after a few weak years characterised by unfavourable market conditions. Sennheiser Communications is in full swing preparing the company to take part in the growth expected in the market for professional headsets – growth that will be driven by Unified Communications (UC). This overarching concept covers the integration of a huge range of communication tools, including e-mail, mobile phones, landline phones, video conferencing equipment and on-line messaging. The massive focus on this area has spurred Sennheiser Communications to enter cooperation agreements and strategic alliances with leading UC suppliers and to this end, the company is also working on getting its products certified.

On balance, the Group is currently very well positioned. This was reflected in solid growth in the past year, and I am certain that also in future, our many activities will enable us to continue to record excellent growth rates. As a natural parallel, we continuously strive to develop the company so we can deliver high growth effectively and with a clear focus. I am therefore confident that the Group is geared to continue on the positive course taken in 2010.

Niels Jacobsen
President & CEO

2010 at a glance

Unparalleled growth and a market-leading product portfolio

After recording highly satisfactory development in 2010, the William Demant Holding Group is now firmly back on the growth track and has achieved significant growth rates in its three business activities. In 2010, the Group generated total revenues of DKK 6,892 million, or a 21% increase, of which organic growth accounted for more than half. Acquisitions contributed by just over 5% to growth, while currency had a positive impact of 4%.

The introduction of the Premium product Oticon Agil in early March was highly instrumental in kickstarting this positive development, and after just a few months, Agil had become the bestselling high-end hearing aid on the market. The introduction later in the year of two more product families based on the RISE 2 platform, Oticon Acto and Oticon Chili, further reinforced this success. Positioned in the large mid-priced segment, Oticon Acto targets the more price-conscious end-user. Oticon Chili is a cosmetically attractive Super Power product developed for users with severe hearing loss and, unlike most other Super Power products, Chili is based on a size 13 battery. Although Agil was the chief contributor to Oticon's unit growth, Acto, Chili, Safari and Hit also made positive contributions.

Bernafon recorded an impressive increase in unit sales in 2010 and with the launch of Inizia 3|1 in August 2010, Bernafon further consolidated their position. This introduction means that Bernafon's ChannelFree signal processing technology is now available in all product categories. Vérité, Veras and Inizia were the main contributors to Bernafon's unit growth.

The acquisition of the listed US hearing aid manufacturer Otix Global towards the end of the year not only strengthened William Demant Holding's distribution activities, but also added a third brand, putting the Group in an even better position to address a variety of market needs.

Following targeted efforts throughout 2010, the Group got off to a good start as supplier to the US government via Veterans

Affairs (VA), accounting for more than 8% of VA's total procurement volume at year-end.

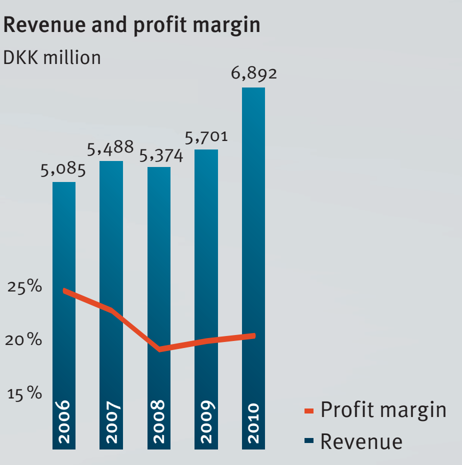
Oticon Medical has established itself as a serious player in the market for bone-anchored hearing systems and has in the past year gained access to several leading hearing clinics and achieved wide recognition for its high product quality and user satisfaction.

It is estimated that in 2010, the global hearing aid market generated growth in unit sales of about 3% and that the average selling price has remained constant or declined slightly by up to 2%. In value terms, total market growth is estimated to have been 1-3%. With wholesale of hearing aids with an organic growth rate of 15%, the Group has thus captured significant market shares. Thanks to better country, product and channel mixes, the Group's hearing aid activities have enjoyed positive growth in the average selling price achieved by the wholesale business.

In the period under review, Diagnostic Instruments generated revenues of DKK 535 million, a 25% increase calculated in local currencies. Of this, 9 percentage points derive from organic growth and the remainder can be attributed to the acquisition of the US Grason-Stadler brand. As the underlying market is believed to have grown approx. 5%, this means that Diagnostic Instruments has again won significant market shares in 2010 and is now by far the largest player in the market for audiometers and other diagnostic equipment. Diagnostic Instruments accounted for 8% of total consolidated revenues in 2010.

Personal Communications generated revenues amounting to DKK 259 million, or an increase of 9% in local currencies. With an impressive double-digit growth rate, Sennheiser Communications is the sole driver of this performance, as Phonic Ear and FrontRow recorded negative growth, resulting from intensified competition in this part of the business. Personal Communication accounted for almost 4% of consolidated revenues in 2010.

In 2010, the Group recorded operating profits (EBIT) of DKK 1,430 million, 24% up on the previous year, and an increase in the reported profit margin (EBIT margin) of 0.5 percentage point to 20.7%. If we disregard the takeover of Otix Global, operating profits (EBIT) totalled DKK 1,450 million and the profit margin was 21.1%. However, after adjustment for a number of special circumstances, including currency factors, the Otix Global acquisition and the cost of employee shares, the consolidated profit margin was almost 2 percentage points higher. Net profits for the year were DKK 988 million, corresponding to 24% growth as well. The launch of high-end hearing aids is traditionally associated with substantial sales promotion costs, and the Group has also increased its activity level with a view to sustaining and underpinning the market momentum generated by the introduction of Oticon Agil. Furthermore, in 2010 the Group invested heavily in strengthening its distribution activities by expanding into new markets, channels and product areas. In addition to the acquisition of Otix Global, the Group also acquired a number of other companies that have had a dilutive effect on total profits for the year. Against this backdrop, the year's profits are considered very satisfactory.



Key figures and financial ratios — DKK

INCOME STATEMENT, DKK MILLION	2006	2007	2008	2009	2010
Revenue	5,085.1	5,488.3	5,373.7	5,701.2	6,892.4
Gross profit	3,575.0	3,971.2	3,725.4	4,034.9	4,958.5
Research and development costs	459.8	505.1	532.9	576.0	615.3
EBITDA	1,433.3	1,436.2	1,216.8	1,341.1	1,653.9
Depreciation etc.	162.7	168.6	174.4	191.7	224.0
Operating profit (EBIT)	1,270.6	1,267.6	1,042.4	1,149.4	1,429.9
Net financials	-61.4	-96.9	-139.4	-94.3	-115.5
Profit before tax	1,209.2	1,170.8	903.0	1,055.1	1,314.4
Net profit for the year	900.7	894.5	682.4	794.9	988.4
BALANCE SHEET, DKK MILLION					
Interest-bearing items, net	-1,392.0	-1,799.6	-1,908.2	-1,575.0	-1,869.2
Total assets	3,122.6	3,713.9	3,914.4	4,626.4	6,785.8
Equity	661.9	425.9	531.6	1,302.1	2,443.2
OTHER KEY FIGURES, DKK MILLION					
Investment in property, plant and equipment, net	207.9	165.5	195.5	181.3	251.1
Cash flow from operating activities (CFFO)	964.1	848.4	827.7	950.1	825.6
Free cash flow	661.0	756.3	587.6	655.8	494.3
Employees (average)	4,797	5,072	5,383	5,674	6,318
FINANCIAL RATIOS					
Gross profit ratio	70.3%	72.4%	69.3%	70.8%	71.9%
EBITDA margin	28.2%	26.2%	22.6%	23.5%	24.0%
Profit margin (EBIT margin)	25.0%	23.1%	19.4%	20.2%	20.7%
Return on equity	114.7%	160.3%	162.9%	87.2%	49.5%
Equity ratio	21.2%	11.5%	13.6%	28.1%	36.0%
Earnings per share (EPS), DKK*	14.4	14.8	11.6	13.6	16.9
Cash flow per share (CFPS), DKK*	15.4	14.0	14.1	16.3	14.1
Free cash flow per share, DKK*	10.5	12.5	10.0	11.2	8.5
Dividend per share, DKK*	0	0	0	0	0
Book value per share, DKK*	10.7	7.2	9.2	22.3	41.9
Price earnings (P/E)	32	32	19	29	24
Share price, DKK*	459	471	218	393	414
Market capitalisation adj. for treasury shares, DKK million	28,274	28,063	12,718	22,894	24,173
Average number of shares, million	62.75	60.62	58.77	58.31	58.35

Financial ratios are calculated in accordance with "Anbefalinger & Nøgletal 2010" ("Recommendations and Financial Ratios 2010") from the Danish Society of Financial Analysts.
The free cash flow is calculated as the sum of cash flows from operating activities (CFFO) and investing activities (CFFI) adjusted for acquisitions.
On computation of the return on equity, average equity is calculated duly considering the current buyback of shares.

**Per share of DKK 1.*

Key figures and financial ratios — EUR**

INCOME STATEMENT, EUR MILLION	2006	2007	2008	2009	2010
Revenue	682.8	737.0	721.6	765.5	925.5
Gross profit	480.0	533.2	500.2	541.8	665.8
Research and development costs	61.7	67.8	71.6	77.3	82.6
EBITDA	192.5	192.9	163.4	180.1	222.1
Depreciation etc.	21.8	22.6	23.4	25.7	30.1
Operating profit (EBIT)	170.6	170.2	140.0	154.3	192.0
Net financials	-8.2	-13.0	-18.7	-12.7	-15.5
Profit before tax	162.4	157.2	121.3	141.7	176.5
Net profit for the year	120.9	120.1	91.6	106.7	132.7
BALANCE SHEET, EUR MILLION					
Interest-bearing items, net	-186.7	-241.4	-256.0	-211.3	-250.8
Total assets	418.9	498.2	525.1	620.6	910.3
Equity	88.8	57.1	71.3	174.7	327.8
OTHER KEY FIGURES, EUR MILLION					
Investment in property, plant and equipment, net	27.9	22.2	26.3	24.3	33.7
Cash flow from operating activities (CFFO)	129.5	113.9	111.1	127.6	110.9
Free cash flow	88.8	101.6	78.9	88.1	66.4
Employees (average)	4,797	5,072	5,383	5,674	6,318
FINANCIAL RATIOS					
Gross profit ratio	70.3%	72.4%	69.3%	70.8%	71.9%
EBITDA-margin	28.2%	26.2%	22.6%	23.5%	24.0%
Profit margin (EBIT margin)	25.0%	23.1%	19.4%	20.2%	20.7%
Return on equity	114.7%	160.3%	162.9%	87.2%	49.5%
Equity ratio	21.2%	11.5%	13.6%	28.1%	36.0%
Earnings per share (EPS), EUR*	1.9	2.0	1.6	1.8	2.3
Cash flow per share (CFPS), EUR*	2.1	1.9	1.9	2.2	1.9
Free cash flow per share, EUR*	1.4	1.7	1.3	1.5	1.1
Dividend per share, EUR*	0	0	0	0	0
Book value per share, EUR*	1.4	1.0	1.2	3.0	5.6
Price earnings (P/E)	32	32	19	29	24
Share price, EUR*	62	63	29	53	56
Market capitalisation adj. for treasury shares, EUR million	3,793	3,765	1,706	3,071	3,243
Average number of shares, million	62.75	60.62	58.77	58.31	58.35

Financial ratios are calculated in accordance with "Anbefalinger & Nøgletal 2010" ("Recommendations and Financial Ratios 2010") from the Danish Society of Financial Analysts.
The free cash flow is calculated as the sum of cash flows from operating activities (CFFO) and investing activities (CFFI) adjusted for acquisitions.
On computation of the return on equity, average equity is calculated duly considering the current buyback of shares.

**Per share of DKK 1.*

***On the transaction of key figures and financial ratios from DKK to EUR, Danmarks Nationalbank's rate of exchange at 31 December 2010 of 745.44 has been used for balance sheet items and the average rate of exchange of 744.72 has been used for income statement and cash flow items.*

Review

Market conditions and business trends

The hearing aid market in general

Since the end of 2008, the hearing aid market has recaptured the stability which, with just a few exceptions, has characterised this market viewed in a historical perspective. The basic growth factors remain unchanged and the steady rise in the elderly population continues to be the absolutely biggest contributor to growth in the hearing aid industry.

With unit growth just under 3% in 2010, the world's largest market for hearing aids – the US market – helped fulfil our expectations of 2-4% global volume growth in 2010. Once again, the US government's demand through Veterans Affairs (VA) exceeded growth in the commercial part of the market, and despite a gradual flattening of VA growth rates during the period under review, their overall demand rose by well over 10% in 2010. The private sector of the US market developed below the historical average by a rate of growth of about 1% in 2010.

The European market for hearing aids developed satisfactorily in 2010 with unit growth matching the development of the US market taken as a whole. Major hearing aid markets such as Germany, France, Italy, Holland and Norway made a positive contribution to growth, whereas markets in Switzerland, Sweden and Great Britain pulled in the opposite direction.

In recent years, the British hearing aid market has been affected by major fluctuations in demand from both the National Health Service (NHS) in the UK and from the private sector market. The private market has suffered under the NHS optimising public fitting of hearing aids, resulting in a reduction in waiting lists. The changes introduced by the NHS have thus removed some of the motivation for consulting a private hearing clinic and presented owners of such clinics in the UK with certain challenges. In August, the NHS invited bids for a new supplier contract, which resulted in an influx of new suppliers to the NHS clinics. The transition to the new contract triggered considerable fluctuations in demand over the period under review caused by stocks being reduced in the first half-year before any hearing aids were ordered under the new contract. In 2010, overall growth in the UK was slightly negative due to a minor decline in NHS sales. The private sector market saw a slight improvement in the rate of growth, but this improvement is mainly due to weak comparative figures for 2009.

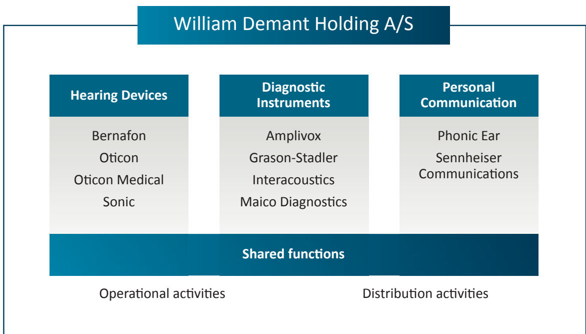
At the beginning and also at the end of 2010, some parts of the USA and Europe saw severe weather conditions and huge amounts of snow may to some extent have prevented end-users from visiting hearing clinics. But with the increase in corporate sales, it is extremely difficult for us to assess the degree to which the weather may have affected the total sale of hearing aids in 2010.

After some years with flat or negative growth in the Japanese market, we have witnessed a gradual improvement in the period under review and the rate of growth is thought to be slightly higher than global growth rates. The Japanese market is however still marked by a lower rate of penetration than the most developed hearing aid markets despite the fact that some fundamental growth factors such as a high average life expectancy and a high level of income seem to hold a large unexploited potential.

Overall global unit growth is thought to have been about 3% in 2010 with almost 10 million hearing aids being sold in the past year.

The average selling price is to an even higher degree than unit growth based on estimates because market information on prices and product mixes is scarce. We estimate that in 2010 the average selling price has developed flatly or slightly negatively by up to 2%, primarily due to growing price pressure in some distribution channels and product segments and a less favourable product mix caused by delayed launches of high-end products by more manufacturers. The pressure on prices is particularly obvious in connection with major contracts with public authorities and retail chains and is also felt in the low-end product segments. The trend clearly shows how important product differentiation is for the individual manufacturer, product differentiation being a key prerequisite in order to obtain the right channel mix and thus a higher average selling price. By way of example, the transition to wireless technology has been a vital product differentiation element amongst manufacturers and has particularly been manifest in the high-end segment. The most successful products have thus to a great extent been able to lift the average selling price, whereas other products have been sold as mid-priced products at sizeable discounts. In terms of value, market growth is estimated to have been 1-3%.

As a result of unchanging growth factors, we still estimate unit growth in the global hearing aid market to be 2-4%. The average selling price in the market is expected to develop flatly or slightly negatively in 2011.



Hearing Devices

In 2010, the Group's hearing aid activities recorded the highest growth rates in the industry and captured shares in all major geographic markets. Unit sales grew by a total of 10% and, with the exception of sales to the National Health Service (NHS) in the UK, the Group achieved unit growth of almost 14%. The higher sales performance additionally reflects a higher average selling price than last year, an improvement largely attributable to the success we enjoyed with the world's bestselling high-end hearing aid, Oticon Agil, and the resulting enhancement of the product mix. The Group's average selling price increased by slightly over 5%, and the hearing aid business generated overall organic growth in revenues of 12%. If we look at our core business alone, i.e. wholesale of hearing aids, the Group generated 15% organic growth in consolidated revenues.

This achievement must be seen in the light of the successful introduction of the high-end product Oticon Agil, a solid product portfolio and an enhanced Oticon profile. These factors have bolstered Oticon's position with dispensers, particularly independent dispensers, and the high service level, coupled with a strong image, makes Oticon an attractive business partner. As a result, customers increasingly perceive Oticon as the industry brand that adds the most value to their business, a trend that helped boost hearing aid sales in 2010. This value-creating business approach plays a pivotal part in Oticon's efforts to forge strong customer relations and explains why Oticon has managed to raise its average selling price in a year marked by all-round pressure on prices.

Launched at the beginning of March 2010, Oticon Agil was, in a matter of weeks, available not only on all markets, but also in no fewer than nine different styles. Agil is based on Oticon's second-generation wireless platform, RISE 2, which offers significant audiological improvements such as the unique Speech Guard technology that gives Agil users unsurpassed advantages. The reception of and response to Agil by end-users and dispensers alike have clearly demonstrated the product's qualities, and in a very short amount of time, Agil became a commercial success generating high sales. Although competing high-end hearing aids have since then been released on the market, none has yet managed to claim Agil's leading position.

In October, Oticon launched another two product families based on the new RISE 2 platform, Oticon Acto and Oticon Chili. Positioned in the large mid-priced segment, Oticon Acto is intended for the more price-conscious user and is available in a range of styles, including the popular mini-RITE variant, which is another top-selling Agil style. A Super Power product developed for users with severe hearing loss, Oticon Chili is available in three different price variants. Unlike most other Super Power products, Chili uses a size 13 battery, which makes the product extremely attractive cosmetically and also enables it to rival most competing products performance-wise. Chili also offers wireless features and can thus be used with Oticon's ConnectLine products. Designed for children, the Oticon Safari family has also been extended with a Super Power version that incorporates the same basic hardware as Chili, but also offers features particularly suitable for children. In early February 2011, Oticon launched Oticon Ino and Ino Pro. Replacing Hit and Hit Pro, respectively, in the product portfolio, the products are also based on the RISE 2 platform and offer high sound quality. Overall, Oticon offers an extremely strong product programme and thus commands a particularly advantageous position in the battle to win further market shares.

Bernafon recorded impressive growth in unit sales in 2010, the increase partly having been spurred by the enhanced product portfolio. To further promote its competitiveness in volume sales, Bernafon introduced Inizia 3|1 in August 2010, which uses the same basic technology and is available in the same product versions as Veras. With the launch of Inizia 3|1, Bernafon's ChannelFree signal processing technology became available in all product categories, and the launch is also expected to generate a significant increase in volume sales over time.

Although Agil was the chief contributor to Oticon's unit growth, Acto, Chili, Safari and Hit also made positive contributions. The Dual family, however, lost sales momentum, which is partly due to cannibalisation caused by the popular miniRITE model, and partly due to age, the products having been introduced back in 2008. Vérité, Veras and Inizia were the chief contributors to Bernafon's unit growth, whereas sales of Icos, Move and Prio declined.

At the end of November, the Group acquired the US hearing aid company Otix Global, whose Sonic brand will to an even greater extent than previously enable the Group to address different customer needs in future, particularly in the USA, which is already the main market for Sonic products. With the acquisition of Otix Global, the Group also acquired Otix Global's Australian and US distribution activities under the Hearing Life brand. We expect to continue operating these activities without any major changes.

The Group has for a number of years been the largest supplier of hearing aids to the NHS in the UK, and in August 2010, the NHS chose to extend its collaboration with us, which gives us the opportunity to supply products in all categories in future. It is estimated that in 2010, the Group has maintained its large market share. Sales to the VA in the USA have progressed according to plan, and since the end of 2009, the Group's market share with VA has passed 8%.

Organic growth in corporate retailing activities was below the global market growth rate in 2010. The lower rate is mainly due to a downturn in our UK retail activities, whose business model had not been adapted to the new market conditions mentioned earlier. Generally speaking, the Group's remaining retail activities saw fair development, such development on the whole being in line with the development on the underlying market.

In the past year, Oticon Medical gained access to several of the most important hearing clinics in the market for bone-anchored hearing systems and received wide recognition for its professionalism and high product quality. In 2010, the Copenhagen University Hospital in Denmark carried out the first independent comparative study of Oticon Medical's Ponto Pro and a competing product. Eight out of twelve new users chose Ponto Pro for its user friendliness, sound quality and speech understanding, and the results clearly show that Ponto Pro enjoys the best user satisfaction ratings in the market.

The market for bone-anchored hearing systems is developing in a distinctly different direction than the market for traditional hearing solutions: The market is thus characterised by an even lower degree of penetration, younger users, few markets and, not least, an annual growth rate of over 20% in the past decade. Furthermore, the longer preparation process, which includes clinical documentation, user tests and approval procedures, has made Oticon Medical's entry into certain markets slightly slower than originally anticipated. However, Oticon Medical has generated satisfactory growth in 2010, and the launch of the Power processor Ponto Pro Power in spring 2011 will substantially strengthen Oticon Medical's product portfolio. The Power segment is estimated to account for about a quarter of the market for bone-anchored hearing systems, and Ponto Pro Power will significantly reinforce Oticon Medical's ambition to become a one-stop supplier to even the largest clinics.

Diagnostic Instruments

Diagnostic Instruments is a global market leader in audiological equipment and comprises four audiometer companies: Interacoustics in Denmark, Grason-Stadler in the USA, Amplivox in the UK and Maico in Germany and the USA. In the past year, Diagnostic Instruments generated growth in local currency by as much as 25% (organic growth accounting for 9%) in a market that grew by approx. 5%, thereby once again capturing market shares.

With the expansion of mandatory hearing screening and diagnosing of newborns in countries such as Brazil, Russia and China, the sale of OAE equipment (*OtoAcoustic Emission*) contributed to organic growth again in 2010. Moreover, Diagnostic Instruments had considerable success with the sale of their hearing aid fitting system, Affinity. A strong sale of hand-held impedance instruments was also an organic growth contributor.

In 2010, we allocated substantial resources for the integration of Grason-Stadler, which we took over in October 2009. In spite of a resource-intensive integration, the company has been able to maintain its strong position in the market for audiometric instruments and in 2010, a strong and highly motivated managerial group was established, which has managed to maintain the sales level and indeed relaunch the company. Over the next few years, the company will introduce an entirely new product line, which will underpin the positive trends and contribute to future growth. We expect the consolidation that has characterised this industry in

recent years to continue and to create good possibilities for favourable economies of scale not only in areas such as development and production, but also as regards distribution, approvals and quality systems.

Personal Communication
Personal Communication includes Phonic Ear (with FrontRow), which is involved in wireless sound systems and assistive listening devices, and our joint venture company Sennheiser Communications, which is a player in the market for headsets for both professional and private users.

In 2010, Personal Communication realised growth in local currency of just over 9%. Sennheiser Communications contributed to this development with a handsome double-digit growth rate and succeeded in gaining market shares in headsets for private as well as professional users. In the latter segment, the introduction of the wireless DW Office headset has been a true growth driver. In the same period, Phonic Ear and FrontRow saw a fall in revenues, among other factors due to mounting competition in the markets in which this part of Personal Communication operates.

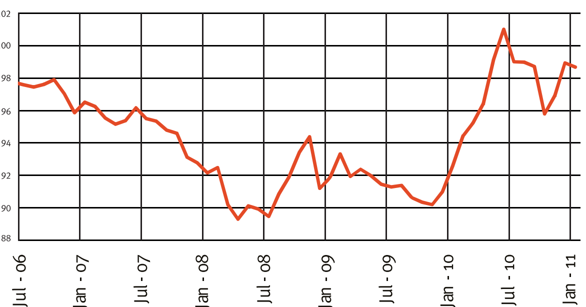
Financial review 2010

Revenue and foreign exchange
In 2010, consolidated revenues amounted to DKK 6,892 million, matching 21% growth compared with 2009. Acquisitions contributed to growth by well over 5%, and the exchange impact was positive by 4%.

With 97% of consolidated sales being invoiced in foreign currencies, reported revenues are significantly affected by movements in corporate trading currencies. Based on the distribution of consolidated sales in 2010 in the respective trading currencies, the graph below shows the monthly trend in the Group's currency basket.

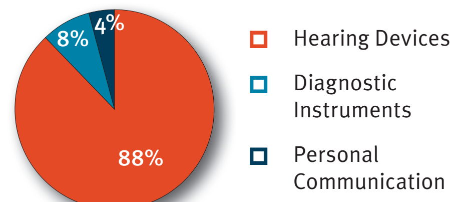
The period under review saw considerable volatility in the foreign exchange markets driven by wavering reports on trends in the US economy and by tension in and surrounding the monetary collaboration in Europe. The positive exchange rate impact on consolidated revenues is mainly attributable to trends in the rate of the US dollar, which rose by 5% in terms of average rates in 2010 and 2009, but other important trading currencies such as Canadian and Australian dollars also went up by 16% and 23%, respectively, based on average rates.

The Group's currency basket – indexed development



The total exchange impact of 4% on revenues in 2010 consists of a positive translation effect of 6% and a negative transaction effect of 2%. The latter is the net effect of realised gains and losses on forward exchange contracts used for hedging of foreign exchange risks and recognised in the accounts together with the revenues in foreign currencies that such forward contracts are designed to hedge.

Revenue by business activity



In North America, the Group in 2010 generated a growth rate of 25% in terms of local currencies of which acquisitions account for just under half. Again in 2010, we enhanced our share of the private sector market, driven in particular by Oticon's successful high-end product Agil. After the first full year as supplier to Veterans Affairs (VA), the Group has obtained a satisfactory slice of this market and following our acquisition of Otix Global, we are now represented by three different brands in respect of the VA contract. In terms of volume at the end of the year, consolidated sales to VA accounted for well over 8% of VA's total demand, which should be viewed in light of very modest sales at the beginning of the year. North America now accounts for 38% of consolidated revenues.

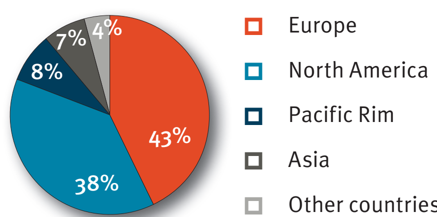
In Europe, the Group also generated a fair rate of growth in revenues of 11% measured in local currencies, acquisitions accounting for 3 percentage points. Sales in Europe accounted for 43% of total consolidated revenues.

Revenue by business activity

DKK million	2010	2009	Percentage change DKK	Local currency
Hearing Devices	6,098	5,061	21%	17%
Diagnostic Instruments	535	413	30%	25%
Personal Communication	259	227	14%	9%
Total	**6,892**	**5,701**	**21%**	**17%**

In 2010, the Group's hearing aid activities achieved 17% growth in revenues measured in local currencies. Consolidated sales of Group-manufactured instruments rose by close on 14%, if we exclude the NHS, and by 10%, if we include the NHS. Growth was primarily driven by a steady increase in sales to independent dispensers and VA; a shift in mix that favourably affected the average selling price of hearing aids.

Revenue by geography



Corporate retail activities, which are included in our hearing aid activities, saw flat organic growth in 2010. This development is, as mentioned earlier, mainly attributable to Hidden Hearing in the UK. Most of our other retail activities still show reasonable growth rates.

In 2010, Diagnostic Instruments generated revenues of DKK 535 million, matching a 25% rise in terms of local currencies. With an *organic* growth rate of 9% in a market that grew by approx. 5% in the period under review, Diagnostic Instruments captured substantial market shares and once again cemented their position as the world's largest supplier of diagnostic equipment. The acquisition of the US brand Grason-Stadler in October 2009 is the primary explanation for the *acquired* growth. Overall, Diagnostic Instruments accounted for just under 8% of consolidated revenues in 2010.

In 2010, Personal Communication generated revenues of DKK 259 million, or an improvement of 9% in local currencies. With their hand-free communication solutions, Sennheiser Communications contributed to this development with a handsome double-digit rate of organic growth, whereas Phonic Ear and FrontRow saw negative organic growth due to more intense competition in the markets in which they operate. In the past year, Personal Communication accounted for 4% of consolidated revenues.

Gross profit

In 2010, consolidated gross profits amounted to DKK 4,959 million, or an increase of 23%. The consolidated gross profit ratio of 71.9% represents a rise of 1.1 percentage points compared with 2009. This improvement is closely linked with higher revenues and a higher average selling price of hearing aids based on an improved mix of products, channels and countries in the period under review. The gross profit ratio has gone up, despite the fact that a larger share of hearing aids is now manufactured using the corporate RISE platform, which includes more components, thus making hearing aids based on this platform more expensive to manufacture than hearing aids manufactured on our old platforms. Through continuous optimisation of production and procurement, we have however managed to ensure a steady reduction in unit costs of instruments based on the RISE platform.

Capacity costs

In 2010, consolidated capacity costs in local currencies rose by 16%. Introductions of high-end hearing aids are traditionally linked with substantial sales promotion costs, and we have furthermore chosen to increase our number of activities to retain and support the momentum in the market created by the introduction of Oticon Agil. Part of this increase is directly attributable to corporate acquisitions, including the acquisition of Otix Global and distribution activities. Moreover, we incurred special costs totalling DKK 15 million for an employee share ownership plan for corporate staff outside Denmark. Sales promotion in Oticon Medical and the setting up of a dedicated sales organisation to serve the VA clinics have also contributed to the rise in capacity costs.

Capacity costs

DKK million	2010	2009	Percentage change DKK	Local currency
R&D costs	615	576	6.8%	5.6%
Distribution costs	2,470	1,929	28.1%	20.2%
Administrative expenses	449	381	17.9%	9.3%
Total	**3,534**	**2,886**	**22.5%**	**16.0%**

Research and development costs
Consolidated research and development costs in local currencies rose by just under 6% in 2010, which is considerably below the increase in revenues in the period under review. To accomplish our mission to remain our customers' preferred supplier, the breadth of our product portfolio is extremely important, and a dedicated effort in research and development is absolutely essential. The modest increase in our research and development costs in 2010 should be seen in the light of recent years' considerable surge in our development activities and also our ambition to massively focus on distribution. The acquisition of Otix Global and the Group's product launches show that in future, only a few manufacturers will have the resources and competencies required to be able to offer a complete product programme. Oticon Medical also contributed to rising research and development costs.

Distribution costs
Corporate distribution costs in local currencies have gone up by just over 20%, such rise being attributable to the expansion of our wholesale business and also to the enhancement of corporate retail activities. In 2010, we have made significant investments with a view to strengthening our distribution activities through the expansion into new markets, new channels and new product areas.

Administrative expenses
In 2010, consolidated administrative expenses in local currencies rose by just over 9%, of which a substantial slice resulted from acquisitions.

Profit for the year
In 2010, operating profits (EBIT) totalled DKK 1,430 million, which is a rise of 24% on 2009. The profit margin thus grew by 0.5 percentage point to 20.7%. However, after adjustment for a number of special circumstances, including currency factors, the Otix Global acquisition and the cost of employee shares, the Group's profit margin would, however, have been almost 2 percentage points higher.

The effect of forward exchange contracts thus negatively impacted the Group's profit margin by approx. 1.3 percentage point compared with 2009.

The takeover of Otix Global at 30 November 2010 reduced the year's operating profits (EBIT) by DKK 20 million of which DKK 5 million related to operations in December and DKK 15 million related to non-recurring costs in connection with the completion of the transaction and the subsequent restructuring and integration of the company. Thus, the transaction negatively affected the consolidated profit margin by 0.4 percentage point in 2010. The acquisition of the Otix activities in 2010 had a negative effect on consolidated cash flows from operating activities in the amount of DKK 35-40 million.

Last but not least, the employee share ownership plan for employees in foreign Group companies adversely affected our earnings by DKK 15 million, resulting in a reduction of our profit margin by approx. 0.2 percentage point.

We currently intend to hedge fluctuations in exchange rates by striving to match positive and negative cash flows in the main currencies and by entering into forward exchange contracts. With our current use of such contracts, forecast cash flows are hedged with a horizon of up to 24 months.

The realisation of forward exchange contracts is recognised in the income statement together with the items that such contracts aim to hedge. In reality, such realisation will typically be recognised together with the revenues in foreign currencies relating to the particular hedge. In 2010, forward exchange contracts realised a loss of DKK 81 million, thereby reducing reported revenues for the period under review, whereas in 2009, we reported a gain of DKK 59 million. In addition, we have raised loans in foreign currency to balance out net receivables.

At the end of 2010, the Group had entered into forward exchange contracts at a repurchase value of DKK 976 million (DKK 701 million at 31 December 2009) and with a market value of DKK 13 million (DKK -13 million at 31 December 2009). The major contracts hedged the following currencies at 31 December 2010:

Forward exchange contracts at 31 December 2010

Currency	Hedging period	Hedging rate
USD	6 months	596
JPY	16 months	6.85
AUD	7 months	476
GBP	10 months	877
CAD	7 months	565

Consolidated net financials in 2010 totalled DKK -116 million against DKK -94 million in 2009. The change in net financials mainly reflected a higher interest-bearing debt and foreign

exchange conditions. The Group still benefits from a lower interest-rate level.

In 2010, consolidated profits before tax amounted to DKK 1,314 million, or a rise of 25% on 2009. Tax on profits for the year is calculated at DKK 326 million, matching an effective tax rate of 24.8% (24.7% in 2009). Earnings per share (EPS) were DKK 16.9, which was an improvement of 24% on last year. As a result of a resolution made by the shareholders, the Company's entire holding of treasury shares was cancelled in 2010, corresponding to a reduction of 606,382 shares.

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

Equity and capital

At 31 December 2010, consolidated equity was DKK 2,443 million (DKK 1,302 million at 31 December 2009), matching an equity ratio of 36%. At 31 December 2010, the Parent's equity amounted to DKK 2,764 million (DKK 1,688 million at 31 December 2009).

The suspension of our share buyback programme in autumn 2008 combined with the results delivered in subsequent years and the absence of dividend payouts is the reason for the substantial rise in consolidated equity. In our interim report for 2010, we announced that we continuously strive to have a net interest-bearing debt of about DKK 1.0-1.5 billion, but that our Board of Directors currently consider the desired level of debt in order for the Group to be able to act quickly and flexibly if acquisition opportunities arise. As a result of the above-mentioned cancellation of treasury shares, the Company's nominal share capital has been reduced to DKK 58,349,875. We did not carry through any capital increases in 2010.

Consolidated equity

DKK million	2010	2009
Equity at the beginning of the year	**1,302**	**532**
Exchange rate adjustments, subsidiaries	122	39
Value adjustments, hedging instruments	21	-98
Profit for the year	988	795
Other adjustments	10	34
Equity at year-end	**2,443**	**1,302**

Consolidated cash flows

In 2010, consolidated cash flows from operating activities amounted to DKK 825 million, which is about 13% below the 2009 level. This fall is mainly due to an increase in receivables and inventories, resulting from a series of product launches and a general rise in the activity level. In 2010, the Group paid corporation tax amounting to DKK 273 million of which tax in Denmark accounted for DKK 198 million.

Free cash flows totalled DKK 494 million, or a fall of DKK 162 million compared with 2009.

Cash flows by main items

DKK million	2010	2009
Profit for the year	**988**	**795**
Cash flows from operating activities	825	950
Cash flows from investing activities	-331	-294
Free cash flows	**494**	**656**
Acquisitions, interests and activities	-806	-287
Other financing activities	494	8
Net cash flows for the year	**182**	**377**

In the period under review, cash flows for investing activities (excluding acquisitions) totalled DKK 331 million against DKK 294 million in 2009. Cash flows for investing activities also include net investments in property, plant and equipment worth DKK 251 million of which DKK 35 million is extra investments in the ongoing project to establish a new domicile for Oticon Inc. in the USA. For 2011, we foresee an ordinary investment level of DKK 225-250 million. The completion of the new domicile is expected to involve extra investments in 2011 worth well over DKK 100 million.

At 30 November 2010, the Group took over the US hearing aid company, Otix Global, including the Sonic brand and the company's distribution activities in the USA and Australia. The Group has moreover taken over some or all activities in a number of minor distribution companies primarily in North America and Europe. For the period under review, the cash acquisition cost amounted to DKK 806 million.

In 2010, other financing activities totalled DKK 494 million (DKK 8 million in 2009), mainly constituting repayments of non-current liabilities in the amount of DKK 554 million and proceeds from loans raised worth DKK 1,050 million.

Balance sheet
At 31 December 2010, the consolidated balance sheet totalled DKK 6.8 billion, or an increase of 47% on the balance sheet total at end-2009. The rise in balance sheet total includes a positive exchange impact of about 6%.

The substantial growth in consolidated goodwill, which at end-2010 amounted to DKK 1,661 million (DKK 786 million at end-2009), relates primarily to our acquisition of Otix Global and a number of distribution companies.

At 31 December 2010, the Group has lent DKK 382 million to corporate customers and business partners, a rise of around DKK 117 million on last year. In 2011, we expect the rise in such loans to continue.

The period under review saw an increase in working capital first and foremost due to a higher activity level, which caused a rise in corporate inventories and trade receivables. The increase is especially attributable to the success of Oticon Agil and was already manifest in mid-2010. In the second half of 2010, our working capital only rose marginally despite further growth in corporate sales.

In 2010, consolidated interest-bearing debt rose by DKK 496 million, which is mainly due to acquisitions and working capital used for product launches and a generally higher level of activity.

To minimise uncertainties about the trend in interest rates and thus interest expenses, the Group increasingly uses interest swaps. The increase in non-realised losses on financial contracts was in part due to non-realised losses on interest swaps of DKK 48 million.

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

Directors and employees
At the annual general meeting on 7 April 2010, Lars Nørby Johansen, Peter Foss, Niels B. Christiansen and Thomas Hofman-Bang were re-elected. After the general meeting, the Directors elected Lars Nørby Johansen Chairman and Peter Foss Deputy Chairman of the Board of Directors.

The Group employed 7,098 staff at year-end (5,833 in 2009), of whom 1,592 were employed in Denmark (1,577 in 2009). The signifant influx of employees is mainly due to acquisitions, including the acquisition of Otix Global Inc. The average number of employees (full-time equivalent) was 6,318 in 2010 (5,674 in 2009).

Significant reasons for our success in 2010 are the employees' commitment and professionalism and not least their great effort, all of which have really helped the Group back on the growth track. We therefore extend our warm thanks to all our staff, whose work and dedication will also be the key to our success in the years to come.

Employee share ownership plans and incentive programmes
At two- or three-year intervals, we have previously offered our employees the chance to buy shares at a favourable price depending on their salary and seniority. The shares are subsequently held on trust for five years. The most recent *employee share ownership plan* was carried through in 2006. Since 2008, we have offered employees liable to pay tax in Denmark to participate in *salary sacrifice arrangements*. Employees in foreign Group companies cannot participate in such salary sacrifice arrangements. In 2010, we have therefore carried out an employee share ownership plan for these employees of which the total gift element recognised in the income statement is DKK 15 million.

We have no share option plans or similar arrangements for the Group's employees.

Knowledge resources
Our mission statement stipulates that the Group must aim for continuous growth in revenues and earnings, and that we must strive for a high innovation level through a flexible and knowledge-based organisation. The prerequisite for the Group's continued competitiveness is extensive audiological know-how and a broad spectrum of competences such as further developing wireless technology, designing integrated circuits for sophisticated analogue and digital processing of sound signals, developing software for optimum fitting of hearing aids, designing micro-amplifiers and related acoustic systems as well as developing and manufacturing micromechanic components.

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

Our corporate development centre in Denmark is a major catalyst for both ongoing and future innovation projects. The Group's research centre Eriksholm also plays a significant role in our endeavours to constantly be at the forefront of trends and deliver the most innovative solutions that bring end-users and hearing aid dispensers the most advantages.

The Oticon Foundation
The primary goal of William Demant Holding's main shareholder, the Oticon Foundation, is to safeguard and expand the William Demant Holding Group's business and provide support for various commercial and charitable purposes with particular focus on the field of audiology. 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. At 9 March 2011, the Foundation owns approx. 60% of the shares in William Demant Holding.

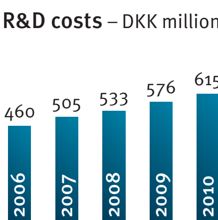
Sound liquidity and a satisfactory free float are important to obtain fair pricing of our shares at NASDAQ OMX Copenhagen. In autumn 2005, the Oticon Foundation consequently announced that in future it would strive to retain an ownership share of 55-60% against previously 60-65% through, if necessary, the sale of shares in the market. The sale of shares by the Foundation is independent of any share buyback programmes.

In accordance with the Oticon Foundation's investment strategy, the Foundation's investments – apart from shares in William Demant Holding – also include other assets, as the Foundation can make direct, active investments in companies which in their business model and structure resemble the William Demant Holding Group, but which are outside its strategic sphere of interest.

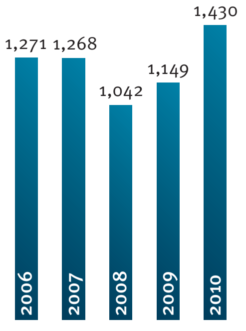
Outlook for 2011

For 2011, we forecast substantial growth in both revenues and earnings, and the improvement of corporate profitability that took place in 2010 is expected to continue. If we exclude the acquisition of Otix Global and the associated non-recurring costs, we forecast a continuous rise in our profit margin compared with 2010 and a handsome double-digit rate of growth in operating profits (EBIT) before recognition of Otix Global.

R&D costs – DKK million



Operating profit (EBIT) – DKK million



Unit growth in the global market for hearing aids is estimated at 2-4% in 2011, whereas the average selling price on the market is thought to develop flatly or slightly negatively. Organic growth in the Group's wholesale of hearing aids for 2011 is expected to exceed market growth by 4-8 percentage points. Excluding acquisitions, we expect our retail activities in 2011 to grow in step with market trends.

In 2011, Diagnostic Instruments is also expected to gain additional market shares in a market estimated to show low single-digit growth rates. We anticipate a high single-digit growth rate for the Group's activities in Personal Communication for 2011.

Acquisitions will have a positive impact on consolidated revenues in 2011. Based on the transactions carried through since early 2010, including the takeover of Otix, we expect acquisitions to impact revenues by 6-7% in 2011. To this should be added the effect of any acquisitions that may be made in the remaining part of 2011.

Viewed in isolation, the acquisition of Otix Global on 30 November 2010 is thought to contribute to consolidated revenues to the tune of DKK 350 million in 2011 against DKK 33 million in 2010. Otix Global's effect on consolidated operating profits (EBIT) before non-recurring costs is expected to be slightly negative for 2011 despite the fact that we forecast improvements as the year progresses. Non-recurring costs for the restructuring and integration of Otix are estimated at DKK 30-50 million for 2011. Otix is thus expected to dilute the consolidated profit margin in 2011 by 1.5-2.0 percentage points. In step with the ongoing integration process, the profitability of the acquired activities is expected to improve significantly. Activities for the 2012 financial year are expected to generate a profit margin just below that of the Group (exclusive of Otix). Although the integration process is proceeding satisfactorily, expectations of the acquired entities are, however, subject to a higher degree of uncertainty than are expectations for the Group's other activities.

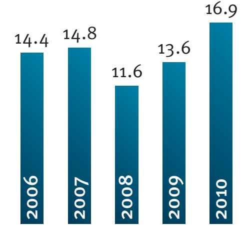
Based on average exchange rates in February 2011, exchange rate movements in 2011 are assumed to have a neutral translation effect in respect of revenues as well as operating profits (EBIT) compared with 2010. Gains or losses from forward exchange contracts had a negative impact on consolidated revenues and operating profits (EBIT) for 2010 of close on DKK 90 million.

Continuous investments in property, plant and equipment in 2011 are estimated at DKK 225-250 million. To this amount should be added additional investments worth just over DKK 100 million in 2011 in relation to the ongoing construction of a new domicile for Oticon in the USA.

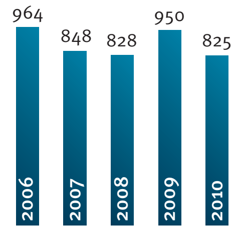
The Group's effective tax rate for 2011 is estimated at 25%, matching the Danish corporation tax rate.

As mentioned in our Interim Report 2010, we strive to have an interest-bearing net debt of about DKK 1.0-1.5 billion. With an interest-bearing debt in early 2011 of nearly DKK 1.9 billion and the prospect of substantial cash flows in the next few months, we may during 2011 again be in a situation, where the buyback of shares may be relevant. Cash flows from operating activities and the extent of any acquisitions made in the particular period will determine when or if such buyback will take place.

Earnings per share (EPS) – DKK



Cash flows from operating activities – DKK million



Shareholder information

Capital

At 31 December 2010, the Company's authorised share capital was nominally DKK 58,349,875 divided into as many shares of DKK 1. The shares are not divided into classes and have the same rights.

William Demants og Hustru Ida Emilies Fond (the Oticon Foundation) has notified the Company that at 31 December 2010, the Foundation holds approx. 60% of the share capital. On 6 August 2010, Fidelity International notified us that they had reduced their ownership interest in the Company and now hold less than 10% of the share capital. On 12 November 2010, Marathon Asset Management LLP notified us that they had reduced their ownership interest and now hold less than 5% of the share capital.

About 60% of the Group's around 7,100 employees are shareholders in the Company. All members of the Board of Directors and Executive Board are shareholders in the Company. Shares held by employees and by members of the Board of Directors and the Executive Board account for approx. 2% of the total share capital.

As a result of a decision made by the general meeting, the Company's entire holding of treasury shares was cancelled in 2010, corresponding to a reduction of 606,382 shares.

The Company has not bought treasury shares in 2010, nor has it increased its share capital during the year.

Share information

DKK	2006	2007	2008	2009	2010
Highest rate	504	583	478	396	480
Lowest rate	343	407	158	167	352
Rate, year-end	459	471	218	393	414
Market capitalisation*	28,274	28,063	12,718	22,894	24,173
Average no. of shares**	62.75	60.62	58.77	58.31	58.35
No. of shares, year-end**	61.60	59.58	58.31	58.35	58.35

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

Specification of movements in share capital

DKK 1,000	2006	2007	2008	2009	2010
Share capital at 1.1.	65,569	63,323	60,986	58,956	58,956
Capital increase	139	0	0	0	0
Capital reduction	-2,385	-2,337	-2,030	0	-606
Share capital at 31.12.	**63,323**	**60,986**	**58,956**	**58,956**	**58,350**

Powers relating to share capital

The shareholders in general meeting have empowered the Directors to increase the share capital by up to nominally DKK 1,179,527 in connection with the issue of employee shares at a subscription price to be determined by the Directors, however minimum DKK 1.05 per share of DKK 1. The empowerment is valid until 1 January 2011. Until 1 January 2012, the Directors have been authorised to increase the share capital by up to DKK 6,664,384 for other purposes. The subscription price will be determined by the Directors. At the next annual general meeting in April 2011, the Board of Directors will propose that both empowerments be extended until 2016.

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

Dividend

At the general meeting, the Directors will, as in prior years, propose that all profits for the 2010 financial year be retained. Our Directors previously decided that any excess liquidity was to be used for the buyback of shares. However, the global financial crisis and the recession combined with our wish to be able to benefit from any acquisition opportunities mean that this practice was suspended in autumn 2008. As stated in our Interim Report 2010, we aim to keep our interest-bearing debt at DKK 1.0-1.5 billion, which means that it will again be possible to buy treasury shares in 2011. Any purchases of treasury shares by the Group will be carried out in consideration of the current cash inflow and not least the acquisitions that may be carried out in the period.

Insider rules

The Group's insider rules and in-house procedures comply with the provisions of the *Danish Securities Trading Act* under which the Executive Board and the Board of Directors and their related parties are obliged to inform the Company of their transactions with the Company's securities with a view to subsequent publication and reporting to the *Danish Financial Supervisory Authority*. In 2010, the Company made three such announcements, which can be seen on the Company's website under *Insider trade announcements*. In its internal rules, the Company has chosen to operate an insider register containing a relatively large number of persons,

including leading staff members, who – through their attachment to the Company – may possess price-affecting knowledge of the Group's internal affairs. Persons entered in the insider register may only trade in Company shares for six weeks following publication of the annual report and the interim report through NASDAQ OMX Copenhagen. Such persons are also obliged to inform the Company of their transactions in Company shares.

IR policy and investor information

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

We aim to reach this goal by continuously providing relevant, correct and adequate information in our Company announcements. The Company also maintains an active and open dialogue with analysts as well as current and potential investors. Through presentations, individual meetings and participation in investor conferences, we aim to maintain an ongoing dialogue with a broad section of share market players. In 2010, we held just over 300 investor meetings and presentations.

The Company also uses its website www.demant.com for communication with the share market. The website provides more information about the Group and its business activities.

Investors and analysts may also contact Stefan Ingildsen, Senior Vice President, Finance; Søren B. Andersson, Vice President, IR; and Morten Lehmann Nielsen, IR Officer, by phone +45 3917 7100 or by e-mail to william@demant.com.

Main Company announcements in 2010

1 February	Introduction of Oticon Agil
11 March	Annual Report 2009
7 April	Ordinary general meeting
12 May	Interim information, first quarter 2010
13 July	Capital reduction after expiry of advertisement period
18 August	Interim Report 2010
13 September	Agreement on takeover of Otix Global, Inc.
16 November	Interim information, third quarter 2010
30 November	Closing of merger with Otix Global, Inc.

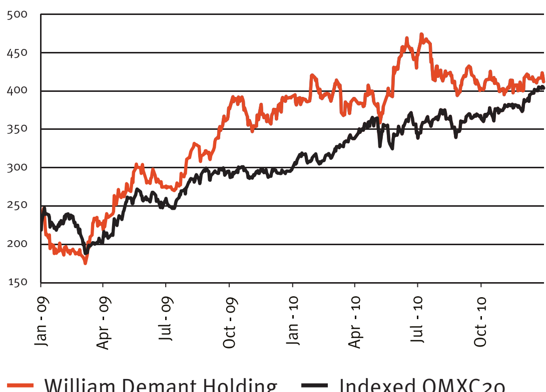
Financial calendar 2011

1 March	Deadline for submission of agenda items for the ordinary general meeting
9 March	Annual Report 2010
13 April	Ordinary general meeting
12 May	Interim information, first quarter 2011
19 August	Interim Report 2011
10 November	Interim information, third quarter 2011

General meeting

The annual general meeting will be held on Wednesday, 13 April 2011, at 4 p.m. at the Company's head office Kongebakken 9, 2765 Smørum, Denmark.

Development in share price



Risk management activities

Risk management activities

Risk management activities in the William Demant Holding Group first and foremost focus on the business-related and financial risks to which the Company is fairly likely to be exposed.

In general, we act in a stable market with a limited number of players. In normal circumstances, the risks to which the Company is exposed do not change on the short term. The aftermath of the financial crisis is subsiding and we therefore consider the risk exposures to be back at a more normal level. In connection with the preparation of the Group's strategic, budgetary and annual plans, the Board of Directors considers the risks identified in these processes.

Business risks

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

The market in which we act is a highly product-driven market. The Group's significant research and development initiatives help underpin our market position. It is therefore also vital in the long term to maintain the Group's innovative edge and to attract the most qualified and competent staff.

The William Demant Holding Group is involved in a few disputes. In the patent case against American ETG, we are still awaiting the judge's decision upon which we will decide what action to take. Apart from the provision relating to the ETG case, which affected the income statement negatively in 2007, Management is of the opinion that other disputes do not or will not significantly affect the Group's financial position. We seek to make adequate provisions for legal proceedings. It is our policy to take out patents for our own groundbreaking innovations and currently monitor that third-party products do not infringe on our patents and that our products do not infringe on any third-party patents.

Financial risks

Financial risk management focuses on exchange rate, interest rate, credit and liquidity risks and on hedging against the risk of loss of property, plant and equipment. The purpose of financial risk management is to protect the Company against potential losses and to make sure that Management's forecasts for the current year will only be affected to a limited extent by changes in the surrounding world – be they fluctuating exchange or interest rates or direct damage to corporate assets. We are exclusively hedging commercial risks and are not involved in any financial transactions of a speculative nature.

Exchange rate risks

The Company seeks to hedge exchange rate risks through foreign exchange contracts and other hedging instruments. Major net exchange positions are normally hedged up to 24 months ahead. Currency hedging gives Management the opportunity and necessary time to redirect business strategies in the event of persistent foreign exchange fluctuations.

Effect on EBIT, 5% positive exchange rate impact*

DKK million	2010	2009
USD	+30	+25
GBP	+10	+10
CAD	+10	+10
AUD	+10	+10
JPY	+5	+5

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

The exchange risk has been calculated on the basis of simple adding up of EBIT figures for Group companies in local currencies. Whereas the adding up of EBIT figures includes all Group companies, the net exchange flow is identical to the flow in Oticon A/S. We estimate that about 90% of all currency exchange is made in Oticon A/S and that the analysis therefore provides a true and fair view of the flow in the entire Group. The exchange flow includes the actual exchange as well as any change in net receivables (receivables, payables and bank balances). Exchange rates from January 2010 have been used for translation.

The table below shows the impact on equity in case of changes in selected currencies of 5%.

Effect on equity, 5% positive exchange rate impact

DKK million	31.12.2010	31.12.2009
CAD	+30	+5
USD	+15	+9
AUD	+10	+6
GBP	+5	+5
JPY	+1	+1

Interest rate risks
At present, the Group has limited debts compared with the volume of its activities and uses interest rate swaps to hedge interest rates.

Based on net debt at year-end 2010, a climb of 1 percentage point in the general interest rate level will increase consolidated annual interest expenses before tax by approx. DKK 2 million (approx. DKK 3 million in 2009).

Credit risks
Corporate credit risks relate primarily to trade receivables. Our customer base is fragmented, and credit risks only involve minor losses on individual customers. Together, our five largest customers account for less than 10% of total consolidated revenues. In our opinion, we have no major credit exposure, which is supported by our track record of insignificant previous losses on bad debts. When undertaking lending transactions with customers or business partners, we require the provision of security in their particular businesses.

The Group has no major deposits in financial institutions, for which reason the credit risk of such deposits is considered to be low.

Liquidity risks
The Group is obliged to have sufficient cash resources to meet its obligations. The Group has access to non-utilised credit facilities, and the liquidity risk is therefore considered low. In addition, the Group has committed lending facilities with our two primary bankers worth a total of DKK 900 million. We are of the opinion that the Group has a strong cash flow and satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions.

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, most months develop in a very similar fashion, so with the repetitive nature of our business, even minor deviations will become visible fairly quickly.

To ensure high quality in the Group's financial reporting systems, the Board of Directors and Executive Board have adopted policies, procedures and guidelines for financial reporting and internal control to which the subsidiaries and reporting units must adhere, including:

- Continuous follow-up on results achieved compared to the approved budgets
- Policies for IT use, insurance, cash management, procurement etc.
- Reporting instructions as well as reporting and finance manuals

The responsibility for maintaining sufficient and effective internal control and risk management in connection with the financial reporting lies with the Executive Board.

The Company does not have in-house auditors, but uses internal control systems that are evaluated by the Board on a current basis.

The Company's auditors evaluate our internal control systems in their communication with our Board.

Safeguarding corporate assets

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

The Directors are regularly briefed on developments in identified risks. The purpose of this reporting is to keep the Directors fully updated and facilitate corrective action to minimise such risks.

Corporate social responsibility

Corporate social responsibility

Setting high ethical standards in our way of doing business is an integral part of our corporate mission statement. Within our natural sphere of interest, we readily contribute to help tackle social and environmental challenges beyond our legal obligations. Since 2009, we have intensified our efforts in relation to corporate social responsibility and stepped up our communication in respect of the outcome of such efforts, mainly through our corporate website.

Global Compact

In spring 2010, we joined the UN *Global Compact* initiative pledging the Group to globally embrace, support and enact the principles of human rights, labour, the environment and anti-corruption. Based on this initiative, we can systematise our CSR efforts and use a globally recognised framework for reporting the results achieved. Joining the *Global Compact* initiative means, among other things, that we must issue an annual report on our work in this area by submitting a *Communication on Progress* to the UN *Global Compact* for posting on their website.

14 principles

At strategic level, we have adopted 14 principles outlining Management's approach to business ethics, the environment including working environment, human rights and corporate governance. We have also formulated a comprehensive business ethics policy consisting of a set of rules and guidelines outlining our approach to how – from an ethical perspective – we run our business and interact with our customers.

Code of conduct for suppliers

A special focus area is our suppliers. We have adopted a comprehensive code of conduct used by the entire Group and including criteria in respect of human rights and employee rights as well as the environment and anti-corruption. At this point in time, 190 suppliers of components and packaging have signed an agreement to comply with the code of conduct. This group of suppliers accounts for about 85-90% of our total purchases.

Based on our code of conduct, suppliers are selected and currently assessed; and if we identify a risk that a potential supplier does not comply with our code, we will carry out an audit and draw up a report listing the items to be improved in order for any cooperation to begin or continue. In 2010, we carried out 28 CSR audits of which 26 audits were performed by an external auditing firm.

Basically, suppliers are responsible for remedying any deficiencies, but solutions are often found in consultation with our corporate staff. However, the Group has a zero tolerance policy in certain areas such as child labour and all forms of forced or compulsory labour.

Environmental awareness

The environmental impact of corporate production of products is limited. For instance, a hearing aid weighs just 2-6 grams and the amount of materials required for production is quite small.

The consumption of packaging materials for the various hearing aids is a special focus area for us. We are thus continuously working to make unit packs more uniform and reduce unit pack sizes in order to limit and optimise the consumption of resources and thus minimise our total environmental impact. In 2010, we reduced unit pack sizes for a number of products, thereby cutting corporate consumption of packaging materials by about one third.

Carbon Disclosure Project

Since 2008, William Demant Holding has chosen to report corporate carbon dioxide (CO_2) emissions and climate strategies through the *Carbon Disclosure Project* (CDP), which enables a comparison with other companies. From 2009, the Group's annual carbon dioxide emissions per employee have been reported for the countries in which production takes place. Compared with 2008 and 2009, emissions in Denmark have according to our CDP reporting fallen from about 3.5 tonnes to about 3 tonnes, both levels of emission being low for a manufacturing company. Power consumption accounts for about 85% of corporate carbon dioxide emissions, heating of buildings for about 9% and company cars for about 6%.

Focus

The number of CSR-related enquiries from investors and other stakeholders has gone up moderately in recent years, and we expect this trend to continue. With our participation in the *Carbon Disclosure Project* and the *Global Compact* initiative and with our generally higher focus on CSR, we wish to emphasise that this work will be prioritised and further developed in the years to come.

The Group's CSR policy will be reported. In 2011, we will continue our work towards turning these policies into action and seek to identify relevant measurement criteria for our effort.

CSR principles and policies as well as more detailed information on our work in this area are available on our website under *CSR*.

Corporate governance

William Demant Holding's Board of Directors and Executive Board consider corporate governance an ongoing process and regularly assess whether their findings give rise to amendments to the Company's articles of association or managerial processes.

The Board of Directors continuously considers the *Corporate Governance Recommendations*, which are part of the disclosure requirements laid down by NASDAQ OMX Copenhagen. Drawn up by the *Committee on Corporate Governance* under the auspices of NASDAQ OMX Copenhagen, the recommendations were most recently updated in April 2010. The Board of Directors determines the extent to which the Company should implement such recommendations. We comply with 73 out of 78 recommendations. The deviations from the five recommendations that we do not comply with are well-founded. A complete schematic presentation of the recommendations, *Statutory report on enterprise management, cf. section 107b of the Danish Financial Statements Act*, is available on our website under *Corporate Governance*: www.demant.com/CorporateGovernance.

Through our reference to the schematic presentation on our corporate website, we meet the requirement that the annual report review is to include the statutory report on enterprise management.

The following pages describe some crucial aspects of and supplementary information on corporate governance in the William Demant Holding Group.

Shareholders' role and interaction with Management

We communicate currently with our shareholders at the annual general meeting and through shareholder meetings, investor presentations, e-mail, telephone, the Company's website, webcasts, capital market days, the annual report, company announcements etc. and we strive to communicate in both Danish and English.

As at 9 March 2011, our principal shareholder, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation) holds approx. 60% of the share capital and votes. The Foundation has a statute according to which it should always – directly or indirectly – seek to hold the majority of shares in the Company in order to limit any attempts at takeover.

Openness and transparency

All information essential for the assessment of the Company and its activities by shareholders and financial markets is published as promptly as possible in compliance with the rules of the *Danish Financial Supervisory Authority* and NASDAQ OMX.

We have chosen to present our website in English only as we believe that stakeholders seeking information from our website are familiar with this language. However, most of the documents that can be downloaded from our website are available in both Danish and English.

In compliance with the *Danish Securities Trading Act*, we publish annual and interim reports. In the time span between such reports, we have chosen to publish quarterly information rather than actual quarterly reports. In Management's opinion, actual quarterly reports will not promote a better understanding of our activities, the quarterly information providing an adequate account of the important events and transactions that have taken place during the period in question. Furthermore, such information gives a general outline of the Group and its financial position and results.

Competitive aspects are important reasons for the Company's decision not to draw up actual quarterly reports: The hearing aid industry consists of six major players. Even though four of these companies are either listed companies themselves or an integral part of a listed group, only three report on their hearing aid activities on an ongoing basis. And of these three companies, only one publish quarterly reports. The three unlisted companies do not publish such information at all or only to a very limited extent.

Duties, responsibilities, composition and organisation of the Board of Directors

The Board of Directors is responsible for the overall strategic management as well as the financial and managerial supervision of the Company, and it currently evaluates the work of the Executive Board as for instance reflected in the annual plan and budget prepared for the Board of Directors. The Board's duties and responsibilities are set out in its rules of procedure, and the Executive Board's duties and responsibilities are provided in a set of instructions. Such rules of procedure and instructions are revised once a year.

Currently, the Board has seven Directors: four Directors elected by the shareholders at the general meeting and three Directors elected by staff in Denmark. Shareholders elect Directors for a term of one year and staff elect Directors for a term of four years. Staff-elected Directors are elected in accordance with the provisions of the *Danish Companies Act*. The next staff election will take place in 2011.

A Director cannot be re-elected once he or she has reached the age of 70.

At least half the Directors elected by shareholders at the annual general meeting are independent.

As at 9 March 2011, all Directors are shareholders in the Company holding shares as follows: Lars Nørby Johansen, Chairman of the Board of Directors, holds 3,768 shares; Peter Foss, Deputy Chairman, holds 2,588 shares; Niels B. Christiansen holds 502 shares; Susanne Fredsø holds 847 shares; Ivan Jørgensen holds 1,610 shares (movement in 2010: -132); Ole Lundsgaard holds 919 shares (movement in 2010: +148) and Thomas Hofman-Bang holds 2,500 shares.

Board committees/audit committee

The Board of Directors of William Demant Holding has discussed the general framework in respect of the role and function of the mandatory audit committee and decided to let the entire Board of Directors handle this task. The Directors have taken the Company's business activities, the size of the Board and the limited scope of estimates and assessments in relation to financial reporting into account. The stipulation that no Directors may be members of the Executive Board – in case the entire Board of Directors acts as the audit committee – is satisfied.

In 2010, the audit committee has held three meetings in connection with the ordinary board meetings.

The terms of reference of the audit committee are available on our corporate website under *Management*.

Apart from the audit committee, no independent Board committees have been nominated at the moment, as the Board deems such committees unnecessary, given the Company's business activities and the size of the Board.

Board of Directors' and Executive Board's remuneration

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

Directors' fees consist of a fixed basic fee per Director. The Chairman's fee is determined to be three times the basic fee and the Deputy Chairman's fee is determined to be twice the basic fee. The Executive Board also receives a fixed fee. Consequently, such fees do not include any variable bonuses. In the opinion of the Board of Directors, the fixed fee reflects a competitive remuneration of the Board of Directors and the Executive Board.

For the President & CEO, a termination and resignation clause in line with normal market terms has been agreed upon. If the Company terminates the employment, the notice is 12 months with one month's extension for each calendar year of employment, however a maximum of 30 months. Since the President & CEO has been employed with the Company since 1992, the notice on the part of the Company was 30 months at 31 December 2010. If the President & CEO terminates the employment himself, the notice is six months. Moreover, the President & CEO is entitled to a seniority bonus matching one year's salary for every four years of employment after 2005. In the consolidated financial statements, this seniority bonus is recognised as a defined benefit plan commitment that will be paid out on termination of his employment.

Audit

The audit fee is agreed with the auditor prior to a financial year and is subject to approval by the audit committee. The auditor may be asked to perform non-audit services. Such services are to be agreed with the Company's Executive Board in each case. If the fee in respect of non-audit services exceeds the auditors' ordinary audit fees, such fee is subject to approval by the Board of Directors.

Risk management

For many years, the hearing aid market has been stable with a limited number of players. The Group has decided to hedge its credit facilities and at the same time reduce its exchange and interest rate exposures through the conclusion of forward exchange contracts and interest rate swaps. All major risks are currently discussed by the Board of Directors, based among other things on the annual plan and budget drawn up for the Board of Directors. Please also see *Risk management activities* on page 22.

Amendments to articles of association

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

Independent auditor's report

To the shareholders of William Demant Holding A/S

Report on consolidated and Parent financial statements
We have audited the consolidated financial statements and Parent financial statements of William Demant Holding A/S for the financial year 1 January – 31 December 2010, which comprise the income statement, balance sheet, statement of changes in equity and notes, including the accounting policies for the Group as well as the Parent and the consolidated statement of comprehensive income and consolidated cash flow statement. The consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards* as adopted by the EU, and the Parent financial statements have been prepared in accordance with the *Danish Financial Statements Act*. Further, the consolidated financial statements and the Parent financial statements have been prepared in accordance with Danish disclosure requirements for listed companies.

Management's responsibility for consolidated and Parent financial statements
Management is responsible for the preparation and fair presentation of consolidated financial statements in accordance with *International Financial Reporting Standards* as adopted by the EU and Danish disclosure requirements for listed companies and for the preparation and fair presentation of Parent financial statements in accordance with the *Danish Financial Statements Act* and Danish disclosure requirements for listed companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements and Parent financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility and basis of opinion
Our responsibility is to express an opinion on these consolidated financial statements and Parent financial statements based on our audit. We conducted our audit in accordance with Danish and *International Standards on Auditing*. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements and Parent financial statements are free from material misstatement.

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

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

Our audit has not resulted in any qualification.

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2010 and of its financial performance and cash flows for the financial year 1 January – 31 December 2010 in accordance with *International Financial Reporting Standards* as adopted by the EU and Danish disclosure requirements for listed companies.

Also in our opinion, the Parent financial statements give a true and fair view of the Parent's financial position at 31 December 2010 and of its financial performance for the financial year 1 January – 31 December 2010 in accordance with the *Danish Financial Statements Act* and Danish disclosure requirements for listed companies.

Statement on Management's commentary
Management is responsible for preparing a Management commentary that contains a fair review in accordance with Danish disclosure requirements for listed companies.

Our audit did not include Management's commentary, but we have read it pursuant to the *Danish Financial Statements Act*. We did not perform any procedures other than those performed during our audit of the consolidated financial statements and Parent financial statements.

Based on this, we believe that the disclosures in Management's commentary are consistent with the consolidated financial statements and Parent financial statements.

Copenhagen, 9 March 2011

Deloitte
Statsautoriseret Revisionsaktieselskab

Erik Holst Jørgensen
State Authorised Public Accountant

Kirsten Aaskov Mikkelsen
State Authorised Public Accountant

Signatures

Management statement

We have today presented the Annual Report 2010 of William Demant Holding A/S for the financial year 1 January – 31 December 2010.

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 2010 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 2010 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 2010.

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

We recommend the Annual Report 2010 for adoption at the Annual General Meeting.

Smørum, 9 March 2011

Executive Board:

Niels Jacobsen
President & CEO

Board of Directors:

Lars Nørby Johansen
Chairman

Peter Foss
Deputy Chairman

Niels B. Christiansen

Susanne Fredsø

Thomas Hofman-Bang

Ivan Jørgensen

Ole Lundsgaard

Board of Directors

Lars Nørby Johansen, Chairman (born 1949)
Joined the Board in 1998 and was most recently re-elected in 2010 for one year. Because of his seat on the Board for more than 12 years, he is not considered an independent Director.

Falck A/S, chairman of the board
Georg Jensen A/S, chairman of the board
DONG Energy A/S, deputy chairman of the board
Arp-Hansen Hotel Group A/S, director
Codan A/S, director
Index Award A/S, director
The Danish Growth Council, chairman
Rockwool Fonden, deputy chairman

Lars Nørby Johansen has a degree in social sciences. His strengths include extensive international experience as a corporate manager and a board member in multiple lines of business as well as profound knowledge of the challenges resulting from globalisation. He is also well versed in the political aspects of business.

Peter Foss, Deputy Chairman (born 1956)
Joined the Board in 2007 and was most recently re-elected in 2010 for one year. Because of his seat on the Board of the Company's principal shareholder, the Oticon Foundation, he is not considered an independent Director.

FOSS A/S, President & CEO and chairman of the board in two subsidiaries
The Oticon Foundation, deputy chairman of the board
N. Foss & Co. A/S, deputy chairman of the board
A.R. Holding af 1999 A/S, director

Peter Foss has a degree in engineering from the Technical University of Denmark (DTU) and a diploma degree in finance and credit law. He has extensive managerial experience from global, market-leading industrial companies with high product development content. In addition, directorship experience from different lines of business.

Niels B. Christiansen (born 1966)
Joined the Board in 2008 and was most recently re-elected in 2010 for one year. Niels B. Christiansen is considered an independent Director.

Danfoss A/S, President & CEO and directorships in seven subsidiaries
Axcel A/S, chairman of the board
B&O A/S, deputy chairman of the board
Sauer Danfoss Inc., deputy chairman of the board

Niels B. Christiansen has a degree in engineering from the Technical University of Denmark (DTU) and an MBA from INSEAD in France. His experience with international management of major, global, industrial hi-tech corporations is comprehensive. In addition, directorship experience from various lines of business.

Susanne Fredsø (born 1961)
Staff-elected Director. Joined the Board in 2007 for a term of four years.
Oticon A/S, Thisted. Susanne Fredsø has been employed with Oticon since 1985.
3F Thy-Mors, member of the board

Thomas Hofman-Bang (born 1964)
Joined the Board in 2009 and was most recently re-elected in 2010 for one year. Thomas Hofman-Bang is considered an independent Director.

NKT Holding A/S, President & CEO and chairman of the board in three subsidiaries
NeuroSearch A/S, chairman of the board
Committee on Corporate Governance, member

Thomas Hofman-Bang has a degree in business economics and auditing and is also a state-authorised public accountant. He has considerable experience in management of large global industrial corporations including special knowledge of economic and financial affairs. In addition, directorship experience frommultiple lines of business.

Ivan Jørgensen, PhD, Electronic Engineering (born 1967)
Staff-elected Director.Joined the Board in 2005 and was most recently re-elected in 2007 for a term of four years.
Oticon A/S, team leader, Silicon Engines. Ivan Jørgensen has been employed with Oticon since 1997.

Ole Lundsgaard, Electronics Mechanic (born 1969)
Staff-elected Director.Joined the Board in 2003 and was most recently re-elected in 2007 for a term of four years.
Diagnostic Instruments, technical support specialist.
Ole Lundsgaard has been employed with Interacoustics A/S since 1993.

Executive Board

Niels Jacobsen, President & CEO (born 1957)
M.Sc. in Economics, 1983

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

Directorships in a number of wholly and partly owned companies in the William Demant Group, including Oticon A/S, William Demant Invest A/S, Össur hf., Sennheiser Communications A/S, HIMPP A/S, HIMSA A/S and HIMSA II A/S.
LEGO A/S, chairman of the board
A.P. Møller - Mærsk A/S, deputy chairman of the board
KIRKBI A/S, deputy chairman of the board

Auditor
Deloitte
Statsautoriseret Revisionsaktieselskab

Board meetings
In 2010, the Board of Directors convened on five occasions.
In 2010, the audit committee convened on three occasions.

Accounting policies

General

The consolidated financial statements are presented in compliance with *International Financial Reporting Standards* as adopted by the EU, and the Parent financial statements are presented in accordance with the provisions of the *Danish Financial Statements Act* for class D entities. Further, the annual report has been prepared in accordance with Danish disclosure requirements for annual reports published by listed companies as formulated by NASDAQ OMX Copenhagen and in accordance with the IFRS order issued in compliance with the *Danish Financial Statements Act*.

The Parent's accounting policies on recognition and measurement are generally consistent with the Group's accounting policies. The instances in which the Parent's accounting policies deviate from those of the Group have been described below. To ensure uniform presentation, the terminology used in the consolidated financial statements has, as far as possible, also been applied in Parent financial statements.

The consolidated financial statements and the Parent financial statements are presented in Danish kroner (DKK), which is considered the primary currency for our corporate activities and the functional currency for the Parent.

The Group's accounting policies remain unchanged compared with previous years, except from the implementation of the changed IFRS 3, *Business Combinations*.

Effect of change in accounting policies

The amendments to IFRS 3 will be implemented in compliance with the commencement provisions of the standard with future effect in respect of business combinations with acquisition date on 1 January 2010 or later. Comparative figures have thus not been restated.

The amendments to IFRS 3 mean, among other things, that acquisition costs and any adjustments to contingent consideration on acquisition are recognised directly in the income statement. So far, we have recognised acquisition costs in the cost of the acquired enterprise, whereas contingent consideration was recognised in the cost of the business combination, if the adjustment was likely to be made and could be reliably measured. Any subsequent adjustments to the contingent consideration were adjusted in the cost of the business combination.

As a result of acquisition costs now being recognised in the income statement, the changes to IFRS 3 reduced profits for 2010 by DKK 8.6 million and the diluted earnings per share by DKK 0.1.

Effect of other new accounting standards

As of 1 January 2010, we have implemented all new standards and interpretations as approved by the EU and applicable to the 2010 financial year. Apart from the amendments to IFRS 3 described above, none of the new standards and interpretations implemented has had any significant impact on the consolidated financial statements for 2010.

Effect of new accounting standard not yet in force

Revised or new standards and interpretations issued, but not effective yet, or approved by the EU at the time of publication of this annual report have not been incorporated into this report. Management estimates that the future implementation of such standards and interpretations by the Group will not materially affect future annual reports.

Accounting estimates and assumptions

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

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

Consolidation

The consolidated financial statements comprise William Demant Holding A/S (the Parent) and the companies in which the Parent can or actually does exercise a controlling interest by either directly or indirectly holding more than

50% of the voting rights, or in which the Parent in some other manner has a controlling interest.

The consolidated financial statements have been prepared on the basis of the financial statements for the Parent and its subsidiaries by aggregating uniform items. Companies which, by agreement, are managed jointly with one or more companies are included through pro rata consolidation. Intra-Group income, expenditure, shareholdings, accounts and dividends as well as non-realised intra-Group profits on inventories are eliminated.

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

The accounting items of subsidiaries are recognised 100% in the consolidated financial statements. The proportionate share of profits for the year of minority interests is included in consolidated profits for the year and as a separate portion of consolidated equity. Comprehensive income is allocated to minority interests whether or not, as a result hereof, the value of such interests will be negative.

Business combinations
Newly acquired or newly established subsidiaries or associates are recognised in the consolidated financial statements from the time of acquisition or formation.

The time of acquisition is the date when control is actually taken over. Companies either divested or discontinued are recognised up until the date of divestment or discontinuation. The date of divestment is the date when control is actually transferred to a third party. In respect of newly acquired companies, comparative figures and key figures will not be restated.

On acquiring new companies, 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 with the deduction of selling costs. Restructuring costs are solely recognised in the pre-acquisition balance sheet if they are a liability for the acquired enterprise. Any tax effect of re-valuations will be taken into account.

The cost of an acquired enterprise consists of the fair value of the consideration paid for such enterprise. If the final consideration sum is conditional upon one or more future events, such adjustments will be recognised at their fair values on the acquisition date. Any subsequent adjustment of contingent consideration is recognised directly in the income statement. Acquisition costs are recognised directly in the income statement on payment.

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

On the purchase or sale of minority interests after achieving control, the effect hereof is recognised directly in equity and no revaluation will be made of the acquired net assets. In the Parent's financial statements, such transactions are treated as additional purchases of shares in subsidiaries.

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

Profit or loss from the sale or winding up of subsidiaries or associates
Profits or losses from the sale or winding up of subsidiaries or associates, resulting in the Group no longer having a controlling or significant interest, will be computed as the difference between the fair values of the sales proceeds or disposal sum and the fair values of the remaining interests. Any such profits or losses will be recognised in the income state-

ment together with any accumulated exchange rate adjustments previously recognised in other comprehensive income.

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

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

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

On recognition in the consolidated financial statements of companies presenting their financial statements in a functional currency other than Danish kroner, the income statement is translated at average exchange rates for the months of the year in question, unless they deviate materially from actual exchange rates at the transaction dates. If so, actual rates of exchange 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 business and is translated at the exchange rate at the balance sheet date.

Exchange rate adjustments, arising from the translation at the beginning of the year of balance sheet items of foreign companies at the exchange rates prevailing at the balance sheet date and from the translation of income statement items at the rates of exchange prevailing at the transaction date to the rates of exchange at the balance sheet date, are recognised in other comprehensive income. Exchange rate adjustments, resulting from changes made directly in the equity of a foreign company, are also recognised in other comprehensive income.

Exchange rate adjustments of intra-Group accounts, which are considered additions to or deductions from the total investment in the particular company, are recognised directly in other comprehensive income.

Derivatives
Derivatives, primarily forward exchange contracts and interest rate swaps, are recognised from the transaction date and measured at their fair values in the balance sheet. Derivatives are recognised under other receivables and other payables, respectively.

Forward exchange transactions and interest swaps are measured according to commonly recognised valuation methods based on relevant observable swap curves and exchange rates.

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

Any changes in fair values of derivatives classified as and satisfying the conditions 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 will be recognised as part of the cost of the particular transactions.

Derivatives not fulfilling the conditions for treatment as hedging instruments are considered trading portfolios and measured at fair values with current recognition of fair value adjustments in the income statement.

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

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

Revenues are measured at the fair value of the agreed consideration excluding charges. Any discounts and returned goods are set off against revenues.

Revenues from agency-like business are measured at the value of the agency commission.

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

Research and development costs
Research and development costs include all costs that do not satisfy capitalisation criteria relating to research and development, prototype construction, development of new business concepts and amortisation of capitalised research and development costs.

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

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

Net financials
Net financials mainly consist of interest income and expenses and also include interest on financial leases, amortisation of financial assets and liabilities as well as certain realised and non-realised exchange gains and losses.

Tax
Tax on the year's profit includes current tax and any changes in deferred tax. Current tax includes tax payable computed on the basis of the estimated taxable income for the year and any prior-year tax adjustments. Tax on movements in equity is recognised directly in equity or in other comprehensive income. Exchange rate adjustments of deferred tax are recognised as part of the year's adjustments of deferred tax.

Current tax payable or receivable is recognised in the balance sheet computed as tax calculated on the year's taxable income adjusted for any tax paid on account. The tax rates prevailing at the balance sheet date are used for calculation of the year's taxable income.

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

Deferred tax is computed on the basis of the tax rules and rates prevailing at the balance sheet date in the particular countries. The effect on deferred tax of any changes in tax rates is included in tax on the year's profit, unless such deferred tax is attributable to items previously recognised directly in equity or in other comprehensive income. In the latter case, such change 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, will be carried forward and set off against deferred tax in the same legal tax entity and jurisdiction. Deferred tax assets, including the tax value of any loss carryforwards, are recognised in the balance sheet at the estimated realisable value of such assets either by a set-off against a deferred tax liability or as a net asset to be set off against future positive taxable income. At the balance sheet date, an assessment is made as to whether it is probable that sufficient taxable income will be available in future against which the deferred tax asset can be utilised. Deferred tax on temporary differences between the carrying amount and the tax value of investments in subsidiaries and associates is recognised, unless the Parent is able to control the time of realisation of

such deferred tax and it is probable that such deferred tax will not be released as current tax in the foreseeable future.

Deferred tax is recognised in respect of eliminations of intra-Group profits and losses. The Parent is jointly taxed with its Danish subsidiaries and the Danish affiliated company William Demant Invest A/S. Current corporation tax is allocated to the jointly taxed Danish companies in proportion to their taxable incomes.

Balance sheet

Intangible assets

On initial recognition, goodwill is recognised and measured as the difference between the cost of the acquisition and the fair values of the assets, liabilities and contingent liabilities acquired, see *Business combinations*.

On recognition of goodwill, goodwill is allocated to each of the corporate activities generating independent inflows (cash-generating units). The definition of a cash-generating unit complies with the corporate managerial structure, internal financial management and reporting.

In the consolidated financial statements, goodwill is not amortised, but 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.

Goodwill acquired before 1 January 2002 was written off immediately in equity on the acquisition date.

In the Parent financial statements, goodwill is amortised over its expected useful life, however maximum 20 years.

Patents and licences acquired from a third party are measured at cost with the deduction of accumulated amortisation and impairment losses. Patents and licences are amortised over their estimated economic lives, maximum 20 years.

Other intangible assets, including intangible assets acquired in connection with a business combination, are measured at cost with the deduction of accumulated amortisation and impairment losses. Other intangible assets are amortised on a straight-line basis over their estimated useful lives of 3-5 years. Intangible assets with non-definable useful lives are however not amortised, but tested annually for impairment.

Property, plant and equipment

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

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

If the acquisition or use of an asset requires the Group to incur costs for the demolition or restoration of such asset, the calculated costs hereof are recognised as a provision or 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 upon 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 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 with the exception of land.

Buildings	33-50 years
Technical installations	10 years
Manufacturing facilities and machinery	3-5 years
Other plant, fixtures, tools and 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 lower than their carrying amounts.

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

The recoverable amount is assessed for the smallest cash-generating unit that includes the asset. The recoverable amount is determined as the higher of the fair value of the asset or the cash-generating unit less costs to sell or the value in use of such asset or unit. On computation of the value in use, estimated future cash flows will be discounted at their present values by using a discount rate that reflects current market valuations of the time value of money and 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 that would have been determined, had the particular asset or cash-generating unit not been impaired. Amortisation on goodwill is not reversed.

Interests in subsidiaries and associates
The Parent's investments in subsidiaries are measured on the basis of the equity method, i.e. such investments are recognised in the balance sheet at their proportionate share of the equity value with the addition of the carrying amount of any goodwill. The Parent's proportionate shares of profits after tax of subsidiaries are recognised in the income statement after the year's changes in non-realised intra-Group profits and with the deduction of amortisation and impairment of goodwill, if any, acquired after 1 January 2002.

The accumulated net revaluation of investments in subsidiaries is retained in the Parent financial statements on distribution of profit under net revaluation according to the equity method under equity, unless matching dividends have been paid out by our subsidiaries prior to the next annual general meeting in the Parent.

Investments in associates are recognised and measured in the consolidated financial statements on the same basis as the Parent's investments in subsidiaries. Goodwill is however not amortised on recognition of profit or loss for the year in the consolidated financial statements. The proportionate shares of all transactions and events, which have been recognised under other comprehensive income in an associate, are recognised under the Group's other comprehensive income.

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

Other securities and interests
Other securities and interests classified as assets held for sale on initial recognition are recognised at cost and subsequently measured at fair value. Non-realised value adjustments are recognised in other comprehensive income. On realisation, value adjustments will be transferred to net financials in the income statement. In the Parent, non-realised value adjustments are recognised directly in the income statement.

The determination of fair values is based on current market data, and recognised valuation methods are used for such computation.

Inventories
Raw materials, components and goods for resale are measured at cost according to the FIFO principle (i.e. the most recent supplies are considered to be in stock) or at their net realisable value, whichever is lower.

Group-manufactured products and work in progress are measured at direct cost, direct payroll costs, consumables and at a proportionate share of indirect production costs (IPO) and are subsequently allocated on the basis of the normal capacity of the production facilities. Indirect production costs (IPO) include the proportionate share of capacity costs directly relating to Group-manufactured products and work in progress.

The net realisation value of inventories is calculated as the estimated selling price after deduction of costs to complete and costs to sell.

Receivables
Receivables are measured at their fair values on initial recognition with the addition of transaction costs and are subsequently adjusted at amortised cost. Provisions are made for bad debts based on an assessment of the particular risks using an impairment account.

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

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

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

Treasury shares and dividend
On the acquisition or sale of treasury shares, the acquisition cost or divestment sum, respectively, is recognised directly in equity under distributable reserves. The reduction in capital through the cancellation of treasury shares will reduce the share capital by an amount corresponding to the nominal value of such shares.

Proposed dividend is recognised as a separate item under equity until adoption at the annual general meeting, when such dividend will be recognised as a liability.

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

As regards *defined benefit plans*, an actuarial calculation is made annually of the accrued present value of future benefits payable under the benefit plan. The present value is calculated on the basis of assumptions in respect of the future development in wage levels, interest rates and inflation rates. The present value with deduction of the fair value of any assets attaching to the benefit plan is recognised in the balance sheet under provisions.

The annual pension costs are recognised in the income statement based on actuarial estimates and the financial forecasts at the beginning of the year. Differences between the estimated development of pension assets and liabilities and their realised values are termed actuarial gains or losses and are recognised directly in other comprehensive income. In the Parent, actuarial gains or losses are however recognised directly in the income statement.

Similarly, other long-term employee benefits are recognised using actuarial calculation. Actuarial gains or losses on such benefits are recognised directly in the income statement.

Provisions
Provisions are recognised where, as a result of an earlier event, the Group has a legal or actual liability and where the redemption of any such liability is likely to draw on corporate financial resources. Provisions are measured on a discounted basis based on Management's best estimate of the amount at which a particular liability may be redeemed. The discount effect of any differences in the present value of provisions during the financial year is recognised as a financial expense.

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

Lease commitments
Lease commitments concerning finance leases are recognised in the balance sheet as a liability and are measured on signing of the particular lease at the lower of the fair value of the leased asset or the present value of future lease payments. After initial recognition, lease liabilities 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 operational leases are recognised on a straight-line basis in the income statement over the lease period.

Other financial liabilities
Debts to credit institutions are recognised at the date of borrowing at their proceeds after deduction of transaction costs. In subsequent periods, financial liabilities are measured at amortised cost for the difference between proceeds and nominal values to be recognised as a financial expense over the term of the loan.

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

Prepayments and accrued income
Prepayments and accrued income recognised under liabilities include income received and pertaining to the following financial year. Prepayments and accrued income are measured at cost.

Cash flow statement
The cash flow statement is based on the indirect method and reflects the Group's consolidated net cash flows by operating, investing and financing activities.

Cash flows from operating activities include inflows from the year's operations adjusted for non-cash-generating operating items, movements in working capital, financial income and expenses and corporation tax.

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

Finance leases are considered non-cash transactions. Cash flows relating to finance leases are recognised as payment of interest and debt repayment.

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

Cash flows in currencies other than the functional currency are 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 funds less interest-bearing, current bank debt.

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

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

Income statement

PARENT 2009	PARENT 2010	Note	(DKK million)	GROUP 2010	GROUP 2009
0	**0**	1	**Revenue**	6,892.4	**5,701.2**
0	0	2/3	Production costs	-1,933.9	-1,666.3
0	**0**		**Gross profit**	**4,958.5**	**4,034.9**
0	0	2/3	Research and development costs	-615.3	-576.0
0	0	2/3	Distribution costs	-2,470.0	-1,928.5
-38.7	-67.2	2/3/4	Administrative expenses	-449.0	-380.8
-0.3	-1.0	10	Share of profit after tax, associates undertakings	5.7	-0.2
20.5	42.6		Income from subsidiaries	-	-
-18.5	**-25.6**		**Operating profit (EBIT)**	**1,429.9**	**1,149.4**
790.3	941.3	10	Share of profit after tax, subsidiaries	-	-
28.2	46.0	5	Financial income	31.9	29.1
-56.5	-48.1	5	Financial expenses	-147.4	-123.4
743.5	**913.6**		**Profit before tax**	**1,314.4**	**1,055.1**
12.1	3.3	6	Tax on profit for the year	-326.0	-260.2
755.6	**916.9**		**Net profit for the year**	**988.4**	**794.9**
			Proposed distribution of net profit/Distribution of Group profit:		
755.6	916.9		Retained earnings/Shareholders of William Demant Holding A/S	988.4	794.9
755.6	**916.9**			**988.4**	**794.9**
		7	Earnings per share (EPS), DKK	16.9	13.6
		7	Diluted earnings per share (DEPS), DKK	16.9	13.6

Statement of comprehensive income

(DKK million)	GROUP	
	2010	**2009**
Net profit for the year	988.4	794.9
Other comprehensive income:		
Foreign currency translation, foreign companies etc.	122.0	38.5
Value adjustment of hedging instruments:		
Transferred to revenue	81.3	-59.4
Value adjustment for the year	-60.1	-38.5
Actuarial gains/(losses) on defined benefit plans	1.5	8.5
Tax on other comprehensive income	10.2	13.5
Other comprehensive income	**154.9**	**-37.4**
Total comprehensive income	**1,143.3**	**757.5**
Distribution of comprehensive income for the year:		
Shareholders of William Demant Holding A/S	1,143.3	757.5
Comprehensive income for the year	**1,143.3**	**757.5**
Specification of tax on other comprehensive income:		
Foreign currency translation adjustment relating to foreign companies	18.5	-5.0
Value adjustment of hedging instruments transferred to the income statement	-23.3	14.9
Value adjustment of hedging instruments	15.0	3.6
Tax on other comprehensive income	**10.2**	**13.5**

Balance sheet at 31 December

PARENT 2009	PARENT 2010	Note	Assets (DKK million)	GROUP 2010	GROUP 2009
0	74.9		Goodwill	1,660.5	785.6
0	0		Patents and licences	52.8	47.4
0	8.2		Other intangible assets	40.6	22.0
0	**83.1**	8	**Intangible assets**	**1,753.9**	**855.0**
24.0	23.9		Land and buildings	564.6	546.5
0	0		Plant and machinery	137.1	140.2
1.9	2.1		Other plant, fixtures and operating equipment	212.6	177.8
0	0		Leasehold improvements	133.3	88.9
0	0		Prepayments and property, plant and equipment in progress	62.7	23.4
25.9	**26.0**	9	**Property, plant and equipment**	**1,110.3**	**976.8**
1,586.3	3,122.1	10	Investments in subsidiaries	-	-
6.7	18.6	10	Investments in associates	83.3	13.9
1,061.5	1,068.6	10/15	Receivables from subsidiaries	-	-
0	0	17	Receivables from associates	69.6	0
1.4	3.8	10/17	Other investments	6.3	10.1
37.1	31.9	10/13/15/17	Other receivables	435.6	329.5
1.0	0	11	Deferred tax assets	265.6	146.2
2,694.0	**4,245.0**		**Other non-current assets**	**860.4**	**499.7**
2,719.9	**4,354.1**		**Total non-current assets**	**3,724.6**	**2,331.5**
0	0	12	Inventories	993.1	796.5
0	0	13/17	Trade receivables	1,609.1	1,196.0
0	0	17	Receivables from associates	6.5	5.8
1.1	0		Corporation tax	31.8	34.0
0.6	0.7	13/17	Other receivables	56.9	35.5
0	0	17/18	Unrealised gains on financial contracts	30.4	3.5
2.7	2.0		Prepayments and accrued expenses	93.0	71.7
0	0	15/17	Cash	240.4	151.9
4.4	**2.7**		**Current assets**	**3,061.2**	**2,294.9**
2,724.3	**4,356.8**		**Total assets**	**6,785.8**	**4,626.4**

Balance sheet at 31 December

PARENT 2009	PARENT 2010	Note	Liabilities (DKK million)	GROUP 2010	GROUP 2009
59.0	58.4		Share capital	58.4	59.0
1,629.4	2,705.5		Other reserves	2,384.8	1,243.1
1,688.4	**2,763.9**		**Total equity**	**2,443.2**	**1,302.1**
24.8	922.9	15/17	Interest-bearing liabilities	1,044.6	384.5
0	5.2	11	Deferred tax liabilities	86.3	58.1
62.3	67.4	15	Payables to subsidiaries	-	-
12.0	15.5	14	Provisions	171.3	135.4
0.1	59.7	16	Other liabilities	172.8	41.8
99.2	**1,070.7**		**Non-current liabilities**	**1,475.0**	**619.8**
784.2	65.3	15/17	Interest-bearing liabilities	1,453.7	1,617.8
0	0	17	Trade payables	341.5	221.8
0	0.7		Corporation tax	77.6	33.5
83.2	402.3		Payables to subsidiaries	-	-
0	0	14	Provisions	39.4	11.0
18.3	8.2	16/17	Other liabilities	726.0	593.8
49.5	45.7	17/18	Unrealised losses on financial contracts	65.2	71.4
1.5	0		Prepayments and accrued income	164.2	155.2
936.7	**522.2**		**Current liabilities**	**2,867.6**	**2,704.5**
1,035.9	**1,592.9**		**Total liabilities**	**4,342.6**	**3,324.3**
2,724.3	**4,356.8**		**Total equity and liabilities**	**6,785.8**	**4,626.4**

19 Operating lease commitments
20 Contingent liabilities
21 Related parties
22 Acquisitions
23 Government grants
24 Non-cash items
25 Events after the balance sheet date

Cash flow statement

(DKK million)			GROUP
	Note	2010	2009
Operating profit (EBIT)		1,429.9	1,149.4
Non-cash items	24	180.9	176.9
Change in receivables etc.		-288.8	-110.5
Change in inventories		-111.4	-12.5
Change in trade payables and other payables etc.		-25.6	51.4
Change in provisions		-2.7	3.5
Cash flow excluding net financials and corporation tax		**1,182.3**	**1,258.2**
Financial income etc. received		29.1	17.8
Financial expenses etc. paid		-129.5	-123.4
Realised foreign exchange gains		17.1	5.4
Corporation tax paid		-273.4	-207.9
Cash flow from operating activities (CFFO)		**825.6**	**950.1**
Acquisitions, interests and activities		-806.1	-286.6
Investments in intangible assets		-10.6	-50.7
Investments in property, plant and equipment	24	-264.1	-194.4
Disposal of property, plant and equipment		13.0	13.1
Investments in other non-current assets		-161.8	-125.8
Disposal of other non-current assets		92.2	63.5
Cash flow from investing activities (CFFI)		**-1,137.4**	**-580.9**
Repayment on non-current payables		-554.4	-36.9
Proceeds from borrowings	24	1,049.7	97.3
Payment of minority interests		0	-55.3
Other adjustments		-1.5	2.9
Cash flow from financing activities (CFFF)		**493.8**	**8.0**
Cash flow for the year, net		**182.0**	**377.2**
Net cash and cash equivalents at the beginning of the year		-1,117.9	-1,503.5
Foreign currency translation adjustment of net cash and cash equivalents		-19.5	8.4
Net cash and cash equivalents at the end of the year		**-955.4**	**-1,117.9**
Breakdown of net cash and cash equivalents at the end of the year:			
Cash	15	240.4	151.9
Interest-bearing, current bank debt	15	-1,195.8	-1,269.8
Net cash and cash equivalents at the end of the year		**-955.4**	**-1,117.9**

Statement of changes in equity

(DKK million) PARENT

	Share capital	Other reserves			Total equity
		Foregin currency translation reserve	Hedging reserve	Retained earnings	
Equity at 1.1.2009	**59.0**	**-109.9**	**-26.4**	**1,053.2**	**975.9**
Net profit for the year	-	-	-	755.6	755.6
Foreign currency translation adjustment of investments in subsidiaries etc.	-	38.3	-	-	38.3
Other changes in equity in subsidiaries	-	-	-	-82.7	-82.7
Value adjustments of hedging instruments	-	-	-14.4	-	-14.4
Tax related to changes in equity	-	-0.9	3.6	-	2.7
Sale of shares to employees	-	-	-	13.0	13.0
Equity at 31.12.2009	**59.0**	**-72.5**	**-37.2**	**1,739.1**	**1,688.4**
Net profit for the year	-	-	-	916.9	916.9
Foreign currency translation adjustment of investments in subsidiaries etc.	-	130.4	-	-	130.4
Other changes in equity in subsidiaries	-	-		21.6	21.6
Value adjustments of hedging instruments	-	-	3.9	-	3.9
Tax related to changes in equity	-	3.7	-1.0	-	2.7
Reduction of share capital through cancellation of treasury shares	-0.6	-	-	0.6	0
Equity at 31.12.2010	**58.4**	**61.6**	**-34.3**	**2,678.2**	**2,763.9**

Movements in share capital:	**2010**	**2009**	**2008**	**2007**	**2006**
Share capital at the beginning of the year	59.0	59.0	61.0	63.3	65.6
Reduction of share capital through cancellation of treasury shares	-0.6	-	-2.0	-2.3	-2.4
Increase of share capital in respect of employee share ownership plan	-	-	-	-	0.1
Share capital at the end of the year	**58.4**	**59.0**	**59.0**	**61.0**	**63.3**

At year-end 2010, the share capital was nominally DKK 58.4 million (DKK 59.0 million in 2009) divided into the corresponding number of shares of DKK 1.

There are no restrictions on the negotiability or voting rights of the shares. At year-end 2010, the number of shares on the market was 58,349,875 (58,349,875 in 2009), the Company's holding of treasury shares being 0 (606,382 in 2009).

Statement of changes in equity

PARENT

	2010		2009	
	Treasury shares (1,000 shares)	Percentage of share capital	Treasury shares (1,000 shares)	Percentage of share capital
Holding of treasury shares:				
Treasury shares at 1.1.	0.6	1.0%	0.6	1.0%
Used for reduction of share capital during the year	-0.6	-1.0%	0	0.0%
Treasury shares at 31.12.	**0**	**0.0%**	**0.6**	**1.0%**

Since November 2008, the Company's share buyback programme has been suspended. No dividend was distributed in 2009 and 2010.

(DKK million) GROUP

	Share capital	Other reserves			William Demant Holding A/S' shareholders share	Total equity
		Foregin currency translation reserve	Hedging reserve	Retained earnings		
Equity at 1.1.2009	59.0	-126.3	40.3	558.6	531.6	531.6
Comprehensive income for the financial year	-	33.5	-79.4	803.4	757.5	757.5
Sale of shares to employees	-	-	-	13.0	13.0	13.0
Equity at 31.12.2009	**59.0**	**-92.8**	**-39.1**	**1,375.0**	**1,302.1**	**1,302.1**
Comprehensive income for the financial year	-	140.5	12.9	989.9	1,143.3	1,143.3
Reduction of share capital through cancellation of treasury shares	-0.6	-	-	0.6	0	0
Other changes in equity	-	-	-	-2.2	-2.2	-2.2
Equity at 31.12.2010	**58.4**	**47.7**	**-26.2**	**2,363.3**	**2,443.2**	**2,443.2**

Note 1 – Segment information by geography and business activity (DKK million) GROUP

Revenue and non-current assets by geography:	Revenue 2010	Revenue 2009	Non-current assets 2010	Non-current assets 2009
Europe	2,946.5	2,627.5	1,573.3	1,251.5
North America	2,617.5	2,017.2	1,776.1	807.2
Pacific Rim	565.6	423.6	278.9	191.8
Asia	469.7	403.5	85.9	74.0
Other countries	293.1	229.4	10.4	7.0
Total	**6,892.4**	**5,701.2**	**3,724.6**	**2,331.5**

Consolidated revenues mainly derive from the sale of goods and are broken down by the customers' geographical location.

Non-current assets are broken down by the geographical domicile of such assets.

Revenue by business activity:	Revenue 2010	Revenue 2009
Hearing Devices	6,098.0	5,060.9
Diagnostic Instruments	535.4	412.9
Personal Communication	259.0	227.3
Total	**6,892.4**	**5,701.2**

PARENT | **Note 2 – Employees** (DKK million) | GROUP

2009	2010		2010	2009
		Staff cost:		
23.8	25.6	Wages and salaries	2,194.6	1,860.6
0.3	0.2	Defined contribution plans	37.5	26.6
-	-	Defined benefit plans (note 14)	11.4	9.4
0.1	0.1	Social security costs etc.	176.1	159.1
24.2	**25.9**	**Total**	**2,419.6**	**2,055.7**
		Of which cash remuneration for Executive Board and Board of Directors:		
9.6	10.1	Executive Board, salary	10.1	9.6
0	0	Executive Board, bonus and pension	0	0
2.5	2.9	Directors' remuneration	2.9	2.5

The President & CEO of William Demant Holding is entitled to a seniority bonus matching one year's salary for every four years of employment after 2005. This seniority bonus is recognised as a defined benefit plan commitment and will be paid out on termination of his employment.

In 2010, the basic remuneration for a Director in the Parent was adjusted to DKK 300,000 (DKK 250,000 in 2009). The Chairman of the Board receives three times the basic remuneration and the Deputy Chairman twice the basic remuneration.

Wages and salaries include a gift element of DKK 15 million recognised in the income statement from the sale of shares to employees in the Group's foreign companies. Such gift element is calculated as the difference between the market value of the shares at the time of granting and the allotment price to be paid by the employees.

2009	2010		2010	2009
		Breakdown by function of staff cost:		
0	0	Production costs	528.6	488.9
0	0	Research and development costs	384.8	359.7
0	0	Distribution costs	1,239.3	983.4
24.2	25.9	Administrative expenses	266.9	223.7
24.2	**25.9**	**Total**	**2,419.6**	**2,055.7**
10	10	Average number of full-time employees	**6,318**	**5,674**

The number of employees in proportionately consolidated companies is included with the Group's percentage interest in the particular companies. The average number of such employees is 487 (452 in 2009), the William Demant Holding Group accounting for 285 (354 in 2009).

PARENT | **Note 3 – Amortisation, depreciation and impairment losses** (DKK million) | GROUP

2009	2010		2010	2009
0	-3.8	Amortisation on intangible assets	-15.5	-8.3
-0.4	-0.4	Depreciation on property, plant and equipment	-181.3	-159.1
-0.4	**-4.2**	**Total**	**-196.8**	**-167.4**
		Breakdown by function of amortisation and depreciation:		
0	0	Production costs	-51.5	-50.4
0	0	Research and development costs	-48.2	-47.0
0	0	Distribution costs	-72.1	-49.2
-0.4	-4.2	Administrative expenses	-25.0	-20.8
-0.4	**-4.2**	**Total**	**-196.8**	**-167.4**
0.1	0.1	Gain on sale of assets, net	2.6	-0.3
0.1	**0.1**	**Total**	**2.6**	**-0.3**
		Breakdown by function of gain on sale of assets, net:		
0	0	Production costs	0	-1.5
0	0	Research and development costs	0.1	0.1
0	0	Distribution costs	2.9	0.7
0.1	0.1	Administrative expenses	-0.4	0.4
0.1	**0.1**	**Total**	**2.6**	**-0.3**

Neither in 2010 nor in 2009, has there been any impairment losses for property, plant and equipment or intangible assets.

PARENT | **Note 4 – Fees to Parent's auditors elected by general meeting** (DKK million) | GROUP

PARENT 2009	PARENT 2010		GROUP 2010	GROUP 2009
0.8	0.9	Statutory audit	7.2	5.9
0	0	Other assurance services	0.1	0.1
0.1	0.4	Tax and VAT advisory services	1.5	1.4
0.5	0.1	Other services	0.9	2.3
1.4	**1.4**	**Total**	**9.7**	**9.7**

A few Group companies are not audited by auditors or their foreign cooperative partners elected by shareholders at the annual general meeting.

PARENT | **Note 5 – Net financials** (DKK million) | GROUP

PARENT 2009	PARENT 2010		GROUP 2010	GROUP 2009
17.0	28.4	Interest income from subsidiaries	-	-
2.4	2.1	Interest income	31.9	23.7
8.8	15.5	Foreign exchange gains, net	0	5.4
28.2	**46.0**	**Financial income**	**31.9**	**29.1**
-7.6	-4.7	Interest expenses to subsidiaries	-	-
-42.1	-40.9	Interest expenses	-87.7	-89.2
0	0	Ineffectiveness, forward exchange contracts	-1.2	0
-6.8	-2.5	Transaction costs	-40.6	-34.2
0	0	Foreign exchange losses, net	-17.9	0
-56.5	**-48.1**	**Financial expenses**	**-147.4**	**-123.4**

Interest income and expenses are related to items measured at amortised cost.

PARENT | Note 6 – Tax (DKK million) | GROUP

Parent 2009	Parent 2010		Group 2010	Group 2009
		Tax on profit for the year:		
11.7	6.4	Current tax on profit for the year	-342.1	-225.1
1.0	3.1	Adjustment of current tax for previous years	7.1	1.6
-0.4	-0.2	Change in deferred tax	18.6	-37.1
-0.2	-6.0	Adjustment of deferred tax for previous years	-9.9	0
0	0	Adjustment of deferred tax at the beginning of the year resulting from a reduction of corporation tax rates	0.3	0.4
12.1	**3.3**	**Total**	**-326.0**	**-260.2**

	2010	2009
Reconciliation of tax rates:		
Danish tax rate	25.0%	25.0%
Differences in tax rates of non-Danish companies from Danish tax rate	-0.8%	0.3%
Use of not previously recognised tax assets	0.0%	-0.3%
Write-down of tax assets	0.2%	0.0%
Permanent differences	0.3%	-0.1%
Other items, including adjustments related to previous years	0.1%	-0.2%
Effective tax rate	**24.8%**	**24.7%**

Note 7 – Earnings per share | GROUP

	2010	2009
William Demant Holding A/S' shareholders' share of net profit for the year, DKK million	988.4	794.9
Average number of shares, million	58.6	59.0
Average number of treasury shares, million	-0.2	-0.7
Average number of shares on the market, million	**58.4**	**58.3**
Earnings per share (EPS), DKK	**16.9**	**13.6**
Diluted earnings per share (DEPS), DKK	**16.9**	**13.6**

Note 8 – Intangible assets (DKK million) GROUP

	Goodwill	Patents and licences	Other intangible assets	Total intangible assets
Cost at 1.1.2009	400.1	36.7	19.0	455.8
Foreign currency translation adjustments	34.9	0	-0.3	34.6
Additions during the year	6.2	43.6	0.9	50.7
Additions relating to acquisitions	344.4	0	12.1	356.5
Disposals during the year	0	0	0	0
Other changes	0	0	0.1	0.1
Cost at 31.12.2009	**785.6**	**80.3**	**31.8**	**897.7**
Amortisation at 1.1.2009	-	-29.8	-4.7	-34.5
Foreign currency translation adjustments	-	0	0.1	0.1
Amortisation for the year	-	-3.1	-5.2	-8.3
Disposals during the year	-	0	0	0
Amortisation at 31.12.2009	**-**	**-32.9**	**-9.8**	**-42.7**
Carrying amount at 31.12.2009	**785.6**	**47.4**	**22.0**	**855.0**

PARENT Goodwill	PARENT Other intangible assets	Note 8 – Intangible assets – continued (DKK million)	GROUP Goodwill	GROUP Patents and licences	GROUP Other intangible assets	GROUP Total intangible assets
0	0	Cost at 1.1.2010	785.6	80.3	31.8	897.7
-	-	Foreign currency translation adjustments	81.4	0	1.7	83.1
0	0	Additions during the year	0	7.6	3.0	10.6
78.2	8.7	Additions relating to acquisitions	793.5	3.4	24.6	821.5
0	0	Disposals during the year	0	-0.1	0	-0.1
0	0	Other changes	0	0	0	0
78.2	**8.7**	**Cost at 31.12.2010**	**1,660.5**	**91.2**	**61.1**	**1,812.8**
0	0	Amortisation at 1.1.2010	-	-32.9	-9.8	-42.7
-	-	Foreign currency translation adjustments	-	0	-0.7	-0.7
-3.3	-0.5	Amortisation for the year	-	-5.5	-10.0	-15.5
0	0	Disposals during the year	-	0	0	0
-3.3	**-0.5**	**Amortisation at 31.12.2010**	**-**	**-38.4**	**-20.5**	**-58.9**
74.9	**8.2**	**Carrying amount at 31.12.2010**	**1,660.5**	**52.8**	**40.6**	**1,753.9**

Impairment testing is carried out annually in preparation of the annual report or when impairment is indicated. On impairment testing, discounted values of future cash flows are compared with the book values.

Group companies cooperate closely on research and development, purchasing, production as well as marketing and sale, the use of resources in the individual markets being coordinated and monitored by Management in Denmark. The Group companies are thus highly integrated. Consequently, Management considers the overall business as one cash-generating unit.

Certain business activities, which to a higher degree act with more autonomy in relation to the Group, and whose profitability can be measured independently of the other activities, constitute a separate cash-generating unit. With the existing integration in the Group and recognised goodwill at 31 December 2010 and 31 December 2009, no separate cash-generating units have been identified to which goodwill can be allocated. The annual impairment test was thus based on the Group as a whole.

Based on the impairment test, there was no indication to suggest impairment of goodwill at 31 December 2010 and 31 December 2009.

Future cash flows are based on the budget for 2011, strategy plans and projections hereof. Projections extending beyond 2011 are based on general parameters. The terminal value for the period after 2010 is determined on the assumption of 2% growth (2% in 2009). The discount rate is 9% before tax (9% in 2009).

Apart from goodwill, all intangible assets have definite lives.

PARENT **Note 9 – Property, plant and equipment** (DKK million)

Land and buildings	Other plant, fixtures and operating equipment	Total property, plant and equipment	
30.4	1.7	32.1	Cost at 1.1.2009
-	-	-	Foreign currency translation adjustments
0	1.2	1.2	Additions during the year
0	0	0	Additions relating to acquisitions
0	-0.5	-0.5	Disposals during the year
0	0	0	Transferred to/from other items
30.4	**2.4**	**32.8**	**Cost at 31.12.2009**
-6.2	-0.7	-6.9	Depreciation and impairment losses at 1.1.2009
-	-	-	Foreign currency translation adjustments
-0.2	-0.2	-0.4	Depreciation for the year
0	0.4	0.4	Disposals during the year
0	0	0	Transferred to/from other items
-6.4	**-0.5**	**-6.9**	**Depreciation and impairment losses at 31.12.2009**
24.0	**1.9**	**25.9**	**Carrying amount at 31.12.2009**
30.4	2.4	32.8	Cost at 1.1.2010
-	-	-	Foreign currency translation adjustments
0	1.1	1.1	Additions during the year
0	0	0	Additions relating to acquisitions
0	-1.1	-1.1	Disposals during the year
0	0	0	Transferred to/from other items
30.4	**2.4**	**32.8**	**Cost at 31.12.2010**
-6.4	-0.5	-6.9	Depreciation and impairment losses at 1.1.2010
-	-	-	Foreign currency translation adjustments
-0.1	-0.3	-0.4	Depreciation for the year
0	0.5	0.5	Disposals during the year
0	0	0	Transferred to/from other items
-6.5	**-0.3**	**-6.8**	**Depreciation and impairment losses at 31.12.2010**
23.9	**2.1**	**26.0**	**Carrying amount at 31.12.2010**

Note 9 – Property, plant and equipment – continued (DKK million) GROUP

	Land and buildings	Plant and machinery	Other plant, fixtures and operating equipment	Leasehold improvements	Prepayments and property, plant and equip-ment in progress	Total property, plant and equipment
Cost at 1.1.2009	638.4	530.2	554.3	143.7	9.6	1,876.2
Foreign currency translation adjustments	1.2	5.3	16.8	9.9	0	33.2
Additions during the year	6.1	44.7	68.7	29.5	21.9	170.9
Additions relating to acquisitions	0	0.5	13.4	1.0	0	14.9
Disposals during the year	0	-0.6	-27.4	-5.4	-0.4	-33.8
Transferred to/from other items	0.3	4.7	2.7	0	-7.7	0
Cost at 31.12.2009	**646.0**	**584.8**	**628.5**	**178.7**	**23.4**	**2,061.4**
Depreciation and impairment losses at 1.1.2009	-86.3	-377.9	-390.8	-70.9	-	-925.9
Foreign currency translation adjustments	-0.2	-3.2	-11.9	-5.0	-	-20.3
Depreciation for the year	-13.0	-63.2	-67.7	-15.2	-	-159.1
Disposals during the year	0	0.1	19.3	1.3	-	20.7
Transferred to/from other items	0	-0.4	0.4	0	-	0
Depreciation and impairment losses at 31.12.2009	**-99.5**	**-444.6**	**-450.7**	**-89.8**	**-**	**-1,084.6**
Carrying amount at 31.12.2009	**546.5**	**140.2**	**177.8**	**88.9**	**23.4**	**976.8**
Of which financially leased assets	**46.6**	**0.3**	**0.2**	**0**	**0**	**47.1**

Note 9 – Property, plant and equipment – continued (DKK million) GROUP

	Land and buildings	Plant and machinery	Other plant, fixtures and operating equipment	Leasehold improvements	Prepayments and property, plant and equipment in progress	Total property, plant and equipment
Cost at 1.1.2010	646.0	584.8	628.5	178.7	23.4	2,061.4
Foreign currency translation adjustments	5.7	10.3	33.3	16.3	0.2	65.8
Additions during the year	21.3	42.0	79.0	43.0	54.7	240.0
Additions relating to acquisitions	5.0	6.1	27.1	18.5	3.7	60.4
Disposals during the year	-0.5	-27.4	-43.4	-1.4	-0.2	-72.9
Transferred to/from other items	0.7	8.5	9.4	0.5	-19.1	0
Cost at 31.12.2010	**678.2**	**624.3**	**733.9**	**255.6**	**62.7**	**2,354.7**
Depreciation and impairment losses at 1.1.2010	-99.5	-444.6	-450.7	-89.8	-	-1,084.6
Foreign currency translation adjustments	-1.5	-8.1	-22.5	-8.8	-	-40.9
Depreciation for the year	-12.6	-61.8	-82.8	-24.1	-	-181.3
Disposals during the year	0	26.8	35.3	0.3	-	62.4
Transferred to/from other items	0	0.5	-0.6	0.1	-	0
Depreciation and impairment losses at 31.12.2010	**-113.6**	**-487.2**	**-521.3**	**-122.3**	**-**	**-1,244.4**
Carrying amount at 31.12.2010	**564.6**	**137.1**	**212.6**	**133.3**	**62.7**	**1,110.3**
Of which financially leased assets	**47.0**	**0**	**1.0**	**0**	**0**	**48.0**

Group land and buildings with a carrying amount of DKK 0 million (DKK 349 million in 2009) have been provided in security of a mortgage debt of DKK 0 million (DKK 173 million in 2009).

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

At year-end, the contractual obligation as regards the acquisition of property, plant and equipment amounted to DKK 0 million (DKK 0 million in 2009).

Neither in 2010 nor in 2009, have changes been made in material estimates in respect of property, plant and equipment.

PARENT

Note 10 – Other non-current assets (DKK million)

Investments in subsidiaries	Investments in associates	Receivables from subsidiaries	Other investments	Other receivables	
1,430.3	0	581.5	0.3	45.3	Cost at 1.1.2009
-	-	22.4	-	0	Foreign currency translation adjustments
146.0	7.0	546.4	0	3.9	Additions during the year
4.9	0	0	0	-	Additions relating to acquisitions
-101.0	0	-88.8	0	-12.1	Disposals during the year
1,480.2	**7.0**	**1,061.5**	**0.3**	**37.1**	**Cost at 31.12.2009**
216.5	0	-	1.1	-	Value adjustments at 1.1.2009
34.8	0	-	0	-	Foreign currency translation adjustments
790.3	-0.3	-	0	-	Share of profit after tax
-855.4	0	-	0	-	Dividends received
-80.1	0	-	0	-	Other adjustments
106.1	**-0.3**	**-**	**1.1**	**-**	**Value adjustments at 31.12.2009**
1,586.3	**6.7**	**1,061.5**	**1.4**	**37.1**	**Carrying amount at 31.12.2009**
1,480.2	7.0	1,061.5	0.3	37.1	Cost at 1.1.2010
-	-	8.2	-	0.1	Foreign currency translation adjustments
1,066.2	12.9	99.3	2.4	5.1	Additions during the year
0	0	0	0	-	Additions relating to acquisitions
-80.6	0	-100.4	0	-10.4	Disposals during the year
2,465.8	**19.9**	**1,068.6**	**2.7**	**31.9**	**Cost at 31.12.2010**
106.1	-0.3	-	1.1	-	Value adjustments at 1.1.2010
145.0	0	-	0	-	Foreign currency translation adjustments
941.3	-1.0	-	0	-	Share of profit after tax
-559.9	0	-	0	-	Dividends received
23.8	0	-	0	-	Other adjustments
656.3	**-1.3**	**-**	**1.1**	**-**	**Value adjustments at 31.12.2010**
3,122.1	**18.6**	**1,068.6**	**3.8**	**31.9**	**Carrying amount at 31.12.2010**

The carrying amounts of investments in subsidiaries include capitalised goodwill in the net amount of DKK 61.6 million (DKK 61.6 million in 2009). Amortisation of goodwill for the year is DKK 3.1 million (DKK 6.0 million in 2009).

Please refer to the *Subsidiaries and associates* list on page 72 for further information on subsidiaries, joint ventures and associates.

PARENT | **Note 11 – Deferred tax** (DKK million) | GROUP

2009	2010		2010	2009
		Deferred tax is recognised in the balance sheet as follows:		
1.0	0	Deferred tax assets	265.6	146.2
0	-5.2	Deferred tax liabilities	-86.3	-58.1
1.0	**-5.2**	**Deferred tax, net at 31.12.**	**179.3**	**88.1**
1.6	1.0	Deferred tax, net at 1.1.	88.1	107.4
-	-	Foreign currency translation adjustments	10.1	3.6
-0.4	-0.2	Change in deferred tax assets	19.1	-36.7
0	0	Additions relating to acquisitions	82.9	0
-0.2	-6.0	Adjustment of deferred tax for previous years	-9.9	0.2
0	0	Adjustment of deferred tax at the beginning of the year due to reduction of corporation tax rates	0.3	-0.1
0	0	Deferred tax relating to changes in equity, net	-11.3	13.7
1.0	**-5.2**	**Deferred tax, net at 31.12.**	**179.3**	**88.1**

The tax base of deferred tax assets not recognised is DKK 105 million (DKK 27.2 million in 2009) and relates mainly to tax losses. This is due to considerable uncertainty concerning the use of the above tax assets. The tax losses will not expire in the near future.

Any sale of shares in subsidiaries and associates at the balance sheet date is expected to result in tax in the amount of DKK 0 million (DKK 0 million in 2009).

Breakdown of the Group's temporary differences and changes:

	Temporary differences at 1.1.2010	Foreign currency adjustments	Acquisitions	Recognised in profit for the year	Recognised in other comprehensive income	Temporary differences at 31.12.2010
Intangible assets	-24.2	-0.3	-4.5	3.7	-	-25.3
Property, plant and equipment	-30.4	1.0	6.1	-4.4	-	-27.7
Inventories	53.4	0.3	7.8	22.6	-	84.1
Receivables	11.0	0.7	1.3	2.6	-	15.6
Provisions	21.8	1.7	7.5	15.6	-	46.6
Tax losses	6.0	0.6	49.0	-0.9	-	54.7
Other	50.5	6.1	15.7	-29.7	-11.3	31.3
Total	**88.1**	**10.1**	**82.9**	**9.5**	**-11.3**	**179.3**

Note 12 – Inventories (DKK million)

GROUP

	2010	2009
Raw materials and purchased components	497.4	429.7
Work in progress	27.4	30.5
Finished goods and goods for resale	468.3	336.3
Inventories	**993.1**	**796.5**
Inventories include write-downs in the amount of	142.3	104.1
Carrying amount of inventories recognised at fair value after deduction of selling costs	0	0
The following is recognised under production costs in the income statement:		
Write-downs of inventories for the year, net	60.3	39.7
Cost of sales for the year	1,451.5	1,315.6

Write-downs for the year are shown net, as breakdown into reversed write-downs and new write-downs is not possible.

Inventories are generally expected to be sold within one year.

Note 13 – Receivables (DKK million)

GROUP

	2010	2009
Trade receivables	1,609.1	1,196.0
Other non-current receivables	435.6	329.5
Other current receivables	56.9	35.5
Total	**2,101.6**	**1,561.0**
Receivables by age:		
Balance not due	1,528.3	1,222.2
0-3 months	373.8	224.6
3-6 months	107.9	55.6
6-12 months	63.8	30.4
Over 12 months	27.8	28.2
Total	**2,101.6**	**1,561.0**
Breakdown of the year's development in write-downs:		
Write-downs for bad and doubtful debt at 1.1.	71.9	63.0
Foreign currency translation adjustments	3.3	0.2
Additions relating to acquisitions	8.1	0
Applied during the year	-6.6	-7.9
Additions during the year	33.0	17.6
Reversals during the year	-0.1	-1.0
Write-downs for bad and doubtful debt at 31.12.	**109.6**	**71.9**

For information on security or collateral, please see the section on risk management activities in note 18.

Note 14 – Provisions (DKK million) GROUP

	2010	2009
Other non-current employee benefits	39.8	27.0
Miscellaneous provisions	145.2	98.0
Other provisions	185.0	125.0
Defined benefit plans	25.7	21.4
Provisions at 31.12.	**210.7**	**146.4**
Breakdown of provisions:		
Non-current provisions	171.3	135.4
Current provisions	39.4	11.0
Provisions at 31.12.	**210.7**	**146.4**
Other provisions:		
Other provisions at 1.1.	125.0	122.2
Foreign currency translation adjustments	4.3	2.9
Additions relating to acquisitions	32.8	0
Provisions for the year	44.9	8.0
Applied during the year	-17.9	-5.4
Reversed during the year	-4.1	-3.2
Discount effect	0	0.5
Other provisions at 31.12.	**185.0**	**125.0**
Defined benefit costs recognised in the income statement:		
Current service costs	9.9	8.9
Calculated interest on pension obligations	3.4	2.8
Expected return on plan assets	-1.9	-2.3
Costs recognised in the income statement (note 2)	**11.4**	**9.4**
Breakdown by function of defined benefit costs:		
Production costs	0.8	0.5
Research and development costs	3.0	2.0
Distribution costs	2.9	2.3
Administrative expenses	4.7	4.6
Total	**11.4**	**9.4**
Accumulated actuarial loss recognised in the statement of comprehensive income	**-4.3**	**-5.8**

Apart from the provision of DKK 94 million (DKK 87 million in 2009) made in respect of the US patent case, other provisions mainly relate to other disputes and are generally expected to be applied within the next two years.

	2010	2009			
Present value of defined benefit obligations:					
Defined benefit obligations at 1.1.	94.0	86.3			
Foreign currency translation adjustments	13.1	0.5			
Current service costs	9.9	8.9			
Calculated interest on pension obligations	3.4	2.8			
Actuarial losses/(gains)	-1.0	-6.0			
Benefits paid	0	0.3			
Contributions from plan participants	1.0	1.2			
Defined benefit obligations at 31.12.	**120.4**	**94.0**			
Fair value of plan assets:					
Plan assets at 1.1.	72.6	60.0			
Foreign currency translation adjustments	12.2	0.0			
Expected return on plan assets	1.9	2.3			
Actuarial gains/(losses)	0.5	2.5			
Contributions	7.5	7.5			
Benefits paid	0	0.3			
Plan assets at 31.12.	**94.7**	**72.6**			
Net obligation recognised in the balance sheet	**25.7**	**21.4**			
Return on plan assets:					
Actual return on plan assets	2.4	4.8			
Expected return on plan assets	1.9	2.3			
Actuarial gains/(losses) on plan assets	**0.5**	**2.5**			
Assumptions:					
Discount rate	4.1%	4.1%			
Expected return on plan assets	4.1%	4.1%			
Future salary increase rate	1.8%	1.8%			
Key figures for defined benefit plans:	**2010**	**2009**	**2008**	**2007**	**2006**
Present value of defined benefit obligations	120.4	94.0	86.3	71.6	64.8
Fair value of plan assets	94.7	72.6	60.0	56.5	52.4
Deficit	**25.7**	**21.4**	**26.3**	**15.1**	**12.4**
Experience adjustments to plan obligations	**-1.0**	**-6.0**	**-2.1**	**-2.8**	**3.4**
Experience adjustments to plan assets	**0.5**	**2.5**	**-9.3**	**-1.1**	**1.5**

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

Plan assets at 31 December 2010 include: Bonds (39%), shares (23%), securities (19%), cash and cash equivalents (6%) and other assets (13%). Plan assets at 31 December 2009 included: Bonds (40%), shares (22%), other securities (19%), cash and cash equivalents (6%) and other assets (13%).

The Group expects to pay approx. DKK 8 million in 2011 (DKK 5 million in 2010) into defined benefit plans.

Note 15 – Interest-bearing items (DKK million) GROUP

	Under 1 year	1-5 years	Over 5 years	Total	Weighted rate of return
2009:					
Other interest-bearing, non-current assets	0	265.3	10.1	275.4	
Cash	151.9	0	0	151.9	
Interest-bearing assets	**151.9**	**265.3**	**10.1**	**427.3**	**2.6%**
Financial lease commitments	-3.2	-19.3	0	-22.5	
Mortgage debt	-8.7	-36.4	-127.7	-172.8	
Debt to credit institutions etc.	-336.1	-142.0	-59.1	-537.2	
Interest-bearing, current bank debt	-1,269.8	0	0	-1,269.8	
Interest-bearing debt	**-1,617.8**	**-197.7**	**-186.8**	**-2,002.3**	**3.7%**
Net position	**-1,465.9**	**67.6**	**-176.7**	**-1,575.0**	**4.0%**
Financial lease commitments:					
Minimum lease payments	5.6	23.7	0	29.3	
Interest element	-2.4	-4.4	0	-6.8	
Carrying amount	**3.2**	**19.3**	**0**	**22.5**	
2010:					
Other interest-bearing, non-current assets	-	382.4	6.3	388.7	
Cash	240.4	0	0	240.4	
Interest-bearing assets	**240.4**	**382.4**	**6.3**	**629.1**	**3.1%**
Financial lease commitments	-3.7	-16.8	0	-20.5	
Mortgage debt	-1.3	-3.7	0	-5.0	
Debt to credit institutions etc.	-252.9	-1,024.1	0	-1,277.0	
Interest-bearing, current bank debt	-1,195.8	0	0	-1,195.8	
Interest-bearing debt	**-1,453.7**	**-1,044.6**	**0**	**-2,498.3**	**2.8%**
Net position	**-1,213.3**	**-662.2**	**6.3**	**-1,869.2**	**2.8%**
Financial lease commitments:					
Minimum lease payments	4.2	17.1	0	21.3	
Interest element	-0.5	-0.3	0	-0.8	
Carrying amount	**3.7**	**16.8**	**0**	**20.5**	

Note 15 – Interest-bearing items – continued (DKK million)

PARENT/GROUP

The Group has locked in interest rates for a part of its non-current payables through interest rate swaps of CAD 15 million, EUR 100 million and DKK 40 million (CAD 15 million, USD 28 million, EUR 100 million and DKK 40 million in 2009). At 31 December 2010, unrealised losses on these interest rate swaps amounted to DKK 48 million (DKK 55 million in 2009), which are recognised in other comprehensive income. The ineffective share of interest rate swaps amounts to DKK 0 (DKK 0 in 2009).

Group cash mainly consists of bank deposits, of which DKK 27.7 million (DKK 22.8 million in 2009) is in joint ventures.

For information on risks and hedging instruments, please refer to section on risk management activities in note 18.

Consolidated interest-bearing debt broken down by currency: 30% in euros (39% in 2009), 27% in Danish kroner (23% in 2009), 29% in US dollars (18% in 2009) and 14% in other currencies (20% in 2009).

Some properties leased by the Group have been sublet to third parties. Future rents from these properties will as a minimum amount to DKK 2.4 million (DKK 2.2 million in 2009) in the non-cancellable period.

Apart from variable interest rates, lease agreements contain no conditional rent payments.

All the Parent's external receivables of DKK 32 million (DKK 37 million in 2009) will fall due after five years. Of the Parent's non-current debt, DKK 0 million (DKK 25 million in 2009) will fall due after five years. Receivables of DKK 1,069 million (DKK 1,062 million in 2009) and debt of DKK 67 million (DKK 62 million in 2009) relating to subsidiaries are considered additions to and deductions from, respectively, the overall investments in the particular companies and are therefore considered non-current assets.

Note 16 – Other payables (DKK million)

PARENT 2009	PARENT 2010		GROUP 2010	GROUP 2009
0	0	Product-related liabilities	199.0	124.5
1.2	0.9	Staff-related liabilities	217.0	195.2
5.5	0.2	Other payables to public authorities	76.9	96.1
5.5	62.9	Liabilities relating to acquisitions	192.8	95.4
6.2	3.9	Other payables	213.1	124.4
18.4	**67.9**	**Other payables**	**898.8**	**635.6**

Product-related liabilities mainly relate to provisions concerning service packages, warranties and expected returns.

Staff-related liabilities include holiday pay and payable wages and salaries etc.

Note 17 – **Financial assets and liabilities** (DKK million) GROUP

	2010	2009
Other non-current receivables	435.6	329.5
Non-current receivables from associates	69.6	0
Trade receivables	1,609.1	1,196.0
Other current receivables	55.2	29.7
Current receivables from associates	6.5	5.8
Cash	240.4	151.9
Loans and receivables	**2,416.4**	**1,712.9**
Other investments	6.3	10.1
Financial assets available for sale	**6.3**	**10.1**
Unrealised profit on financial contracts	30.4	3.5
Financial assets used as hedging instruments	**30.4**	**3.5**
Financial lease commitments	20.5	22.5
Mortgage debt	5.0	172.8
Payables to credit institutions etc.	2,472.8	1,807.0
Trade payables	341.5	221.8
Other payables	699.8	511.1
Financial liabilities measured at amortised cost	**3,539.6**	**2,735.2**
Unrealised losses on financial contracts	65.2	71.4
Financial liabilities used as hedging instruments	**65.2**	**71.4**

The fair value of mortgage debts is DKK 0 million (DKK 175 million in 2009). The carrying amount is DKK 0 million (DKK 173 million in 2009). For other financial assets and liabilities, the carrying amount in all material respects matches the fair value.

Other securities and investments include listed shares worth DKK 0 million (DKK 0 million in 2009).

Other securities and investments are measured based on unobservable inputs and are included in the fair value hierarchy, level 3.

Gains/losses in respect of other securities and investments (level 3) are recognised in the income statement under financial income.

Financial contracts are measured based on observable inputs and are included in the fair value hierarchy, level 2.

There have been no transfers within the fair value hierarchy.

For computation of fair value, please refer to *Accounting policies* on page 30.

Financial risks

Financial risk management focuses on exchange rate, interest rate, credit and liquidity risks and on hedging against the risk of loss of property, plant and equipment. The purpose of financial risk management is to protect the Company against potential losses and to make sure that Management's forecasts for the current year will only be affected to a limited extent by changes in the surrounding world – be they fluctuating exchange or interest rates or direct damage to corporate assets. We are exclusively hedging commercial risks and are not involved in any financial transactions of a speculative nature.

Exchange rate risks

The Company seeks to hedge exchange rate risks through foreign exchange contracts and other hedging instruments. Currency hedging thus gives Management the opportunity and necessary time to redirect business strategies in the event of persistent foreign exchange fluctuations.

We currently seek to hedge fluctuations in exchange rates by matching positive and negative cash flows in the main currencies and by entering into forward exchange contracts. With our current use of such contracts, forecast cash flows are hedged with a horizon of up to 24 months.

Realised forward exchange contracts are recognised in the income statement together with the items, typically the revenues in foreign currency, that such contracts are designed to hedge. In 2010, our forward exchange contracts realised a loss of DKK 81 million which reduced reported revenues for the period under review, whereas in 2009 such contracts produced a gain of DKK 59 million. In addition, we raised loans in foreign currencies to balance out net receivables.

At year-end 2010, we had entered into forward exchange contracts with a repurchase value of DKK 976 million (DKK 701 million at 31 December 2009) and a market value of DKK 13 million (DKK -13 million at 31 December 2009).

	Contract amount at year-end	Positive fair values at year-end	Negative fair values at year-end	Contract amount at year-end	Positive fair values at year-end	Negative fair values at year-end
Forward exchange contracts, net sales:		**2010**			**2009**	
USD	392.9	26.5	0	207.6	0.9	0
JPY	175.6	0	2.4	70.3	0.3	0
AUD	102.6	0	15.3	167.1	0	14.0
EUR	0	0	0	111.6	0.6	0
CAD	140.4	1.9	0	99.0	0	2.4
PLN	0	0	0	-16.2	1.5	0
GBP	151.7	2.0	0	74.1	0.2	0
Total	**963.2**	**30.4**	**17.7**	**713.5**	**3.5**	**16.4**

The major contracts hedged the following currencies at 31 December 2010:

Currency	Hedging period	Hedging rate
USD	6 months	596
JPY	16 months	6.85
AUD	7 months	476
GBP	10 months	877
CAD	7 months	565

The tables below show the impact on operating profit (EBIT) and equity in case of changes in selected currencies of 5%.

The exchange risk has been calculated on the basis of simple adding up of EBIT figures for Group companies in local currencies. Whereas the adding up of EBIT figures includes all Group companies, the net exchange flow is identical to the flow in Oticon A/S. We estimate that about 90% of all currency exchange is made in Oticon A/S and that the analysis therefore provides a true and fair view of the flow in the entire Group. The exchange flow includes the actual exchange as well as any change in net receivables (receivables, pay-ables and bank balances). Average exchange rates from January 2010 have been used for translation.

Effect on EBIT, 5% positive exchange rate impact*

DKK million	2010	2009
USD	+30	+25
GBP	+10	+10
CAD	+10	+10
AUD	+10	+10
JPY	+5	+5

** Estimated. On a non-hedged basis, i.e. the total annual exchange effect excluding forward exchange contracts.*

Effect on equity, 5% positive exchange rate impact

DKK million	31.12.2010	31.12.2009
CAD	+30	+5
USD	+15	+9
AUD	+10	+6
GBP	+5	+5
JPY	+1	+1

Interest rate risks

At present, the Group has limited debts compared with the volume of its activities and uses interest rate swaps to hedge interest rates.

Based on net debt at year-end 2010, a climb of 1 percentage point in the general interest rate level will increase consolidated annual interest expenses before tax by approx. DKK 2 million (approx. DKK 3 million in 2009).

Interest swaps	Expiry	Fixed interest rate	Contract amount at year-end	Positive fair values at year-end	Negative fair values at year-end	Contract amount at year-end	Positive fair values at year-end	Negative fair values at year-end
	2010					2009		
USD/USD	2010	4.4%	0	0	0	145.3	0	3.3
EUR/EUR	2013	4.0%	745.4	0	45.6	744.2	0	49.6
DKK/DKK	2015	3.5%	40.0	0	1.8	40.0	0	0.7
CAD/CAD	2011	3.0%	84.2	0	0.1	74.2	0	1.4
Total			**869.6**	**0**	**47.5**	**1,003.7**	**0**	**55.0**

Credit risks

Corporate credit risks relate primarily to trade receivables. Our customer base is fragmented, and credit risks only involve minor losses on individual customers. Together, our five largest customers account for less than 10% of total consolidated revenues. In our opinion, we have no major credit exposure, which is supported by our track record of insignificant previous losses on bad debts. When undertaking lending transactions with customers or business partners, we require the provision of security in their particular businesses.

The Group has no major deposits in financial institutions, for which reason the credit risk of such deposits is considered to be low.

Liquidity risks

The Group is obliged to have sufficient cash resources to meet its obligations. The Group has access to non-utilised credit facilities, and the liquidity risk is therefore considered low. In addition, the Group has committed lending facilities with our two primary bankers worth a total of DKK 900 million. We are of the opinion that the Group has a strong cash flow and satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions.

Note 19 – Operating lease commitments (DKK million)

GROUP

	2010	2009
Rent commitments	397.7	267.4
Other operating lease commitments	36.0	69.1
Total	**433.7**	**336.5**
Operating lease commitments, less than 1 year	115.5	123.9
Operating lease commitments, 1-5 years	217.4	121.4
Operating lease commitments, over 5 years	100.8	91.2
Total	**433.7**	**336.5**

Operating leases are recognised in the income statement at an amount of DKK 161.5 million (DKK 110.1 million in 2009).

The Group's operating leases mainly relate to rent and vehicles.

PARENT

Note 20 – Contingent liabilities

PARENT/GROUP

William Demant Holding A/S has provided guarantees in respect of credit facilities established by Danish associates. Such credit facilities amount to DKK 1,695.2 million (DKK 1,464.3 million in 2009), of which DKK 650.6 million (DKK 755.0 million in 2009) has been used. The Group also has a mutual warranty commitment with Oticon A/S in the amount of DKK 900 million, which is used on a current basis.

William Demant Holding A/S has guaranteed the payment of rent by a subsidiary in the amount of DKK 4.5 million (DKK 6.0 million in 2009) and provided guarantees in respect of the continued operation and payment obligations of certain subsidiaries in 2011.

The William Demant Holding Group is involved in a few disputes, lawsuits etc. Apart from the provision relating to the US patent case, Management is of the opinion that other disputes do not or will not significantly affect the Group's financial position. The Group seeks to make adequate provisions for legal proceedings. A bank guarantee in the amount of DKK 89.8 million has been provided in respect of the US patent case.

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

For the purposes of section 17 of the Republic of Ireland Companies (Amendment) Act, William Demant Holding A/S has undertaken to indemnify the creditors of its subsidiaries incorporated in the Republic of Ireland in respect of all losses and liabilities as referred to in section 5c of said act for the financial year ending on the 31 December 2010 or any amended financial period incorporating the said financial year. The company does not expect any material loss to arise from this guarantee.

Related parties include the principal shareholder, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation), Kongebakken 9, 2765 Smørum, Denmark, including the Foundation's subsidiary, William Demant Invest 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.

Subsidiaries, joint ventures and associates as well as the William Demant Holding Group's ownership interests in these companies are shown on page 72.

The Oticon Foundation lets office and production premises to the joint venture, Sennheiser Communications A/S. In 2010, the rental expense amounted to DKK 2.2 million (DKK 2.2 million in 2009). The Oticon Foundation and William Demant Invest A/S paid administration fees to the Group of DKK 0.5 million (DKK 0.4 million in 2009) and DKK 1.7 million (DKK 0.8 million in 2009), respectively.

Sales to joint ventures not eliminated in the consolidated financial statements amounted to DKK 29.3 million (DKK 34 million in 2009). At year-end, non-eliminated receivables, net, with joint ventures totalled DKK 5.2 million (DKK 5.3 million in 2009).

In 2010, the Group paid royalties amounting to DKK 1.4 million (DKK 0.6 million in 2009) to associates and received dividends in the amount of DKK 0.3 million (DKK 0.5 million in 2009).

There have been no transactions with the Executive Board and the Board of Directors apart from normal remuneration, please refer to note 2 *Employees*.

	2010	**2009**
The consolidated financial statements include the following amounts related to joint ventures:		
Revenue	326.3	273.5
Costs	309.0	264.5
Non-current assets	44.6	43.0
Current assets	80.6	62.9
Non-current liabilities	7.8	5.4
Current liabilities	47.6	37.4
Financial information with respect to associates:		
Revenue	164.6	48.2
Net profit for the year	12.6	0.9
Assets	168.1	18.4
Liabilities	135.5	8.5

Apart from the activities in Sennheiser Communications A/S, joint ventures include distribution activities.

There are no major contingent liabilities in joint ventures.

Note 22 – Acquisitions (DKK million)

GROUP

	2009			
	North America	Australia	Europe/ Asia	Total
	Fair value on acquisition			
Intangible assets	12.1	0	0	12.1
Property, plant and equipment	14.0	0.7	0.2	14.9
Other non-current assets	1.1	0	0.1	1.2
Inventories	18.0	0	4.0	22.0
Receivables	10.4	0	4.7	15.1
Cash and bank debt	4.3	0	2.6	6.9
Non-current liabilities	-0.2	-0.1	-0.4	-0.7
Current liabilities	-12.0	-0.7	-3.2	-15.9
Acquired net assets	**47.7**	**-0.1**	**8.0**	**55.6**
Goodwill	272.6	24.1	47.7	344.4
Acquisition cost including transaction costs	**320.3**	**24.0**	**55.7**	**400.0**
Of which earn-outs and deferred payments	-59.9	-1.6	-45.0	-106.5
Acquired cash and bank debt	-4.3	0	-2.6	-6.9
Cash acquisition cost	**256.1**	**22.4**	**8.1**	**286.6**

	2010			
	North America	Australia	Europe/ Asia	Total
	Fair value on acquisition			
Intangible assets	27.2	0	0.8	28.0
Property, plant and equipment	43.1	0.2	17.1	60.4
Other non-current assets	61.4	0	2.8	64.2
Inventories	33.0	0	15.6	48.6
Receivables	99.6	0	15.9	115.5
Cash and bank debt	58.8	0	6.9	65.7
Non-current liabilities	-107.3	0	-3.5	-110.8
Current liabilities	-172.9	-0.6	-31.9	-205.4
Acquired net assets	**42.9**	**-0.4**	**23.7**	**66.2**
Goodwill	654.0	0.6	138.9	793.5
Acquisition cost including transaction costs	**696.9**	**0.2**	**162.6**	**859.7**
Of which earn-outs and deferred payments	-127.9	1.0	-1.9	-121.1
Acquired cash and bank debt	-58.8	0	-6.9	-65.7
Cash acquisition cost	**510.2**	**1.2**	**153.8**	**672.9**

Our most significant acquisition in 2010 relates to the purchase of all the shares in Otix Global on 30 November 2010. The acquisition sum was DKK 368 million of which identifiable assets accounted for DKK 254 million, identifiable liabilities for DKK 246 million and goodwill for DKK 360 million. Goodwill relates to the synergies that we expect between the activities in Otix Global and the Group's existing activities and to any future potential for growth. In the above geographical segmentation of corporate acquisitions, Otix Global has been included under North America.

The Group's other acquisitions in the period under review includes the purchase of some or all the activities in minor distribution businesses in North America, Australia and Europe/Asia. We have paid acquisition sums exceeding the fair values of acquired assets, liabilities and contingent liabilities. The positive differences in values are based on expected synergies between the activities in the acquired entities and our existing activities and any future potential for growth and to the value of the employees of such acquired entities. These synergies have not been recognised separately from goodwill, as they are not separately identifiable.

Of the total sum of all acquisitions in 2010, the fair values of any contingent compensation in the form of earn-outs and deferred payments accounted for DKK 121.1 million, such payments depending on the results of the acquired entities in the period until 2016.

The acquired assets include contractual receivables at an amount of DKK 86.9 million of which DKK 10.1 million are thought to be unrecoverable at the date of acquisition. Of the total goodwill in the amount of DKK 859.7 million, DKK 111 million is deductible for tax purposes. Contingent liabilities are not included in acquisitions for 2010.

The above fair values of the respective acquired entities are not final as regards acquisitions made immediately before year-end 2010. Transaction costs in connection with acquisitions in 2010 amounted to DKK 8.6 million, which have been recognised under administrative expenses.

The revenues and profits and losses of the acquired entities since our takeover in 2010 amounted to DKK 223 million (DKK 115 million in 2009) and DKK -10 million (DKK 11 million in 2009), respectively. Had such revenues, profits and losses been consolidated on 1 January 2010, the consolidated revenues and profits and losses are estimated to be pro forma DKK 7,145 million (DKK 5,783 million in 2009) and DKK 918 million (DKK 803 million in 2009), respectively. In our opinion, these pro forma figures reflect the level of consolidated earnings after our takeover of the entities in question, and consequently the amounts can form a basis for comparison in subsequent financial years.

From the balance sheet date and until financial reporting in 2011, we have acquired a minor distribution business in Australia. We are in the process of calculating the fair value hereof. The acquisition sum is expected to relate primarily to goodwill.

In 2009, acquisitions related to Grason-Stadler and some minor distribution entities. We have only made a few insignificant adjustments in 2010 compared with the recognition made back in 2009.

Note 23 – Government grants GROUP

In 2010, the William Demant Holding Group received government grants in the amount of DKK 0.5 million (DKK 0.5 million in 2009). Grants are offset against distribution costs in the amount of DKK 0.5 million (in 2009, DKK 0.5 million was offset against research and development costs).

Note 24 – Non-cash items (DKK million) GROUP

	2010	**2009**
Amortisation and depreciation etc.	224.0	191.7
Share of profit after tax in associates	-5.7	0.2
Proceeds from sale of intangible assets and property, plant and equipment	-2.6	0.3
Other non-cash items	-34.8	-15.3
Other non-cash items	**180.9**	**176.9**
Acquired property, plant and equipment	-264.7	-194.4
Of which financially leased assets	0.6	0
Acquired property, plant and equipment, paid	**-264.1**	**-194.4**
Proceeds from raising of financial liabilities	1,050.3	97.3
Of which financial lease debt	-0.6	0
Proceeds from raising of financial liabilities	**1,049.7**	**97.3**

Note 25 – Events after the balance sheet date GROUP

There have been no events to materially affect the assessment of the annual report after the balance sheet date and until today.

Subsidiaries and associates

Company	*Interest*
William Demant Holding A/S, Denmark	**Parent**
Oticon A/S, Denmark	100%
Oticon AS, Norway	100%
Oticon AB, Sweden	100%
Oy Oticon Ab, Finland	100%
Oticon GmbH, Germany	100%
Oticon Nederland B.V., Holland	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 Polska Production Sp. z o.o., Poland	100%
Oticon Limited, United Kingdom	100%
Oticon Inc., USA	100%
Oticon Canada Ltd., Canada	100%
Oticon Australia Pty. Ltd., Australia	100%
Oticon New Zealand Ltd., New Zealand	100%
Oticon K.K., Japan	100%
Oticon Singapore Pte Ltd., Singapore	100%
Oticon Shanghai Hearing Technology Co. Ltd., China	100%
Oticon International Trading Shanghai Co. Ltd., China	100%
Oticon South Africa (Pty) Ltd., South Africa	100%
Oticon Korea Co. Ltd., Korea	100%
Oticon Malaysia Sdn, Malaysia	100%
Oticon Medical A/S, Denmark	100%
Oticon Medical AB, Sweden	100%
Oticon Medical Inc., USA	100%
Prodition S.A., France	100%
Bernafon AG, Switzerland	100%
Bernafon Hörgeräte GmbH, Germany	100%
Bernafon S.r.l., Italy	100%
Maico S.r.l., Italy	100%
Bernafon LLC, USA	100%

Company	*Interest*
Bernafon Canada Ltd., Canada	100%
Bernafon Australia Pty. Ltd., Australia	100%
Bernafon New Zealand Pty. Ltd., New Zealand	100%
Bernafon K.K., Japan	100%
Bernafon Nederland B.V., Holland	100%
Kuulopiiri Oy, Finland	100%
Acustica Sp. z o.o., Poland	100%
AD Styla Sp. z o.o., Poland	100%
Adelaide Digital Hearing Solutions Pty. Ltd., Australia	100%
Akoustica Medica M EPE, Greece	100%
American Hearing Aid Associates, Inc., USA	100%
Amplivox Ltd., United Kingdom	100%
Centro Auditivo Telex S.A., Brazil	100%
Diagnostic Group LLC, USA	100%
Digital Hearing (UK) Ltd., United Kingdom	100%
Hidden Hearing (UK) Ltd., United Kingdom	100%
Hidden Hearing Limited, Ireland	100%
Hidden Hearing (Portugal), Unipessoal Lda., Portugal	100%
Interacoustics A/S, Denmark	100%
Interacoustics Pty. Ltd., Australia	100%
ListenUP Hearing Healthcare Canada Inc., Canada	100%
Maico Diagnostic GmbH, Germany	100%
Phonic Ear A/S, Denmark	100%
Phonic Ear Inc., USA	100%
Sonic Innovations Inc., USA	100%
Van Boxtel Hoorwinkels B.V., Holland	100%
Western Hearing Services Pty. Ltd., Australia	100%
WDH Canada Ltd., Canada	100%
SES Isitme Cihazlari San Ve Tic. A.S, Turkey	80%
Hearing Healthcare Management Inc., USA	65%
Sennheiser Communications A/S, Denmark	50%
nEarcom LLC, USA	33%
HIMSA A/S, Denmark	25%

The list includes all active Group companies.

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