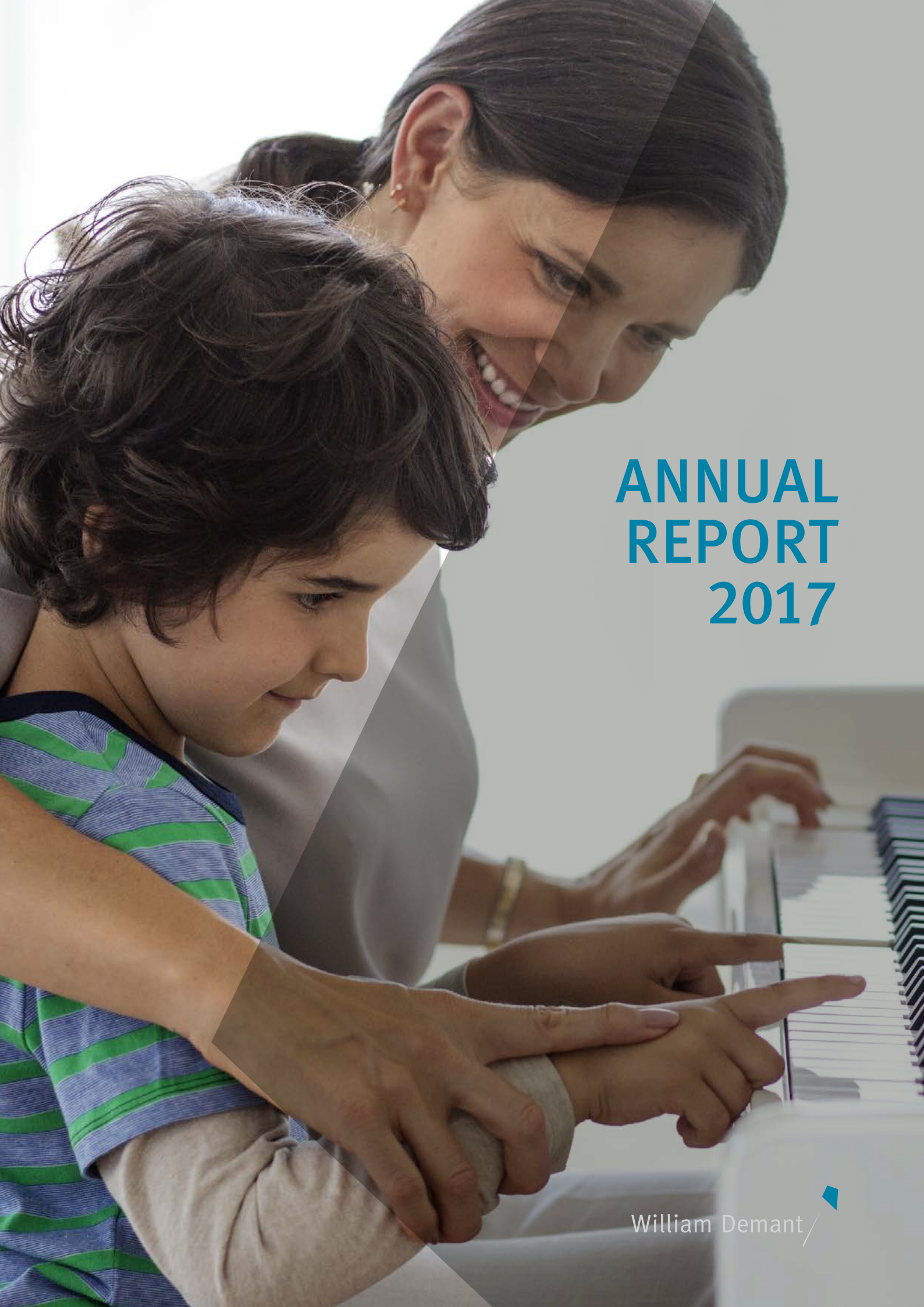




ANNUAL REPORT 2017

William Demant



About the front cover

Bone anchored hearing systems (BAHS) like Ponto are designed to use your body's natural ability to transfer sound through bone conduction. The implanted part is discreetly placed through the skin on the skull bone and lets you snap on the sound processor. The powerful sound processor is worn behind the ear and converts sound into vibrations, which are then sent through the skull bone directly to your inner ear.

Since its launch, many users and professionals have experienced the difference of Ponto 3 SuperPower, recognising that this product is a game changer. All users of bone anchored hearing systems benefit from a sound processor with the highest possible maximum output. As the most powerful abutment-level sound processor in the market, Ponto 3 SuperPower provides premium sound quality and a unique option for the majority of users of bone anchored hearing systems.



“The Ponto has increased my capabilities, my gifts and passions”

Camilla Gilbert was born with a hearing loss. She is a BAHS user and has witnessed the benefits of Oticon Medical's Ponto first-hand. Listen to her story.

 [Read more: demant.com](https://demant.com)

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KEY FIGURES AND FINANCIAL RATIOS – DKK

	2017	2016	2015	2014	2013
INCOME STATEMENT, DKK MILLION					
Revenue	13,189	12,002	10,665	9,346	8,959
Gross profit	10,026	9,030	7,895	6,813	6,518
Gross profit – adjusted	10,064	9,102	7,895	-	-
R&D costs	919	839	763	680	634
EBITDA	2,742	2,346	2,203	2,055	2,028
Amortisation and depreciation etc.	404	404	325	294	292
Operating profit (EBIT)	2,338	1,942	1,878	1,761	1,736
Operating profit (EBIT) – adjusted	2,504	2,130	1,902	-	-
Net financial items	-111	-101	-69	-70	-72
Profit before tax	2,227	1,841	1,809	1,691	1,664
Profit for the year	1,759	1,464	1,439	1,327	1,286
BALANCE SHEET, DKK MILLION					
Net interest-bearing debt	4,030	4,036	3,703	2,405	2,284
Assets	16,222	15,548	14,390	11,219	10,318
Equity	7,433	6,966	6,500	5,584	5,056
OTHER KEY FIGURES, DKK MILLION					
Investment in property, plant and equipment, net	292	299	375	354	391
Cash flow from operating activities (CFFO)	1,872	1,679	1,592	1,495	1,282
Cash flow from operating activities (CFFO) – adjusted	2,023	1,756	1,602	-	-
Free cash flow	1,387	1,223	1,129	1,044	819
Average number of employees	13,280	12,339	10,803	9,799	9,063
FINANCIAL RATIOS					
Gross profit margin	76.0%	75.2%	74.0%	72.9%	72.8%
Gross profit margin – adjusted	76.3%	75.8%	74.0%	-	-
EBITDA margin	20.8%	19.5%	20.7%	22.0%	22.6%
Profit margin (EBIT margin)	17.7%	16.2%	17.6%	18.8%	19.4%
Profit margin (EBIT margin) – adjusted	19.0%	17.7%	17.8%	-	-
Return on equity	24.0%	21.5%	23.7%	24.7%	28.0%
Equity ratio	45.8%	44.8%	45.2%	49.8%	49.0%
Earnings per share (EPS), DKK*	6.84	5.53	5.30	4.80	4.50
Cash flow per share (CFPS), DKK*	7.30	6.37	5.89	5.38	4.53
Free cash flow per share, DKK*	5.41	4.64	4.18	3.75	2.89
Dividend per share, DKK*	0	0	0	0	0
Equity value per share, DKK*	28.9	26.4	24.1	20.1	17.9
Price earnings (P/E)	25.4	22.2	25.0	20.0	23.0
Share price, DKK*	173.5	122.8	131.4	93.6	105.4
Market cap. adjusted for treasury shares, DKK million	43,864	31,829	35,126	25,545	29,754
Average number of shares outstanding, million*	256.56	263.75	270.13	278.13	283.11

Financial ratios are calculated in accordance with “Recommendations and Financial Ratios 2015” from the Danish Society of Financial Analysts.

The free cash flow is calculated as the sum of cash flow from operating activities (CFFO) and investing activities (CFFI) before acquisitions and disposals of enterprises, participating interests and activities. On computation of the return on equity, average equity is calculated, duly considering the buy-back of shares. Half-yearly key figures have not been audited.

* Per share of nominally DKK 0.20.

KEY FIGURES AND FINANCIAL RATIOS – DKK

	2017 H2	2017 H1	2016 H2	2016 H1	2015 H2	2015 H1
INCOME STATEMENT, DKK MILLION						
Revenue	6,684	6,505	6,192	5,810	5,622	5,043
Gross profit	5,087	4,939	4,681	4,349	4,152	3,743
Gross profit – adjusted	5,108	4,956	4,733	4,369	4,152	3,743
R&D costs	461	458	435	404	394	369
EBITDA	1,486	1,256	1,322	1,024	1,167	1,036
Amortisation and depreciation etc.	207	197	220	184	169	156
Operating profit (EBIT)	1,279	1,059	1,102	840	998	880
Operating profit (EBIT) – adjusted	1,362	1,142	1,238	892	1,011	891
Net financial items	-56	-55	-58	-43	-36	-33
Profit before tax	1,223	1,004	1,044	797	962	847
Profit for the year	961	798	830	634	770	669
BALANCE SHEET, DKK MILLION						
Net interest-bearing debt	4,030	4,081	4,036	3,914	3,703	2,381
Assets	16,222	16,082	15,548	14,946	14,390	12,099
Equity	7,433	7,248	6,966	6,704	6,500	6,088
OTHER KEY FIGURES, DKK MILLION						
Investment in property, plant and equipment, net	168	124	153	146	186	189
Cash flow from operating activities (CFFO)	986	886	951	728	837	755
Cash flow from operating activities (CFFO) – adjusted	1,054	969	988	768	842	760
Free cash flow	727	660	719	504	586	543
Average number of employees	13,514	13,047	12,483	12,194	11,247	10,360
FINANCIAL RATIOS						
Gross profit margin	76.1%	75.9%	75.6%	74.9%	73.9%	74.2%
Gross profit margin – adjusted	76.4%	76.2%	76.4%	75.2%	73.9%	74.2%
EBITDA margin	22.2%	19.3%	21.4%	17.6%	20.8%	20.5%
Profit margin (EBIT margin)	19.1%	16.3%	17.8%	14.5%	17.8%	17.4%
Profit margin (EBIT margin) – adjusted	20.4%	17.6%	20.0%	15.4%	18.0%	17.7%
Return on equity	25.7%	22.3%	24.1%	19.0%	24.5%	22.6%
Equity ratio	45.8%	45.1%	44.8%	44.9%	45.2%	50.3%
Earnings per share (EPS), DKK*	3.75	3.10	3.16	2.40	2.86	2.46
Cash flow per share (CFPS), DKK*	3.86	3.43	3.63	2.74	3.12	2.78
Free cash flow per share, DKK*	2.85	2.56	2.75	1.90	2.18	2.00
Dividend per share, DKK*	0	0	0	0	0	0
Equity value per share, DKK*	28.9	28.1	26.4	25.2	24.1	22.4
Price earnings (P/E)	25.4	27.3	22.2	27.4	25.0	20.0
Share price, DKK*	173.5	168.5	122.8	130.0	131.4	102.2
Market cap. adjusted for treasury shares, DKK million	43,864	43,222	31,829	34,309	35,126	27,551
Average number of shares outstanding, million*	255.18	257.94	261.68	265.82	268.52	271.74

* Per share of nominally DKK 0.20.

KEY FIGURES AND FINANCIAL RATIOS – EUR**

	2017	2016	2015	2014	2013
INCOME STATEMENT, EUR MILLION					
Revenue	1,773	1,613	1,434	1,256	1,204
Operating profit (EBIT) – adjusted	337	286	256	-	-
Profit for the year	236	197	193	178	173
Equity	998	936	873	750	679
Cash flow from operating activities (CFFO) – adjusted	272	236	215	-	-
Market cap. adjusted for treasury shares	5,892	4,275	4,718	3,431	3,997

	2017 H2	2017 H1	2016 H2	2016 H1	2015 H2	2015 H1
KEY FIGURES, EUR MILLION						
Revenue	899	874	832	781	756	678
Operating profit (EBIT) – adjusted	183	154	166	120	136	120
Profit for the year	129	107	112	85	104	90
Equity	998	974	936	900	873	818
Cash flow from operating activities (CFFO) – adjusted	142	130	133	103	113	102
Market cap. adjusted for treasury shares	5,892	5,806	4,275	4,608	4,718	3,701

** On translation of key figures and financial ratios from Danish kroner to euro, Danmarks Nationalbank's rate of exchange as of 29 December 2017 of 744.49 has been used for balance sheet items, and the average rate of exchange of 743.86 has been used for the income statement and cash flow items.



is

our

world

- Headquarters
- Sales offices
- Distributors
- Production sites
- Research & Development

“

Another record year for William Demant

Søren Nielsen
President & CEO

Hearing care is healthcare, and as CEO of William Demant Holding, I feel that it is my duty to keep stressing the importance of this statement and to spread this message to the global healthcare community. In December 2017, The Lancet Commission on Dementia reported that cognitive decline, depression and dementia are strongly associated with hearing loss, giving evidence to the fact that intervention in hearing loss can reduce the burden of these diseases – for society, but most importantly for people.

In William Demant, we have known for years that properly treated hearing loss increases the quality of life in every aspect – health, wealth and wellbeing – and has significant societal benefits. In combination, patient understanding and modern hearing technology positively change the lives of people living with hearing loss. I am convinced

CEO LETTER

that the treatment and services provided by hearing care professionals are paramount to those suffering from hearing impairment. In fact, the belief that our services and products make a life-changing difference for people living with hearing loss permeates the whole Group and motivates us in our daily work. We believe in the value we create, which is why we decided many years ago to become part of the entire hearing healthcare market – across all product areas from hearing devices and hearing implants to diagnostic equipment. That way, we can help reduce the burdens associated with hearing loss and contribute to the elements that constitute the joy of a healthy life.

The past year has indeed confirmed that we deliver on this strategy and vision, with 2017 being another record year for William Demant. We delivered strong organic growth of 9% and very strong earnings of DKK 2.5 billion – both testaments to the fact that we offer products and services that more and more customers and end-users want. All our business activities – Hearing Devices, Hearing Implants and Diagnostic Instruments – are showing solid progress, enabled and fuelled by our hearing healthcare strategy and dedication to innovation. The outstanding performance of Oticon Opn and the advances in audiology, connectivity and rechargeability it represents have been key drivers of the very positive development the Group has seen. The open sound paradigm resonates well with customers and end-users alike, and our hearing aid wholesale business is a main driver of organic growth and thus market share gains. I am also delighted with our efforts in our retail business, where we have achieved strong growth while also refining our IT systems, marketing and sales excellence.

Another significant part of the William Demant Group is our business activity Diagnostic Instruments. Thanks to a global distribution set-up and innovative products, we deliver high growth and hold a leading position in the market. Also in Hearing Implants, we continue to expand our activities. Through hard and very skilled work, we have over a relatively short period of time built a competitive hearing implants business with a strong BAHS product portfolio. We are on the verge of launching Neuro 2, the world's smallest CI processor, which has already received massive interest at industry conventions in 2017. By using technology developed for our hearing aids in our hearing implants, we exploit the synergies in hearing healthcare. We also continue to exploit the synergy between our joint venture, brand Sennheiser Communications, and the Group's R&D function.

The exploitation of synergies takes place across the whole Group and is strongly supported by our shared services organisation. We see clear synergies in and between R&D, infrastructure, global distribution, operations and our different business units that enable us to strengthen our competitive position. Keeping our competitive strength is also about being able to stick to our plans and deliver on our strategic initiatives – even when this calls for difficult decisions. In 2017, we moved our R&D activities from Bern to our major locations in Poland and Denmark, and we have executed on the plans to ramp down our production site in Thisted, Denmark, which will close at the end of 2018. These initiatives have affected valued employees, and I am very grateful for their cooperation all the way.

If we look into 2018, it is key that we continue our expansion in R&D and focus our efforts and capabilities on bringing innovative products to market. We will also deepen our understanding of the market, broaden our sales channels – and knowledge of them – and get even closer to our customers. As I mentioned earlier and in relation to the current debate about over-the-counter products, I can only stress the importance and value of the hearing care professional in the treatment of hearing loss. It is not a quick fix.

Digital transformation is currently a hot topic in many industries and will be for many years to come. For William Demant, it is important to have digital trends on the agenda, and we embrace the topic by looking into new opportunities. We see these trends more as a way of expanding the current market than disrupting it – all with a view to rewarding the users of our products with solutions that are compatible with modern life in the digital age. By way of example, at the Consumer Electronics Show (CES) we received an innovation award for a hearing fitness app that encourages hearing aid users to live a better and healthier life and advises them on how to achieve this.

Finally, I would like to underline that 2017 was a great year for William Demant and a very special year for me. I took over the role as CEO of William Demant in April, and I am very grateful for the positive way in which our customers, investors and business partners have met me in this new role. Thank you very much for your trust in William Demant and thanks to each and every user of our hearing healthcare solutions. I would also like to give a very big thank you to all the employees of the Group for their support and for confirming my belief that everything we do revolves around getting users to find joy in life by using our hearing healthcare products and services. By always striving to do our very best, we remain innovative and in front.

AT A GLANCE

William Demant offers solutions and services that directly or indirectly help people with hearing loss connect and communicate with the world around them. We are a worldwide hearing healthcare group that is active in the entire hearing healthcare market – from hearing devices and hearing implants to diagnostic equipment.

Ambition to expand

William Demant is here to improve the complete experience of those suffering from hearing impairment and for the hearing care professionals working with hearing healthcare. It is our ambition to expand our activities and further strengthen our position as the world's leading hearing healthcare company – and in that capacity contribute to the elements that constitute the joy of a healthy life.



PEOPLE SUFFERING FROM
HEARING LOSS

1:10



HEARING DEVICES

87% of revenue



A GROWING HEARING
AID MARKET

4-6% unit growth



HEARING IMPLANTS

4% of revenue



CANDIDATES FOR
COCHLEAR IMPLANTS
AMONG NEWBORNS

150,000



DIAGNOSTIC INSTRUMENTS

9% of revenue



GROWTH IN MARKET FOR
DIAGNOSTIC EQUIPMENT

7%

GROUP REVENUE 2017

13 billion DKK

(+10%)

EBIT 2017

2.5* billion DKK

(+18%)

* Before announced restructuring costs

AT A GLANCE

Business model

We focus on three business activities, Hearing Devices, Hearing Implants and Diagnostic Instruments, and in addition use our expertise to develop and expand our joint venture in Personal Communication, Sennheiser Communications.

WILLIAM DEMANT			
HEARING DEVICES	HEARING IMPLANTS	DIAGNOSTIC INSTRUMENTS	PERSONAL COMMUNICATION
 PEOPLE FIRST    		     	
SHARED OPERATIONS & FUNCTIONS			
DISTRIBUTION ACTIVITIES			



GLOBAL PRESENCE

130+ countries



NUMBER OF EMPLOYEES

13,000+



R&D COSTS

856* million DKK

Engaged and motivated employees are extremely important for William Demant. We are ambitious, and we want to be the best at what we do, attract and retain the best employees and work smarter to reach our goals. Among other activities, our in-house training academy organises and drives a global leadership programme to make sure that our leaders have the skills and insights to improve our workplace and meet the future challenges.

[Read more: demant.com](https://www.demant.com)

FREE CASH FLOW 2017

1,387 million DKK
(+13%)

EBIT OUTLOOK 2018

2,550-2,850*
million DKK

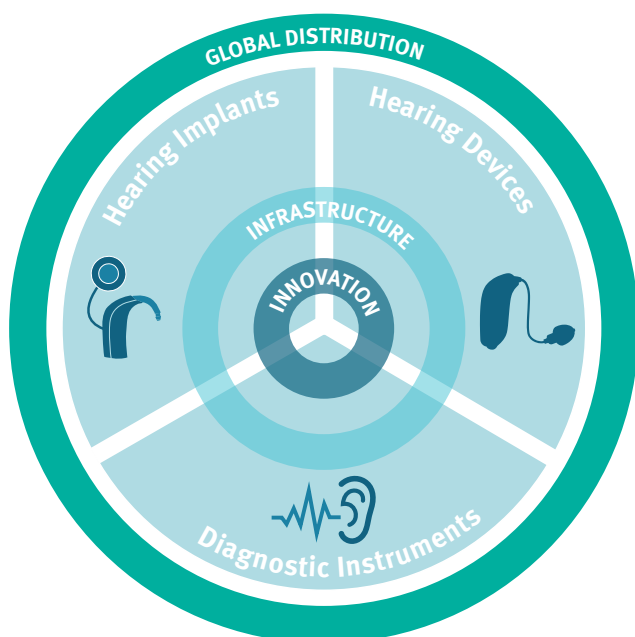
* Before announced restructuring costs

AT A GLANCE

Our strategic ambition is to further expand our position as the leading global hearing healthcare company with the broadest and deepest product offering. We invest in innovation and R&D, and a key focus area for us is to exploit synergies across our business activities and enable our customers and end-users to benefit from our multi-brand approach backed by a comprehensive global distribution set-up and efficient infrastructure.

William Demant has a strong record of successfully developing businesses from being relatively small to becoming market leaders. In the past decades, our Hearing Devices

business activity has succeeded in gaining material market shares through our strong wholesale business and own retail activities. We have furthermore built market-leading entities in the fields of diagnostics and bone anchored hearing systems (BAHS), and through a combination of organic and acquisitive growth, we have successfully integrated them into the William Demant Group. It is our clear ambition to also develop our cochlear implants (CI) business to continue to gain market share in the coming years, which will further strengthen our leading hearing healthcare position.



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

Our international R&D organisation is a major catalyst for innovation projects. In 2017, we significantly expanded our software development centre in Warsaw, Demant Technology Centre. Along with our sites in Denmark, France, Sweden and Poland, our research centre Eriksholm plays a key role in our endeavours to always be at the forefront of development, enabling us to deliver the most innovative solutions to customers and end-users.

AT A GLANCE

READ MORE
WWW

New scientific evidence highlights benefits of Oticon Opn



An exciting new study shows that OpenSounds Navigator, the cutting-edge feature in Oticon Opn, improves speech understanding from 20% to 75% in restaurant-like environments (Le Goff and Beck 2017, Oticon whitepaper).

[Read more: demant.com](#)

Help more people hear better

Delivering accurate test results, the new automated hearing test, AMTAS, eases the life of the hearing care professional.



[Read more: demant.com](#)

A step on the way towards data-driven healthcare

Oticon is the master behind the world's first hearing aid app dedicated to hearing fitness.



[Read more: demant.com](#)

"They are cured. That is very rewarding. It helps people."

Joachim Hougaard, Technical Product Manager, Interacoustics, talks about the effect of the balance chair on people who have been in therapy numerous times without any effect. Learn more about the cure for benign paroxysmal positional vertigo – or dizziness.



[Read more: demant.com](#)

Oticon Medical is ready with Neuro 2

Marking a true change for Oticon Medical, the Neuro 2 sound processor is a leap forward in terms of design, usability and performance.



[Read more: demant.com](#)



"My hearing aid has restored my normal hearing"

In her work as theatre manager at the Betty Nansen Theatre in Copenhagen, Vibeke Windeløv is very dependent on her hearing aids. Watch the video to learn more about Vibeke's life with Opn hearing aids.

[Read more: demant.com](#)

FINANCIAL REVIEW



FINANCIAL REVIEW

HEARING DEVICES – WHOLESALE

11% organic growth

HEARING DEVICES – RETAIL

4% organic growth

HEARING IMPLANTS

28% organic growth

DIAGNOSTIC INSTRUMENTS

11% organic growth

The Group generated an EBIT of DKK 2,504 million before restructuring costs and growth of 25% in underlying EBIT, when adjusting for the negative exchange rate effect of DKK 103 million compared to 2016 and for one-offs in 2016.

Financial highlights

- Consolidated revenue for 2017 totalled DKK 13,189 million, matching a strong growth rate of 10% of which organic and acquisitive growth accounted for 9 and 2 percentage points, respectively, and exchange rates accounted for -1 percentage point.
- Due to innovation and strong commercial execution, all three business activities gained market share in 2017, resulting in organic growth rates of 8% in Hearing Devices, 28% in Hearing Implants and 11% in Diagnostic Instruments. Our hearing aid wholesale business delivered strong organic growth of 11% due to a combination of positive trends in geography, channel and product mixes, continuously strong performance by Oticon Opn throughout the year and new products launched by Bernafon and Sonic in the second half-year. Our retail business delivered an organic growth rate of 4%.
- Operating profit (EBIT) increased by 18% to DKK 2,504 million before restructuring costs of DKK 166 million, which was within our guidance of DKK 2,300-2,600 million and despite a negative exchange rate effect of DKK 103 million compared to 2016. The corresponding EBIT margin increased by 1.3 percentage points from 17.7% to 19.0%, and the underlying EBIT was up by 25%, corresponding to a margin increase of 2.3 percentage points. The significant improvement in EBIT was mainly driven by strong revenue growth, mix changes and cost savings from strategic initiatives. The reported EBIT for 2017 was DKK 2,338 million, and earnings per share increased by 24% to DKK 6.84.
- Cash flow from operating activities (CFFO) increased by 15% to DKK 2,023 million before restructuring costs (reported CFFO of DKK 1,872 million). The free cash flow before acquisitions amounted to DKK 1,387 million, up by 13% on 2016.
- In 2018, the William Demant Group expects to continue to generate substantial organic sales growth. Based on exchange rates at the end of January 2018 and if we include the impact of exchange rate hedging, we expect a negative exchange rate effect on revenue of around 4% in 2018. We are guiding for an operating profit (EBIT) of DKK 2,550-2,850 million before restructuring costs of DKK 150 million, and we expect to buy back shares worth DKK 1.5-2.0 billion.

FINANCIAL REVIEW

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

Adjusted income statement

(DKK million)

	Reported 2017	Restructuring costs	Adjusted 2017	Adjusted 2016	Growth
Revenue	13,189	0	13,189	12,002	10%
Production costs	-3,163	-38	-3,125	-2,900	8%
Gross profit	10,026	-38	10,064	9,102	11%
Gross profit margin	76.0%		76.3%	75.8%	
R&D costs	-919	-63	-856	-784	9%
Distribution costs	-6,095	-38	-6,057	-5,618	8%
Administrative expenses	-727	-27	-700	-651	8%
Share of profit after tax, associates and joint ventures	53	0	53	81	-35%
Operating profit (EBIT)	2,338	-166	2,504	2,130	18%
Profit margin (EBIT margin)	17.7%		19.0%	17.7%	

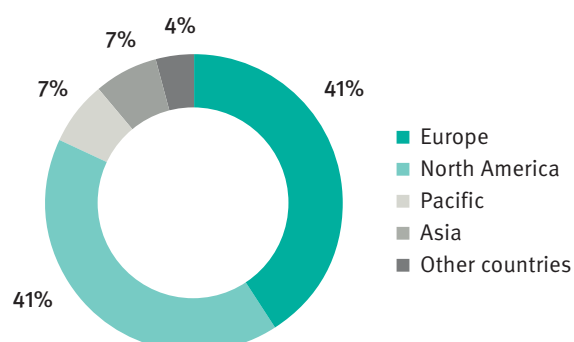
Revenue and exchange rate effect

In the reporting period, Group revenue amounted to DKK 13,189 million, corresponding to a growth rate of 10%, including a negative exchange rate effect of less than 1 percentage point. Organic growth contributed by 9 percentage points and acquisitions by 2 percentage points.

Revenue by geographic region

DKK million	2017	2016	% change	
			DKK	LCY
Europe	5,437	5,123	6%	8%
North America	5,358	4,719	14%	14%
Pacific	946	911	4%	3%
Asia	960	861	11%	15%
Other countries	488	388	26%	22%
Total	13,189	12,002	10%	11%

Revenue by geographic region



Europe

Group revenue in Europe saw solid growth of 6% to DKK 5,437 million, or 8% in local currencies. Growth was driven by solid performances by both our wholesale business – despite the loss of sales to a large account, which was acquired by a competitor – and by our retail business. Hearing Implants delivered strong performance with double-digit organic growth, while Diagnostic Instruments delivered more modest growth in Europe.

North America

In 2017, the Group generated revenue in North America of DKK 5,358 million, corresponding to 14% growth both in local currencies and as reported figures. Our wholesale business saw strong organic growth, the main contributors being the independent segment and continuously high unit sales to Veterans Affairs (VA), reaching 15% unit market share at year-end, up from 11% at the beginning of the year. The organic growth rate in our US retail business was relatively speaking in line with the market growth rate, however with higher growth rates in the second half of 2017 than in the first half. Both Diagnostic Instruments and Hearing Implants delivered solid double-digit growth rates in 2017.

Other regions

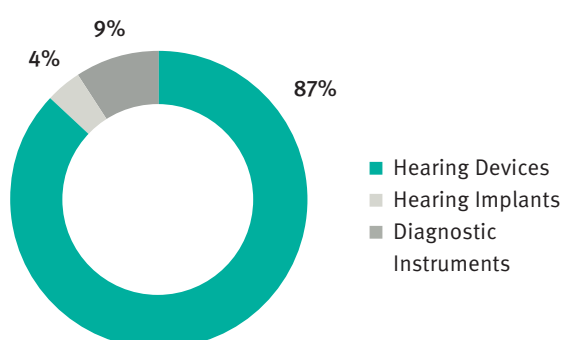
Both Asia and Other countries delivered double-digit growth rates, with China and Export generating particularly strong growth. Growth in the Pacific region was more modest due to some challenges in the Australian hearing aid retail market in 2017.

FINANCIAL REVIEW

Revenue by business activity

DKK million	2017	2016	% change	
			DKK	LCY
Hearing Devices	11,495	10,515	9%	10%
Hearing Implants	500	398	26%	28%
Diagnostic Instruments	1,194	1,089	10%	12%
Total	13,189	12,002	10%	11%

Revenue by business activity



Hearing Devices

In 2017, revenue in Hearing Devices grew by 9% reported and by 10% in local currencies of which the major part was organic growth. The wholesale business delivered strong organic growth of 11% including a 5% increase in ASP due to positive geography, channel and product mix trends. As far as wholesale of hearing aids is concerned, the highlights of 2017 were the continuously strong performance by Oticon Opn throughout the year and new products launched by Bernafon and Sonic in the second half of 2017. In 2017, our retail business delivered an organic growth rate in line with the overall market growth rate due to a mix of solid performance in Europe, a pick-up in the US market towards the end of the year and negative organic growth in Australia.

Hearing Implants

Hearing Implants saw 28% growth in local currencies, which can all be attributed to organic growth. Both the CI and the BAHS segment delivered strong organic growth, with tenders being the major growth driver in the CI segment and Ponto 3 remaining a strong contributor to growth in the BAHS segment.

Diagnostic Instruments

Diagnostic Instruments saw 12% growth in local currencies, with organic growth accounting for 11% thanks to an innovative product portfolio, success in new business areas and a strong, global distribution set-up. Moreover, we have seen a number of oil-dependent markets rebound after a soft 2016.

Gross profit

In 2017, the Group's adjusted gross profit increased by 11% to DKK 10,064 million, which is mainly attributable to strong revenue growth, including a positive sales mix, and to improved production efficiency and savings obtained from the implementation of strategic initiatives. The adjusted gross profit margin was 76.3%, which is 0.5 percentage point higher than in 2016 and a new all-time high.

Capacity costs

Total capacity costs amounted to DKK 7,613 million in 2017, which is 8% higher than in 2016.

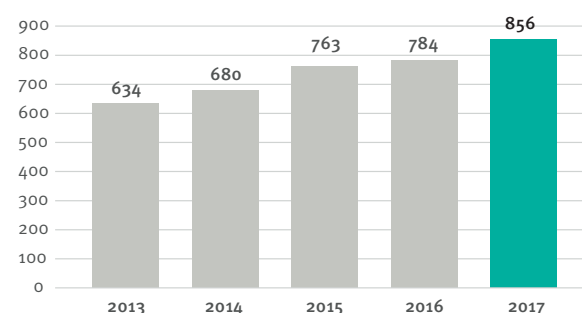
Capacity costs adjusted for restructuring costs

DKK million	2017	2016	% change	
			DKK	LCY
R&D costs	856	784	9%	9%
Distribution costs	6,057	5,618	8%	9%
Administrative expenses	700	651	8%	9%
Total	7,613	7,053	8%	9%

R&D costs

R&D costs amounted to DKK 856 million in 2017, up by 9% on 2016. Staying at the very forefront of R&D is paramount for us to secure our future growth through a high level of innovation. In 2017, the Group continued the expansion of its R&D activities in Poland and maintained a relatively high investment level in the Hearing Implants business. Our ongoing focus on efficiency gains resulted in the adjusted R&D costs to sales ratio remaining relatively unchanged in 2017 compared to 2016.

R&D costs – DKK million*



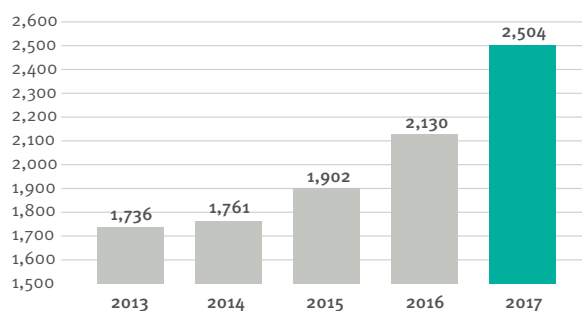
* The figures for 2015-2017 are shown on an adjusted basis.

Distribution costs and administrative expenses

Distribution costs rose by 8% to DKK 6,057 million in 2017, with acquisitions accounting for roughly one third. Administrative expenses also increased by 8% to DKK 700 million.

FINANCIAL REVIEW

Operating profit (EBIT) – DKK million*



* The figures for 2015-2017 are shown on an adjusted basis.

Operating profit

With continuously strong performance throughout the year, the Group reached a record-high adjusted EBIT for 2017 of DKK 2,504 million (DKK 2,130 million in 2016) before restructuring costs of DKK 166 million, matching the guidance range of DKK 2,300-2,600 million. This is an increase of 18% on 2016. The corresponding EBIT margin increased by 1.3 percentage points from 17.7% to 19.0% for the full year, with an EBIT margin of 20.4% for the second half-year.

As a consequence of the further depreciation of especially the US dollar towards the end of 2017, the negative exchange rate impact on EBIT in 2017 totalled DKK 103 million compared to 2016 against our previous expectation of a negative impact of DKK 80 million. Adjusted for the negative exchange rate impact and one-offs in 2016, underlying EBIT in 2017 was up by 25%, with the EBIT margin increasing by 2.3 percentage points. The improved EBIT margin can mainly be attributed to strong revenue growth due to mix changes, cost savings from strategic initiatives and continuous efficiency gains. Hearing Implants continued to have a dilutive effect on the Group's EBIT margin of around 1 percentage point.

Restructuring costs totalled DKK 166 million in 2017, and reported EBIT was DKK 2,338 million (DKK 1,942 million in 2016). Please refer to *Strategic Group initiatives* on page 32 for more details.

The total impact on the income statement of the fair value adjustment of non-controlling interests from step acquisitions and of the adjustment of estimated earn-outs was DKK 5 million in 2017 (DKK 35 million in 2016) recognised under *Distribution costs*. Please refer to Note 6.1 for more details.

Financial items

In 2017, net financial items amounted to DKK -111 million (DKK -101 million in 2016). The increase is mainly related to higher credit card and bank fees.

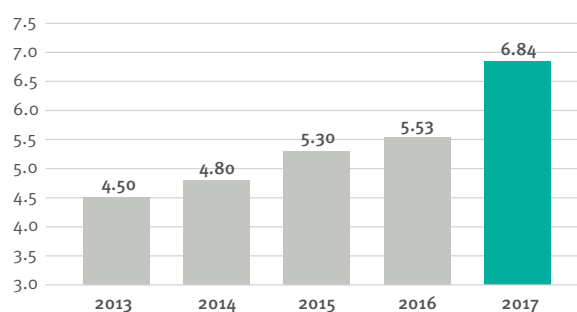
Profit for the year

The Group's reported profit before tax amounted to DKK 2,227 million (DKK 1,841 million in 2016), or an increase of 21%. Tax on the year's profit amounted to DKK 468 million, corresponding to an effective tax rate of 21% (20.5% in 2016). Reported profit after tax amounted to DKK 1,759 million (DKK 1,464 million in 2016), or an increase of 20%.

Reported earnings per share (EPS) was DKK 6.84, which is an increase of 24% on 2016.

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

Earnings per share – DKK*



* The figures for 2015-2017 are shown on an adjusted basis.

Equity and capital structure

The Group's equity was DKK 7,433 million as of 31 December 2017 (DKK 6,966 million as of 31 December 2016), matching an equity ratio of 45.8%. The increase in equity is mainly due to the rise in profit for the year of DKK 1,759 million and was partly offset by the Company's buy-back of shares of DKK 1,031 million and by exchange rate effects.

Based on the strong cash flow from operating activities (CFFO) in 2017 and the expectation of future growth in CFFO, we will continue to prioritise value-adding investment opportunities and acquisitions. Any available cash not being used for investment or acquisition purposes will be used for buying back shares. We aim at a target gearing multiple of 1.5-2.0 measured as net interest-bearing debt (NIBD) relative to EBITDA. As of 31 December 2017, the Company's NIBD/EBITDA ratio was 1.5.

FINANCIAL REVIEW

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

Group equity	2017	2016
(DKK million)		
Equity at 1.1.	6,966	6,500
Foreign currency translation adjustments, subsidiaries	-350	43
Value adjustments, hedging instruments	98	26
Profit for the year	1,759	1,464
Other adjustments including buy-back of shares	-1,040	-1,067
Equity at 31.12.	7,433	6,966

Cash flow

Adjusted CFFO totalled DKK 2,023 million in 2017, which is an increase of 15% on the year before. Costs in relation to the defined strategic initiatives had a negative impact on reported CFFO for 2017 of DKK 151 million, with the first half-year accounting for DKK 83 million. Income tax paid in 2017 aggregated DKK 488 million of which DKK 222 million was paid in Denmark.

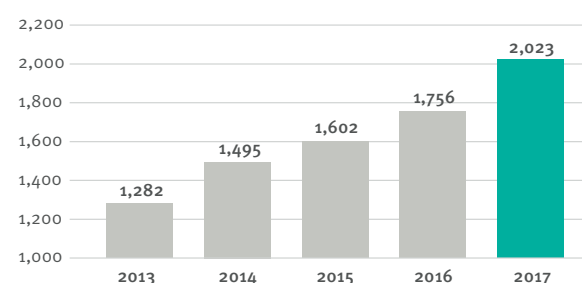
Cash flow by main items	2017	2016
(DKK million)		
Adjusted operating profit (EBIT)	2,504	2,130
Adjusted cash flow from operating activities	2,023	1,756
Cash flow impact from strategic initiatives	-151	-77
Reported cash flow from operating activities	1,872	1,679
Cash flow from investing activities	-485	-456
Free cash flow	1,387	1,223
Acquisition and divestment of enterprises, participating interests and activities	-656	-336
Cash flow from financing activities	-766	-743
Cash flow for the year	-35	144

The reported free cash flow amounted to DKK 1,387 million, corresponding to an increase of 13%. Cash flow from investing activities (CFFI) totalled DKK -485 million in 2017

(DKK -456 million in 2016) excluding acquisitions and divestments. Reported cash flow for the year totalled DKK -35 million, corresponding to a drop of DKK 179 million compared to 2016. This trend is mainly attributable to a higher acquisition level.

The amount relating to the acquisition and divestment of enterprises, participating interests and activities was DKK 656 million in 2017 (DKK 336 million in 2016).

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



* The figures for 2015-2017 are shown on an adjusted basis.

Cash flow from financing activities (CFFF), totalling DKK -766 million in 2017 (DKK -743 million in 2016), mainly relates to share buy-back. In 2017, we repaid debt in the amount of DKK 1,156 million (DKK 350 million in 2016) and took out new debt in the amount of DKK 1,132 million (DKK 774 million in 2016).

Balance sheet

As of 31 December 2017, the Group's assets totalled DKK 16,222 million, which is an increase of 4% on the balance sheet total compared with year-end 2016. This increase is mainly due to acquisitions and an increase in the Group's receivables.

We provide loans to our customers on an ongoing basis and as of 31 December 2017, such loans amounted to DKK 497 million (DKK 582 million in 2016).

As of 31 December 2017, our net interest-bearing debt amounted to DKK 4,030 million, which is in line with the amount at year-end 2016. The Group's net working capital amounted to DKK 2,125 million in 2017 (DKK 2,201 in 2016), consisting of current assets of DKK 4,470 and current liabilities of DKK 2,345 million.

At year-end 2017, the fair value of the Group's forward exchange contracts was DKK 63 million, consisting of unrealised gains of DKK 66 million and losses of DKK 3 million.

OUTLOOK 2018

The hearing healthcare market

In general, we consider the global hearing healthcare market to be very stable. However, official market statistics on the hearing healthcare market are not fully comprehensive, so our market growth assumptions listed below should be seen in this light. The market growth assumptions, which are in line with our long-term expectations, cover the wholesale part of the hearing healthcare market and serve as our currently best estimate of market trends in 2018:

- We estimate that the hearing aid wholesale market will see a unit growth rate of 4-6% and a low single-digit percentage decline in the average selling price. In terms of value, we estimate that the hearing aid wholesale market will grow by 2-4%.
- The hearing implant market is estimated to see a value growth rate of 10-15%.
- The diagnostic equipment market is estimated to see a value growth rate of 3-5%.
- The total hearing healthcare market is estimated to see a value growth rate of 5%.

As a leading global hearing healthcare company, the William Demant Group is active in all key product segments and sales channels and across all geographic regions. Due to this relatively unique position in the marketplace, the Group has access to a big and fast growing hearing healthcare market.

Outlook 2018

The William Demant Group expects to generate substantial organic sales growth in 2018. Based on exchange rates as of 21 February 2018 and if we include the impact of exchange rate hedging, we expect a negative exchange rate effect on revenue of around 4% in 2018.

We are guiding for an operating profit (EBIT) of DKK 2,550-2,850 million before restructuring costs of DKK 150 million in relation to the previously announced strategic initiatives.

We aim at a gearing multiple of 1.5-2.0 measured as net interest-bearing debt (NIBD) relative to EBITDA, and we expect to buy back shares worth DKK 1.5-2.0 billion. In order to maintain a high level of flexibility, this level of share buy-back is however subject to change, if additional attractive acquisition opportunities present themselves.

OUR BUSINESS

In 2017,
the research project
IHEAR was initiated to
ensure that no child with
hearing impairment is left
behind in school.
 Read more: demant.com





We have succeeded in gaining market share in Hearing Devices, with Oticon Opn driving strong organic growth in the wholesale business.

Encompassing both our hearing aid wholesale and our retail business, the Hearing Devices business activity performed strongly in 2017, generating a growth rate of 10% in local currencies of which organic growth accounted for 8 percentage points. The strong growth was primarily driven by the continued and highly successful roll-out of Oticon Opn, which helped our wholesale business gain global market share, but also new products from the Bernafon and Sonic brands helped fuel growth in the second half of the year. In 2017, our retail business delivered an organic growth rate of 4% in line with the estimated overall market growth rate due to a mix of solid performance in Europe, a pick-up in the US market towards the end of the year and negative organic growth in Australia.

Market conditions and business trends

We estimate that the volume growth rate in the global hear-

ing aid market rose gradually during 2017 and amounted to approx. 4% for the full year. According to data from the Hearing Industries Association (HIA), the US growth rate was close to the global average growth rate, mainly due to the private market growing by around 4%, whereas the growth rate in Veterans Affairs (VA) was more modest at around 1%. In Europe, the estimated growth rate in 2017 was around 4% with strong growth rates in France and Italy, but only a modest growth rate in Germany. Outside the US and Europe, the growth rate recorded in Japan was more or less flat, and in Australia the growth rate was negative. China continued to record double-digit growth rates.

We maintain our estimate of a medium- to long-term unit growth rate of 4-6%, with key structural drivers remaining intact. The most important of these drivers is the demographic trend towards increasing elderly populations in



REVENUE

11,495 million DKK

GROWTH

10% in local currencies

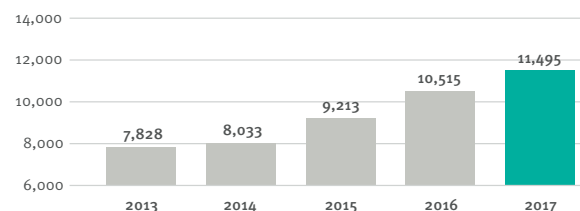
most regions, which is expected to continue over the coming years, as large generations reach the age of typical first-time hearing aid users, and the general life expectancy increases. We are also seeing a gradual shift towards the establishment of more advanced hearing healthcare systems in some developing markets and increasing acceptance that access to proper hearing healthcare has significant societal benefits.

As also seen in previous years, tough competition among manufacturers as well as the trend towards consolidation in hearing aid retail negatively affect the average selling price (ASP) for wholesalers. We expect these trends to continue in the coming years and thus to see growth rates of approx. 2-4% in value in the medium to long term. However, we believe that value growth in 2017 was at the upper end of this growth range due to a relatively flat ASP development driven by new high-end products launched by several manufacturers, resulting in positive product mix shifts and increased product differentiation. As far as retail is concerned, we consider the overall pricing environment to be relatively stable. That being said, there are significant regional and local differences in retail pricing due to different reimbursement systems and market structures.

Wholesale

2017 was a very strong year for our hearing aid wholesale business, and we succeeded in increasing our global market share. Revenue growth in local currencies was 11% and consisted entirely of organic growth, with Oticon Opn as the key growth driver. In the first half of the year, growth

REVENUE (DKK million)



was mainly driven by increasing unit sales, whereas an increasing ASP was the main contributor to growth in the second half-year as a result of product, geography and channel mix shifts. For the full year, the ASP grew by 5% and unit sales by 6%.

Launched in June 2016, Oticon Opn has been a step change in hearing technology with the introduction of the open sound paradigm, and it continues to receive outstanding feedback and recognition. Throughout 2017, Opn was the key driver of our improved product mix and thus an increasing ASP, as end-users value its superior audiological performance and sound quality. After initially only having been launched in one style and at one price point, the Opn product family has gradually been expanded to include more styles, price points and features. In 2017, we launched Opn in a miniRITE-T (telecoil) and BTE Power style, we introduced a new and flexible rechargeable solution to be used by both existing and new users of Opn, and we introduced new features, such as a tinnitus solution. In December, we also introduced connectivity to any modern smartphone (including Android-based devices) with the launch of our ConnectClip, which allows users to stream phone calls and music in high quality to both ears using Bluetooth Low Energy (BLE), without compromising on signal processing and rechargeability. The open sound paradigm continues to resonate well with customers and end-users alike, and we will continue our effort to broaden its reach to more people during 2018.

HEARING DEVICES





Both Bernafon and Sonic saw growing unit sales in 2017, but their ASPs were negatively affected by substantial tender orders at relatively low prices and also by the fact that their product portfolios were nearing the end of their life cycles. However, in the second half-year Bernafon and Sonic both launched new product families with 2.4 GHz connectivity, Zerena and Enchant, respectively, which have helped improve the product mix for both brands. With these strong new products in combination with the successful Oticon Opn, we have entered the year with a very strong product portfolio across all our brands, allowing us to address the widest possible range of customers and channels. In 2018, we will further expand this strong technology platform.

In terms of geography, our growth was broadly based and we saw solid organic growth rates in all regions. North America was the most significant contributor to growth with strong sales to the independent segment, through our own retail network and to VA in the US. As far as the latter is concerned, we continued to increase our market share during 2017, even after the initial introduction effect following the launch of Opn in this channel in November 2016, and we finished the year holding a unit market share of 15%.

In Europe, we also succeeded in growing our business at a solid rate despite the loss of sales to a large account, which was acquired by a competitor in 2016. Naturally, this had an adverse effect on our unit growth, although the effect on revenue was less significant. In return, we were able to grow our sales to independent customers, to the NHS in the UK and through our own retail network, while experiencing generally strong momentum in countries like Germany, France and Denmark. Our Asia and Pacific regions also saw strong organic growth with China, Japan and Australia as the main growth drivers, despite the overall demanding market conditions in Japan and Australia.

Retail

Our retail business saw growth of 10% in local currencies of which 4 percentage points were organic growth and 6 percentage points acquisitive growth. Our organic growth rate was thus in line with the estimated market growth rate, but reflected some variations across the regions where we are active due to differences both in general market conditions and in the maturity of our retail operations. Our retail business is continuously working on optimising its sales excellence model, marketing campaigns, IT systems and processes to sustain its profitable growth and solid contribution to the Group. In 2017, the composition of growth in our retail business was relatively stable,

and the retail business in fact increased the number of units from our wholesale business. Furthermore, we saw a slightly increased ASP driven in large part by Oticon Opn.

Our European retail business performed well in 2017 with the UK, Poland and France as the main positive drivers. We continuously strive to benefit from economies of scale in the markets where we operate by focusing on sales and marketing excellence, while continuing to expand our network in selected markets. In France, we saw strong market growth in 2017, and we continue to grow the Audika business and to gradually ramp up the share of own products sold through Audika shops.

In North America, we saw strong performance in Canada due to a combination of strong organic growth and acquisitive growth from bolt-on acquisitions. Growth in our US retail business was mainly driven by acquisitions, whereas the organic growth rate was slightly below the market growth rate, even though it improved in the second half of the year compared to the first half-year. We continue to focus on consolidating our many entities into one coherent operational set-up, and in 2017, we saw this effort resulting in improved performance, and we ended the year on a strong note.

As mentioned above, the Australian market for hearing aids saw negative growth in 2017, which naturally impacted our sizeable retail business there. However, we expect the market to return to its “normal” growth level in 2018.

HIGHLIGHTS 2017

- Organic revenue growth of 11% in the wholesale of hearing aids with Oticon Opn as the key growth driver
 - Opn continues to receive outstanding feedback and recognition
 - Opn now available in a miniRITE-T (telecoil) style, a BTE Power style with rechargeability, a tinnitus solution and connectivity by means of ConnectClip
 - Bernafon and Sonic launched new product families with 2.4 GHz connectivity, Zerena and Enchant, respectively
-

PIPELINE 2018

- Further leverage on the open sound paradigm and the ultra-low-power, dual-radio technology platform
 - Focus on consolidating our many retail entities into more coherent operational set-ups
-



We have delivered strong growth in Hearing Implants with strong performance in both CI and BAHS, driven by Neuro and Ponto 3.

In 2017, our Hearing Implants business activity under the Oticon Medical brand realised as much as 28% growth in local currencies, which was entirely organic growth, and the second half-year even saw accelerated growth. Generated by both the cochlear implant (CI) and the bone anchored hearing system (BAHS) area, the strong growth rates exceeded the estimated market growth rates.

Bone anchored hearing systems

We estimate that the BAHS market grew by 10-15% in 2017, driven by innovation, in particular due to Ponto 3 SuperPower – an industry only – growth in the Group's BAHS sales exceeded the estimated market growth rate.

With Ponto 3, we have created a new standard for products for different hearing losses and because of this, Ponto 3 is one of the most important product innovations we have

seen in the past decade. Our “SuperPower for all” message has been very well received by clinics, as Ponto 3 SuperPower offers the highest output ever by an abutment-level sound processor and can be used for conductive hearing losses down to 65 dB. This means that people with severe hearing loss can get a very powerful solution, without having to make sacrifices in terms of cosmetics.

Cochlear implants

We estimate that in terms of unit sales, the CI market growth rate was 10-12% – the same estimated range as in recent years. Going forward, the CI industry is expected to generate a double-digit unit growth rate, reflecting the fact that CIs are among the most successful hearing rehabilitation devices. Low penetration, an increasing pool of elderly people needing a CI, new indications, such as single-sided deafness (SSD) and severe tinnitus, product



REVENUE

500 million DKK

GROWTH

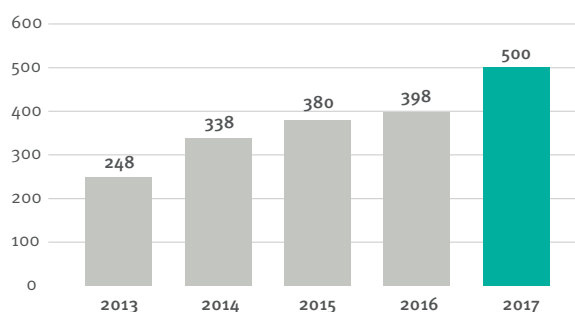
28% in local currencies

innovation, better reimbursement systems in emerging markets, increasing general awareness and wealth are all important drivers that will contribute to further growth in the coming years.

Our CI sales growth rate was considerably above the market growth rate in 2017, and we realised very strong unit sales, partly driven by tenders at relatively low ASPs especially in India and in North Africa. However, in 2017 we formed many new relationships with important clinics, and a lot of clinics implanted a few Neuro CIs for evaluation purposes and are now ready to make Neuro a natural part of their product offering. In total, more than 100 clinics now perform Neuro implantations on a low, but regular and growing base, which provides us with a strong platform for future growth, as we start to roll out the world's smallest sound processor, Neuro 2, in early 2018.

Our Hearing Implants business activity is strongly driven by innovation and in 2018, we will launch Neuro 2 together with a completely new suite of fitting solutions that offer new possibilities never seen before in the CI field. Neuro 2 is the culmination of the activities carried out over the last four years with a view to integrating the former Neurelec CI company into William Demant and making it an integral part of Oticon Medical. Together with the already introduced Neuro Zti implant, the Neuro CI system is now one of the most modern and attractive CI solutions in today's market. Initial pre-launch market reactions have been very strong, and we are convinced that with these products,

REVENUE (DKK million)



Oticon Medical will become the preferred choice of many patients, audiologists and surgeons in the important European markets. In order to reach our ambitious targets in both the CI and the BAHS field, we will continue to invest heavily in key areas, such as R&D, clinical support and distribution, and as far as the Neuro CI system is concerned, we will have particular focus on clinical and regulatory activities to prepare this product's entry into the US market.

HIGHLIGHTS 2017

- Roll-out of Ponto 3 BAHS
- Launch of Neuro CI in France, Australia, Argentina, Russia, Brazil and in a few smaller countries in Eastern Europe
- Clinical study initiated with a view to subsequent regulatory approval of the Neuro CI in the US

PIPELINE 2018

- Launch of the world's smallest sound processor, Neuro 2, together with a completely new suite of fitting solutions
- Launch of Ponto BAHS in Russia, India and China



Market share gain in Diagnostic Instruments thanks to an innovative product portfolio, a strong distribution set-up and high growth rates in new business areas.

In 2017, the global market for hearing-diagnostic equipment and accessories amounted to DKK 2.8 billion. The market for hearing-diagnostic equipment alone is estimated to have grown by approx. 7%, with fitting equipment, audiometers and impedance equipment as the main growth drivers. Growth in oil-dependent markets returned in 2017 after a period with negative growth rates in 2016, and we are experiencing a generally healthier tender environment in the global marketplace. Asian markets are delivering relatively high growth rates, and we expect to benefit from this trend due to our strong distribution set-up in the region.

In 2017, the two major themes in the market were the introduction of screening products run on tablets and increased focus on telehealth solutions. These initiatives are still in their early stages, and we see them more as

a means of expanding the current market than disrupting it. We are confident that we will be able to compete in these areas in the future.

Our Diagnostic Instruments business activity includes, among others, six audiometer businesses: Grason-Stadler (USA), Amplivox (UK), Maico (Germany and USA), MedRx (USA), Micromedical (USA) and Interacoustics (Denmark). In addition, Diagnostic Instruments markets consumables under the Sanibel brand and also operates distribution entities, Diatec and e3 Diagnostics.

2017 has been a good year for Diagnostic Instruments with 12% growth in local currencies. A high level of innovation, a strong distribution set-up, a multi-brand approach and the ability to successfully enter into new business areas remain cornerstones of the growth strategy in Diagnostic



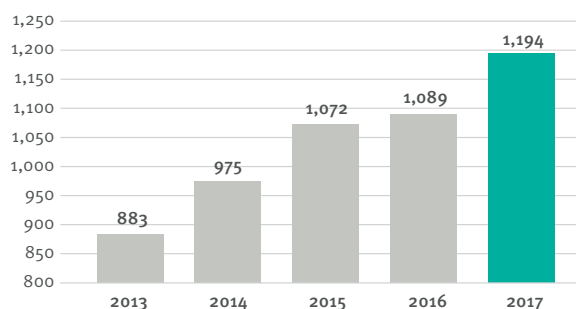
REVENUE

1,194 million DKK

GROWTH

12% in local currencies

REVENUE (DKK million)



Instruments. We believe that we are well underway to deliver on these key parameters exemplified by the launch of Amtas, our next-generation tablet-based hearing screening and diagnosing equipment/system, by strong growth momentum in the newborn hearing screening business and by our ability to benefit from strong distribution set-ups in the US and in Asia.

Driven by market share gains in impedance, OAE and ABR equipment, we succeeded in gaining market share across the global market for diagnostic equipment in 2017. Having now entered 2018 with positive sales momentum, we expect to see further positive development by continuing to deliver on efficiency gains and innovation.

HIGHLIGHTS 2017

- **Launch of Amtas: Next-generation, tablet-based hearing screening and diagnosing equipment**
- **Strong growth momentum in newborn hearing screening**
- **Market share gains across the global market for diagnostic equipment**

PIPELINE 2018

- **Continued expansion and development of our newborn hearing screening business**
- **Worldwide expansion of service and calibration business**
- **Introduction of more products using Amtas technology**



Solid underlying performance in Sennheiser Communications driven by double-digit growth in CC&O.

Sennheiser Communications, our 50/50 joint venture with Sennheiser electronic GmbH & Co. KG, develops and manufactures headsets and solutions for the professional Call Center and Office (CC&O) market, including Unified Communication (UC), as well as consumer headsets for the Gaming and Mobile segments.

In 2017, the global CC&O market delivered solid market growth. The positive UC trend remains the major growth driver, with new, large global accounts entering the market, but we are also seeing increasing interest from medium-sized companies.

The global Gaming headset market generated growth of 7-8% in 2017. Overall interest in the Gaming segment is growing, and we are seeing material changes in the mar-

keting environment, with big international companies entering this field, which means that we need to be more selective when it comes to our marketing efforts.

In the Mobile segment, we are seeing a rapid shift from corded to wireless devices, and our PXC 550 and MB 660 headsets have both gained momentum and been successful in 2017. We are seeing an emerging trend in the Mobile segment towards more intelligent audio solutions, which we are following closely.

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

PERSONAL COMMUNICATION

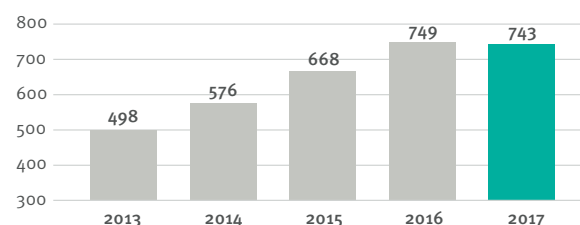
REVENUE

743 million DKK

GROWTH

-1% in local currencies

REVENUE (DKK million)



Income statement

(DKK million)

	2017	2016
Revenue	743	749
Gross profit	311	320
Gross margin	41.9%	42.7%
Capacity costs	-199	-188
Operating profit (EBIT)	112	132
EBIT margin	15.1%	17.6%
Tax on profit for the year	-25	-29
Profit for the year	87	103
William Demant Holding share of profit, 50%	43	51

Looking at the value chain for headsets, Sennheiser Communications acts as a manufacturer, while benefitting from the distribution set-up in Sennheiser KG. Thus, Sennheiser Communications reports wholesale revenue into Sennheiser KG's inventory, which should be taken into account when comparing Sennheiser Communications' revenue with our competitors' revenue.

Revenue for 2017 was DKK 743 million, corresponding to a decrease of 1% on last year, which is attributable to a decrease in the general stock level at Sennheiser KG (sales into Sennheiser KG's inventory). At year-end 2017, the underlying business (sales from Sennheiser KG's inventory to

customers) was 14% above the level at year-end 2016, which is mainly due to double-digit growth in CC&O.

Sennheiser Communications continues to invest in the business with a view to capturing future growth opportunities and delivering on an ambitious growth plan. Because of this strategy, capacity costs were up by 6% in 2017 and are expected to increase further in 2018. The gross profit margin was adversely affected by price competition in the CC&O segment and changes to the product mix, as we have seen an increase in the sale of wireless products in 2017.

HIGHLIGHTS 2017

- Strong underlying growth driven by CC&O

PIPELINE 2018

- Continuous investments to benefit from positive UC trend

STRATEGIC GROUP INITIATIVES

In our Interim Report 2016, we announced several strategic initiatives to be implemented in 2016 to 2018 with a view to ensuring continuous cost efficiency gains and supporting our future scalability at a lower cost.

We are executing on the announced initiatives according to plan, and the transfer of our R&D activities from Switzerland to Poland and Denmark was completed at the end of 2017. The transfer of our remaining operational activities from Thisted, Denmark, to Poland was initiated in the second half of 2016, and we still expect it to be completed before the end of 2018.

In 2017, we recognised total restructuring costs of DKK 166 million of which DKK 83 million was recognised in the first half-year. The negative impact on the cash flow from operating activities (CFFO) for 2017 was DKK 151 million, with the first half-year accounting for DKK 83 million. When fully implemented after 2018, the initiatives are still expected to result in annual cost savings of around DKK 200 million compared to the cost base for 2016 as well as in future economies of scale. However, cost savings have materialised somewhat faster than initially expected, resulting in a positive impact on our operating profit (EBIT) in 2017 of around DKK 100 million.

In 2018, we expect to recognise total restructuring costs of around DKK 150 million.

Impact of restructuring costs in 2017

(DKK million)

	2017	2016
Revenue	0	0
Production costs	-38	-72
Gross profit	-38	-72
R&D costs	-63	-55
Distribution costs	-38	-36
Administrative expenses	-27	-25
Capacity costs	-128	-116
Share of profit after tax, associates and joint ventures	0	0
Operating profit (EBIT)	-166	-188

SHAREHOLDER INFORMATION AND CORPORATE GOVERNANCE



SHAREHOLDER INFORMATION

Share capital and price development

As of 31 December 2017, William Demant Holding's nominal share capital was DKK 51,793,255 divided into 258,966,275 shares of DKK 0.20 each. All shares are the same class and carry one vote each.

The change compared to the year before is due to the reduction of the Company's nominal share capital by DKK 1,423,110 through the cancellation of treasury shares approved at the annual general meeting on 27 March 2017.

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

The price of William Demant Holding shares increased by 41.3% in 2017, and as of 31 December 2017, the share price was DKK 173.50, corresponding to a market capitalisation of DKK 43.9 billion (excluding treasury shares). The average daily trading turnover was DKK 69.3 million. The Company is a constituent of the OMX Copenhagen 25 Index (C25), which covers the 25 largest and most frequently traded shares on Nasdaq Copenhagen. The C25 index increased by 12.8% during the year.

Ownership

William Demants og Hustru Ida Emilies Fond (the Oticon Foundation) holds the majority of shares in William Demant Holding through its investment company William Demant Invest and has previously communicated its intention to maintain an ownership interest of 55-60% of William Demant Holding's share capital. Any sale of shares by the Foundation is independent of any purchase of shares by the Company. As of 31 December 2017, the Oticon Foundation held – either directly or indirectly – approx. 55% of the share capital.

As per Company announcement no. 2017-08 dated 27 July 2017, Canada Pension Plan Investment Board owned 20,352,691 shares or 7.86% of the share capital at the time.

No other shareholders had flagged an ownership interest of 5% or more as of 31 December 2017.

As of 31 December 2017, the Company held 6,145,131 treasury shares, corresponding to 2.37% of the share capital.

Specification of movements in share capital

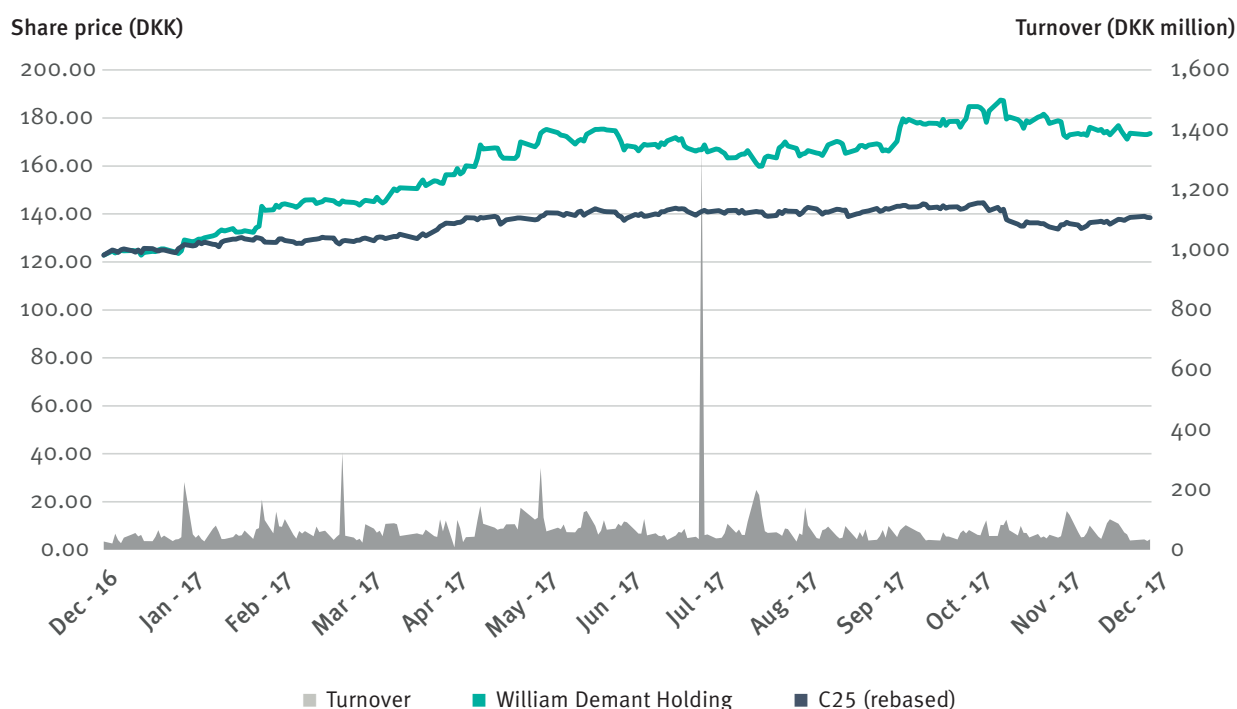
(DKK 1,000)

	2017	2016	2015	2014	2013
Share capital at 1.1.	53,216	54,425	56,662	56,662	58,350
Capital increase	0	0	0	0	0
Capital reduction	-1,423	-1,209	-2,237	0	-1,688
Share capital at 31.12.	51,793	53,216	54,425	56,662	56,662
– Nominal value per share (DKK)	0.20	0.20	1.00	1.00	1.00
– Total number of shares (thousand)	258,966	266,081	54,425	56,662	56,662
Share information DKK¹⁾					
Highest share price	188.9	145.0	138.0	107.6	108.8
Lowest share price	122.3	105.6	91.4	82.0	88.8
Share price, year-end	173.5	122.8	131.4	93.6	105.4
Market capitalisation ²⁾	43,864	31,829	35,126	25,545	29,754
Average trading turnover ²⁾	69.3	63.1	68.5	50.5	44.7
Average number of shares ³⁾	256.56	263.75	270.13	278.13	283.11
Number of shares at 31.12. ³⁾	252.82	259.19	267.30	272.80	282.30
Number of treasury shares at 31.12. ⁴⁾	6.1	6.9	4.8	10.5	1.0

¹⁾ In 2016, the nominal value of all shares outstanding was changed from DKK 1.00 to DKK 0.20, and comparative figures for 2013-2015 have been adjusted accordingly. ²⁾ DKK million excluding treasury shares. ³⁾ Million shares excluding treasury shares. ⁴⁾ Million shares.

SHAREHOLDER INFORMATION

Development in share price and turnover



The Oticon Foundation

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

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

Dividend and share buy-back

The Company will use its substantial cash flow from operating activities for investments and acquisitions, and any excess liquidity will, as a rule, be used for the continuous buy-back of shares.

Until the next annual general meeting in March 2018, the Board of Directors has been authorised to let the Company buy back shares at a nominal value of up to 10% of the share capital. The purchase price may, however, not deviate by more than 10% from the price quoted on Nasdaq Copenhagen.

SHAREHOLDER INFORMATION

Investor Relations

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

We aim to reach this goal by continuously providing relevant, correct, adequate and timely information in our Company announcements. In addition to the statutory publication of an annual report and interim report, we publish quarterly interim management statements, containing updates on the Group and its financial position and results in relation to the full-year outlook, including updates on important events and transactions in the period under review. Our interim management statements do not include actual figures.

We also maintain an active and open dialogue with analysts as well as current and potential investors, which helps us stay updated on the views, interests and opinions of various stakeholders in respect of the Company. At our annual general meeting and through presentations, individual meetings, participation in investor conferences, webcasts, capital markets days etc., we aim to maintain an ongoing dialogue with a broad spectrum of IR stakeholders, and in 2017, we held approx. 450 investor meetings and presentations. We also use our website, www.demant.com, as a means of communication with our stakeholders. At the end of 2017, 28 equity analysts were covering William Demant Holding. We refer to our website for a full list of analyst coverage.

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



Søren B. Andersson

Mathias Holten Møller

Company announcements in 2017

23 February	Annual Report 2016
23 February	Management changes in William Demant
28 February	Notice to annual general meeting
27 March	Decisions of annual general meeting
8 May	Completion of capital reduction
9 May	Interim Management Statement
31 May	Total number of voting rights and capital
27 July	Major shareholder announcement concerning Canada Pension Plan Investment Board
14 August	Interim Report 2017
9 November	Interim Management Statement
10 November	Financial calendar 2018

Financial calendar 2018

8 February	Deadline for submission of items for the agenda of the annual general meeting
22 February	Annual Report 2017
22 March	Annual general meeting
8 May	Interim Management Statement
15 August	Interim Report 2018
6 November	Interim Management Statement

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

Annual general meeting 2018

The annual general meeting will be held on Thursday, 22 March 2018, at 4 p.m. at the Company's head office, Kongebakken 9, 2765 Smørum, Denmark.

RISK MANAGEMENT ACTIVITIES

Risk management activities in the William Demant Group first and foremost focus on the business-related and financial risks to which the Group is fairly likely to be exposed. In connection with the preparation of the Group's strategic, budgetary and annual plans, the Board of Directors considers the risks identified in these activities.

In general, we act in a stable market with a limited number of players, and under normal circumstances, the risks to which the Group may be exposed do not change in the short term. In 2017, there has been no major change in the Group's immediate risk exposure compared to recent years, and the development in the demand for Group products has been stable.

Business risks

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

The hearing healthcare market in which we act is a highly product-driven market where our significant R&D initiatives help underpin our market position. It is thus vital in the long term to maintain our innovative edge and to attract the most qualified and competent staff. Our continuous development of new products brings with it inherent product risks, including the risk of delay of launches of new products. However, due to our constant focus on all links in the value chain, such delays rarely occur. We closely monitor our supply situation and seek to ensure that we always have an inventory level that can counter any interruptions in production. Product recalls also constitute a business risk in relation to bone anchored hearing systems and cochlear implants, specifically in relation to claims-related costs, such as the cost of replacing products, medical expenses, compensation for actual damage as well as legal fees.

In 2016, the Group announced several strategic initiatives, including the relocation of some production and R&D sites, to be implemented in the years 2016 to 2018. Such initiatives carry inherent operational and executional risks, but are so far progressing according to plan. Please refer to *Financial review* on page 14 for more details on the progress of the strategic Group initiatives.

An important part of our ongoing product innovation is to take out, protect and maintain patents for our own groundbreaking development and technology. These are indeed complicated processes in the hearing healthcare industry, and we therefore maintain and develop our competencies in this area on an ongoing basis. It is our policy to conti-

nuously monitor that third-party products do not infringe our patents and that our products do not infringe third-party patents. The Group is involved in a few legal disputes, but Management is of the opinion that these do not or will not significantly affect the Group's financial position. As a rule, we seek to make adequate provisions for legal proceedings.

As a major player in the hearing healthcare market, the Group is also exposed to certain regulatory risks in terms of changes to product requirements, reimbursement schemes and public tenders in the markets where we operate. In August 2017, US lawmakers passed new legislation, requiring the Food and Drug Administration (FDA) to introduce a new over-the-counter (OTC) category of hearing aids within three years. We expect any impact of this legislation on the hearing aid industry to be limited, but until the final design of the category has been defined by the FDA, the impact of this legislation is considered part of the Group's regulatory risks. Overall, we feel well positioned to respond to any regulatory changes, and our broad presence in the hearing healthcare market should help minimise any impact on the Group as a whole.

Being a large, global organisation, we are naturally dependant on a number of IT systems and general IT infrastructure to operate efficiently across our value chain. This entails the risk of system errors, human errors, data breaches or other interruptions that may impact the Group financially. We continuously seek to minimise these risks, and our IT strategy includes both prevention and contingency plans.

Financial risks

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

Exchange rate risks

With 98% of the Group's sales being invoiced in foreign currencies, reported revenue is significantly affected by movements in the Group's trading currencies. The Group seeks to hedge against any exchange rate risks, first and foremost through forward exchange contracts. In relation to exchange rate fluctuations, hedging ensures predictability in terms of profit and gives Management the opportunity

RISK MANAGEMENT ACTIVITIES

– and necessary time – to redirect business arrangements in the event of persistent changes in foreign exchange rates. The Group aims to hedge such changes in foreign exchange rates by seeking to match positive and negative cash flows in the main currencies as much as possible and by entering into forward exchange contracts. The Group hedges estimated cash flows with a horizon of up to 18 months.

The tables below show the impact on the year's operating profit (EBIT) and consolidated equity, given a change of 5% in the currencies with the highest exposure. The exchange rate impact on EBIT has been calculated on the basis of the Group's EBIT for each currency and does not take into account a possible exchange rate impact on balance sheet values in those currencies.

Effect on EBIT, 5% positive exchange rate impact*

DKK million	2017	2016
USD	+46	+40
AUD	+13	+15
GBP	+20	+15
CAD	+18	+15
JPY	+5	+5

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

Effect on equity, 5% positive change in exchange rates

DKK million	2017	2016
USD	+95	+90
AUD	+20	+20
GBP	+14	+13
CAD	+47	+50
JPY	+3	+3

The material forward exchange contracts in place as of 31 December 2017 to hedge against the Group's exposure to movements in exchange rates appear from the table below.

Material forward exchange contracts as of 31 December 2017

Currency	Hedging period	Average hedging rate
USD	10 months	650
AUD	5 months	493
GBP	9 months	838
CAD	7 months	496
JPY	8 months	6.48

At the end of 2017, the fair value of the Group's forward exchange contracts was DKK 63 million, consisting of unrealised gains of DKK 66 million and losses of DKK 3 million. Please refer to Note 2.3 for more details.

Interest rate risks

In order to secure attractive interest rates for the Group on the long term and as a consequence of our attractive funding possibilities in the financial market, more than half of the Group's debt is funded through medium-term committed facilities with fixed rates and through financial instruments, which limits the interest rate risk. However, because of the Group's high level of cash generation and relatively low financial gearing, part of our loans are raised on floating terms and predominantly as short-term commitments. All in all, the Group's interest expenses are very low with a manageable interest rate risk.

The Group's net interest-bearing debt (NIBD) was DKK 4,030 million as of 31 December 2017, corresponding to a gearing ratio of 1.5 (NIBD/EBITDA). Based on this level, a rise of 1 percentage point in the general interest rate level will cause an increase in annual interest expenses before tax of DKK 10 million (DKK 13 million in 2016).

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

Credit risks

The Group's credit risks relate primarily to trade receivables and loans to customers or business partners. Our customer base is fragmented, so credit risks in general only involve minor losses on individual customers. Together, our ten largest customers account for less than 12% of total consolidated revenue. Furthermore, when granting loans, we require that our counterparts provide security in their business. Overall, we therefore estimate that we have no major credit exposure on Group level.

The maximum credit risk relating to receivables matches the carrying amounts of such receivables. The Group has no major deposits with financial institutions for which reason the credit risk of deposits is considered to be low.

RISK MANAGEMENT ACTIVITIES

Liquidity risks

The Group aims to have sufficient cash resources to be able to take appropriate steps in case of unforeseen fluctuations in cash outflows. We have access to considerable undrawn credit facilities, and the liquidity risk is therefore considered to be low. We are of the opinion that the Group has strong cash flows and a satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions. Neither in previous years nor in the financial year 2017, has the Group defaulted on loan agreements.

Financial reporting process and internal control

Once a year, we carry through a very detailed planning and budgetary process, and any deviations from the plans and budgets resulting from this process are carefully monitored month by month. In terms of sales and costs, month-over-month development is very similar from one year to the other, and due to the repetitive nature of our business, deviations will normally become visible fairly quickly. To ensure high quality in the Group's financial reporting systems, the Board of Directors and Executive Board have adopted policies, procedures and guidelines for financial reporting and internal control to which the subsidiaries and reporting units must adhere, including:

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

The responsibility for maintaining sufficient and efficient internal control and risk management in connection with financial reporting lies with the Executive Board. The Board of Directors has assessed the Group's existing control environment and concluded that it is adequate and that there is no need for setting up an internal audit function.

Safeguarding corporate assets

Management continuously seeks to minimise any financial consequences of damage to corporate assets, including any operating losses resulting from such damage. We have invested in security and surveillance systems to prevent damage and to minimise such damage, should it arise. Major risks, which cannot be adequately minimised, are identified by the Company's Management, which will ensure that appropriate insurance policies are, on a continuous basis, taken out under the Group's global insurance programme administered by recognised and credit-rated

insurance brokers and that such insurances are taken out with insurance companies with high credit ratings. The Group's insurance programme has deductible clauses in line with normal market terms. The Board of Directors reviews the Company's insurance policies once a year, including the coverage of identified risks, and is briefed regularly on developments in identified risks. The purpose of this reporting is to keep the Board members fully updated and to facilitate corrective action to minimise any such risks.

CORPORATE SOCIAL RESPONSIBILITY

“ Deeply rooted in the hearing healthcare industry, we aspire to improve people’s quality of life and to run our business in a sustainable way. We are committed to being a responsible and reliable participant in the global community.

Søren Nielsen, President & CEO of William Demant Holding

REPORTING ON RESPONSIBILITY

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

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

DONATIONS BY THE OTICON FOUNDATION

In 2017, the Oticon Foundation donated DKK 98 million to projects in such areas as research, education, culture and care. A total of DKK 60 million was donated to projects aiming at alleviating hearing loss all over the world and to education and research projects within hearing healthcare. A few examples of our global philanthropic activities are our financial support to the Global Foundation for Children with Hearing Loss and the establishment of national newborn hearing screening in Mongolia.

Supporting institutions and research projects in the field of audiology is an important part of the Oticon Foundation’s activities. In 2017, the Oticon Foundation donated DKK 20 million to audiological research at leading universities in for instance the Netherlands, the US, France, the UK, Switzerland, Germany and in the Nordic countries. In addition, DKK 10 million was donated to Danish universities.

DIVERSITY AND GENDER EQUALITY

In terms of corporate governance, diversity at management level addresses age, international experience and gender. We have defined a diversity policy and taken specific initia-

tives to increase the share of female managers in the Group. Since we started recording these numbers in 2009, the male/female manager ratio in our Danish companies has improved from 89/11 in 2009 to 77/23 in 2017. In middle and first-line management, the ratio has increased from 84/16 in 2009 to 76/24 in 2017.

We will continue to take concrete initiatives to support the diversity policy, ranging from communication to recruitment and onboarding. Furthermore, in the next couple of years, we will take concrete steps to also record these numbers in William Demant companies of a considerable size in other countries and to update our local policies in this area. The diversity policy and a description of the developments made are available in our CSR report and on our website, www.demant.com/about/responsibility.

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

CONCRETE EMISSION IMPROVEMENTS

We are committed to limiting our environmental footprint, and we encourage environmentally friendly initiatives across the Group. In order to track our total corporate CO2 emissions, we collect each year CO2 emission data, which are subsequently published in our CSR report.

In 2017, our Group’s CO2 emissions reached 37,671 tonnes, corresponding to 3.5 CO2 tonnes per employee. This is an increase compared to last year, as we have broadened our tracking and included the energy consumption of a representative cross section of the Group’s retail entities. The energy consumption of our hearing care shops is higher than consumption at our corporate sites and locations, which we find natural. If we exclude these retail entities, we have seen a decrease from 2.32 CO2 tonnes per employee in 2016 to 1.92 CO2 tonnes in 2017.

98 million DKK

Donations to research, education,
culture and care

3.5 tonnes

CO2 emission per employee

CORPORATE GOVERNANCE

Recommendations on corporate governance

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

The work on corporate governance is an ongoing process for our Board of Directors and Executive Board, which determines the extent to which the Company should comply with the recommendations and regularly assess whether the recommendations give rise to amendments to our rules of procedure or managerial processes. When reporting on corporate governance, we follow the “comply or explain” principle. The few cases where we have chosen to deviate from a recommendation are well-founded, and we explain what we do instead. To further increase transparency, we provide supplementary and relevant information, even when we follow the recommendations.

A complete schematic presentation of the recommendations and how we comply, *Statutory report on corporate governance, cf. section 107 b of the Danish Financial Statements Act*, is available on our website, www.demant.com/about/responsibility/#governance.

Board of Directors

Tasks and responsibilities of the Board of Directors

The Board of Directors is responsible for the overall strategic management and for the financial and managerial supervision of the Company, the ultimate goal being to ensure that the Company creates value. On an ongoing basis, the Board of Directors evaluates the work of the Executive Board as for instance reflected in the annual plan and budget prepared for the Board of Directors. The Board's duties and responsibilities are set out in its rules of procedure, and the Executive Board's duties and responsibilities are provided in a set of instructions. The rules of procedure and instructions are reviewed annually by the Board of Directors and updated as deemed necessary.

Composition and organisation of the Board of Directors

The Board has eight members: five members elected by the shareholders at the annual general meeting and three members elected by staff in Denmark. Following the annual general meeting in 2017, Niels B. Christiansen was appointed new Chairman of the Board. Shareholders elect Board members for a term of one year, and staff elect Board members for a term of four years. Staff-elected members are elected in accordance with the provisions of the Danish Companies Act.

Although the Board members elected by the general meeting are up for election every year, the individual Board members are traditionally re-elected and sit on the Board for an extended number of years. This ensures consistency and maximum insight into the conditions prevailing in the Company and the industry. Such consistency and insight are considered extremely important in order for the Board members to bring value to the Company. Presently, three of the Board members elected by shareholders at the annual general meeting are independent.

The Board is composed to ensure the right combination of competencies and experience, with extensive international managerial experience and board experience from major listed companies carrying particular weight. This also applies when new Board candidates are selected. On our website, www.demant.com/about/management/, we describe the competencies and qualifications that the Board of Directors deems necessary to have at its overall disposal in order for the Board to be able to perform its tasks for the Company.

Board committees

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

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

The Company's Board of Directors has also set up a remuneration committee. The members are the Chairman and the Deputy Chairman of the Company's Board of Directors. The Chairman of the Board also chairs the remuneration committee.

The terms of reference and the composition of the audit, nomination and remuneration committees can be found on our website.

Evaluation of the performance of the Board of Directors

Once a year, the Chairman of the Board performs an evaluation of the Board's work. Every other year, such evaluation is performed through personal, individual interviews with the Board members by the Chairman of the Board, and every other year, the evaluation is carried out by means of a questionnaire to be filled in by the individual Board

CORPORATE GOVERNANCE

members. In both instances, the results of the evaluation are presented and discussed at the subsequent Board meeting, and any improvement proposals are considered.

Board of Directors' and Executive Board's remuneration

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

Board members' fees consist of a basic fee of DKK 350,000. The Chairman receives three times the basic fee, and the Deputy Chairman receives twice the basic fee.

The members of the audit committee receive a basic fee of DKK 50,000, and the chairman of the committee receives three times the basic fee. Nomination and remuneration committee members do not receive additional remuneration for their work on the committee.

Meetings in 2017

In 2017, the Board of Directors convened on five occasions. The audit committee held three meetings in connection with ordinary Board meetings. In 2017, the nomination committee held one meeting, and the remuneration committee held one meeting.

EXECUTIVE BOARD



Søren Nielsen
President & CEO
(born 1970)
13,512 shares

Søren Nielsen joined the Company in 1995 and has since then worked within multiple areas of the Group. In his first years, he worked with the Group's then newly acquired hearing aid manufacturer, Bernafon, in Switzerland where he was instrumental in integrating Bernafon into the William Demant Group. He then moved on to also work within shared services as Quality Director and as business unit team leader in Oticon.

Since 2008, Søren Nielsen has been overall responsible for all the Group's hearing aid activities, consisting of three hearing aid brands, and been President of Oticon, and he has had a decisive say in the Group's important strategic decisions and acquisitions. In 2015, he was appointed COO & Deputy CEO of William Demant Holding, and he has been a member of the Executive Board since September 2015. After more than 20 years with the Group, he took over as President & CEO of William Demant Holding in April 2017.

- Oticon A/S, President
- Sennheiser Communications A/S, board member
- HIMSA A/S, chairman
- HIMSA II A/S, board member

Søren Nielsen holds a Master of Science degree in Industrial Management and Product Development from the Technical University of Denmark (DTU). He used Oticon as a case in his thesis work, and right after his graduation, he was employed with the Company, which he has got to know from all angles imaginable. Søren Nielsen has a wide network in the global hearing healthcare community. One of the most important things that drives him is experiencing how proper hearing healthcare can positively change the lives of people with hearing loss and add immense value to society.



René Schneider
CFO
(born 1973)
6,361 shares

René Schneider joined the Company in September 2015 as Chief Financial Officer (CFO) and member of the Executive Board. René Schneider has broad business and financial experience from various management positions with major companies, including Auriga Industries (Cheminova), NeuroSearch, NNIT and Novo Nordisk.

His areas of responsibility in William Demant Holding include HR, Finance, Operations, IT, Executive Support, Investor Relations and Legal Affairs.

René Schneider holds a Master of Science degree in Economics from Aarhus University. He has extensive international experience in such areas as streamlining and re-establishing companies, M&As and driving value creation.

BOARD OF DIRECTORS



Niels B. Christiansen

Chairman

(born 1966)

2,510 shares (unchanged)

Joined the Board of Directors in 2008 and was re-elected in 2017 for a term of one year. He is chairman of the nomination and the remuneration committee and a member of the audit committee. He is considered independent.

- LEGO A/S, CEO
- A.P. Møller - Mærsk A/S, board member

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



Niels Jacobsen

Deputy Chairman

(born 1957)

1,001,340 shares (unchanged)

Elected to the Board of Directors in 2017 for a term of one year. He is a member of the audit, nomination and remuneration committee. Because of his position as CEO of William Demant Invest A/S, he is not considered independent.

- William Demant Invest A/S, CEO
- A.P. Møller - Mærsk A/S, deputy chairman
- KIRKBI A/S, deputy chairman
- Nissens A/S, chairman
- Thomas B. Thrige Foundation, chairman

Additional William Demant Group-related duties: Jeudan A/S, chairman; Össur hf., chairman; Sennheiser Communications A/S, chairman and HIMPP A/S, chairman.

Niels Jacobsen holds a Master of Science degree in Economics from Aarhus University. He has extensive leadership experience from major international companies. His competencies include business management and in-depth knowledge of financial matters, accounting, risk management and M&A. He has broad experience from the global health-care industry.



Thomas Duer

(born 1973)

1,335 shares (unchanged)

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

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

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



Peter Foss

(born 1956)

12,940 shares (unchanged)

Joined the Board of Directors in 2007 and was re-elected in 2017 for a term of one year. He is a member of the audit and nomination committee. Because of his seat on the boards of the Oticon Foundation and William Demant Invest A/S, he is not considered independent.

- FOSS A/S and two affiliated companies, chairman
- The Oticon Foundation, deputy chairman
- William Demant Invest A/S, deputy chairman
- A.R. Holding af 1999 A/S, board member
- TrackMan A/S, board member

Peter Foss holds a Master of Science degree in Engineering from the Technical University of Denmark (DTU) and a Graduate Diploma in Business Administration (Finance). He has extensive managerial experience from global, market-leading, industrial companies with comprehensive product development as well as board experience from different lines of business.

BOARD OF DIRECTORS



Benedikte Leroy

(born 1970)

3,000 shares (unchanged)

Joined the Board of Directors in 2014 and was re-elected in 2017 for a term of one year. She is a member of the audit committee and is considered independent.

- Dell Technologies, SVP & EMEA General Counsel
- Dell GmbH, Germany, chairman of the supervisory board

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



Ole Lundsgaard

(born 1969)

5,605 shares (+325)

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

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

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



Jørgen Møller Nielsen

(born 1962)

366 shares (+266)

Staff-elected Board member. Joined the Board of Directors in 2017 after having been elected substitute Board member in 2015 for a term of four years. Also staff-elected Board member from 2011-2015.

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



Lars Rasmussen

(born 1959)

7,500 shares (unchanged)

Joined the Board of Directors in 2016 and was re-elected in 2017 for a term of one year. He is chairman of the audit committee and is considered independent.

- Coloplast A/S, President & CEO
- H. Lundbeck A/S, chairman
- Committee on healthcare issues under the Confederation of Danish Industry, chairman

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

FINANCIAL REPORT



MANAGEMENT STATEMENT

We have today discussed and approved the Annual Report 2017 of William Demant Holding A/S for the financial year 1 January – 31 December 2017.

The consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent financial statements are prepared and presented in accordance with the Danish Financial Statements Act. Further, the Annual Report 2017 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 as of 31 December 2017 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 2017.

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

We recommend the Annual Report 2017 for adoption at the annual general meeting.

Smørum, 22 February 2018

Executive Board:

Søren Nielsen, *President & CEO*

René Schneider, *CFO*

Board of Directors:

Niels B. Christiansen, *Chairman*

Niels Jacobsen, *Deputy Chairman*

Thomas Duer

Peter Foss

Benedikte Leroy

Ole Lundsgaard

Jørgen Møller Nielsen

Lars Rasmussen

INDEPENDENT AUDITOR'S REPORT

To the shareholders of William Demant Holding A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of William Demant Holding A/S for the financial year 1 January to 31 December 2017, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the statement of comprehensive income and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position as of 31 December 2017, and of the results of its operations and cash flows for the financial year 1 January 2017 to 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position as of 31 December 2017, and of the results of its operations for the financial year 1 January 2017 to 31 December 2017 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

Basis for opinion

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

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

After William Demant Holding A/S was listed on Nasdaq OMX Copenhagen, we were appointed auditors for the first time on 29 April 1996 for the financial year 1996. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of 21 years up to and including the financial year 2017.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for business combinations

Refer to note 6.1 in the consolidated financial statements.

The Group completed individually immaterial business combinations for a total purchase price of DKK 475 million, resulting in the recognition of goodwill of DKK 437 million and intangible assets of DKK 27 million.

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

We have tested internal controls that address the accounting for business combinations and tested the reasonableness of the key assumptions, including market potential, revenue and cash flow growth and discount rates. We assessed and challenged Management's assumptions used in its fair value models for identifying and measuring customer bases and for other intangible assets, including:

- The future cash flow projections by discussing with Management and key employees.
- Consulted with subject matter experts regarding the valuation methodologies applied.

INDEPENDENT AUDITOR'S REPORT

- Obtained supporting documentation of Management's estimates and key assumptions and corroborated certain information – including the applied discount rates – with third party sources.
- Tested the mathematical accuracy of the calculations in the models.
- Considered the impact of reasonably possible changes in key assumptions and performed sensitivity calculations to quantify the impact of potential downside changes to Management's models.

Statement on the management commentary

Management is responsible for the management commentary.

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

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

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

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

Management's responsibilities for the consolidated financial statements and the Parent financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act as well as the preparation of parent financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Manage-

ment determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

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

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

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

INDEPENDENT AUDITOR'S REPORT

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Copenhagen, 22 February 2018

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Anders Vad Dons
State-Authorised
Public Accountant
MNE no 25299

Kåre Valtersdorf
State-Authorised
Public Accountant
MNE no 34490

CONSOLIDATED FINANCIAL STATEMENTS



CONSOLIDATED INCOME STATEMENT

(DKK million)	Note	2017	2016
Revenue	1.1	13,189	12,002
Production costs	1.2 / 1.3 / 1.5 / 1.8	-3,163	-2,972
Gross profit		10,026	9,030
R&D costs	1.2 / 1.3 / 1.8 / 8.3	-919	-839
Distribution costs	1.2 / 1.3 / 1.8	-6,095	-5,654
Administrative expenses	1.2 / 1.3 / 1.8 / 8.2	-727	-676
Share of profit after tax, associates and joint ventures	3.3 / 6.3	53	81
Operating profit (EBIT)		2,338	1,942
Financial income	4.2	49	42
Financial expenses	4.2	-160	-143
Profit before tax		2,227	1,841
Tax on profit for the year	5.1	-468	-377
Profit for the year		1,759	1,464
Profit for the year attributable to:			
William Demant Holding A/S' shareholders		1,754	1,459
Minority interests		5	5
		1,759	1,464
Earnings per share (EPS), DKK	1.4	6.84	5.53
Diluted earnings per share (DEPS), DKK	1.4	6.84	5.53

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(DKK million)	2017	2016
Profit for the year	1,759	1,464
Other comprehensive income:		
Items that have been or may subsequently be reclassified to the income statement:		
Foreign currency translation adjustment, subsidiaries	-350	43
Value adjustment of hedging instruments:		
Value adjustment for the year	147	-20
Value adjustment transferred to revenue	-49	46
Tax on items that have been or may subsequently be reclassified to the income statement	-11	-9
Items that have been or may subsequently be reclassified to the income statement	-263	60
Items that will not subsequently be reclassified to the income statement:		
Actuarial gains/losses on defined benefit plans	8	-7
Tax on items that will not subsequently be reclassified to the income statement	-2	1
Items that will not subsequently be reclassified to the income statement	6	-6
Other comprehensive income	-257	54
Comprehensive income	1,502	1,518
Comprehensive income attributable to:		
William Demant Holding A/S' shareholders	1,497	1,513
Minority interests	5	5
	1,502	1,518
Breakdown of tax on other comprehensive income:		
Foreign currency translation adjustment, subsidiaries	10	-3
Value adjustment of hedging instruments for the year	-32	4
Value adjustment of hedging instruments transferred to revenue	11	-10
Actuarial gains/losses on defined benefit plans	-2	1
Tax on other comprehensive income	-13	-8

CONSOLIDATED BALANCE SHEET 31 DECEMBER

(DKK million)	Note	2017	2016
Assets			
Goodwill		6,339	6,276
Patents and licences		40	51
Other intangible assets		407	289
Prepayments and assets under development		106	152
Intangible assets	3.1	6,892	6,768
Land and buildings		871	878
Plant and machinery		210	220
Other plant, fixtures and operating equipment		289	290
Leasehold improvements		265	263
Prepayments and assets under construction		83	91
Property, plant and equipment	3.2	1,718	1,742
Investments in associates and joint ventures	3.3	933	583
Receivables from associates and joint ventures	3.3 / 4.3 / 4.4	500	383
Other investments	3.3 / 4.3 / 4.5	11	8
Other receivables	1.6 / 3.3 / 4.3 / 4.4	456	539
Deferred tax assets	5.2	372	396
Other non-current assets		2,272	1,909
Non-current assets		10,882	10,419
Inventories	1.5	1,351	1,300
Trade receivables	1.6 / 4.3	2,573	2,440
Receivables from associates and joint ventures	4.3	81	71
Income tax		107	146
Other receivables	1.6 / 4.3 / 4.4	257	259
Unrealised gains on financial contracts	2.3 / 4.3 / 4.5	66	11
Prepaid expenses		208	192
Cash	4.3 / 4.4	697	710
Current assets		5,340	5,129
Assets		16,222	15,548

CONSOLIDATED BALANCE SHEET 31 DECEMBER

(DKK million)	Note	2017	2016
Equity and liabilities			
Share capital		52	53
Other reserves		7,375	6,908
Equity attributable to William Demant Holding A/S' shareholders		7,427	6,961
Equity attributable to minority interests		6	5
Equity		7,433	6,966
Interest-bearing debt	4.3 / 4.4	2,307	1,960
Deferred tax liabilities	5.2	159	152
Provisions	7.1	215	295
Other liabilities	4.3 / 7.2	197	171
Deferred income		208	170
Non-current liabilities		3,086	2,748
Interest-bearing debt	4.3 / 4.4	3,258	3,547
Trade payables	4.3	516	513
Payables to associates and joint ventures		0	2
Income tax		72	148
Provisions	7.1	25	32
Other liabilities	4.3 / 7.2	1,544	1,244
Unrealised losses on financial contracts	2.3 / 4.3 / 4.4 / 4.5	3	46
Deferred income		285	302
Current liabilities		5,703	5,834
Liabilities		8,789	8,582
Equity and liabilities		16,222	15,548

CONSOLIDATED CASH FLOW STATEMENT

(DKK million)	Note	2017	2016
Operating profit (EBIT)		2,338	1,942
Non-cash items etc.	1.7	428	374
Change in receivables etc.		-386	-293
Change in inventories		-89	40
Change in trade payables and other liabilities etc.		188	136
Change in provisions		-53	10
Dividends received		54	9
Cash flow from operating profit		2,480	2,218
Financial income etc. received		39	31
Financial expenses etc. paid		-157	-137
Realised foreign currency translation adjustments		-2	-7
Income tax paid		-488	-426
Cash flow from operating activities (CFFO)		1,872	1,679
Acquisition of enterprises, participating interests and activities		-656	-363
Disposal of enterprises, participating interests and activities	6.2	0	27
Investments in and disposal of intangible assets		-126	-152
Investments in property, plant and equipment		-312	-319
Disposal of property, plant and equipment		20	20
Investments in other non-current assets		-319	-199
Disposal of other non-current assets		252	194
Cash flow from investing activities (CFFI)		-1,141	-792
Repayments of borrowings	4.4	-1,156	-350
Proceeds from borrowings	4.4	1,132	774
Change in short-term bank facilities	4.4	292	-114
Dividends to minority interests		-3	-3
Buy-back of shares		-1,031	-1,050
Cash flow from financing activities (CFFF)		-766	-743
Cash flow for the year, net		-35	144
Cash and cash equivalents at the beginning of the year		674	557
Foreign currency translation adjustment of cash and cash equivalents		12	-27
Cash and cash equivalents at the end of the year		651	674
Breakdown of cash and cash equivalents at the end of the year:			
Cash	4.3 / 4.4	697	710
Overdraft	4.3 / 4.4	-46	-36
Cash and cash equivalents at the end of the year		651	674

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(DKK million)	Share capital	Other reserves			William Demant Holding A/S' shareholders' share	Minority interests' share	Equity
		Foreign currency translation reserve	Hedging reserve	Retained earnings			
Equity at 1.1.2017	53	213	-25	6,720	6,961	5	6,966
Comprehensive income in 2017:							
Profit for the year	-	-	-	1,754	1,754	5	1,759
Other comprehensive income:							
Foreign currency translation adjustment, subsidiaries	-	-350	-	-	-350	0	-350
Value adjustment of hedging instruments:							
Value adjustment, year	-	-	147	-	147	-	147
Value adjustment transferred to revenue	-	-	-49	-	-49	-	-49
Actuarial gains/losses on defined benefit plans	-	-	-	8	8	0	8
Tax on other comprehensive income	-	10	-21	-2	-13	0	-13
Other comprehensive income	-	-340	77	6	-257	0	-257
Comprehensive income, year	-	-340	77	1,760	1,497	5	1,502
Buy-back of shares	-	-	-	-1,031	-1,031	-	-1,031
Capital reduction through cancellation of treasury shares	-1	-	-	1	0	-	0
Transactions with minority shareholders	-	-	-	0	0	0	0
Other changes in equity	-	-	-	0	0	-4	-4
Equity at 31.12.2017	52	-127	52	7,450	7,427	6	7,433

For changes in share capital, please refer to *Parent statement of changes in equity* on page 118.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – *CONTINUED*

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

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

- IS** – Consolidated income statement
- OCI** – Consolidated other comprehensive income
- BS** – Consolidated balance sheet
- CF** – Consolidated cash flow statement

SECTION 1 OPERATING ACTIVITIES AND CASH FLOW

13,189 million DKK

Revenue

1,387 million DKK

Free cash flow



1.1 REVENUE BY GEOGRAPHIC REGION AND BUSINESS ACTIVITY

(DKK million)

	2017	2016
Revenue by geographic region:		
Denmark	228	186
Other Europe	5,209	4,937
North America	5,358	4,719
Oceania	946	911
Asia	960	861
Other countries	488	388
Total IS	13,189	12,002

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

	2017	2016
Revenue by business activity:		
Hearing Devices	11,495	10,515
Diagnostic Instruments	1,194	1,089
Hearing Implants	500	398
Total IS	13,189	12,002

	2017	2016
Value adjustments transferred from equity relating to derivatives made for hedging revenue OCI	49	-46

§ ACCOUNTING POLICIES

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

Revenue is measured at the fair value of the agreed consideration excluding charges. Any discounts and profits on goods expected to be returned are set off against revenue. Revenue from agency-like business is measured at the value of the agency commission.

🔗 ACCOUNTING ESTIMATES AND ASSUMPTIONS

Operating segments

Based on IFRS 8 Operating Segments and the internal reporting model used by Management for the assessment of results and the use of resources, we have identified one operating segment: The development, manufacture and sale of products and equipment designed to facilitate people's hearing and communication. This reflects Management's approach to the organisation and management of activities.

Discounts, returns etc.

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

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

1.2 EMPLOYEES

(DKK million)	Note	2017	2016
Staff costs:			
Wages and salaries		4,937	4,580
Share-based remuneration		3	1
Defined contribution plans		70	64
Defined benefit plans	7.1	2	3
Social security costs, etc.		476	419
Total		5,488	5,067
Staff costs by function:			
Production costs		796	785
R&D costs		571	502
Distribution costs		3,491	3,191
Administrative expenses		630	589
Total		5,488	5,067
Average number of full-time employees		13,280	12,339

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

(DKK million)	2017				2016			
	Wages and salaries*	Seniority bonus	Share-based remuneration**	Total	Wages and salaries*	Seniority bonus	Share-based remuneration**	Total
Søren Nielsen, President & CEO	10.3	-	0.9	11.2	7.9	-	0.4	8.3
René Schneider, CFO	5.0	-	0.5	5.5	4.7	-	0.2	4.9
Niels Jacobsen, former President & CEO	3.6	0.0	-	3.6	14.1	5.2	-	19.3
Executive Board	18.9	0.0	1.4	20.3	26.7	5.2	0.6	32.5
Fee to Board of Directors	4.3	-	-	4.3	3.9	-	-	3.9

*No member of the Executive Board has remuneration in the form of pension or other benefits of more than DKK 0.5 million (DKK 0.5 million in 2016). These expenses are therefore included in wages and salaries.

**In 2017, DKK 0 million (DKK 0 million in 2016) of the share-based remuneration was settled.

As of 1 April 2017, Niels Jacobsen stepped down from his position as President & CEO of William Demant Holding. At the same time, the Board of Directors appointed Søren Nielsen new President & CEO of William Demant Holding.

A seniority bonus in the amount of DKK 42 million, matching one year's salary for every four years of employment from 2005 to 2016, was paid out in April 2017 to the former President & CEO of William Demant Holding, Niels Jacobsen.

President & CEO, Søren Nielsen, is entitled to 24 months' notice in the event of dismissal. CFO, René Schneider, is currently entitled to 14 months' notice in the event of dismissal, which increases with seniority.

In 2017, the basic remuneration for a member of the Parent's Board of Directors was DKK 350,000 (DKK 350,000 in 2016). The Chairman of the Board of Directors receives three times the basic remuneration and the Deputy Chairman twice the basic remuneration. The members of the audit committee each receive a basic remuneration of DKK 50,000 (DKK 50,000 in 2016), and the chairman of the audit committee receives three times the basic remuneration.

1.2 EMPLOYEES – CONTINUED

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

Members of Management enrolled in the share-based remuneration programme are entitled to “shadow shares” of a value equal to a certain number of months’ salary. The fair value is determined based on this at the time of granting. There has been no changes to the programme in 2017 or to the members enrolled in the programme.

At 31 December 2017, the Group had liabilities of DKK 5 million related to the share-based remuneration programmes (DKK 1 million in 2016). The liability is recognised on a straight-line basis, as the service is rendered. The liability is remeasured at each reporting date and at the settlement date based on the fair value of the “shadow shares”. Fair value adjustments are recognised as financial income or financial expenses. If relevant, the liability is adjusted to reflect the expected risk of non-vesting as a result of resignations. Any changes to the liability are recognised in the income statement. The Group bought back shares to cover the financial risk of share price fluctuations related to the programmes.

At 31 December 2017, the remaining average contractual life of cash-settled remuneration programmes was 24 months (31 months in 2016).

Share-based remuneration

(DKK million)

	2017		2016	
	Executive Board	Other senior members of Management	Executive Board	Other senior members of Management
Liability at 1.1.	0.6	0.6	-	-
Expensed in staff costs during the year	1.4	1.5	0.6	0.6
Fair value adjustments	0.6	0.7	0.0	0.0
Settled during the year	0	-0.3	-	-
Liability at 31.12.	2.6	2.5	0.6	0.6
Granted during the year	2.6	2.2	2.2	3.9
Unrecognised commitment at 31.12.*	3.7	5.1	1.7	3.1

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

ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

1.3 AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

(DKK million)	Note	2017	2016
Amortisation of intangible assets	3.1	84	59
Depreciation of property, plant and equipment	3.2	289	296
Impairment of property, plant and equipment	3.2	0	23
Total		373	378
Amortisation, depreciation and impairment losses by function:			
Production costs		72	95
R&D costs		53	41
Distribution costs		206	201
Administrative expenses		42	41
Total		373	378
Net gains from sale of assets		8	3
Total		8	3
Net gains from sale of assets by function:			
Production costs		5	0
Distribution costs		1	3
Administrative expenses		2	0
Total		8	3

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

1.4 EARNINGS PER SHARE

	2017	2016
William Demant Holding A/S' shareholders' share of profit for the year, DKK million IS	1,754	1,459
Average number of shares, million	261.91	268.59
Average number of treasury shares, million	-5.35	-4.84
Average number of shares outstanding, million	256.56	263.75
Earnings per share (EPS), DKK IS	6.84	5.53
Diluted earnings per share (DEPS), DKK IS	6.84	5.53

1.5 INVENTORIES

(DKK million)	2017	2016
Raw materials and purchased components	618	577
Work in progress	61	49
Finished goods and goods for resale	672	674
Inventories BS	1,351	1,300
Write-downs, provisions for obsolescence etc. included in the above	117	130
Carrying amount of inventories recognised at fair value after deduction of costs to sell	0	0
Included in the income statement under production costs:		
Write-downs of inventories for the year, net	33	43
Cost of goods sold during the year	2,335	2,080

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

§ ACCOUNTING POLICIES

Raw materials, components and goods for resale are measured at cost according to the FIFO principle (according to which the most recently purchased items are considered to be in stock) or at their net realisable value, whichever is lower.

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

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

💡 ACCOUNTING ESTIMATES AND ASSUMPTIONS

Indirect production cost allocations to inventory

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

Obsolescence provision

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

1.6 RECEIVABLES

(DKK million)	2017	2016
Trade receivables BS	2,573	2,440
Other non-current receivables BS	456	539
Other current receivables BS	257	259
Total	3,286	3,238
Non-impaired receivables by age:		
Balance not due	2,362	2,325
0-3 months	486	480
3-6 months	144	184
6-12 months	143	105
Over 12 months	151	144
Total	3,286	3,238
Breakdown of allowance for impairment:		
Allowance for impairment at 1.1.	-291	-257
Foreign currency translation adjustments	19	-6
Applied during the year	52	40
Additions during the year	-56	-78
Reversals during the year	4	10
Allowance for impairment at 31.12.	-272	-291

Of the total amount of trade receivables, DKK 270 million (DKK 225 million in 2016) is expected to be collected after 12 months. For information on security and collateral, please refer to *Credit risks* in Note 4.1.

§ ACCOUNTING POLICIES

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

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

🔍 ACCOUNTING ESTIMATES AND ASSUMPTIONS

Allowance for impairment is calculated for both trade receivables and other receivables. For trade receivables, the allowance is calculated for anticipated credit losses based on an assessment of the debtor's ability to pay. This assessment is made by local management and is made for uniform groups of debtors based on a maturity analysis. When indicated by special circumstances, impairments are made for individual debtors. Other receivables, including customer loans, are assessed on an individual basis. Allowance is made for those receivables that are estimated to not be fully recoverable.

1.7 SPECIFICATION OF NON-CASH ITEMS ETC.

(DKK million)	Note	2017	2016
Amortisation and depreciation etc.		404	404
Share of profit after tax, associates and joint ventures IS		-53	-81
Gain on sale of intangible assets and property, plant and equipment	1.3	-8	-3
Other non-cash items		85	54
Non-cash items etc. CF		428	374

1.8 RESTRUCTURING COSTS

The Group has defined several strategic initiatives to be implemented in the years 2016 to 2018 with the aim to ensure continuous cost efficiency gains and to support our future scalability at a lower cost. In 2016 and 2017, the costs of these initiatives impacted the income statement and the cash flow statement as indicated below.

(DKK million)	2017	2016
Restructuring costs by function:		
Production costs	38	72
R&D costs	63	55
Distribution costs	38	36
Administrative expenses	27	25
Total	166	188
Effect of restructuring costs on cash flow:		
Operating profit (EBIT)	-166	-188
Non-cash items etc.	20	58
Change in trade payables and other liabilities etc.	-6	6
Change in provisions	-15	45
Cash flow from operating profit	-167	-79
Income tax recovered	16	2
Cash flow from operating activities (CFFO)	-151	-77

SECTION 2 EXCHANGE RATES AND HEDGING

98%

Sales invoiced in foreign currencies

1,297

million DKK

**Contractual value of forward
exchange contracts**

2.1 EXCHANGE RATE RISK POLICY

The Group seeks to hedge against any exchange rate risks, first and foremost through forward exchange contracts. In relation to exchange rate fluctuations, hedging ensures predictability in terms of profit and gives Management the opportunity – and necessary time – to redirect business arrangements in the event of persistent changes in foreign exchange rates. The Group aims to hedge such changes in foreign exchange rates by seeking to match positive and negative cash flows in the main currencies as much as possible and by entering into forward exchange contracts. The Group hedges estimated cash flows with a horizon of up to 18 months.

2.2 SENSITIVITY ANALYSIS IN RESPECT OF EXCHANGE RATES

The below tables show the impact on the year's operating profit (EBIT) and consolidated equity, given a change of 5% in the currencies with the highest exposures. The exchange rate impact on EBIT has been calculated on the basis of the Group's EBIT for each currency and does not take into account a possible exchange rate impact on balance sheet values in those currencies.

Effect on EBIT, 5% positive exchange rate impact*

(DKK million)	2017	2016
USD	+46	+40
AUD	+13	+15
GBP	+20	+15
CAD	+18	+15
JPY	+5	+5

Effect on equity, 5% positive exchange rate impact

(DKK million)	2017	2016
USD	+95	+90
AUD	+20	+20
GBP	+14	+13
CAD	+47	+50
JPY	+3	+3

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

2.3 HEDGING AND FORWARD EXCHANGE CONTRACTS

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

Realised forward exchange contracts are recognised in the income statement together with the items, typically revenue in foreign currency, that such contracts are designed to hedge. In 2017, the Group's forward exchange contracts realised a gain of DKK 49 million (loss of DKK 46 million in 2016), which increased reported revenue for the year. In addition, the Group raised loans in foreign currencies to balance out net receivables. At year-end 2017, the Group had entered into forward exchange contracts at a contractual value of DKK 1,297 million (DKK 1,694 million in 2016) and a fair value of DKK 63 million (DKK -34 million in 2016).

Forward exchange contracts

2017							
	Expiry	Hedging period*	Average hedging rate	Contractual value	Fair value	Positive fair value at year-end	Negative fair value at year-end
(DKK million)							
USD	2018	10 months	650	-754	41	41	0
AUD	2018	5 months	493	-111	2	2	0
GBP	2018	9 months	838	-277	0	2	2
CAD	2018	7 months	496	-246	2	3	1
JPY	2018	8 months	6.48	-91	14	14	0
Other	2018	-	-	182	4	4	0
				-1,297	63	66	3
2016							
	Expiry	Hedging period*	Average hedging rate	Contractual value	Fair value	Positive fair value at year-end	Negative fair value at year-end
(DKK million)							
USD	2017/2018	14 months	673	-1,164	-40	0	40
AUD	2017	6 months	510	-153	2	2	0
GBP	2017	4 months	867	-121	0	1	1
CAD	2017	8 months	513	-210	-3	0	3
JPY	2017/2018	18 months	6.29	-179	7	7	0
Other	2017	-	-	133	0	1	1
				-1,694	-34	11	45

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

§ ACCOUNTING POLICIES

On initial recognition, derivatives are measured at fair value at the settlement date. After initial recognition, derivatives are measured at fair value at the balance sheet date. Any positive or negative fair values of derivatives are recognised as separate items in the balance sheet. Forward exchange contracts and interest swaps are measured based on current market data and by use of commonly recognised valuation methods. Please refer to Note 4.5.

2.3 HEDGING AND FORWARD EXCHANGE CONTRACTS – *CONTINUED*

§ ACCOUNTING POLICIES - *CONTINUED*

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

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

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

2.4 EXCHANGE RATES

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

The following table shows the exchange rates for the Group's main trading currencies according to the central bank of Denmark. Depending on the phasing of revenue, EBIT and payments, the exchange rate impact on the consolidated income statement may deviate from the below averages.

Exchange rate DKK per 100

Average	2017	2016	Change	Year-end	2017	2016	Change
EUR	744	745	-0.1%	EUR	744	743	0.1%
USD	660	673	-1.9%	USD	621	705	-11.9%
AUD	506	501	1.0%	AUD	485	509	-4.7%
GBP	849	911	-6.8%	GBP	839	868	-3.3%
CAD	508	508	0.0%	CAD	495	524	-5.5%
JPY	5.88	6.21	-5.3%	JPY	5.51	6.02	-8.5%

2.4 EXCHANGE RATES – *CONTINUED*

§ ACCOUNTING POLICIES

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

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

Property, plant and equipment, intangible assets, inventories and other non-monetary assets purchased in foreign currencies and measured on the basis of historical cost are translated at the exchange rates prevailing at the transaction date. Non-monetary items, which are revalued at their fair values, are translated using the exchange rates at the revaluation date. On recognition in the consolidated financial statements of enterprises presenting their financial statements in a functional currency other than Danish kroner, the income statement is translated using average exchange rates for the months of the year in question, unless they deviate materially from actual exchange rates at the transaction dates. In case of the latter, actual exchange rates are applied.

Balance sheet items are translated at the exchange rates prevailing at the balance sheet date. Goodwill is considered as belonging to the acquired enterprise in question and is translated at the exchange rate prevailing at the balance sheet date.

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

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

SECTION 3 ASSETS BASE

1,718 million DKK

Property, plant and equipment

2,272 million DKK

Other non-current assets



3.1 INTANGIBLE ASSETS

(DKK million)	Goodwill	Patents and licences	Other intangible assets	Prepayments and assets under development	Total intangible assets
Cost at 1.1.2017	6,276	141	429	152	6,998
Foreign currency translation adjustments	-374	0	-14	-1	-389
Additions during the year	0	2	8	116	126
Additions relating to acquisitions	437	0	27	0	464
Disposals relating to divestments	0	0	0	0	-
Disposals during the year	0	-3	-5	0	-8
Transferred to/from other items	0	1	160	-161	-
Cost at 31.12.2017	6,339	141	605	106	7,191
Amortisation at 1.1.2017	-	-90	-140	-	-230
Foreign currency translation adjustments	-	0	7	-	7
Amortisation for the year	-	-14	-70	-	-84
Disposals relating to divestments	-	0	0	-	0
Disposals during the year	-	3	5	-	8
Amortisation at 31.12.2017	-	-101	-198	-	-299
Carrying amount at 31.12.2017 BS	6,339	40	407	106	6,892
Cost at 1.1.2016	5,660	100	367	20	6,147
Foreign currency translation adjustments	68	0	6	0	74
Additions during the year	0	35	9	113	157
Additions relating to acquisitions	560	0	52	41	653
Disposals relating to divestments	-12	0	-14	0	-26
Disposals during the year	0	0	-7	0	-7
Transferred to/from other items	0	6	16	-22	0
Cost at 31.12.2016	6,276	141	429	152	6,998
Amortisation at 1.1.2016	-	-78	-92	-	-170
Foreign currency translation adjustments	-	0	-4	-	-4
Amortisation for the year	-	-12	-47	-	-59
Disposals relating to divestments	-	0	1	-	1
Disposals during the year	-	0	2	-	2
Amortisation at 31.12.2016	-	-90	-140	-	-230
Carrying amount at 31.12.2016 BS	6,276	51	289	152	6,768

3.1 INTANGIBLE ASSETS – *CONTINUED*

§ ACCOUNTING POLICIES

On initial recognition, goodwill is recognised and measured as the difference between the acquisition cost – including the value of minority interests in the acquired enterprise and the fair value of any existing investment in the acquired enterprise – and the fair value of the acquired assets, liabilities and contingent liabilities. Please refer to *Accounting policies* in Note 6.1.

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

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

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

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

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

ACCOUNTING ESTIMATES AND ASSUMPTIONS

Impairment testing is carried out annually on preparation of the annual report or on indication of impairment in which discounted values of future cash flows are compared with carrying amounts. Group enterprises cooperate closely on R&D, purchasing, production, marketing and sale, as the use of resources in the individual markets is coordinated and monitored by Management in Denmark. Group enterprises are thus highly integrated. Consequently, Management considers the overall business as one cash-generating unit. Any business activity, which largely acts with autonomy in relation to the Group and whose profitability can be measured independently of the other activities, constitutes a separate cash-generating unit. In relation to the existing integration in the Group and the recognised goodwill, neither as of 31 December 2017 nor as of 31 December 2016, had any separate cash-generating units been identified to which goodwill could be allocated. The annual impairment test was thus based on the Group as a whole.

It is Management's opinion that the product development undertaken by the Group today cannot meaningfully be allocated to either the development of new products or the further development of existing products. Moreover, as the products are subject to approval by various authorities, it is difficult to determine the final completion of new products.

3.2 PROPERTY, PLANT AND EQUIPMENT

(DKK million)	Land and buildings	Plant and machinery	Other plant, fixtures and operating equipment	Leasehold improvements	Prepayments and assets under construction	Total property, plant and equipment
Cost at 1.1.2017	1,157	950	1,255	601	91	4,054
Foreign currency translation adjustments	-20	-6	-40	5	0	-61
Additions during the year	36	15	90	56	86	283
Additions relating to acquisitions	0	0	15	6	0	21
Disposals relating to divestments	0	0	0	0	0	0
Disposals during the year	-41	-74	-68	-10	0	-193
Transferred to/from other items	7	30	46	11	-94	0
Cost at 31.12.2017	1,139	915	1,298	669	83	4,104
Depreciation and impairment losses at 1.1.2017	-279	-730	-965	-338	-	-2,312
Foreign currency translation adjustments	5	8	31	-10	-	34
Depreciation for the year	-33	-54	-137	-65	-	-289
Impairment losses for the year	0	0	0	0	-	0
Disposals relating to divestments	0	0	0	0	-	0
Disposals during the year	39	71	62	9	-	181
Depreciation and impairment losses at 31.12.2017	-268	-705	-1,009	-404	-	-2,386
Carrying amount at 31.12.2017 ^{BS}	871	210	289	265	83	1,718
Of which finance leased assets	0	0	0	0	0	0
Cost at 1.1.2016	1,131	859	1,179	541	154	3,864
Foreign currency translation adjustments	-2	3	4	-4	-2	-1
Additions during the year	5	20	84	75	112	296
Additions relating to acquisitions	-1	0	13	11	0	23
Disposals relating to divestments	0	0	-2	-5	0	-7
Disposals during the year	0	-16	-74	-27	-4	-121
Transferred to/from other items	24	84	51	10	-169	0
Cost at 31.12.2016	1,157	950	1,255	601	91	4,054
Depreciation and impairment losses at 1.1.2016	-231	-676	-894	-295	-	-2,096
Foreign currency translation adjustments	0	-3	-5	2	-	-6
Depreciation for the year	-25	-66	-132	-73	-	-296
Impairment losses for the year	-23	0	0	0	-	-23
Disposals relating to divestments	0	0	1	4	-	5
Disposals during the year	0	15	65	24	-	104
Depreciation and impairment losses at 31.12.2016	-279	-730	-965	-338	-	-2,312
Carrying amount at 31.12.2016 ^{BS}	878	220	290	263	91	1,742
Of which finance leased assets	29	0	0	0	0	29

3.2 PROPERTY, PLANT AND EQUIPMENT – *CONTINUED*

As of 31 December 2017, the Group had no finance leased assets. As of 31 December 2016, our finance leased assets were mainly properties acquirable at favourable prices on expiry of the term of such leases.

In 2017, the Group recognised impairment losses of DKK 0 million (DKK 23 million in 2016).

§ ACCOUNTING POLICIES

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

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

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

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

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

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

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

Depreciation methods, useful lives and residual values are reviewed annually. Property, plant and equipment are written down to their recoverable amounts, if these are lower than their carrying amounts.

3.3 OTHER NON-CURRENT ASSETS

(DKK million)	Investments in associates and joint ventures	Receivables from associates and joint ventures	Other investments	Other receivables
Cost at 1.1.2017	609	383	16	664
Foreign currency translation adjustments	-29	-33	0	-53
Additions during the year	375	157	4	236
Additions relating to acquisitions	0	0	0	1
Disposals, repayments etc. during the year	0	-7	-1	-302
Cost at 31.12.2017	955	500	19	546
Value adjustments at 1.1.2017	-26	0	-8	-125
Foreign currency translation adjustments	5	0	0	13
Share of profit after tax IS	53	-	-	-
Dividends received	-54	-	-	-
Disposals during the year	0	0	0	0
Other adjustments	0	0	0	22
Value adjustments at 31.12.2017	-22	-	-8	-90
Carrying amount at 31.12.2017 BS	933	500	11	456
Cost at 1.1.2016	593	357	20	685
Foreign currency translation adjustments	5	7	0	24
Additions during the year	30	55	0	169
Additions relating to acquisitions	0	0	0	0
Disposals, repayments etc. during the year	-19	-36	-4	-214
Cost at 31.12.2016	609	383	16	664
Value adjustments at 1.1.2016	-68	0	-8	-118
Foreign currency translation adjustments	-1	0	0	-3
Share of profit after tax IS	55	-	-	-
Dividends received	-9	-	-	-
Disposals during the year	1	0	0	2
Other adjustments	-4	0	0	-6
Value adjustments at 31.12.2016	-26	0	-8	-125
Carrying amount at 31.12.2016 BS	583	383	8	539

Please refer to *Subsidiaries, associates and joint ventures* on page 128 for a list of associates and joint ventures. The ownership interest equals the share of voting rights. Please refer to Note 6.3 for further details.

3.4 NON-CURRENT ASSETS BY GEOGRAPHIC REGION

(DKK million)

	2017	2016
Non-current assets by geographic region:		
Denmark	1,307	1,436
Other Europe	4,211	3,935
North America	4,653	4,360
Oceania	534	506
Asia	127	137
Other countries	50	45
Total BS	10,882	10,419

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

3.5 IMPAIRMENT TESTING

Impairment testing is carried out for the Group's one cash-generating unit. Based on the impairment test, a material excess value was identified compared to the carrying amount for which reason no impairment of goodwill was made as of 31 December 2017 and 31 December 2016. Future cash flows are based on the budget for 2018, on strategy plans and on projections hereof. Projections extending beyond 2018 are based on general parameters, such as expected market growth, selling prices and profitability assumptions. The terminal value for the period after 2018 is determined on the assumption of 2% growth (2% in 2016). The pre-tax discount rate is 7.5% (7.5% in 2016). Sensitivity calculations show that even a significant increase in the discount rate or a significant reduction of the growth assumptions will not change the outcome of the impairment test. Apart from goodwill, all intangible assets have limited useful lives.

The market capitalisation of the Company on Nasdaq Copenhagen by far exceeds the equity value of the Company, which further supports the conclusion that there was no need for impairment in 2017 and 2016.

§ ACCOUNTING POLICIES

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

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

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

SECTION 4 CAPITAL STRUCTURE AND FINANCIAL MANAGEMENT

4,030 million DKK

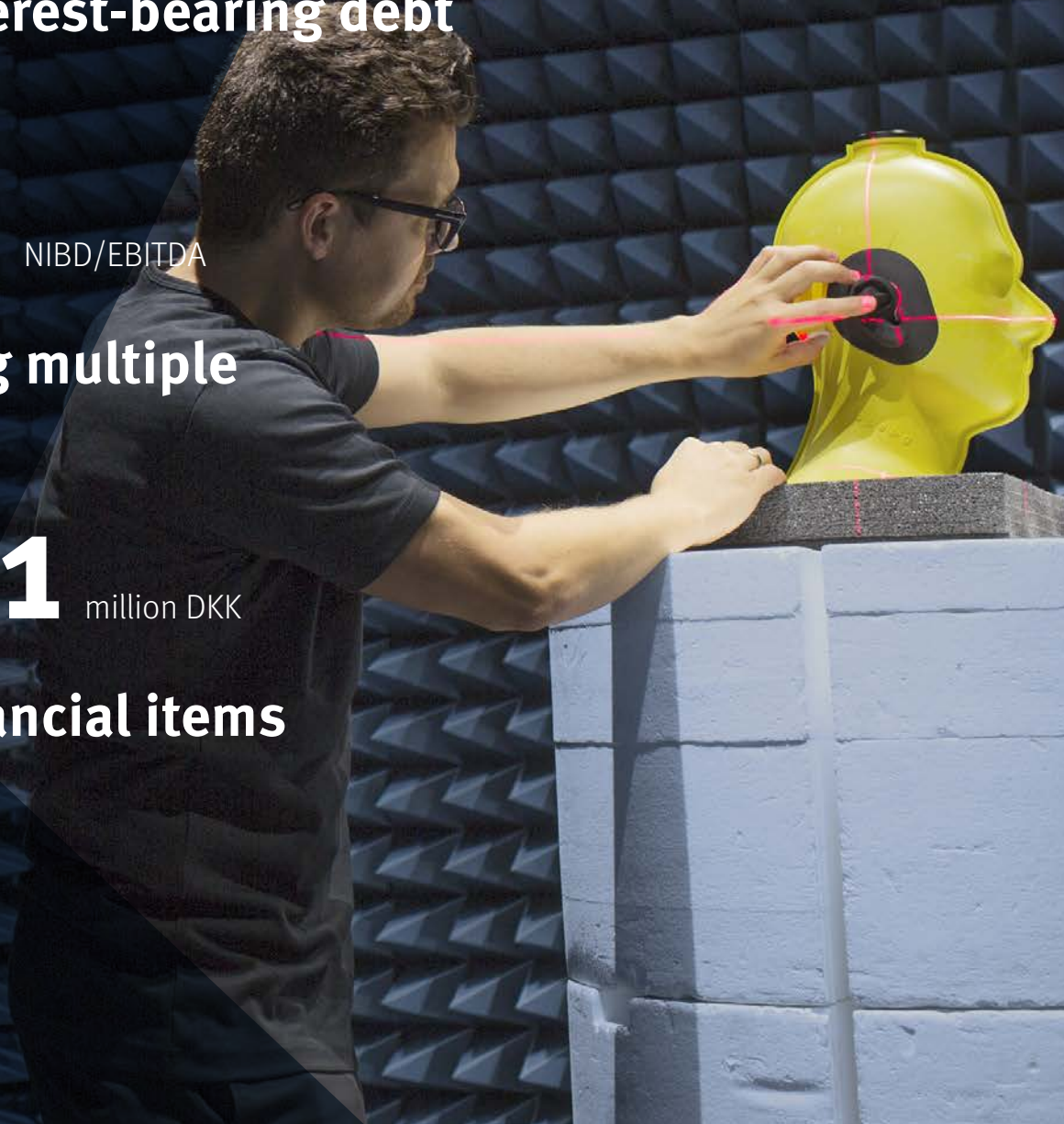
Net interest-bearing debt

1.5 NIBD/EBITDA

Gearing multiple

-111 million DKK

Net financial items



4.1 FINANCIAL RISK MANAGEMENT AND CAPITAL STRUCTURE

Policies relating to financial risk management and capital structure

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

Interest rate risks

In previous years, we only hedged interest rate risks on Group loans to a limited extent, as the Group only had limited debt compared to its volume of activities. Because of the Group's high level of cash generation and relatively low financial gearing, the majority of our loans are raised on floating terms and predominantly as short-term commitments, resulting in a low level of interest expenses. In order to secure attractive interest rates for the Group on the long term and as a consequence of our attractive funding possibilities in the financial market, more than half of the Group's debt is funded through medium-term committed facilities with fixed rates and through financial instruments, which limits the interest rate risk. However, because of the Group's high level of cash generation and relatively low financial gearing, part of our loans are raised on floating terms and predominantly as short-term commitments. All in all, the Group's interest expenses are very low with a manageable interest rate risk. The Group's net interest-bearing debt (NIBD) amounted to DKK 4,030 million as of 31 December 2017, corresponding to a gearing ratio of 1.5 (NIBD/EBITDA).

Credit risks

The Group's credit risks relate primarily to trade receivables and loans to customers or business partners. Our customer base is fragmented, so credit risks in general only involve minor losses on individual customers. Together, our ten largest customers account for less than 12% of total consolidated revenue. Furthermore, when granting loans, we require that our counterparts provide security in their business. Overall, we therefore estimate that no major credit exposure exists on Group level.

The maximum credit risk relating to receivables matches the carrying amounts of such receivables. The Group has no major deposits with financial institutions for which reason the credit risk of such deposits is considered to be low.

Liquidity risks

The Group aims to have sufficient cash resources to be able to take appropriate steps in case of unforeseen fluctuations in cash outflows. We have access to considerable undrawn credit facilities, and the liquidity risk is therefore considered to be low. We are of the opinion that the Group has strong cash flows and a satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions. Neither in previous years nor in the financial year 2017 has the Group defaulted on loan agreements.

Exchange rate risks

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

4.2 NET FINANCIAL ITEMS

(DKK million)	2017	2016
Interest on cash and bank deposits	4	4
Interest on receivables, customer loans etc.	39	36
Other financial income	6	2
Financial income from financial assets not measured at fair value in the income statement	49	42
Financial income IS	49	42
Interest on bank debt, mortgages etc.	-69	-59
Financial expenses on financial liabilities not measured at fair value in the income statement	-69	-59
Foreign exchange losses, net	-3	-6
Transaction costs	-88	-78
Financial expenses IS	-160	-143
Net financial items	-111	-101

In addition to the foreign exchange items above, the consolidated income statement is also affected by foreign exchange hedging instruments as described in Note 2.3 as well as by foreign exchange effects of balance sheet items affecting production costs with a loss of DKK 93 million in 2017 (a gain of DKK 33 million in 2016).

§ ACCOUNTING POLICIES

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

The effective interest rate is the discount rate used for discounting expected future payments attaching to the financial asset or financial liability in order for the present value to match the carrying amount of such asset or liability.

4.3 CATEGORIES OF FINANCIAL INSTRUMENTS

(DKK million)	2017	2016
Unrealised gains on financial contracts BS	66	11
Financial assets used as hedging instruments	66	11
Receivables from associates and joint ventures BS	581	454
Other receivables BS	713	798
Trade receivables BS	2,573	2,440
Cash BS	697	710
Receivables and cash	4,564	4,402
Other investments BS	11	8
Financial assets available for sale	11	8
Unrealised losses on financial contracts BS	-3	-46
Financial liabilities used as hedging instruments	-3	-46
Finance lease debt	-	-8
Debt to credit institutions etc.	-3,228	-3,261
Short-term bank facilities etc.	-2,291	-2,202
Overdraft	-46	-36
Trade payables BS	-516	-513
Other liabilities	-1,448	-1,132
Financial liabilities measured at amortised cost	-7,529	-7,152

As was the case in 2016, most financial liabilities fall due within one year. As regards financial assets and liabilities, their carrying amounts approximate their fair values. The following non-financial item is included in the balance sheet and represents the difference between the table above and the balance sheet: Other liabilities of DKK -293 million (DKK -283 million in 2016).

§ ACCOUNTING POLICIES

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

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

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

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

4.4 NET INTEREST-BEARING DEBT, LIQUIDITY AND INTEREST RATE RISKS

(DKK million)	Contractual cash flows				Carrying amount	Weighted average effective interest rate
	Less than 1 year	1-5 years	More than 5 years	Total		
2017						
Interest-bearing receivables	121	349	599	1,069	838	
Cash BS	697	0	0	697	697	
Interest-bearing assets	818	349	599	1,766	1,535	1.8%
Finance lease debt	0	0	0	0	0	
Debt to credit institutions etc.	-947	-2,192	-147	-3,286	-3,228	
Short-term bank facilities etc.	-2,291	-	-	-2,291	-2,291	
Overdraft	-46	-	-	-46	-46	
Interest-bearing liabilities BS	-3,284	-2,192	-147	-5,623	-5,565	1.3%
Net interest-bearing debt	-2,466	-1,843	452	-3,857	-4,030	1.1%
2016						
Interest-bearing receivables	108	295	526	929	761	
Cash BS	710	0	0	710	710	
Interest-bearing assets	818	295	526	1,639	1,471	1.9%
Finance lease debt	0	-8	0	-8	-8	
Debt to credit institutions etc.	-1,320	-1,938	-55	-3,313	-3,261	
Short-term bank facilities etc.	-2,202	-	-	-2,202	-2,202	
Overdraft	-36	-	-	-36	-36	
Interest-bearing liabilities BS	-3,558	-1,946	-55	-5,559	-5,507	1.1%
Net interest-bearing debt	-2,740	-1,651	471	-3,920	-4,036	0.9%

Contractual cash flows for finance lease debt equal the minimum lease payments. Trade payables and other liabilities have a contractual maturity of less than one year, with the exception of other liabilities of DKK 197 million (DKK 171 million in 2016), which have a contractual maturity of 1-5 years. The contractual cash flows approximate their carrying amounts. Interest-bearing debt broken down by currency: 35% in US dollars (41% in 2016), 48% in Danish kroner (42% in 2016), 15% in euros (15% in 2016), 1% in Canadian dollars (1% in 2016) and 1% in other currencies (1% in 2016).

Reconciliation of liabilities arising from financing activities

The table below shows changes in consolidated liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated cash flow statement as cash flow from financing activities.

(DKK million)	Non-cash changes				
	2016	Cash flows from financing activities	Net cash flow from overdrafts	Acquisitions	Foreign exchange movements
Finance lease debt	-8	8	-	0	0
Debt to credit institutions etc.	-3,261	16	-	-5	22
Short-term bank facilities etc.	-2,202	-292	-	0	203
Liabilities from financing activities	-5,471	-268	-	-5	225
Overdraft CF	-36	-	-35	0	25
Interest-bearing liabilities	-5,507	-268	-35	-5	250

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

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

Interest cap

(DKK million)		2017					2016				
	Expiry	Interest rate/strike	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end		Expiry	Interest rate/strike	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end
DKK/DKK	2019	0%	650	0	0		2019	0%	650	0	1
			650	0	0				650	0	1

The fair value of the interest cap (a strip of call options) outstanding at the balance sheet date is DKK 0 million (DKK -1 million in 2016), and the contractual value of the interest cap is DKK 650 million (DKK 650 million in 2016). The cap will run until 2019.

Sensitivity analysis in respect of interest rates

Based on consolidated net debt at the end of the 2017 financial year, a rise of 1 percentage point in the general interest rate level will cause an increase in consolidated annual interest expenses before tax of approx. DKK 10 million (DKK 13 million in 2016). About 55% of consolidated interest-bearing debt is subject to fixed or limited interest rates, partly due to a bought cap (a strip of call options) and partly due to loans being raised at fixed interest rates.

4.5 FAIR VALUE HIERARCHY

Methods and assumptions for calculation of fair values

Other investments

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

Derivatives

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

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

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

Contingent considerations

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

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

Financial instruments measured at fair value are broken down according to the fair value hierarchy:

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

4.5 FAIR VALUE HIERARCHY – *CONTINUED*

(DKK million)	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets used as hedging instruments	0	66	0	66	0	11	0	11
Other investments (assets available for sale)	0	0	11	11	0	0	8	8
Financial liabilities used as hedging instruments	0	-3	0	-3	0	-46	0	-46
Contingent considerations	0	0	-365	-365	0	0	-183	-183

There have been no transfers between level 1 and 2 in the 2017 and 2016 financial years.

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

Level 3 assets and liabilities	Financial assets available for sale		Contingent considerations	
	2017	2016	2017	2016
(DKK million)				
Carrying amount at 1.1.	8	12	-183	-109
Foreign currency translation adjustment	0	0	42	-6
Acquisitions	4	0	-122	-118
Investments in associates	0	0	-180	0
Disposals, repayments, settlements etc.	-1	-4	73	43
Other adjustments	0	0	5	7
Transferred to/from level 3	0	0	0	0
Carrying amount at 31.12.	11	8	-365	-183

Of adjustments to contingent considerations, DKK 0 million (DKK 0 million in 2016) is recognised as income in distribution costs relating to contingent considerations still held at year-end.

§ ACCOUNTING POLICIES

On initial recognition, other investments are classified as assets available for sale, recognised at fair value and subsequently measured at fair value. Unrealised value adjustments are recognised in other comprehensive income. On realisation, value adjustments are transferred to net financial items in the income statement. The determination of fair values is based on equity values.

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

SECTION 5 TAX

222 million DKK

Corporate tax paid in Denmark

21.0%

Effective tax rate



5.1 TAX ON PROFIT

(DKK million)	2017	2016
Tax on profit for the year:		
Current tax on profit for the year	-455	-381
Adjustment of current tax, prior years	-2	17
Change in deferred tax	-65	2
Adjustment of deferred tax, prior years	38	-14
Impact of changes in corporate tax rates	16	-1
Tax on profit for the year IS	-468	-377
Reconciliation of tax rates:		
Danish corporate tax rate	22.0%	22.0%
Differences between tax rates of non-Danish enterprises and Danish corporate tax rate	1.9%	1.6%
Impact of changes in corporate tax rates	-0.7%	0.0%
Use of tax assets not previously recognised	-0.8%	-0.9%
Permanent differences	-0.1%	-0.2%
Other items, including prior-year adjustments	-1.3%	-2.0%
Effective tax rate	21.0%	20.5%

§ ACCOUNTING POLICIES

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

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

5.2 DEFERRED TAX

(DKK million)

	2017	2016
Deferred tax recognised in the balance sheet:		
Deferred tax assets BS	372	396
Deferred tax liabilities BS	-159	-152
Deferred tax, net at 31.12.	213	244
Deferred tax, net at 1.1.	244	251
Foreign currency translation adjustments	-5	2
Changes in deferred tax assets	-65	2
Additions relating to acquisitions	-2	12
Adjustment of deferred tax, prior years	38	-14
Impact of changes in corporate tax rates	16	-1
Deferred tax relating to changes in equity, net	-13	-8
Deferred tax, net at 31.12.	213	244

The tax value of deferred tax assets not recognised is DKK 36 million (DKK 55 million in 2016) and relates mainly to tax losses and tax credits for which there is considerable uncertainty about their future utilisation. The tax losses carried forward will not expire in the near future.

Any sale of shares in subsidiaries, associates and joint ventures at the balance sheet date is estimated to result in tax in the amount of DKK 0 million (DKK 0 million in 2016).

	Temporary differences at 1.1.2017	Foreign currency translation adjustments	Acquisitions	Recognised in profit for the year	Recognised in other comprehensive income	Temporary differences at 31.12.2017
Breakdown of the Group's temporary differences and changes:						
Intangible assets	-94	16	-2	-52	0	-132
Property, plant and equipment	-60	1	0	31	0	-28
Inventories	185	-2	0	3	0	186
Receivables	28	-3	0	-14	0	11
Provisions	70	-6	0	9	0	73
Tax losses	111	-12	0	-7	0	92
Other	4	1	0	19	-13	11
Total	244	-5	-2	-11	-13	213

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

5.2 DEFERRED TAX – *CONTINUED*

ACCOUNTING POLICIES

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

Deferred tax is determined on the basis of the tax rules and rates prevailing at the balance sheet date in a particular country. The effect of any changes in tax rates on deferred tax is included in tax on the year's profit, unless such deferred tax is attributable to items previously recognised directly in equity or in other comprehensive income. In the latter case, such changes will also be recognised directly in equity or in other comprehensive income. The tax base of a loss, if any, which may be set off against future taxable income, is carried forward and set off against deferred tax in the same legal tax entity and jurisdiction.

ACCOUNTING ESTIMATES AND ASSUMPTIONS

Deferred tax assets, including the tax value of any tax losses allowed for carryforward, are recognised in the balance sheet at the estimated realisable value of such assets, either by a set-off against a deferred tax liability or by a net asset to be set off against future positive taxable income. At the balance sheet date, an assessment is made as to whether it is probable that sufficient taxable income will be available in the future against which the deferred tax asset can be utilised. Deferred tax on temporary differences between the carrying amounts and the tax values of investments in subsidiaries, associates and joint ventures is recognised, unless the Parent is able to control the time of realisation of such deferred tax, and it is probable that such deferred tax will not be realised as current tax in the foreseeable future. Deferred tax is recognised in respect of eliminations of intra-Group profits and losses.

SECTION 6 ACQUISITIONS,
ASSOCIATES AND
JOINT VENTURES

339 million DKK

Cash acquisition cost

53 million DKK

**Share of profit after tax,
associates and joint ventures**

6.1 ACQUISITION OF ENTERPRISES AND ACTIVITIES

(DKK million)	North America	Oceania	Europe/ Asia	South America	Total
	Fair value on acquisition				
2017					
Intangible assets	10	2	15	0	27
Property, plant and equipment	14	1	6	0	21
Other non-current assets	0	0	1	0	1
Inventories	2	0	2	0	4
Current receivables	6	0	8	0	14
Cash and bank debt	2	0	12	0	14
Non-current liabilities	-4	0	-3	0	-7
Current liabilities	-17	-2	-17	0	-36
Acquired net assets	13	1	24	0	38
Goodwill	302	27	108	0	437
Acquisition cost	315	28	132	0	475
Minority interests' share of acquisition cost	0	0	0	0	0
Fair value of non-controlling interests on obtaining control	0	0	0	0	0
Contingent considerations and deferred payments	-106	-8	-8	0	-122
Acquired cash and bank debt	-2	0	-12	0	-14
Cash acquisition cost	207	20	112	0	339
2016					
Intangible assets	30	0	60	3	93
Property, plant and equipment	8	0	15	0	23
Other non-current assets	0	0	15	0	15
Inventories	2	0	7	0	9
Current receivables	5	0	34	0	39
Cash and bank debt	7	0	12	0	19
Non-current liabilities	0	0	-208	0	-208
Current liabilities	-15	-1	-34	0	-50
Acquired net assets	37	-1	-99	3	-60
Goodwill	235	6	312	7	560
Acquisition cost	272	5	213	10	500
Minority interests' share of acquisition cost	-11	0	0	0	-11
Fair value of non-controlling interests on obtaining control	-5	0	-30	-10	-45
Contingent considerations and deferred payments	-102	0	-16	0	-118
Acquired cash and bank debt	-7	0	-12	0	-19
Cash acquisition cost	147	5	155	0	307

6.1 ACQUISITION OF ENTERPRISES AND ACTIVITIES – *CONTINUED*

The Group's acquisitions in 2017 primarily consist of a number of minor retail acquisitions in Europe and North America. In respect of these acquisitions, we paid acquisition cost exceeding the fair values of the acquired assets, liabilities and contingent liabilities. Such positive balances in value can be attributed to expected synergies between the activities of the acquired entities and our existing activities, to the future growth opportunities and to the value of staff competencies in the acquired entities. These synergies are not recognised separately from goodwill, as they are not separately identifiable.

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

In 2017, a few adjustments were made to the preliminary recognition of acquisitions made in 2016. These adjustments were made in respect of payments made, contingent considerations provided and net assets and goodwill acquired and totalled DKK 11 million (DKK -13 million in 2016). In relation to acquisitions with final recognition in 2010-2016, adjustments were made in 2017 in respect of estimated contingent considerations. Such adjustments are recognised in the income statement.

The total impact on the income statement of fair value adjustments of non-controlling interests in step acquisitions amounted to DKK 0 million (DKK 28 million in 2016), and adjustments of estimated contingent considerations amounted to DKK 5 million (DKK 7 million in 2016) and are recognised under *Distribution costs*. In 2016, DKK 26 million was recognised under *Share of profit after tax, associates and joint ventures*.

Of the total acquisition cost in 2017, including adjustments to preliminary recognised acquisitions of DKK -2 million (DKK 0 million in 2016), the fair values of estimated contingent considerations in the form of discounted earn-outs or deferred payments accounted for DKK 122 million (DKK 118 million in 2016). The maximum contingent consideration in respect of acquisitions made in 2017 was DKK 168 million.

The acquired assets include contractual receivables amounting to DKK 9 million (DKK 21 million in 2016) of which DKK 0 million (DKK 4 million in 2016) was thought to be uncollectible at the date of the acquisition. Of the total goodwill in the amount of DKK 437 million (DKK 560 million in 2016), DKK 304 million (DKK 244 million in 2016) can be amortised for tax purposes. In 2017, no contingent liability related to purchase agreement obligations was recognised (DKK 0 million in 2016).

Transaction cost in connection with acquisitions made in 2017 amounted to DKK 0 million (DKK 1 million in 2016), which has been recognised under *Distribution costs*.

Revenue and profit generated by the acquired enterprises since our acquisition in 2017 amount to DKK 147 million (DKK 206 million in 2016) and DKK 6 million (DKK 5 million in 2016), respectively. Had such revenue and profit been consolidated on 1 January 2017, we estimate that consolidated pro forma revenue and profit would have been DKK 13,294 million (DKK 12,113 million in 2016) and DKK 1,763 million (DKK 1,468 million in 2016), respectively. In our opinion, these pro forma figures reflect the level of consolidated earnings after our acquisition of the enterprises without taking synergies from our core business into account.

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

From the balance sheet date and until the date of financial reporting in 2018, we have acquired additional distribution enterprises. We are in the process of assessing their fair values. The acquisition cost is expected to relate primarily to goodwill.

6.1 ACQUISITION OF ENTERPRISES AND ACTIVITIES – *CONTINUED*

ACCOUNTING POLICIES

Newly acquired or newly established enterprises are recognised in the consolidated financial statements from the time of acquisition or formation. The time of acquisition is the date when control of the enterprise is transferred to the Group. For Group accounting policies on control, please refer to *Consolidated financial statements* in Note 9.1. In respect of newly acquired enterprises, comparative figures and key figures will not be restated. On acquiring new enterprises of which the Group obtains control, the purchase method is applied according to which their identified assets, liabilities and contingent liabilities are measured at their fair values on the acquisition date. Any non-current assets acquired for the purpose of resale are, however, measured at their fair values less expected costs to sell. Restructuring costs are solely recognised in the pre-acquisition balance sheet if they are a liability for the acquired enterprise. Any tax effect of revaluations will be taken into account.

The acquisition cost of an enterprise consists of the fair value of the consideration paid for the enterprise. If the final consideration is conditional upon one or more future events, the consideration will be recognised at the fair value on acquisition. Any subsequent adjustment of contingent consideration is recognised directly in the income statement, unless the adjustment is the result of new information about conditions prevailing on the acquisition date, and this information becomes available up to 12 months after the acquisition date. Transaction costs are recognised directly in the income statement when incurred. If costs exceed the fair values of the assets, liabilities and contingent liabilities identified on acquisition, any remaining positive differences (goodwill) are recognised in the balance sheet under intangible assets and tested for impairment at least annually. If the carrying amount of an asset exceeds its recoverable amount, it will be written down to such lower recoverable amount.

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

ACCOUNTING ESTIMATES AND ASSUMPTIONS

Identification of assets and liabilities

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

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

Contingent consideration

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

6.2 DIVESTMENT OF ENTERPRISES AND ACTIVITIES

(DKK million)	2017	2016
Goodwill	0	12
Other intangible assets	0	13
Property, plant and equipment	0	2
Carrying amount of net assets divested	0	27
Proceeds from divestments CF	0	27

The divestment of enterprises and activities in 2016 included the divestment of a number of retail shops. There were no divestments in 2017.

6.3 ASSOCIATES AND JOINT VENTURES

In 2017, the Group received royalties from and paid licence fees to associates and joint ventures amounting to net income of DKK 1 million (net expense of DKK 1 million in 2016) and received dividends from associates and joint ventures in the amount of DKK 54 million (DKK 9 million in 2016). In 2017, the Group recharged expenses to associates in the amount of DKK 0 million (DKK 12 million in 2016). In 2017, the Group received interest income from associates and joint ventures in the amount of DKK 13 million (DKK 10 million in 2016).

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

(DKK million)	Associates		Joint ventures	
	2017	2016	2017	2016
Financial information (Group share):				
Revenue	621	497	371	372
Net profit for the year	10	4	43	51
Comprehensive income	10	4	43	51

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

§ ACCOUNTING POLICIES

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

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

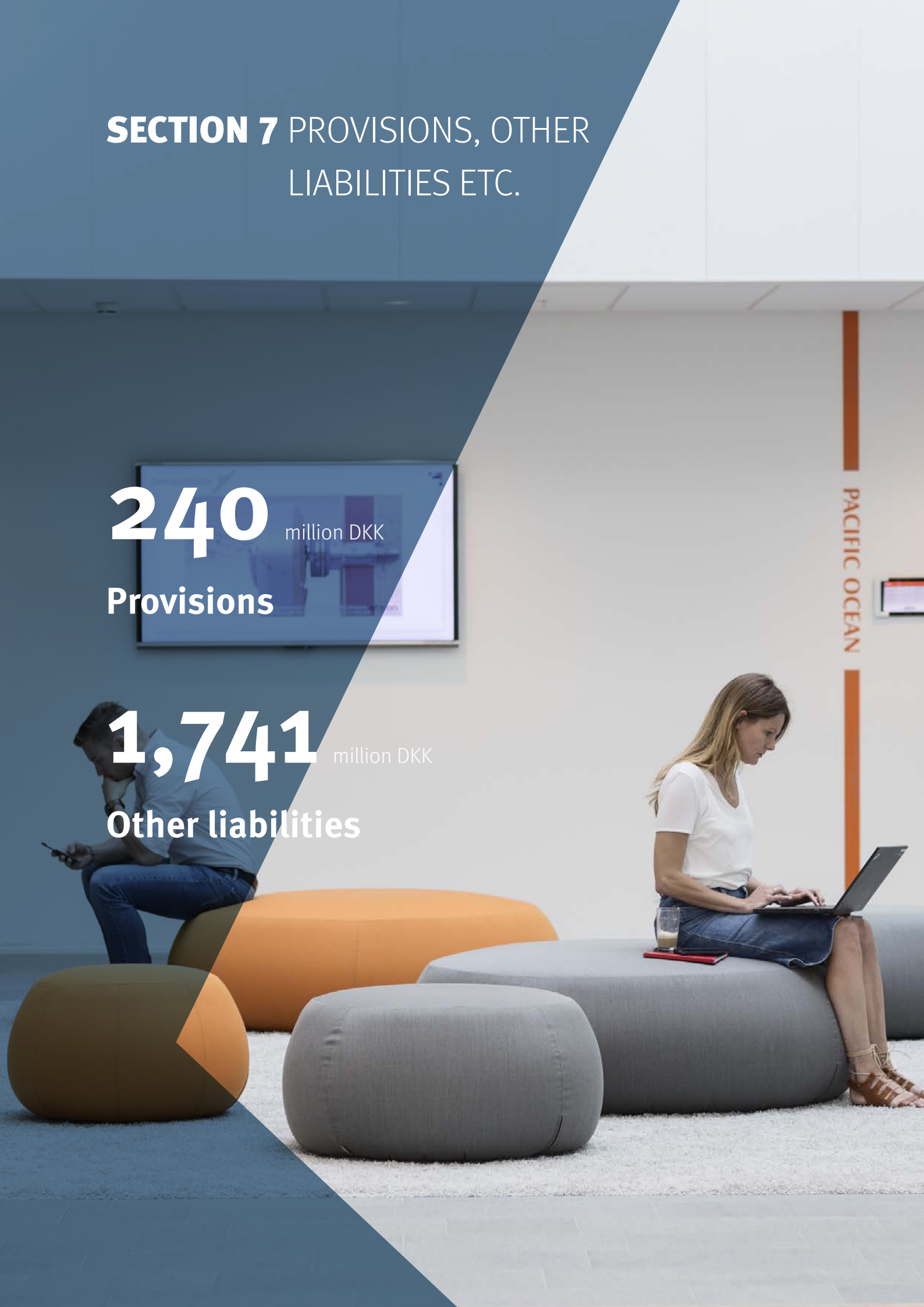
SECTION 7 PROVISIONS, OTHER LIABILITIES ETC.

240 million DKK

Provisions

1,741 million DKK

Other liabilities



7.1 PROVISIONS

(DKK million)	2017	2016
Restructuring cost provisions	29	45
Staff-related provisions	57	54
Miscellaneous provisions	21	30
Other provisions	107	129
Defined benefit plan liabilities, net	133	198
Provisions at 31.12.	240	327
Breakdown of provisions:		
Non-current provisions BS	215	295
Current provisions BS	25	32
Provisions at 31.12.	240	327

Other provisions

(DKK million)	Restructuring costs	Staff-related	Miscellaneous	Total
Other provisions at 1.1.2017	45	54	30	129
Foreign currency translation adjustments	-2	-5	-1	-8
Additions relating to acquisitions	0	1	0	1
Provisions during the year	5	7	6	18
Applied during the year	-19	0	-5	-24
Reversals during the year	0	0	-9	-9
Other provisions at 31.12.2017	29	57	21	107
Breakdown of provisions:				
Non-current provisions	14	57	11	82
Current provisions	15	0	10	25
Provisions at 31.12.2017	29	57	21	107
Other provisions at 1.1.2016	0	48	78	126
Foreign currency translation adjustments	0	1	1	2
Additions relating to acquisitions	0	0	14	14
Provisions during the year	46	5	6	57
Applied during the year	-1	0	-60	-61
Reversals during the year	0	0	-9	-9
Other provisions at 31.12.2016	45	54	30	129
Breakdown of provisions:				
Non-current provisions	29	54	14	97
Current provisions	16	0	16	32
Provisions at 31.12.2016	45	54	30	129

7.1 PROVISIONS – *CONTINUED*

(DKK million)	Note	2017	2016
Defined benefit plan costs recognised in the income statement:			
Current service costs		21	25
Curtailment		-20	-23
Calculated interest on defined benefit plan liabilities, net		1	1
Costs recognised in the income statement	1.2	2	3
Defined benefit plan costs by function:			
R&D costs		-17	-16
Distribution costs		13	12
Administrative expenses		6	7
Defined benefit plan costs		2	3
Accumulated actuarial loss recognised in the statement of comprehensive income		-51	-63

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

7.1 PROVISIONS – CONTINUED

(DKK million)	2017	2016
Present value of defined benefit obligations:		
Defined benefit obligations at 1.1.	495	349
Foreign currency translation adjustments	-30	1
Reclassifications	0	37
Additions relating to acquisitions	0	106
Current service costs	21	25
Curtailement	-20	-23
Calculated interest on defined benefit obligations	2	3
Actuarial losses/gains, demographic assumptions	-6	5
Actuarial losses/gains, financial assumptions	-1	2
Actuarial losses/gains, experience assumptions	0	2
Benefits paid	-109	-23
Contributions from plan participants	9	11
Defined benefit obligations at 31.12.	361	495
Fair value of defined benefit assets:		
Defined benefit assets at 1.1.	297	186
Foreign currency translation adjustments	-24	1
Reclassifications	0	37
Additions relating to acquisitions	0	64
Expected return on defined benefit assets	1	2
Actuarial gains/losses	1	2
Contributions	62	28
Benefits paid	-109	-23
Defined benefit assets at 31.12.	228	297
Defined benefit obligations recognised in the balance sheet, net	133	198
Return on defined benefit assets:		
Actual return on defined benefit assets	2	4
Expected return on defined benefit assets	1	2
Actuarial gains/losses on defined benefit assets	1	2
Assumptions:		
Discount rate	0.5%	0.5%
Expected return on defined benefit assets	1.0%	1.0%
Future salary increase rate	1.5%	1.5%

Generally, the Group does not offer defined benefit plans, but it has such plans in Switzerland, France and Germany, where they are required by law.

The Group expects to pay approx. DKK 13 million in 2018 (DKK 16 million in 2017) into defined benefit plans.

Defined benefit obligations in the amount of DKK 64 million will mature within 1-5 years (DKK 149 million in 2016) and obligations in the amount of DKK 297 million after five years (DKK 346 million in 2016).

If the discount rate is 0.5% higher (lower), the defined benefit obligation will decrease by 6% (increase by 7%). If the expected salary growth rate is 0.5% higher (lower), the defined benefit obligation will increase by 1% (decrease by 2%).

7.1 PROVISIONS – CONTINUED

§ ACCOUNTING POLICIES

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

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

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

Defined benefit costs are categorised as follows:

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

Remeasurements, comprising actuarial gains and losses, any effects of changes to the asset ceiling and return on defined benefit assets excluding interest, are reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which it occurs. Remeasurements recognised in other comprehensive income are reflected immediately in retained earnings and will not be reclassified to the income statement. Service costs and net interest expense or income are included in the income statement as staff costs.

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

ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

7.2 OTHER LIABILITIES

(DKK million)	2017	2016
Product-related liabilities	293	283
Staff-related liabilities	463	435
Other debt, public authorities	265	249
Contingent considerations	365	183
Other costs payable	355	265
Other liabilities	1,741	1,415
Due within 1 year BS	1,544	1,244
Due within 1-5 years BS	197	171

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

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

§ ACCOUNTING POLICIES

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

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

💡 ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

7.3 OPERATING LEASE COMMITMENTS

(DKK million)	2017	2016
Rent	928	849
Other operating leases	84	74
Total	1,012	923
Operating leases, less than 1 year	342	310
Operating leases, 1-5 years	517	450
Operating leases, over 5 years	153	163
Total	1,012	923

Operating leases are recognised in the income statement at an amount of DKK 495 million (DKK 470 million in 2016). The Group's operating leases mainly relate to rent of which some have renewal options.

7.4 CONTINGENT LIABILITIES

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

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

For the purposes of section 357 of the Republic of Ireland Companies Act 2014, William Demant Holding A/S has undertaken to indemnify the creditors of its subsidiaries incorporated in the Republic of Ireland in respect of all losses and liabilities for the financial year ending on 31 December 2017 or any amended financial period incorporating the said financial year. The Company does not expect any material loss to arise from this guarantee.

A modern office interior featuring a large, multi-level glass staircase. Two people are walking on the stairs, and another person is standing on a balcony above. The office space is visible through the glass walls, showing desks, chairs, and plants. The image is overlaid with a blue geometric shape.

SECTION 8 OTHER DISCLOSURE REQUIREMENTS

8.1 RELATED PARTIES

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

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

Subsidiaries, associates and joint ventures as well as the William Demant Group's ownership interests in these companies appear from the *Subsidiaries, associates and joint ventures* list on page 128, and financial information on associates and joint ventures can be found in Note 6.3.

In 2017, the Oticon Foundation and William Demant Invest A/S paid administration fees to the Group of DKK 1 million (DKK 2 million in 2016) and DKK 2 million (DKK 5 million in 2016), respectively. The Group paid administration fees to William Demant Invest A/S of DKK 3 million (DKK 0 million in 2016).

In 2017, the Group paid service fees to Össur hf. of DKK 28 million (DKK 19 million in 2016) and received service fees of DKK 10 million from Össur hf. (DKK 7 million in 2016).

In 2017, the Oticon Foundation donated DKK 4 million (DKK 0 million in 2016) to Interacoustics Research Unit at the Technical University of Denmark. Furthermore, the Oticon Foundation acquired diagnostic equipment worth DKK 2 million (DKK 2 million in 2016) from the Group.

In 2016 and 2017, the Group settled Danish tax on account and residual tax with William Demant Invest A/S, which is the administration company for the joint taxation.

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

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

(DKK million)	2017	2016
Statutory audit	11	10
Tax and VAT advisory services	4	5
Other services	1	1
Total	16	16

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

The fee for non-audit services delivered by Deloitte Statsautoriseret Revisionspartnerselskab to the Group amounts to DKK 2 million and consists of VAT and tax assistance, tax advisory services related to transfer pricing, issuance of various assurance reports and accounting advisory.

8.3 GOVERNMENT GRANTS

In 2017, the William Demant Group received government grants in the amount of DKK 16 million (DKK 14 million in 2016). Grants are offset against R&D costs.

§ ACCOUNTING POLICIES

Government grants are recognised when there is reasonable certainty that the conditions for such grants are satisfied and that they will be awarded. Grants received as compensation for costs incurred are recognised proportionately in the income statement over the periods in which the related costs are recognised in the income statement and are offset against costs incurred. Government grants relating to the acquisition of non-current assets are deducted from the cost of such asset.

8.4 EVENTS AFTER THE BALANCE SHEET DATE

There have been no events that materially affect the assessment of this Annual Report 2017 after the balance sheet date and up to today.

8.5 APPROVAL AND PUBLICATION

At the Board meeting on 22 February 2018, our Board of Directors approved this Annual Report 2017 for publication. The report will be presented to the shareholders of William Demant Holding A/S for adoption at the annual general meeting on 22 March 2018.

8.6 SHAREHOLDERS

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

William Demant Invest A/S and this company's parent, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation), Kongebakken 9, 2765 Smørum, Denmark. The ownership interest is approx. 55% of the share capital (57% of the shares outstanding). William Demant Invest A/S prepares consolidated financial statements in which the William Demant Group is included.

Canada Pension Plan Investment Board, One Queen St. E., S 2500, Toronto, Canada. The ownership interest is 7.86% of the share capital.

SECTION 9 BASIS FOR PREPARATION



9.1 GROUP ACCOUNTING POLICIES

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

1.1 Revenue by geographic region and business activity	3.1 Intangible assets	5.2 Deferred tax
1.5 Inventories	3.2 Property, plant and equipment	6.1 Acquisition of enterprises and activities
1.6 Receivables	3.5 Impairment testing	6.3 Associates and joint ventures
2.3 Hedging and forward exchange contracts	4.2 Net financial items	7.1 Provisions
2.4 Exchange rates	4.3 Categories of financial instruments	7.2 Other liabilities
	4.5 Fair value hierarchy	8.3 Government grants
	5.1 Tax on profit	

General

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

The consolidated financial statements are presented in Danish kroner (DKK), which is the functional currency for the Parent. The consolidated financial statements are presented on the basis of historical cost, except for obligations for contingent consideration in connection with business combinations, share-based remuneration, derivatives and financial assets classified as assets available for sale, which are measured at fair value.

The financial statements for the Parent as well as the Parent's accounting policies are presented separately from the consolidated financial statements and are shown on the last pages of this Annual Report 2017.

Based on an inquiry from the Danish Business Authority, the Group has decided to amend its accounting policy under which short-term bank facilities are included in cash and cash equivalents in the cash flow statement. Please see page 113 for the new accounting policy. The change of the comparative figures had a positive impact on cash flow from financing activities of DKK 114 million and resulted in an increase in cash and cash equivalents of DKK 2.2 billion.

Besides the change described above, the accounting policies remain unchanged for the consolidated financial statement compared to 2016, with the exception of the implementation of new and amended standards as described below as well as insignificant reclassifications of the comparative figures for 2016.

Effect of new accounting standards

The Group has adopted all new, amended and revised accounting standards and interpretations as published by the IASB and adopted by the EU effective for the accounting period beginning on 1 January 2017. None of these new, updated and amended standards and interpretations resulted in any changes to the accounting policies for the Group or had any significant impact on the consolidated financial statements for 2017.

Effect of new accounting standards not yet in force

Revised and new standards and interpretations issued, but not yet effective or approved by the EU at the time of publication of this Annual Report 2017, have not been incorporated into this report.

Issued in May 2014, IFRS 15 Revenue from Contracts with Customers establishes a single comprehensive model for entities to be used in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue and related interpretations when it becomes effective. Management has analysed the impact of IFRS 15 and assessed that the new standard will have some impact on the timing of revenue recognition, on net or gross recognition of principal and agent relationships and on the disclosure of revenue. The transition will impact the balance sheet by approx. DKK 390 million net of tax and will predominantly pertain to deferral of income. The impact on the income statement will be limited. IFRS 15 will take effect on 1 January 2018.

9.1 GROUP ACCOUNTING POLICIES – *CONTINUED*

IFRS 9 Financial Instruments was issued in 2009 and has been revised several times since then. Management has assessed that the standard will only have limited impact on the consolidated financial statements. The main impact for the Group will be on the measurement of credit losses related to receivables, where the impact of the transition on the balance sheet is approx. DKK 20 million net of tax in respect of increased bad debt provisions. Although IFRS 9 provides the option to hedge net positions (i.e. EBIT) instead of hedging revenue, Management has decided to continue the current hedging policy, and consequently the changes in IFRS 9 will not have any impact on the Group's hedging. IFRS 9 will take effect on 1 January 2018.

Issued in January 2016, IFRS 16 Leases requires lessees to recognise nearly all leases on the balance sheet. Management has assessed the expected impact of the standard and concluded that it will have a material impact on the recognition of tangible assets and financial debt on the balance sheet. The standard will also impact the classification of expenses in the income statement, the classification of cash flows in the cash flow statement as well as the related key figures. Based on figures as of 2017, the transition is expected to impact the net interest-bearing debt by approx. DKK 825 million and EBITDA by approx. DKK 335 million. IFRS 16 will take effect on 1 January 2019.

Definition of materiality

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

Consolidated financial statements

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

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

Consolidation principles

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

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

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

Income statement

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

9.1 GROUP ACCOUNTING POLICIES – *CONTINUED*

Production costs

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

R&D costs

Research costs are always recognised in the income statement in step with the incurrence of such costs. Development costs include all costs not satisfying capitalisation criteria, but incurred in connection with development, prototype construction, development of new business concepts and amortisation of capitalised development costs.

Distribution costs

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

Administrative expenses

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

Prepaid expenses

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

Deferred income

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

Equity

Foreign currency translation reserve includes foreign currency translation adjustments on the translation of financial statements of foreign subsidiaries, associates and joint ventures from their respective functional currencies into Danish kroner. Foreign currency translation adjustments are recognised in the income statement on realisation of the net investment. Hedging reserves include fair value adjustments of derivatives and loans satisfying the criteria for hedging of future transactions. The amounts are recognised in the income statement or the balance sheet in step with recognition of the hedged transactions.

Treasury shares and dividend

On the buy-back of shares or sale of treasury shares, the purchase price or selling price, respectively, is recognised directly in equity under other reserves (retained earnings). A capital reduction through the cancellation of treasury shares will reduce the share capital by an amount corresponding to the nominal value of such shares. Proposed dividends are recognised as a liability at the time of adoption at the annual general meeting.

Cash flow statement

The cash flow statement is prepared according to the indirect method and reflects the consolidated net cash flow broken down into operating, investing and financing activities. Cash flow from operating activities includes inflows from the year's operations adjusted for non-cash operating items, changes in working capital, financial income received and expenses paid, realised foreign currency translation gains and losses and income tax paid. Cash flow from investing activities includes payments in respect of the acquisition or divestment of enterprises and financial assets as well as the purchase, development, improvement or sale of intangible assets and property, plant and equipment. Finance leases are considered transactions with no cash flow effect. Cash flow relating to finance leases is recognised as payment of interest and repayment of debt. Cash flow from financing activities includes payments to and from shareholders and the raising and repayment of non-current and current debt not included in working capital.

9.1 GROUP ACCOUNTING POLICIES – *CONTINUED*

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

Cash and cash equivalents are cash less overdrafts, which consist of uncommitted bank facilities that often fluctuate from positive to overdrawn. Any short-term bank facilities that are consistently overdrawn are considered cash flow from financing activities.

9.2 ACCOUNTING ESTIMATES AND ASSUMPTIONS

On the preparation of the consolidated financial statements, Management makes a number of accounting estimates and judgements. These relate to the recognition, measurement and classification of assets and liabilities. Many items can only be estimated rather than accurately measured. Such estimates are based on the most recent information available on preparation of the financial statements. Estimates and assumptions are therefore reassessed on an ongoing basis. Actual figures may, however, deviate from these estimates. Any changes in accounting estimates will be recognised in the reporting period in which such changes are made.

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

1.1 Revenue by geographic region
and business activity
1.2 Employees
1.5 Inventories

1.6 Receivables
3.1 Intangible assets
5.2 Deferred tax

6.1 Acquisition of enterprises
and activities
7.1 Provisions
7.2 Other liabilities

PARENT FINANCIAL STATEMENTS



PARENT INCOME STATEMENT

(DKK million)	Note	2017	2016
Administrative expenses	10.1 / 10.2	-69	-77
Other operating income and expenses		34	35
Operating profit/loss (EBIT)		-35	-42
Share of profit after tax, subsidiaries	10.8	1,355	1,115
Share of profit after tax, associates and joint ventures	10.8	41	49
Financial income	10.3	43	19
Financial expenses	10.3	-29	-39
Profit before tax		1,375	1,102
Tax on profit for the year	10.4	3	13
Profit for the year	10.5	1,378	1,115

PARENT BALANCE SHEET 31 DECEMBER

(DKK million)	Note	2017	2016
Assets			
Goodwill		39	43
Rights and other intangible assets		3	3
Intangible assets	10.6	42	46
Land and buildings		24	24
Property, plant and equipment	10.7	24	24
Investments in subsidiaries		9,196	8,317
Receivables from subsidiaries		915	1,395
Investments in associates and joint ventures		156	143
Receivables from associates and joint ventures		2	0
Other investments		1	1
Other receivables		18	8
Financial assets	10.8	10,288	9,864
Non-current assets		10,354	9,934
Income tax		3	14
Other receivables		13	0
Prepaid expenses		4	5
Receivables		20	19
Current assets		20	19
Assets		10,374	9,953

PARENT BALANCE SHEET 31 DECEMBER

(DKK million)	Note	2917	2016
Equity and liabilities			
Share capital		52	53
Other reserves		2,161	1,638
Retained earnings		3,963	4,393
Total equity		6,176	6,084
Other provisions		0	43
Deferred tax liabilities	10.4	13	14
Provisions		13	57
Interest-bearing debt	10.9	2,305	1,959
Other debt		17	14
Non-current liabilities	10.9	2,322	1,973
Interest-bearing debt		1,344	1,547
Debt to subsidiaries		513	288
Other debt		6	4
Current liabilities	10.9	1,863	1,839
Liabilities		4,185	3,812
Equity and liabilities		10,374	9,953
Contingent liabilities	10.10		
Related parties	10.11		
Shareholders	10.12		
Events after the balance sheet date	10.13		
Parent accounting policies	10.14		

PARENT STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves			Retained earnings	Total equity
		Foreign currency translation reserve	Hedging reserve	Reserve according to equity method		
(DKK million)						
Equity at 1.1.2016	54	-78	0	2,661	3,322	5,959
Profit for the year	-	-	-	-1,006	2,121	1,115
Foreign currency translation adjustment of investments in subsidiaries etc.	-	-4	-	37	-	33
Other changes in equity in subsidiaries	-	-	-	24	-	24
Tax relating to changes in equity	-	1	0	-	-	1
Buy-back of shares	-	-	-	-	-1,050	-1,050
Capital reduction through cancellation of treasury shares	-1	-	-	-	1	0
Other changes in equity	-	-	-	3	-1	2
Equity at 31.12.2016	53	-81	0	1,719	4,393	6,084
Profit for the year	-	-	-	778	600	1,378
Foreign currency translation adjustment of investments in subsidiaries etc.	-	1	-	-321	-	-320
Other changes in equity in subsidiaries	-	-	-	66	-	66
Tax relating to changes in equity	-	0	0	-	-	0
Buy-back of shares	-	-	-	-	-1,031	-1,031
Capital reduction through cancellation of treasury shares	-1	-	-	-	1	0
Other changes in equity	-	-	-	-1	0	-1
Equity at 31.12.2017	52	-80	0	2,241	3,963	6,176

(DKK 1,000)	2017	2016	2015	2014	2013
Specification of movements in share capital:					
Share capital at 1.1.	53,216	54,425	56,662	56,662	58,350
Capital increase	0	0	0	0	0
Capital reduction	-1,423	-1,209	-2,237	0	-1,688
Share capital at 31.12.	51,793	53,216	54,425	56,662	56,662

At year-end 2017, the share capital was nominally DKK 52 million (DKK 53 million in 2016) divided into a corresponding number of shares of DKK 0.20. There are no restrictions on the negotiability or voting rights of the shares. At year-end 2017, the number of shares outstanding was 252,821,144 (259,194,426 in 2016). For additional information, please refer to Note 10.12.

	2017		2016	
	Treasury shares*	Percentage of share capital	Treasury shares*	Percentage of share capital
Holding of treasury shares:				
Treasury shares at 1.1.	6,887,399	2.6%	4,801,775	1.8%
Cancellation of treasury shares	-7,115,550	-2.7%	-6,044,350	-2.2%
Buy-back of shares	6,373,282	2.5%	8,129,974	3.0%
Treasury shares at 31.12.	6,145,131	2.4%	6,887,399	2.6%

As part of the Company's share buy-back programme, the Company bought back 6,373,282 shares in 2017 (8,129,974 shares in 2016) worth a total of DKK 1,031 million (DKK 1,050 million in 2016).

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

SECTION 10 NOTES TO PARENT FINANCIAL STATEMENTS

BERLIN



10.1 EMPLOYEES

(DKK million)	2017	2016
Staff costs:		
Wages and salaries	41	41
Share-based remuneration	2	1
Defined benefit plans	0	5
Total	43	47
Average number of full-time employees	20	19

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

(DKK million)	2017				2016			
	Wages and salaries*	Seniority bonus	Share-based remuneration**	Total	Wages and salaries*	Seniority bonus	Share-based remuneration**	Total
Søren Nielsen, President & CEO	10.3	-	0.9	11.2	7.9	-	0.4	8.3
René Schneider, CFO	5.0	-	0.5	5.5	4.7	-	0.2	4.9
Niels Jacobsen, former President & CEO	3.6	0.0	-	3.6	14.1	5.2	-	19.3
Executive Board	18.9	0.0	1.4	20.3	26.7	5.2	0.6	32.5
Fee to Board of Directors	4.3	-	-	4.3	3.9	-	-	3.9

*No member of the Executive Board has remuneration in the form of pension or other benefits of more than DKK 0.5 million (DKK 0.5 million in 2016). These expenses are therefore included in wages and salaries.

**In 2017, DKK 0 million (DKK 0 million in 2016) of the share-based remuneration was settled.

As of 1 April 2017, Niels Jacobsen stepped down from his position as President & CEO of William Demant Holding. At the same time, the Board of Directors appointed Søren Nielsen as new President & CEO of William Demant Holding.

A seniority bonus in the amount of DKK 42 million, matching one year's salary for every four years of employment from 2005 to 2016, was paid out in April 2017 to the former President & CEO of William Demant Holding, Niels Jacobsen.

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

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

(DKK million)	2017	2016
Statutory audit	2	1
Total	2	1

10.3 NET FINANCIAL ITEMS

(DKK million)	2017	2016
Interest from subsidiaries	15	18
Interest income	1	1
Foreign exchange gains, net	27	0
Financial income IS	43	19
Interest to subsidiaries	-1	-5
Interest expenses	-28	-26
Transaction costs	0	-1
Foreign exchange losses, net	0	-7
Financial expenses IS	-29	-39
Net financial items	14	-20

10.4 TAX ON PROFIT AND DEFERRED TAX

(DKK million)	2017	2016
Tax on profit for the year:		
Current tax on profit for the year	3	13
Adjustment of current tax, prior years	-1	0
Change in deferred tax	1	-1
Adjustment of deferred tax, prior years	0	1
Tax on profit for the year IS	3	13
Deferred tax recognised in the balance sheet:		
Deferred tax assets	0	0
Deferred tax liabilities BS	-13	-14
Deferred tax, net at 31.12.	-13	-14
Deferred tax, net at 1.1.	-14	-14
Changes in deferred tax liabilities	1	-1
Adjustment of deferred tax, prior years	0	1
Deferred tax, net at 31.12.	-13	-14

10.5 PROPOSED DISTRIBUTION OF NET PROFIT

(DKK million)	2017	2016
Transferred to reserves for net revaluation according to the equity method	778	-1,006
Retained earnings	600	2,121
Total	1,378	1,115

10.6 INTANGIBLE ASSETS

(DKK million)	Goodwill	Rights and other intangible assets	Total intangible assets
Cost at 1.1.2017	65	11	76
Additions during the year	0	0	0
Cost at 31.12.2017	65	11	76
Amortisation at 1.1.2017	-22	-8	-30
Amortisation for the year	-4	0	-4
Amortisation at 31.12.2017	-26	-8	-34
Carrying amount at 31.12.2017 BS	39	3	42
Cost at 1.1.2016	65	8	73
Additions during the year	0	3	3
Cost at 31.12.2016	65	11	76
Amortisation at 1.1.2016	-19	-7	-26
Amortisation for the year	-3	-1	-4
Amortisation at 31.12.2016	-22	-8	-30
Carrying amount at 31.12.2016 BS	43	3	46

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

10.7 PROPERTY, PLANT AND EQUIPMENT

(DKK million)

Land and
buildings

Cost at 1.1.2017	30
Disposals during the year	0
Cost at 31.12.2017	30
Depreciation and impairment losses at 1.1.2017	-6
Depreciation for the year	0
Disposals during the year	0
Depreciation and impairment losses at 31.12.2017	-6
Carrying amount at 31.12.2017 BS	24
Cost at 1.1.2016	30
Disposals during the year	0
Cost at 31.12.2016	30
Depreciation and impairment losses at 1.1.2016	-6
Depreciation for the year	0
Disposals during the year	0
Depreciation and impairment losses at 31.12.2016	-6
Carrying amount at 31.12.2016 BS	24

The Parent has no finance leased assets.

10.8 FINANCIAL ASSETS

(DKK million)	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Receivables from asso- ciates and joint ventures	Other investments	Other receivables
Cost at 1.1.2017	6,625	1,395	158	0	0	8
Foreign currency translation adjustments	-41	-1	0	0	0	-1
Additions during the year	354	206	13	2	0	29
Disposals, repayments etc. during the year	0	-685	0	0	0	-5
Cost at 31.12.2017	6,938	915	171	2	0	31
Value adjustments at 1.1.2017	1,692	0	-15	0	1	0
Foreign currency translation adjustments	-283	-	3	-	0	0
Share of profit after tax IS	1,355	-	41	-	-	-
Dividends received	-573	-	-45	-	-	-
Disposals during the year	0	-	0	-	-	0
Other adjustments	67	-	1	-	0	0
Value adjustments at 31.12.2017	2,258	0	-15	0	1	0
Carrying amount at 31.12.2017 BS	9,196	915	156	2	1	31
Cost at 1.1.2016	6,253	1,426	149	12	0	23
Foreign currency translation adjustments	32	-6	0	0	0	0
Additions during the year	340	290	13	17	0	0
Disposals, repayments etc. during the year	0	-315	-4	-29	0	-15
Cost at 31.12.2016	6,625	1,395	158	0	0	8
Value adjustments at 1.1.2016	2,711	0	-57	0	1	0
Foreign currency translation adjustments	4	-	1	-	0	0
Share of profit after tax IS	1,115	-	49	-	-	-
Dividends received	-2,162	-	-8	-	-	-
Disposals during the year	0	-	0	-	-	0
Other adjustments	24	-	0	-	0	0
Value adjustments at 31.12.2016	1,692	0	-15	0	1	0
Carrying amount at 31.12.2016 BS	8,317	1,395	143	0	1	8

The carrying amounts of investments in subsidiaries, associates and joint ventures include capitalised goodwill in the net amount of DKK 5,405 million (DKK 5,402 million in 2016). Amortisation of consolidated capitalised goodwill for the year is DKK 440 million (DKK 321 million in 2016). Receivables from subsidiaries of DKK 915 million (DKK 1,395 million in 2016) are considered additions to the total investments in the particular enterprises and are therefore considered non-current. Other receivables worth DKK 4 million (DKK 8 million in 2016) will fall due after five years. Please refer to *Subsidiaries, associates and joint ventures* on page 128.

10.9 OTHER DEBT

(DKK million)	2017	2016
Staff-related liabilities	2	1
Other debt, public authorities	1	2
Liabilities relating to acquisitions	14	13
Other costs payable	6	1
Unrealised losses on financial contracts	0	1
Other debt	23	18
Due within 1 year BS	6	4
Due within 1-5 years BS	17	14

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

Of the non-current interest-bearing debt in the amount of DKK 2,305 million (DKK 1,959 million in 2016), DKK 147 million (DKK 55 million in 2016) will fall due after five years.

10.10 CONTINGENT LIABILITIES

William Demant Holding A/S has provided security in respect of credit facilities established by Danish subsidiaries. These credit facilities totalled DKK 1,630 million in 2017 (DKK 1,635 million in 2016) of which DKK 404 million was drawn (DKK 283 million in 2016). Moreover, we have established a mutual guarantee with Oticon A/S in the amount of DKK 650 million (DKK 650 million in 2016), which is being drawn upon on a current basis.

William Demant Holding A/S has provided security in respect of rent as well as guarantees concerning the continuous operation and payment of liabilities in 2017 for some of our subsidiaries.

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

For the purposes of section 357 of the Republic of Ireland Companies Act 2014, William Demant Holding A/S has undertaken to indemnify the creditors of its subsidiaries incorporated in the Republic of Ireland in respect of all losses and liabilities for the financial year ending on 31 December 2017 or any amended financial period incorporating the said financial year. The Company does not expect any material loss to arise from this guarantee.

10.11 RELATED PARTIES

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

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

10.12 SHAREHOLDERS

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

William Demant Invest A/S and this company's parent, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation), Kongebakken 9, 2765 Smørum, Denmark. The ownership interest is approx. 58% of the share capital (59% of the shares outstanding). William Demant Invest A/S prepares consolidated financial statements in which the William Demant Group is included.

Canada Pension Plan Investment Board, One Queen St. E., S 2500, Toronto, Canada. The ownership interest is 7.86% of the share capital.

10.13 EVENTS AFTER THE BALANCE SHEET DATE

Please refer to Note 8.4 in the consolidated financial statements.

10.14 PARENT ACCOUNTING POLICIES

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

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

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

Income statement

Tax

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

10.14 PARENT ACCOUNTING POLICIES – *CONTINUED*

Balance sheet

Goodwill

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

Rights

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

Investments in subsidiaries and associates

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

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

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

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

Other investments

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

Provisions

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

Statement of changes in equity

In compliance with the format requirements of the Danish Financial Statements Act, any items included under comprehensive income in the consolidated financial statements are recognised directly in equity in the Parent financial statements.

Cash flow statement

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

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

<i>Company</i>	<i>Interest</i>	<i>Company</i>	<i>Interest</i>
William Demant Holding A/S	Parent	Audio Seleccion S.L., Spain*	100%
Oticon A/S, Denmark*	100%	BC Implants AB, Sweden*	100%
Oticon AS, Norway*	100%	Centro Auditivo Telex Ltda., Brazil	100%
Oticon AB, Sweden*	100%	Danacom Høreapparater A/S, Denmark*	100%
Oticon GmbH, Germany	100%	Din Hørelse ApS, Denmark*	100%
Oticon S.A., Switzerland*	100%	Diagnostic Group LLC, USA	100%
Oticon Italia S.r.l., Italy*	100%	Diatec AG, Switzerland*	100%
Oticon España S.A., Spain	100%	Diatec Diagnostics GmbH, Germany*	100%
Oticon Polska Sp. z o.o., Poland*	100%	Diatec Spain, S.L.U., Spain*	100%
Oticon Limited, United Kingdom*	100%	e3 diagnostics Inc., USA	100%
Oticon Inc., USA	100%	Guymark UK Limited, United Kingdom	100%
Oticon Australia Pty. Ltd., Australia*	100%	Hear Better Centers LLC, USA	100%
Oticon Singapore Pte Ltd., Singapore*	100%	HearingLife Canada Ltd., Canada*	100%
Oticon Shanghai Hearing Technology Co. Ltd., China*	100%	Hearing Healthcare Management LLC, USA	100%
Oticon International Trading Shanghai Co. Ltd., China*	100%	Hearing Holding Belgium NV, Belgium*	100%
Oticon South Africa (Pty) Ltd., South Africa*	100%	Hearing Screening Associates LLC, USA	100%
Oticon Korea Co. Ltd., Korea*	100%	Hidden Hearing (Portugal), Unipessoal Lda., Portugal*	100%
Oticon Malaysia Sdn, Malaysia*	100%	Hidden Hearing Limited, United Kingdom	100%
Oticon Medical A/S, Denmark*	100%	Hidden Hearing Limited, Ireland*	100%
Oticon Medical AB, Sweden	100%	IDEA Isitme Sistemleri Sanayi ve Ticaret A.S., Turkey*	100%
Oticon Medical LLC, USA	100%	Interacoustics A/S, Denmark*	100%
Audmet OY, Finland*	100%	Interacoustics Pty. Ltd., Australia*	100%
Audmet Australia Pty. Ltd., Australia*	100%	Kuulopiiri Oy, Finland*	100%
Audmet B.V., the Netherlands*	100%	LeDiSo Italia S.r.l., Italy*	100%
Audmet Canada LTD., Canada	100%	Maico Diagnostic GmbH, Germany*	100%
Audmet K.K., Japan*	100%	Maico S.r.l., Italy*	100%
Audmet New Zealand Limited, New Zealand*	100%	MedRx Inc., USA	100%
Audmet S.r.l., Italy*	100%	Micromedical Technologies Inc., USA	100%
Bernafon AG, Switzerland*	100%	Neurelec GmbH, Germany	100%
Bernafon Hörgeräte GmbH, Germany	100%	Neurelec Maroc Sarlau, Morocco	100%
Bernafon S.r.l., Italy*	100%	Neurelec S.A.S., France*	100%
Bernafon LLC, USA	100%	New Zealand Audiology Limited, New Zealand*	100%
Bernafon AB, Sweden*	100%	Phonic Ear A/S, Denmark*	100%
Bernafon Ibérica S.L.U., Spain*	100%	Prodition S.A.S., France*	100%
DGS Diagnostics Sp. z o.o., Poland	100%	Sensory Devices Inc., USA	100%
DGS Poland Sp. z o.o., Poland	100%	SES Isitme Cihazlari Sanayi ve Ticaret A.S., Turkey*	100%
Demant Technology Centre Sp. z o. o., Poland*	100%	Sonic Innovations Inc., USA	100%
ACS Sluchmed Sp. z o.o., Poland	100%	Sonic Innovations Pty Ltd., Australia	100%
Acustica Sp. z o.o., Poland*	100%	Udicare S.r.l., Italy*	100%
Acoustic Metrology Limited, United Kingdom	100%	Van Boxtel Hoorwinkels B.V., the Netherlands	100%
Akoustica Medica M EPE, Greece*	100%	Your Hearing Network, Inc., USA	100%
Amplivox Ltd., United Kingdom	100%	FrontRow Calypso LLC, USA	75%
Audika AB, Sweden*	100%	Sennheiser Communications A/S, Denmark*	50%
Audika AG, Switzerland*	100%	Dencker A/S, Denmark*	40%
Audika Groupe S.A.S., France*	100%	HIMSA A/S, Denmark	25%

The list above includes the Group's active companies.

** Directly owned by the Parent.*

