2018
Annual Report

Demant

We keep improving and innovating our customer-facing activities.

To ensure that the growing ageing population can continue to take care of themselves and interact in increasingly complex and dynamic surroundings, they need treatment by a hearing care professional, who can offer specialised products and services that meet their individual needs.

Our aim is to deliver high-quality service and to obtain maximum end-user satisfaction based on personalised care and service.

Søren Nielsen, President & CEO

Contents

Key figures and financial ratios – year

	2018	2017	2016	2015	2014
Income statement, DKK million					
Revenue	13,937	13,189	12,002	10,665	9,346
Gross profit	10,784	10,026	9,030	7,895	6,813
Gross profit, adjusted	10,825	10,064	9,102	7,895	-
R&D costs	1,009	919	839	763	680
EBITDA	2,978	2,742	2,346	2,203	2,055
Amortisation and depreciation etc.	446	404	404	325	294
Operating profit (EBIT)	2,532	2,338	1,942	1,878	1,761
Operating profit (EBIT), adjusted	2,652	2,504	2,130	1,902	-
Net financial items	-164	-111	-101	-69	-70
Profit before tax	2,368	2,227	1,841	1,809	1,691
Profit for the year	1,830	1,759	1,464	1,439	1,327
Balance sheet, DKK million					
Net interest-bearing debt	5,835	4,030	4,036	3,703	2,405
Assets	17,935	16,222	15,548	14,390	11,219
Equity	7,059	7,433	6,966	6,500	5,584
Other key figures, DKK million					
Investment in property, plant and equipment, net	409	292	299	375	354
Cash flow from operating activities (CFFO)	1,683	1,872	1,679	1,592	1,495
Cash flow from operating activities (CFFO), adjusted	1,765	2,023	1,756	1,602	-
Free cash flow	1,185	1,387	1,223	1,129	1,044
Average number of employees	14,250	13,280	12,339	10,803	9,799
Financial ratios					
Gross profit margin	77.4%	76.0%	75.2%	74.0%	72.9%
Gross profit margin, adjusted	77.7%	76.3%	75.8%	74.0%	-
EBITDA margin	21.4%	20.8%	19.5%	20.7%	22.0%
Profit margin (EBIT margin)	18.2%	17.7%	16.2%	17.6%	18.8%
Profit margin (EBIT margin), adjusted	19.0%	19.0%	17.7%	17.8%	-
Return on equity	25.7%	24.0%	21.5%	23.7%	24.7%
Equity ratio	39.4%	45.8%	44.8%	45.2%	49.8%
Gearing multiple (NIBD/EBITDA)	2.0	1.5	1.7	1.7	1.2
Earnings per share (EPS), DKK*	7.32	6.84	5.53	5.30	4.80
Cash flow per share (CFPS), DKK*	6.76	7.30	6.37	5.89	5.38
Free cash flow per share, DKK*	4.76	5.41	4.64	4.18	3.75
Dividend per share, DKK*	-	-	-	-	-
Equity value per share, DKK*	28.3	28.9	26.4	24.1	20.1
Price earnings (P/E)	25.3	25.4	22,2	25.0	20.0
Share price, DKK*	184.9	173.5	122,8	131.4	93.6
Market cap. adjusted for treasury shares, DKK million	45,308	43,864	31,829	35,126	25,545
Average number of shares outstanding, million*	249.14	256.56	263.75	270.13	278.13

Financial ratios are calculated in accordance with "Recommendations and Ratios" from CFA Society Denmark. 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. The gearing multiple is calculated as net-interest bearing debt relative to EBITDA.

**Per share of nominally DKK 0.20.*

Key figures and financial ratios – half-year

	2018 H2	2018 H1	2017 H2	2017 H1	2016 H2	2016 H1
Income statement, DKK million						
Revenue	7,160	6,777	6,684	6,505	6,192	5,810
Gross profit	5,583	5,201	5,087	4,939	4,681	4,349
Gross profit, adjusted	5,614	5,211	5,108	4,956	4,733	4,369
R&D costs	517	492	461	458	435	404
EBITDA	1,537	1,441	1,486	1,256	1,322	1,024
Amortisation and depreciation etc.	231	215	207	197	220	184
Operating profit (EBIT)	1,306	1,226	1,279	1,059	1,102	840
Operating profit (EBIT), adjusted	1,380	1,272	1,362	1,142	1,238	892
Net financial items	-92	-72	-56	-55	-58	-43
Profit before tax	1,214	1,154	1,223	1,004	1,044	797
Profit for the period	936	894	961	798	830	634
Balance sheet, DKK million						
Net interest-bearing debt	5,835	5,061	4,030	4,081	4,036	3,914
Assets	17,935	17,224	16,222	16,082	15,548	14,946
Equity	7,059	6,943	7,433	7,248	6,966	6,704
Other key figures, DKK million						
Investment in property, plant and equipment, net	211	198	168	124	153	146
Cash flow from operating activities (CFFO)	687	996	986	886	951	728
Cash flow from operating activities (CFFO), adjusted	714	1,051	1,054	969	988	768
Free cash flow	239	946	727	660	719	504
Average number of employees	14,565	13,934	13,514	13,047	12,483	12,194
Financial ratios						
Gross profit margin	78.0%	76.7%	76.1%	75.9%	75.6%	74.9%
Gross profit margin, adjusted	78.4%	76.9%	76.4%	76.2%	76.4%	75.2%
EBITDA-margin	21.5%	21.3%	22.2%	19.3%	21.4%	17.6%
Profit margin (EBIT margin)	18.2%	18.1%	19.1%	16.3%	17.8%	14.5%
Profit margin (EBIT margin), adjusted	19.3%	18.8%	20.4%	17.6%	20.0%	15.4%
Return on equity	26.0%	25.1%	25.7%	22.3%	24.1%	19.0%
Equity ratio	39.4%	40.3%	45.8%	45.1%	44.8%	44.9%
Gearing multiple (NIBD/EBITDA), rolling 12 months	2.0	1.7	1.5	1.6	1.7	1.8
Earnings per share (EPS), DKK*	3.77	3.55	3.75	3.10	3.16	2.40
Cash flow per share (CFPS), DKK*	2.78	3.97	3.86	3.43	3.63	2.74
Free cash flow per share, DKK*	0.97	3.77	2.85	2.56	2.75	1.90
Dividend per share, DKK*	-	-	-	-	-	-
Equity value per share, DKK*	28.3	27.6	28.9	28.1	26.4	25.2
Price earnings (P/E)	25.3	36.2	25.4	27.3	22.2	27.4
Share price, DKK*	184.9	256.8	173.5	168.5	122.8	130.0
Market cap. adjusted for treasury shares, DKK million	45,308	63,887	43,864	43,222	31,829	34,309
Average number of shares outstanding, million*	247.13	251.15	255.18	257.94	261.68	265.82

Half-yearly key figures have not been audited.

**Per share of nominally DKK 0.20.*

Key figures and financial ratios – EUR*

Key figures, EUR million	2018	2017	2016	2015	2014
Revenue	1,870	1,770	1,610	1,431	1,254
Operating profit (EBIT), adjusted	356	336	286	255	-
Profit for the year	246	236	196	193	178
Equity	945	995	933	870	748
Cash flow from operating activities (CFFO), adjusted	237	271	236	215	-
Market cap. adjusted for treasury shares	6,068	5,874	4,262	4,704	3,421

Key figures, EUR million	2018 H2	2018 H1	2017 H2	2017 H1	2016 H2	2016 H1
Revenue	961	909	897	873	831	780
Operating profit (EBIT), adjusted	185	171	183	153	166	120
Profit for the period	126	120	129	107	111	85
Equity	945	930	995	971	933	898
Cash flow from operating activities (CFFO), adjusted	96	141	141	130	133	103
Market cap. adjusted for treasury shares	6,068	8,556	5,874	5,788	4,262	4,595

**On translation of key figures and financial ratios from Danish kroner to euros, Danmarks Nationalbank's rate of exchange as of 31 December 2018 of 746.73 has been used for balance sheet items, and the average rate of exchange for 2018 of 745.32 has been used for the income statement and cash flow items.*

CEO letter

Dear reader

With the technological development moving at an ever-faster pace, innovation aimed at creating customer-centric solutions and services is of paramount importance for any company to be successful. This is even more true when it comes to treating hearing loss. The way we hear things is an essential part of who we are: Better hearing helps us stay active and remember better and thus improve our quality of life. This is extremely important and a huge responsibility that should not be taken lightly.

The world's population of people over 65 years grew to more than 650 million in 2018 – and will grow to more than 1,500 million over the next 30 years. To ensure that this growing ageing population can continue to take care of themselves and interact in increasingly complex and dynamic surroundings, they need treatment by a hearing care professional, who can offer specialised products and services that meet their individual needs. We strongly advocate the access to specialised hearing care, and we are grateful for the many hearing care professionals who work to help more people hear better.

2018 was a step in the right direction on our journey towards accomplishing our purpose to make life-changing differences. We continue our growth by taking market shares and by clearly demonstrating the positive effects of our solutions on health. Another year with substantial organic growth is a testament to the fact that our customers appreciate the products, services and solutions offered by the many companies in the Demant Group. In 2018, we generated growth in underlying sales of 9% and in operating profit of 8%.

As far as our biggest business activity, Hearing Devices, is concerned, our hearing aid wholesale business delivered substantial organic growth thanks to many new products introduced in all brands. With its dominant position in the market and strong product offering when it comes to sound quality, Oticon Opn™ did particularly well in 2018, especially in the important Veterans Affairs channel in the US where we saw significant growth. Thanks to continuously increasing investments in R&D, we will in 2019 see a steady flow of new impactful solutions to our customers and end-users. More concretely, I am pleased to announce that we are on the verge of introducing a new strong hearing aid platform that pushes the boundaries of what is possible.

In our retail business, we keep improving and innovating our customer-facing activities with a view to delivering high-quality service to a growing group of users. Our aim is to obtain maximum end-user satisfaction based on personalised care and service. We are working hard on integrating our retail activities into more coherent entities, and we are making great progress, while expanding our retail business significantly, mainly due to acquisitions.

2018 was a true milestone for our business activity Hearing Implants with the introduction of the Neuro 2 processor in February. Our employees in Oticon Medical have worked hard to demonstrate the benefits of the processor to existing clinics and to form relationships with many new clinics. Today, more than 1,500 patients benefit from the incredible, modern and high-performing Neuro cochlear implant system. The market for bone anchored hearing systems saw modest development in 2018, but we expect the market to pick up in 2019 with our launch of the Ponto sound processor based on a brand new platform.

In 2018, we succeeded in taking significant market shares in our business activity Diagnostic Instruments. It is very rewarding to see the strong growth we generate in existing business areas and also to see that we are as adept as ever at innovating and creating new opportunities based on a very strong organisational set-up.

Our endeavours, when it comes to innovation, shape our Group for the future, and Demant is in it for the long haul. The new Demant brand is not just a name change for this leading Group with 115 years of history in hearing healthcare. It will also strengthen the collaboration across our Group and thus enable us to better share our tremendous knowledge and insight, the goal being that even more customers and users benefit from better solutions. The coherent profile of a connected Demant Group will also help us recruit the best people, while internally creating a sense of community and pride in belonging to one big family. But most importantly, we will strengthen our focus on creating life-changing differences through hearing health.

Over the years, we have formed a strong Group of hearing healthcare companies that are active in hearing devices, hearing implants and diagnostic instruments and represent every element of the hearing healthcare offering. We will continue this multi-business strategy and the individual go-to-market strategies of our brands. Demant will be the global brand of our shared functions around the world and offer a strong communication platform and a compelling shared story. Our focus on health is as strong as ever, but in 2018, we also took important steps to expand the diversity of our business: We embarked on a process to build our own activities in the audio industry based on our joint venture Sennheiser Communications, part of which will be integrated into the Group where we already see strong synergies in R&D and back-office functions. So, also in this part of our Group, we are equipped to accelerate growth through strong offerings in gaming headsets and enterprise solutions that will be fully integrated into our business.

We continue to promise our shareholders growth. In 2019, we will launch a range of impactful products and solutions, supporting our ambition to stay in the lead. But this will not happen without the work of skilled people. I would like to thank all employees in the Demant Group for their hard and competent work. By using the brilliance of our workforce, we strengthen our ability to create life-changing differences through hearing health.

Søren Nielsen, President & CEO

Life-changing hearing health

At a glance

Pave new ways
For more than a century, the Demant Group has played a vital part in developing innovative technologies and know-how to help improve people's hearing. In every aspect, at every touchpoint, from hearing devices, hearing implants and diagnostic equipment to intelligent audio solutions and hearing care all over the world, Demant is active and engaged. Our ambition is to pave new ways in hearing health, while ensuring our long-term presence and conducting business responsibly.

Ensuring hearing health is more important than ever
We facilitate good hearing by offering the newest technology and hearing care. Overcoming the boundaries of hearing loss through the active use of hearing aids and professional hearing care makes it easier for people living with hearing loss to participate in everyday life. Good hearing is a vital element when it comes to enjoying a healthy life.

14,614
NUMBER OF EMPLOYEES

Having engaged, motivated and highly competent people is key to the Demant Group. We are ambitious, and we want to be the best at what we do. We want to attract, develop and retain the best employees and to work smarter to reach our goals. Aiming to be the leader in our industry and a great place to work now and in the future, we prioritise employee engagement and modern leadership practices.

R&D costs
1,009
DKK MILLION

Our international R&D organisation is a major catalyst for innovation projects. All our R&D sites in Denmark, France, Sweden, Poland, China, Germany and the US play a key role in our endeavours to always be at the forefront of development, enabling us to deliver the most innovative solutions.

Business model

Our Group has four business activities: Hearing Devices, Hearing Implants, Diagnostic Instruments and Personal Communication.

Demant

Hearing Devices	Hearing Implants	Diagnostic Instruments	Personal Communication
Oticon – People First	Oticon Medical	MAICO	Sennheiser Communications
Bernafon – Your hearing · Our passion		Interacoustics	
Sonic – Everyday Sounds Better		Amplivox	
Phonic Ear		GSI Grason-Stadler	
Frontrow – your school. connected.		MedRx	

Shared functions

Distribution activities

Hearing Devices	Hearing Implants	Diagnostic Instruments	Personal Communication
87% of revenue	4% of revenue	9% of revenue	1,085 DKK MILLION revenue

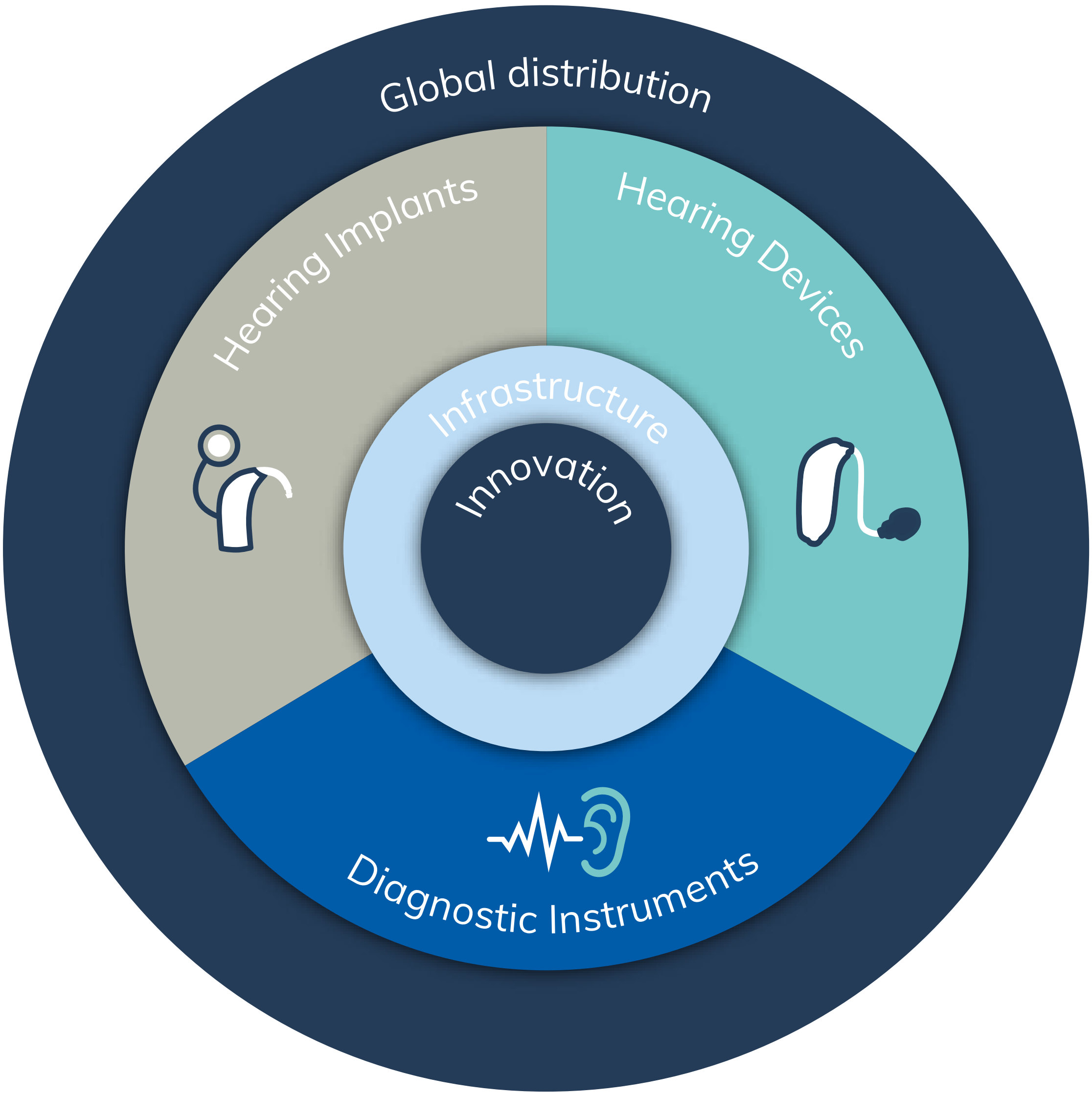
Group revenue 2018	Group EBIT 2018	Group EBIT outlook 2019
13,937 DKK MILLION (+9%)	2,652* DKK MILLION (+6%)	2,650-2,950 DKK MILLION

** Before announced restructuring costs.*

Strategy

Favourable demographic trends, particularly the growing ageing population, continue to drive growth in the hearing healthcare market. We are thus addressing an attractive market, and our strategic ambition is to further expand our position as the leading global hearing healthcare company with the broadest, deepest and most innovative product offering. We invest heavily in R&D, and one of our focus areas is to exploit synergies across our business activities and enable our customers and end-users to benefit from our multi-business and multi-brand approach backed by a comprehensive global distribution set-up and efficient infrastructure.

Demant has a strong track 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 retail activities. We have furthermore built market-leading entities in the fields of diagnostic instruments and bone anchored hearing systems (BAHS), and we have successfully integrated them into the Demant Group. It is our clear long-term ambition to also take our cochlear implants (CI) business on a similar journey, which will further strengthen our leading hearing healthcare position.



Fascinating prospects for future hearing aids

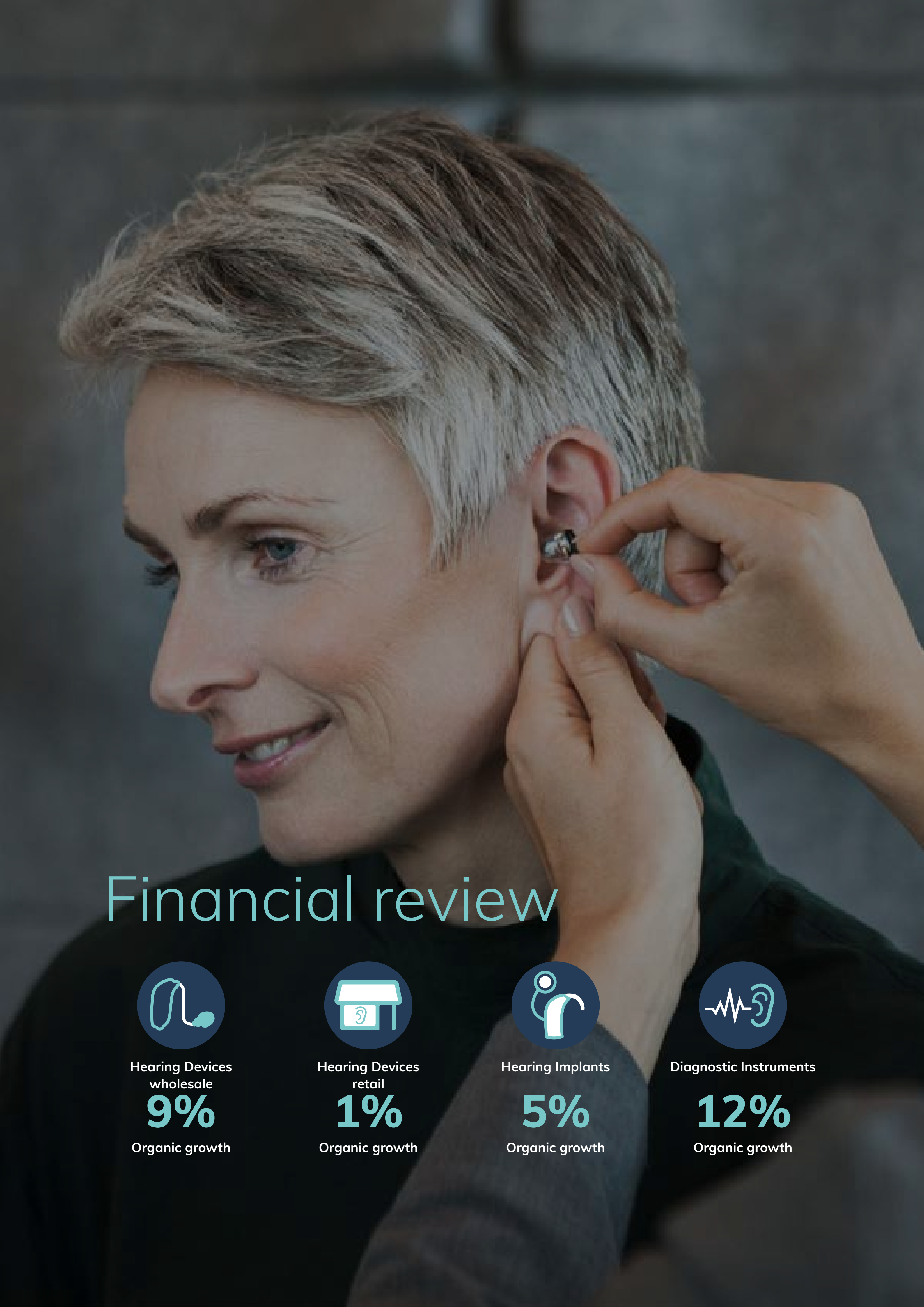
Rose and Maël are growing up with Neuro 2 cochlear implants

New system enables long-distance hearing testing

William Demant changes name to Demant

New direction for Demant's audio business

New custom hearing aids in all brands and styles



Financial review

Hearing Devices wholesale
9%
Organic growth

Hearing Devices retail
1%
Organic growth

Hearing Implants
5%
Organic growth

Diagnostic Instruments
12%
Organic growth

Strong revenue growth of 9% in local currencies exceeding the market growth rate
8% growth in EBIT (6% adjusted) with unprecedented level of resources used to drive future growth
New platform enabling Oticon to launch premium products with significant audiological improvements
Outlook 2019: EBIT of DKK 2.65-2.95 billion and share buy-backs of a minimum of DKK 1.2 billion

- Consolidated revenue for 2018 amounted to DKK 13,937 million, corresponding to a growth rate of 6%. We saw substantial organic growth, which contributed with 7 percentage points, while acquisitive growth contributed with 2 percentage points and exchange rate effects with -3 percentage points.

- In Hearing Devices, growth in local currencies amounted to 9%. Our hearing aid wholesale business delivered a strong performance with organic growth of 9% and thus gained market share in value despite a slowdown in growth towards the end of the year. Based on a new high-performing platform, Oticon will over the coming weeks launch new premium products proven to deliver even better speech understanding than the ground-breaking Oticon Opn™ thanks to new breakthrough technologies. The launch also includes our first lithium-ion-based rechargeable batteries. Furthermore and in line with our multi-brand strategy, our Bernafon and Sonic brands will launch new strong product portfolios during the second quarter of 2019, and we also expect to introduce our first Philips-branded hearing solutions to the market in the second quarter of 2019 as well. Our hearing aid retail business delivered growth of 9% in local currencies mainly driven by acquisitive growth of 8%, whereas organic growth was 1%, however with material differences between our markets.

- Our Hearing Implants business activity delivered 10% underlying organic growth, when adjusting for our decision to reduce our activity level in select cochlear implants (CI) markets with lower prices. In our CI business, underlying growth exceeded the estimated market growth rate of 10-12% driven by the roll-out of Neuro 2 with improved momentum in key European markets towards the end of the year. Our bone anchored hearing systems (BAHS) business delivered a modest growth rate slightly above the market growth rate, which we estimate was flat in 2018 due to the lack of product introductions. Towards the end of the first half of 2019, our BAHS business will introduce a new Ponto sound processor based on a brand new platform, offering superior audiology and a range of improved functionalities. On a reported basis, growth in Hearing Implants was 5% in local currencies, all of which was organic growth.

- Diagnostic Instruments saw exceptional growth of 12% in local currencies, almost entirely attributable to organic growth, and with an estimated market growth rate of around 5%, we thus gained further market share. We saw strong performance across brands, product categories and geographies.

- Sennheiser Communications, our 50/50 joint venture with Sennheiser KG, delivered strong underlying growth of 25% (46% reported) and materially grew its contribution to the Group's EBIT to DKK 104 million.

- Overall, consolidated operating profit (EBIT) grew by 6% and amounted to DKK 2,652 million before restructuring costs of DKK 120 million, which is in line with the announced outlook range of DKK 2.65-2.85 billion before restructuring costs of DKK 120 million (the original outlook for an EBIT of DKK 2.55-2.85 billion before restructuring costs of DKK 150 million was revised in August 2018). Unchanged from 2017, the adjusted EBIT margin of 19.0% was positively impacted by the strong growth generated by our hearing aid wholesale business, despite the fact that the business allocated more resources to continued innovation, and also by Diagnostic Instruments and Sennheiser Communications, whereas the low organic growth in the hearing aid retail business had a dilutive impact on the margin. Reported EBIT grew by 8% to DKK 2,532 million, corresponding to an EBIT margin of 18.2% or an increase of 0.5 percentage point on 2017. Reported profit for the year increased by 4% to DKK 1,830 million, and earnings per share (EPS) increased by 7% to DKK 7.32.

- Cash flow from operating activities (CFFO) decreased by 13% to DKK 1,765 million before restructuring costs due to an increase in our net working capital, resulting from low inventory levels at the beginning of the year and preparations for upcoming product launches, as well as some tax payments made in 2018 relating to 2017 and 2019.

- The Demant Group expects to generate organic sales growth above market level in 2019 accelerating through the year as we start seeing the effect of new product launches. Based on exchange rates as of 18 February 2019 and including the impact of exchange rate hedging, we expect a positive exchange rate effect of 1% on revenue in 2019. We are guiding for a reported operating profit (EBIT) of DKK 2,650-2,950 million. We expect to deliver substantial growth in our cash flow from operating activities (CFFO) and to buy back shares worth a minimum of DKK 1.2 billion. We aim for a gearing multiple of 1.8-2.3 measured as net interest-bearing debt (NIBD) relative to EBITDA, corresponding to an unchanged gearing multiple of 1.5-2.0 before the implementation of IFRS 16.

As previously announced, the Group has been running a restructuring programme for the past few years, which ended on 31 December 2018, and the commentary below on our financial results is based on figures adjusted for restructuring costs, unless otherwise indicated.

Income statement (DKK million)	Reported 2018	Restructuring costs	Adjusted 2018	Reported 2017	Restructuring costs	Adjusted 2017	Growth (reported)	Growth (adjusted)
Revenue	13,937	-	13,937	13,189	-	13,189	6%	6%
Production costs	-3,153	-41	-3,112	-3,163	-38	-3,125	0%	0%
Gross profit	**10,784**	**-41**	**10,825**	**10,026**	**-38**	**10,064**	**8%**	**8%**
Gross profit margin	77.4%		77.7%	76.0%		76.3%		
R&D costs	-1,009	-15	-994	-919	-63	-856	10%	16%
Distribution costs	-6,616	-37	-6,579	-6,095	-38	-6,057	9%	9%
Administrative expenses	-761	-27	-734	-727	-27	-700	5%	5%
Share of profit after tax, associates and joint ventures	134	-	134	53	-	53	153	153%
Operating profit (EBIT)	**2,532**	**-120**	**2,652**	**2,338**	**-166**	**2,504**	**8%**	**6%**
Operating profit margin (EBIT margin)	18.2%		19.0%	17.7%		19.0%		

Revenue
For 2018, revenue for the Group amounted to DKK 13,937 million, corresponding to a growth rate of 9% in local currencies of which organic growth contributed by 7 percentage points and acquisitive growth by 2 percentage points. All our three fully consolidated business activities delivered solid organic growth, whereas acquisitive growth was driven by our hearing aid retail business.

Exchange rates affected reported growth negatively by more than 3 percentage points due to lower average exchange rates for all major trading currencies than in 2017. Thus, reported growth for the period was 6%.

With growth of 12% in local currencies, North America became our largest region in terms of sales due to strong organic growth in our hearing aid wholesale business and Diagnostic Instruments and acquisitive growth in our hearing aid retail business. Due to strong growth in France and Spain, organic growth in Europe was 5%, with acquisitions adding slightly to growth. Growth in local currencies in the Pacific region was modest, whereas Asia delivered strong organic growth of 14% driven by high sales in China. The Other countries region saw low organic growth as a result of decreasing tender activities.

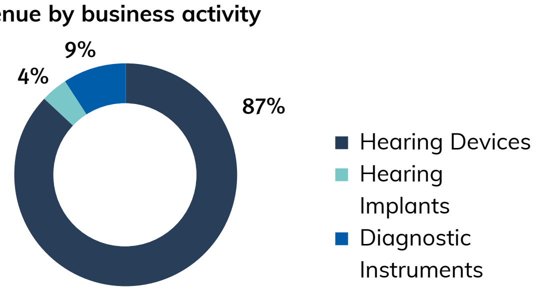
Revenue by business activity

			Change		
DKK million	2018	2017	DKK	LCY	Org.
Hearing Devices	12,129	11,495	5%	9%	6%
- Wholesale			6%	9%	9%
- Retail			6%	9%	1%
Hearing Implants	509	500	2%	5%	5%
Diagnostic Instr.	1,299	1,194	9%	12%	12%
Total	**13,937**	**13,189**	**6%**	**9%**	**7%**

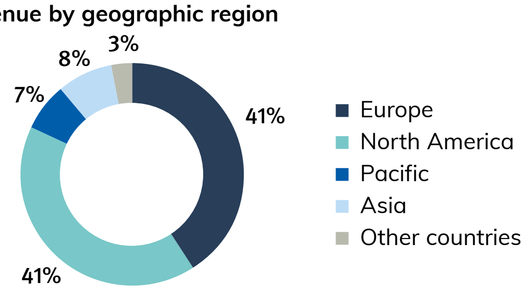
Revenue by geographic region

			Change		
DKK million	2018	2017	DKK	LCY	Org.
Europe	5,745	5,437	6%	6%	5%
North America	5,766	5,358	8%	12%	8%
Pacific	911	946	-4%	3%	1%
Asia	1,059	960	10%	14%	14%
Other countries	456	488	-7%	1%	1%
Total	**13,937**	**13,189**	**6%**	**9%**	**7%**

Revenue by business activity



Revenue by geographic region



Gross profit
Gross profit increased by 8% to DKK 10,825 million, resulting in a gross profit margin of 77.7%, or an increase of 1.4 percentage points on 2017. This increase reflects improved operating leverage, which was partly offset by higher production costs related to increased sales of value-added products and accessories, primarily our rechargeable solution. Exchange rates also had a positive effect on the gross profit margin.

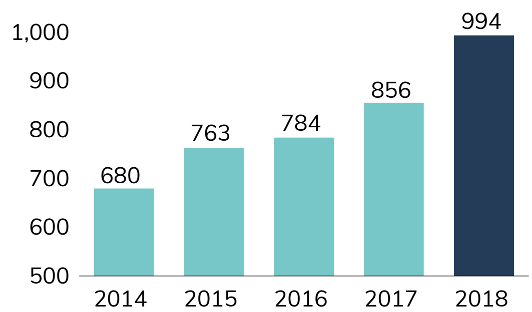
Capacity costs
Total capacity costs increased by 9% to DKK 8,307 million for the year. Growth in local currencies was 12%, reflecting both organic and acquisitive growth.

Capacity costs

DKK million	2018	2017	DKK	LCY
R&D costs	994	856	16%	17%
Distribution costs	6,579	6,057	9%	12%
Administrative expenses	734	700	5%	7%
Total	**8,307**	**7,613**	**9%**	**12%**

R&D costs increased by 17% in local currencies, as we allocated further resources to expanding our innovation capacity in all business activities and across all R&D disciplines. This reflects our ambition to stay ahead of the game in a product-driven hearing healthcare industry with ever-increasing complexity in hardware, software, connectivity solutions, user interfaces etc., and our continued focus on digitalisation enables us to keep improving our products and the customer experience. As a result of our strategic initiatives, which includes the establishment of a new software development centre in Poland, we were able to scale up our innovation efforts at a lower cost base than we could otherwise have done. Up from 6.5% in 2017, R&D costs amounted to 7.1% of total consolidated revenue.

R&D costs – DKK million*

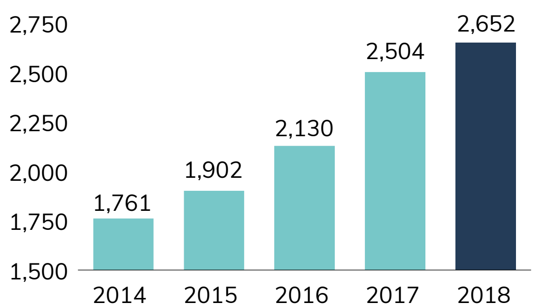


** The figures for 2015-2018 are shown on an adjusted basis.*

Distribution costs increased by 12% in local currencies and were more or less evenly split between organic and acquisitive growth. The latter was driven by our hearing aid retail business, as retail assets normally involve high distribution costs relative to revenue. Administrative expenses increased by 7% due to an increased activity level.

Operating profit
Consolidated operating profit (EBIT) for the year amounted to DKK 2,652 million before restructuring costs of DKK 120 million, which is in line with the announced guidance range of DKK 2.65-2.85 billion before restructuring costs of DKK 120 million (original guidance for an EBIT of DKK 2.55-2.85 billion before restructuring costs of DKK 150 million was revised in our Interim Report 2018 released in August 2018). Compared to 2017, EBIT grew by 6% and resulted in an unchanged EBIT margin of 19.0%. In Hearing Devices, EBIT growth was driven by a strong performance by our hearing aid wholesale business despite increased sales of value-added products and accessories with lower gross profit margins as described above. However, the low organic growth in our hearing aid retail business weighed down EBIT growth for the Hearing Devices business activity as a whole. Diagnostic Instruments contributed significantly to total EBIT growth due to strong organic growth and operating leverage. Our Hearing Implants business activity continued to have a dilutive effect on the consolidated EBIT margin of around 1 percentage point, as we continued to allocate R&D resources to and invest in initiatives to improve our market access. Driven by a higher profit in Sennheiser Communications, our total share of profit after tax from associates and joint ventures amounted to DKK 134 million, which is a significant increase of 153% on 2017.

Operating profit (EBIT) – DKK million*



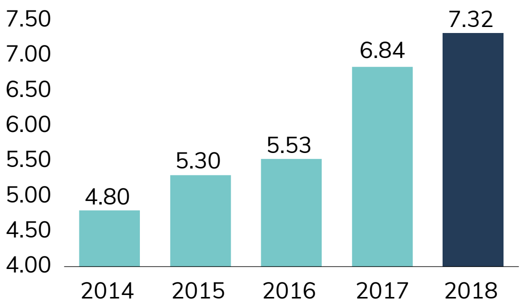
** The figures for 2015-2018 are shown on an adjusted basis.*

With total restructuring costs of DKK 120 million, reported EBIT amounted to DKK 2,532 million, corresponding to a growth rate of 8% and a reported EBIT margin of 18.2%, or an increase of 0.5 percentage point on 2017. 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 and estimated earn-outs was DKK 7 million in 2018 (DKK 5 million in 2017) recognised under Distribution costs. Please refer to Note 6.1 for more details.

Financial items
Reported net financial items amounted to DKK -164 million, or a decrease of DKK 53 million on 2017 due to higher interest expenses, resulting from an increase in the net interest-bearing debt in the period, and also to higher credit card and bank fees.

Earnings per share – DKK

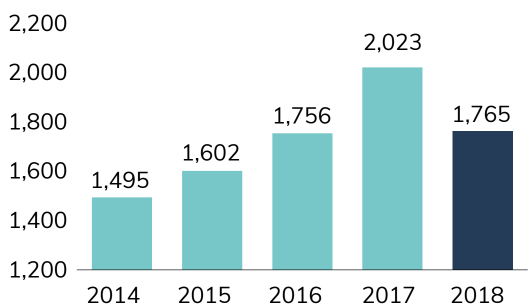


Profit for the year
The Group's reported profit before tax for 2018 amounted to DKK 2,368 million, up by 6% compared to the year before. Tax amounted to DKK 538 million, resulting in an increase of the effective tax rate to 22.7% from 21.0% in 2017. Reported net profit for the year was DKK 1,830 million, an increase of 4% compared to 2017. The resulting reported earnings per share (EPS) was DKK 7.32, or an increase of 7% from DKK 6.84 in 2017.

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

Cash flow statement
Consolidated cash flow from operating activities (CFFO) amounted to DKK 1,765 million, a decrease of 13% compared to the year before. The lower CFFO is the result of an increase in our net working capital, which was impacted by approx. DKK 70 million due to low inventory levels at the beginning of the year as well as by preparations for upcoming product launches. Additionally, CFFO was negatively impacted by tax payments of approx. DKK 80 million made in 2018 relating to 2017 and 2019. Cash flow from restructuring costs was DKK -82 million, and reported CFFO thus amounted to DKK 1,683 million, a decrease of 10% compared to 2017.

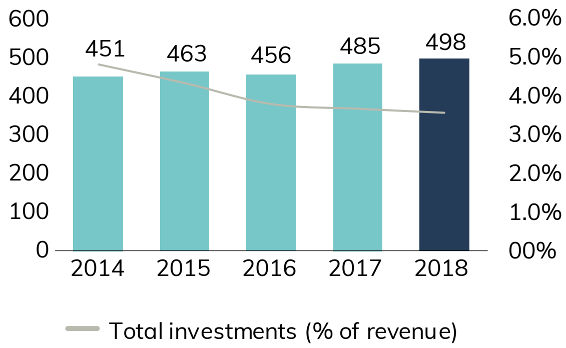
Cash flow from operating activities (CFFO) – DKK million*



** The figures for 2015-2018 are shown on an adjusted basis.*

Our cash flow from investing activities increased modestly by 3% to DKK 498 million. The investment activities were focused on digitalisation and the refurbishment of existing retail stores and greenfield investments in retail store openings. Consequently, the reported free cash flow before acquisitions and divestments decreased by 15% to DKK 1,185 million.

Net investments – DKK million



Cash flow to acquisitions increased by 43% compared to 2017. Most of the cash spent on acquisitions in 2018 relates to the increase of our ownership in the first half-year of a US-based retail network previously recognised as investments in associates. The buy-back of shares increased by 70% to DKK 1,751 million and was thus in line with expectations for total buy-backs of DKK 1.5-2.0 billion. All in all, net cash flow for the year amounted to DKK -383 million.

Cash flow by main items

(DKK million)	2018	2017	Change
Operating profit, adjusted	**2,652**	**2,504**	**6%**
Cash flow from operating activities, adjusted	**1,765**	**2,023**	**-13%**
Cash flow from restructuring costs	-82	-151	-46%
Cash flow from operating activities	**1,683**	**1,872**	**-10%**
Cash flow from investing activities	-498	-485	3%
Free cash flow	**1,185**	**1,387**	**-15%**
Acquisition and divestment of enterprises, participating interests and activities	-940	-656	43%
Buy-back of shares	-1,751	-1,031	70%
Other financing activities	1,123	-265	324%
Cash flow for the year	**-383**	**-35**	**994%**

Please note that, compared to the Interim Report 2018, the settlement of loans issued to acquired entities prior to acquisition has been reclassified. These settlements were previously offset in the reported cash acquisition cost, but are now part of investing activities (non-current assets) in the cash flow statement. This has resulted in a decrease of the net investments reported for the first half of 2018 of DKK 291 million and a corresponding increase in the cash flow from acquisitions. There has been no impact on the second half of 2018.

Reclassification of cash acquisition cost in H1 2018

(DKK million)	H1 2018 (old)	H1 2018 (new)	H2 2018	FY 2018
Cash flow from operating activities	996	996	687	1,683
Cash flow from investing activities	-341	-50	-448	-498
Free cash flow	**655**	**946**	**239**	**1,185**
Acquisition and divestment of enterprises, participating interests and activities	-494	-785	-155	-940
Buy-back of shares	-902	-902	-849	-1,751
Other financing activities	549	549	574	1,123
Cash flow for the period	**-192**	**-192**	**-191**	**-383**

Balance sheet

As of 31 December 2018, the Group's total assets amounted to DKK 17,935 million, an increase of 11% compared to 2017. The increase primarily relates to goodwill from acquisitions and to a lesser extent to investments in property, plant and equipment and to higher current assets. Please note the impacts on balance sheet items of the implementation of IFRS 9 and IFRS 15 as described in Note 9.1.

Balance sheet by main items

The Group's net working capital was DKK 2,705 million as of 31 December 2018, up by 27% compared to the year before. As mentioned previously, the increase was mainly driven by increased inventory levels from a low level at the beginning of the year. Due to acquisitions and a high level of share buy-backs, net interest-bearing debt (NIBD) was DKK 5,835 million, or 45% higher than the DKK 4,030 million reported at the end of 2017. With an EBITDA for the year of DKK 2,978 million 2018, the resulting net gearing multiple (NIBD/EBITDA) was 2.0, which is at the top end of our 2018 target range of 1.5-2.0.

Balance sheet by main items

(DKK million)	2018	2017	Change
Non-current assets	11,930	10,882	10%
Inventories	1,641	1,351	21%
Trade receivables	2,763	2,573	7%
Cash	630	697	-10%
Other current assets	971	719	35%
Assets	**17,935**	**16,222**	**11%**
Equity	7,059	7,433	-5%
Non-current liabilities	3,390	3,086	10%
Trade payables	499	516	-3%
Other current liabilities	6,987	5,187	35%
Total equity and liabilities	**17,935**	**16,222**	**11%**

Total equity decreased by 5% to DKK 7,059 million of which DKK 9 million is attributable to non-controlling interests and DKK 7,050 million to the shareholders of William Demant Holding A/S. The decrease was mainly driven by the buy-back of 7,601,312 shares at an average price of DKK 230.30, amounting to DKK 1,751 million in total.

Employees

As of 31 December 2018, the Group had 14,614 employees (1,551 in Denmark) compared to 13,613 employees (1,574 in Denmark) at the beginning of the year.

Events after the balance sheet date

There have been no events that materially change the assessment of this Annual Report 2018 from the balance sheet date and up to today.

New accounting standards

With effect from 1 January 2018, IFRS 15 Revenue from Contracts with Customers has had some impact on the timing of revenue recognition and on the disclosure of revenue. IFRS 9 Financial Instruments also took effect on 1 January 2018 and in Management's estimation, the standard only has limited impact on the consolidated financial statements.

Issued in January 2016, IFRS 16 Leases requires lessees to recognise nearly all leases in the balance sheet with effect from 1 January 2019. Management has decided to use the modified transition method, whereby comparative figures are not restated.

Please refer to Note 9.1 for more details on the expected impact of the new accounting standards.

Outlook

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. These 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 estimates of market trends in 2019:

- The hearing aid wholesale market will see a unit growth rate of 4-6% and a low single-digit percentage fall 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 will see a value growth rate of 10-15%.
- The diagnostic equipment market will see a value growth rate of 3-5%.
- The total hearing healthcare market will see a value growth rate of 5%.

As a leading global provider of hearing healthcare solutions, the Demant Group is active in all key product segments, sales channels and geographic regions. Due to this relatively unique position in the marketplace, the Group has access to a large and attractive hearing healthcare market with solid and structural underlying growth drivers.

Outlook 2019
The outlook for 2019 includes the estimated effects of the implementation of IFRS 16.

The Demant Group expects to generate organic sales growth above market level in 2019, accelerating through the year as we start seeing the effect of new product launches. Based on exchange rates as of 18 February 2019 and including the impact of exchange rate hedging, we expect a positive exchange rate effect of 1% on revenue in 2019.

We are guiding for a reported operating profit (EBIT) of DKK 2.65-2.95 billion in 2019.

We expect to deliver substantial growth in our cash flow from operating activities (CFFO), and we will continue to prioritise value-adding investment opportunities and acquisitions, while any additional cash will be spent on buying back shares. For 2019, we expect to buy back shares worth a minimum of DKK 1.2 billion. We aim for a gearing multiple of 1.8-2.3 measured as net interest-bearing debt (NIBD) relative to EBITDA, corresponding to an unchanged gearing multiple of 1.5-2.0 before the implementation of IFRS 16. In order to maintain a high level of flexibility, this level of share buy-back is subject to change, should additional attractive acquisition opportunities present themselves.

Our business

Growth of 9% in Hearing Devices driven by strong organic growth in the hearing aid wholesale business and mainly acquisitive growth in the hearing aid retail business

Hearing Devices

With growth of 9% in local currencies of which organic growth accounted for 6 percentage points and acquisitive growth for 3 percentage points, 2018 was another strong year for our Hearing Devices business activity, which comprises our hearing aid wholesale and our hearing aid retail businesses. Organic growth was primarily driven by our wholesale business, as we were able to continue to exceed the market growth rate in value. This was mainly the result of our strong product portfolios in all brands based on world-leading technological and audiological innovation. Growth slowed down towards the end of the year due to intensified competition in the premium segment, but our launch of new premium products in all brands will help re-accelerate growth. Our retail business saw low organic growth with additional growth from continued bolt-on acquisitions in select markets.

Market conditions and business trends
We estimate that the global hearing aid market grew by approx. 5% in 2018 in units, which is in line with our general expectation of 4-6% unit growth per year. The US was a key growth driver with total unit growth of 5% according to statistics from the Hearing Industries Association (HIA), resulting from 6% unit growth in the commercial part of the US market and 2% unit growth in the large public channel, Veterans Affairs (VA). No later than in August 2020, the Food and Drug Administration (FDA) is expected to introduce draft legislation to establish a new over-the-counter (OTC) category of hearing aids in the US, but so far, we have not seen any material market impact. As a member of HIA, we monitor and analyse developments closely and are in active dialogue with the FDA. We maintain our view that any impact of the new OTC category will be limited. Please also refer to *Risk management activities* on page 37.

As far as Europe is concerned, we estimate that growth was approx. 4% with solid growth rates in France and Germany. Overall growth was, however, partly offset by slightly negative growth in the NHS, the large public channel in the UK. Looking beyond the US and Europe, we estimate that China continued to grow by double digits, whereas unit growth rates in Japan and Australia were more modest, but still in line with growth rates in most other developed markets.

We estimate that the development in the average selling price (ASP) on the hearing aid wholesale market was flat to slightly negative in 2018, as positive product and geography mix shifts offset – at least partly – the negative channel mix shifts that the industry has seen for a number of years. Coupled with our estimate of global unit growth, we thus believe that in 2018, growth in the hearing aid wholesale market was at the high end of our general expectation of 2-4%.

ASPs on the hearing aid retail market vary significantly from market to market because of differences in reimbursement schemes, market structures and customer preferences, but we estimate that retail prices in the individual channels have remained relatively stable.

Wholesale
Our hearing aid wholesale business had a strong 2018 with 9% growth in local currencies, all of which was organic growth. In terms of value, we thus generated a significantly higher growth rate than did the underlying market, which underscores our strong competitive position. Growth in the first half-year was impacted by several factors that diluted unit growth, but inflated ASP growth, i.e. the loss of sales to a large customer acquired by a competitor, large tenders at low prices in the comparative period and negative growth in the NHS. Even though we saw a normalisation in the second half-year, these factors also impacted our full-year unit and ASP growth, which on a reported basis amounted to 0% and 9%, respectively. If we adjust for these factors, unit and ASP growth rates for the full year were much more balanced at 5% each. For the second half-year specifically, organic growth was 7%, with growth slowing towards the end of the year due to an increasingly competitive environment in the premium segment, particularly with independent hearing care professionals in the US, and continued slow growth in the NHS. Reported unit and ASP growth rates were slightly more than 4% and 2%, respectively.

The ASP growth was driven by higher sales to independent hearing care professionals, strong growth in North America and a positive product mix, although the latter was somewhat offset by the launch in the second half-year of new products at lower price points in all three brands. As highlighted throughout 2018, part of the ASP growth was attributable to an increase in the sale of value-added products and accessories, such as our rechargeable solution and ConnectClip. However, despite having a positive effect on the ASP, these products had a dilutive effect on margins because of high production costs. Looking ahead, we expect the attachment rates for these types of accessories to continue to increase, as particularly rechargeable hearing solutions are more widely adopted.

As mentioned previously, 2018 was characterised by the extensive roll-out in the second half-year of our latest technology platform to more price points and to custom instruments. New products were introduced by all our three brands, Oticon, Bernafon and Sonic, including the first custom versions of the highly successful Oticon Opn™ product family. We also introduced HearingFitness™, the world's first hearing fitness app, and piloted the deployment of our RemoteCare solution for remote sessions between hearing care professionals and end-users. We are now ready to build on our pioneering audiology in Oticon Opn and over the coming weeks, our Oticon brand will launch new premium products based on a new platform and lithium-ion rechargeable battery technology. These products will include breakthrough feedback prevention technology and make the open sound paradigm even more effective: Speech understanding delivered by the first generation of Oticon Opn will be improved by a further 15%, the listening effort will be reduced by an additional 10%, and the memory recall improvement made by Oticon Opn will be increased by an extra 10%. Also, our Bernafon and Sonic brands will launch new strong product portfolios in the second quarter of 2019 and thus help to significantly strengthen our market position based on a very comprehensive multi-brand product offering.

Furthermore, we announced in August 2018 that we had partnered with Philips to take connected hearing healthcare to the next level. As part of the cooperation, we will develop, manufacture and distribute Philips-branded hearing solutions, and we see this as the perfect way to further evolve our existing multi-brand strategy. We expect to introduce these new solutions to the market in the second quarter of 2019.

With strong performances in both the US and Canada, North America was a strong growth driver in 2018. Growth in the US was primarily driven by Oticon, which saw increasing sales to independent hearing care professionals as well as extraordinarily high growth in sales to VA where we continued to grow our market share significantly. On a run-rate basis, our unit market share in VA was up from 14.6% in December 2017 to 20.4% in December 2018. Bernafon also saw strong growth in the US.

In Europe, we were also able to grow our business despite the negative effect of the loss of sales to a large customer acquired by a competitor and negative growth in the NHS in the UK. France was a key growth driver, partly because our Audika retail network increased the sale of Group-manufactured products. We also saw growth in Spain, Italy and in sales to independent hearing care professionals in Germany.

We saw high growth in Asia driven by China and to a lesser extent by Japan and South Korea. The Pacific region saw modest growth, and our Other countries region saw negative growth because of the large tenders in the comparative period mentioned above.

Retail

Our hearing aid retail business saw growth of 9% in local currencies in 2018 of which acquisitive growth accounted for 8 percentage points and organic growth for 1 percentage point. We continue to see material differences between our markets, as the maturity of our retail organisations varies significantly across geographies. In our mature markets, we have a

strong operating model, and we have harmonised our different retail brands and now only have one single brand in each market, e.g. Audika both in France and in other markets and Hidden Hearing in the UK. This process is still ongoing in some of our less mature markets where we are gradually implementing the operating model that has shown its worth in other markets. The resulting drag on organic growth in 2018 naturally impacted profitability negatively.

In 2018, growth in North America was driven by acquisitions in both the US and Canada. Most notably, we acquired the remaining shares of a store network in the US in the first half-year, which was previously recognised as investments in associates, resulting in material growth in both revenue and distribution costs. Organic growth in the US was negative in the first half of 2018, and the improvement seen in the second half-year was less significant than expected, which weighed down on profitability. Nevertheless, the US is still one of the most profitable regions for our retail business, and we have launched several initiatives to increase growth, including training clinic staff in sales excellence, harmonising retail brands, optimising digital lead generation, streamlining call-centre operations and implementing new systems and processes to support decision-making. We will continue to execute on these initiatives throughout 2019.

In Europe, we saw solid organic growth driven primarily by France, where we benefit from having a strong infrastructure as well as a market-leading brand. This has enabled us to invest in greenfield store openings and combined with ongoing bolt-on acquisitions, we increased our presence in the market during the year. Poland also delivered strong organic growth with additional growth from acquisitions.

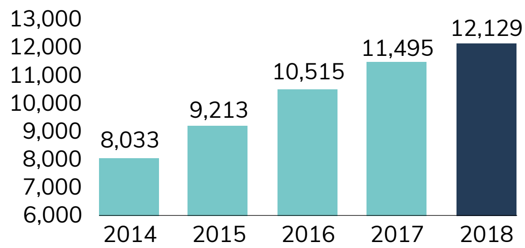
In Australia, which is a major market for our retail business, free-to-client hearing aids accounted for a larger share of overall sales than last year, resulting in a negative impact on the ASP and thus on growth. While we were able to compensate for this by improving efficiency and increasing unit sales in the first half-year, we saw lower efficiency in our marketing and lead-generation activities in the second half-year. This was partly due to the Australian Competition and Consumer Commission (ACCC) ordering the discontinuation of our main marketing campaign, including the payment of pecuniary penalties in the amount of AUD 2.5 million.

Revenue

12,129

DKK MILLION

Revenue (DKK million)



2018 highlights

Hearing aid wholesale

- Launch of custom instruments in all three brands, including the first custom versions of the industry-leading Oticon Opn product family
- Introduction of our latest platform technology and 2.4 GHz connectivity at more price points in all three brands
- Release of HearingFitness™, the world's first hearing fitness app, as part of the Oticon ON app
- Announcement of partnership agreement with Philips with a view to taking connected hearing healthcare to the next level
- Significant market share gains with VA in the US
- Increased investments in innovation, primarily within software and connectivity solutions

Hearing aid retail

- Strong organic growth in our Audika retail network in France
- Continued roll-out of our operating model across our global retail network and sharing best practices between our markets
- Increased ownership of a store network in the US where we previously held a non-controlling interest

Solid underlying growth in Hearing Implants above the estimated market growth rate in both businesses, driven by Neuro 2 in CI and Ponto 3 in BAHS

Hearing Implants

In 2018, our Hearing Implants business activity operating under the Oticon Medical brand realised 5% growth in local currencies, which was entirely organic growth. As anticipated, growth in the second half-year was lower than in the first half-year, mainly due to our decision to reduce our activity level in select CI markets with lower prices. Nonetheless, the launch of Neuro 2 has been successful, resulting in strong underlying growth and very positive user feedback. Underlying growth in cochlear implants (CI), excluding sales to markets where we have reduced our activity level, and growth in bone anchored hearing systems (BAHS) exceeded the estimated market growth rates, and underlying growth in Hearing Implants was 10%.

Cochlear implants
We estimate that in terms of unit sales, the CI market growth rate was 10-12%, which is in line with the estimated range in recent years. In light of geographic mix effects and the pricing pressure we have seen in certain tenders, ASPs were slightly lower than in previous years. Going forward, the CI industry is expected to generate double-digit unit growth, reflecting the fact that CIs are among the most successful hearing rehabilitation devices. A number of important drivers will contribute to further growth in the coming years, including low penetration, an increasing pool of elderly people needing a CI, new indications, such as single-sided deafness (SSD) and severe tinnitus, as well as product innovation, better reimbursement systems in emerging markets, increasing general awareness and wealth.

In 2018, our CI business delivered double-digit underlying growth, whereas reported growth was below the estimated market growth rate due to our decision to reduce our activity level in select CI markets with lower prices. The strong underlying growth was driven by key European markets, including Germany, Italy and Spain, but also Brazil, which is an important CI market, contributed to growth. Furthermore, we have almost concluded the successful upgrade of existing Neuro One users to the unique Neuro 2 external sound processor in markets where we have obtained regulatory approval. Due to strong clinical data and our dedication to innovation, we have formed relationships with many new important clinics and key opinion leaders, which is crucial for our CI business to prove the credibility and performance of our solutions.

Our Hearing Implants business activity is strongly driven by innovation and this year, we launched the Neuro 2 CI processor along with a completely new suite of fitting solutions that offer unique possibilities in the CI field. Our Neuro system, including our Zti implant, is one of the most modern and attractive CI solutions available and is a testament to our dedication to product quality and innovation. More than 1,500 users now enjoy the merits of the Neuro 2 sound processor, and we are receiving very positive feedback on its design, usability, battery life and reliability. In September, we published our Reliability Report 2018, documenting that our Neuro Zti implant is indeed industry-leading. The findings of the report will contribute to further strengthening our clinical evidence base.

Bone anchored hearing systems
Due to limited product news, we estimate that in 2018, the BAHS market saw growth significantly below our long-term annual growth expectations of 10-15%. However, driven by innovation and particularly our unique Ponto 3 solution, growth in the Group's BAHS sales exceeded the estimated market growth rate. Consequently, we further consolidated our position as one of the two leading players in the BAHS market.

The Ponto 3 SuperPower solution remains one of a kind in the BAHS industry due to its unique features and design, including the highest output ever by an abutment-level sound processor, which can be used for conductive hearing losses down to 65 dB. Users do not have to make any cosmetic sacrifices when they use the most powerful abutment-level solution on the market. The momentum gained with the Ponto 3 SuperPower continued in 2018, with more and more clinics highlighting the product as their preferred solution.

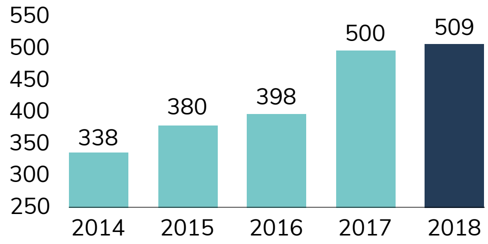
We continue to invest heavily in Hearing Implants – not only in R&D and clinical support, but also in distribution, enabling us to reach more candidates, expand our patient base and execute on our growth plan. As part of this ongoing commitment, we will in the first half of 2019 introduce a new Ponto BAHS sound processor based on a new platform, offering superior audiology and a range of improved functionalities. We continue to invest time and effort in obtaining regulatory approval of the Neuro CI system in the US market, and we are still planning to submit the Premarket Approval application in 2019.

Revenue

509

DKK MILLION

Revenue (DKK million)



2018 highlights

- Launch of the world's smallest sound processor, Neuro 2, together with a completely new suite of fitting solutions
- Significant expansion of the CI business in key European markets
- Consolidation of Ponto 3 SuperPower as the preferred solution in many markets
- More than 1,500 active Neuro 2 users and more than 200 active CI centres

10%

UNDERLYING GROWTH

Significant growth and market share gains in Diagnostic Instruments thanks to an innovative product portfolio and a strong distribution set-up

Diagnostic Instruments

2018 was another year of exceptional performance by Diagnostic Instruments with 12% growth in local currencies. Growth was broadly based across brands and product categories with particularly strong growth in newborn hearing screening, hearing fitting equipment, and balance equipment as well as in the service business. Geographically, all regions contributed to growth, however with Americas, Europe and the Pacific region as the main growth drivers.

In 2018, the global market for hearing-diagnostic instruments and accessories amounted to approx. DKK 2.9 billion. The market for hearing-diagnostic instruments alone is estimated to have grown by approx. 5%, with hearing fitting equipment, newborn hearing screening and impedance equipment as the main growth drivers.

We keep seeing new companies introducing tablet-based products for hearing screening, diagnosing hearing loss and fitting hearing aids. With such tablet-based products, hearing testing itself is only a minor part of the whole diagnosing process. As such, effective customer registration, counselling in respect of individual users' hearing loss, cloud-based solutions and ease-of-use are becoming increasingly important. The applications needed for the different customer groups differ substantially, e.g. hearing care professionals, schools and general practitioners. With new companies and products entering the market, new ways of distributing and selling the products are also on the agenda, so we are monitoring the development closely.

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

A continuously high level of innovation, a strong distribution set-up, a multi-brand approach and the ability to successfully enter new business areas remain cornerstones of the growth strategy in Diagnostic Instruments. We continue to see great potential for further growth in many of our businesses, and we are well positioned to capitalise on these opportunities.

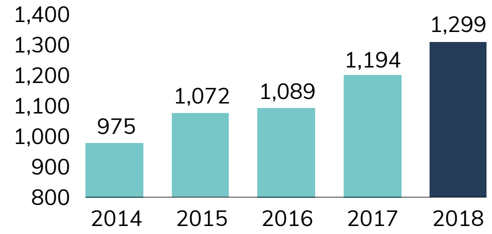
Driven by market share gains in balance and newborn hearing screening equipment, we succeeded, once again, in gaining market share in the global market for diagnostic equipment in 2018. In 2019, we expect to see further positive development across brands, products and markets by continuing to deliver on efficiency gains and innovation.

Revenue

1,299

DKK MILLION

Revenue (DKK million)



2018 highlights

- Strong growth across brands and product categories
- Particularly strong growth in newborn hearing screening, hearing fitting equipment and balance equipment as well as in the service business
- Growth in all geographic regions and market share gains in the global market for diagnostic equipment
- Further expansion of Amtas: next-generation, tablet-based hearing screening and diagnosing equipment

Substantial double-digit growth in Sennheiser Communications driven by strong performance in all business segments

Personal Communication

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.

We estimate that the global CC&O market grew by a high single-digit growth rate in 2018. With new, large global accounts entering the market, the shift towards UC remains the major growth driver. Also, the "prosumer" trend continues with consumer-like products in the office space, and features such as active noise cancellation play an increasingly important role. In addition, we are seeing a trend towards increasing focus on strategic collaborations.

We also estimate that the global gaming headset market grew by a high single-digit growth rate in 2018. In general, the gaming industry is developing at a rapid pace, especially within mobile gaming and e-sports, which drives a positive trend for headset manufacturers. As has been the case in the world of sports and entertainment for many years, professional gamers are now becoming global superstars with growing fan bases and millions of followers, and as a result, big international companies are entering the space. On the product side, the wireless trend that we have seen in consumer headsets in recent years has now spread to gaming headsets, as latency has been brought down to almost unnoticeable levels.

In the global mobile segment, trends are changing rapidly from corded devices to wireless headphones and in-ear headphones. Intelligent audio solutions with access to virtual assistants are becoming increasingly important, and new solutions and products are launched on a regular basis.

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. When comparing Sennheiser Communications' revenue with revenue realised by its competitors, it should be taken into consideration that the company reports wholesale revenue from sales into Sennheiser KG's inventory, thereby acting as a manufacturer of headsets, while benefitting from the distribution set-up in Sennheiser KG.

Income statement

(DKK million)	2018	2017
Revenue	1,085	743
Gross profit	499	311
Gross margin	46.0%	41.9%
Capacity costs	-232	-199
Operating profit (EBIT)	**267**	112
EBIT margin	24.6%	15.1%
Tax on profit for the year	-61	-25
Profit for the year	207	87
William Demant Holding share of profit, 50%	104	43

Revenue realised in 2018 amounted to DKK 1,085 million, corresponding to an increase of 46% on last year due to strong growth in all business segments as well as a general increase of the inventory level at Sennheiser KG (sales into Sennheiser KG's inventory). At year-end 2018, the underlying business (sales from Sennheiser KG's inventory to customers) had increased by 25% compared to year-end 2017 due to growth in all business segments.

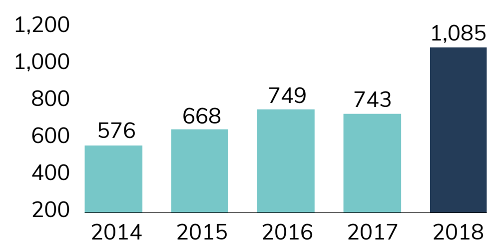
In 2018, we made a joint announcement with Sennheiser KG that Sennheiser Communications will evolve into new set-ups, which means that the CC&O and Gaming business segments will become an integrated part of the Demant Group, whereas the Mobile Music segment will become part of Sennheiser KG's Consumer business. For more than 15 years, the joint venture has been very successful developing innovative products, resulting in market share gains in all business segments, and the separation is carried through in good faith. Scheduled to take effect on 1 January 2020, the separation is the result of an increasing need for dedicated end-to-end focus in all business segments in response to changing market dynamics. The profit generated by Sennheiser Communications in 2019 will be split equally between Sennheiser KG and Demant as is the case today. As an integrated part of our Group after 2019, the new Demant entity will continue to sell Sennheiser-branded CC&O and Gaming products under a licence agreement with Sennheiser KG.

Revenue

1,085

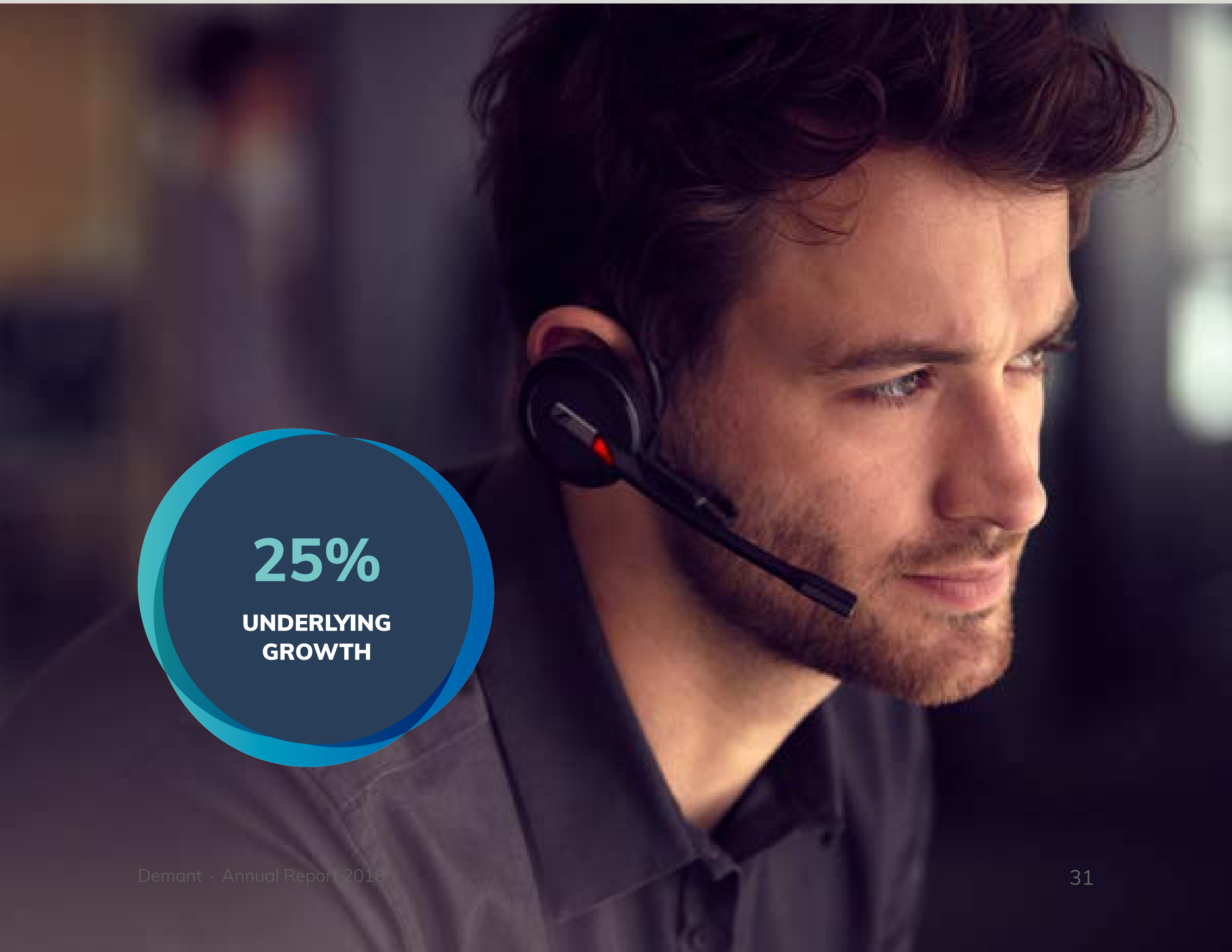
DKK MILLION

Revenue (DKK million)



2018 highlights

- Strengthened social media presence
- Launch of the GSP500 and GSP600 series in the Gaming segment
- Expansion of the DECT family with the SDW5000 series in the CC&O segment



Strategic Group initiatives

In our Interim Report 2016, we announced several strategic initiatives to be implemented from 2016 to 2018 with a view to ensuring continuous cost efficiency gains and supporting our future scalability at a lower cost. We have executed according to plan, and the announced initiatives were all completed at the end of 2018. Major initiatives include the following:

- Transferring activities from the production site in Thisted, Denmark, to Poland
- Closing down the facility in Eagan, USA
- Ramping up custom instrument, service and repair activities in Mexico
- Transferring R&D activities in Switzerland to Denmark and Poland, including opening a new site for software development in Warsaw, Poland, which is currently expanding at a high pace

In 2018, total restructuring costs were identical to our most recent guidance for such costs of DKK 120 million of which DKK 46 million was recognised in the first half-year and DKK 74 million in the second half-year. With restructuring costs of DKK 188 million in 2016 and DKK 166 million in 2017, total costs related to the strategic initiatives amount to DKK 474 million, which is slightly below our initial guidance for DKK 500 million. The negative impact on our cash flow from operating activities (CFFO) for 2018 was DKK 82 million of which DKK 55 million relates to the first half-year and DKK 27 million to the second half-year. With negative effects on CFFO of DKK 77 million in 2016 and DKK 151 million in 2017, the total impact on CFFO of the strategic initiatives amounts to DKK 310 million, which is lower than the initial guidance for DKK 400 million. This can be explained partly by the lower costs incurred in the income statement as mentioned above, and partly by tax-related savings.

Total cost savings related to the initiatives are in line with the plans made and amount to approx. DKK 150 million in 2018 compared to the cost base for 2016, or an increase of DKK 50 million from savings of approx. DKK 100 million realised in 2017. As communicated from the outset, the initiatives will – compared to the cost base for 2016 – result in annual cost savings of DKK 200 million in 2019 and going forward.

Overall, we are very satisfied with the improvements achieved in efficiency and scalability realised by the Group since 2016. We will of course continue to review the way we operate and do business with a view to constantly optimising processes and systems. However, we will do this as part of our normal operations and not under a separate programme. Going forward, we will thus no longer report financial figures adjusted for restructuring costs.

Impact of restructuring costs
(DKK million)

	2018	2017
Revenue	-	-
Production costs	-41	-38
Gross profit	**-41**	**-38**
R&D costs	-15	-63
Distribution costs	-37	-38
Administrative expenses	-27	-27
Capacity costs	**-79**	**-128**
Share of profit after tax, associates and joint ventures	-	-
Operating profit (EBIT)	**-120**	**-166**

Shareholder information and corporate governance

Shareholder information

Specification of movements in share capital

(DKK 1,000)	**2018**	**2017**	**2016**	**2015**	**2014**
Share capital at 1.1.	51,793	53,216	54,425	56,662	56,662
Capital reduction	-1,319	-1,423	-1,209	-2,237	-
Share capital at 31.12.	**50,474**	**51,793**	**53,216**	**54,425**	**56,662**
Nominal value per share, DKK	0.20	0.20	0.20	1.00	1.00
Total number of shares, thousand	252,368	258,966	266,081	54,425	56,662
Share information[1)]					
Highest share price, DKK	318.6	188.9	145.0	138.0	107.6
Lowest share price, DKK	167.4	122.3	105.6	91.4	82.0
Share price, year-end, DKK	184.9	173.5	122.8	131.4	93.6
Market capitalisation, DKK million[2)]	45,308	43,864	31,829	35,126	25,545
Average trading turnover, DKK million[2)]	128.6	69.3	63.1	68.5	50.5
Average number of shares, million[2)]	249.14	256.56	263.75	270.13	278.13
Number of shares at 31.12., million[2)]	245.22	252.82	259.19	267.30	272.80
Number of treasury shares at 31.12., million	7.1	6.1	6.9	4.8	10.5

Share capital and price development

As of 31 December 2018, Demant's nominal share capital was DKK 50,473,595 divided into 252,367,975 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 1,319,660 through the cancellation of treasury shares approved at the annual general meeting on 22 March 2018.

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 Demant shares increased by 6.6% in 2018, and on 31 December 2018, the share price was DKK 184.90, corresponding to a market capitalisation of DKK 45.3 billion (excluding treasury shares). The average daily trading turnover was DKK 128.6 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 decreased by 13.2% during the year.

Ownership

William Demant Foundation holds the majority of shares in Demant through its investment company William Demant Invest and has previously communicated its intention to maintain an ownership interest of 55-60% of Demant's share capital. As of 31 December 2018, William Demant Foundation held – either directly or indirectly – approx. 56% 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 2018.

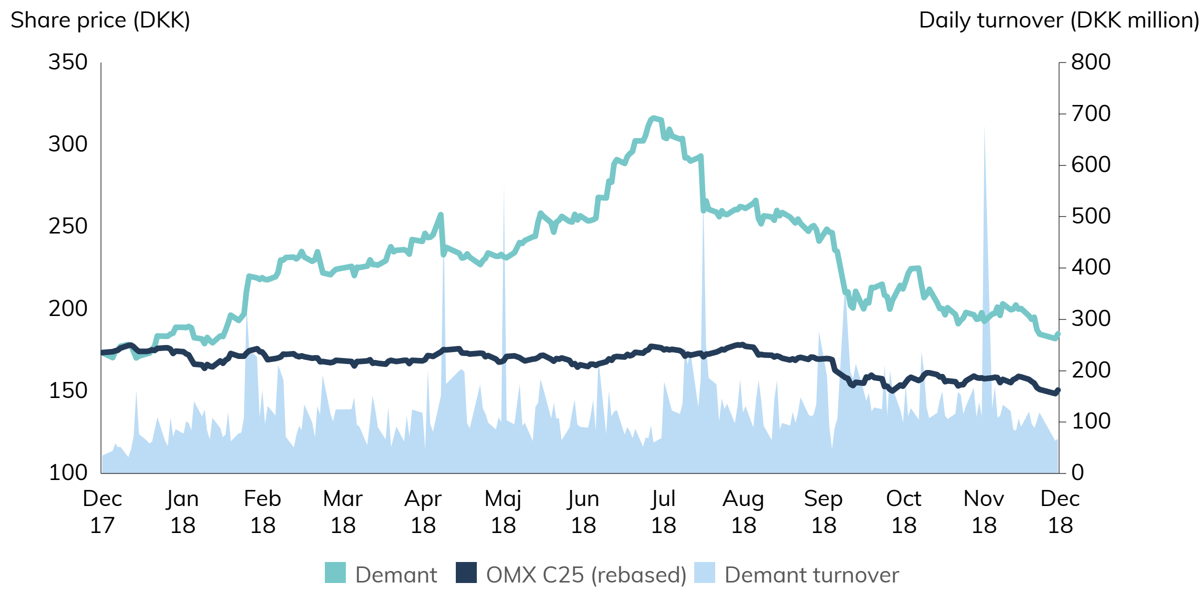
As of 31 December 2018, the Company held 7,148,143 treasury shares, corresponding to 2.83% of the share capital.

[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)] *Excluding treasury shares.*

William Demant Foundation

William Demant Foundation, Demant's majority shareholder, was founded in 1957 by William Demant, son of the Company's founder Hans Demant. Its primary goal is to safeguard and expand the Demant Group's business and provide support for various commercial and charitable causes with particular focus on the field of audiology and hearing impairment. At the end of 2011, the majority of William Demant Foundation's shares in Demant 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 Demant shares are still exercised and made, respectively, by William Demant Foundation.

In accordance with William Demant Foundation's investment strategy, the Foundation's investments – apart from an ownership interest in Demant – also include other assets, as the Foundation can make active investments in companies whose business model and structure resemble those of the Demant Group, but fall outside the Group's strategic sphere of interest. The investments include, among others, the majority ownership of Össur and Vision RT. The Foundation has made a management agreement on a commercial arm's length basis with Demant 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 2019, 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
Demant 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 Demant 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 annual reports and interim reports, 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 2018, we held more than 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 2018, 28 equity analysts were covering Demant. We refer to our website for a full list of analyst coverage.

Annual general meeting 2019
The annual general meeting will be held on Tuesday, 19 March 2019 at 4 p.m. at the Company's head office, Kongebakken 9, 2765 Smørum, Denmark.

Company announcements and investor news in 2018

2 Jan	Managers' transactions
22 Feb	Annual Report 2017
28 Feb	Notice to annual general meeting
22 March	Decisions of annual general meeting
3 May	Completion of capital reduction
8 May	Interim Management Statement
31 May	Total number of voting rights and capital
12 June	Capital Markets Day 2018 – investor news
3 Aug	William Demant and Philips partner in hearing healthcare – investor news
15 Aug	Interim Report 2018
15 Aug	Managers' transactions
11 Sep	Sennheiser Communications evolves in new set-ups – investor news
5 Nov	Financial calendar 2019
6 Nov	Interim Management Statement

Financial calendar 2019

5 Feb	Deadline for submission of items for the agenda of the annual general meeting
19 Feb	Annual Report 2018
19 March	Annual general meeting
7 May	Interim Management Statement
14 Aug	Interim Report 2019
7 Nov	Interim Management Statement

Contact info for investors and analysts:
Phone: +45 3917 7300
E-mail: info@demant.com

Søren B. Andersson
(Vice President, IR)

Mathias Holten Møller
(IR Officer)

Risk management activities

Risk management activities in the 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 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 2018, there has been no major changes 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 carries 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.

An important part of our ongoing product innovation is to take out, protect and maintain patents for our own groundbreaking product development and technology. These are indeed complicated processes in the hearing healthcare industry, and we therefore maintain and develop our competencies in this area on an ongoing basis. It is our policy to continuously monitor that third-party products do not infringe our patents and that our products do not infringe third-party patents. The Group is involved in a few legal disputes, but we are 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 regulatory risks to which the Group is exposed.

While we closely follow the progress of the United Kingdom's planned exit from the European Union (Brexit), we do not expect any significant impact on our business regardless of the outcome. It is the nature of our business to operate across markets with different characteristics, including different customs clearance processes. Our logistical and operational set-up is flexible and short lead times allow us to adapt to the business environment.

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 dependent on a number of IT systems and on the 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.

Effect on EBIT, 5% positive change in exchange rates*

DKK million	2018	2017
USD	+52	+46
AUD	+21	+20
GBP	+20	+18
CAD	+9	+13
JPY	+5	+5
PLN	-19	-15

Effect on equity, 5% positive change in exchange rates

DKK million	2018	2017
USD	+118	+95
AUD	+15	+14
GBP	+42	+47
CAD	+21	+20
JPY	+3	+3
PLN	+25	+22

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 our 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 – mainly through forward exchange contracts. In relation to exchange rate fluctuations, hedging ensures predictability in terms of profit and gives us 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.

The tables above 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.

The material forward exchange contracts in place as of 31 December 2018 to hedge against the Group's exposure to movements in exchange rates appear from the table above.

At the end of 2018, the fair value of the Group's forward exchange contracts was DKK -20 million, consisting of unrealised gains of DKK 12 million and losses of DKK -32 million. Please refer to Note 2.3 and 4.4 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, parts 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 5,835 million as of 31 December 2018. 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 29 million (DKK 10 million in 2017).

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. In 2018, the Group aimed for a gearing multiple of 1.5-2.0 measured as NIBD relative to EBITDA, and as of 31 December 2018, the gearing ratio (NIBD/EBITDA) was 2.0. For 2019, the Group aims for a gearing multiple of 1.8-2.3, corresponding to an unchanged gearing multiple of 1.5-2.0 before the implementation of IFRS 16. 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. The accumulated revenue from our ten largest customers accounts for less than 13% of total consolidated revenue. Furthermore, when granting loans, we require that our counterparties provide security in their business. Overall, we therefore estimate that we have no major credit exposure on Group level.

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

Material forward exchange contracts as of 31 December 2018

Currency	Hedging period	Average hedging rate
USD	10 months	626
AUD	5 months	466
GBP	10 months	832
CAD	10 months	477
JPY	9 months	5.82
PLN	11 months	171

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

Liquidity risks
The Group aims to have sufficient cash resources to be able to take appropriate steps in case of unforeseen fluctuations in cash outflows. We have access to considerable undrawn credit facilities, and the liquidity risk is therefore considered to be low. We are of the opinion that the Group has strong cash flows and a satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions. Neither in previous years nor in the financial year 2018, 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 the financial consequences of any damage to corporate assets, including 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

Donations to research, education, culture and care

112

DKK MILLION

CO_2 emission per employee

7.4%

DECREASE

> While strengthening our business activities for the future is essential, we pride ourselves on always putting responsibility first. Care for the world around us – creating life-changing differences – has always been the very core of Demant.

Søren Nielsen, President & CEO, UN Global Compact Progress Report 2018

Reporting on responsibility
Every year, we prepare a corporate social responsibility (CSR) report, which describes the commitment of Demant's Management to ensure that the Group meets its social and environmental responsibilities and that it acts in accordance with business ethics and corporate governance rules. The report also serves as Demant's Communication on Progress 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/#documentlibrary

Donations by William Demant Foundation
In 2018, William Demant Foundation donated over DKK 111.5 million to projects in areas such as research, education, culture and general healthcare and to projects aiming at alleviating hearing loss all over the world. A few examples of our philanthropic activities are our financial support to the Danish Deaf Sports Federation and the Mary Foundation. Supporting institutions and research projects in the field of audiology has also been an important part of the Foundation's activities in 2018.

Demant's philanthropic activities extend beyond the donations made by William Demant Foundation, as our global offices lead local initiatives to make positive changes to and inspire the world around them.

Diversity and gender equality
In terms of corporate governance, diversity at management level addresses age, international experience and gender. We have a diversity policy and continue our initiatives to increase the share of female managers in the Group.

Since we started tracking these numbers in 2009, the male/female manager ratio in our Danish companies has improved from 89/11 in 2009 to 72/28 in 2018. In middle and first-line management, the ratio has increased from 84/16 in 2009 to 71/29 in 2018. We are pleased with this progress, but we also appreciate the importance of constant focus on the topic. Hence, we have in 2018 dedicated resources to conduct internal and external research in diversity, inclusion and best practices. We will in 2019 see more findings of this research and will also give further attention to diversity and inclusion. Our diversity policy and a description of the development 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. To track our total corporate CO_2 emissions, we collect CO_2 emission data annually, which are subsequently published in our CSR report. In 2018, our Group's CO_2 emissions reached 40,568 tonnes. While the number presents an increase compared to 37,671 in 2017, it should be seen in the light of the ongoing expansion of our business activities and the gradual inclusion of new retail entities into the Group. Our energy consciousness is better reflected in CO_2 emissions per employee in 2018, which has decreased from 3.5 tonnes in 2017 to 3.24 tonnes per employee, or a 7.4% decrease. In our sphere of influence, we are committed to minimising our impact and footprint on the environment and to undertaking initiatives that advocate environmental responsibility.

Corporate governance

Working with corporate governance
The work on corporate governance is an ongoing process for the Board of Directors and Executive Board. Once a year, the Board of Directors and Executive Board review the Company's corporate governance principles. In that context, we consider the corporate governance principles that derive from legislation, recommendations and good practices.

Recommendations issued by the Danish Committee on Corporate Governance and adopted by Nasdaq Copenhagen are best-practice guidelines for the governance of companies admitted to trading on a regulated market in Denmark. When reviewing our corporate governance structures, we determine the extent to which the Company complies 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 presentation of the recommendations and how we comply, the statutory report on corporate governance, is available on our website, www.demant.com/about/responsibility/#governance. This overview as well as the financial reporting process and internal control described in the *Risk management activities* section in this Annual Report constitute Demant's report on corporate governance, cf. section 107b of the Danish Financial Statements Act.

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 of Directors' 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 of Directors has eight members: five members elected by the shareholders at the annual general meeting and three members elected by staff in Denmark. Niels B. Christiansen has been the Chairman of the Board since 2017. 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, and the next staff election will take place in 2019.

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, William Demant 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 of Directors 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 members. In both instances, the findings of the evaluation are presented and discussed at the subsequent Board meeting, and any improvement proposals are considered. The evaluation in 2018 did not lead to any significant changes in the way the Board works. The Board is content with the manner in which the Board works, emphasising the constructive working climate in the Board.

Board of Directors' and Executive Board's remuneration
The Company has a remuneration policy, which also includes the general guidelines for incentive pay to members of the Executive Board. The policy and guidelines were adopted at the annual general meeting in 2016, allowing agreements on incentive pay for the Executive Board. In addition to their fixed remuneration, members of the Executive Board receive a variable cash remuneration component based on shadow shares. The purpose of the programme is 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 and the interests of the shareholders. 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.

A remuneration report for 2018 is available on our website,
www.demant.com/about/responsibility/#governance.

Meetings in 2018
In 2018, the Board of Directors convened on five occasions. The audit committee held three meetings in connection with ordinary Board meetings. In 2018, the remuneration committee held two meetings. The Board members participated in all Board and committee meetings in 2018, except Lars Rasmussen who was excused from one Board meeting and one audit committee meeting.

Executive Board

Søren Nielsen
President & CEO
(born 1970)
15,520 shares (+2,008*)

Søren Nielsen joined the Company in 1995 and has since then worked within multiple areas of the Group. Since 2008, Søren Nielsen has been overall responsible for the Group's hearing aid activities, consisting of three hearing aid brands, and been President of Oticon. In 2015, he was appointed COO & Deputy CEO of Demant, and he has been a member of the Executive Board since 2015. After more than 20 years with the Group, he took over as President & CEO of Demant in 2017.

- Oticon A/S, President
- Sennheiser Communications A/S, board member
- HIMSA A/S, chairman
- HIMSA II A/S, chairman
- Vision RT Ltd., board member
- Committee on healthcare issues under the Confederation of Danish Industry, chairman

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. From his many years and extensive experience of the industry, Søren Nielsen has developed a wide network in the global hearing healthcare community.

René Schneider
CFO
(born 1973)
9,062 shares (+2,701*)

René Schneider joined the Company in 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 Demant include Finance, HR, 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.

Voluntary conversion to shares of part of remuneration in 2018. Actual allotment took place on 3 January 2019.

Board of Directors

Niels B. Christiansen
Chairman
(born 1966)
8,060 shares (+5,550)

Joined the Board of Directors in 2008 and was re-elected in 2018 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 an MBA from INSEAD in France. His international experience in managing major, global, industrial hi-tech corporations is comprehensive. He has extensive board experience from listed companies as well as strong insight into industrial policy.

Niels Jacobsen
Deputy Chairman
(born 1957)
1,001,340 shares (unchanged)

Joined the Board of Directors in 2017 and was re-elected in 2018 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
- KIRKBI A/S, deputy chairman
- Nissens A/S, chairman
- Thomas B. Thrige Foundation, chairman
- ABOUT YOU Holding GmbH, deputy chairman

Additional duties related to William Demant Invest and Demant: Jeudan A/S, chairman; Össur hf., chairman; Vision RT Ltd., chairman; Founders A/S, chairman; Boston Holding A/S, board member; Sennheiser Communications A/S, board member 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 healthcare 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
- 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 2018 for a term of one year. He is a member of the audit and nomination committee. Because of his seat on the boards of William Demant Foundation and William Demant Invest A/S, he is not considered independent.

- FOSS A/S and two affiliated companies, chairman
- William Demant 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 Admini-stration (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.

Benedikte Leroy
(born 1970)
3,000 shares (unchanged)

Joined the Board of Directors in 2014 and was re-elected in 2018 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 (unchanged)

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 hearing aid fitting systems. He has been with Interacoustics A/S since 1993.

Jørgen Møller Nielsen
(born 1962)
366 shares (unchanged)

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)
22,500 shares (+15,000)

Joined the Board of Directors in 2016 and was re-elected in 2018 for a term of one year. He is chairman of the audit committee and is considered independent.

- Coloplast A/S, chairman
- H. Lundbeck A/S, chairman

Lars Rasmussen holds a Bachelor of Science degree in Engineering from Aalborg University and an Executive MBA from SIMI. He has considerable executive management experience from global MedTech functions. 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 2018 of William Demant Holding A/S for the financial year 1 January – 31 December 2018.

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 2018 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 2018 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 2018.

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 2018 for adoption at the annual general meeting on 19 March 2019.

Smørum, 19 February 2019

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 2018, 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 2018, and of the results of its operations and cash flows for the financial year 1 January 2018 to 31 December 2018 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 2018, and of the results of its opera-tions for the financial year 1 January 2018 to 31 December 2018 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 22 years up to and including the financial year 2018.

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 2018. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

With regard to the purchase of the remaining shareholding in AccuQuest Hearing Center LLC ("AccuQuest"), Management has performed a fair value calculation of AccuQuest in order to determine the fair value of the previously held ownership. These calculations include material judgements and estimates. The Group furthermore completed additional individually immaterial business combinations for a total purchase price of DKK 228 million, resulting in the recognition of goodwill of DKK 204 million and intangible assets of DKK 16 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.
- 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 Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Parent 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 skepticism 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.

- 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 Parent 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, 19 February 2019

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

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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	2018	2017
Revenue	1.1	13,937	13,189
Production costs	1.2 / 1.3 / 1.5 / 1.8	-3,153	-3,163
Gross profit		**10,784**	**10,026**
R&D costs	1.2 / 1.3 / 1.8 / 8.3	-1,009	-919
Distribution costs	1.2 / 1.3 / 1.8	-6,616	-6,095
Administrative expenses	1.2 / 1.3 / 1.8 / 8.2	-761	-727
Share of profit after tax, associates and joint ventures	3.3	134	53
Operating profit (EBIT)		**2,532**	**2,338**
Financial income	4.2	39	49
Financial expenses	4.2	-203	-160
Profit before tax		**2,368**	**2,227**
Tax on profit for the year	5.1	-538	-468
Profit for the year		**1,830**	**1,759**
Profit for the year attributable to:			
William Demant Holding A/S' shareholders		1,823	1,754
Non-controlling interests		7	5
		1,830	**1,759**
Earnings per share (EPS), DKK	1.4	7.32	6.84
Diluted earnings per share (DEPS), DKK	1.4	7.32	6.84

Consolidated statement of comprehensive income

(DKK million)	2018	2017
Profit for the year	**1,830**	**1,759**
Other comprehensive income/(loss)		
Items that have been or may subsequently be reclassified to the income statement:		
Foreign currency translation adjustment, subsidiaries	46	-350
Value adjustment of hedging instruments:		
Value adjustment for the year	-62	147
Value adjustment transferred to revenue	-21	-49
Tax on items that have been or may subsequently be reclassified to the income statement	11	-11
Items that have been or may subsequently be reclassified to the income statement	**-26**	**-263**
Items that will not subsequently be reclassified to the income statement:		
Actuarial gains/(losses) on defined benefit plans	-17	8
Tax on items that will not subsequently be reclassified to the income statement	1	-2
Items that will not subsequently be reclassified to the income statement	**-16**	**6**
Other comprehensive income/(loss)	**-42**	**-257**
Comprehensive income	**1,788**	**1,502**
Comprehensive income attributable to:		
William Demant Holding A/S' shareholders	1,781	1,497
Non-controlling interests	7	5
	1,788	**1,502**
Breakdown of tax on other comprehensive income/(loss):		
Foreign currency translation adjustment, subsidiaries	-7	10
Value adjustment of hedging instruments for the year	13	-32
Value adjustment of hedging instruments transferred to revenue	5	11
Actuarial gains/(losses) on defined benefit plans	1	-2
Tax on other comprehensive income/(loss)	**12**	**-13**

Consolidated balance sheet 31 december

(DKK million)	Note	2018	2017
Assets			
Goodwill		7,211	6,339
Patents and licences		35	40
Other intangible assets		439	407
Prepayments and assets under development		181	106
Intangible assets	3.1	**7,866**	**6,892**
Land and buildings		859	871
Plant and machinery		221	210
Other plant, fixtures and operating equipment		326	289
Leasehold improvements		341	265
Prepayments and assets under construction		76	83
Property, plant and equipment	3.2	**1,823**	**1,718**
Investments in associates and joint ventures	3.3	983	933
Receivables from associates and joint ventures	3.3 / 4.3 / 4.4	167	500
Other investments	4.3 / 4.5	14	11
Other receivables	1.6 / 3.3 / 4.3 / 4.4	564	456
Deferred tax assets	5.2	513	372
Other non-current assets		**2,241**	**2,272**
Non-current assets		**11,930**	**10,882**
Inventories	1.5	1,641	1,351
Trade receivables	1.6 / 4.3	2,763	2,573
Receivables from associates and joint ventures	4.3	170	81
Income tax		129	107
Other receivables	1.6 / 4.3 / 4.4	380	257
Unrealised gains on financial contracts	2.3 / 4.3 / 4.5	12	66
Prepaid expenses		280	208
Cash	4.3 / 4.4	630	697
Current assets		**6,005**	**5,340**
Assets		**17,935**	**16,222**

Consolidated balance sheet 31 december

(DKK million)	Note	2018	2017
Equity and liabilities			
Share capital		50	52
Other reserves		7,000	7,375
Equity attributable to William Demant Holding A/S' shareholders		7,050	7,427
Equity attributable to non-controlling interests		9	6
Equity		**7,059**	**7,433**
Interest-bearing debt	4.3 / 4.4	2,164	2,307
Deferred tax liabilities	5.2	232	159
Provisions	7.1	231	215
Other liabilities	4.3 / 7.2	194	197
Deferred income	7.3	569	208
Non-current liabilities		**3,390**	**3,086**
Interest-bearing debt	4.3 / 4.4	4,964	3,258
Trade payables	4.3	499	516
Income tax		57	72
Provisions	7.1	22	25
Other liabilities	4.3 / 7.2	1,395	1,544
Unrealised losses on financial contracts	2.3 / 4.3 / 4.4 / 4.5	32	3
Deferred income	7.3	517	285
Current liabilities		**7,486**	**5,703**
Liabilities		**10,876**	**8,789**
Equity and liabilities		**17,935**	**16,222**

Consolidated cash flow statement

(DKK million)	Note	2018	2017
Operating profit (EBIT) IS		2,532	2,338
Non-cash items etc.	1.7	370	428
Change in receivables etc.		-264	-386
Change in inventories		-294	-89
Change in trade payables and other liabilities etc.		-37	188
Change in provisions		8	-53
Dividends received		87	54
Cash flow from operating profit		**2,402**	**2,480**
Financial income etc. received		28	39
Financial expenses etc. paid		-200	-157
Realised foreign currency translation adjustments		-1	-2
Income tax paid		-546	-488
Cash flow from operating activities (CFFO)		**1,683**	**1,872**
Acquisition of enterprises, participating interests and activities		-940	-656
Investments in and disposal of intangible assets		-189	-126
Investments in property, plant and equipment		-429	-312
Disposal of property, plant and equipment		20	20
Investments in other non-current assets		-397	-319
Disposal of other non-current assets		497	252
Cash flow from investing activities (CFFI)		**-1,438**	**-1,141**
Repayments of borrowings	4.4	-320	-1,156
Proceeds from borrowings	4.4	189	1,132
Change in short-term bank facilities	4.4	1,258	292
Dividends to non-controlling interests		-4	-3
Buy-back of shares		-1,751	-1,031
Cash flow from financing activities (CFFF)		**-628**	**-766**
Cash flow for the year, net		**-383**	**-35**
Cash and cash equivalents at the beginning of the year		651	674
Foreign currency translation adjustment of cash and cash equivalents		-20	12
Cash and cash equivalents at the end of the year		**248**	**651**
Breakdown of cash and cash equivalents at the end of the year:			
Cash	4.3 / 4.4	630	697
Overdraft	4.3 / 4.4	-382	-46
Cash and cash equivalents at the end of the year		**248**	**651**

Acquisition of enterprises, participating interests and activities includes loans of DKK 291 million classified as other non-current assets, which have been settled as part of acquisitions without cash payments.

Consolidated statement of changes in equity

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Other reserves: Retained earnings	William Demant Holding A/S' shareholders' share	Non-controlling interests' share	Equity
Equity at 31.12.2017	**52**	**-127**	**52**	**7,450**	**7,427**	**6**	**7,433**
Impact of changes in accounting policies	-	-	-	-407	-407	-	-407
Equity at 1.1.2018	**52**	**-127**	**52**	**7,043**	**7,020**	**6**	**7,026**
Comprehensive income in 2018:							
Profit for the year	-	-	-	1,823	1,823	7	1,830
Other comprehensive income:							
Foreign currency translation adjustment, subsidiaries	-	46	-	-	46	-	46
Value adjustment of hedging instruments:							
Value adjustment, year	-	-	-62	-	-62	-	-62
Value adjustment transferred to revenue	-	-	-21	-	-21	-	-21
Actuarial gains/(losses) on defined benefit plans	-	-	-	-17	-17	-	-17
Tax on other comprehensive income	-	-7	18	1	12	-	12
Other comprehensive income/(loss)	-	39	-65	-16	-42	-	-42
Comprehensive income/(loss), year	**-**	**39**	**-65**	**1,807**	**1,781**	**7**	**1,788**
Buy-back of shares	-	-	-	-1,751	-1,751	-	-1,751
Capital reduction through cancellation of treasury shares	-2	-	-	2	-	-	-
Other changes in equity	-	-	-	-	-	-4	-4
Equity at 31.12.2018	**50**	**-88**	**-13**	**7,101**	**7,050**	**9**	**7,059**

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

Consolidated statement of changes in equity – *continued*

(DKK million)	Share capital	Other reserves			William Demant Holding A/S' shareholders' share	Non-controlling 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	-	-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	-	8
Tax on other comprehensive income	-	10	-21	-2	-13	-	-13
Other comprehensive income/(loss)	-	-340	77	6	-257	-	-257
Comprehensive income/(loss), 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	-	-	-
Other changes in equity	-	-	-	-	-	-4	-4
Equity at 31.12.2017	**52**	**-127**	**52**	**7,450**	**7,427**	**6**	**7,433**

Notes to consolidated financial statements

When relevant, if a note contains a figure that directly refers to the consolidated income statement, statement of comprehensive income, 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

Revenue

13,937

DKK MILLION

Free cash flow

1,185

DKK MILLION

1.1 Revenue from contracts with customers

(DKK million)

Disaggregation of revenue from contracts with customers

	2018	2017
Revenue by geographic region:		
Denmark	194	228
Other Europe	5,551	5,209
North America	5,766	5,358
Pacific	911	946
Asia	1,059	960
Other countries	456	488
Revenue from contracts with customers IS	**13,937**	**13,189**

Consolidated revenue mainly derives from the sale of goods and is broken down by the customers' geographic region. The ten largest single customers together account for less than 13% of total consolidated revenue.

	2018	2017
Revenue by business activity:		
Hearing Devices	12,129	11,495
Diagnostic Instruments	1,299	1,194
Hearing Implants	509	500
Revenue from contracts with customers IS	**13,937**	**13,189**

	2018	2017
Value adjustments transferred from equity relating to derivatives made for hedging revenue OCI	21	49

	2018
Liabilities related to contracts with customers:	
Customer prepayments*	40
Future performance obligations*	1,046
Expected volume discounts and other customer related items**	195
Expected product returns***	135
Contract liabilities with customers	**1,416**

	2018
Changes in contract liabilities with customers:	
Contract liabilities at 1.1.	1,370
Foreign currency translation adjustments	4
Revenue recognised that was included in the contract liability balance at 1.1.	-514
Increases due to cash received, excluding amounts recognised as revenue during the year	542
Changes from expected volume discounts and other customer-related items	18
Changes from product returns	-9
Business combinations	5
Contract liabilities at 31.12.	**1,416**

*Included in deferred income.
**Included in other cost payables under other liabilities.
***Included in product-related liabilities under other liabilities.

1.1 Revenue from contracts with customers – *continued*

§ **Accounting policies**
Revenue is recognised when obligations under the terms of the contract with the customer are satisfied, which usually occurs with the transfer of control of our hearing healthcare products and services. Revenue is measured as the consideration we expect to receive in exchange for transferring goods and providing services net of the estimated discounts or other customer-related reductions.

Nature of goods and services
Control is normally transferred to the customer when the goods are shipped to the customer, though delivery terms can vary, and control may be transferred at a later point. When selling hearing aids to end-users, we transfer control and recognise revenue when a hearing aid is initially fitted to the customer's specific hearing loss, and the hearing aid is delivered to the customer at a given point in time. In some territories, the customers are granted a trial period. In such cases, the transfer of control occurs when the trial period expires.

In some territories, customers are given the right to return the hearing aid for a certain period. In such cases, the expected returns are estimated based on an analysis of historical experience adjusted for any known factors impacting expectations for future return rates. Revenue and cost of goods sold are adjusted accordingly, and contract liabilities (refund liabilities) and rights to the returned goods (included in prepaid expenses) are recognised for the expected returns.

Our activities also involve delivery of various services, such as extended warranties, warranty-related coverages (loss and damage) and after-sales services (e.g. fine-tuning of the hearing aid, additional hearing test and cleaning). Revenue from these services is recognised on a straight-line basis over the warranty or service period as the customer makes use of the services continuously. Some customers purchase a battery package or are provided with batteries free of charge as part of the purchase of the hearing aid, entitling them to free batteries for a certain period. Revenue is recognised when the customer receives the batteries or is provided with batteries free of charge as part of the purchase of the hearing aid. When available, we use an observable price to determine the stand-alone selling price for the separate performance obligations related to these services, and in territories where observable prices are not available, we use a cost-plus-margin method.

The standard warranty period for hearing aids and diagnostic equipment varies across territories, typically between 12 and 24 months and for certain products up to 36 months. The extended warranty covers periods beyond the standard warranty period or standard warranty terms. Payment terms vary significantly across territories and depend on whether the customer is a private or public customer.

The majority of hearing aids sold to end-users are invoiced and paid for after the initial fitting, but some customers choose to have the hearing aid financed by us. The transaction price of such arrangements is adjusted for any significant financing benefit, and the financing component is recognised as financial income.

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 recognised. To make such estimates is a matter 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. 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. Sales discounts and rebates are recognised under other cost payables in other liabilities, and loyalty programmes are recognised in deferred income.

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 provision is recognised. This provision is updated, as returns are recognised or when we collect more accurate data on return rates.

After-sales services
After-sales services are provided to end-users of our hearing aids and are based on estimates as not all end-users make use of these services. The estimate is a matter of judgement and is based on the number of visits, the duration of the visits for an average customer and the expected number of end-users that make use of the after-sales services.

1.2 Employees

(DKK million)	Note	2018	2017
Wages and salaries		5,195	4,937
Share-based remuneration		5	3
Defined contribution plans		79	70
Defined benefit plans	7.1	13	2
Social security costs, etc.		524	476
Staff costs		**5,816**	**5,488**
Staff costs by function:			
Production costs		831	796
R&D costs		652	571
Distribution costs		3,674	3,491
Administrative expenses		659	630
Staff costs		**5,816**	**5,488**
Average number of full-time employees		14,250	13,280

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

(DKK million)

	2018			2017		
	Wages and salaries*	Share-based remunera-tion**	Total	Wages and salaries*	Share-based remunera-tion**	Total
Søren Nielsen, President & CEO	11.8	1.6	13.4	10.3	0.9	11.2
René Schneider, CFO	5.3	0.7	6.0	5.0	0.5	5.5
Niels Jacobsen, former President & CEO***	-	-	-	3.6	-	3.6
Executive Board	**17.1**	**2.3**	**19.4**	**18.9**	**1.4**	**20.3**
Fee to Board of Directors	**4.2**	-	**4.2**	**4.3**	-	**4.3**

President & CEO, Søren Nielsen, is entitled to 24 months' notice in the event of dismissal. CFO, René Schneider, is currently entitled to 15 months' notice in the event of dismissal, which increases with seniority.

In 2018, the basic remuneration for a member of the Parent's Board of Directors was DKK 350,000 (DKK 350,000 in 2017). 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 2017), and the chairman of the audit committee receives three times the basic remuneration.

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 2018.

**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 2017). These expenses are therefore included in wages and salaries.*
***In 2018, DKK 0 million (DKK 0 million in 2017) of the share-based remuneration was paid out.*
****On 1 April 2017, Niels Jacobsen stepped down as President & CEO of William Demant Holding A/S. At the same time, the Board of Directors appointed Søren Nielsen new President & CEO of William Demant Holding A/S.*

1.2 Employees – *continued*

At 31 December 2018, the Group had liabilities of DKK 11 million (DKK 5 million in 2017) related to the share-based remuneration programmes. 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 2018, the remaining average contractual life of cash-settled remuneration programmes was 16 months (24 months in 2017).

Share-based remuneration

(DKK million)	2018		2017	
	Executive Board	Other senior members of Management	Executive Board	Other senior members of Management
Liabilities at 1.1.	2.6	2.5	0.6	0.6
Expensed wages and salaries during the year	2.3	2.6	1.4	1.5
Fair value adjustments	0.8	0.9	0.6	0.7
Settled during the year	-	-0.5	-	-0.3
Liabilities at 31.12.	**5.7**	**5.5**	**2.6**	**2.5**
Granted during the year	2.9	2.3	2.6	2.2
Unrecognised commitment at 31.12.*	3.5	6.3	3.7	5.1

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.

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

1.3 Amortisation, depreciation and impairment losses

(DKK million)	Note	2018	2017
Amortisation of intangible assets	3.1	114	84
Depreciation of property, plant and equipment	3.2	296	289
Reversal of impairment of property, plant and equipment	3.2	-1	-
Amortisation, depreciation and impairment losses		**409**	**373**
Amortisation, depreciation and impairment losses by function:			
Production costs		68	72
R&D costs		61	53
Distribution costs		233	206
Administrative expenses		47	42
Amortisation, depreciation and impairment losses		**409**	**373**
Net gains from sale of assets		**1**	**8**
Net gains from sale of assets by function:			
Production costs		-	5
Distribution costs		1	1
Administrative expenses		-	2
Net gains from sale of assets		**1**	**8**

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

1.4 Earnings per share

	2018	2017
William Demant Holding A/S' shareholders' share of profit for the year, DKK million IS	1,823	1,754
Average number of shares, million	255.10	261.91
Average number of treasury shares, million	-5.96	-5.35
Average number of shares outstanding, million	**249.14**	**256.56**
Earnings per share (EPS), DKK IS	**7.32**	**6.84**
Diluted earnings per share (DEPS), DKK IS	**7.32**	**6.84**

1.5 Inventories

(DKK million)	2018	2017
Raw materials and purchased components	775	618
Work in progress	64	61
Finished goods and goods for resale	802	672
Inventories BS	**1,641**	**1,351**
Write-downs, provisions for obsolescence etc. included in the above	121	117
Included in the income statement under production costs:		
Write-downs of inventories for the year, net	29	33
Cost of goods sold during the year	2,471	2,335

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, which are allocated on the basis of the normal capacity of the production facility. Indirect production costs 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)	2018	2017
Trade receivables BS	2,763	2,573
Other non-current receivables BS	564	456
Other current receivables BS	380	257
Receivables	**3,707**	**3,286**
Non-impaired receivables by age:		
Balance not due	2,602	2,362
0-3 months	622	486
3-6 months	177	144
6-12 months	170	143
Over 12 months	136	151
Receivables	**3,707**	**3,286**
Allowance for impairment:		
Allowance for impairment at 31.12.	-272	-291
Impact of changes in accounting policies	-26	-
Allowance for impairment at 1.1.	**-298**	**-291**
Foreign currency translation adjustments	-6	19
Applied during the year	94	52
Additions during the year	-80	-56
Reversals during the year	10	4
Allowance for impairment at 31.12.	**-280**	**-272**

Of the total amount of trade receivables, DKK 199 milion (DKK 270 million in 2017) 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. Impairment is based on expected credit losses, which include the use of the lifetime expected loss provision for trade receivables.

Accounting estimates and assumptions
Allowance for impairment is calculated for both trade receivables and other receivables. For trade receivables, the allowance is calculated for expected 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 based on expected credit loss.

1.7 Specification of non-cash items etc.

(DKK million)	Note	2018	2017
Amortisation and depreciation etc.		446	404
Share of profit after tax, associates and joint ventures IS		-134	-53
Gain on sale of intangible assets and property, plant and equipment	1.3	-1	-8
Other non-cash items		59	85
Non-cash items etc. CF		**370**	**428**

1.8 Restructuring costs

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

(DKK million)	2018	2017
Restructuring costs by function:		
Production costs	41	38
R&D costs	15	63
Distribution costs	37	38
Administrative expenses	27	27
Restructuring costs	**120**	**166**
Effect of restructuring costs on cash flow:		
Operating profit (EBIT)	-120	-166
Non-cash items etc.	22	20
Change in trade payables and other liabilities etc.	-	-6
Change in provisions	-19	-15
Cash flow from operating profit	**-117**	**-167**
Income tax recovered	35	16
Cash flow from operating activities (CFFO)	**-82**	**-151**

Section 2

Exchange rates and hedging

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 the 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 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 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 change in exchange rates*

(DKK million)	**2018**	**2017**
USD	+52	+46
GBP	+21	+20
CAD	+20	+18
AUD	+9	+13
JPY	+5	+5
PLN	-19	-15

Effect on equity, 5% positive change in exchange rates

(DKK million)	**2018**	**2017**
USD	+118	+95
GBP	+15	+14
CAD	+42	+47
AUD	+21	+20
JPY	+3	+3
PLN	+25	+22

**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 2018, our forward exchange contracts realised a gain of DKK 21 million (gain of DKK 49 million in 2017), which increased reported revenue for the year. In addition, we raised loans in foreign currencies to balance out net receivables. At year-end 2018, we had entered into forward exchange contracts at a contractual value of DKK 1,411 million (DKK 1,297 million in 2017) and a fair value of DKK -19 million (DKK 63 million in 2017).

Forward exchange contracts

(DKK million)

2018	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	2019	10 months	626	-926	-26	1	27
AUD	2019	5 months	466	-81	1	1	-
GBP	2019	10 months	832	-300	4	4	-
CAD	2019	10 months	477	-320	3	4	1
JPY	2019	9 months	5.82	-108	-2	-	2
PLN	2019	11 months	171	324	1	2	1
				-1,411	**-19**	**12**	**31**

(DKK million)

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	-
AUD	2018	5 months	493	-111	2	2	-
GBP	2018	9 months	838	-277	-	2	2
CAD	2018	7 months	496	-246	2	3	1
JPY	2018	8 months	6.48	-91	14	14	-
PLN	2018	10 months	172	182	4	4	-
				-1,297	**63**	**66**	**3**

§ 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 are measured based on current market data and by use of commonly recognised valuation methods. Please refer to Note 4.5.

**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.*

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 euros. 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 euros.

The following table shows the exchange rates for our main trading currencies according to the central bank of Denmark.

Depending on the phasing of revenue, EBIT and payments, the exchange rate impact on the consolidated income statement can vary from the below averages.

Year-end exchange rate DKK per 100

	2018	**2017**	**Change**
EUR	745	744	0.1%
USD	632	660	-4.2%
AUD	472	506	-6.7%
GBP	842	849	-0.8%
CAD	488	508	-3.9%
JPY	5.72	5.88	-2.7%
PLN	175	175	0.0%

Year-end exchange rate DKK per 100

	2018	**2017**	**Change**
EUR	747	744	0.4%
USD	652	621	5.0%
AUD	461	485	-4.9%
GBP	827	839	-1.4%
CAD	479	495	-3.2%
JPY	5.91	5.51	7.3%
PLN	174	178	-2.2%

2.4 Exchange rates – *continued*

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

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

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

On recognition in the consolidated financial statements of enterprises presenting their financial statements in a functional currency other than Danish kroner, the income statement is translated using average exchange rates for the months of the year in question, unless they deviate materially from actual exchange rates at the transaction dates. In case of the latter, actual exchange rates are applied.

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

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

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

Section 3

Asset base

Property, plant and equipment

1,823

DKK MILLION

Other non-current assets

2,241

DKK MILLION

3.1 Intangible assets

(DKK million)	Goodwill	Patents and licences	Other intangible assets	Prepayments and assets under development	Total intangible assets
Cost at 1.1.2018	**6,339**	**141**	**605**	**106**	**7,191**
Foreign currency translation adjustments	98	-	4	-1	101
Additions during the year	-	10	47	132	189
Additions relating to acquisitions	774	-	27	-	801
Disposals during the year	-	-19	-	-	-19
Transferred to/from other items	-	-	56	-56	-
Cost at 31.12.2018	**7,211**	**132**	**739**	**181**	**8,263**
Amortisation at 1.1.2018	**-**	**-101**	**-198**	**-**	**-299**
Foreign currency translation adjustments	-	-	-3	-	-3
Amortisation for the year	-	-15	-99	-	-114
Disposals during the year	-	19	-	-	19
Amortisation at 31.12.2018	**-**	**-97**	**-300**	-	**-397**
Carrying amount at 31.12.2018 BS	**7,211**	**35**	**439**	**181**	**7,866**
Cost at 1.1.2017	**6,276**	**141**	**429**	**152**	**6,998**
Foreign currency translation adjustments	-374	-	-14	-1	-389
Additions during the year	-	2	8	116	126
Additions relating to acquisitions	437	-	27	-	464
Disposals during the year	-	-3	-5	-	-8
Transferred to/from other items	-	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	-	-	7	-	7
Amortisation for the year	-	-14	-70	-	-84
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**

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 non-controlling interests in the acquired enterprise and the fair value of any existing investment in the acquired enterprise – and the fair values 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 licenses are amortised over their estimated useful lives.

Other intangible assets consist of software, other rights than patents and licenses and other intangible assets acquired in connection with business combinations, primarily brand value, customer bases and non-compete agreements.

Other intangible assets 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, except for other rights which are considered to have an indefinite useful life and are instead tested for impairment annually.
Please refer to Note 3.5.

Patents and licenses	5-20 years
Software	5-10 years
Brand value	5-10 years
Customer bases	5-7 years
Non-compete agreements	For the duration of the agreement

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 that 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 2018 nor as of 31 December 2017, had any separate cash-generating units been identified to which goodwill could be allocated. The annual impairment testing was thus based on the Group as a whole. Please refer to Note 3.5.

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 improve-ments	Prepayments and assets under construction	Total property, plant and equipment
Cost at 1.1.2018	**1,139**	**915**	**1,298**	**669**	**83**	**4,104**
Foreign currency translation adjustments	5	-5	1	-4	-	-3
Additions during the year	9	39	148	129	69	394
Additions relating to acquisitions	1	-	11	13	-	25
Disposals during the year	-58	-289	-200	-40	-5	-592
Transferred to/from other items	1	43	11	16	-71	-
Cost at 31.12.2018	**1,097**	**703**	**1,269**	**783**	**76**	**3,928**
Depreciation and impairment losses at 1.1.2018	**-268**	**-705**	**-1,009**	**-404**	**-**	**-2,386**
Foreign currency translation adjustments	-	1	-2	4	-	3
Depreciation for the year	-19	-64	-130	-83	-	-296
Disposals during the year	48	286	198	41	-	573
Reversed impairment loss	1	-	-	-	-	1
Depreciation and impairment losses at 31.12.2018	**-238**	**-482**	**-943**	**-442**	**-**	**-2,105**
Carrying amount at 31.12.2018 BS	**859**	**221**	**326**	**341**	**76**	**1,823**
Cost at 1.1.2017	**1,157**	**950**	**1,255**	**601**	**91**	**4,054**
Foreign currency translation adjustments	-20	-6	-40	5	-	-61
Additions during the year	36	15	90	56	86	283
Additions relating to acquisitions	-	-	15	6	-	21
Disposals during the year	-41	-74	-68	-10	-	-193
Transferred to/from other items	7	30	46	11	-94	-
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
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**

3.2 Property, plant and equipment – *continued*

§ 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.

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.

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

Accounting estimates and assumptions

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.

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	Up to 10 years

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 receivables
Cost at 1.1.2018	**955**	**500**	**546**
Foreign currency translation adjustments	22	7	7
Additions during the year	123	64	353
Additions relating to acquisitions	-	-	1
Disposals related to step-up acquisitions of associates	-205	-	-
Disposals, repayments etc. during the year	-	-300	-299
Movement to current	-	-104	-
Cost at 31.12.2018	**895**	**167**	**608**
Value adjustments at 1.1.2018	**-22**	**-**	**-90**
Foreign currency translation adjustments	1	-	-4
Share of profit after tax IS	131	-	-
Dividends received	-87	-	-
Disposals relating to step-up acquisitions of associates	65	-	-
Disposals during the year	-	-	50
Value adjustments at 31.12.2018	**88**	**-**	**-44**
Carrying amount at 31.12.2018 BS	**983**	**167**	**564**
Cost at 1.1.2017	**609**	**383**	**664**
Foreign currency translation adjustments	-29	-33	-53
Additions during the year	375	157	236
Additions relating to acquisitions	-	-	1
Disposals, repayments etc. during the year	-	-7	-302
Cost at 31.12.2017	**955**	**500**	**546**
Value adjustments at 1.1.2017	**-26**	**-**	**-125**
Foreign currency translation adjustments	5	-	13
Share of profit after tax IS	53	-	-
Dividends received	-54	-	-
Other adjustments	-	-	22
Value adjustments at 31.12.2017	**-22**	**-**	**-90**
Carrying amount at 31.12.2017 BS	**933**	**500**	**456**

Please refer to *Subsidiaries, associates and joint ventures* on page 129 for a list of associates and joint ventures.

3.3 Other non-current assets – *continued*

In 2018, the Group received royalties from and paid licence fees to associates and joint ventures of net DKK 1 million (net DKK 1 million in 2017) and received dividends from associates and joint ventures of DKK 87 million (DKK 54 million in 2017). In 2018, the Group received interest income from associates and joint ventures of DKK 6 million (DKK 13 million in 2017). In the reporting period, transactions with related parties were made on an arm's length basis.

	Associates		Joint ventures	
(DKK million)	2018	2017	2018	2017
Financial information (Group share):				
Revenue	588	621	542	371
Net profit for the year	30	10	104	43
Comprehensive income	30	10	104	43

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.

3.4 Non-current assets by geographic region

(DKK million)	2018	2017
Denmark	1,482	1,307
Other Europe	4,403	4,211
North America	5,249	4,653
Pacific	616	534
Asia	125	127
Other countries	55	50
Non-current assets BS	**11,930**	**10,882**

For accounting policies on segment information, please refer to Note 1.1.

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 2018 and 31 December 2017. Future cash flows are based on the budget for 2019, on strategy plans and on projections hereof. Projections extending beyond 2019 are based on general parameters, such as expected market growth, selling prices and profitability assumptions. The terminal value for the period after 2019 is determined on the assumption of 2% growth (2% in 2017). The pre-tax discount rate is 7% (7.5% in 2017). 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 and certain other rights, 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 2018 and 2017.

§ **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

Net interest-bearing debt

5,835

DKK MILLION

Net financial items

-164

DKK MILLION

Gearing multiple

2.0

NIBD/EBITDA

4.1 Financial risk management and capital structure

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

Interest rate risks
In previous years, we only hedged interest rate risks on Group loans to a limited extent, as the Group only had limited debt compared to its volume of activities. Because of the Group's high level of cash generation and relatively low financial gearing, the majority of our loans are raised on floating terms and predominantly as short-term commitments, resulting in a low level of interest expenses. In order to secure relatively low interest rates for the Group on the long term and as a consequence of our attractive funding possibilities in the financial market, the Group now partly funds its debt through medium-term committed facilities with fixed rates and through financial instruments, which limits the interest rate risk. The Group's net interest-bearing debt amounted to DKK 5,835 million as at 31 December 2018, corresponding to a gearing multiple of 2.0 (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 13% of total consolidated revenue. Furthermore, when granting loans, we require that our counterparts provide security in their business. Overall, we therefore estimate that we have no major credit exposure on Group level.

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

Liquidity risks
The Group aims to have sufficient cash resources to be able to take appropriate steps in case of unforeseen fluctuations in cash outflows. We have access to considerable undrawn credit facilities, and the liquidity risk is therefore considered to be low. We are of the opinion that the Group has strong cash flows and a satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions. Neither in previous years nor in the financial year 2018 has the Group defaulted on loan agreements.

4.2 Net financial items

(DKK million)	2018	2017
Interest on cash and bank deposits	4	4
Interest on receivables, customer loans etc.	33	39
Other financial income	2	6
Financial income from financial assets not measured at fair value in the income statement	**39**	**49**
Foreign exchange gains, net	-	-
Financial income IS	**39**	**49**
Interest on bank debt, mortgages etc.	-98	-69
Financial expenses on financial liabilities not measured at fair value in the income statement	**-98**	**-69**
Foreign exchange losses, net	-3	-3
Transaction costs	-102	-88
Financial expenses IS	**-203**	**-160**
Net financial items	**-164**	**-111**

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 by a loss of DKK 13 million in 2018 (a loss of DKK 93 million in 2017).

§ **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)	2018	2017
Unrealised gains on financial contracts BS	12	66
Financial assets used as hedging instruments	**12**	**66**
Receivables from associates BS	337	581
Other receivables BS	944	713
Trade receivables BS	2,763	2,573
Cash BS	630	697
Financial assets at amortised cost	**4,674**	**4,564**
Other investments BS	14	11
Financial assets at fair value through profit/loss	**14**	**11**
Unrealised losses on financial contracts BS	-32	-3
Financial liabilities used as hedging instruments	**-32**	**-3**
Debt to credit institutions etc.	-3,113	-3,228
Short-term bank facilities etc.	-3,633	-2,291
Overdraft	-382	-46
Trade payables BS	-499	-516
Other liabilities	-1,278	-1,448
Financial liabilities measured at amortised cost	**-8,905**	**-7,529**

As was the case in 2017, 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 311 million (DKK 293 million in 2017).

§ 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.

The Group had no finance lease agreements in 2018 and 2017.

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		
2018						
Interest-bearing receivables	253	309	166	728	663	
Cash BS	630	-	-	630	630	
Interest-bearing assets	**883**	**309**	**166**	**1,358**	**1,293**	**2.1%**
Debt to credit institutions etc.	-961	-2,121	-74	-3,156	-3,113	
Short-term bank facilities etc.	-3,675	-	-	-3,675	-3,633	
Overdraft	-382	-	-	-382	-382	
Interest-bearing liabilities BS	**-5,018**	**-2,121**	**-74**	**-7,213**	**-7,128**	**1.7%**
Net interest-bearing debt	**-4,135**	**-1,812**	**92**	**-5,855**	**-5,835**	**1.6%**
2017						
Interest-bearing receivables	121	349	599	1,069	838	
Cash BS	697	-	-	697	697	
Interest-bearing assets	**818**	**349**	**599**	**1,766**	**1,535**	**1.8%**
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%**

Trade payables and other liabilities have a contractual maturity of less than one year, with the exception of other liabilities of DKK 194 million (DKK 197 million in 2017), which have a contractual maturity of 1-5 years. The contractual cash flows approximate their carrying amounts.

Interest-bearing debt broken down by currency: 37% in US dollars (35% in 2017), 49% in Danish kroner (48% in 2017), 12% in euros (15% in 2017), 1% in Canadian dollars (1% in 2017) and 1% in other currencies (1% in 2017).

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.

4.4 Net interest-bearing debt, liquidity and interest rate risks – *continued*

(DKK million)	2017	Cash flows from financing activities	Net cash flow from overdraft	Non-cash changes: Acquisitions	Non-cash changes: Foreign exchange movements	2018
Debt to credit institutions etc.	-3,228	131	-	-3	-13	-3,113
Short-term bank facilities etc.	-2,291	-1,258	-	-	-84	-3,633
Liabilities from financing activities	**-5,519**	**-1,127**	**-**	**-3**	**-97**	**-6,746**
Overdraft CF	-46	-	-320	-	-16	-382
Interest-bearing liabilities	**-5,565**	**-1,127**	**-320**	**-3**	**-113**	**-7,128**

(DKK million)	2016	Cash flows from financing activities	Net cash flow from overdraft	Non-cash changes: Acquisitions	Non-cash changes: Foreign exchange movements	2017
Finance lease debt	-8	8	-	-	-	-
Debt to credit institutions etc.	-3,261	16	-	-5	22	-3,228
Short-term bank facilities etc.	-2,202	-292	-	-	203	-2,291
Liabilities from financing activities	**-5,471**	**-268**	**-**	**-5**	**225**	**-5,519**
Overdraft CF	-36	-	-35	-	25	-46
Interest-bearing liabilities	**-5,507**	**-268**	**-35**	**-5**	**250**	**-5,565**

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

Interest cap

(DKK million)	2018 Expiry	2018 Interest rate/strike	2018 Contractual amount at year-end	2018 Positive fair value at year-end	2018 Negative fair value at year-end	2017 Expiry	2017 Interest rate/strike	2017 Contractual amount at year-end	2017 Positive fair value at year-end	2017 Negative fair value at year-end
DKK/DKK	2021	0%	650	-	1	2019	0%	650	-	-
			650	**-**	**1**			**650**	**-**	**-**

The fair value of the interest cap (a strip of call options) outstanding at the balance sheet date is DKK -1 million (DKK 0 million in 2017), and the contractual value of the interest cap is DKK 650 million (DKK 650 million in 2017). The cap will run until 2021.

Sensitivity analysis in respect of interest rates
Based on consolidated net debt at the end of the 2018 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 29 million (DKK 10 million in 2017). About 42% (55% in 2017) 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. The key elements when pricing interest rate options are strike rate, forward rate, maturity and volatility. The value of an interest rate option is made up of the intrinsic value and the time value of such option. The value of a cap is the combined value of the individual IRGs.

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

Fair value hierarchy for assets and liabilities measured at fair value in the balance sheet
Financial instruments measured at fair value are broken down according to the fair value hierarchy:

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

4.5 Fair value hierarchy – *continued*

(DKK million)	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets used as hedging instruments	-	12	-	**12**	-	66	-	**66**
Other investments (assets available for sale)	-	-	14	**14**	-	-	11	**11**
Financial liabilities used as hedging instruments	-	-32	-	**-32**	-	-3	-	**-3**
Financial liabilities at fair value through income statement	-	-	-	**-**	-	-	-	**-**
Contingent considerations	-	-	-170	**-170**	-	-	-365	**-365**

There have been no transfers between level 1 and 2 in the 2018 and 2017 financial years.

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

Level 3 assets and liabilities

(DKK million)	Financial assets		Contingent considerations	
	2018	**2017**	**2018**	**2017**
Carrying amount at 1.1.	11	8	-365	-183
Foreign currency translation adjustment	-	-	-18	42
Acquisitions	3	4	-46	-122
Investments in associates	-	-	-6	-180
Disposals, repayments, settlements etc.	-	-1	261	73
Other adjustments	-	-	4	5
Transferred to/from level 3	-	-	-	-
Carrying amount at 31.12.	**14**	**11**	**-170**	**-365**

§ **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

Corporate tax paid in Denmark

388

DKK MILLION

Effective tax rate

22.7%

5.1 Tax on profit

(DKK million)	2018	2017
Current tax on profit for the year	-459	-455
Adjustment of current tax, prior years	-4	-2
Change in deferred tax	-76	-65
Adjustment of deferred tax, prior years	1	38
Impact of changes in corporate tax rates	-	16
Tax on profit for the year IS	**-538**	**-468**
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	1.4%	1.9%
Impact of changes in corporate tax rates	0.0%	-0.7%
Use of tax assets not previously recognised	0.0%	-0.8%
Permanent differences	-0.8%	-0.1%
Other items, including prior-year adjustments	0.1%	-1.3%
Effective tax rate	**22.7%**	**21.0%**

§ 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)	2018	2017
Deferred tax recognised in the balance sheet:		
Deferred tax assets BS	513	372
Deferred tax liabilities BS	-232	-159
Deferred tax, net at 31.12.	**281**	**213**
Deferred tax, net at 31.12	213	244
Impact of changes in accounting policies	142	-
Deferred tax, net at 1.1.	**355**	**244**
Foreign currency translation adjustments	-8	-5
Changes in deferred tax assets	-76	-65
Additions relating to acquisitions	-3	-2
Adjustment of deferred tax, prior years	1	38
Impact of changes in corporate tax rates	-	16
Deferred tax relating to changes in equity, net	12	-13
Deferred tax, net at 31.12.	**281**	**213**

The tax value of deferred tax assets not recognised is DKK 128 million (DKK 125 million in 2017) 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 2017).

Breakdown of the Group's temporary differences and changes:	Temporary differences at 31.12.2017	Impact of changes in accounting policy	Temporary differences at 1.1.2018	Foreign currency translation adjustments	Acquisitions	Recognised in profit for the year	Recognised in other comprehensive income	Temporary differences at 31.12.2018
Intangible assets	-132		-132	-5	-3	-90	-	-230
Property, plant and equipment	-28		-28	-1	-	3	-	-26
Inventories	186		186	-	-	23	-	209
Receivables	11	5	16	-1	-	23	-	38
Provisions	73		73	1	-	9	-	83
Deferred income	-	137	137	-4	-	4	-	137
Tax losses	92		92	5	-	-13	-	84
Other	11		11	-3	-	-34	12	-14
Total	**213**	**142**	**355**	**-8**	**-3**	**-75**	**12**	**281**

Breakdown of the Group's temporary differences and changes:	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
Intangible assets	-94	16	-2	-52	-	-132
Property, plant and equipment	-60	1	-	31	-	-28
Inventories	185	-2	-	3	-	186
Receivables	28	-3	-	-14	-	11
Provisions	70	-6	-	9	-	73
Tax losses	111	-12	-	-7	-	92
Other	4	1	-	19	-13	11
Total	**244**	**-5**	**-2**	**-11**	**-13**	**213**

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

6.1 Acquisition of enterprises and activities

(DKK million)	North America	Pacific	Europe/ Asia	Total
	Fair value on acquisition			
2018				
Intangible assets	15	1	11	27
Property, plant and equipment	19	1	5	25
Other non-current assets	-	-	1	1
Inventories	5	1	2	8
Current receivables	21	-	7	28
Cash and bank debt	7	-	7	14
Non-current liabilities	-3	-	-1	-4
Current liabilities	-94	-1	-15	-110
Acquired net assets	**-30**	**2**	**17**	**-11**
Goodwill	638	26	110	774
Acquisition cost	**608**	**28**	**127**	**763**
Carrying amount of non-controlling interests on obtaining control	-139	-	-1	-140
Fair value adjustment of non-controlling interests on obtaining control	-	-	-2	-2
Contingent considerations and deferred payments	-26	-6	-14	-46
Acquired cash and bank debt	-7	-	-7	-14
Cash acquisition cost	**436**	**22**	**103**	**561**

2017				
Intangible assets	10	2	15	27
Property, plant and equipment	14	1	6	21
Other non-current assets	-	-	1	1
Inventories	2	-	2	4
Current receivables	6	-	8	14
Cash and bank debt	2	-	12	14
Non-current liabilities	-4	-	-3	-7
Current liabilities	-17	-2	-17	-36
Acquired net assets	**13**	**1**	**24**	**38**
Goodwill	302	27	108	437
Acquisition cost	**315**	**28**	**132**	**475**
Contingent considerations and deferred payments	-106	-8	-8	-122
Acquired cash and bank debt	-2	-	-12	-14
Cash acquisition cost	**207**	**20**	**112**	**339**

6.1 Acquisition of enterprises and activities – *continued*

Our most significant acquisition in 2018 was the purchase of AccuQuest, a large retail chain of hearing aid stores in the US. The acquisition was made in steps: The acquisition of a non-controlling interest of 35% of the shares on 23 May 2013 at a purchase price of DKK 202 million and the acquisition of the remaining 65% of the shares on 17 of May 2018 at a purchase price of DKK 397 million including DKK 268 million from existing loans.

The Group´s other acquisitions in 2018 consist of a number of minor retail acquisitions, mainly in Europe and North America. In respect of these acquisitions, we paid acquisition costs 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, the non-controlling 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 2018, a few adjustments were made to the preliminary recognition of acquisitions made in 2017. These adjustments were made in respect of payments made, contingent considerations provided and net assets and goodwill acquired. The impact of these adjustments on goodwill was DKK 1 million (DKK 11 million in 2017). In relation to acquisitions with final recognition in 2010-2017, adjustments were made in 2018 in respect of estimated contingent considerations. Such adjustments are recognized 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 3 million (DKK 0 million in 2017), and adjustments of contingent considerations amounting to DKK 4 million (DKK 5 million in 2017) were recognised in the income statement under distribution costs in 2018.

Of the total acquisition cost in 2018, the fair values of estimated contingent considerations in the form of earn-outs or deferred payments accounted for DKK 46 million (DKK 122 million in 2017), and DKK 6 million relating to investments in associates and joint ventures. Such earn outs depend on the results of the acquired entities for a period of 1-5 years after the acquisition date and can total a maximum of DKK 47 million (DKK 168 million in 2017) for acquisitions, and to DKK 6 million (DKK 180 million in 2017) for investments in associates and joint ventures.

The acquired assets include contractual receivables amounting to DKK 38 million (DKK 9 million in 2017) of which DKK 9 million (DKK 0 million in 2017) was thought to be uncollectible at the date of the acquisition. Of total goodwill in the amount of DKK 774 million (DKK 437 million in 2017), DKK 694 million (DKK 304 million in 2017) can be amortised for tax purposes.

Transaction costs in connection with acquisitions made in 2018 amounted to DKK 1 million (DKK 0 million in 2017) and were recognised under distribution costs.

Revenue and profit generated by the acquired enterprises since our acquisition in 2018 amount to DKK 207 million (DKK 147 million in 2017) and DKK 8 million (DKK 6 million in 2017), respectively. Had such revenue and profit been consolidated on 1 January 2018, we estimate that consolidated pro forma revenue and profit would have been DKK 14,085 million (DKK 13,294 million in 2017) and DKK 1,836 million (DKK 1,763 million in 2017), respectively. Without taking synergies from our core business into account, we believe that these pro forma figures reflect the level of consolidated earnings after our acquisition of the enterprises.

The above determination of the fair values of acquisitions are not considered final until 12 months after the acquisition date.

From the balance sheet date and until the date of financial reporting in 2019, we have acquired additional distribution enterprises. We are in the process of assessing their fair values. Acquisition costs are 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

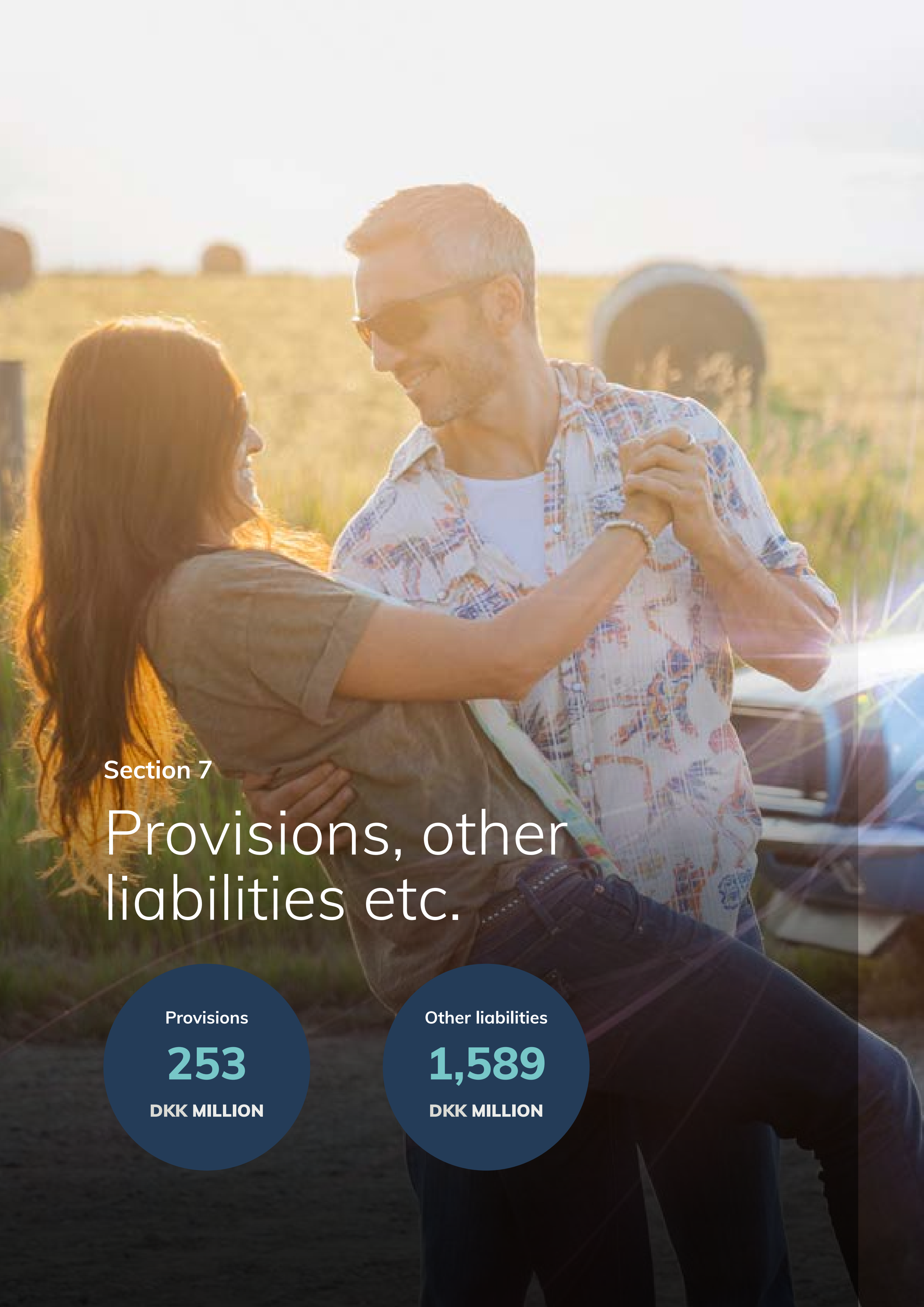
Identification of assets and liabilities

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

- Intangible 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.



Section 7

Provisions, other liabilities etc.

Provisions

253

DKK MILLION

Other liabilities

1,589

DKK MILLION

7.1 Provisions

(DKK million)	2018	2017
Provisions for restructuring costs	10	29
Staff-related provisions	56	57
Miscellaneous provisions	31	21
Other provisions	**97**	**107**
Defined benefit plan liabilities, net	156	133
Provisions at 31.12.	**253**	**240**
Breakdown of provisions:		
Non-current provisions BS	231	215
Current provisions BS	22	25
Provisions at 31.12.	**253**	**240**

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

Other provisions

(DKK million)	Restructuring costs	Staff-related	Miscellaneous	Total
Other provisions at 1.1.2018	**29**	**57**	**21**	**107**
Additions relating to acquisitions	-	-	4	4
Provisions during the year	2	-1	20	21
Applied during the year	-21	-	-7	-28
Reversals during the year	-	-	-7	-7
Other provisions at 31.12.2018	**10**	**56**	**31**	**97**
Breakdown of other provisions:				
Non-current provisions	-	56	12	68
Current provisions	10	-	19	29
Other provisions at 31.12.2018	**10**	**56**	**31**	**97**
Other provisions at 1.1.2017	**45**	**54**	**30**	**129**
Foreign currency translation adjustments	-2	-5	-1	-8
Additions relating to acquisitions	-	1	-	1
Provisions during the year	5	7	6	18
Applied during the year	-19	-	-5	-24
Reversals during the year	-	-	-9	-9
Other provisions at 31.12.2017	**29**	**57**	**21**	**107**
Breakdown of other provisions:				
Non-current provisions	14	57	11	82
Current provisions	15	-	10	25
Other provisions at 31.12.2017	**29**	**57**	**21**	**107**

7.1 Provisions – *continued*

(DKK million)	2018	2017
Present value of defined benefit obligations:		
Defined benefit obligations at 1.1.	361	495
Foreign currency translation adjustments	13	-30
Current service costs	12	21
Curtailment	-	-20
Calculated interest on defined benefit obligations	2	2
Actuarial gains/(losses)	33	-7
Benefits paid	-16	-109
Contributions from plan participants	8	9
Defined benefit obligations at 31.12.	**413**	**361**
Fair value of defined benefit assets:		
Defined benefit assets at 1.1.	228	297
Foreign currency translation adjustments	11	-24
Expected return on defined benefit assets	1	1
Actuarial gains/(losses)	16	1
Contributions	17	62
Benefits paid	-16	-109
Defined benefit assets at 31.12.	**257**	**228**
Defined benefit obligations recognised in the balance sheet, net	**156**	**133**
Return on defined benefit assets:		
Actual return on defined benefit assets	17	2
Expected return on defined benefit assets	1	1
Actuarial gains/(losses) on defined benefit assets	**16**	**1**
Assumptions:		
Discount rate	1.0%	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.

Defined benefit plan costs recognised in the income statement amount to DKK 13 million (DKK 2 million in 2017). Accumulated actuarial loss recognised in the statement of comprehensive income amount to DKK 70 million (DKK 51 million in 2017).

The Group expects to pay approx. DKK 15 million in 2019 (DKK 13 million in 2018) into defined benefit plans.

Defined benefit obligations in the amount of DKK 93 million (DKK 64 million in 2017) will mature within 1-5 years and obligations in the amount of DKK 320 million (DKK 297 million in 2017) after 5 years.

If the discount rate is 0.5 percentage point higher (lower), the defined benefit obligation will decrease by 7% (increase by 8%). If the expected salary growth rate is 0.5 percentage point higher (lower), the defined benefit obligation will increase by 1% (decrease by 1%).

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 at the balance sheet 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 as-sessing 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)	2018	2017
Product-related liabilities	311	293
Staff-related liabilities	477	463
Other debt, public authorities	244	265
Contingent considerations	170	365
Other costs payable	387	355
Other liabilities	**1,589**	**1,741**
Due within 1 year BS	1,395	1,544
Due within 1-5 years BS	194	197

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

The carrying amount of other liabilities approximate 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 Deferred income

(DKK million)	2018
Prepayments from customers	40
Future performance obligations:	
Deferred warranty-related revenue	647
Deferred free products revenue	190
Deferred service revenue	209
Total BS	**1,086**

Expected recognition of revenue

	Less than 1 year	1-2 years	2-4 years	More than 4 years	Total
2018					
Prepayments from customers	37	1	1	1	40
Deferred warranty-related revenue	247	242	153	5	647
Deferred free products revenue	130	55	4	1	190
Deferred service revenue	103	92	14	-	209
Total	**517**	**390**	**172**	**7**	**1,086**

Free products, service and some warranty-related services mentioned above are provided free of charge to the customer. Certain other warranty-related services are paid by the customer in connection with delivery of the related goods, but delivery of the service takes place 1-4 years after delivery of the goods. Please refer to Note 1.1 for a description of the nature of the deferred income.

§ Accounting policies
Deferred income includes income received or future performance obligations relating to subsequent financial years and is recognised as revenue when the Group performs the obligations by transferring the goods or services.

7.4 Operating lease commitments

(DKK million)	2018	2017
Rent	1,363	928
Other operating leases	97	84
Total	**1,460**	**1,012**
Operating leases, less than 1 year	391	342
Operating leases, 1-5 years	793	517
Operating leases, over 5 years	276	153
Total	**1,460**	**1,012**

Operating leases are recognised in the income statement at DKK 542 million (DKK 495 million in 2017). The Group's operating leases of which some have renewal options mainly relate to rent.

7.5 Contingent liabilities

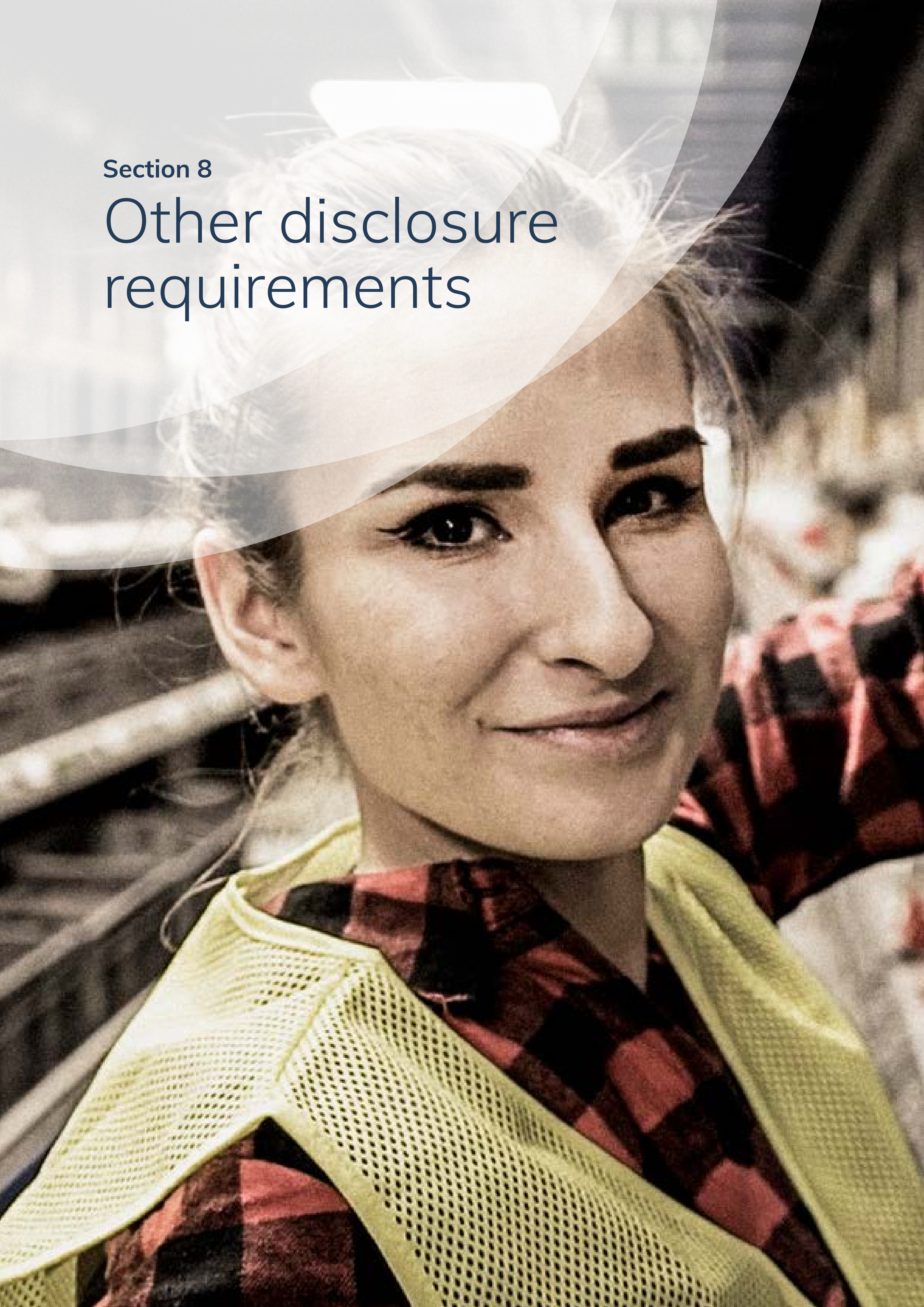
The Demant Group is involved in a few disputes, lawsuits etc. Management is of the opinion that such disputes do not or will not significantly affect the Group's financial position. The Group seeks to make adequate provisions for legal proceedings.

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 2018 or any amended financial period incorporating the said financial year. The Company does not expect any material loss to arise from this guarantee.

Section 8

Other disclosure requirements



8.1 Related parties

William Demant Foundation, Kongebakken 9, 2765 Smørum, Denmark, is the only related party with a controlling interest. Controlling interest is achieved through a combination of William Demant Foundation's own shareholding and the shareholding of William Demant Invest A/S for which William Demant Foundation exercises the voting rights. Subsidiaries and associated enterprises of William Demant Invest A/S are related parties to the 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 Demant Group's ownership interests in these companies appear from the *Subsidiaries, associates and joint ventures* list on page 129, and financial information on associates and joint ventures can be found in Note 3.3.

In 2018, William Demant Foundation paid administration fees to the Group of DKK 1 million (DKK 1 million in 2017). The Group paid administration fees to William Demant Invest A/S of DKK 2 million (DKK 3 million in 2017).

In 2018, the Group paid service fees to Össur hf., a subsidiary of William Demant Invest A/S, of DKK 38 million (DKK 28 million in 2017) and received service fees of DKK 14 million from Össur hf. (DKK 10 million in 2017).

In 2018, William Demant Foundation donated DKK 1 million (DKK 4 million in 2017) to Interacoustics Research Unit at the Technical University of Denmark. Further, William Demant Foundation acquired diagnostic equipment worth DKK 0.5 million (DKK 2 million in 2017) from the Group.

Since 2016, the Group has 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)	**2018**	**2017**
Statutory audit	12	11
Tax and VAT advisory services	3	4
Other services	-	1
Total	**15**	**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 1 million (DKK 2 million in 2017) and consists of VAT and tax service, tax advisory services related to transfer pricing, issuance of various assurance reports and accounting advisory.

8.3 Government grants

In 2018, the Demant Group received government grants in the amount of DKK 15 million (DKK 16 million in 2017). Grants are offset against research and development costs.

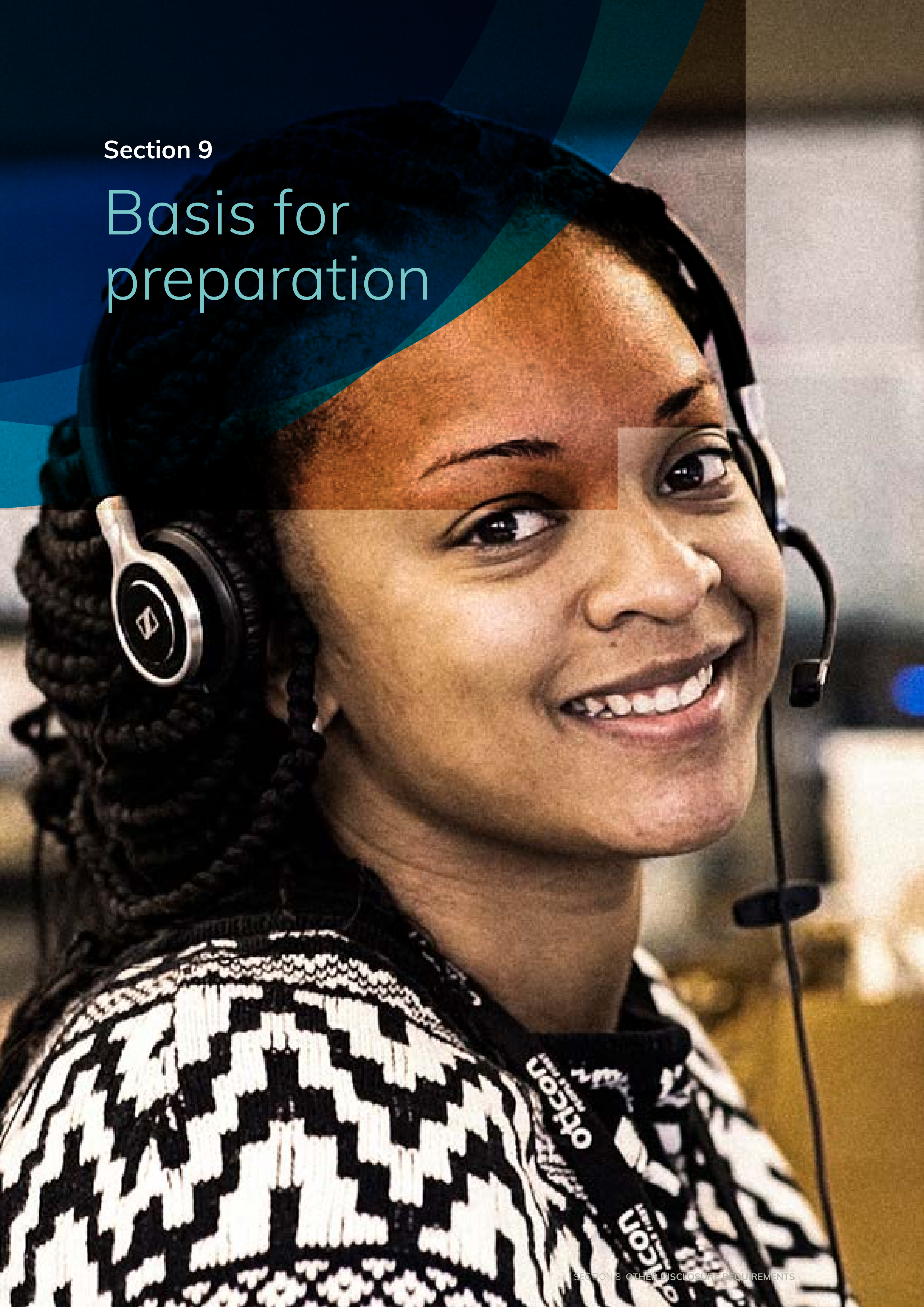
§ Accounting policies
Government grants are recognised when there is reasonable certainty that the conditions for such grants are satisfied and that they will be awarded. Grants received as compensation for costs incurred are recognised proportionately in the income statement over the periods in which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

8.4 Events after the balance sheet date

There have been no events that materially affect the assessment of this Annual Report 2018 after the balance sheet date and up to today.

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 from contracts with customers
1.5 Inventories
1.6 Receivables
2.3 Hedging and forward exchange contracts
2.4 Exchange rates
3.1 Intangible assets
3.2 Property, plant and equipment
3.3 Other non-current assets
3.5 Impairment testing
4.2 Net financial items
4.3 Categories of financial instruments
4.5 Fair value hierarchy
5.1 Tax on profit
5.2 Deferred tax
6.1 Acquisition of enterprises and activities
7.1 Provisions
7.2 Other liabilities
7.3 Deferred income
8.3 Government grants

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

The consolidated financial statements are presented in Danish kroner (DKK), which is the functional currency for the Parent. The consolidated financial statements are presented based on 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 2018.

Except for the implementation of new and amended standards as described below as well as insignificant reclassifications of the comparative figures for 2017, the accounting policies remain the same as in 2017.

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 2018. Except for IFRS 9 and 15, which are described below, 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 2018.

Issued in May 2014, IFRS 15 Revenue from Contracts with Customers establishes a single comprehensive model for entities to be used on the recognition of revenue arising from contracts with customers. IFRS 15 supersedes the previous revenue recognition guidance, including IAS 18 Revenue and related interpretations. As stated in the Annual Report 2017, Management has analysed the impact of IFRS 15 and concluded 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 has impacted the balance sheet by DKK 386 million net of tax and pertains predominantly to the deferral of income, which means that the impact on the income statement is limited.

IFRS 9 Financial Instruments was issued in 2009 and has been revised several times since then. Management estimates that the standard has only had limited impact on the consolidated financial statements. The main impact for the Group is on the measurement of credit losses related to receivables, where the impact of the transition on the balance sheet was DKK 21 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.

9.1 Group accounting policies – *continued*

((DKK million)	1 January 2018 Previous accounting policy	1 January 2018 Effect of changes in accounting policy	1 January 2018 New accounting policy	31 December 2018 Previous accounting policy	31 December 2018 Effect of changes in IFRS 15	31 December 2018 New accounting policy
Assets						
Intangible assets	**6,892**	**-**	**6,892**	**7,866**	**-**	**7,866**
Property, plant and equipment	**1,718**	**-**	**1,718**	**1,823**	**-**	**1,823**
Deferred tax assets	372	117	489	401	112	513
Other non-current assets	**2,272**	**117**	**2,389**	**2,129**	**112**	**2,241**
Trade receivables	2,573	-26	2,547	2,763	-	2,763
Prepaid expenses	208	21	229	239	41	280
Current assets	**5,340**	**-5**	**5,335**	**5,964**	**41**	**6,005**
Assets	**16,222**	**112**	**16,334**	**17,782**	**153**	**17,935**
Equity and liabilities						
Other reserves	7,375	-407	6,968	7,389	-389	7,000
Equity	**7,433**	**-407**	**7,026**	**7,448**	**-389**	**7,059**
Deferred tax liabilities	159	-25	134	258	-26	232
Other liabilities	197	-13	184	199	-5	194
Deferred income	208	282	490	220	349	569
Non-current liabilities	**3,086**	**244**	**3,330**	**3,072**	**318**	**3,390**
Other liabilities	1,544	-2	1,542	1,387	8	1,395
Deferred income	285	277	562	301	216	517
Current liabilities	**5,703**	**275**	**5,978**	**7,262**	**224**	**7,486**
Liabilities	**8,789**	**519**	**9,308**	**10,334**	**542**	**10,876**
Equity and liabilities	**16,222**	**112**	**16,334**	**17,782**	**153**	**17,935**

The table above shows changes in the balance sheet items due to of the implementation of IFRS 9 and IFRS 15. IFRS 9 has been implemented using the limited exemption relating to transition for classification, measurement and impairment, and IFRS 15 has been implemented using the modified retrospective method. The transition effects for both standards have thus been recognised in the opening balance of retained earnings, and the comparative figures have not been restated. As a practical expedient, IFRS 15 is only applied to non-completed contracts as of 1 January 2018.

The effect on the income statement items for 2018 is immaterial. Profit before tax was affected positively by DKK 20 million, tax on profit for the period was affected negatively by DKK 5 million, and comprehensive income was affected positively by DKK 15 million. Earnings per share adjusted for the effect from IFRS 15 amount to DKK 7.38 compared to reported earnings per share of DKK 7.32.

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 2018, have not been incorporated into this report.

9.1 Group accounting policies – *continued*

Issued in January 2016, IFRS 16 Leases requires lessees to recognise nearly all leases on the balance sheet with effect from 1 January 2019. 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. The transition will increase the net interest-bearing debt by DKK 2.0 billion at the effective date of the standard, i.e. 1 January 2019. Furthermore based on the leases included at transition, the standard is expected to impact EBITDA in 2019 by approx. DKK 0.5 billion compared to previous accounting policy according to IAS 17. The effects on EBIT and profit before tax are expected to be immaterial.

Management has decided to use the modified transition method under which comparative figures are not restated and the lease assets are set equal to the lease liabilities. Thus, the change in accounting policy will not impact retained earnings. The estimated impacts represent an increase compared to the estimates provided in Note 9.1 in Annual Report 2017 and are primarily the result of a change in the interpretation of the lease term for contracts with no specified end date, which for the Group mainly relates to property leases. In our Annual Report 2017, these were not included as leases due to the lack of control of the asset. However, following clarity from IASB in 2018, the lease term for these contracts has been adjusted accordingly, and the contracts are consequently now included as leases.

Issued in July 2017, IFRIC 23 Uncertainty over Income Tax Treatments clarifies the treatment of uncertain tax positions. The interpretation will not have any significant effect for the Group.

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 does exercise control by either directly or indirectly holding more than 50% of the voting rights, or in which the Parent exercises control in some other manner.

Enterprises in which the Group holds 20-50% of the voting rights and/or in some other manner can or does exercise significant influence are considered 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 based on the financial statements of 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 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 intragroup profits on inventories are eliminated.

The accounting items of subsidiaries are recognised 100% in the consolidated financial statements. On initial recognition, non-controlling interests are measured either at fair value or at their proportionate share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. The method is chosen for each individual transaction. Non-controlling interests are subsequently adjusted according to their proportionate share of changes in equity of the subsidiary. Comprehensive income is allocated to non-controlling interests whether or not, as a result hereof, the value of such interests is negative. The purchase or sale of non-controlling interests in a subsidiary, which does not result in obtaining or discontinuing control of such subsidiary, is treated as an equity transaction in the consolidated financial statements, and any difference between the consideration and the carrying amount is allocated to the Parent's share of the equity.

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

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

9.1 Group accounting policies – *continued*

R&D costs
Research costs are always recognised in the income statement as such costs incur. 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.

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 at the same time as hedged transactions are recognised.

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, financial 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 from financing activities includes payments to and from shareholders and the raising and repayment of non-current and current debt not included in the working capital.

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

Cash and cash equivalents are cash less 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 from contracts with customers
1.2 Employees
1.5 Inventories
1.6 Receivables
3.1 Intangible assets
5.2 Deferred tax
6.1 Acqusition of enterprises and activities
7.1 Provisions
7.2 Other liabilities

Parent financial statements

Parent income statement

(DKK million)	Note	2018	2017
Administrative expenses	10.1 / 10.2	-88	-69
Other operating income and expenses		35	34
Operating profit/loss (EBIT)		**-53**	**-35**
Share of profit after tax, subsidiaries	10.8	1,408	1,355
Share of profit after tax, associates and joint ventures	10.8	99	41
Financial income	10.3	15	43
Financial expenses	10.3	-71	-29
Profit before tax		**1,398**	**1,375**
Tax on profit for the year	10.4	23	3
Profit for the year	10.5	**1,421**	**1,378**

Parent balance sheet 31 december

(DKK million)	Note	**2018**	**2017**
Assets			
Goodwill		36	39
Rights and other intangible assets		2	3
Intangible assets	10.6	**38**	**42**
Land and buildings		25	24
Property, plant and equipment	10.7	**25**	**24**
Investments in subsidiaries	10.8	9,634	9,196
Receivables from subsidiaries	10.8	869	915
Investments in associates and joint ventures	10.8	215	156
Receivables from associates and joint ventures		9	2
Other investments		1	1
Other receivables		14	18
Financial assets		**10,742**	**10,288**
Non-current assets		**10,805**	**10,354**
Income tax		21	3
Other receivables		17	13
Prepaid expenses		4	4
Receivables		**42**	**20**
Current assets		**42**	**20**
Assets		**10,847**	**10,374**

Parent balance sheet 31 december

(DKK million)	Note	2018	2017
Equity and liabilities			
Share capital		50	52
Other reserves		2,210	2,161
Retained earnings		3,172	3,963
Total equity		**5,432**	**6,176**
Deferred tax liabilities	10.4	12	13
Provisions		**12**	**13**
Interest-bearing debt		2,162	2,305
Other debt		21	17
Non-current liabilities	10.9	**2,183**	**2,322**
Interest-bearing debt	10.9	2,636	1,344
Debt to subsidiaries		572	513
Other debt	10.9	12	6
Current liabilities		**3,220**	**1,863**
Liabilities		**5,403**	**4,185**
Equity and liabilities		**10,847**	**10,374**

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

Parent statement of changes in equity

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Other reserves: Reserve according to equity method	Retained earnings	Total equity
Equity at 1.1.2017	**53**	**-81**	**-**	**-**	**1,719**	**4,393**
Profit for the year	-	-	-	-	778	600
Foreign currency translation adjustment of investments in subsidiaries etc.	-	1	-	-	-321	-
Other changes in equity in subsidiaries	-	-	-	-	66	-
Tax relating to changes in equity	-	-	-	-	-	-
Buy-back of shares	-	-	-	-	-	-1,031
Capital reduction through cancellation of treasury shares	-1	-	-	-	-	1
Other changes in equity	-	-	-	-	-1	-
Equity at 31.12.2017	**52**	**-80**	**-**	**-**	**2,241**	**3,963**
Profit for the year	-	-	-	462	959	1,421
Foreign currency translation adjustment of investments in subsidiaries etc.	-	2	-	36	-	38
Other changes in equity in subsidiaries	-	-	-	-451	-	-451
Value adjustment for the year	-	-	-1	-	-	-1
Buy-back of shares	-	-	-	-	-1,751	-1,751
Capital reduction through cancellation of treasury shares	-2	-	-	-	2	-
Other changes in equity	-	-	-	-	-	-
Equity at 31.12.2018	**50**	**-78**	**-1**	**2,288**	**3,173**	**5,432**

(DKK 1,000)	2018	2017	2016	2015	2014
Specification of movements in share capital:					
Share capital at 1.1.	51,793	53,216	54,425	56,662	56,662
Capital reduction	-1,319	-1,423	-1,209	-2,237	-
Share capital at 31.12.	**50,474**	**51,793**	**53,216**	**54,425**	**56,662**

At year-end 2018, the share capital was nominally DKK 50 million (DKK 52 million in 2017) 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 2018, the number of shares outstanding was 245,219,832 (252,821,144 in 2017). For additional information, please refer to Note 10.12.

	2018		2017	
	Treasury shares	Percentage of share capital	Treasury shares	Percentage of share capital
Treasury shares at 1.1.	6,145,131	2.4%	6,887,399	2.6%
Cancellation of treasury shares	-6,598,300	-2.5%	-7,115,550	-2.7%
Buy-back of shares	7,601,312	3.0%	6,373,282	2.5%
Treasury shares at 31.12.	**7,148,143**	**2.8%**	**6,145,131**	**2.4%**

As part of the Company's share buy-back programme, the Company bought back 7,601,312 shares in 2018 (6,373,282 shares in 2017) worth a total of DKK 1,751 million (DKK 1,031 million in 2017).

Section 10

Notes to Parent financial statements

10.1 Employees

(DKK million)	2018	2017
Staff costs:		
Wages and salaries	49	41
Share-based remuneration	4	2
Staff costs	**53**	**43**
Average number of full-time employees	27	20

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

(DKK million)	2018			2017		
	Wages and salaries*	Share-based remunera-tion**	Total	Wages and salaries*	Share-based remunera-tion**	Total
Søren Nielsen, President & CEO	11.8	1.6	13.4	10.3	0.9	11.2
René Schneider, CFO	5.3	0.7	6.0	5.0	0.5	5.5
Niels Jacobsen, former President & CEO***	-	-	-	3.6	-	3.6
Executive Board	**17.1**	**2.3**	**19.4**	**18.9**	**1.4**	**20.3**
Fees to Board of Directors	**4.2**		**4.2**	**4.3**	**-**	**4.3**

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)	2018	2017
Statutory audit	2	2
Total	**2**	**2**

**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 2017). These expenses are therefore included in wages and salaries.*
***In 2018, DKK 0 million (DKK 0 million in 2017) of the share-based remuneration was paid out.*
****On 1 April 2017, Niels Jacobsen stepped down as President & CEO of William Demant Holding A/S. At the same time, the Board of Directors appointed Søren Nielsen new President & CEO of William Demant Holding A/S.*

10.3 Net financial items

(DKK million)	2018	2017
Interest from subsidiaries	13	15
Interest income	2	1
Foreign exchange gains, net	-	27
Financial income IS	**15**	**43**
Interest to subsidiaries	-3	-1
Interest expenses	-40	-28
Transaction costs	-1	-
Foreign exchange losses, net	-27	-
Financial expenses IS	**-71**	**-29**
Net financial items	**-56**	**14**

10.4 Tax on profit and deferred tax

(DKK million)	2018	2017
Tax on profit for the year:		
Current tax on profit for the year	22	3
Adjustment of current tax, prior years	-	-1
Change in deferred tax	1	1
Tax on profit for the year IS	**23**	**3**
Deferred tax recognised in the balance sheet:		
Deferred tax assets	-	-
Deferred tax liabilities BS	-12	-13
Deferred tax, net at 31.12.	**-12**	**-13**
Deferred tax, net at 1.1.	-13	-14
Changes in deferred tax liabilities	1	1
Deferred tax, net at 31.12.	**-12**	**-13**

10.5 Proposed distribution of net profit

(DKK million)	2018	2017
Transferred to reserves for net revaluation according to the equity method	462	778
Retained earnings	959	600
Total	**1,421**	**1,378**

10.6 Intangible assets

(DKK million)	Goodwill	Rights and other intangible assets	Total intangible assets
Cost at 1.1.2018	**65**	**11**	**76**
Additions during the year	-	-	-
Cost at 31.12.2018	**65**	**11**	**76**
Amortisation at 1.1.2018	**-26**	**-8**	**-34**
Amortisation for the year	-3	-1	-4
Amortisation at 31.12.2018	**-29**	**-9**	**-38**
Carrying amount at 31.12.2018 BS	**36**	**2**	**38**
Cost at 1.1.2017	**65**	**11**	**76**
Additions during the year	-	-	-
Cost at 31.12.2017	**65**	**11**	**76**
Amortisation at 1.1.2017	**-22**	**-8**	**-30**
Amortisation for the year	-4	-	-4
Amortisation at 31.12.2017	**-26**	**-8**	**-34**
Carrying amount at 31.12.2017 BS	**39**	**3**	**42**

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 1.1.2018	**30**
Additions during the year	1
Cost at 31.12.2018	**31**
Depreciation and impairment losses at 1.1.2018	**-6**
Depreciation for the year	-
Depreciation and impairment losses at 31.12.2018	**-6**
Carrying amount at 31.12.2018 BS	**25**
Cost at 1.1.2017	**30**
Additions during the year	-
Cost at 31.12.2017	**30**
Depreciation and impairment losses at 1.1.2017	**-6**
Depreciation for the year	-
Depreciation and impairment losses at 31.12.2017	**-6**
Carrying amount at 31.12.2017 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
Cost at 1.1.2018	**6,938**	**915**	**171**
Foreign currency translation adjustments	26	1	-
Additions during the year	422	89	27
Disposals, repayments etc. during the year	-	-136	-
Cost at 31.12.2018	**7,386**	**869**	**198**
Value adjustments at 1.1.2018	**2,258**	**-**	**-15**
Foreign currency translation adjustments	10	-	-
Share of profit after tax IS	1,408	-	99
Dividends received	-977	-	-68
Other adjustments	-451	-	1
Value adjustments at 31.12.2018	**2,248**	**-**	**17**
Carrying amount at 31.12.2018 BS	**9,634**	**869**	**215**
Cost at 1.1.2017	**6,625**	**1,395**	**158**
Foreign currency translation adjustments	-41	-1	-
Additions during the year	354	206	13
Disposals, repayments etc. during the year	-	-685	-
Cost at 31.12.2017	**6,938**	**915**	**171**
Value adjustments at 1.1.2017	**1,692**	**-**	**-15**
Foreign currency translation adjustments	-283	-	3
Share of profit after tax IS	1,355	-	41
Dividends receive	-573	-	-45
Other adjustments	67	-	1
Value adjustments at 31.12.2017	**2,258**	**-**	**-15**
Carrying amount at 31.12.2017 BS	**9,196**	**915**	**156**

The carrying amounts of investments in subsidiaries include capitalised goodwill in the net amount of DKK 6,010 million (DKK 5,405 million in 2017). Amortisation of consolidated capitalised goodwill for the year is DKK 381 million (DKK 440 million in 2017). Receivables from subsidiaries of DKK 869 million (DKK 915 million in 2017) are considered additions to the total investments in the particular enterprises and are therefore considered non-current. Please refer to the *Subsidiaries, associates and joint ventures* list on page 129 for further information.

10.9 Interest-bearing debt

(DKK million)	Contractual cash flows: Less than 1 year	1-5 years	More than 5 years	Total	Carrying amount	Weighted average effective interest rate
2018						
Debt to credit institutions etc.	1,760	2,121	74	3,955	3,904	
Short-term bank facilities etc.	900	-	-	900	894	
Interest-bearing liabilities	**2,660**	**2,121**	**74**	**4,855**	**4,798**	**1.1%**
2017						
Debt to credit institutions etc.	935	2,191	147	3,273	3,220	
Short-term bank facilities etc.	429	-	-	429	429	
Interest-bearing liabilities	**1,364**	**2,191**	**147**	**3,702**	**3,649**	**1.3%**

Interest-bearing debt broken down by currency: 65% in Danish kroner (74% in 2017), 18% in euros (22% in 2017) and 17% in US dollars (4% in 2017).

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

A part of other liabilities, DKK 12 million (DKK 6 million in 2017), have a contractual maturity of less than one year, and a part of other liabilities, DKK 21 million (DKK 17 million in 2017), have a contractual maturity of 1-5 years. The contractual cash flows approximate their carrying amounts.

Interest cap

(DKK million)	2018 Expiry	Interest rate/strike	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end	2017 Expiry	Interest rate/strike	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end
DKK/DKK	2021	0%	650	-	1	2019	0%	650	-	-
			650	**-**	**1**			**650**	**-**	**-**

The fair value of the interest cap (a strip of call options) outstanding at the balance sheet date is DKK -1 million (DKK 0 million in 2017), and the contractual value of theinterest cap is DKK 650 million (DKK 650 million in 2017). The cap will run until 2021.

Sensitivity analysis in respect of interest rates

Based on the bank debt facilities at the end of the 2018 financial year, a rise of 1 percentage point in the general interest rate level will cause an increase in the Parent's annual interest expenses before tax of approx. DKK 18 million (DKK 6 million in 2017). About 62% of the 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.

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 2,280 million in 2018 (DKK 1,630 million in 2017) of which DKK 725 million was drawn (DKK 404 million in 2017).

Moreover, we have established a mutual guarantee with Oticon A/S in the amount of DKK 650 million (DKK 650 million in 2017), 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 2018 for some of our subsidiaries.

The Parent is jointly taxed with William Dament 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 2018 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 Demant Foundation, Kongebakken 9, 2765 Smørum, Denmark, is the only related party with a controlling interest. Controlling interest is achieved through a combination of William Demant Foundation's own shareholding and the shareholding of William Demant Invest A/S for which William Demant 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 Events after the balance sheet date

Please refer to Note 8.4 in the consolidated financial statements.

10.13 Parent accounting policies – *continued*

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.

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 intragroup profits or losses less any amortisation and impairment 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.

Following the recent update of the Danish Financial Statements Act in 2018, the Parent has decided to apply the recognition and measurement in accordance with IFRS 15 as of 2018. IFRS 15 affects the Parent's proportionate share of its subsidiaries' equity value.

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

Company	**Interest**
William Demant Holding A/S	Parent
Oticon A/S, Denmark*	100%
Oticon AS, Norway*	100%
Oticon AB, Sweden*	100%
Oticon Denmark A/S, Denmark*	100%
Oticon GmbH, Germany	100%
Oticon S.A., Switzerland*	100%
Oticon Italia S.r.l., Italy*	100%
Oticon España S.A., Spain	100%
Oticon Polska Sp. z o.o., Poland*	100%
Oticon Limited, United Kingdom*	100%
Oticon Inc., USA	100%
Oticon Australia Pty. Ltd., Australia*	100%
Oticon Portugal, Unipessoal LDA, Portugal*	100%
Oticon Singapore Pte Ltd., Singapore*	100%
Oticon Shanghai Hearing Technology Co. Ltd., China*	100%
Oticon International Trading Shanghai Co. Ltd., China*	100%
Oticon South Africa (Pty) Ltd., South Africa*	100%
Oticon Korea Co. Ltd., Korea*	100%
Oticon Malaysia Sdn, Malaysia*	100%
Oticon Medical A/S, Denmark*	100%
Oticon Medical AB, Sweden	100%
Oticon Medical LLC, USA	100%
AccuQuest Hearing Center LLC, USA	100%
Audika ApS, Denmark*	100%
Audicare SPRL , Belgium*	100%
Audiology Services Company LLC, USA	100%
Audmet OY, Finland*	100%
Audmet Australia Pty. Ltd., Australia*	100%
Audmet B.V., the Netherlands*	100%
Audmet Canada LTD., Canada	100%
Audmet K.K., Japan*	100%
Audmet New Zealand Limited, New Zealand*	100%
Audmet S.r.l., Italy*	100%
Bernafon AG, Switzerland*	100%
Bernafon Hörgeräte GmbH, Germany	100%
Bernafon S.r.l., Italy*	100%
Bernafon LLC, USA	100%
Bernafon AB, Sweden*	100%
Bernafon A/S, Denmark*	100%
Bernafon Ibérica S.L.U., Spain*	100%
DGS Diagnostics Sp. z o.o., Poland	100%
DGS Poland Sp. z o.o., Poland	100%
DGS Business Services Sp. z o.o.*	100%
Demant Technology Centre Sp. z o. o., Poland*	100%
ACS Sluchmed Sp. z o.o., Poland	100%
Acustica Sp. z o.o., Poland*	100%
Acoustic Metrology Limited, United Kingdom	100%

Company	**Interest**
Akoustica Medica M EPE, Greece*	100%
Amplivox Ltd., United Kingdom	100%
Audika AB, Sweden*	100%
Audika AG, Switzerland*	100%
Audika Groupe S.A.S., France*	100%
Audio Seleccion S.L., Spain*	100%
BC Implants AB, Sweden*	100%
Centro Auditivo Telex Ltda., Brazil	100%
Danacom Høreapparater A/S, Denmark*	100%
Demant Sound A/S, Denmark*	100%
Diagnostic Group LLC, USA	100%
Diatec AG, Switzerland*	100%
Diatec Diagnostics GmbH, Germany*	100%
Diatec Spain, S.L.U., Spain*	100%
e3 diagnostics Inc., USA	100%
Guymark UK Limited, United Kingdom	100%
Hear Better Centers LLC, USA	100%
HearingLife Canada Ltd., Canada*	100%
Hearing Holding Belgium NV, Belgium*	100%
Hearing Screening Associates LLC, USA	100%
Hidden Hearing (Portugal), Unipessoal Lda., Portugal*	100%
Hidden Hearing Limited, United Kingdom	100%
Hidden Hearing Limited, Ireland*	100%
IDEA Isitme Sistemleri Sanayi ve Ticaret A.S., Turkey*	100%
Interacoustics A/S, Denmark*	100%
Interacoustics Pty. Ltd., Australia*	100%
Kuulopiiri Oy, Finland*	100%
LeDiSo Italia S.r.l., Italy*	100%
Maico Diagnostic GmbH, Germany*	100%
Maico S.r.l., Italy*	100%
MedRx Inc., USA	100%
Micromedical Technologies Inc., USA	100%
Neurelec Maroc Sarlau, Morocco	100%
Neurelec S.A.S., France*	100%
New Zealand Audiology Limited, New Zealand*	100%
Prodition S.A.S., France*	100%
Sensory Devices Inc., USA	100%
SES Isitme Cihazlari Sanayi ve Ticaret A.S., Turkey*	100%
Sonic Innovations Inc., USA	100%
Sonic Innovations Pty Ltd., Australia	100%
Udicare S.r.l., Italy*	100%
Van Boxtel Hoorwinkels B.V., the Netherlands	100%
Your Hearing Network LLC, USA	100%
FrontRow Calypso LLC, USA	75%
Sennheiser Communications A/S, Denmark*	50%
Dencker A/S, Denmark*	40%
HIMSA A/S, Denmark	25%

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

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