Company announcement no 2018-08

Interim Report 2018 **15 August 2018**

Hearing aid wholesale delivered strong organic growth of 11% and expands industry-leading product portfolio
Growth in local currencies was 9% for the Group with 7% organic growth
Adjusted EBIT grew by 11% (reported 16%) with EBIT margin expansion of 1.2 pp (reported 1.8 pp)
Outlook adjusted to EBIT of DKK 2.65-2.85bn (prev. 2.55-2.85bn) before restr. costs of DKK 120m (prev. 150m)

- The Group has seen a very satisfactory development in the first half-year of 2018 with substantial organic growth rates across all business activities. Revenue amounted to DKK 6,777 million and grew by 9% in local currencies of which organic growth accounted for 7 percentage points and acquisitive growth for 2 percentage points. Exchange rates impacted growth negatively by 5% and reported growth was 4%.
- In Hearing Devices, organic growth amounted to 7% driven by very strong performance by our hearing aid wholesale business, which saw organic growth of 11%, with mix effects driving a significant increase in the average selling price (ASP), but a negative unit growth rate. In a few weeks, we will expand our leading product portfolio even further when we launch new custom products across all brands and at all price points, including the first custom version of Oticon Opn. In addition to this, we will introduce our latest technology platform in more price points and in multiple styles across all brands. With material differences between our markets, our hearing aid retail business delivered growth of 8% in local currencies, with acquisitions contributing by more than 6 percentage points and organic growth by 1 percentage point.
- Hearing Implants saw organic growth of 9%, as our cochlear implants (CI) business generated a double-digit organic growth rate, while dedicating significant resources to executing on an upgrade programme started in 2017 under which new Neuro One users are eligible for an upgrade to the Neuro 2 external sound processor launched in late February this year at no additional cost. In our bone anchored hearing systems (BAHS) business, the organic growth rate was more modest, albeit above the market growth rate, which saw a temporary slowdown in the first half-year due to a limited number of new product introductions.
- Our Diagnostic Instruments business activity continued its positive momentum and realised an organic growth rate above 11% driven by our two largest regions, North America and Europe. Growth was broadly based across brands and product categories.
- As a leading hearing healthcare Group, we remain very committed to driving innovation forward, and all our business activities currently have leading product portfolios. In the first half year, we have increased our R&D spend by as much as 16% in local currencies in order to further expand this leading position and also in light of the increasing innovation pace in global hearing healthcare.
- Operating profit (EBIT) for the reporting period amounted to DKK 1,272 million before restructuring costs of DKK 46 million, corresponding to a growth rate of 11% on the same period last year. Restructuring costs were DKK 30 million lower than originally expected. The EBIT margin expanded by 1.2 percentage points to 18.8% driven by the strong growth in our wholesale business, however with some dilutive effects from Hearing Implants and an increase in production costs due to higher sales of value-added products and accessories. Reported EBIT increased by 16% to DKK 1,226 million, and reported profit for the period amounted to DKK 894 million, corresponding to earnings per share (EPS) of DKK 3.55, or an increase of 15% for both. Cash flow from operating activities (CFFO) grew by 8% to DKK 1,051 million before cash flow from restructuring costs of DKK -55 million.
- We have seen strong performance in the first half-year, and we maintain our expectation to generate substantial organic sales growth in 2018. We now expect exchange rate effects on total revenue for 2018 to be slightly less negative at around -3%, including the impact of exchange rate hedging (previously -4%), as we have seen a strengthening of our major invoicing currencies since the beginning of the year. We raise the lower end of our outlook range and now guide for an EBIT of DKK 2.65-2.85 billion (previously DKK 2.55-2.85 billion) before restructuring costs of DKK 120 million (previously DKK 150 million). Expectations of cost savings related to strategic initiatives remain unchanged. We still expect to buy back shares worth DKK 1.5-2.0 billion, while aiming at a gearing multiple of 1.5-2.0 (net interest-bearing debt relative to EBITDA).

"I'm very pleased with the overall result and that the strong performance by our Group in the first half-year has allowed us to raise the lower end of our full-year outlook range. Our results once again show how the hearing healthcare industry is driven by innovation and new strong product concepts that raise the bar for how much we can do with dedicated hearing care. Customer focus across the entire Group is one of our top priorities, and we will soon be ready with a vast range of new products for the benefit of end-users all over the world. This makes me confident that we can maintain our positive development," says Søren Nielsen, President & CEO.

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KEY FIGURES AND FINANCIAL RATIOS

	H1 2018	H1 2017	Change H1/H1	Full year 2017
INCOME STATEMENT, DKK MILLION				
Revenue	6,777	6,505	4%	13,189
Gross profit	5,201	4,939	5%	10,026
Gross profit – adjusted	5,211	4,956	5%	10,064
R&D costs	492	458	7%	919
EBITDA	1,441	1,256	15%	2,742
Amortisation and depreciation etc.	215	197	9%	404
Operating profit (EBIT)	1,226	1,059	16%	2,338
Operating profit (EBIT) – adjusted	1,272	1,142	11%	2,504
Net financial items	-72	-55	31%	-111
Profit before tax	1,154	1,004	15%	2,227
Profit for the period	894	798	12%	1,759
BALANCE SHEET, DKK MILLION				
Net interest-bearing debt	5,061	4,081	24%	4,030
Assets	17,224	16,082	7%	16,222
Equity	6,943	7,248	-4%	7,433
OTHER KEY FIGURES, DKK MILLION				
Investment in property, plant and equipment, net	198	124	60%	292
Cash flow from operating activities (CFFO)	996	886	12%	1,872
Cash flow from operating activities (CFFO) – adjusted	1,051	969	8%	2,023
Free cash flow	655	660	-1%	1,387
Average number of employees	13,934	13,047	7%	13,280
FINANCIAL RATIOS				
Gross profit margin	76.7%	75.9%		76.0%
Gross profit margin – adjusted	76.9%	76.2%		76.3%
EBITDA margin	21.3%	19.3%		20.8%
Profit margin (EBIT margin)	18.1%	16.3%		17.7%
Profit margin (EBIT margin) – adjusted	18.8%	17.6%		19.0%
Return on equity	24.4%	22.3%		24.0%
Equity ratio	40.3%	45.1%		45.8%
Earnings per share (EPS), DKK*	3.55	3.10	15%	6.84
Cash flow per share (CFPS), DKK*	3.97	3.43	16%	7.30
Free cash flow per share, DKK*	2.61	2.56	2%	5.41
Dividend per share, DKK*	0	0	-	0
Equity value per share, DKK*	27.6	28.1	-2%	28.9
Price earnings (P/E)	36.2	27.3	33%	25.4
Share price, DKK*	256.80	168.50	52%	173.50
Market cap. adjusted for treasury shares, DKK million	63,887	43,222	48%	43,864
Average number of shares outstanding, million*	251.15	257.94	-3%	256.56

Financial ratios are calculated in accordance with "Recommendations and Financial Ratios 2015" from the Danish Society of Financial Analysts. The free cash flow is calculated as the sum of cash flows from operating activities (CFFO) and investing activities (CFFI) before 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.

**Per share of nominally DKK 0.20.*

FINANCIAL REVIEW

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

Income statement

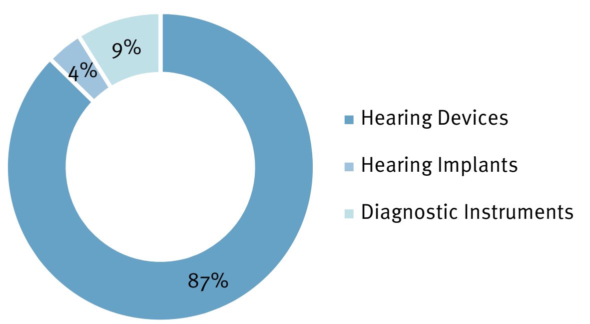
(DKK million)	Reported H1 2018	Restr. costs	Adjusted H1 2018	Reported H1 2017	Restr. costs	Adjusted H1 2017	Growth (adjusted)
Revenue	6,777	0	6,777	6,505	0	6,505	4%
Production costs	-1,576	-10	-1,566	-1,566	-17	-1,549	1%
Gross profit	**5,201**	**-10**	**5,211**	**4,939**	**-17**	**4,956**	**5%**
Gross profit margin	76.7%		76.9%	75.9%		76.2%	
R&D costs	-492	-12	-480	-458	-40	-418	15%
Distribution costs	-3,157	-12	-3,145	-3,086	-16	-3,070	2%
Administrative expenses	-380	-12	-368	-358	-10	-348	6%
Share of profit after tax, associates and JVs	54	0	54	22	0	22	145%
Operating profit (EBIT)	**1,226**	**-46**	**1,272**	**1,059**	**-83**	**1,142**	**11%**
Operating profit margin (EBIT margin)	18.1%		18.8%	16.3%		17.6%	

Revenue
In the first half-year, Group revenue amounted to DKK 6,777 million, corresponding to a growth rate of 9% in local currencies compared to the first half of 2017. Organic growth was the main driver of growth, contributing by 7 percentage points, while acquisitions contributed by 2 percentage points. All our three business activities contributed to overall growth with substantial organic growth rates.

Exchange rates affected reported growth negatively by 5 percentage points in the reporting period, with lower average exchange rates of all major trading currencies than in the comparative period last year. Thus, reported growth for the period was 4%.

Revenue by business activity

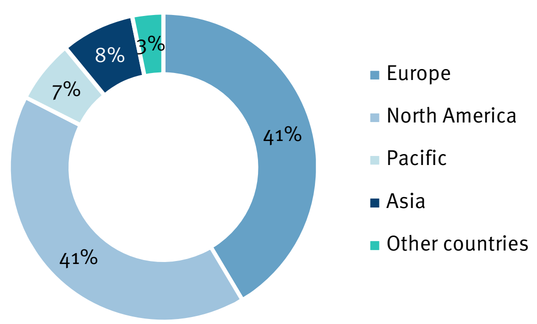
(DKK million)	H1 2018	H1 2017	Change DKK	Change LCY	Change Org.
Hearing Devices	5,917	5,682	4%	9%	7%
Hearing Implants	257	246	4%	9%	9%
Diag. Instr.	603	577	5%	12%	11%
Total	**6,777**	**6,505**	**4%**	**9%**	**7%**



In terms of geography, we saw solid growth in local currencies in all regions except Other countries. Asia delivered the highest growth rate in local currencies of 20%, and growth rates in our two largest regions, Europe and North America, were also solid with a particularly strong organic growth rate in North America.

Revenue by geographic region

(DKK million)	H1 2018	H1 2017	Change DKK	Change LCY	Change Org.
Europe	2,810	2,691	4%	6%	4%
North America	2,778	2,637	5%	14%	11%
Pacific	447	461	-3%	5%	3%
Asia	521	456	14%	20%	20%
Other countries	221	260	-15%	-7%	-7%
Total	**6,777**	**6,505**	**4%**	**9%**	**7%**



Gross profit

Gross profit increased by 5% in the reporting period to DKK 5,211 million, resulting in a gross profit margin of 76.9%, which is an increase of 0.7 percentage point on the same period last year and mainly reflects exchange rate effects. In local currencies, production costs were impacted by increased sales of value-added products and accessories, such as our rechargeable solution and ConnectClip, which negatively impacted our gross margin.

Capacity costs

Total capacity costs for the period increased by 4% to DKK 3,993 million, including a negative exchange rate effect of 5 percentage points. The increase of 9% in local currencies was a result of growing R&D costs, as we dedicated further resources to driving our innovation agenda and further expanding our leading position in a hearing healthcare industry with ever-increasing product ambitions. We increased our activity level, particularly in the development of software and connectivity solutions, in all business activities and as a result of our ongoing strategic initiatives, we were able to do so at a lower cost. The increase in distribution costs was to a large extent a result of acquisitions, whereas administrative expenses were driven by an increased activity level.

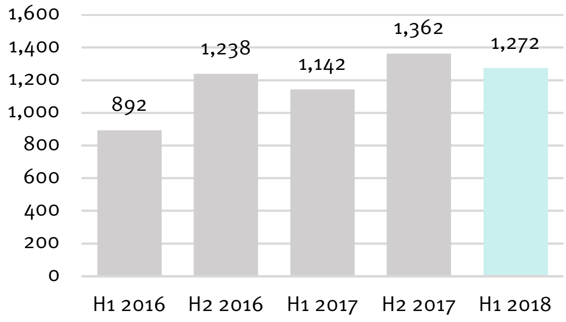
Capacity costs

			Change	
(DKK million)	H1 2018	H1 2017	DKK	LCY
R&D costs	480	418	15%	16%
Distribution costs	3,145	3,070	2%	8%
Adm. expenses	368	348	6%	10%
Total	**3,993**	**3,836**	**4%**	**9%**

Operating profit

Total Group operating profit (EBIT) amounted to DKK 1,272 million for the reporting period, or an increase of 11% compared to the same period last year. This resulted in an EBIT margin of 18.8%, which is 1.2 percentage points higher than last year. The growth in EBIT was primarily driven by revenue growth across our business activities and resulting operating leverage in Hearing Devices and Diagnostic Instruments. The contribution from Hearing Implants was impacted by the execution on our upgrade programme started in 2017 under which new cochlear implant users fitted with the Neuro One external sound processor are eligible for an upgrade to the new Neuro 2 at no additional cost and therefore continued to have a dilutive effect on Group EBIT. Share of profit after tax from associates and joint ventures amounted to DKK 54 million, which is a significant increase of 145% compared to last year driven by a very strong contribution from our share of profit in Sennheiser Communications.

Adjusted operating profit (EBIT) – DKK million



With total restructuring costs for the reporting period of DKK 46 million, reported EBIT amounted to DKK 1,226 million, corresponding to a growth rate of 16% and a reported EBIT margin of 18.1%, which is 1.8 percentage points higher than last year. Please also refer to *Strategic Group initiatives* on page 7.

Financial items

Reported net financial items amounted to DKK -72 million, or an increase of DKK 17 million on last year, which is due to slightly increased interest expenses, resulting from an increase in the net interest-bearing debt in the period, as well as higher credit card and bank fees.

Profit for the period

Reported profit before tax amounted to DKK 1,154 million, which is an increase of 15% on last year. Tax amounted to DKK 260 million, resulting in an increase of the effective tax rate from 20.5% last year to 22.5%. The reported net profit for the period was DKK 894 million, or an increase of 12% compared to last year. The resulting reported earnings per share (EPS) was DKK 3.55, or an increase of 15% compared to DKK 3.10 for the same period last year.

Cash flow statement

In the first half-year, the Group generated cash flow from operating activities (CFFO) of DKK 1,051 million, or 8% growth on last year. After cash flow from restructuring costs of DKK -55 million, reported CFFO amounted to DKK 996 million, which is an increase of 12% compared to last year. Cash flow from investing activities increased by 51% from the comparatively low level last year to DKK -341 million and reported free cash flow before acquisitions and divestments decreased by 1% to DKK 655 million.

Cash flow from acquisitions and divestments remained at DKK -494 million, with the majority of such acquisitions and divestments relating to the increase of ownership of associates. Buy-back of shares more than doubled and amounted to DKK 902 million. Thus, net cash flow for the period amounted to DKK -192 million.

Cash flow by main items

(DKK million)	H1 2018	H1 2017	Change
Adjusted operating profit	**1,272**	**1,142**	**11%**
Adjusted cash flow from operating activities	**1,051**	**969**	**8%**
Cash flow from restructuring costs	-55	-83	-34%
Reported cash flow from operating activities	**996**	**886**	**12%**
Cash flow from investing activities	-341	-226	51%
Reported free cash flow	**655**	**660**	**-1%**
Acquisition and divestment of enterprises, participating interests and activities	-494	-494	0%
Buy-back of shares	-902	-396	128%
Other financing activities	549	226	143%
Cash flow for the period	**-192**	**-4**	**4,700%**

Balance sheet
Total assets amounted to DKK 17,224 million at 30 June 2018, or an increase of 5% compared to the beginning of the year (please note that opening balances were impacted by the implementation of IFRS 9 and IFRS 15 as shown in Note 2). The increase primarily relates to goodwill from acquisitions, particularly of assets previously recognised as investments in associates. Net interest-bearing debt (NIBD) was DKK 5,061 million, which is approx. 26% higher than the DKK 4,030 million reported at the end of 2017 due to a high level of acquisitions and buy-back of shares. The resulting net gearing multiple (NIBD/EBITDA) was 1.7 based on EBITDA for the 12 months ending on 30 June 2018, which is within our target range of 1.5-2.0.

Total equity decreased by 1% to DKK 6,943 million of which DKK 8 million is attributable to minority interests and DKK 6,935 million to shareholders of William Demant Holding. The decrease is primarily driven by buy-back of shares, which amounted to DKK 902 million based on the buy-back of 4,040,576 shares at an average price of DKK 223.13. With the cancellation of 6,598,300 treasury shares decided by the shareholders at the annual general meeting on 22 March 2018, the total number of treasury shares held by the Company at 30 June 2018 was 3,587,407, corresponding to 1.4% of the total number of shares outstanding. After the reporting period, the Company has bought back an additional 45,000 shares at an average price of DKK 254.09.

Employees
At the end of the first half-year, William Demant Holding had 14,346 employees compared to 13,613 at the beginning of the year and 13,270 at the end of the first half of 2017.

Hedging activities
The material forward exchange contracts in place at 30 June 2018 to hedge against the Group's exposure to movements in exchange rates are shown in the table below.

Material forward exchange contracts as of 30 June 2018

Currency	Hedging period	Average hedging rate
USD	10 months	609
JPY	9 months	5.90
AUD	3 months	468
GBP	9 months	839
CAD	9 months	474

Events after the balance sheet date
On 3 August 2018, we announced a partnership with Philips. Based on a licensing agreement, our Group will bring Philips-branded hearing solutions to the global market. Further details on the cooperation will be communicated at a later stage.

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

Outlook 2018
Our growth expectations for the hearing healthcare market this year remains unchanged, and we thus still expect total value growth of around 5% comprised of the following:

- For the hearing aid wholesale market, we expect a unit growth rate in 2018 of 4-6% and, as a result of a slight decline in the average selling price, a value growth rate of 2-4%.

- For the total hearing implants market, we expect a value growth rate in 2018 of 10-15%, but with growth in the BAHS market possibly below this range.

- For the diagnostic equipment market, we expect a value growth rate in 2018 of 5-7%.

We maintain our expectation to generate substantial organic sales growth in 2018. Based on exchange rates as of 14 August 2018, we now expect exchange rate effects on total revenue for 2018 to be slightly less negative at around -3% including the impact of exchange rate hedging (previously -4%).

We raise the lower part of our outlook range and now guide for an EBIT of DKK 2.65-2.85 billion (previously DKK 2.55-2.85 billion) before restructuring costs of DKK 120 million (previously DKK 150 million).

Our guidance for total share buy-backs remains unchanged at DKK 1.5-2.0 billion, and we still aim at a gearing multiple of 1.5-2.0 (net interest-bearing debt relative to EBITDA).

MANAGEMENT COMMENTARY

Hearing Devices
In the first half of 2018, our Hearing Devices business activity realised growth of 9% in local currencies. Organic growth contributed by 7 percentage points driven by very strong performance by our wholesale business. Acquisitive growth contributed by 2 percentage points driven entirely by our retail business.

Market conditions and business trends
We estimate that in the first half-year, the global hearing aid market saw growth rates in line with our general expectation of 4-6% unit growth per year. Unit sales in the US increased by approx. 6% according to statistics from the Hearing Industries Association (HIA), with 7% growth in the commercial part of the US market and flat growth in Veterans Affairs (VA). We estimate that unit growth in Europe was 2-3% driven by France and Germany, whereas the UK, which is the region's largest market in terms of volume, saw a slightly negative unit growth rate of approx. 1% due to negative growth in the NHS, the large public channel. Unit growth rates in both Japan and Australia were solid.

We estimate that growth in the average selling price (ASP) on the global wholesale market for hearing aids was flat to slightly negative in the first half of the year. This is the result of positive product and geography mix shifts, offsetting – at least partly – the negative effects of channel mix shifts and strong competition. In value terms, we believe that the global wholesale market for hearing aids has in 2018 up to now grown in line with our general expectation of 2-4%.

ASPs on the hearing aid retail market vary significantly across markets because of differences in reimbursement schemes, market structures and customer preferences. However, we estimate that retail pricing in individual channels has remained relatively stable.

Wholesale
Our hearing aid wholesale business continued its very strong performance and realised growth in local currencies of 11%, all of which was organic growth. We thus outgrew the market significantly and managed to build on the market share gains we have seen since the launch of Oticon Opn in 2016.

We saw positive mix changes drive our ASP higher, while underlying unit sales also saw solid development. However, as also noted in our Interim Management Statement in May, three factors materially impacted the mix between unit and ASP growth in the reporting period. Firstly, following the acquisition of a large customer by a competitor in 2016, we lost significant sales of low-priced units towards the end of the first half of 2017. Secondly, the first half of 2017 included two large one-off tender orders at low prices. Thirdly, and as mentioned above, unit growth in the important, but low-priced public sales channel in the UK, the NHS, was negative in the reporting period. Adjusted for these three factors, underlying unit sales grew by 6% and the underlying ASP by 8% while reported growth rates were -5% and 17% respectively on an unadjusted basis.

On the product side, Oticon Opn continued to be a key driver of our strong performance, as it remains a standout product in the marketplace with its winning combination of industry-leading audiology, dual-frequency radio, 2.4 GHz connectivity and a flexible rechargeable solution. Our launch last year of the 2.4 GHz-enabled Bernafon Zerena and Sonic Enchant product families was also successful. In particular, the launch of Zerena has helped Bernafon increase their market share in the US. In a few weeks, we will expand our innovative product portfolio significantly by launching new custom hearing aid ranges across all brands, including the first custom version of Oticon Opn. Furthermore, we will introduce our latest technology platform in two lower price points and in multiple styles, including custom products, across all three brands. With these new product launches, we will widen the reach of our leading technology and help improve the quality of life for even more hearing-impaired people.

We continued our strong momentum in North America with very high organic growth rates in both Canada and the US. Growth in the US was driven by increasing sales to independent hearing care professionals, Veterans Affairs (VA) and our own retail network. Particularly in VA where numbers are publicly available, we saw high growth rates in the first half-year, as we grew our unit market share to 19.7% in July compared to 14.6% in December 2017. This is first and foremost a result of the introduction of new products in May 2018, including our rechargeable solution and ConnectClip with connectivity to Android™ or any other modern smartphone.

In Europe, we also saw strong organic growth led by France where we were able to increase sales to both our own retail network, Audika, and to independent customers. We also saw strong organic growth in Spain, whereas growth rates in Germany and the UK were impacted by the previously mentioned loss of sales to a large customer acquired by a competitor and the negative growth in the NHS.

Outside our two largest regions, we saw strong organic growth in Asia led by China, Japan and Korea.

Retail
In our hearing aid retail business, revenue grew by 8% in local currencies in the first half-year of which organic growth accounted for 1 percentage point and acquisitive growth for more than 6 percentage points. We continued to increase the sale of Group-manufactured products relative to total product sales.

Growth in North America was driven by acquisitions in both the US and Canada, particularly the acquisition of the remaining shares of a store network previously recognised as investments in associates. The organic growth rate in our US retail business was negative, as we continued our journey to improve the operating model across different brands and acquired shops. This includes harmonising systems and processes as well as ensuring effective marketing and digital lead generation.

In Europe, we saw strong organic growth in France where we operate under our established and well-known Audika brand. Our French retail business is one of our most mature retail businesses with a proven operating model and strong brand recognition supporting efficient marketing. In addition to growing organically, we increased our presence in the French market through selected bolt-on acquisitions. We also saw solid organic growth in the UK and Poland, whereas Sweden was affected by a significant ASP drop due to adverse market conditions in the second half of 2017.

In Australia, we were able to compensate for a significant drop in the market ASP, resulting from a higher share of low-priced, free-to-client hearing aids, by improving efficiency and thus improving unit sales.

Hearing Implants
In the first half of 2018, our Hearing Implants business activity grew by 9% in local currencies, entirely attributable to organic growth. Generating a double-digit organic growth rate, our cochlear implants (CI) business was the primary growth driver, whereas the organic growth rate in our bone anchored hearing systems (BAHS) business was more modest.

Cochlear implants
Since the launch of our new external CI sound processor, Neuro 2, at the end of February, we have dedicated significant resources to our upgrade programme for Neuro One users, which we started last year. This involves a commitment to new Neuro One users that they can be fitted with the new Neuro 2 external sound processor at no additional cost. The upgrades have progressed well with very positive feedback from clinics and from fitted patients, and we are seeing an increasing commercial effect of the launch. At the same time, we continue to expand our clinical evidence base, and we will soon publish a new reliability report, showing excellent results for our two implants, Neuro Zti and Digisonic SP. We saw a negative impact in the first half-year from a reduced activity level in a couple of markets with lower prices, which is expected to continue in the second half-year. Meanwhile, we received product approvals for Neuro 2 in France and Brazil, and we expect that the approvals in these two important markets will further support our roll-out of Neuro 2 and a gradually increasing uptake of the Neuro system.

Bone anchored hearing systems
We estimate that growth in the BAHS market, which is to a high degree driven by product introductions, slowed down somewhat in the first half-year due to a lack of product launches and we believe that – despite our modest organic growth rate against the backdrop of strong comparative figures – our growth exceeded the market growth rate. Our Ponto 3 SuperPower continues to be a convincing product for clinics to offer their patients and as such was a key contributor to growth in the first half-year, particularly in North America.

Diagnostic Instruments
Our Diagnostic Instruments business activity maintained its positive momentum from 2017 throughout the first half of 2018 and saw strong organic growth of 11%. The market for our solutions is healthy and is growing slightly above our general estimate of 3-5% per year, but nonetheless we believe that we have gained further market share in the reporting period, particularly in the important US market.

In terms of geographies, growth was centred in North America, our largest region, and in Europe, but all regions contributed positively to growth. Growth was also broadly based across brands and product categories with particularly strong performance by our Interacoustics brand. We have seen high demand for new products and services, including the novel patient-directed evaluation tool, AMTAS, and our US-based newborn hearing screening business, and we are generally in a strong position with our full-range offering, spanning instruments, consumables and services.

Personal Communication
Reported revenue by Sennheiser Communications, our 50/50 joint venture with Sennheiser KG, amounted to DKK 482 million in the first half-year, or a 45% increase compared to the same period last year. Net of inventory effects, underlying revenue growth was 32% driven by high growth rates in the Gaming and Mobile segments thanks to successful new products and strong on-line sales. Growth in the CC&O segment was also solid despite tough comparative figures. Thanks to the high reported revenue growth and significant operating leverage, the Group's share of profit after tax from the joint venture increased significantly by DKK 31 million to DKK 45 million.

Strategic Group initiatives
Our announced strategic initiatives are progressing according to plan, and compared to the cost base for 2016, we still expect annual cost savings of around DKK 200 million in 2019 when the initiatives are fully implemented. Of this amount, we expect to realise savings of around DKK 150 million in 2018 compared to around DKK 100 million in 2017. Restructuring costs amounted to DKK 46 million in the first half-year, which is DKK 30 million lower than originally expected, and we therefore now expect restructuring costs of DKK 120 million for the full year (previously DKK 150 million). We now expect the previously announced negative impact of strategic initiatives on cash flow from operating activities of around DKK 400 million for the entire period from 2016 to 2018 to amount to around DKK 370 million.

Restructuring costs

(DKK million)	H1 2018	H1 2017	FY 2017
Revenue	0	0	0
Production costs	-10	-17	-38
Gross profit	**-10**	**-17**	**-38**
R&D costs	-12	-40	-63
Distribution costs	-12	-16	-38
Administrative expenses	-12	-10	-27
Capacity costs	**-36**	**-66**	**-128**
Operating profit (EBIT)	**-46**	**-83**	**-166**

MANAGEMENT STATEMENT

We have today discussed and approved this Interim Report 2018 for William Demant Holding A/S.

Interim Report 2018 has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU and further Danish disclosure requirements in respect of interim reports for listed companies. Interim Report 2018 has not been audited or reviewed by our auditors.

In our opinion, Interim Report 2018 gives a true and fair view of the Group's assets, liabilities and financial position at 30 June 2018 as well as of the results of our activities and cash flows for the first six months of 2018.

We also believe that the financial review and management commentary contain a fair review of the development in the Group's business and financial position, the results for the period and the Group's financial position as a whole as well as a description of the principal risks and uncertainties facing William Demant Holding A/S.

Smørum, 15 August 2018

Executive Board:

Søren Nielsen
President & CEO

René Schneider
CFO

Board of Directors:

Niels B. Christiansen
Chairman

Niels Jacobsen
Deputy Chairman

Thomas Duer

Peter Foss

Benedikte Leroy

Ole Lundsgaard

Jørgen Møller Nielsen

Lars Rasmussen

INCOME STATEMENT

(DKK million)	H1 2018	H1 2017	Full year 2017
Revenue	6,777	6,505	13,189
Production costs	-1,576	-1,566	-3,163
Gross profit	**5,201**	**4,939**	**10,026**
R&D costs	-492	-458	-919
Distribution costs	-3,157	-3,086	-6,095
Administrative expenses	-380	-358	-727
Share of profit after tax, associates and joint ventures	54	22	53
Operating profit (EBIT)	**1,226**	**1,059**	**2,338**
Financial income	21	23	49
Financial expenses	-93	-78	-160
Profit before tax	**1,154**	**1,004**	**2,227**
Tax on profit for the period	-260	-206	-468
Profit for the period	**894**	**798**	**1,759**
Profit for the year attributable to:			
William Demant Holding A/S' shareholders	891	796	1,754
Minority interests	3	2	5
	894	**798**	**1,759**
Earnings per share (EPS), DKK	3.55	3.10	6.84
Diluted earnings per share (DEPS), DKK	3.55	3.10	6.84

STATEMENT OF COMPREHENSIVE INCOME

(DKK million)	H1 2018	H1 2017	Full year 2017
Profit for the period	**894**	**798**	**1,759**
Other comprehensive income:			
Items that have been or may subsequently be reclassified to the income statement:			
Foreign currency translation adjustment, subsidiaries	1	-202	-350
Value adjustment of hedging instruments:			
Value adjustment for the period	-45	100	147
Value adjustment transferred to revenue	-51	8	-49
Tax on items that have been or may subsequently be reclassified to the income statement	21	-24	-11
Items that have been or may subsequently be reclassified to the income statement	**-74**	**-118**	**-263**
Items that will not subsequently be reclassified to the income statement:			
Actuarial gains/(losses) on defined benefit plans	0	0	8
Tax on items that will not subsequently be reclassified to the income statement	0	0	-2
Items that will not subsequently be reclassified to the income statement	**0**	**0**	**6**
Other comprehensive income	**-74**	**-118**	**-257**
Comprehensive income	**820**	**680**	**1,502**
Comprehensive income attributable to:			
William Demant Holding A/S' shareholders	817	678	1,497
Minority interests	3	2	5
	820	**680**	**1,502**

BALANCE SHEET – ASSETS

(DKK million)	30 June 2018	30 June 2017	31 Dec. 2017
Goodwill	7,065	6,337	6,339
Patents and licences	39	44	40
Other intangible assets	465	387	407
Prepayments and assets under development	75	100	106
Intangible assets	**7,644**	**6,868**	**6,892**
Land and buildings	859	863	871
Plant and machinery	219	220	210
Other plant, fixtures and operating equipment	306	284	289
Leasehold improvements	313	272	265
Prepayments and assets under construction	71	73	83
Property, plant and equipment	**1,768**	**1,712**	**1,718**
Investments in associates and joint ventures	876	928	933
Receivables from associates and joint ventures	254	502	500
Other investments	11	8	11
Other receivables	487	456	456
Deferred tax assets	513	400	372
Other non-current assets	**2,141**	**2,294**	**2,272**
Non-current assets	**11,553**	**10,874**	**10,882**
Inventories	1,480	1,321	1,351
Trade receivables	2,684	2,465	2,573
Receivables from associates and joint ventures	63	40	81
Income tax	86	148	107
Other receivables	338	249	257
Unrealised gains on financial contracts	7	74	66
Prepaid expenses	250	196	208
Cash	763	715	697
Current assets	**5,671**	**5,208**	**5,340**
Assets	**17,224**	**16,082**	**16,222**

BALANCE SHEET – EQUITY AND LIABILITIES

(DKK million)	30 June 2018	30 June 2017	31 Dec. 2017
Share capital	50	52	52
Other reserves	6,885	7,191	7,375
Equity attributable to William Demant Holding A/S' shareholders	6,935	7,243	7,427
Equity attributable to minority interests	8	5	6
Equity	**6,943**	**7,248**	**7,433**
Interest-bearing debt	1,602	1,960	2,307
Deferred tax liabilities	110	149	159
Provisions	211	236	215
Other liabilities	228	192	197
Deferred income	493	194	208
Non-current liabilities	**2,644**	**2,731**	**3,086**
Interest-bearing debt	4,828	3,663	3,258
Trade payables	539	520	516
Payables to associates and joint ventures	0	2	0
Income tax	244	135	72
Provisions	33	29	25
Other liabilities	1,377	1,461	1,544
Unrealised losses on financial contracts	40	1	3
Deferred income	576	292	285
Current liabilities	**7,637**	**6,103**	**5,703**
Liabilities	**10,281**	**8,834**	**8,789**
Equity and liabilities	**17,224**	**16,082**	**16,222**

CASH FLOW STATEMENT

(DKK million)	H1 2018	H1 2017	Full year 2017
Operating profit (EBIT)	1,226	1,059	2,338
Non-cash items etc.	178	125	428
Change in receivables etc.	-160	-44	-386
Change in inventories	-133	-4	-89
Change in trade payables and other liabilities etc.	-26	71	188
Change in provisions	58	-57	-53
Dividends received	78	48	54
Cash flow from operating profit	**1,221**	**1,198**	**2,480**
Financial income etc. received	16	18	39
Financial expenses etc. paid	-91	-77	-157
Realised foreign currency translation adjustments	-2	-1	-2
Income tax paid	-148	-252	-488
Cash flow from operating activities (CFFO)	**996**	**886**	**1,872**
Acquisition of enterprises, participating interests and activities	-494	-494	-656
Investments in and disposal of intangible assets	-69	-68	-126
Investments in property, plant and equipment	-206	-134	-312
Disposal of property, plant and equipment	8	10	20
Investments in other non-current assets	-163	-132	-319
Disposal of other non-current assets	89	98	252
Cash flow from investing activities (CFFI)	**-835**	**-720**	**-1,141**
Repayments of borrowings	-207	-745	-1,156
Proceeds from borrowings	172	954	1,132
Change in short-term bank facilities	587	19	292
Dividends to minority interests	-3	-2	-3
Buy-back of shares	-902	-396	-1,031
Cash flow from financing activities (CFFF)	**-353**	**-170**	**-766**
Cash flow for the period, net	**-192**	**-4**	**-35**
Cash and cash equivalents at the beginning of the period	651	502	674
Foreign currency translation adjustment of cash and cash equivalents	-11	-6	12
Cash and cash equivalents at the end of the period	**448**	**492**	**651**
Breakdown of cash and cash equivalents at the end of the period:			
Cash	763	715	697
Overdraft	-315	-223	-46
Cash and cash equivalents at the end of the period	**448**	**492**	**651**

STATEMENT OF CHANGES IN EQUITY IN H1 2018

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Other reserves: Retained earnings	William Demant Holding A/S' shareholders' share	Minority interests' share	Equity
Equity at 31.12.2017	**52**	**-127**	**52**	**7,450**	**7,427**	**6**	**7,433**
Effect of changes in accounting policy				-407	-407		-407
Equity at 1.1.2018	**52**	**-127**	**52**	**7,043**	**7,020**	**6**	**7,026**
Comprehensive income, period:							
Profit for the period	-	-	-	891	891	3	894
Other comprehensive income:							
Foreign currency translation adjustment, subsidiaries	-	1	-	-	1	-	1
Value adjustment of hedging instruments:							
Value adjustment, period	-	-	-45	-	-45	-	-45
Value adjustment transferred to revenue	-	-	-51	-	-51	-	-51
Tax on other comprehensive income	-	0	21	-	21	0	21
Other comprehensive income	-	1	-75	0	-74	0	-74
Comprehensive income, period	**-**	**1**	**-75**	**891**	**817**	**3**	**820**
Buy-back of shares	-	-	0	-902	-902	-	-902
Capital reduction through cancellation of treasury shares	-2	-	-	2	0	-	0
Other changes in equity	-	-	-	0	0	-1	-1
Equity at 30.06.2018	**50**	**-126**	**-23**	**7,034**	**6,935**	**8**	**6,943**

STATEMENT OF CHANGES IN EQUITY IN H1 2017

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Other reserves: Retained earnings	William Demant Holding A/S' shareholders' share	Minority interests' share	Equity
Equity at 1.1.2017	**53**	**213**	**-25**	**6,720**	**6,961**	**5**	**6,966**
Comprehensive income, period:							
Profit for the period	-	-	-	796	796	2	798
Other comprehensive income:							
Foreign currency translation adjustment, subsidiaries	-	-202	-	-	-202	-	-202
Value adjustment of hedging instruments:							
Value adjustment, period	-	-	100	-	100	-	100
Value adjustment transferred to revenue	-	-	8	-	8	-	8
Value adjustment transferred to financial expenses	-	-	0	-	0	-	0
Actuarial gains/(losses) on defined benefit plans	-	-	-	0	0	0	0
Tax on other comprehensive income	-	0	-24	0	-24	0	-24
Other comprehensive income	-	-202	84	0	-118	0	-118
Comprehensive income, period	**-**	**-202**	**84**	**796**	**678**	**2**	**680**
Buy-back of shares	-	-	0	-396	-396	-	-396
Capital reduction through cancellation of treasury shares	-1	-	-	1	0	-	0
Other changes in equity	-	-	-	0	0	-2	-2
Equity at 30.06.2017	**52**	**11**	**59**	**7,121**	**7,243**	**5**	**7,248**

NOTE 1 – ACQUISITION OF ENTERPRISES AND ACTIVITIES

(DKK million)	Fair value on acquisition North America	Oceania	Europe/ Asia	H1 2018	H1 2017
Intangible assets	2	1	6	9	13
Property, plant and equipment	19	0	1	20	13
Inventories	0	0	0	0	3
Current receivables	30	0	1	31	10
Cash and bank debt	6	0	2	8	6
Non-current liabilities	-3	0	0	-3	-1
Current liabilities	-82	0	-2	-84	-27
Acquired net assets	**-28**	**1**	**8**	**-19**	**17**
Goodwill	586	26	79	691	280
Acquisition cost	**558**	**27**	**87**	**672**	**297**
Carrying amount of non-controlling interests on obtaining control	-139	0	-1	-140	0
Loans to acquired entities prior to acquisition	-269	0	-20	-289	0
Fair value adjustment of non-controlling interests on obtaining control	0	0	-2	-2	0
Contingent considerations and deferred payments	-35	-6	-7	-48	-72
Acquired cash and bank debt	-6	0	-2	-8	-6
Cash acquisition cost	**109**	**21**	**55**	**185**	**219**

Consolidated acquisitions in the first half-year of 2018 consist of a number of 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.

In the first half-year, a few adjustments were made to the preliminary recognition of acquisitions made in 2017. The impact of these adjustments on goodwill was DKK 1 million (DKK 11 million in the first half of 2017).

Adjustments of contingent considerations (earn-outs) of DKK 1 million were made via the income statement in the first half-year of 2018. (DKK 0 in the first half of 2017). Contingent consideration entries made in the first half-year relate to the addition of DKK 48 million in respect of acquisitions of enterprises and activities, to the addition of DKK 1 million relating to investments in associates and joint ventures, to an increase of DKK 10 million relating to exchange rate adjustments and to a reduction of DKK 213 million relating to contingent considerations paid. At 30 June 2018, contingent considerations totalled DKK 210 million (DKK 369 million at 30 June 2017).

Of the total acquisition cost in the reporting period, the fair value of estimated contingent considerations in the form of earn-outs or deferred payments accounted for DKK 48 million (DKK 72 million in the first half of 2017). Such payments depend on the results of the acquired entities for a period of 1-5 years after takeover and can total a maximum of DKK 55 million (DKK 100 million in the first half of 2017). The maximum value of the contingent considerations related to investments in associates and joint ventures is DKK 1 million (DKK 180 million in 2017) and is equal to the fair value.

The acquired assets include contractual receivables amounting to DKK 36 million (DKK 6 million in the first half of 2017) of which DKK 8 million (DKK 0 million in the first half of 2017) was thought to be uncollectible at the date of the acquisition. Of total goodwill in the amount of DKK 691 million (DKK 280 million in the first half of 2017), DKK 670 million (DKK 174 million in the first half of 2017) can be amortised for tax purposes.

The above statements of the fair values of acquisitions made in the first half of 2018 and in the first half of 2017 are not considered final until 12 months after takeover.

Revenue and profit generated by the acquired enterprises since our acquisition in 2018 amount to DKK 40 million (DKK 47 million in the first half of 2017) and DKK 2 million (DKK 1 million in the first half of 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 6,892 million (DKK 6,539 million in the first half of 2017) and DKK 899 million (DKK 799 million in the first half of 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.

As part of our ordinary activities, we have made acquisitions in the period between the balance sheet date and publication of this Interim Report. We are in the process of calculating their fair values. Acquisition costs are expected to relate primarily to goodwill.

NOTE 2 – ACCOUNTING POLICIES AND ESTIMATES

This Interim Report 2018 is presented in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU and further Danish disclosure requirements in respect of interim reports for listed companies. We have not prepared a separate interim report for the Parent. The report is presented in Danish kroner (DKK), which is the functional currency of the Parent.

The accounting policies used for this Interim Report 2018 are the same as the accounting policies used for our Annual Report 2017 to which we refer for a full description, with the exception of changes as described below. 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. Specifically, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have had an impact on the consolidated financial statements for the first six months of 2018, although the impact relates predominantly to the transition effect.

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 predominantly pertains 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. In Management's estimation, the standard only has 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.

The table below shows the change in the balance sheet items as a result 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, and thus the transition effects for both standards have 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 at 1 January 2018.

(DKK million)	1 January 2018 Previous accounting policy	Effect of changes in accounting policy	New accounting policy	30 June 2018 Previous accounting policy	Effect of changes in IFRS 15	New accounting policy
Assets						
Intangible assets	**6,892**	**-**	**6,892**	**7,644**	**-**	**7,644**
Property, plant and equipment	**1,718**	**-**	**1,718**	**1,768**	**-**	**1,768**
Deferred tax assets	372	117	489	399	114	513
Other non-current assets	**2,272**	**117**	**2,389**	**2,027**	**114**	**2,141**
Non-current assets	**10,882**	**117**	**10,999**	**11,439**	**114**	**11,553**
Trade receivables	2,573	-26	2,547	2,684	-	2,684
Prepaid expenses	208	21	229	230	20	250
Current assets	**5,340**	**-5**	**5,335**	**5,651**	**20**	**5,671**
Assets	**16,222**	**112**	**16,334**	**17,090**	**134**	**17,224**
Equity and liabilities						
Other reserves	7,375	-407	6,968	7,274	-389	6,885
Equity	**7,433**	**-407**	**7,026**	**7,332**	**-389**	**6,943**
Deferred tax liabilities	159	-25	134	133	-23	110
Other liabilities	197	-13	184	243	-15	228
Deferred income	208	282	490	207	286	493
Non-current liabilities	**3,086**	**244**	**3,330**	**2,396**	**248**	**2,644**
Other liabilities	1,544	-2	1,542	1,383	-6	1,377
Deferred income	285	277	562	295	281	576
Current liabilities	**5,703**	**275**	**5,978**	**7,362**	**275**	**7,637**
Liabilities	**8,789**	**519**	**9,308**	**9,758**	**523**	**10,281**
Equity and liabilities	**16,222**	**112**	**16,334**	**17,090**	**134**	**17,224**

The effect on the Income Statement line items for the first half of 2018 is immaterial. Profit before tax is affected negatively by DKK 5 million, tax on profit for the period is affected positively by DKK 1 million, and comprehensive income is affected negatively by DKK 4 million. Earnings per share adjusted for the effect from IFRS 15 amount to DKK 3.56 compared to reported earnings per share of DKK 3.55.

There have been no changes to the accounting estimates and assumptions made by Management in the preparation of this Interim Report 2018 since publication of our Annual Report 2017.

Description of new accounting policies

Revenue

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 amount of consideration we expect to receive in exchange for transferring goods and providing services.

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 transfer 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 transferred to the customer at a given point in time. In some territories, the customers are granted a trial period. When that is the case, 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 for these services is recognised on a straight-line basis over the warranty or service period. Some customers purchase a free battery package, entitling them to free batteries for a certain period. Revenue is recognised, when the customer receives the batteries. When available, we use an observable price to determine the stand-alone selling price for the separate performance obligations related to these services, and when 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. 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 through our own retail is invoiced and paid upon 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.

Receivables
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.

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 Interim Report 2018, have not been incorporated into this report.

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