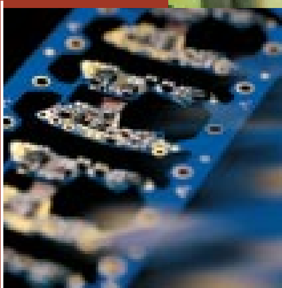
ANNUAL REPORT 1998



William Demant Holding A/S

The annual report shows staff at work in the Group's factories and sales companies in Denmark, Germany, Italy, Switzerland and the US.

Mission

The William Demant Holding Group of international companies develops, manufactures and sells innovative, highly advanced technological solutions. These solutions are characterised by their micro-electronic and micro-mechanical components, wireless technology, plus their software and acoustics. They are sold to professional customers in a global market.

The core business of the William Demant Holding Group is hearing aids. By combining its expertise in the fields of technology, software, and audiology, the Group is able to develop solutions which help people with hearing loss function optimally in their daily lives. Audiological expertise is crucial for developing high quality hearing aids, and this is why the Group invests considerable resources in audiological research and development.

The Group has two different companies in the hearing aid sector: Oticon and Bernafon. Over the past few years, in an effort to utilise its competence outside the core area of business, the Group has acquired a number of companies in related areas. Thus, in addition to the two hearing aid companies, the Group now also owns two companies in the diagnostic equipment sector: Maico Audiometer and RhinoMetrics; plus two companies in the personal communication sector: Phonic Ear and Logia.

The companies within the William Demant Holding Group work very closely together in the early links of the value chain (i.e. purchasing and production). In that part of the value chain which is focused on markets and customers (such as product development, marketing and sales), each business has its own organisation and identity.

In each of its business areas, the Group will strive through organic growth to attain a leading position and become the customers' preferred supplier of advanced, quality solutions. The Group will participate in the general structural rationalisation of the industry by acquiring companies within the existing business areas. Outside the core area of business, the Group intends to acquire companies in related areas whose strengths can be utilised to enhance the existing business. This will be achieved by utilising our technological and audiological expertise; through management proficiency, and using financial resources. The Group will endeavour to increase the inherent value of the company through continued growth in turnover and profitability.

The companies within the Group subscribe to high standards of ethics, quality and fair business conduct. This involves accepting responsibility for the environment and society as a whole. A stimulating and varied working environment is cultivated through a flexible, knowledge-based organisational form.

Board of Directors and Management

The Company

William Demant Holding A/S
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Telefax: +45 39 27 79 00
Reg. no. 66.471
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Board of Directors

Sven Folmer Thomsen, Chairman
Member of the Board of Directors of Tryg-Baltica Forsikring, Skadesforsikringsselskab A/S and Eleven Danes A/S.

Jørgen Mølvang, Deputy Chairman
Chairman of the Board of Directors of Akzo Nobel A/S, Reson System A/S, H+H Holding A/S, Rambøll, Hannemann & Højlund A/S, Hedorf Holding A/S and A'Gramkow A/S. Member of the Board of Directors of Ferrosan A/S and BRF Holding A/S.

Niels Boserup
President & CEO of Københavns Lufthavne A/S. Chairman of the Board of Directors of Jyllands-Posten A/S. Member of the Board of Directors of Sophus Berendsen A/S.

Lars Nørby Johansen
President & CEO of Falck A/S. Chairman of the Board of Directors of Carl Bro as. Deputy Chairman of the Board of Directors of In Wear A/S. Member of the Board of Directors of DONG A/S.

Susanne Smith
Elected by the employees.

Hanne Stephensen
Elected by the employees.

Management

Niels Jacobsen, President & CEO
Chairman of the Board of Directors of Hearing Instrument Manufacturers Patent Partnership A/S. Member of the Board of Directors of Carl Bro as, Cheminova Holding A/S, Micro Matic Holding A/S and Hearing Instrument Manufacturers Software Association A/S.

Auditors

Deloitte & Touche, Statsautoriseret Revisionsaktieselskab and KPMG C.Jespersen.

Annual General Meeting

The Annual General Meeting will be held on Tuesday 11 May 1999 at the Experimentarium, 7 Tuborg Havnevej, 2900 Hellerup, Denmark.

Principal and key figures

Profit and loss account, DKK million	1994	1995	1996	1997	1998
Net revenue	750.3	940.2	1,087.3	1,413.4	1,613.1
Gross profit	411.2	511.8	590.7	764.9	892.9
Profit on primary operations	133.9	116.8	139.3	195.6	248.3
Financial items, net	1.4	18.5	19.8	14.4	8.5
Ordinary profit before tax	134.5	136.5	160.3	211.4	259.3
Ordinary profit after tax	88.5	99.4	119.8	160.9	199.8
Extraordinary items, net	-	-	-	-13.5	-
Net profit for the year	88.3	99.2	120.3	148.3	200.8
Balance sheet, DKK million					
Interest bearing net assets	121.4	236.8	282.8	125.9	33.4
Total assets at year-end	555.3	835.6	889.7	1,002.4	1,019.5
Shareholders' Equity at year-end	273.4	448.9	539.8	524.3	504.1
Other principal figures, DKK million					
Research and development costs	49.4	78.2	99.0	118.0	146.4
Write-downs and depreciations	34.7	43.4	52.3	46.6	53.7
Investment in tangible fixed assets	31.8	54.3	39.7	76.1	71.3
Cash Flow From Operations (CFFO)	155.7	43.5	133.5	142.4	198.7
Cash Earnings (CE)	123.1	142.7	172.1	207.4	253.5
Number of employees (average)	1.192	1.485	1.443	1.760	1.925
Key figures					
Gross profit ratio	54.8%	54.4%	54.3%	54.1%	55.4%
Profit margin	17.9%	12.4%	12.8%	13.8%	15.4%
Return on equity	37.9%	25.9%	24.3%	30.6%	35.7%
Equity ratio	49.2%	53.7%	60.7%	52.3%	49.4%
Earnings Per Share (EPS), DKK*	6.5	6.7	7.9	10.5	13.0
Cash Flow Per Share (CFPS), DKK*	11.5	3.0	8.7	9.3	12.9
Cash Earnings Per Share (CEPS), DKK*	9.1	9.7	11.3	13.5	16.4
Dividend Per Share, DKK*	0.75	1.00	1.50	1.80	2.35
Book value Per Share, DKK*	20.0	29.4	35.3	33.8	33.5
Price earnings (P/E)	-	22	35	30	30
Quoted price per share, DKK*	-	150	273	316	394
Total market cap., DKK million	-	2.287	4.162	4.896	5.931
Fully diluted No. of shares, millions	13.56	14.70	15.27	15.36	15.42

Notes: The Company was listed on the Copenhagen Stock Exchange in May 1995, the reason why stock-exchange related key figures are not mentioned for 1994. The key figures are calculated according to the "Anbefalinger & Nøgletal 1997" (Guidelines & Key Figures, 1997) from the Danish Society of Financial Analysts. Cash Earnings is calculated as ordinary profit or loss posttax added write-downs and depreciations for the year.

**) per share of DKK 5*

BUSINESS UNITS

Today the William Demant Holding Group comprises four businesses:

- Oticon - a hearing aid company which focuses on psychoacoustic research and advanced digital signal processing - creates solutions which give the user the highest possible speech intelligibility, and thus the best possible conditions for living an active life in society.

- Bernafon - a hearing aid company with a foundation in advanced digital technology - offers hearing aids which, being easy and quick to fit, represents one of the market's most attractive combinations of performance, size and price.

- Maico Audiometer and RhinoMetrics - diagnostics companies - develop equipment for the fast, reliable, and accurate measurement of hearing and other conditions diagnosed by audiologists and ear-nose-and-throat specialists.

- Phonic Ear and Logia - personal communication companies - offer assistive listening systems based on wireless communication technology. These solutions improve people's ability to communicate both at home, at work, in places of worship, theatres and classrooms.

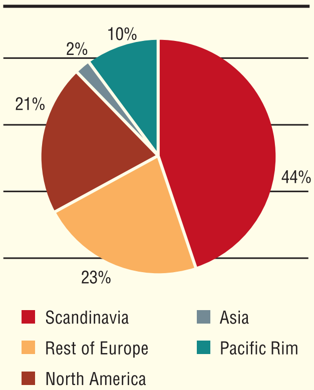
William Demant Holding A/S

Hearing Aids	Hearing Aids	Diagnostic Instruments	Personal Communication
oticon	bernafon®	MAICO RhinoMetrics	Phonic Ear Logia

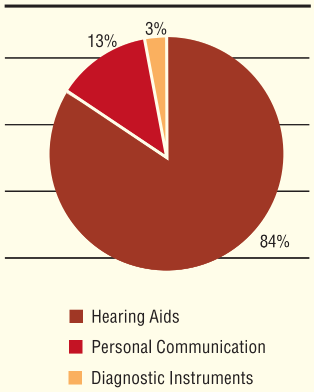
OPERATIONAL ACTIVITIES

Finance, Production, IT, Quality Control Systems, Logistics and Service & Technical Support

Employees by region



Net revenue per business area



May: Niels Jacobsen becomes President and CEO of William Demant Holding A/S.

June: At the 12th yearly 'Corporate Conscience Awards' in New York, Oticon receives an international award. The prize, known as 'The Employee Empowerment Pioneer Award', is presented by the public service research organisation known as The Council on Economic Priorities, in recognition of Oticon's personnel policies.

July: Oticon's Australian sales subsidiary acquires ten retail shops belonging to the National Hearing Aids Pty. Ltd. retail chain.

July: William Demant Holding increases its holding in the Polish sales subsidiary, Oticon Polska, from 70% to 79%.

November: Refurbishment of the William Demant Holding and Oticon headquarters in Denmark is completed, and 1,200 sq. m of new floor space is put into use.

December: William Demant Holding acquires a further 26% of the shares in RhinoMetrics, bringing the total ownership up to 100%.

December: RhinoMetrics, in co-operation with a sleep clinic at a Danish hospital, begins clinical testing of a newly developed rhinometer.

Turn of Year: Oticon opens a sales subsidiary in China.

Turn of Year: Logia secures a two-year contract to supply assistive listening devices to the Copenhagen Borough.

During an official visit to Australia, Foreign Minister Niels Helveg Petersen and Mrs. Kirsten Lee visit Oticon's Australian subsidiary on 23 November. Here photographed with Niels-Jørgen Toxværd, General Manager of Oticon Australia (left).

On 13 October, Hiroshi Koyama, General Manager of Oticon's Japanese subsidiary, is awarded the Diploma of the National Association for Danish Enterprise, and Prince Henrik's Medal of Honour. Among those present are Svend Thomsen, Executive Vice President (left) and Denmark's Ambassador to Japan, Peter Brückner (right).

At the inauguration of new offices for Oticon's Germany subsidiary on 28 May Dörthe Heller (left) from Wendtorf, is elected winner of a children's art competition. The DM 11,000 prize is immediately donated to the association 'Bundesgemeinschaft der Eltern und Freunde schwerhöriger Kinder e.V.'

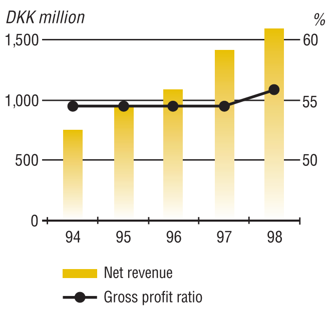
On 2 April, at the annual conference arranged by The American Association of Audiologists (AAA), Dr. John Duffy from New York receives the 'Oticon Focus on People Award' in the presence of Søren Holst, President of Oticon Inc. (left).

The first American Oticon Summer Camp is held from 2-6 August in Keystone, Colorado. 67 audiologists from across the US participate.

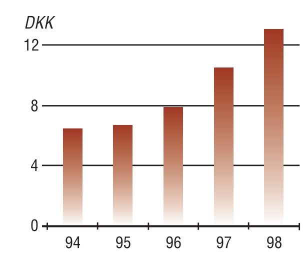
50 young audiologists participate in the annual international Eriksholm Summer Camp held in Denmark from 5-9 August.

DIRECTORS REPORT

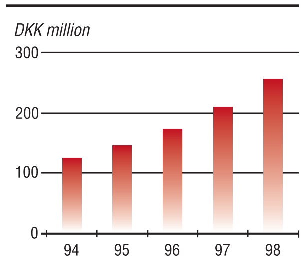
Net revenue and gross profit ratio



Earnings Per Share (EPS)



Cash Earnings (CE)



Goals achieved in 1998

1998 was a good year for the Willam Demant Group. Despite of the crisis in South-East Asia and Russia which has to some extent affected the company, the financial year was satisfactory and matched expectations of the Board of Directors and turned out even better than forecasted in the 1997 financial statements and the interim report of August 1998:

- Revenue increased by DKK 200 million to DKK 1,613 million, or an increase of 14%

- Ordinary profit before tax rose by almost 23% to DKK 259 million and net profit after tax by 35% to DKK 201 million

- Earnings Per Share went up by 25% from DKK 10.5 to DKK 13.0

- Cash Flow From Operations amounted to DKK 199 million, or a 40% increase on 1997

- The return on equity was 36% against 31% in 1997

- Total assets of DKK 1 billion is maintained at the same level as for 1997

Market conditions and group sales

The rise in revenue of DKK 200 million is mainly the result of organic growth in the Group's four business areas:

- Organic growth accounted for DKK 160 million, or 11%. The improvement was generated by growth in all four business areas with the two hearing aid companies generating an average growth rate of 10%, Personal communication 18% and Diagnostic instruments 28%

- In 1997 the consolidated revenue included Phonic Ear's result from 17 June 1997, i.e. DKK 65 million constituting Phonic Ear's 1997 revenue from 1 January - 16 June 1997 was not included. In 1998 the consolidated accounts incorporates Phonic Ear's revenue for the full year. Compared with 1997 the growth in revenue from other acquisitions was DKK 5 million

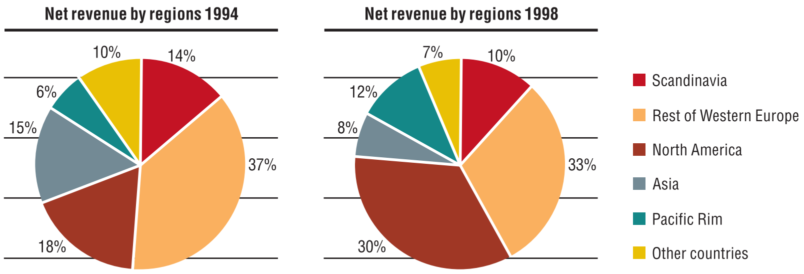
- Exchange rates affected revenue negatively in 1998, particularly the fall of the Australian dollar, the Japanese yen and the Scandinavian currencies against the Danish krone. The negative impact of exchange rates reduced total revenue by DKK 30 million

Hearing instruments

In terms of units the market for hearing instruments as a whole continued the trend from previous years. Overall growth of this market in 1998 is estimated to have been between 4-6%. Reliable unit statistics are not available on all markets, and the estimate is therefore somewhat uncertain. The Management is of the opinion that the growing sale of digital instruments, i.e. relatively expensive instruments, has resulted in a slightly rising average price of instruments sold on the world market. The Management believe that the growth in global revenue from the sale of hearing instruments is higher than the growth in unit sales.

Some of the competitors introduced new digital instruments in 1998, and there will be more entrants on the market in 1999. This is expected to intensify competition in the high-end segment, which of course includes the most advanced hearing instruments.

At the beginning of the new digital technology with only few providers of fully digital hearing instruments the buzz word digital used to be enough to create attention and drive sales. But the attention value has been weakened in line with the number of new entrants on the market and with digital technology no longer being reserved for the most expensive instruments, but gradually being available in the



Compared with just five years ago, the distribution of the Group's revenue today is much more in line with the overall regional distribution in the hearing aid industry.

Breakdown of Group sales (DKK million)	**1998***	**1997***	**1998****
Hearing instruments	1,354	1,255	1,387
Diagnostic instruments	52	40	51
Personal communication	207	118	205
Total	1,613	1,413	1,643

* Computed at the rates of exchange for the period ** Translated at 1997 exchange rates

lower-end segments as well. The Management therefore expect competition parameters to move away from technology content and towards user-benefits. In other words there will be increased focus on audiological advantages. Further details as to this aspect in the section on audiology on page 18.

The mounting competition will undoubtedly contribute to further consolidation of the industry, partly through acquisitions/mergers and partly through technology agreements.

The Group will participate in the structural reorganisation both through acquiring other businesses in the hearing aid industry and through the conclusion of OEM (Original Equipment Manufacturer) agreements with major retail chains and other hearing aid manufacturers.

In 1998 the geographical distribution of growth in the hearing aid market (in terms of units) was fairly uneven. Growth rates were highest in the USA, Scandinavia and Australia whereas the Japanese market was stagnant and the German even falling.

The German market, which accounts for about 10% of the world market, fell by 10-15% in terms of units. This decline had a negative impact on both Oticon's and Bernafon's sales in Germany.

The Australian market, which is one of the Group's most important markets, underwent a considerable structural change in 1998 with the Australian government seeking to privatise parts of its hearing aid services. Since 1991 Bernafon has had a contract with the AHS (Australian Hearing Services) for delivery of most of the hearing instruments required by the AHS. At the start of 1998 privatisation was expected to cause some decline in Bernafon's sale of inexpensive hearing instruments to AHS, but the decrease was less than expected, and in the same period Bernafon succeeded in boosting sales to the private sector.

The Group's other hearing aid manufacturer, Oticon, also benefited from the expansion of the private market and more than doubled its sale in terms of units on the Australian market in 1998.

The crisis in South-East Asia had a negative impact on hearing aid sales from September. In Japan, the largest market in the region, sales stagnated and on some of the minor markets sales dropped sharply.

With the economic and political crisis in Russia and the collapse of its banking system, sales in Russia more or less vanished over night. Russia has for many years been one of Oticon's most important markets in Eastern Europe, and the loss of sales on this market and in South-East Asia has certainly had an impact in the autumn of 1998, but the decline has largely been offset by growth on other markets.

Diagnostic instruments

Maico Diagnostic, which manufactures and distributes audiometers, accounts for the largest part of this business area. Due to delays by another subsupplier, the delivery of a major order to the US Defence Forces did not commence until the fourth quarter of 1998, which means that a substantial part of the order will not be delivered until 1999. Growth in 1998 in Diagnostic instruments has therefore been lower than anticipated. Growth was also affected by RhinoMetrics, the other Diagnostic instruments firm of the Group, not completing the development of a method for diagnosing and localising of snoring and abnormal breathing intervals during sleeping (sleepapnoea). The product, which is p.t. undergoing final testing, is scheduled for introduction on the market in the first half of 1999.

Personal communication

Phonic Ear Holdings, Inc. in California acquired by William Demant Holding in June 1997 developed extremely favourably throughout 1998. Sales on the US market, which account for about 70% of Phonic Ear's sales, grew by over 20% in 1998. Also sales on overseas markets developed very favourably, especially in the second half-year. The collaborative effort to distribute Phonic Ear's products has turned out to be very successful for the mutual benefit of Phonic Ear and the hearing aid businesses.

Logia which has its main market in Denmark selling assistive listening equipment, loudspeakers and teleloop systems for use in places of worship, assembly halls and public buildings produced the best result ever in 1998. Revenue rose by 10% and exports to the near markets also developed favourably.

Gross profit

The shift in product mix with increased sale of digital hearing instruments, i.e. more expensive instruments with a higher profit margin, increased the Group's gross profit ratio from 54.1% to 55.4%. A fall in the sale of low-margin products in Australia in connection with the privatisation of the Australian Hearing Services and by a decline in the sale of discount hearing instruments to the British Hearing Services also contributed to this improvement. Overall gross profit rose from DKK 765 million to DKK 893 million in 1998, or an increase of 17%.

Overhead costs

In relative terms total costs rose somewhat less than gross profit at the same time as it was planned to earmark a higher percentage of costs for R&D activities and a lower percentage for marketing, sales and distribution.

Research & Development costs

R&D costs rose by 24% to DKK 146 million and now account for 9.1% of Group revenue against 8.3% in 1997. In 1998 the Group deliberately staked much on upscaling the R&D effort, and 1999 will see a record programme of new product introductions in all four business areas. R&D costs will be increased in the years to come, albeit at a somewhat lower rate of growth.

It is an important aspect of Group strategy that the R&D functions exchange knowledge of basic technology, which is in fact the reason why Oticon, Bernafon and Phonic Ear use the same R&D tools. Wireless communication, however, is expected to be stronger positioned in the Group strategy over the next few years.

Distribution costs

Throughout 1998 there was increased focus on overall efficiency in sales and distribution. The total cost of establishing the programming platform and software for digital instruments and the education of audiologists and hear-

ing aid dispensers in the use of such software was substantial in 1996 and 1997. In 1998 the programming platform was exploited more effectively. Moreover the effort in mass communication to end-users was toned down as it turned out that profitability was limited to a few areas only.

The increase of distribution costs in absolute terms was first and foremost the result of Phonic Ear being included in the consolidated accounts for all of 1998. Moreover distribution rose in connection with the acquisition of ten retail outlets of hearing instruments in Australia on 1 July 1998.

Compared with Group revenue overall distribution costs fell from 24% to 23% which contributed to an increase in profit margin for the Group as a whole.

Administrative expenses

Total administrative expenses rose from DKK 116 million to DKK 124 million, i.e. they rose at a lower rate than revenue. Administrative expenses rose due to an extra effort to replace the administrative systems in several Group companies that would otherwise face problems with the existing systems in connection with the Millennium. Consequestly the group chose to speed up the modernisation and updating of said systems in 1998 rather than spend fewer but not future-oriented resources on a short-term solution.

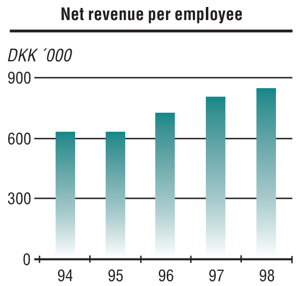
Throughout 1997 and 1998 all Group companies reviewed not only their administrative systems but their other systems and equipment as well. Based on this review an action plan was drawn up for the solution of any Millennium-related problems. With this analysis and action plan the Group is not expected to experience any major problems with operations in connection with the Millennium. The Millennium is not expected to create problems for the existing customers and users either. The Board expect furthermore the Group to be able to maintain the present insurance programme without any Millennium exclusions.

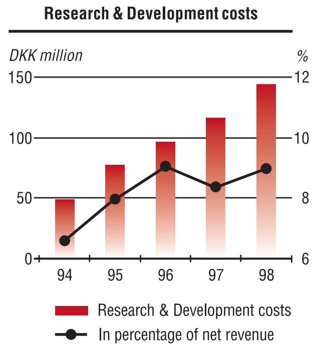
Costs to counteract any such problems compared with Group activities as a whole are insignificant.

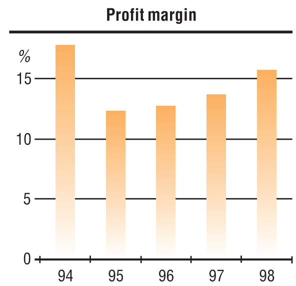
Profit for the year and equity

The Group's profit on primary operations is DKK 248 million, which is a 27% increase on 1997. The result constitutes 15.4% of the year's revenue against 13.8% in 1997. The increase in profit margin reflects a stronger trend in 1998 compared with profit margin growth over the past few years.

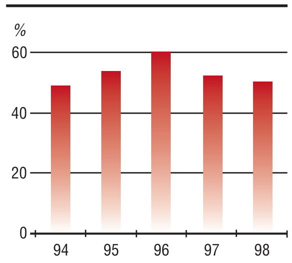
With the fall in general interest levels, the acquisition of Phonic Ear and the share buyback programme announced



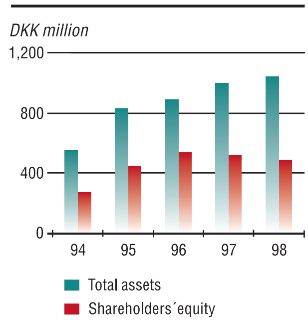




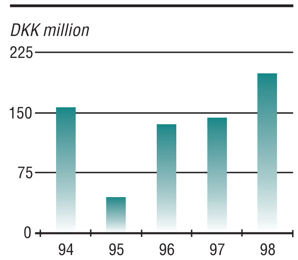
Equity ratio



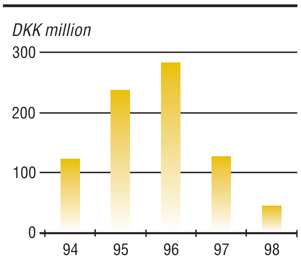
Total assets and shareholders´equity



Cash Flow From Operations (CFFO)



Interest bearing net assets



in connection with the interim report of August 1998, net financials fell from DKK 14.4 million in 1997 to DKK 8.5 million in 1998. Securities gains from the sale of investment bonds account for DKK 3.5 million thereof.

Ordinary profit before tax amounted to DKK 259 million, or an increase of 23% on last year. Tax on the year's profit amounted to DKK 60 million and the year's net profit DKK 201 million against DKK 148 million in 1997, or a 35% increase. The 1997 result also included extraordinary items after tax of DKK 13.5 million.

Earnings Per Share in 1998 totalled DKK 13.0 against DKK 10.5 in 1997.

The Board of Directors consider the year's profit satisfactory and propose that for the 1998 financial year, a dividend of DKK 2.35 per share (DKK 1.8 in 1997) be paid out corresponding to a dividend ratio of 47%. The total amount of dividend is DKK 35.4 million, or 18% of the year's net profit. The Board propose that the remaining profit for the year be retained.

Shareholders' equity of the company is besides the distribution of profits influenced by the below essential figures:

- Buyback of own shares has been directly written of depreciated on the shareholders' equity by DKK 151 million
- Write down of goodwill in connection with purchase of new corporate activities amounts to DKK 21 million
- Exchange rate adjustments of foreign subsidiaries influence the shareholders' equity negtively by DKK 15 million

Consequently shareholders' equity at year-end amounted to DKK 504 million, or 49% of total assets.

Cash flows, financing and liquidity

In 1998 the Group had a positive cash flow from primary operations (CFFO) of DKK 199 million which equals 77% of the consolidated ordinary profit before tax, or almost 100% of the net profit. The explanation for a cash flow as high as that in a growth company is continuous control of the working capital.

Cash Earnings (CE), which shows direct cash flow from profits adjusted for write-downs and depreciation rose to DKK 254 million in 1998 against DKK 207 million in 1997.

Risks

The Management reorganised the Group's long-term finance in 1998 through full repayment of two high-interest loans raised in 1992/93 and repayment of a substantial slice of a USD bank loan raised on the acquisition of Phonic Ear. In 1998 the Group raised two ten-year note loans, an EUR loan of DKK 102 million at a fixed rate of interest of 4.4% and a Danish krone loan of DKK 50 million at a variable rate of interest.

The Group currently seeks to hedge its exchange positions, primarily through forward exchange transactions. Financial instruments are exclusively used for hedging the Group's commercial foreign exchange flows. At year-end forward exchange contracts had been made in USD, EUR and JPY at a total value of DKK 397 million.

At the start of 1999 there are in the opinion of the Management no major uncovered financial risks.

Any major changes in the rates of EUR and USD may however on the long term shift the competitive power between the Group and US hearing aid manufacturers.

Average forward rates at 31 December 1998 in respect of the above contracts were in DKK USD 634, JPY 5.60 and EUR 754.

Interest risks per 31 December 199, DKK million

Maturity	<1year	1-5years	>5years	Totally	Weighted interest
Financial fixed assets	-	-	5.6	5.6	
Securities and participating interestcurrent assets	19.0	-	-	19.0	
Liquid funds	196.2	-	-	196.2	
Interest bearing assets	**215.2**	**-**	**5.6**	**220.8**	**4.4%**
Mortgages	-	-	5.0	5.0	
Longterm creditors	10.3	41.0	98.8	150.1	
Current bank accounts	32.3	-	-	32.3	
Interest bearing liabilities	**42.6**	**41.0**	**103.8**	**187.4**	**4.1%**
Net position	**172.6**	**-41.0**	**-98.2**	**33.4**	

Balance sheet
It is very satisfactory that the total balance of DKK 1 billion has been retained at the same level in 1998 as in 1997 despite growth and expansion of activities. The rate of turnover in the Group's inventories and trade debtors remains unchanged which means that trade debtors and inventories rose in line with revenue and production costs.

Group investments excluding acquisitions amounted to DKK 71 million against DKK 76 million in 1997. The fall marks the conclusion of two real property investments in Ballerup (Denmark) and Hamburg. In 1999 fixed asset investments for 1999 are expected to match the depreciation charge.

Own shares
The Annual General Meeting in May 1998 authorised a buyback of own shares of up to 10% of the share capital.

In August 1998 it was decided to use this authorisation as part of the acquisition strategy thus the Board of Directors considered the Company to be overcapitalised compared with the business volume.

Through out the autumn of 1998, the company thus currently bought back own shares. When there is a suitable acquisition opportunity, these shares may be used as full or part payment. In 1998, 440,850 shares were bought back corresponding to 3% of the share capital.

It will also currently be considered whether cash flows including own shares exceed the estimated capital requirements with a view to cancelling part of the holding of own shares. This policy is designed to ensure and sustain superior shareholder value creation.

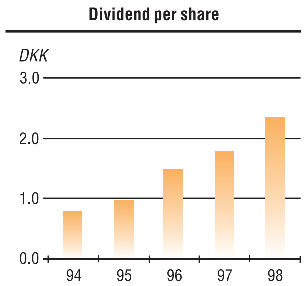
The shares that were bought at a total sum of DKK 151 million were treated for accounting purposes as had they already been anulled. This means that their cost was written off directly via the free reserves of the shareholders' equity. Share-related key figures and ratios have been adjusted accordingly.

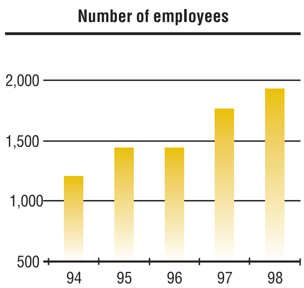
Management and employees
At the ordinary Annual General Meeting in 1998, President & CEO Anders Knutsen was not eligible for reelection, and President & CEO Lars Nørby Johansen was elected as new member of the Board of Directors.

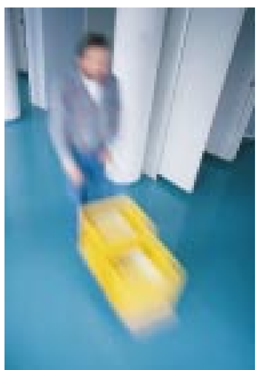
On 12 May 1998, Executive Vice President Niels Jacobsen was appointed President & CEO.

On 26 December 1998, Mr Bent Bahne Bahnson who had been elected by the employees as staff representative of the Board passed away. He had been a valued member of the Board since 1995.

In April 1999 three employees were elected as members of the Board to represent Group staff. Ms Hanne Stephensen was re-elected and Mr Jørgen Kornum and Mr Franck Fogh Andersen were elected. The members







were elected for four years and will join the Board of Directors in connection with the Annual General Meeting on 11 May 1999.

The Board od Directors wishes to express the warmest thanks to Management and staff for their commitment and excellent performance in 1998.

Capital structure

William Demant og Hustru Ida Emilies Fond (the Oticon Foundation), Gentofte (Denmark) has notified the company that it holds 65.7% of the shares in the company.

The company itself holds 3.4% of its own shares at 17 March 1999.

No other shareholder has notified the company of any shareholdings in accordance with the provisions of Danish legislation.

Strategy and expectations for 1999

The William Demant Group proceeds with its growth strategy and the Management anticipates continued growth both in 1999 and in the years to come.

The growth strategy builds on three key elements:

- Organic growth generated by a continuous and high innovation level enabling the four business areas currently to introduce the most sophisticated and innovative new products. In 1999 all four business areas will launch a record high number of new products, and the Management expects the introductions, particularly in the second half-year, to contribute to both revenue and earnings. Growth is expected to extend into the year 2000

- The William Demant Holding Group wishes to participate in the anticipated structural reorganisation of the

hearing aid and diagnostic instruments industry. The Management is therefore currently looking for opportunities to acquire companies in these business areas that can contribute to Group growth. The timing of such acquisitions is more unpredictable, but acquisitions in the existing lines of business are expected to contribute to long-term growth in the Group

- Through a very high degree of innovation and earmarking of more than 9% of Group revenue for R&D, the Group gathers knowledge and develops technologies that may also be relevant to associated business areas. In the opinion of the Management the Group's knowledge of wireless communication, speech intelligibility and miniaturisation can also be applied in related business areas. Consequently, the overall growth strategy is to be open to acquisition opportunities in related fields of businesses enabling the company to capitalise on the Group's core competencies

At the end of 1998 and in early 1999 the competition on the market for digital hearing instruments has been intensified even further. Today several of the competitors also offer digital hearing instruments, and further entrants are expected on the market in 1999.

The many new product introductions as well as the new generations of digital instruments to be launched by Oticon and Bernafon are expected to generate two-figured organic growth rates for 1999 as a whole - probably at a slightly lower or stagnating rate in the first half and a somewhat stronger rate in the second half-year. We also expect the strength of the many product introductions to extend beyond the year 2000 and thus generate further growth.

The entire organisation focuses on better utilisation of capacity and increased efficiency in the sales and distribution links.

Since 1994 and up to and including the 1998 financial year, Earnings Per Share has risen considerably. With the above profit scenario and the ongoing share buyback programme, the Company expect to be able to retain a high growth rate in Earnings Per Share in 1999 and in the years to come. For 1999 Earnings Per Share are expected to grow by 15%.

The Group holds 3.4% of the share capital of own shares on 17 March 1999 and the plan is to continue to buy back own shares. At the Annual General Meeting on 11 May 1999 a proposal for annulment of these shares is to be submitted. It is expected that 4-6% of the share capital will be cancelled. The Board of Directors will also ask the Annual General Meeting for authority to issue up to 1.4 million new shares, or nominally DKK 7 million, without pre-emption rights for existing shareholders. The new shares are to be used in connection with the financing of any new acquisitions.

GLOBAL INFRASTRUCTURE

An important part of the William Demant Group strategy is that the individual business units capitalise on the benefits of large-scale operations and that they share knowledge at every opportunity. So, the units work closely, co-operating in the early links of the value chain. There is, however, a clear organisational division between the individual units when it comes to marketing activities.

The development function of each individual business unit benefits from the Group's global technological and audiological knowledge platform. That the business units exchange and re-apply knowledge and basic technologies elsewhere within the Group is of strategic importance. Today these units use the same development tools both within their core business areas and within related branches. The development functions in the two hearing aid businesses also each have their own IC design centre.

Access to the same knowledge and development tools is not the only benefit resulting from the strategic decision to use the same tools globally and across the various professional areas.

Information technology

The William Demant Group has established an advanced IT infrastructure to enable the effective exchange of information on a global basis between the Group's 36 companies.

Today, they are all connected via this joint infrastructure with the resulting advantages. Firstly, the standard information processing applications are now identical for all employees; secondly, the infrastructure is now accessible to all employees in the Group, regardless of their physical location; and thirdly, the joint infrastructure has reduced operational costs, as a central support function at the Group's headquarters in Denmark has now been established for both the infrastructure and the applications.

The IT infrastructure supports warehousing, access to information, and information exchange. Each employee has a pc with a standard office package, with access to a shared electronic calendar, e-mail and an electronic filing system. All employees have access to this system, and now that they can exchange documents it has become one shared, dynamic information database.

An important supplement to the basic IT infrastructure is the video conferencing equipment, which has already been installed in one-third of the Group's companies.

Business system

The majority of the Group's products are distributed to the sales subsidiaries and distributors from the Global Distribution Centre in Thisted (Denmark). The IT infrastructure supports both the exchange of order documents sent from the sales subsidiaries and the shipment of goods from the centre in Thisted to the sales subsidiaries, together with the relevant documentation. The greatest advantage of using the infrastructure is that shipments reach their target destination more quickly.

Today, in almost all sales subsidiaries, the Group's administrative systems are based on Navision.

A flexible working environment

Within the Group, the role of the IT infrastructure is not limited to systems only. The infrastructure is essential for the Group's knowledge-based project organisation to function in practise.

Flexibility is an integral part of the organisational concept. The information technology allows knowledge to be shared within and across the various disciplines wherever possible. Together with an open office environment, and amongst others, a low level of formality, the IT infrastructure with its chosen applications does allow greater flexibility in the way the organisation is structured physically. This also creates some of the pre-requisites necessary to enable the Group's human values, with their focus on flexibility, freedom and responsibility, to function in practice.

This form of organisation, which was first introduced in the development functions in the Group's core business areas, has now spread to also include a large number of sales subsidiaries.

Human values

Ongoing development and variety in the working environment is a fundamental part of the Group's business mission for its employees. There are a number of clearly formulated written assumptions about how employees function optimally and develop within their roles. These assumptions range from employees wishing to accept responsibility and take on challenging tasks, to them desiring as much freedom as possible and wanting to be treated as partners in the company. The group has styled the entire organisation according to these assumptions, and both the efforts and decisions made by the management team are based upon these values. Ultimately, it is the contribution of the employees on a daily basis that creates results and develops the workplace.

Social responsibility also extends to the community. The Group believes that companies should be sufficiently accommodating to employ people with a reduced ability to work. In 1998 the Group employed an increasing number of people under various schemes such as job training, flex-jobs and other arrangements.

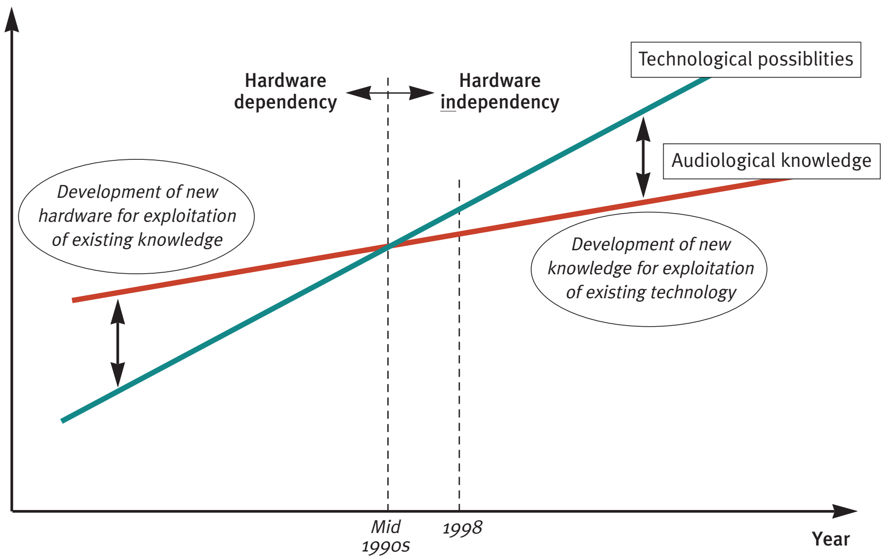
KiteNet

The Intranet, or 'KiteNet', will become one of the most important means of accessing the shared information databases within the William Demant Group. The KiteNet will enable employees to access and process documents on a global basis, including for example, service documentation. It will feature complete information about products, including the different models and spare parts etc. It will also enable knowledge exchange between the various development functions. This fast and easy access to important information will enhance the sales companies ability to improve their customer service.

Why is audiology important for the William Demant Group?

The commercial success of future generations of hearing aids will depend on the ability to combine technological advances with the relevant auditory characteristics of hearing impaired individuals. These characteristics are referred to as audiological knowledge.

If one looks at the evolution of hearing aid technology and audiological knowledge an interesting picture emerges - shown in the figure below. In the first half of the 1990s audiological knowledge led over the technological possibilities, i.e. advanced functionality could be described but not readily implemented. For each new functionality a specific technology had to be developed, and consequently, the technology was a limiting factor for both the design and development of new hearing aids. However, around the mid 1990s, the situation changed and technology began to gain the lead over audiology. The main reason for this change was the introduction and management of digital technology for hearing aids. This digital technology opened up new opportunities, and the technology began to develop faster than new audiological knowledge could be created.



This is the reason why the development of audiological information and knowledge has become even more important now, and must be regarded as a core competence for the development and introduction of novel hearing aid solutions by the William Demant Group.

What are the audiological initiatives in the William Demant Group?

For many years, the research on hearing impairment within the William Demant Group has focused on important auditory dimensions such as hearing threshold, dynamic range, frequency and temporal resolution and binaural processes, including localisation and externalisation. Development of knowledge within these areas, which belongs to the 'classical' audiological field, was a pre-requisite for the advanced hearing aid solutions introduced by the William Demant Group in the 1990s.

Within the last couple of years research on hearing-impaired individuals has broadened its scope to also involve other characteristics - for instance those related to lifestyle, personality and cognitive skills*. The reason for this is the recognition that there are other individual factors in addition to those belonging to the classical audiological field which are equally important in the design of novel hearing aid solutions and their successful fitting. Together the two sets of characteristics constitute a more holistic view of the hearing impaired individual.

The fitting of hearing aids has traditionally been based on prescription combined with some user interaction in the subsequent fine-tuning process. However, since each hearing aid user has an individual lifestyle, personality, cognitive ability, listening preference etc., increased individualisation seems warranted. Within the William Demant Group this has resulted in focused research on how increased user interaction can be obtained and how this may affect the design and fitting of future hearing aids.

Traditionally, rehabilitation with hearing aids has been evaluated in two dimensions: speech intelligibility, and listening comfort. Today it is realised that successful rehabilitation is dependent also on 'softer' issues such as: realism of expectation, level of acceptance and speed of acclimatisation to a new hearing aid. To some extent, these issues appear to be related not only to the non-audiological characteristics mentioned above (lifestyle, personality and cognitive abilities) but also on physiological factors such as cortical plasticity**, for example. Thus, hearing aid research has become increasingly more complex, requiring access to knowledge and experience outside the traditional audiological and psycho-acoustical fields. Therefore, collaborations have been established with several international groups of hearing aid researchers, psychologists and physiologists, amongst others.

Another initiative has been the establishment of the 'Eriksholm Workshops' - a series of scientific workshops fully sponsored by the Oticon Foundation. Each workshop deals with a specific topic, which is highly relevant for the field of hearing aid research. It is convened by an internationally acclaimed researcher and held by a small group of about 15 international researchers - each active within the field of the chosen topic. In 1995 the first workshop was held, with the topic: 'Auditory deprivation and acclimatisation'. The second workshop will be held in 1999 on the topic of: 'Self-reported outcome measures for hearing rehabilitation'.

* A person's ability to understand through thought, experience or the senses.

**The ability of the brain to adapt over a long period of time, so a changed flow of information from a sense organ (e.g. the ear) will be used optimally.

Oticon

The Oticon business consists of Oticon A/S, with headquarters in Denmark, plus 18 foreign sales subsidiaries. The Danish market and the 80 independent distributors world-wide are served from the Danish headquarters.

Since Oticon's introduction of MultiFocus in 1991, the high-price market that Oticon helped to create has been growing rapidly. The introduction of the first digital hearing aids in the spring of 1996 spurred expectations even further. Today a clearer picture of this market is emerging. It is polarised, on the one hand by high performance instruments utilising advanced signal processing and advanced fitting systems (at correspondingly high prices), and on the other, by a standard-to-low price segment generating high volume sales.

Oticon does not share the opinion that, over time, today's advanced instruments will drop so considerably in price that they become 'standard', producing high volume sales. Nothing in the industry indicates that price cuts on selected products have had any effect on retail sales.

Oticon acknowledges that it is necessary to develop dedicated instruments for both the top-end segment and the standard-to-low price segment. To retain market share (measured by unit) Oticon is focusing on developing products that encompass both ends of the scale.

At present, the market for digital hearing aids is growing rapidly. The speed at which it is developing is to some degree dependent on the number of players. This is due to the fact that new players are not encroaching on the existing market for digital instruments; they are conducting their own marketing and building their own customer bases, thus developing the market for digital hearing aids.

New digital instruments

During the year, Oticon introduced a number of new digital instruments in the high price segment.

At the start of the third quarter, Oticon introduced the fully digital hearing aid *DigiFocus SKI*, which targets people suffering from steeply sloping, high-frequency hearing loss. DigiFocus SKI is the market's first and only digital hearing aid especially developed to compensate for these difficult-to-fit hearing losses. It targets and increases amplification in those frequency areas that mark the transition between good and poor hearing. With DigiFocus SKI, patients avoid having to use amplification in the frequency areas where their hearing is normal.

High frequency hearing loss constitutes approximately 15% of the total market, and is typically caused by either long-term exposure to noise or sudden excessive noise. This type of hearing loss differs to age-related hearing loss (presbyacusis).

DigiFocus SKI was the newest addition to the DigiFocus series of digital hearing aids initially introduced in 1996. But at the turn of the year Oticon introduced *DigiFocus DuoMic*, supplementing the series even further. This advanced, fully digital hearing aid combines Oticon's digital signal-processing technology, ASA^2 (Adaptive Speech Alignment) with two advanced microphones, between which the user can switch at will.

The first microphone is one of the most advanced directional microphones available, making it possible to focus on speech in noisy environments, such as a restaurant. The other is an omni-directional microphone, which makes it easier for the wearer to cope in changing sound environments.

In the third quarter, Oticon introduced two new programmable analogue hearing aids, *PrimoFocus CIC* and *PRO2*. *PrimoFocus CIC* (completely-in-the-canal) is a very small instrument that can be placed totally in the ear canal. PRO2 offers two operating modes, and distinguishes itself by being particularly easy for dispensers to fit.

Considerable effort is now being invested in developing future instruments, including new digital hearing aids, and very small instruments.

In 1998 Oticon continued to develop its distribution network. Share ownership in Oticon Polska rose from 70% to 79%. Oticon's Australian sales subsidiary took over the ten shops in retail chain National Hearing Aids Pty. Ltd. And over the New Year period 1998/1999, Oticon opened its own sales subsidiary in China.

In May, Niels Jacobsen succeeded Lars Kolind as President and CEO for both Oticon A/S and William Demant Holding A/S. In 1998 Oticon welcomed two new members to its management team: Svend Thomsen, Executive Vice President, Operations, and Steen Bindslev, Executive Vice Present, Commercial affairs.

DigiFocus DuoMic optimises speech intelligibility. In a restaurant a person with impaired hearing may have difficulty following a conversation even if the background noise is moderate. Using DigiFocus DuoMic with an advanced directional microphone and digital signal processing, the user can filter out background noise and concentrate on the conversation.

Bernafon

The Bernafon business includes Bernafon AG, with headquarters in Bern, plus nine foreign subsidiaries. The headquarters serves the domestic market plus some 40 independent distributors world-wide.

In 1998 Bernafon further expanded its network for distributing hearing aids. In Spain, Bernafon entered a distribution agreement with a large manufacturer of optical equipment. Sales through the company's own sales subsidiaries and independent distributors, plus sales to OEM (Original Equipment Manufacturer) customers have increased Bernafon's market share. Progress has primarily been made on sales of very small completely-in-the-canal (CIC) instruments and canal instruments.

In the autumn of 1997 the Australian government decided to alter the subsidies made available by the public hearing welfare system, enabling hearing-impaired people to claim financial aid for hearing instruments on the private market. In 1998, despite increased liberalisation in a market where Bernafon was previously the de-facto sole supplier to the public hearing welfare system, the company managed not only to maintain deliveries to the Australian welfare system, but also to increase turnover in an accelerating private market.

In addition to advanced marketing and distribution, product development is an important element in Bernafon's Innovative Hearing Solutions programme. Over the past few years Bernafon has invested considerable sums of money on development, and the company will continue to follow this strategy. The development strategy focuses both on modernising and expanding the current product portfolio, plus a number of future-oriented development projects.

In 1998, Bernafon's three product families - the conventional *Opus2* series, and the programmable *Audioflex* and *Dualine* series - were extended and completed. All three families now range from behind-the-ear to very small completely-in-the-canal instruments, complementing each other both in terms of technology and price.

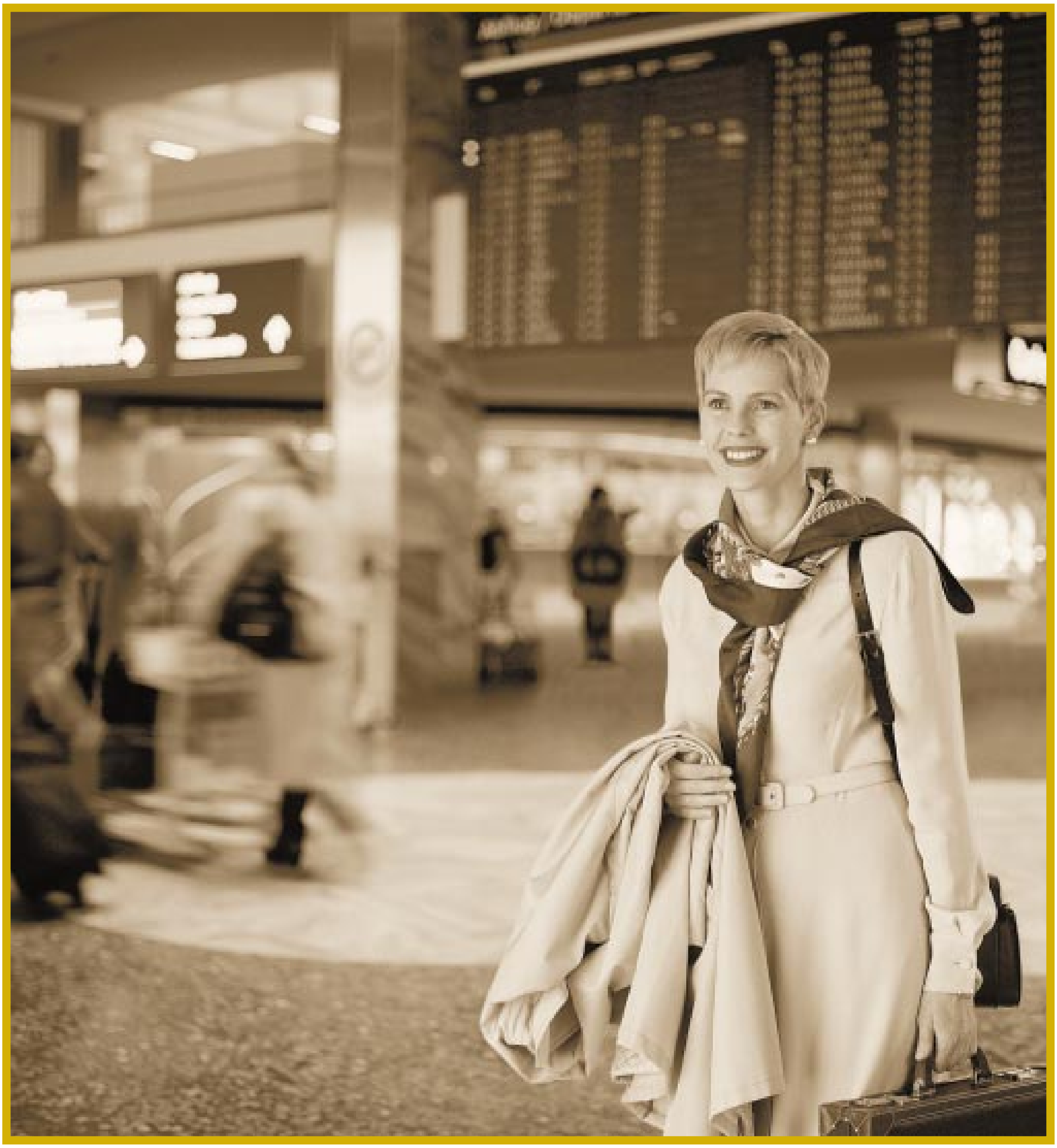
In 1998 Bernafon introduced the largest number of new hearing aids since becoming part of the William Demant Group in 1995. This includes two digital products (*Dualine 100* and *Dualine 200*) and several advanced analogue instruments (*Dualine 310+/300*). An entire Opus2 series was also introduced, offering good solutions for all types of hearing loss at a very attractive price.

Audioflex, Dualine and Opus2 have been very well received on the market, and are the main reason for progress in 1998. The possibility to offer three complete product families increases the Bernafon's competitiveness in both the high-tech markets in Europe and less developed markets elsewhere in the world. In addition to completing the three product families, Bernafon has focused on producing cosmetically attractive instruments. In particular, the Dualine 400 CIC falls into this category. This is one of the world's smallest, digitally programmable CICs.

Fitting advanced digital hearing aids requires knowledge-based Windows pc fitting programs. In 1998, Bernafon further enhanced its OASIS fitting system, originally introduced in 1996, to include a help program (Wizard) that makes it even easier for audiologists to fit Bernafon hearing aids. OASIS now provides a system where the degree of customer satisfaction is dependent on both the fitting software and the individual adjustments made by the audiologist to the hearing aid itself.

Both the extension of the existing product portfolio and the more future-oriented development activities benefit from the high technology level that exists in Switzerland, where the knowledge of high precision mechanics gained in the country's horological industry has now been applied to the hearing aid industry.

Bernafon's close co-operation with the National Acoustics Laboratory in Sidney, which contributes with audiological expertise, puts the company in an ideal position to meet future challenges. This co-operation will bear fruit in 1999, when a new advanced digital product series will be introduced.



Dualine 400 CIC is one of the tiniest digitally programmable CIC aids in the world. It is the result of Bernafon's efforts to develop sophisticated and cosmetically attractive aids. It is placed in the ear canal and removed by means of a small nylon thread.

Diagnostic instruments

Diagnostic instruments is the smallest business area in the William Demant Group, and comprises Maico Audiometer - with companies in Germany and the US, and RhinoMetrics in Denmark.

Common to both companies is that they develop, produce and sell advanced instruments for the investigation of hearing disorders (Maico) and disorders in the air passages (RhinoMetrics).

Over the last few years, Maico Audiometer's broad product portfolio has been expanded to include advanced screening audiometry for use in the industry, the armed forces, and other customer groups with the need to regularly document the status of their employees' hearing. A large order for the US Armed Forces for which a special audiometer - the *MA1000* - was developed, has contributed to increasing sales to government authorities and heavy industry, including the US car industry.

In 1998 the *MA53* clinical audiometer, which is primarily used by ear, nose and throat specialists, was further developed. Now, with the aid of advanced software, the equipment can be more easily customised to fulfil local measurement requirements.

Since becoming part of the William Demant Group in 1995, much effort has been invested in extracting the most benefit from the other functions in the Group. One of the areas currently being exploited is the printed circuit board assembly function at DancoTech. Acquiring this capability (which previously was outsourced to a sub-supplier) has resulted in a considerable reduction in production costs on most products.

Maico Audiometer's sales cover approximately 7% of the world market, whose total is estimated at DKK 750 million.

In 1998, RhinoMetrics continued to invest in developing a method for the diagnosis and localisation of snoring and sleepapnoea. Sleepapnoea is characterised by abnormal breathing during sleep. This condition is due to internal blockages that prevent air from passing through the throat. The blockage is caused by the tongue falling backwards, and by the walls of the throat collapsing. The abnormal pauses in breathing that occur with this condition typically last between 30 and 90 seconds, resulting in lowered blood oxygen levels which in turn puts strain on both the heart and the circulatory system, and a number of other organs.

Today, in most cases, sleepapnoea is treated nightly using a CPAP (Continuous Positive Airway Pressure) system, which via a mask, helps the patient maintain positive airway pressure in the air passage. This pressure removes the blockage that causes the condition. CPAP treatment is continuous, and can cause inconvenience, in that the system is noisy, the mask sometimes uncomfortable, and patients can suffer from dryness in the nose and throat.

Some patients benefit from surgical intervention in the throat and the soft palate (UPPP-operation). But because current surgical procedures are not very precise (regarding exactly where and how much tissue should be removed), operations often yield little result. Thus, there is a need for more advanced diagnostics which offer a more precise method of locating the seat of the problem than are currently available today.

RhinoMetrics' patented diagnostics method utilises the combination of acoustic rhinometry and a highly flexible catheter. The catheter is inserted into the throat via the nasal passage, enabling the operator to precisely locate where the throat collapses during sleep. The method is expected to set new standards for the treatment of sleepapnoea patients.

In the autumn of 1998, RhinoMetrics, together with a sleep clinic at a Danish hospital, began a series of clinical tests verifying this new method. If the expected results are achieved they will lead to commercialisation in the spring of 1999. The product will be marketed under the name *RhinoSleep*.

Maico distribute an aid Maico-Hearman MH10 for easy and quick initial testing of a person's hearing. It helps the audiologist to decide whether a more comprehensive test is required.

The environment in heavy-industry factories is often extremely noisy and many firms have chosen to check regularly whether the noise affects the hearing of their employees. Maico's screening audiometer, MA1000, is designed for firms in the public and private sectors wishing to carry out such examinations on the job.

Personal communication

The Personal communication business area comprises Phonic Ear Holdings, Inc. in California - with sales companies in the US and Canada, and Logia A/S in Denmark.

Both companies develop, produce and sell assistive listening devices. Based on wireless communication technology, these devices improve daily life for the hearing impaired, and also, to a certain degree, for people with normal hearing. Both companies' products improve communication in difficult listening situations, such as in the home, in companies, in places of worship, theatres and in the classroom.

Phonic Ear and Logia have enjoyed a very satisfactory year with considerable growth both in revenue and primary operations.

Phonic Ear

The most important business area for Phonic Ear is wireless communication systems for use in teaching situations. These systems can either be used alone, or together with hearing aids, making it easier for hearing impaired students to integrate into mainstream schools.

Phonic Ear also supplies audio systems for use in placesmof worship, cinemas and institutions. This part of the business has experienced considerable growth in the US since the introduction of the American Disability Act, requiring audio systems in all public halls.

In 1998 the development effort was intensified. As a result, Phonic Ear introduced a whole series of products, including the *Telepin* system, which makes it easier to connect Solaris FM systems to behind-the-ear hearing aids. The system is based on *TeleMagnetix (TMX) technology*, which has been patented by Phonic Ear for use in telecommunications applications.

In 1998 Phonic Ear introduced a combined FM and hearing aid system called *Binaural Solaris*. The system supplements the new generation of Solaris, a wireless communication equipment that was introduced in 1997.

The company also introduced a mini-loudspeaker system, '*Toteable Sound Field System*', for use in classrooms. Designed in co-operation with hearing impaired children, the system is easy to use together with the Easy Listener PE 300-series of wireless communication equipment.

In 1998, sales on the American market, which accounts for more than 70% of Phonic Ear's sales, increased by more than 20%. Overseas sales also developed extremely well, especially during the second half of 1998. Co-operation between companies within the Group in distributing Phonic Ear's products has proved to be advantageous, benefiting both Phonic Ear and the hearing aid companies.

In 1998 Phonic Ear earned the ISO 9001 certification.

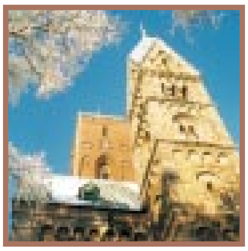
Logia

Logia is based in Denmark, and is the country's leading supplier of assistive listening devices, telecoil systems and public address systems. At the end of the year Logia secured a two-year contract to supply assistive listening devices to the Copenhagen Borough, reinforcing its already strong position. Logia supplies communication systems to overseas markets via companies both within and outside the William Demant Group.

In 1998 Logia began collaborating with international chains that will market the *MultiWake* and *Beocom 1600 HAC* systems. In fact, this was the reason why Oticon Sound System changed its name to Logia in 1997, in order to form a distribution network that was independent of Oticon's sales companies.

In 1998 Logia installed a comprehensive public address system and telecoil system in Ribe Cathedral. The installation fulfilled a number of challenging requirements in terms of aesthetics, design and sound quality. During the year a number of nursing homes showed considerable interest in acquiring user-friendly, efficient audio systems. The company also increased its co-operation with the Danish State Railways (DSB), installing communication systems for its ticket counters. Logia expects this co-operation to develop even further in 1999.

In 1998 revenue increased by approximately 10% and export to nearby markets showed an equally positive development.



In Ribe Cathedral Logia has installed an audio system including 144 pews with built-in loudspeakers, hand-crafted in oak. When a person sits down sensors automatically activate the loudspeaker.

Parents with hearing-impaired children may find it very useful to install FM systems in the home. The system enables the child to hear and understand what is said despite background noise, for instance, in the kitchen. In 1998 Phonic Ear introduced a combined FM and hearing aid system Binaural Solaris and Telepin system, which makes it easier to link Solaris FM systems to in-the-ear hearing aids.

SHARING RESOURCES

The four business areas in the William Demant Group work together very closely, wherever possible sharing the same resources. This includes production facilities, IT infrastructure, quality control systems, service and technical support, and finance and administration.

Production

The William Demant Group has production facilities in several countries. In Denmark, Scotland and Australia, both Oticon and Bernafon manufacture hearing aids that have been developed in Denmark and Switzerland. Phonic Ear manufactures its own wireless communication solutions in California. At present only part of the production process in the Diagnostic instrument sector is handled internally.

In Ballerup (Denmark), the Group has established a modern component factory, DancoTech. This currently functions as a sub-supplier to the Group's four business areas. DancoTech has two areas of expertise. The first of these is electronics assembly, where the company specialises in complex, fine line, high-density circuits requiring maximum precision.

DancoTech's second area of expertise is interconnection technologies. The company handles a wide range of technologies, and is therefore always able to offer an optimal armament of complex circuitry.

Quality management

On June 14 1998 the Medical Device Directive (93/42/EØF) came into force, considerably elevating standards for the development, production and sale of hearing aids within Europe. The Group reacted positively to this directive, systematically defining quality goals and policies for its production, sales and service facilities in Europe.

Not only have the requirements of the Medical Device Directive now been met; it has been ensured that the Group's hearing aids fulfil the set quality requirements throughout the entire distribution network, culminating at the end user. This is regardless of whether distribution is handled by the Group's own sales companies or by independent distributors.

In Europe, distribution and customer fittings of the Group's products is handled by channels approved according to the Group's central policies governing production, sales and service of products covered by the Medical Device Directive.

In 1998, RhinoMetrics and Phonic Ear earned the ISO 9001/EN46001 certificate. Oticon earned the same certificate in 1996, followed by Bernafon in 1997. It is a rare occurrence that a company currently as small as RhinoMetrics operates with total quality assurance throughout its development, production and marketing functions.

In 1996 Maico Diagnostic GmbH gained similar, albeit less extensive, ISO 9003/EN46003 certification.

Central logistics, management and delivery on time.

Distribution of the Group's products from its central distribution centre in Denmark is managed virtually automatically, via the Group's recently expanded IT infrastructure. Orders from more than 30 companies within the Group are transmitted electronically to the central distribution centre in Thisted. The necessary documents accompanying the physical product are then returned electronically to the individual sales company.

Using the infrastructure has cut delivery times considerably in comparison to just a few years ago. To further minimise delivery times a new order system is being developed, which will enable orders sent by sales subsidiaries to be delivered directly to their European customers within 24 hours of receipt.



Service and technical sales support

Sales of in-the-ear (ITE) hearing aids within the Group are increasing. The Group's ITE laboratories, where hearing aids are customised to fit the anatomy of the each individual ear, are therefore being expanded. This final assembly is relatively time-consuming and very demanding. Electronic components produced at one of the Group's three hearing aid factories are mounted in an acrylic shell that fits the ear impression of the individual user exactly.

The ear is an aggressive environment, with heat, sweat and ear wax all potentially causing damage to hearing aids. Thus, a service department has now been attached to the Group's ITE laboratories, where the service and repair of defective instruments is performed.

Financial and administrative systems

All the companies within the Group share the same administrative system. This system streamlines daily operations, and is supported by a central team. Due to this, any future changes in operating conditions will be relatively easy to implement simultaneously in all companies, at a fraction of the time and cost invested in previous systems.

SHAREHOLDER INFORMATION

The trend in share price

Reuters: WIDE.CO
Datastream: N:WDH
Bloomberg: WDH DC

Investor relations
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Vice President, Finance
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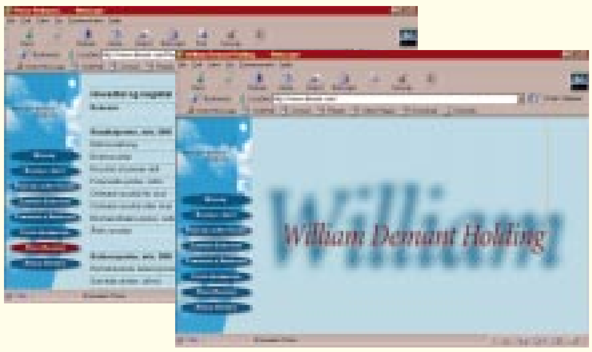
Liquidity of the share

Shared issued and outstanding	15,495,156	100.0%
Own shares in custody on 31 December 1998	440,850	
Own shares purchased in 1999	83,876	
	14,970,430	96.6%
Holdings of the Oticon Foundation	10,181,940	65.7%
Free flow as per 17 March 1999	4,788,490	30.9%

At the General Meeting it is proposed that the portfolio of own shares (3.4%) together with possible further buyings are annulled.

Share related key figures

DKK	1995	1996	1997	1998
EPS	6.7	7.9	10.5	13.0
CEPS	9.7	11.3	13.5	16.4
Price Earnings	22.4	34.6	30.1	30.3
Book, equity ratio	5.1	7.7	9.4	11.8
Dividend per share	1.00	1.50	1.80	2.35
Payout Ratio	14.8%	19.0%	17.1%	18.0%



Internet
On the Company's Homepage, www.demant.com, you may find further relevant information regarding the Company, including notes to the Copenhagen Stock Exchange.

Stock exchange information

DKK	1995	1996	1997	1998
Highest price per share	158	313	344	422
Lowest price per share	105	144	245	306
Price per share end-year	150	273	316	394
Total market Cap., million DKK	2,287	4,162	4,896	5,931
Average No. of shares, millions	14.70	15.27	15.36	15.42
No. of shares end-year, millions.	15.27	15.27	15.50	15.05

Management's and Board of Directors' Report

Copenhagen, March 17, 1999

Management:

Niels Jacobsen

Board of Directors:

Sven F. Thomsen
Chairman

Jørgen Mølvang
Deputy Chairman

Niels Boserup

Lars Nørby Johansen

Susanne Smith

Hanne Stephensen

Auditors' report

We have audited the financial statements of the Parent Company and the Group of William Demant Holding A/S for the year 1998 presented by the Board of Directors and the Management.

Basis of Opinion

We have planned and conducted our audit in accordance with generally accepted auditing standards to obtain reasonable assurance that the financial statements are free of material misstatements. Based on an evaluation of materiality and risk, we have, during the audit, tested the basis and documentation for the amounts and disclosures in the financial statements. Our audit includes an assessment of the accounting policies applied and estimates made. In addition, we have evaluated the overall adequacy of the presentation in the financial statements.
Our audit has not resulted in any qualifications.

Opinion

In our opinion, the financial statements have been prepared in accordance with the accounting provisions of Danish legislation and give a true and fair view of the Parent Company's and the Group's assets and liabilities, financial position and result for the year.

Copenhagen, March 17, 1999

Deloitte & Touche
Statsautoriseret Revisionsaktieselskab

Henning Møller
State Authorised
Public Accountant
(Denmark)

Lone Møller Olsen
State Authorised
Public Accountant
(Denmark)

KPMG C.Jespersen

Arne Nielsen
State Authorised
Public Accountant
(Denmark)

Carsten Kjær
State Authorised
Public Accountant
(Denmark)

Accounting policies

General
The consolidated and the parent company's financial statements have been prepared in accordance with the Danish Company Accounts Act, the Copenhagen Stock Exchange regulations for listed companies and the Danish accounting standards.

Compared with prior years the accounting policies have been changed as follows:

Securities and participating interests as current assets are recorded at their market values on the balance sheet day rather than as in prior years at the lower of cost or market price on the balance sheet date. The change did not affect the profit and loss account for 1998.

Provision for deferred tax is calculated on the basis of all assets. Previously deferred tax was calculated solely on the basis of current assets. The change results in a deferred tax asset at 31 December 1998 which on a prudent basis is not recorded in the balance sheet. The change in policies did not affect the net profit for the year, and the equity was increased by DKK 1.8 million at 1 January 1998.

In the autumn of 1998 we launched a buyback programme of own shares. In prior years own shares were recorded at acquisition cost with a corresponding reserve under shareholders' equity. It has been decided to charge the write-off of own shares directly to the equity at the value equivalent to the acquisition cost. Consequently free reserves were decreased by DKK 151 million.

The comparative figures for prior years have not been adjusted to match the changes in accounting policies since the effects hereof are insignificant.

All other accounting policies are consistent with those applied last year.

Consolidation
The consolidated financial statements include the companies shown on page 46.

The consolidated financial statements comprise William Demant Holding A/S (parent company) and the companies in which the parent company holds more than 50% of the voting rights. The consolidated financial statements have been prepared on the basis of audited financial statements for the parent company and its subsidiaries by aggregating uniform items and eliminating intercompany income and expenditure, shareholdings, intercompany accounts and dividends as well as non-realised intercompany profits on inventories.

Companies in which the Group holds between 20% and 50% of the voting rights are considered to be associated and have been incorporated proportionately into the consolidated financial statements based on the equity method.

Newly acquired or established subsidiary and associated companies are included in the profit and loss account from the time of acquisition or formation. Companies either sold or closed down are included until the date of divestment or closedown. Comparative key figures and ratios are not corrected in regards to newly acquired or divested companies.

On acquiring a subsidiary or investing in an associated company, we value the net asset of such a company on the basis of our accounting policies for such valuation to reflect the value of assets and liabilities for William Demant Holding A/S, provisions being made for any restructuring costs.

In cases where acquisition cost exceeds net worth for accounting purposes at the time of acquisition, such difference is charged to equity in the year of acquisition as consolidated goodwill. Any negative differences attributable to future operating losses (badwill), are entered under provisions.

Minority interests
At computation of consolidated earnings and equity, the subsidiaries proportionate shares of profits and equity ascribable to minority interests are entered separately.

Foreign currency
Receivables and debts in foreign currency are translated into Danish kroner at their rates on the balance sheet day or at their forward rates. Realised and non-realised exchange adjustments are entered in the profit and loss account with the exceptions mentioned below.

The profit and loss account is translated into Danish kroner at the rate of exchange on the transaction day whereas the balance sheet total is translated at the rate on the balance sheet day.

Exchange adjustments of the net assets of subsidiaries at the start of the financial year and long-term accounts with subsidiaries are charged to the equity. Any differences between net earnings at average rate or the rates on the balance sheet day are also charged to the equity. Loans or investments in foreign currency made for the purpose of balancing foreign currency amounts in subsidiaries are considered part of this investment. Any exchange adjustments relating thereto are included in shares in subsidiaries.

Unrealised exchange gains or losses on forward contracts made for the purpose of hedging future income or expenditure are entered on invoicing of the hedged sale.

Other exchange gains or losses are reported in the profit and loss account.

Profit and loss account
All major incomes or costs are entered on an accruals basis. In the profit and loss account, all costs including depreciation expenses are broken down by production, distribution, R&D costs or administrative expenses, regardless of the objectives of the particular company.

Net revenue
The invoicing principle is applied as income criterion. Net revenue represents the year's sales with the deduction of commissions, discounts and returns.

Production costs
These include direct and indirect manufacturing costs.

Research & Development costs
These include all costs relating to research, development and prototype construction as well as the development of new business concepts. R&D costs are charged directly to the profit and loss account.

Distribution costs
Distribution costs include costs relating to staff training, customer support, sales, marketing and distribution.

Administrative expenses
Administrative expenses include administrative staff costs, office and IT costs.

Extraordinary items
These include substantial income or expenses related to events or circumstances that clearly are different from the Group's ordinary activities.

Taxation
The parent company is jointly assessed with a number of subsidiaries. Corporation tax is distributed among the jointly assessed companies according to their proportionate share of the jointly income. For the Danish jointly assessed companies, the tax rate for current tax is 34% and the rate for deferred taxes 32%.

Tax on the year's profit includes current tax on the year's income and any changes in deferred taxes. Any additions, deductions or allowances in respect of the Danish prepaid tax scheme are included in current tax. Tax on the year's profit is referred to ordinary and extraordinary items, respectively. Current tax includes tax payable computed on the basis of the estimated taxable income for the year and any prior-year tax adjustments.

A provision is made for deferred tax as a balance sheet liability in respect method of any temporary differences between the valuations for tax and accounting purposes apart from any differences originating from shares in subsidiaries. Deferred taxes are based on the current tax rules and tax rates in the particular countries. Any effect of deferred tax due to change in tax rate is reported in the profit and loss account. The tax value of a loss that may be set off against any future taxable income will be carried forward and set off against deferred tax in the same legal tax unit and jurisdiction. Any deferred tax assets (net) are conservatively estimated and recorded in the balance sheet.

Any tax payable on the sale of shares in a subsidiary is not recorded in the balance sheet if the shares are not likely to be sold within a short period of time.

Balance sheet
Intangible fixed assets
Intangible fixed assets are entered at cost with the deduction of accumulated depreciation expenses. Leasehold improvements are depreciated on a straight-line basis over the term of the lease. Other intangible fixed assets are depreciated on a straight-line basis over their estimated useful lives.

Tangible fixed assets
Tangible fixed assets are entered at cost with the addition of any revaluation and the deduction of accumulated depreciation expenses or amounts written down. Tangible fixed assets are depreciated on a straight-line basis over their expected useful lives.

Buildings	33-50 years
Technical plant and machinery	3-5 years
Fixtures, tools and equipment	3-5 years
IT hardware and software	3 years

Assets acquired at less than DKK 50,000 are fully charged to the profit and loss account in the year of acquisition.

Financial fixed assets
The parent company's shares in subsidiaries are entered based on the equity method, i.e. shares are entered in the balance sheet at their proportionate value of net worth. The parent company's loans or investments made for the purpose of balancing foreign currency amounts in subsidiaries are included in the value of shares in subsidiaries. The parent company's proportionate share of its subsidiaries pretax profits are included in the profit and loss account after a proportionate deduction of the shift in nonrealised intercompany profits on inventories.

Investments in associated companies are entered on the same basis as subsidiaries.

Other securities include bonds and shares valued at cost, but subject to depreciation as a result of any permanent decrease in value.

Accounting policies

On buyback or sale of own shares, the acquisition cost or divestment sum is entered directly to free reserves under shareholders' equity.

Inventories
Raw materials, components and merchandise are entered at the lower of cost or net market price. Finished goods or goods in process are valued at direct cost, direct payroll and consumables as well as proportionate share of indirect production overheads. Indirect production overheads include the proportionate share of overhead costs directly related to finished goods or goods in process.

Inventories are valued on the basis of FIFO method, meaning that the oldest goods are disposed of first. Non-marketable goods or slow-moving items have been written down.

Trade debtors
Trade debtors receivable are entered with a provision for losses computed on the basis of an assessment of the particular risk.

Other securities and participating interests
Securities entered as current assets are valued at their market prices on the balance sheet day.

Debts
Debts are entered at their nominal value.

Cash flow analysis
The cash flow analysis reflects the Group's net cash position by operations, investments and financing.

Cash flows from operating activities include income from the year's operations, adjusted for non-cash consuming operating items and movements in working capital. Working capital includes current assets excluding liquid assets and short-term debts adjusted for repayment of long-term debts, bank debts and dividends.

Cash flows from investing activities include cash flows generated by the purchase and sale of fixed assets.

Cash flows from financing activities include payments to or from shareholders and the raising or repayment of long-term or short-term debts not included in the working capital.

Liquid assets are cash funds and securities with the deduction of bank debts.

The cash-flow statement cannot be compiled exclusively on the basis of the published accounting material.

PROFIT AND LOSS ACCOUNT 1998

PARENT COMPANY		Note	(Amounts in DKK '000)		GROUP
1997	1998			1998	1997
0	**0**	4	**Net revenue**	**1,613,099**	1,413,398
0	0	9	Production costs	-720,211	-648,501
0	**0**		**Gross Profit**	**892,888**	764,897
0	0	9	Research and development costs	-146,370	-117,980
0	0	9	Distribution costs	-373,770	-335,658
-14,824	-12,893	9	Administrative expenses	-124,402	-115,646
7,524	9,252		Income from subsidiaries	-	-
-7,300	**-3,641**		**Profit on primary operations**	**248,346**	195,613
201,129	252,370	8	Share of profits before tax, subsidiaries	-	-
339	577		Share of profits before tax, associated companies	2,517	1,419
18,214	11,070	5	Financial items, net	8,485	14,374
212,382	**260,376**		**Ordinary profit before tax and minority interests**	**259,348**	211,406
-50,556	-59,550	6	Corporate tax on ordinary profit	-59,550	-50,556
161,826	**200,826**		**Ordinary profit after tax**	**199,798**	160,850
-20,478	0	7	Extraordinary expenses	0	-20,478
6,963	0	6	Corporate tax on extraordinary expenses	0	6,963
-13,515	**0**		**Extraordinary expenses after tax**	**0**	-13,515
-	-		Minority interests	1,028	976
148,311	**200,826**		**Net profit for the year**	**200,826**	148,311
			Proposed distribution of net profit:		
27,833	35,378		Dividend		
120,478	165,448		Transferred to reserves		

Balance sheet at December 31, 1998

PARENT COMPANY 1997	PARENT COMPANY 1998	Note	Assets (Amounts in DKK '000)	GROUP 1998	GROUP 1997
0	0		Leasehold improvements	20,706	15,376
0	**0**	9	**Intangible fixed assets**	**20,706**	**15,376**
18,332	27,568		Land and buildings	69,780	46,855
0	0		Technical plant and machinery	39,464	40,513
664	914		Fixtures, tools and equipment	47,285	47,826
18,996	**28,482**	8,9	**Tangible fixed assets**	**156,529**	**135,194**
250,247	341,488		Shares in subsidiaries	-	-
393	189		Shares in associated companies	243	2,064
38,127	60,480		Loans to subsidiaries	-	-
32,103	4,268		Securities and participating interest	5,594	32,206
0	0		Deposits and loans	9,186	15,213
0	0	10	Own shares	0	0
320,870	**406,425**	8,9	**Financial fixed assets**	**15,023**	**49,483**
339,866	**434,907**		**Total fixed assets**	**192,258**	**200,053**
0	0		Raw materials and purchased components	124,863	113,368
0	0		Goods in progress	17,898	19,836
0	0		Finished goods	158,413	145,330
0	**0**		**Inventory**	**301,174**	**278,534**
0	0		Trade debtors	275,052	244,284
63,760	178,391		Accounts receivable, subsidiaries	-	-
0	0		Accounts receivable, associated companies	4,778	5,497
76,574	90,882		Dividends receivable	-	-
2,225	0	6	Corporate tax	0	0
5,198	246		Other debtors	14,652	25,291
0	0		Prepayments and accrued expenses	16,401	9,685
147,757	**269,519**		**Debtors**	**310,883**	**284,757**
128,009	**18,960**		**Securities and participating interest**	**18,960**	**128,009**
0	**0**		**Liquid funds**	**196,208**	**111,059**
275,766	**288,479**		**Total current assets**	**827,225**	**802,359**
615,632	**723,386**		**Total assets**	**1,019,483**	**1,002,412**

Balance sheet at December 31, 1998

PARENT COMPANY 1997	PARENT COMPANY 1998	Note	Liabilities (Amounts in DKK '000)	GROUP 1998	GROUP 1997
77,476	77,476		Share capital	77,476	77,476
251,218	0		Share premium	0	251,218
195,638	426,658		Other reserves	426,658	195,638
524,332	**504,134**	11	**Shareholders' equity**	**504,134**	**524,332**
-	**-**		**Minority interests**	**449**	**491**
0	3,664		Provisions for deferred taxes	0	11,445
0	0	12	Other provisions	43,693	48,325
0	**3,664**		**Provisions**	**43,693**	**59,770**
0	0		Mortgages	5,032	709
26,250	139,817		Other long-term creditors	139,817	26,250
26,250	**139,817**	13	**Long-term creditors**	**144,849**	**26,959**
6,250	10,265		Short-term part of long-term creditors	10,265	6,540
29,424	21,040		Current bank accounts	32,286	111,836
0	0		Customer prepayments	0	600
0	0		Trade creditors	70,807	65,646
0	7,321	6	Corporate tax	16,517	6,657
1,543	1,767		Other creditors	135,028	147,678
0	0		Prepayments and accrued income	26,077	24,070
27,833	35,378		Dividend payable for the year	35,378	27,833
65,050	**75,771**		**Short-term creditors**	**326,358**	**390,860**
91,300	**215,588**		**Total creditors**	**471,207**	**417,819**
615,632	**723,386**		**Total liabilities**	**1,019,483**	**1,002,412**

14 Contingent liabilities
15 Employees
16 Audit fees

Cash flow analysis for 1998

(Amounts in DKK '000)	Note	GROUP	
		1998	1997
Net profit for the year		200,826	148,311
Adjustments*	1	88,784	87,714
Shift in working capital*	2	-49,830	-18,548
Cash flow from primary operating activities before financial items		**239,780**	**217,477**
Interest earned etc.		22,981	28,825
Interest expensed etc.		-14,337	-10,308
Cash flow from primary operating activities		**248,424**	**235,994**
Provisions for extraordinary expenses		-	-20,478
Paid corporate tax		-49,690	-73,142
Cash flow from operating activities		**198,734**	**142,374**
Acquisition of companies	3	-20,632	-242,923
Expensed investments below 50,000 DKK*		-13,369	-10,443
Investments in intangible fixed assets*		-9,002	-2,138
Investments in tangible fixed assets*		-57,964	-65,691
Investments in financial fixed assets*		34,460	-1,510
Cash flow from investing activities		**-66,507**	**-322,705**
Changes in long-term creditors		102,543	-5,666
Net proceeds from increase in share capital		-	52,364
Buyback of own shares		-151,287	-
Dividend paid		-27,833	-22,906
Cash flow from financing activities		**-76,577**	**23,792**
Cash flow position for the year, net		**55,650**	**-156,539**
Cash position net at January 1		**127,232**	**283,771**
Cash position net at December 31		**182,882**	**127,232**
Breakdown of cash position net at December 31:			
Liquid funds		196,208	111,059
Securities and participating interest		18,960	128,009
Current bank accounts		-32,286	-111,836
		182,882	**127,232**

* Not including additions from acquired companies.

■ Note 1 - Adjustments (Amounts in DKK '000) GROUP

	1998	1997
Depreciaitons	40,301	36,162
Expensed investments below 50,000 DKK	13,369	10,443
Shift in provisions	-15,951	-8,588
Financial items, net	-8,485	-14,374
Extraordinary expenses	-	20,478
Corporate tax	59,550	43,593
Total adjustments	**88,784**	**87,714**

■ Note 2 - Shift in working capital (Amounts in DKK '000) GROUP

	1998	1997
Changes in debtors	-25,044	-32,693
Changes in inventory	-22,430	-25,389
Changes in trade creditors etc.	-2,356	39,534
Total shift in working capital	**-49,830**	**-18,548**

■ Note 3 - Acquisition of companies (Amounts in DKK '000) GROUP

	1998	1997
Fixed assets	0	13,293
Inventory	210	27,858
Debtors	1,023	39,980
Provisions	-1,701	-4,234
Short- and long-term creditors	0	-28,992
Liquid funds, net	218	6,332
Net assets	**-250**	**54,237**
Goodwill charged to equity	20,882	188,686
Acquisition price	**20,632**	**242,923**

■ Note 4 - Net revenue (Amounts in DKK '000) GROUP

	1998	1997
Scandinavia	189,855	149,978
Rest of Western Europe	484,534	460,072
North America	551,470	426,935
Asia	105,562	118,741
Pacific Rim	184,198	175,698
Other countries	97,480	81,974
Total	**1,613,099**	**1,413,398**

PARENT COMPANY		■ **Note 5 - Financial items, net** (Amounts in DKK '000)	GROUP	
1997	1998		1998	1997
4,901	13,819	Interest income from subsidiaries	-	-
0	-8,911	Interest expenses from subsidiaries	-	-
17,776	12,579	Interest income	20,857	22,550
-8,350	-6,912	Interest expenses	-12,867	-12,063
-78	2,410	Realised exchange adjustments	2,410	-78
3,965	-1,915	Non-realised exchange adjustments	-1,915	3,965
18,214	**11,070**	**Total**	**8,485**	14,374

PARENT COMPANY			■ **Note 6 - Tax** (Amounts in DKK '000)	GROUP		
Expensed Corporate tax	Deferred tax	Corporate tax		Expensed Corporate tax	Deferred tax	Corporate tax
-	0	-2,225	As per January 1, 1998	-	11,445	6,657
-	3,592	-	Change in accounting policies	-	-1,827	-
211	-211	-	Adjustment of deferred tax from 34% to 32%	913	-913	-
-283	283	-	Shift in deferred tax	8,705	-8,705	-
3,243	-	-3,243	Adjustment of tax from previous year	3,243	-	-3,243
-	-	-29,533	Tax paid in 1997	-	-	-29,533
		35,000	Tax prepaid in 1997			35,000
-	-	-37,500	Tax prepaid in 1998	-	-	-37,500
1,699		-1,699	Tax on ordinary profit, parent company	1,699	-	-1,699
-46,521	-	46,521	Tax on ordinary profit, jointly assessed companies	-46,521	-	46,521
-17,899	-	-	Tax in other subsidiaries and associated companies	-27,589	-	314
-59,550	**3,664**	**7,321**	**As per December 31, 1998**	**-59,550**	**0**	**16,517**

The deferred tax for the Group is an asset as per December 31, 1998. On a prudent basis the tax assets is not recorded in the balance sheet.

■ **Note 7 - Extraordinary expenses**

Amount of 20,478 DKK thousand pertains settlement in subsidiary. There are no extraordinary expenses in 1998.

■ **Note 8 - Fixed assets**

PARENT COMPANY

	Land and buildings	Fixtures, tools and equipment	Shares in subsidiaries	Shares in associated companies	Securities and participating interest
(Amounts in DKK 'ooo)					
Acquisition value at 1.1.98	18,332	1,985	434,596	2,819	32,235
Additions in 1998	9,712	792	5,319	0	4,464
Disposals in 1998	0	-1,557	0	0	-31,975
Acquisition value at 31.12.98	**28,044**	**1,220**	**439,915**	**2,819**	**4,724**
Appreciation and write-down at 1.1.98	0	0	-184,349	-2,426	-132
Exchange adjustments of shares in subsidiaries	0	0	-15,304	0	0
Profits before tax in subsidiaries	0	0	281,197	0	0
Losses before tax in subsidiaries	0	0	-28,827	0	0
Tax in subsidiaries	0	0	-64,420	0	0
Shift in internal profit on inventories	0	0	-4,988	0	0
Dividends	0	0	-96,174	0	0
Write-down of goodwill charged to equity	0	0	-20,882	0	0
Other appreciations and write-downs	0	0	35,320	-204	-324
Appreciation and write -down at 31.12.98	**0**	**0**	**-98,427**	**-2,630**	**-456**
Depreciations at 1.1.98	0	-1,321	0	0	0
Depreciations for the year*	-476	-244	0	0	0
Disposals in 1998	0	1,259	0	0	0
Depreciations at 31.12.98	**-476**	**-306**	**0**	**0**	**0**
Book value at 31.12.98	**27,568**	**914**	**341,488**	**189**	**4,268**
Book value at 31.12.97	**18,332**	**664**	**250,247**	**393**	**32,103**

Investments in land and buildings pertain completion of building in Hamburg.

*Depreciation for the year of DKK 720 thousand is included in administrative expenses. Gain on disposals of fixed assets of DKK 328 thousand are also included in the administrative expenses.

The Group comprises the companies shown on page 46.

Loans to subsidiaries during the year amount to DKK 29,608 thousand and installments DKK 7,255 thousand.

■ **Note 9 - Fixed assets**

GROUP	Leasehold improvements	Land and buildings	Technical plant and machinery	Fixtures, tools and equipment	Shares in associated companies	Securities and participating interest
(Amounts in DKK '000)						
Acquisition value at 1.1.98	31,702	61,480	151,483	153,116	2,919	42,669
Exchange rate adjustments	-663	-1,164	-3,832	-2,963	0	0
Additions due to acquisition	11	0	380	12	0	0
Additions in 1998	9,286	26,287	15,008	20,693	0	4,464
Disposals in 1998	-55	0	-3,152	-11,855	0	-32,150
Acquisition value at 31.12.98	**40,281**	**86,603**	**159,887**	**159,003**	**2,919**	**14,983**
Appreciations at 1.1.98	0	2,732	0	0	1,571	0
Reversal of previous appreciations	0	0	0	0	-1,571	0
Appreciations at 31.12.98	**0**	**2,732**	**0**	**0**	**0**	**0**
Write-downs and depreciations at 1.1.98	-16,326	-17,357	-110,970	-105,290	-2,426	-10,463
Exchange rate adjustments	368	624	2,607	2,109	0	0
Depreciations for the year*	-3,672	-2,822	-13,473	-20,334	0	0
Write-downs for the year	0	0	0	0	-250	-335
Reversal of previous write-downs	0	0	0	0	0	1,409
Disposals in 1998	55	0	1,413	11,797	0	0
Write-downs and depreciations at 31.12.98	**-19,575**	**-19,555**	**-120,423**	**-111,718**	**-2,676**	**-9,389**
Book value at 31.12.98	**20,706**	**69,780**	**39,464**	**47,285**	**243**	**5,594**
Book value at 31.12.97	**15,376**	**46,855**	**40,513**	**47,826**	**2,064**	**32,206**

The cash-based value of land and buildings in Denmark according to the official public valuation as per January 1, 1998 amounts to DKK 43,847 thousand against a book value of DKK 32,789 thousand. Investments during the year in land and buildings pertain to completion of buildings in Hamburg and Copenhagen.

***Depreciation for the year by function**	**1998**	**1997**
Production costs	12,050	9,981
Research and development costs	12,459	10,755
Distribution costs	8,980	9,618
Administrative expenses	6,812	5,808
	40,301	36,162
Loss/gain on disposals of fixed assets	-686	1,614
Total	**39,615**	**37,776**

Other debtors concern deposits and loans at acquisition value.

■ **Note 10 - Own shares** (Amounts in DKK ‘000)

PARENT COMPANY & GROUP

	Number of shares	Nominal DKK million	% of share capital	Acquisition value, DKK ‘000
Own shares at 1.1.1998	**0**	**0**	**0,0%**	**0**
Additions in 1998	440,850	2,204	2,8%	151,287
Own shares at 31.12.1998	**440,850**	**2,204**	**2,8%**	**151,287**

Acquired own shares are written off at acquisition value charged directly to the equity. By the end of 1998 outstanding shares amount to 15.05 million shares. When calculating shares related key figures own shares are reduced in the period of ownership. The number of shares used for calculation of key figures for 1998 is 15.42 million shares.

■ **Note 11 - Shareholders’ equity** (Amounts in DKK ‘000)

PARENT COMPANY

	Share capital	Share premium	Free reserves	Total
Shareholders' equity at 1.1.1998	**77,476**	**251,218**	**195,638**	**524,332**
Change in accounting policies, deferred tax			1,827	1,827
Transfer of premium to free reserves		-251,218	251,218	0
Exchange rate adjustments of subsidiaries			-15,304	-15,304
Write-down of goodwill			-20,882	-20,882
Write-down of own shares			-151,287	-151,287
Retained earnings			165,448	165,448
Shareholders' equity at 31.12.1998	**77,476**	**0**	**426,658**	**504,134**

The share capital of nominal DKK 77,475,780 is distributed to 15,495,156 shares of DKK 5 each or multiple hereof.

Shareholders' equity

GROUP

	1998	1997
Shareholders' equity at 1.1.1998	**524,332**	539,793
Change in accounting policies, deferred tax	1,827	0
Premium	-	52,364
Exchange rate adjustments of subsidiaries	-15,304	383
Write-down of goodwill	-20,882	-188,686
Write-down of own shares	-151,287	0
Retained earnings	165,448	120,478
Shareholders' equity at 31.12.1998	**504,134**	524,332

Notes

PARENT COMPANY 1997	PARENT COMPANY 1998	■ **Note 12 - Other provisions** (Amounts in DKK '000)	GROUP 1998	GROUP 1997
0	0	Retirement and pension commitments	4,909	8,470
0	0	Guarantee provisions	38,784	39,206
0	0	Other provisions	0	649
0	**0**	**Total**	**43,693**	**48,325**

PARENT COMPANY 1997	PARENT COMPANY 1998	■ **Note 13 - Long-term creditors** (Amounts in DKK '000)	GROUP 1998	GROUP 1997
1,250	98,758	Long-term creditors, payable after 5 years	103,790	1,269

PARENT COMPANY 1997	PARENT COMPANY 1998	■ **Note 14 - Contingent liabilities** (Amounts in DKK '000)	GROUP 1998	GROUP 1997
		Guarantee commitments for subsidiaries		
18,106	18,259	creditlines	-	-
5,625	11,180	Utilised	-	-
-	-	Leasehold liabilities	72,686	68,377
-	-	Leasing commitments	4,694	4,109

The jointly assessed Danish companies are jointly and severally liable for tax of the consolidated taxable income.
The Group's exchange risk per December 31, 1998 is covered by forwardcontracts at the equivalent of DKK 397 million.

PARENT COMPANY		■ **Note 15 - Employees** (Amounts in DKK '000)	GROUP	
1997	**1998**		**1998**	1997
7	6	Number of full-time employees	1,925	1,760
		Breakdown of employee costs:		
8,486	6,652	Salaries and wages	467,858	416,879
59	25	Pensions	7,488	8,890
36	36	Social security costs	26,858	24,038
8,581	**6,713**	**Total**	**502,204**	**449,807**
		Out of which remuneration of managers and directors:		
5,000	3,694	Management	3,694	5,000
850	850	Board of Directors	988	988

PARENT COMPANY		■ **Note 16 - Audit fees** (Amounts in DKK '000)
1997	**1998**	
		Deloitte & Touche, Statsautoriseret Revisionsaktieselskab
230	230	Audit fees
109	62	Other fees
		KPMG C.Jespersen
230	230	Audit fees
40	91	Other fees

Company structure

Companies of the William Demant Group	function	Domicile	Established/ Acquired	Participation
William Demant Holding A/S	⬛	Denmark		Parent Company
Subsidiaries				
Oticon A/S	🟩🟨🟥	Denmark	1904	100%
Oticon AB	🟥	Sweden	1944	100%
Oticon Nederland B.V.	🟥	Holland	1964	100%
Oticon A/S	🟥	Norway	1968	100%
Oticon S.A.	🟥	Switzerland	1968	100%
Oticon Inc.	🟥	USA	1965	100%
Oticon GmbH	🟥	Germany	1969	100%
Oticon Italia S.r.l.	🟥	Italy	1973	100%
Oticon K.K.	🟥	Japan	1973	100%
Oticon Limited	🟨🟥	Great Britain	1973	100%
Oticon España S.A.	🟥	Spain	1985	100%
Oticon New Zealand Ltd.	🟥	New Zealand	1974	100%
Oticon Australia Pty. Ltd.	🟥	Australia	1985	100%
Oticon do Brasil Ltda.	⬛	Brazil	1994	100%
Oticon Polska Sp.z.o.o.	🟥	Poland	1994	79%
Oticon Belgium N.V.	🟥	Belgium	1997	100%
Oticon Nanjing Audiological Technology Co., Ltd.	🟥	China	1998	100%
Oticon South Africa (Pty.) Ltd.	🟥	South Africa	1998	60%
Prodition S.A.	🟥	France	1974	100%
Bernafon AG	🟩🟥	Switzerland	1995	100%
Bernafon Australia Pty. Ltd.	🟥	Australia	1995	100%
Bernafon Hörgeräte GmbH	🟥	Germany	1995	100%
Maico S.r.l.	🟥	Italy	1995	100%
Bernafon U.K. Ltd.	🟥	Great Britain	1995	100%
Bernafon-Maico Inc.	🟩🟥	USA	1995	100%
Bernafon Denmark A/S	🟥	Denmark	1996	100%
Bernafon AB	🟥	Sweden	1996	100%
Bernafon K.K.	🟥	Japan	1996	100%
Bernafon S.r.l.	🟥	Italy	1998	100%
Australian Hearing Aids Pty. Ltd.	🟥	Australia	1995	100%
Phonic Ear Holdings, Inc.	⬛	USA	1997	100%
Phonic Ear, Inc.	🟩🟨🟥	USA	1997	100%
Phonic Ear Ltd.	🟥	Canada	1997	100%
Logia A/S	🟥	Denmark	1972	100%
Maico Audiometer GmbH	🟩🟥	Germany	1995	100%
RhinoMetrics A/S	🟩🟨🟥	Denmark	1996	100%
WDH Nr. 1 A/S	⬛	Denmark	1998	100%
DancoTech A/S	🟨🟥	Denmark	1996	100%
Associated Companies				
Otwidan ApS	🟥	Denmark	1963	33%
Hearing Instrument Manufacturers Software Association A/S	🟩🟥	Denmark	1993	25%
National Hearing Aid Systems Pty. Ltd.	🟩	Australia	1995	50%

🟥 Sales and Service 🟨 Production ⬛ Finance 🟩 Research and Development

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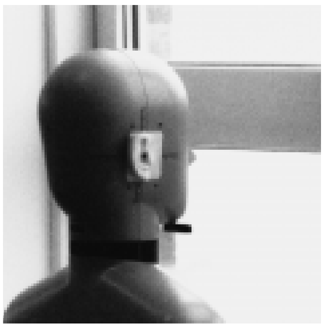


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