ANNUAL REPORT 2002

William Demant Holding A/S

“. . . develops, manufactures and sells

INNOVATIVE AND HIGH-TECHNOLOGY SOLUTIONS”

Mission

The William Demant Group of international companies develops, manufactures and sells innovative and high-technology solutions incorporating micro-electronics, micro-mechanics, wireless technology, software and audiology. The Group operates in a global market. Its core business is hearing aids.

All Group companies work closely together in the early links of the value chain such as purchasing and production. In the R&D, marketing and sales links of the value chain, with their particular focus on markets and customers, each unit has its own organisation and unique identity.

The Group aims to become the customers' preferred supplier of state-of-the-art solutions and thus create a platform for continued organic growth. It strives to meet user needs by maintaining a high innovative level and constantly expanding its global infrastructure.

The Group plays a role in overall structural changes by acquiring companies in existing core and related businesses. Through such acquisitions the Group will capitalise on its technological and audiological expertise, managerial competencies and financial resources to create further growth.

The Group will thus endeavour to increase its value through continued growth in revenues and results.

The Group companies seek to promote a stimulating and rewarding working environment through a flexible, knowledge-based organisational structure. Moreover the Group is committed to high standards of ethics, quality and fairness and is dedicated to meeting its environmental and social responsibilities.

Business units

The William Demant Group develops, manufactures and sells products and equipment designed to aid the hearing and communication of individuals. The Group includes three business units: Hearing Aids, Diagnostic Instruments and Personal Communication. Group companies collaborate in many areas and to a wide extent also share resources and technologies.

Hearing Aids

The Group's core business is hearing aids. This business unit comprises Oticon and Bernafon.

Oticon's vision is "to give people an opportunity to live the life they want with the hearing they have". Oticon aims to supply the most sophisticated technology and audiology based on the needs and wishes of the hearing impaired and to offer a full range of the best hearing aids and fitting systems on the market. Oticon wishes to be the most attractive provider of hearing aids and views the hearing-care professional as a collaboration partner.

Oticon sells its products through subsidiary undertakings in 20 countries and about 80 independent distributors world-wide.

Bernafon aims to enable hearing-impaired people to hear and communicate better through innovative hearing-aid solutions. Bernafon offers a large range of quality hearing aids in all product categories. Bernafon's hearing aids are flexible and easy to fit for hearing-care professionals, and its products represent one of the most attractive combinations on the market in terms of performance, size and price.

In recent years Bernafon has expanded its distribution power through the establishment or acquisition of subsidiary undertakings on the most important markets. Today it sells its products through 14 subsidiary undertakings and more than 40 independent distributors.

A condition for both Oticon's and Bernafon's solutions is that they master a wide spectrum of technologies, including the design of integrated circuits for advanced processing of sound signals, the development of fitting software, the design of micro-amplifiers and the development of micro-mechanical components. The products are created in collaboration with experts with in-depth knowledge of their particular field and through interaction between the company, the user and the hearing-care professional.

Diagnostic Instruments

This business unit includes Maico and Interacoustics which develop, manufacture and distribute audiometers for hearing measurement and other instruments used by audiologists and ear-nose-and-throat specialists.

Maico sells and services its own audiometers and tympanometers. The products designed for hearing measurement cover the entire spectrum from simple, mobile units to fully digital systems designed for PCs. Maico has subsidiary undertakings in Germany and the USA.

Interacoustics develops, manufactures, sells and services audiometers with focus on advanced diagnostic and clinical products. From its head office in Denmark the company sells its products primarily through external distributors.

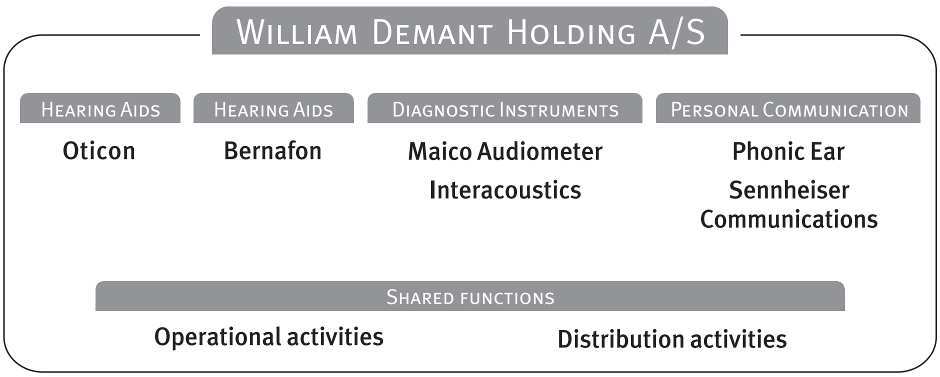
Personal Communication
This unit includes Phonic Ear which provides wireless communication systems and assistive listening devices for the hearing impaired and Sennheiser Communications which offers headsets for professional users.

Phonic Ear develops, manufactures and distributes wireless communication equipment for the hearing impaired in difficult listening situations. Its products are typically used in classrooms, churches, sports centres and theatres. Under the *PhonicEar Logia* brand Phonic Ear also offers assistive listening devices, such as teleloop systems, for private homes as well as audio systems for large establishments.

Sennheiser Communications, a joint venture between Sennheiser electronic GmbH & Co. KG and William Demant Holding A/S, develops, manufactures and markets handfree communication solutions and sells these products through a global network of distributors, OEM manufacturers, retailers and telecommunications companies. Sennheiser Communications aims to become the customers' preferred supplier of quality solutions on the headset market.

Shared functions
Operational activities
The Group's shared functions co-ordinate and handle a substantial part of its operational and distribution activities, such as purchasing, logistics, production facilities, IT infrastructure, quality management systems, service and technical support as well as finance and administration.

Distribution activities
Group products are sold through a number of distribution undertakings in selected countries direct to end-users and to other suppliers both under own brands and as private labels.



Key figures and ratios – DKK

Profit and loss account, DKK million	1998	1999	2000	2001	2002
Net revenue	1,613.1	1,884.3	2,959.7	3,506.2	3,923.7
Gross profit	892.9	1,045.9	1,840.3	2,230.0	2,505.3
Operating profit	248.3	337.0	585.0	683.3	809.2
Financial items, net	8.5	3.3	-22.1	-43.3	-30.8
Profit before tax and minority interests	259.3	339.7	560.8	639.7	779.4
Profit after tax	199.8	258.1	427.5	482.0	578.6
Net profit for the year	200.8	257.4	425.8	481.4	578.6
Balance sheet, DKK million					
Interest-bearing items, net	33.4	-92.5	-595.2	-897.3	-741.7
Total assets at year-end	1,019.6	1,103.7	1,554.2	2,006.5	1,991.6
Shareholders' equity at year-end	504.0	470.0	200.3	162.8	427.8
Other key figures, DKK million					
Research and development costs	146.4	158.8	197.7	253.0	272.2
Depreciation and write-downs	53.7	57.2	85.8	98.1	108.0
Investment in tangible fixed assets	71.3	90.0	112.6	177.6	128.8
Net cash flow from operating activities (CFFO)	198.7	221.9	315.9	317.4	669.4
Cash earnings (CE)	253.5	315.3	513.3	580.1	686.6
Employees (average)	1,925	2,132	3,323	3,997	4,208
Ratios					
Gross profit ratio	55.4%	55.5%	62.2%	63.6%	63.9%
Profit margin	15.4%	17.9%	19.8%	19.5%	20.6%
Return on equity	35.7%	55.5%	156.4%	179.2%	168.0%
Equity ratio	49.4%	42.6%	12.9%	8.1%	21.5%
Earnings per share (EPS), DKK*	2.6	3.5	5.8	6.5	7.9
Cash flow per share (CFPS), DKK*	2.6	3.0	4.3	4.3	9.1
Cash earnings per share (CEPS), DKK*	3.3	4.2	7.0	7.8	9.4
Dividend per share, DKK*	0.47	0.60	-	-	-
Book value per share, DKK*	6.7	6.4	2.7	2.2	5.9
Price earnings (P/E)	30	40	62	33	19
Share price at 31 December, DKK*	79	140	360	216	152
Market capitalisation, DKK million	5,931	10,324	26,727	15,981	10,935
Fully diluted number of shares, million	77.08	74.22	73.72	74.16	73.31

Ratios are calculated in accordance with "Anbefalinger & Nøgletal 1997" (Guidelines and Ratios 1997) from the Danish Society of Financial Analysts. Cash earnings are calculated as profit after tax with the addition of depreciation and write-downs. Some key figures and ratios have been adjusted in accordance with the changes in accounting policies mentioned on pages 15 and 19.

**Per share of DKK 1.*

Key figures and ratios – EUR**

PROFIT AND LOSS ACCOUNT, EUR MILLION	1998	1999	2000	2001	2002
Net revenue	217.3	253.8	398.0	472.3	528.5
Gross profit	120.3	140.9	247.9	300.4	337.4
Operating profit	33.5	45.4	78.8	92.0	109.0
Financial items, net	1.1	0.4	-3.0	-5.8	-4.1
Profit before tax and minority interests	34.9	45.8	75.5	86.2	105.0
Profit after tax	26.9	34.8	57.6	64.9	77.9
Net profit for the year	27.0	34.7	57.3	64.8	77.9
BALANCE SHEET, EUR MILLION					
Interest-bearing items, net	4.5	-12.5	-80.2	-120.9	-99.9
Total assets at year-end	137.3	148.7	209.3	270.3	268.2
Shareholders' equity at year-end	67.9	63.3	27.0	21.9	57.6
OTHER KEY FIGURES, EUR MILLION					
Research and development costs	19.7	21.4	26.6	34.1	36.7
Depreciation and write-downs	7.2	7.7	11.6	13.2	14.5
Investment in tangible fixed assets	9.6	12.1	15.2	23.9	17.3
Net cash flow from operating activities (CFFO)	26.8	29,9	42,5	42.8	90.2
Cash earnings (CE)	34.1	42.5	69.1	78.1	92.5
Employees (average)	1,925	2,132	3,323	3,997	4,208
RATIOS					
Gross profit ratio	55.4%	55.5%	62.2%	63.6%	63.9%
Profit margin	15.4%	17.9%	19.8%	19.5%	20.6%
Return on equity	35.7%	55.5%	156.4%	179.2%	168.0%
Equity ratio	49.4%	42.6%	12.9%	8.1%	21,5%
Earnings per share (EPS), EUR*	0.35	0.47	0.78	0.87	1.06
Cash flow per share (CFPS), EUR*	0.35	0.40	0.58	0.58	1.23
Cash earnings per share (CEPS), EUR*	0.44	0.57	0.94	1.05	1.26
Dividend per share, EUR*	0.06	0.08	-	-	-
Book value per share, EUR*	0.90	0.86	0.36	0.30	0.80
Price earnings (P/E)	30	40	62	33	19
Share price at 31 December, EUR*	10.61	18.87	48.52	29.05	20.47
Market capitalisation, EUR million*	799	1,391	3,600	2,153	1,473
Fully diluted number of shares, million	77.08	74.22	73.72	74.16	73.31

Ratios are calculated in accordance with "Anbefalinger & Nøgletal 1997" (Guidelines and Ratios 1997) from the Danish Society of Financial Analysts. Cash earnings are calculated as profit after tax with the addition of depreciation and write-downs. Some key figures and ratios have been adjusted in accordance with the changes in accounting policies mentioned on pages 15 and 19.

**Per share of DKK 1.*

***Danmarks Nationalbank's rate of exchange at 31 December 2002 of 742.43 has been used on the translation of key figures and ratios from DKK into EUR.*

Directors and Management

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Board of Directors
Niels Boserup, Chairman
President & CEO of Københavns Lufthavne A/S.
Member of the Board of Directors of TK Development A/S.

Jørgen Mølvang, Deputy Chairman
Chairman of the Board of Directors of Reson System A/S and Hedorf Holding A/S.

Franck Fogh Andersen
Elected by the employees.

Lars Nørby Johansen
President & CEO of Group 4 Falck A/S. Deputy Chairman of the Board of Directors of IC Companys A/S and DONG A/S.

Jørgen Kornum
Elected by the employees.

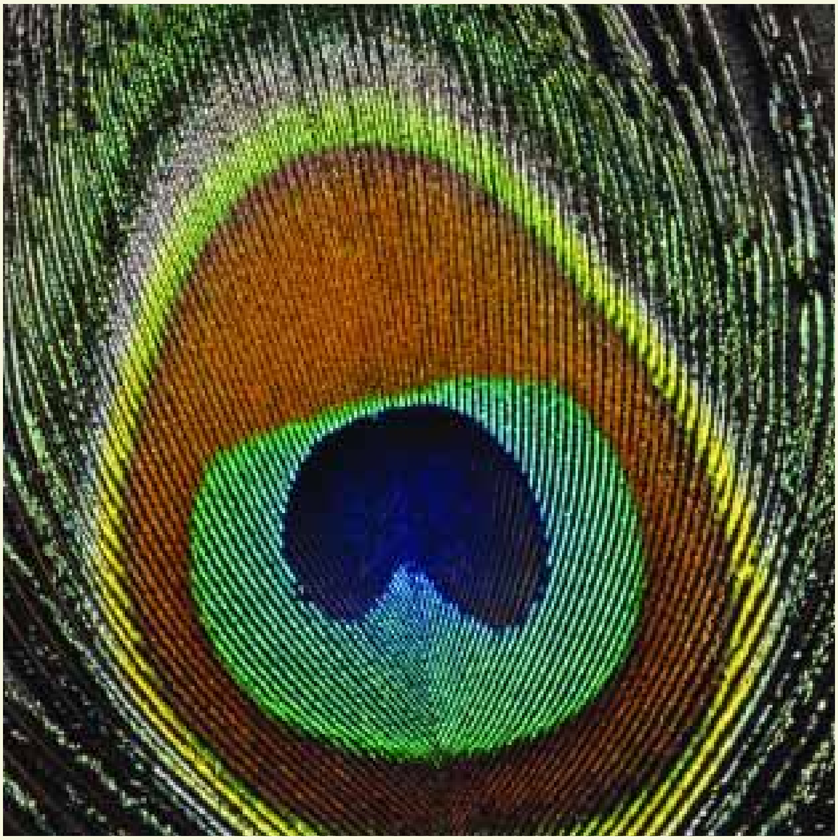
Michael Pram Rasmussen
President & CEO of Topdanmark A/S. Deputy Chairman of the Board of Directors of Bornholms Brandforsikring A/S, Sund og Bælt Holding A/S and Dampskibsselskabet af 1912 A/S.

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 Novo Nordisk A/S, Micro Matic Holding A/S, Højgaard Holding A/S, Sennheiser Communications 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 25 March 2003 at 4:00 p.m. at the Experimentarium, Tuborg Havnevej 7, 2900 Hellerup, Denmark.



“. . . each unit has its own organisation and

U N I Q U E   I D E N T I T Y”

“. . . platform for continued

ORGANIC GROWTH”

Growth in a difficult market

With a 16% increase in revenue measured in local currency and a 22% earnings growth per share, the William Demant Group continued its stable growth in 2002 in a difficult market for hearing aids.

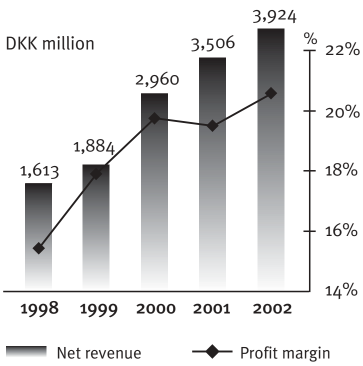
During 2002 Group undertakings continued their rapid pace of product introductions. They are consequently well positioned for generating further growth and contributing to growth in earnings per share of over 10% in 2003.

The year's highlights may be summarised as follows:

- In 2002 consolidated revenue rose by 16% in local currency terms, organic growth accounting for 13%.
- Falling exchange rates had a negative 4% impact on revenue. In Danish kroner the Group's revenue thus totalled DKK 3.92 billion.
- The gross profit ratio retained a high level of 63.9%.
- Operating profit rose by 18% to DKK 809 million.
- The profit margin was up from 19.5% in 2001 to 20.6% in 2002.
- Earnings per share (EPS) improved by 22% to DKK 7.9.
- Net cash flow from operating activities accounted for DKK 669 million, and the free cash flow (excluding acquisitions) amounted to DKK 549 million.

The year's many product introductions resulted in stronger-than-expected growth in the Group's core business (wholesale of hearing aids). Organic growth in this area was thus 17%. On the other hand revenue and profit were adversely affected by weaker-than-expected market growth which overall resulted in zero growth in the Group's retail activities.

Net revenue and profit margin



Consolidated revenue was also affected by falling rates of exchange of some of the Group's major trading currencies. The revenue was thus negatively affected by an amount of DKK 127 million, or 4% of revenue. The strong Danish krone did not have a material impact on operating profit, the Group's major trading currencies being hedged through forward exchange contracts.

In the light of the trends in exchange rates and on the market for hearing aids, the Group's revenue and profit generally matched the expectations announced earlier, most recently in connection with the quarterly review on 5 November 2002.

Business conditions

Hearing Aids

Oticon and Bernafon both reinforced their positions in the market in 2002, and the Group once again captured market shares and consolidated its position as the second-largest manufacturer of hearing aids globally.

In 2002 the hearing-aid market developed with a flat to negative trend in terms of the number of hearing aids sold and a flat to positive tendency in market value terms. Particularly the US market was under pressure, whereas the most important markets in Europe including Holland and France developed more favourably. In our opinion the cautious market development may be linked with potential hearing-aid users' uncertainties about their purchasing power. In the US this uncertainty is probably due to potential hearing-aid users' general uncertainty of the economic development, falling share prices and a fall in direct interest yields on pension funds. However despite current market trends, the Group is convinced that the core ingredients for growth in the market for hearing aids are still present.

On an average a first-time hearing-aid user is 69 years old, and the demographic development shows that the number of elderly in the OECD countries – which are in fact the Group's most important markets – will on average grow by close on 2% annually until 2025. Moreover the number of hearing-aid users outside the OECD countries is growing and so is the number of users requiring binaural fitting. The Group therefore forecasts an annual rate of growth of 2-3% in the number of hearing aids sold on a medium to long-term basis. In addition price increases are expected at an annual rate of 1-2%, which will improve growth in the hearing-aid market to 3-5% annually. The forecast for 2003 is however slightly weaker market growth.

Market conditions and growing consolidation of manufacturers have triggered tougher competition at manufacturing level. Major manufacturers used to be able to capture market shares from minor manufacturers through rapid product development and expansion of distribution networks, but in future these manufacturers are much more likely to compete directly with each other. The Group's competitors have responded in different ways to these pressures. A few have tried to expand volume through aggressive volume discounts and similar initiatives. However in the Group's opinion random lowering of wholesale prices will not lead to revenue growth. Participating in a vicious pricing circle is therefore not part of Group strategy.

In 2002 Oticon and Bernafon both continued the corporate strategy of continuously introducing new products in different product segments. In August Oticon launched the Atlas product family, which is the company's first digital hearing aid for the standard segment, which was in fact the fastest growing market segment in 2002. The introduction of Atlas was very satisfactory and indeed the most successful in the history of the Group in terms of units sold in the first few months following introduction.

Oticon's new Super Power product Sumo was released for sale in early December. Sumo is designed for people with a profound hearing loss, and at the moment it is the behind-the-ear aid with the most powerful amplification on the market. It is the first of a series of new products that the Group expects to launch for this segment over the next few years. For profoundly hearing-impaired people even tiny differences in the sound-pressure level provided by a hearing aid may be of decisive importance to their ability to communicate.

In the first half-year Bernafon launched Symbio, a new digital high-end aid, which was well received on the market and has proved to be fully competitive with the market's best high-end products.

Together with Oticon's high-end product Adapto launched late in 2001, Atlas and Symbio were the growth generators in 2002, which saw a 10% increase in the unit sale of hearing aids manufactured by the Group.

The market development has put the Group's retail sales under pressure. In periods when demand is slack, it is difficult for retail chains to boost or even maintain sales in the individual clinics and thereby to generate organic growth. Overall the Group's retail activities, which account for one fifth of total consolidated revenue, were stagnant in 2002. In terms of profit the Group managed to compensate for failing growth in retailing by boosting the sale of products manufactured by Group undertakings through the corporate distribution network.

The weak market trend did not to the same extent affect the US wholesale distributor, the American Hearing Aid Association (AHAA), in which the Group holds a 49% interest. AHAA sees a healthy inflow of independent hearing-care professionals wishing to join the Association, and the development has been satisfactory.

Diagnostic Instruments
The market for traditional audiometers and impedance equipment fell slightly in 2002. In return the market for objective hearing measurement gained ground, in particular screening of infants' hearing.

Diagnostic Instruments saw a substantial boost in revenue. Growth derived partly from a product-mix shift towards more expensive products, e.g. through the addition of new products, and partly through the expansion by Interacoustics in Assens (Denmark) of production of components for businesses outside the Group. Sales received an additional boost through one single large order.

During the year Interacoustics reorganised the production flow at its Assens-based factory in order for the Group's diagnostic equipment to be manufactured in one place and to meet the increasing demand for Group products. The reorganisation of production temporarily reduced efficiency and thus negatively affected earnings. In 2003 improving efficiency will be a focus area.

At the end of 2002 the Group decided to transfer Rhinometrics's commercial products to Interacoustics and discontinue Rhinometrics as an independent undertaking. It has been difficult to achieve a satisfactory volume in the sale of Rhinometrics's products for it to bear the cost of a distribution network and to exist as an independent undertaking. The most promising aspects of Rhinometrics's development of new products – based on technology used for urology, gastrointestinal, sleep and oesophageal examinations – were integrated with other Group R&D activities.

Personal Communication
The market for Phonic Ear's products – wireless communication systems and technical aids for the hearing impaired – was sluggish in 2002. Phonic Ear's main market, the USA, was particularly affected by a decline in demand, mainly due to cuts in public spending.

With the dull market and a delay in the introduction of a new wireless product portfolio, Phonic Ear did not match expectations.

However the introduction of a completely new product family – consisting of a wireless, hand-held, directional microphone and a mini-radio receiver for mounting on the hearing aid – is expected to generate growth in 2003. The products will be introduced in the second quarter of 2003. The new product family will reinforce Phonic Ear's competitiveness on the growing market for on-the-ear FM receivers. Likewise the merger of Phonic Ear's and Logia's activities in Europe in the first half of 2002 has provided a good platform for further growth.

In the autumn of 2002 the Group announced a new joint venture agreement with German Sennheiser electronic GmbH & Co. KG for the merger of the Group's headset business Danacom and Sennheiser's headset activities through a joint venture that was formally established on 1 January 2003. The joint venture is owned equally by the two partners and is named Sennheiser Communications A/S. The Group is convinced that it has now established the right foundation for bolstering growth of its headset activities. Sennheiser contributes know-how, a strong brand and a well-established distribution network to the new business. The joint venture will provide a unique opportunity for further exploitation of the William Demant Group's know-how of acoustics, microelectronics, wireless technology etc.

At the CeBIT fair in Hanover in March 2003, Sennheiser Communications will launch an extensive new product portfolio.

Financial statements 2002

Revenue and the foreign exchange impact

In 2002 consolidated revenue grew by 16% in local currency terms, with organic growth accounting for 13%.

Just under 97% of consolidated revenue was generated outside Denmark, and the Group's reported revenue is therefore affected by fluctuations in the currencies in which the Group invoices its products. 2002 saw substantial exchange fluctuations, particularly in the main currencies USD, JPY and GBP, which were weakened vis-à-vis the DKK. Falling PLN and BRL exchange rates also affected consolidated revenue. The strengthening of the Danish krone has continued during the first few weeks of 2003.

The negative impact of exchange rate fluctuations on revenue was 4%. Consolidated revenue totalled DKK 3.92 billion, or an increase of 12% in Danish kroner.

Revenues measured in local currency are higher than the consolidated revenue in Danish kroner due to the fluctuations in exchange rates, in particular from summer 2002 and throughout the rest of the year (the *translation*-related exchange-rate effect). From early 2002 to January 2003 the Group's major trading currencies weakened by up to 20%.

Currency exchange rates	**USD**	**JPY**	**GBP**
31 December 2001	841	6.41	1219
Realised rates 2002	789	6.30	1182
31 December 2002	708	5.97	1140
Realised rates January 2003	700	5.89	1131

On comparison of consolidated revenue in 2002 with the revenue that the exchange rates in January 2003 would produce, the exchange-rate impact is even more conspicuous:

Net revenue (DKK million)	**2001**	**2002**
Realised rates	3,506	3,924
Realised rates January 2003	3,198	3,666
Difference	-8.8%	-6.6%

To counter the short-term effects of exchange fluctuations, net exchange positions resulting from Group undertakings' internal and external transactions are hedged (the *transaction*-related exchange-rate effect), primarily through forward exchange contracts with a 6-24 month horizon. Some investments are balanced against financing in the currency of the particular country and Group undertaking. Where a foreign subsidiary undertaking finances an acquisition, and where goodwill has been written off via shareholders' equity at the time of acquisition, the goodwill-related part of such financing will be treated as hedging of ex-change in connection with any future returns on the investment in such subsidiary undertaking. At 31 December 2002 shareholders' equity included DKK 95 million in respect of such hedging transactions.

At year-end the Group's hedging of transactions in major currencies amounted to:

Currency	**Hedging period**	**Hedging rate**
USD	12 months	821
JPY	15 months	7.24
EUR	11 months	746

Overall the Group had concluded forward exchange contracts worth DKK 753 million at 31 December 2002 at a market value of DKK 52 million.

In Europe revenue amounted to 44% of consolidated revenue. In local currency, revenue in this region rose by 8% in 2002. North America saw 21% growth in local currency terms, accounting for 39% of consolidated revenue. The increase in the US is the result of a combination of organic growth and the acquisition of AHAA in the autumn of 2001. In Asia and the Pacific Rim (comprising New Zealand and Australia) and the rest of the world, revenues totalled 17% of corporate sales, corresponding to an increase of 29% measured in local currencies.

The Group's hearing-aid business (including retail activities) continues to account for the majority of corporate activities with 18% growth in revenue in local currency terms. Part of this growth is attributable to the acquisition of AHAA in the second half of 2001. Diagnostic Instruments grew by 24% in terms of local currency whereas Personal Communication saw a 9% decline compared with 2001.

Revenue by business area

(DKK million)	2001*	2001**	2002**
Hearing Aids	3,017	2,907	3,429
Diagnostic Instruments	199	193	240
Personal Communication	290	279	255
Total	**3,506**	**3,379**	**3,924**

* Computed at 2001 exchange rates ** Computed at 2002 exchange rates

The Group's gross profit rose from DKK 2.2 billion in 2001 to DKK 2.5 billion in 2002, or an increase of 12%. In fixed exchange rates the increase was 16%, which matched the increase in revenue. In recent years the Group has earmarked substantial resources for the development of new manufacturing technologies and methods for the purpose of reducing unit costs particularly of hearing aids. This has resulted in new products involving substantially lower direct production costs (Swift and Ergo in autumn 1999 and Atlas in summer 2002) and a higher degree of automation. The Group was thus able to retain the gross profit ratio at a high level despite the acquisition of AHAA in 2001, which – being a distribution operation – has a considerably lower gross profit ratio than other corporate undertakings. The gross profit ratio is forecast at a level of 64% in 2003.

Research & development costs
Corporate R&D expenditure has risen over the years. Continued investment in research and development is seen as vital to our future success and ability to maintain the position as a world leader.

In 2002 an amount of DKK 272 million was allocated for R&D, i.e. an increase of 8%.

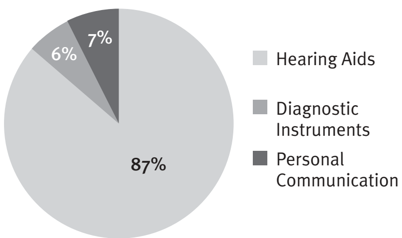
R&D activities are undertaken through collaboration between Group undertakings. In order to optimise and exploit know-how and knowledge across the organisation, Group undertakings transfer and share technology as well as know-how, particularly background technology, whereas the determination of product concepts and the development of actual products take place in the individual undertaking. The Group's management of knowledge resources is described further on page 16 under the heading *Knowledge resources*.

The Group has R&D centres in Denmark, Switzerland, Germany and the USA. In addition Oticon has Eriksholm Research Centre located north of Copenhagen, which employs 14 researchers involved in basic research in audiology, psychoacoustics and new methods for fitting of hearing aids and the remedying of hearing losses. In addition to own activities in R&D, the Group works with many leading researchers, scientists and research institutes throughout the world.

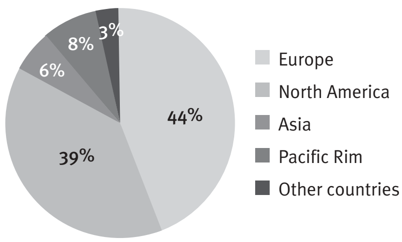
In 2003 R&D costs are estimated to grow by approx. 10%.

Distribution costs
Distribution costs accounted for DKK 1,160 million, or just under 30% of consolidated revenue in 2002 and thus constituted a relatively large share of total costs. Distribution costs have increased from 22-23% to now 29-30% in line with the acquisition of distribution activities: First Hidden Hearing (2000), later Avada (2000) and finally AHAA (2001). These undertakings sell and dis-

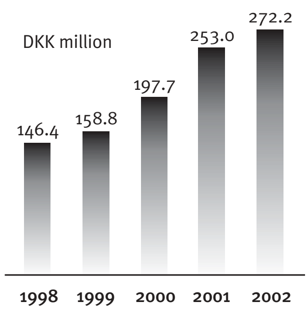
Net revenue by business unit



Net revenue by region



R&D costs



tribute hearing aids, but have no actual production or product development. In periods of slack market growth, undertakings with direct sales to end-users will see increased pressure on their earnings capabilities as a sizeable slice of distribution costs is paid prior to sale. This also applies to Group retail activities.

The share of distribution costs of consolidated revenue in 2003 will continue at about 30%.

Administrative expenses

In 2002 administrative expenses totalled DKK 263 million, which is a 3% increase. In terms of fixed exchange rates the increase was 4%. The Group considers this modest increase very satisfactory, especially in the light of sales growth to the tune of 16%.

The Group's intranet is now fully developed and throughout the Group all subsidiary undertakings now use the same financial system and only recognised software products on standard PCs. This streamlining enables the Group's central IT function to service and maintain all parts of the corporate computer network, and will thus contribute to improving efficiency. Only a moderate increase is forecast for administrative expenses in 2003.

The year's profit

In relative terms the increase in total overheads in 2002 was less than the increase in gross profit, thereby improving the Group's profit margin to 20.6%.

Operating profit (EBIT) constituted DKK 809 million, or an increase of 18%, which has to a high degree been translated into a positive cash flow. Cash flow from operating activities thus amounted to DKK 892 million, and the net cash flow from operating activities constituted DKK 669 million.

Depreciation on intangible assets amounted to a mere DKK 0.3 million in 2002.

In 2002 financial expenditure fell from DKK 43 million to DKK 31 million due to a falling interest level and positive exchange adjustments. The Group's free cash flow is mainly used for the buyback of shares rather than a reduction of the loans raised for investments in the expansion of the US distribution network. The Group foresees a slight increase in financial expenses in 2003.

Pre-tax profit rose to DKK 779 million, which is an increase of 22%. Tax on the profit amounted to DKK 201 million, i.e. an effective tax rate of 25.8%. For 2003 the Group expects a slight increase in the corporation tax rate.

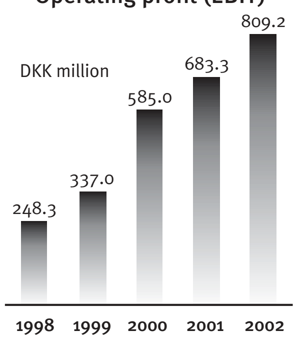
The year's profit was DKK 579 million. Earnings per share (EPS) rose by 22% to DKK 7.9, which matched previous forecasts.

At the general meeting the Directors will propose that the entire profit for the year be transferred to reserves as the Directors wish that consolidated earnings be used to buy back further shares. At their meeting on 4 March 2003 the Directors authorised Management to continue the buyback of shares with due regard to the Group's current cash inflow.

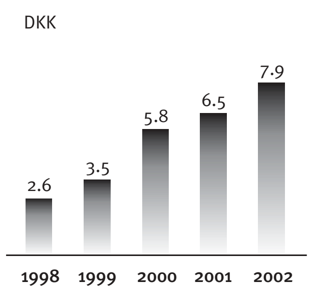
William Demants og Hustru Ida Emilies Fond (the Oticon Foundation) has informed the Company that the Foundation wishes to make shares available to the share market in order to retain the Foundation's relative ownership interest in the Group between 60% and 65%.

In 2002 the Group increased its holding of own shares to 2,421,277 shares at a total cost of DKK 423 million. On 4 March 2003 the Company held 3,414,113 shares, or 4.6% of the share

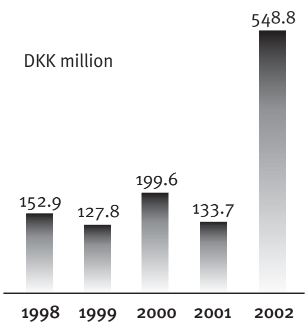
Operating profit (EBIT)



Earnings per share (EPS)



Free cash flow



capital. At the general meeting the Directors will propose that the share capital be written down by a number of shares corresponding to the holding of own shares.

Shareholders' equity and capital
At end-2002 shareholders' equity amounted to DKK 428 million, or 21% of the consolidated balance sheet total.

Development in consolidated shareholders' equity

(DKK million)	2001	2002
Shareholders' equity at 1 January	**200**	**163**
Value adjustment of hedging instruments	9	133
Exchange adjustments of subsidiary undertakings	-30	-40
Write-down of own shares	-27	-423
Write-down of goodwill on acquisitions	-468	-
Other adjustments	-2	16
Profit for the period	481	579
Shareholders' equity at 31 December	**163**	**428**

Cash flows, financing and cash position
Group net cash flow from operating activities doubled to DKK 669 million, the primary reason being that the Group was able to reduce inventories and trade debtors while boosting activities by 16%. The Group continues its effort to minimise Group undertakings' working capital while maintaining growth in revenue and earnings.

The Company has established credit facilities mainly with Danish credit institutes for funding of continued expansion and acquisitions, if and when opportunity arises.

Development in cash flows by main items

(DKK million)	2000	2001	2002
Year's profit	**426**	**481**	**579**
CFFO	316	317	669
CFFI, excl. acquisitions	-116	-184	-120
Free cash flow	**200**	**133**	**549**
Acquisitions	-773	-477	-7
Buyback of shares	-21	-27	-423
Other financing activities	257	524	-84
Year's net effect	**-337**	**153**	**35**

In Management's opinion the Group's interest and loan terms are comparable with the best on the market. The composition of interest-bearing assets and liabilities is seen from the following table.

Interest rate risk at 31 December 2001 (DKK million)

Maturity	Under 1 year	1-5 years	Over 5 years	Total	Weighted interest rate
Financial fixed assets	0.0	0.0	1.8	1.8	
Liquid funds	116.5	0.0	0.0	116.5	
Interest-bearing assets	**116.5**	**0.0**	**1.8**	**118.3**	**1.5%**
Mortgages	0.4	1.7	1.5	3.6	
Long-term interest-bearing debt	12.5	548.5	57.7	618.7	
Interest-bearing short-term debt	237.7	0.0	0.0	237.7	
Interest-bearing debt	**250.6**	**550.2**	**59.2**	**860.0**	**4.0%**
Net position	**-134.1**	**-550.2**	**-57.4**	**-741.7**	**4.4%**

In 2002 the Group chose to fix interest rates for three to five years for part of the long-term debt through interest-rate swaps of USD 37 million and EUR 8 million, respectively. At 31 December 2002 a non-realised loss on these swaps was computed at DKK 10 million.

The maximum credit risk at the balance sheet day is identical with the book value of the assets. There is no major accumulation of credit risks.

In Management's opinion there are at this point in time no material financial risks that have not been hedged.

Investments
Recent years have seen major single investments in new, sophisticated production technology, and the Group's capacity for local production of in-the-ear aids has expanded in line with the growth in sales. In 2002 all major investments were of a maintenance nature, and the net investment in tangible fixed assets therefore amounted to DKK 114 million, matching the level of the year's depreciation expenses. In 2003 the Group forecasts investments to the tune of DKK 110-140 million, corres-ponding to the estimated depreciation on tangible fixed assets.

Balance sheet
The balance sheet total is unchanged at DKK 2 billion, corresponding to half the consolidated revenue.

Towards the end of 2001 inventories rose because the Group wished to ensure a high level of supply security on the introduction of Adapto. In 2002 the focus was on retaining the level of inventories despite growth in sales, and with a constant focus on collaboration with suppliers the effort was successful.

Long-term creditors include a provision of USD 14 million concerning the purchase of an interest in AHAA in 2002. The other shareholders were given an option to receive an additional payment provided that AHAA reaches specified sales and profit targets within the next 30 months.

New Danish Financial Statements Act
In 2001 the Danish Parliament adopted a new financial statements act effective for annual reports drawn up after 1 January 2002. The 2001 Annual Report gave an outline of how the new financial statements act would affect the Company:

- acquired goodwill, which has so far been written off direct via shareholders' equity, will now be entered as an asset at the time of acquisition and depreciated over the expected economic life, however maximum 20 years,
- the Company has maintained its former practice of expensing R&D costs in line with the payment of such costs since the Company is of the opinion that R&D resources cannot in a meaningful way be allocated either to the development of new products or to the further development of existing products. The only change compared with earlier is that the act now requires the company to enter patents and rights acquired from third parties as intangible assets with subsequent depreciation,
- the present values of derivative financial instruments made for the purpose of hedging future cash flows must now be recognised in the balance sheet at the balance sheet day. Gains or losses on such hedging instruments are transferred from shareholders' equity on realisation of the hedged cash flows and included under the same accounting item as the hedged cash flows. These derivative financial instruments were previously entered as contingent liabilities,
- long-term debts to credit institutes must now be entered at their amortised cost, previously such debts were entered at their nominal values.

Overall the above changes had a positive impact on the result for 2002 of less than DKK 3 million. Shareholders' equity was also affected by the changes. The principle of including the present value of derivative financial instruments affected shareholders' equity at 31 December 2002 by an amount of DKK 21 million (DKK -6 million at 31 December 2001). For a more detailed review, please refer to the accounting policies on page 19.

Management and employees
At the ordinary general meeting in March 2002, Mr Niels Boserup (chairman) and Mr Jørgen Mølvang (deputy chairman) were both re-elected.

At year-end the Group employed 4,325 employees. The average number of employees throughout the year on a full-time basis was 4,208 against 3,997 in 2001. Denmark had 1,272 employees against 1,274 in 2001.

Revenue per employee amounted to DKK 932,000, which is an increase of 6% compared with 2001. Growth was 10% in terms of fixed exchange rates.

Staff commitment and diligence are vital contributors to the Group's success, and the Directors would therefore take the opportunity to thank all employees for their dedicated and enthusiastic effort in 2002.

Corporate governance
At the end of 2001 the Nørby Committee submitted a number of recommendations for good corporate governance in Denmark. The Directors are of the opinion that corporate governance in the William Demant Group matches the basic principles expressed in the Committee's recommendations. The Directors currently discuss corporate governance and how to ensure good corporate management vis-à-vis the shareholders. The Company's website www.demant.com provides a more detailed review of the Group's approach to and handling of the principles reflected in the Nørby Committee's report.

In 2002 the Company published two so-called quarterly reviews regarding the first and third quarters, respectively. A quarterly review describes the market situation and provides a general description of the Group's activities in the past quarter compared with previously announced expectations in respect of revenue and profit. The Company has chosen to publish annual and semi-annual reports as its only financial reports since in the Company's opinion quarterly statements would not promote a better understanding of its activities and might give some very short-term targets for Company development which may result in a misleading picture of the development of the Group because activities in any given quarter will vary considerably from one year to the next.

Incentive programmes

In November 2002 the Group successfully carried through the sale of employee shares giving the Group's employees an opportunity to buy shares at a favourable price depending on the individual employee's salary and seniority.

About 1,800 employees chose to buy a total of 277,248 shares at an aggregate price of DKK 15 million. The favourable element for participating in the employee share programme constituted DKK 23 million at the date of purchase.

In the Directors' opinion the incentive programme provides a reasonable balance between employees' opportunity for gain and their commitment to the Company. Apart from ordinary sales-related bonus schemes the Company has no other incentive programmes such as share option programmes or similar initiatives.

Knowledge resources

The William Demant Group's mission states that the Group will endeavour to expand growth in revenue and profit, and that it will seek innovation through a flexible, knowledge-based organisational structure.

The prerequisite for the Group's continued competitiveness is extensive know-how of audiology and a wide spectrum of competencies including the design of integrated circuits for sophisticated analogue and digital processing of sound signals, the development of software for optimum fitting of hearing aids, the design of micro-amplifiers and related acoustic systems as well as the development and production of micro-mechanic components. The Group's R&D activities are described further on page 12 under the heading *Research & development costs*.

The Group's products are made in collaboration with a wide range of specialists each with thorough knowledge of their own field and in-depth understanding of other professional areas as well as appreciation of the corporate approach as such. In order to utilise competencies and knowledge across the organisation, substantial resources are spent on communication and sharing of knowledge including a shared IT platform, a high degree of openness, exchange of employees across Group undertakings and a flat organisational structure.

Prospects for the future

With the many product introductions from both Oticon and Bernafon in 2002 and the new products scheduled for launching this year, the Company also expects to capture market shares in 2003. For the Group's core business (wholesale of hearing aids), the Group foresees growth at a rate of over 10%, which is considerably higher than the underlying market growth for 2003 forecast at 0-3%. For the Group as a whole, organic growth is estimated at 7-10%, as growth in corporate retail activities is estimated to be somewhat lower.

With current exchange rates (average rates in January 2003), the Group's revenue in Danish kroner will be negatively affected by 7% for all 2003, with the main impact in the first half-year. With unchanged exchange rates throughout 2003, revenue is estimated at DKK 3.9-4.1 billion and operating profit at DKK 850-900 million. The profit margin is thus estimated to go up by 1-2 percentage points.

As in 2002 the Group foresees a substantial free cash flow for 2003. With due regard to the current cash inflow, the Company will use its free cash flow for the buyback of more shares.

Net financial expenses and the Company's tax rate are likely to show slight increases. Overall, earnings per share are thought to go up by more than 10% in 2003.

General meeting

William Demant Holding A/S will hold its annual general meeting on 25 March 2003 at 4 p.m. in the Experimentarium, Tuborg Havnevej 7, 2900 Hellerup, Denmark.

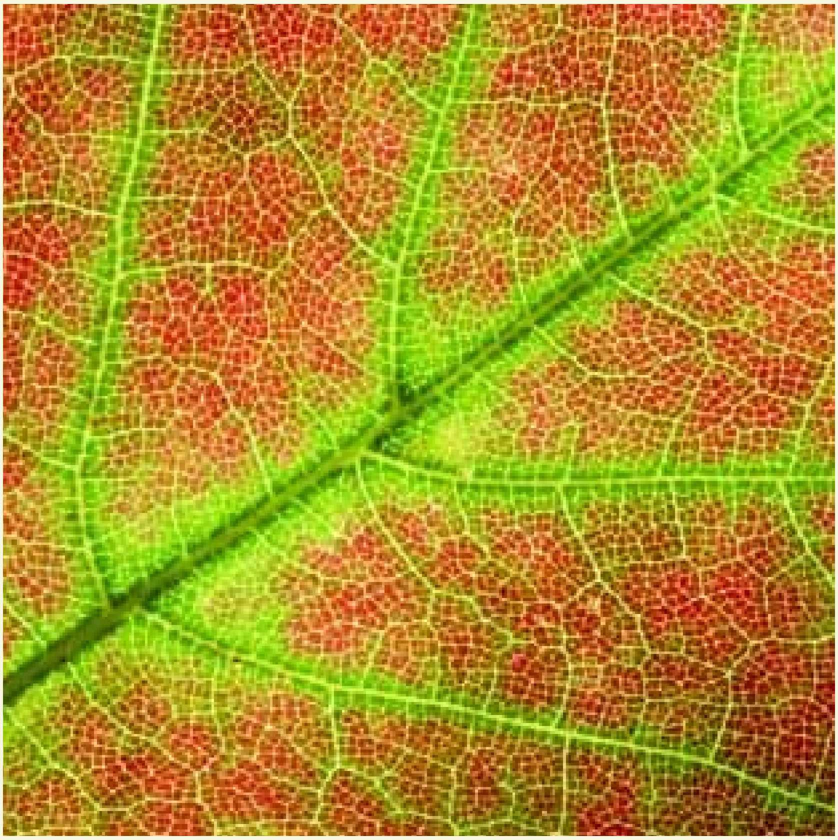
The Directors will propose that the year's profit be transferred to corporate reserves.

At the annual general meeting the Directors will propose that the Company's share capital be reduced by an amount corresponding to its holding of own shares.

At the annual general meeting Mr Lars Nørby Johansen and Mr Michael Pram Rasmussen will both retire from the Board of Directors in accordance with the Company's Articles of Association. The Directors will recommend that both be re-elected.

“. . . platform for continued

ORGANIC GROWTH”



“. . . constantly expanding its global

I N F R A S T R U C T U R E”

Capital

At 31 December 2002 the Company's authorised capital was nominally DKK 74,712,906 divided into as many shares of DKK 1. All shares have the same rights and are not divided into classes.

William Demants og Hustru Ida Emilies Fond (the Oticon Foundation), Gentofte, has notified the Company that it holds 61% of the share capital.

In 2002 the Company bought back 2,421,277 own shares at a total cost of DKK 423 million so that the holding of own shares at 31 December 2002 was 2,772,091 shares, or 3.71% of the share capital. In November 2002 the Company sold 277,248 shares in connection with the employee share programme.

Dividend

At the annual general meeting the Directors will propose that all profits for financial 2002 be retained. In the Company's opinion the buyback of own shares will provide the basis for a more dynamic planning of dividend policies. The Directors have thus authorised Management to continue on behalf of the Company the buyback of William Demant shares with due regard to the Group's current cash inflow.

Trends at the Copenhagen Stock Exchange

The William Demant Holding share is listed on the Copenhagen Stock Exchange and included in the KFX index, which is composed of the 20 most liquid shares on the Danish stock exchange. The William Demant Holding share is also included in the international MSCI Denmark index.

Insider register

In accordance with the Danish Securities Trading Act, the Company is obliged to establish and maintain an insider register. The insider register will include persons who via their attachment to the Company will regularly have internal knowledge of the Group's affairs, which could be of importance on trading in the Company's shares. Persons entered in the insider register can only buy or sell the Company's shares for a limited period after the Company's reporting to the Copenhagen Stock Exchange. Such persons are also obliged to inform the Company of any purchase or sale of the Company's shares. At the end of January 2003 Company insiders held a total of 820,209 shares.

Internet

www.demant.com has more information on the Group and its business areas.

Investor relations

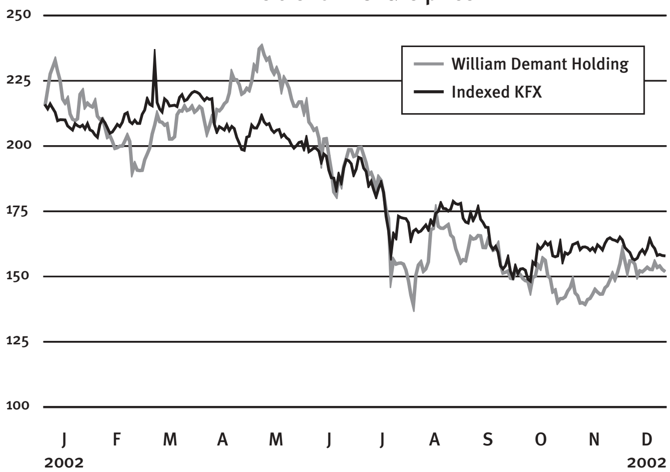
Kenneth Aaby Sachse and Karsten Dyhrberg Nielsen
Phone +45 39 17 71 00 or william@demant.dk

Stock-exchange information

DKK	1998	1999	2000	2001	2002
High	84	147	484	450	238
Low	61	80	134	170	139
Year-end	79	140	360	216	152
Market cap. DKK million	5,931	10,324	26,727	15,981	10,935
Average no. of shares*	77.08	74.22	73.72	74.16	73.31
No. of shares year-end*	75.25	73.70	74.20	74.08	71.94

*Million, excluding own shares

The trend in share price



Main stock-exchange announcements in 2002

5	March	Financial statement 2002 and publication of Annual Report 2001
21	March	Annual general meeting
7	May	Quarterly information – first quarter 2002
17	June	Employee shares
20	August	Interim report
25	October	Joint venture with Sennheiser electronic
5	November	Quarterly information – third quarter 2002

Financial calendar 2003

4	March	Financial statement 2002
25	March	Annual general meeting
15	May	Quarterly review – first quarter 2003
21	August	Semi-annual report – first half-year 2003
12	November	Quarterly review – third quarter 2003

Signatures

The Board of Directors and the Management have today presented the annual report for 2002 for William Demant Holding A/S.

The annual report has been prepared in accordance with the Danish Financial Statements Act, Danish Accounting Standards and the Copenhagen Stock Exchange regulations for listed companies. In our opinion, the accounting policies used are appropriate and the annual report gives a true and fair view of the Group's and the Parent Company's assets and liabilities, financial position, result and consolidated company cash flows.

We present the annual report for approval at the general meeting.

Management: Copenhagen, 4 March 2003

Niels Jacobsen

Directors:

Niels Boserup
Chairman

Jørgen Mølvang
Deputy Chairman

Franck Fogh Andersen

Lars Nørby Johansen

Jørgen Kornum

Michael Pram Rasmussen

Hanne Stephensen

Auditors' Report

To the Shareholders of William Demant Holding A/S

We have audited the annual report of William Demant Holding A/S for the financial year 1 January - 31 December 2002.

The annual report is the responsibility of the Company's Board of Directors and Management. Our responsibility is to express an opinion on the annual report based on our audit.

Basis of Opinion

We conducted our audit in accordance with Danish Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual report. An audit also includes assessing the accounting policies used and significant estimates made by the Board of Directors and the Management, as well as evaluating the overall annual report presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the annual report gives a true and fair view of the Group's and the Parent Company's assets and liabilities, financial position at 31 December 2002 and of the results of the Group's and the Parent Company's operations and consolidated company cash flows for the financial year 1 January - 31 December 2002 in accordance with the Danish Financial Statements Act and Danish Accounting Standards.

Copenhagen, 4 March 2003

Deloitte & Touche
Statsautoriseret Revisionsaktieselskab

Lone Møller Olsen
State-authorised
Public Accountant
(Denmark)

Anders Dons
State-authorised
Public Accountant
(Denmark)

KPMG C.Jespersen

Arne Nielsen
State-authorised
Public Accountant
(Denmark)

Carsten Kjær
State-authorised
Public Accountant
(Denmark)

General
The annual report has been prepared in accordance with the Danish Financial Statements Act, Danish Accounting Standards and the Copenhagen Stock Exchange regulations for listed companies.

Changes in accounting policies
With the new Financial Statements Act, corporate accounting policies have been changed as follows:

1. Financial liabilities are measured at amortised cost. They were previously recorded at their nominal values. The change has no significant impact on the year's profit or shareholders' equity.

2. Derivative financial instruments – primarily forward exchange contracts – are measured at their present values and included under debtors and creditors, respectively. Instruments made for the purpose of hedging future assets or liabilities are entered direct via shareholders' equity until such instruments are realised.

   Derivative financial instruments made in order to hedge future assets or liabilities have so far not been recognised in the balance sheet. The change increases shareholders' equity and debtors at 31 December 2002 by an amount of DKK 21 million (DKK -6 million at 31 December 2001).

3. In accordance with the transitional provisions of the new Financial Statements Act, goodwill must be entered as an intangible fixed asset and amortised over its estimated economic life as of 1 January 2002. Goodwill was previously written off direct via shareholders' equity at the time of acquisition.

4. Provided that certain criteria are satisfied, R&D costs are measured at cost under intangible fixed assets with the deduction of accumulated depreciation expenses. In the company's opinion, the Group's R&D efforts cannot meaningfully be divided into either the development of new products or the further development of existing ones, consequently R&D costs are expensed as previously. Acquired R&D costs including patents and rights must be entered as assets. The Group has so far not acquired any major patents or rights. Previously R&D costs were included in the profit and loss account.

5. Other securities and participating interests are recorded in the balance sheet at their present values, and current adjustments are likewise entered in the profit and loss account at their present values. Previously other securities and participating interests were entered at cost. This change in accounting policy has no major impact on the year's profit or shareholders' equity.

6. Proposed dividend is recognised as a separate item under shareholders' equity until adopted by the annual general meeting upon which it will be recognised as a liability. Previously proposed dividend was recognised under short-term debt. The change does not affect the consolidated financial statements, but involves an increase of DKK 270 million in participating interests in the parent company at 31 December 2002 and thus a similar reduction in dividend owed to the Company.

Effect of policy changes
The total effect of the changes in policies was an increase in the year's pre-tax profit of DKK 3 million. The year's tax resulting from the policy changes amounted to DKK 1 million, and the year's profit after tax was consequently up by DKK 2 million (DKK 0 million in 2001). The balance sheet total thus increased by DKK 52 million (DKK 3 million in 2001), whereas shareholders' equity at 31 December 2002 went up by DKK 32 million (DKK -6 million in 2001).

Comparative figures as well as key figures and ratios have been restated to match the changes in accounting policies.

Reclassification of items
In the annual report leasehold improvements have been reclassified from intangible to tangible fixed assets.

Consolidation
The consolidated financial statements include the undertakings shown on page 36. The consolidated financial statements comprise William Demant Holding A/S (parent company) and the undertakings in which the parent company holds more than 50% of the voting rights, or in which the Company in some other manner can or actually does exercise a controlling interest. The consolidated financial statements have been prepared on the basis of the financial statements for the parent company and subsidiary undertakings by aggregating uniform items. Based on pro rata consolidation the consolidated financial statements also include undertakings, which by agreement are managed jointly with one or more undertakings. Intra-group income and expenditure, shareholdings, intra-group accounts and dividends as well as non-realised intra-group profits on inventories are eliminated.

Undertakings in which the Group holds between 20% and 50% of the voting rights or in some other manner can or actually does exercise a significant interest 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 undertakings are recognised in the profit and loss account from the time of acquisition or formation. Companies either sold or closed down are recognised until the date of divestment or closedown. Comparative key figures and ratios in respect of newly acquired or divested companies are not restated.

On acquiring new undertakings the purchase method is applied, and the identified assets and liabilities of the newly acquired undertakings are measured at their present values at the time of acquisition. Provisions are made for any restructuring either decided or announced on acquisition.

If the acquisition cost exceeds the present values of the assets and liabilities identified on acquisition (including any provisions for restructuring), any remaining positive differences (goodwill) are recognised in the balance sheet as goodwill under intangible fixed assets. Such goodwill is written off on a straight-line basis via the profit and loss account over the estimated economic life, however not exceeding 20 years.

Minority interests
On computation of consolidated profit and shareholders' equity, the proportionate shares of profits and shareholders' equity of subsidiary undertakings – ascribable to minority interests – are entered separately.

Translation of foreign currency
Transactions in foreign currencies are translated at the exchange rates ruling on the transaction day.

Monetary items such as debtors and debts in foreign currency are translated into Danish kroner at their rates on the balance sheet day. Realised and non-realised exchange adjustments are recognised in the profit and loss account under gross profit or financial items.

For independent foreign subsidiary undertakings, profit and loss account items are translated at the average exchange rates for the year, whereas balance sheet items are translated at the rates on the balance sheet day. Any exchange differences arising from the translation at average rates of profit and loss account items of foreign Group undertakings and balance-sheet items at the rates ruling on the balance-sheet day are recognised via shareholders' equity. Any exchange differences from translation of the shareholders' equity of foreign subsidiary undertakings at the beginning of the year at the rates on the balance-sheet day are recognised via shareholders' equity.

Any exchange differences from intra-group accounts with independent foreign subsidiary undertakings considered to constitute part of the total investment in such undertakings as well as any exchange differences from hedging of the shareholders' equity of such undertakings are recognised via shareholders' equity.

Some investments in foreign subsidiary undertakings are balanced via financing in the currency off the particular country. Where a foreign subsidiary undertaking finances an acquisition, and where goodwill has been written of via shareholders' equity at the time of acquisition, the goodwill-related part of such financing will be treated as hedging of exchange in connection with any future returns on the investment in such subsidiary undertaking.

Derivative financial instruments
Derivative financial instruments are measured at their present values and included under debtors and creditors.

Changes in present values of derivative financial instruments classified as and satisfying the criteria for hedging of the present value of a recognised asset or a recognised liability are entered in the profit and loss account together with the changes in value of the hedged asset or hedged liability.

Changes in present values of derivative financial instruments classified as and satisfying the conditions for hedging of future assets or liabilities are recognised direct via shareholders' equity. Any income or cost relating to such hedging transactions is transferred from shareholders' equity on realisation of the hedged financial instruments and included in the same accounting item as the hedged asset or liability.

Profit and loss account
All major income and costs are entered on an accruals basis. The profit and loss account is broken down by function and all costs including depreciation expenses are therefore related to production costs, distribution costs, administrative expenses and R&D costs, regardless of the objectives of the particular undertaking.

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 comprise direct and indirect manufacturing costs including salaries and depreciation expenses.

Research & development costs
These include all costs that do not satisfy the criteria for capitalisation in connection with research and development, prototype construction, the development of new business concepts as well as depreciation expenses of capitalised R&D costs.

R&D costs will be capitalised if the conditions for capitalisation via the balance sheet are fulfilled including an assessment of whether future earnings will suffice to cover such R&D costs. Moreover in the Group's opinion, the prerequisite for capitalisation via the balance sheet is normally that the development of the product has been completed and that all necessary public registration approvals have been received. Otherwise R&D costs will be charged to the profit and loss account in line with the payment of such costs.

Distribution costs
Distribution costs include costs relating to staff training, customer support, sales, marketing as well as distribution and depreciation expenses.

Administrative expenses
Administrative expenses include administrative staff costs, office and IT costs as well as depreciation expenses.

Taxation
The parent company is jointly taxed with certain 100%-owned Danish and foreign subsidiary undertakings. Corporation tax is distributed among the jointly taxed companies according to their proportionate shares of the joint income or loss (full distribution with tax relief for losses). For the jointly taxed Danish companies, the tax rate for current and deferred taxes is 30%.

Tax on the year's profit includes current tax and any changes in deferred tax. Any additions, deductions or allowances in respect of the Danish on-account tax scheme are included in current tax. Tax on movements in shareholders' equity is entered direct via shareholders' equity. 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 on any timing differences between the valuations for tax and accounting purposes. Deferred tax is reported as a balance sheet liability. Deferred tax is computed on the basis of the current tax rules and rates in the particular countries. Any effect on deferred tax due to changes in tax rates is reflected 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 recognised in the balance sheet.

Any tax payable on the sale of shares in a subsidiary undertaking is recorded in the balance sheet if such shares are likely to be sold within a short period of time.

Balance sheet
Intangible fixed assets
As at 1 January 2002 goodwill is capitalised and depreciated on a straight-line basis over its estimated economic life, however maximum 20 years. Goodwill acquired before 1 January 2002 was written off via shareholders' equity at the time of acquisition.

Costs relating to intangible fixed assets produced by Group undertakings, including R&D costs, are capitalised if the conditions for capitalisation are thought to be satisfied. Otherwise such costs are charged to the profit and loss account at the time of payment.

Patents and licences acquired from a third party are measured at cost with the deduction of accumulated depreciation expenses. Patents are written down on a straight-line basis over the remaining patent period, and licences are depreciated over their estimated economic life, however maximum 20 years.

Intangible fixed assets are written down to their recoverable amount if lower than the value for the accounting purposes. Individual assets and groups of assets are currently tested for write-down purposes.

Tangible fixed assets
Tangible fixed assets are recognised at cost. Tangible fixed assets are depreciated on a straight-line basis over their estimated economic life.

Buildings	33-50 years
Manufacting plant and machinery	3-5 years
Fixtures, tools and equipment	3-5 years
IT hardware and software	3 years
Leasehold improvements	over the lease period

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

Financial leased assets are recognised in the balance sheet at the lower of market value or the present value of future rental payments at the time of acquisition. Financially leased assets are depreciated on the same basis as the Group's other tangible fixed assets. Any capitalised remaining rental is shown as a liability in the balance sheet.

For operational leases, rentals are expensed over the term of the lease. Lease commitments are included under contingent liabilities at nominal values.

Financial fixed assets
The parent company's interests in subsidiary undertakings are measured on the basis of the equity method, i.e. such interests are entered in the balance sheet at their proportionate values of net worth. Loans granted by or to the parent company, which are considered part of the overall investment, are included in the value of shares in these undertakings. The parent company's proportionate shares of pre-tax profits from subsidiary undertakings are included in the profit and loss account after proportionate deduction of any differences in non-realised intra-group profits and with deduction of depreciation on consolidated goodwill acquired after 1 January 2002.

Interests in associated undertakings are entered on the same basis as subsidiary undertakings.

Accumulated net revaluation of interests in subsidiary and associated undertakings is retained for a “reserve for net revaluation based on the equity method” and entered under shareholders’ equity.

Inventories
Raw materials, components and merchandise are recognised at the lower of cost or net market price. Finished goods or goods in process are measured at direct cost, direct payroll and consumables as well as a 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 measured at cost on a First In First Out basis, i.e. the most recent deliveries will be in stock. Non-marketable goods or slow-moving items are written down.

Debtors
Debtors are measured at amortised cost. Provisions are made for bad debts computed on the basis of an assessment of the particular risks.

Other securities and participating interests
Securities including investments in shares and bonds are measured at their present values on the balance sheet day. Participating interests whose present values cannot be reliably determined are measured at cost.

Own shares
On buyback or sale of own shares, the acquisition cost or divestment sum is entered directly via distributable reserves under shareholders’ equity. The reduction in capital on cancellation of own shares will reduce the share capital by an amount corresponding to the nominal value of such shares. The amount is transferred to distributable reserves.

Provisions for liabilities
Provisions for liabilities include redundancy payments, pensions, guarantees and restructuring costs etc. Provisions for liabilities are recognised where as a result of an earlier event the Group has a legal or actual liability and any redemption of such liability will draw on the Company’s financial resources.

On acquisition of undertakings provisions for restructuring decided or announced on or before the day of acquisition are considered part of the acquisition cost and entered under goodwill or consolidated goodwill.

Mortgages and loans
Mortgages and loans to mortgage credit institutes or credit institutes are recognised at the proceeds after deduction of transaction costs on the raising of such loan or mortgage. In subsequent periods mortgages and loans are entered at amortised cost corresponding to the capitalised value using the effective interest rate for the difference between proceeds and nominal values to be recognised in the profit and loss account over the term of the loan.

Other debts are measured at amortised cost, which more or less matches their cash values.

Cash-flow statement
The cash-flow statement is based on the indirect method and reflects the Group’s net cash position by operating, investing and financing activities.

Cash flows from operating activities include inflows from the year’s operations, adjusted for operating items not affecting liquid funds 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 inflows generated by the purchase or 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.

Cash flows cannot be compiled exclusively on the basis of the published accounting material.

Segment information
The William Demant Group’s activities are based on a single business segment, i.e. the development, manufacturing and sale of products and equipment designed to facilitate people’s hearing and communication. Consequently only geographic segment information is provided.

Fixed assets in this segment consist of all the fixed assets used for the direct operation of the segment including intangible fixed assets, tangible fixed assets and participating interests in associated undertakings.

Segment liabilities comprise liabilities linked with segment operations including trade creditors and services as well as other creditors.

PARENT COMPANY 2001	PARENT COMPANY 2002	Note	(DKK - in thousands)	GROUP 2002	GROUP 2001
0	**0**	2	**Net revenue**	**3,923,669**	3,506,191
0	0	6	Production costs	-1,418,389	-1,276,165
0	**0**		**Gross profit**	**2,505,280**	2,230,026
0	0	6	Research and development costs	-272,178	-253,029
0	0	6	Distribution costs	-1,160,212	-1,037,763
-18,768	-21,797	6	Administrative expenses	-263,346	-255,971
-	0	5	Depreciation of intangible fixed assets	-330	-
11,770	38,035		Income from subsidiary undertakings	-	-
-6,998	**16,238**		**Operating profit**	**809,214**	683,263
652,404	761,342	7	Share of profits before tax, subsidiary undertakings	-	-
199	0	7	Share of profits before tax, associated undertakings	937	-195
-6,507	1,787	3	Financial items, net	-30,784	-43,341
639,098	**779,367**		**Profit before tax and minority interests**	**779,367**	639,727
-157,709	-200,802	4	Corporation tax	-200,802	-157,709
481,389	**578,565**		**Profit after tax**	**578,565**	482,018
-	-		Minority interests	-	-629
481,389	**578,565**		**Net profit for the year**	**578,565**	481,389
			Proposed distribution of net profits:		
481,389	578,565		Transferred to *Retained profit*		

Balance sheet at 31 December 2002

PARENT COMPANY 2001	2002	Note	Assets (DKK - in thousands)	GROUP 2002	2001
-	0		Patents and licences	2,611	-
-	0		Goodwill	8,578	-
-	**0**	5	**Intangible fixed assets**	**11,189**	-
27,375	26,627		Land and buildings	165,254	164,211
0	0		Production plant and machinery	104,109	105,653
594	1,269		Fixtures, tools and equipment	122,937	117,253
0	0		Leasehold improvements	34,607	32,649
27,969	**27,896**	6	**Tangible fixed assets**	**426,907**	419,766
380,986	552,512		Shares in subsidiary undertakings	-	-
0	0		Shares in associated undertakings	1,356	717
5,545	1,063		Securities and participating interests	1,843	6,831
0	0		Other receivables	26,997	18,864
0	0	8	Deferred tax, asset	47,772	41,820
0	0	9	Own shares	0	0
386,531	**553,575**	7	**Financial fixed assets**	**77,968**	68,232
414,500	**581,471**		**Total fixed assets**	**516,064**	487,998
0	0		Raw materials and purchased components	239,826	253,655
0	0		Goods in progress	42,949	62,242
0	0		Finished goods	331,300	357,247
0	**0**		**Inventories**	**614,075**	673,144
0	0		Trade debtors	618,614	641,535
138,958	118,484		Accounts receivable, subsidiary undertakings	-	-
0	22,188	4	Corporation tax	0	0
429	1,244		Other debtors	38,874	39,215
0	0		Non-realised gains on financial contracts	51,866	0
332	127	15	Prepayments and accrued expenses	35,590	44,516
139,719	**142,043**		**Debtors**	**744,944**	725,266
0	**0**		**Liquid funds**	**116,478**	120,045
139,719	**142,043**		**Total current assets**	**1,475,497**	1,518,455
554,219	**723,514**		**Total assets**	**1,991,561**	2,006,453

PARENT COMPANY		Note	Liabilities (DKK - in thousands)	GROUP	
2001	2002			2002	2001
74,713	74,713		Share capital	74,713	74,713
88,088	353,054		Retained profit	353,054	88,088
162,801	**427,767**	10	**Shareholders' equity**	**427,767**	162,801
3,381	3,545	8	Provisions for deferred tax	30,578	26,658
0	0	11	Other provisions	86,493	109,514
3,381	**3,545**		**Provisions for liabilities**	**117,071**	136,172
0	0		Mortgage debt	3,267	3,666
109,024	98,684		Other long-term debt	707,647	865,498
109,024	**98,684**	12	**Long-term creditors**	**710,914**	869,164
10,265	10,249		Short-term part of long-term creditors	27,666	13,887
155,949	150,747		Interest-bearing short-term debt	220,636	258,735
0	0		Trade creditors	124,705	164,227
13,300	0	4	Corporation tax	20,477	41,666
95,971	27,413		Debt, subsidiary undertakings	-	-
3,528	5,109		Other creditors	243,484	267,160
0	0		Non-realised losses on financial contracts	10,241	8,364
0	0	15	Prepayments and accrued income	88,600	84,277
279,013	**193,518**		**Short-term creditors**	**735,809**	838,316
388,037	**292,202**		**Total creditors**	**1,446,723**	1,707,480
554,219	**723,514**		**Total liabilities**	**1,991,561**	2,006,453

13 Contingent liabilities
14 Employees
16 Fees to auditors
17 Related party transactions
18 Government subsidies

Cash flow statement for 2002

(DKK - in thousands)	Note	GROUP 2002	GROUP 2001
Operating profit		809,214	683,263
Write-downs and depreciation		108,027	98,111
Changes in debtors*		36,552	-128,610
Changes in inventories*		61,468	-157,055
Changes in trade creditors etc.*		-70,063	47,979
Changes in provisions*		-23,065	-7,232
Cash flow from operating activities excluding financial items		**922,133**	**536,456**
Financial income etc.		15,957	14,874
Financial expenses etc.		-45,804	-59,039
Cash flow from operating activities		**892,286**	**492,291**
Corporation tax		-222,871	-174,881
Net cash flow from operating activities		**669,415**	**317,410**
Acquisition of companies	1	-6,575	-476,883
Expensed investments under DKK 50,000*		-17,449	-17,885
Investments in intangible fixed assets*		-2,611	-10,758
Investments in tangible fixed assets*		-111,332	-159,669
Disposals of tangible fixed assets		14,586	8,695
Investments in financial fixed assets		-3,784	-4,119
Cash flow from investing activities		**-127,165**	**-660,619**
Changes in long-term creditors, net		-47,593	555,737
Sale of shares to Group employees		15,266	0
Buyback of own shares		-423,257	-26,946
Other adjustments		-52,134	-32,770
Cash flow from financing activities		**-507,718**	**496,021**
Net cash-flow position for the year		**34,532**	**152,812**
Net cash position at 1 January		**-138,690**	**-291,502**
Net cash position at 31 December		**-104,158**	**-138,690**
Breakdown of net cash position at 31 December:			
Liquid funds		116,478	120,045
Interest-bearing short-term debt		-220,636	-258,735
		-104,158	**-138,690**

* Not including additions from acquired companies.

■ Note 1 - Acquisition of companies (DKK - in thousands)

GROUP

	2002	2001
Fixed assets	-643	-10,999
Inventories	-2,399	-16,721
Debtors	-4,364	-62,242
Provisions	44	2,942
Short-term creditors	9,661	62,847
Long-term creditors	0	15,446
Liquid funds, net	-1,625	-44,400
Net assets	**674**	-53,127
Goodwill	-8,874	-
Goodwill charged to shareholders' equity	-	-468,156
	-8,200	-521,283
Liquid funds, net	1,625	44,400
	-6,575	-476,883

■ Note 2 - Segment information (DKK - in thousands)

GROUP

	Net revenue		Fixed assets		Liabilities	
	2002	2001	2002	2001	2002	2001
Europe	1,721,655	1,572,104	406,725	406,526	653,065	739,862
North America	1,524,391	1,306,795	76,432	54,316	822,224	976,599
Asia	243,030	182,433	15,561	9,164	33,971	22,020
Pacific Rim	319,506	263,043	11,163	10,264	44,308	80,682
Other countries	115,087	181,816	6,183	7,728	10,226	24,489
Total	**3,923,669**	3,506,191	**516,064**	487,998	**1,563,794**	1,843,652

■ Note 3 - Financial items, net (DKK - in thousands)

PARENT COMPANY 2001	PARENT COMPANY 2002		GROUP 2002	GROUP 2001
15,551	16,528	Interest from subsidiary undertakings	-	-
371	1,011	Interest income	10,536	13,450
1,424	2,393	Realised exchange gains	2,393	1,424
-	2,091	Non-realised exchange gains	2,091	-
17,346	**22,023**	**Financial income**	**15,020**	14,874
-4,129	-11,752	Interest to subsidiary undertakings	-	-
-17,134	-7,733	Interest expenses	-45,053	-55,625
0	-43	Realised exchange losses	-43	0
-2,590	-708	Non-realised exchange losses	-708	-2,590
-23,853	**-20,236**	**Financial expenses**	**-45,804**	-58,215
-6,507	**1,787**	**Financial items, net**	**-30,784**	-43,341

PARENT COMPANY		■ **Note 4 - Corporation tax** (DKK - in thousands)	GROUP	
2001	**2002**		**2002**	2001
		Corporation tax		
1,369	10,668	Tax on profit, parent company	10,668	1,369
-138,958	-156,502	Tax on profit, jointly taxed companies	-156,502	-138,958
-25,066	-56,100	Tax, other subsidiary and associated undertakings	-70,421	-37,723
-14	-164	Change in deferred tax	2,032	4,983
0	0	Change in deferred tax on movements in shareholders' equity	11,781	0
5,247	1,296	Tax adjustments, prior years	1,640	12,824
-287	0	Other taxes	0	-204
-157,709	**-200,802**	**Total**	**-200,802**	-157,709
		Corporation tax-rate adjustment*		
		Danish tax rate	30.0%	30.0%
		Difference in tax rate of non-Danish companies from Danish tax rate	-0.7%	-1.9%
		Utilisation of non-capitalised tax losses	-1.0%	-2.7%
		Permanent differences	-2.0%	0.0%
		Other adjustments etc., prior years	-0.5%	-0.7%
		Total	**25.8%**	24.7%
		Corporation tax, payable		
14,209	13,300	At 1 January	41,666	53,855
-5,247	-1,296	Prior-year adjustments	-1,640	-12,824
137,589	145,834	Current tax on the year's profit	216,255	175,516
-133,251	-167,093	Paid in 2002	-222,871	-174,881
0	-12,933	Tax on movements in shareholders' equity	-12,933	0
13,300	**-22,188**	**At 31 December**	**20,477**	41,666

* Corporation tax-rate adjustment for the parent company is not shown separately as the tax costs of the Company and the Group are identical.

■ Note 5 - Intangible fixed assets (DKK - in thousands) GROUP

	Patents and licences	Goodwill
Cost at 1 January 2002	0	0
Acquired undertakings	0	8.874
Additions in 2002	2,611	0
Cost at 31 December 2002	**2,611**	**8,874**
Depreciation and write-downs at 1 January 2002	0	0
Exchange rate adjustments in foreign undertakings	0	34
Depreciation for the year	0	-330
Depreciation and write-downs at 31 January 2002	**0**	**-296**
Value for accounting purposes at 31 December 2002	**2,611**	**8,578**
Value for accounting purposes at 31 December 2001	**-**	**-**

Goodwill and cost of acquisitions before 1 January 2002 (DKK million)

Year	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Acquired goodwill*	51	7	189	21	66	827	468
Cost	Negative	8	243	21	69	835	521

The regulations of Danish Accounting Standard 18 on capitalisation of goodwill was used solely for acquisitions made after 1 January 2002.

* Goodwill written off via shareholders' equity at time of acquisition.

PARENT COMPANY ■ **Note 6 - Tangible fixed assets** (DKK - in thousands) GROUP

Parent: Land and buildings	Parent: Fixtures, tools and equipment		Group: Land and buildings	Group: Production plant and machinery	Group: Fixtures, tools and equipment	Group: Leasehold improvements
30,318	1,354	Cost at 1 January 2002	207,157	280,172	311,801	67,561
0	0	Exchange-rate adjustments in foreign undertakings	-11,271	-16,319	-14,242	-1,671
0	0	Acquired undertakings	0	0	643	0
89	1,194	Additions in 2002	17,371	37,809	62,504	11,054
0	-991	Disposals in 2002	-3,395	-5,487	-45,918	-1,961
30,407	**1,557**	**Cost at 31 December 2002**	**209,862**	**296,175**	**314,788**	**74,983**
-2,943	-760	Write-downs and depreciation at 1 January 2002	-42,946	-174,519	-194,548	-34,912
0	0	Exchange-rate adjustments in foreign undertakings	4,469	11,775	9,363	490
-837	-273	Depreciation for the year*	-7,361	-32,008	-42,985	-7,894
0	745	Disposals in 2002	1,230	2,686	36,319	1,940
-3,780	**-288**	**Write-downs and depreciation at 31 December 2002**	**-44,608**	**-192,066**	**-191,851**	**-40,376**
26,627	**1,269**	**Value for accounting purposes at 31 December 2002**	**165,254**	**104,109**	**122,937**	**34,607**
27,375	**594**	**Value for accounting purposes at 31 December 2001**	**164,211**	**105,653**	**117,253**	**32,649**

*** Depreciation on tangible fixed assets in the Group by functions:**	**2002**	2001
Production costs	-25,905	-22,622
Research and development costs	-19,648	-18,301
Distribution costs	-26,378	-24,090
Administrative expenses	-18,317	-15,213
	-90,248	-80,226
Loss/gain on disposals of fixed assets	1,510	343
Total	**-88,738**	-79,883

The cash-based value of land and buildings in Denmark according to the official valuation at 1 January 2002 amounts to DKK 85 million against a book value of DKK 84 million.

PARENT COMPANY		■ **Note 7 - Financial fixed assets** (DKK - in thousands)	GROUP	
Shares in subsidiary undertakings	Other securities and participating interests		Shares in associated undertakings	Other securities and participating interests
1,344,509	4,825	Cost at 1 January 2002	717	15,186
4,799	0	Additions in 2002	0	0
0	-4,567	Disposals in 2002	0	-4,964
1,349,308	**258**	**Cost at 31 December 2002**	**717**	**10,222**
-1,233,945	720	Revaluations and write-downs at 1 January 2002	0	0
270,422	0	Change in accounting policies	0	0
59,353	0	Exchange adjustments of shares in subsidiary undertakings	0	0
820,766	0	Profits before tax in subsidiary undertakings	937	0
-72,746	0	Losses before tax in subsidiary undertakings	0	0
13,322	0	Change in internal profit on inventories	0	0
-212,257	0	Tax in subsidiary undertakings	-218	0
-264,142	0	Dividends received	0	0
-202,628	0	Changes in long-term Group loans	0	0
25,059	85	Other revaluations and write-downs	-80	805
-796,796	**805**	**Revaluations and write-downs at 31 December 2002**	**639**	**805**
0	0	Depreciation and write-downs at 1 January 2002	0	-8,355
0	0	Depreciation for the year	0	-6
0	0	Disposals in 2002	0	-823
0	**0**	**Depreciation and write-downs at 31 December 2002**	**0**	**-9,184**
552,512	**1,063**	**Value for accounting purposes at 31 December 2002**	**1,356**	**1,843**
380,986	**5,545**	**Value for accounting purposes at 31 December 2001**	**717**	**6,831**

Group undertakings are listed on page 36.

Other debtors include deposits, prepayments and loans at cost.

Note 8 - Deferred tax (DKK - in thousands)

PARENT COMPANY 2001	PARENT COMPANY 2002		GROUP 2002	GROUP 2001
		Deferred tax, asset		
0	0	At 1 January	41,820	26,576
0	0	Change in deferred tax, asset	5,952	15,244
0	**0**	**At 31 December**	**47,772**	41,820
		Provisions for deferred tax		
3,367	3,381	At 1 January	26,658	18,906
14	164	Change in provision for deferred tax	3,920	7,752
3,381	**3,545**	**At 31 December**	**30,578**	26,658

Tax assets	Tax liabilities		Tax assets	Tax liabilities
		Specification of deferred tax at 31 December 2002		
0	0	Intangible fixed assets	0	0
0	3,545	Tangible fixed assets	1,048	11,236
0	0	Current assets	42,377	27,108
0	0	Other	4,347	-7,766
0	**3,545**	**Total**	**47,772**	**30,578**

Note 9 - Own shares

PARENT COMPANY & GROUP

	Number of shares/nominal	% of share capital
Own shares at 1 January 2002	**628,062**	**0.8%**
Additions in 2002	2,421,277	3.2%
Disposals in 2002	-277,248	-0.3%
Own shares at 31 December 2002	**2,772,091**	**3.7%**

On buyback or sale of own shares, the acquisition cost or divestment sum is included directly as expense or income in distributable reserves under shareholders' equity.

In 2002 as part of the Company's share buyback programme it acquired a total of 2,421,277 own shares at an amount of DKK 423 million. In connection with an employee share programme the Company sold 277,248 shares to staff in the aggregate amount of DKK 15 million.

Note 10 - Shareholders' equity (DKK - in thousands)

Parent company 2001	Parent company 2002		Group 2002	Group 2001
74,713	74,713	Share capital at 1 January	74,713	74,713
74,713	**74,713**	**Share capital at 31 December**	**74,713**	**74,713**
137,752	0	Share premium account at 1 January	0	137,752
-137,752	0	Transferred to distributable reserves	0	-137,752
0	**0**	**Share premium account at 31 December**	**0**	**0**
0	93,943	Retained profit at 1 January	93,943	0
-12,187	-5,855	Changes in accounting policies	-5,855	-12,187
-12,187	**88,088**	**Adjustment of retained profit at 1 January**	**88,088**	**-12,187**
-30,096	-40,149	Exchange adjustments of subsidiary undertakings	-40,149	-30,096
-8,364	125,025	Value adjustments of hedging instruments at year-end	125,025	-8,364
17,410	8,364	Reversal of value adjustments of hedging instruments at beginning of year	8,364	17,410
-468,156	0	Write-down of goodwill	0	-468,156
0	15,266	Proceeds from sale of employee shares	15,266	0
-2,714	1,152	Tax on movements in shareholders' equity	1,152	-2,714
-26,946	-423,257	Write-down of own shares	-423,257	-26,946
481,389	578,565	Transferred from distribution of profit	578,565	481,389
137,752	0	Transferred from share premium account	0	137,752
88,088	**353,054**	**Retained profit at 31 December**	**353,054**	**88,088**
162,801	**427,767**	**Shareholders' equity at 31 December**	**427,767**	**162,801**

The share capital of nominally DKK 74,712,906 is divided into the corresponding number of shares of DKK 1 or multiples thereof. At year-end the number of shares traded on the market was 71.9 million. The Company holds 2.8 million of its own shares. In the share ratios own shares are not included for the period in which such shares have been held by the Company.

Specification of movements in share capital	**1998**	**1999**	**2000**	**2001**	**2002**
Share capital at beginning of year	77,476	77,476	74,377	74,713	74,713
Increase of capital	-	-	336	-	-
Reduction of capital	-	-3,099	-	-	-
Share capital at year-end	**77,476**	**74,377**	**74,713**	**74,713**	**74,713**

PARENT COMPANY ■ **Note 11 - Other provisions for liabilities** (DKK - in thousands) GROUP

Parent 2001	Parent 2002		Group 2002	Group 2001
0	0	Other provisions for liabilities at 1 January	109,514	113,804
0	0	Exchange-rate adjustments	-10,901	420
0	0	Provisions for the year	97,476	76,333
0	0	Used in 2002	-109,596	-81,043
0	**0**	**Other provisions for liabilities at 31 December**	**86,493**	**109,514**

Provisions for liabilities include estimated costs in respect of retirement and pension commitments, guarantees, reorganisation etc.

PARENT COMPANY ■ **Note 12 - Long-term creditors** (DKK - in thousands) GROUP

Parent 2001	Parent 2002		Group 2002	Group 2001
67,964	57,687	Long-term creditors, payable after 5 years	59,215	69,994

PARENT COMPANY ■ **Note 13 - Contingent liabilities** (DKK - in thousands) GROUP

Parent 2001	Parent 2002		Group 2002	Group 2001
		Guarantee commitment, subsidiary undertakings'		
158,297	172,247	credit lines	-	-
99,012	74,358	Utilised	-	-
-	-	Leasehold liabilities	49,619	53,183
-	-	Leasing commitments	19,924	13,862

The jointly taxed Danish companies are jointly and severally liable for tax of the consolidated taxable income.

PARENT COMPANY ■ **Note 14 - Employees** (DKK - in thousands) GROUP

Parent 2001	Parent 2002		Group 2002	Group 2001
6	7	Number of full-time employees*	4,208	3,997
		Employee costs:		
9,183	10,645	Wages and salaries	1,080,820	1,078,033
423	286	Pensions	19,451	13,490
23	19	Social security costs	87,310	79,743
9,629	**10,950**	**Total**	**1,187,581**	**1,171,266**
		Of which remuneration of managers and directors:		
4,531	5,232	Management	5,232	4,531
1,140	1,140	Directors	1,335	1,335

* The number of employees in pro rata-consolidated undertakings is included with the share held by the Group in the particular undertakings. Their average number of employees is 579 (378 in 2001).

Note 15 - Prepayments and accrued expenses/income (DKK - in thousands)

Prepayments and accrued expenses under debtors are mainly prepaid expenses.
Prepayments and accrued income under short-term creditors are mainly accrued income from service contracts and prepayments from customers.

Note 16 - Fees to auditors (DKK - in thousands)

PARENT COMPANY 2001	PARENT COMPANY 2002		GROUP 2002	GROUP 2001
		Deloitte & Touche		
300	375	Audit fees	1,988	1,934
172	43	Other fees	438	363
		KPMG		
300	375	Audit fees	4,771	4,784
351	478	Other fees	3,634	2,766

Note 17 - Related party transactions

Related parties are the principal shareholder, William Demants og Hustru Ida Emilies Fond (the Oticon Foundation), Strandvejen 58, DK-2900 Hellerup, Denmark and the Company's Management and Board of Directors.

The Oticon Foundation lets office and production premises on an arm's length basis to Group undertakings. The Oticon Foundation pays an administrative fee to Oticon A/S for handling of its administration.

Apart from the above no agreements or other arrangements or transactions were made in 2002, in which related parties have a financial interest.

Note 18 - Government subsidies

Neither in 2001 nor 2002 has the William Demant Group received any significant Government subsidies.

Company structure

Company	Interest
William Demant Holding A/S, Denmark	**Parent company**
Subsidiary undertakings	
Oticon A/S, Denmark	100%
Oticon A/S, Norway	100%
Oticon AB, Sweden	100%
Oticon GmbH, Germany	100%
Oticon Nederland B.V., Netherlands	100%
Oticon S.A., Switzerland	100%
Oticon Italia S.r.l., Italy	100%
Oticon España S.A., Spain	100%
Oticon Polska Sp. z o.o., Poland	100%
Oticon Limited, United Kingdom	100%
Oticon, Inc., USA	100%
Oticon Australia Pty Ltd., Australia	100%
Oticon New Zealand Ltd., New Zealand	100%
Oticon K.K., Japan	100%
Oticon Singapore Pte Ltd., Singapore	100%
Oticon Nanjing Audiological Technology Co. Ltd., China	100%
Oticon South Africa (Pty) Ltd., South Africa	100%
Prodition S.A., France	100%
Bernafon AG, Switzerland	100%
Bernafon AB, Sweden	100%
Bernafon Hörgeräte GmbH, Germany	100%
Bernafon S.r.l., Italy	100%
Maico S.r.l., Italy	100%
Bernafon U.K. Ltd., United Kingdom	100%
Bernafon Inc., USA	100%

Subsidiary undertakings	
Bernafon Canada Ltd., Canada	100%
Bernafon Australia Pty Ltd., Australia	100%
Australian Hearing Aids Pty. Ltd., Australia	100%
Bernafon New Zealand Pty. Ltd., New Zealand	100%
Bernafon K.K., Japan	100%
Acustica Sp. z o.o., Poland	100%
Phonic Ear Holdings Inc., USA	100%
Phonic Ear Ltd., Canada	100%
PhonicEar Logia A/S, Denmark	100%
Maico Diagnostic GmbH, Germany	100%
Interacoustics A/S, Assens, Denmark	100%
DancoTech A/S, Denmark	100%
Danacom Produktion A/S, Denmark	100%
Hidden Hearing Ltd., United Kingdom	100%
Hidden Hearing (Portugal), Unipessoal Lda., Portugal	100%
Hidden Hearing Limited, Ireland	100%
Akoustica Medica M EPE, (Hidden Hearing), Greece	100%
Centro Auditivo Telex S.A., Brazil	100%
Joint venture company	
Sennheiser Communications A/S, Denmark	50%
American Hearing Aid Association, Inc. (AHAA), USA	49%
Hearing Healthcare Management, Inc. (Avada), USA	47%
Associated companies	
HIMSA A/S, Denmark	25%
NewDae Technologies Inc., USA	25%

The above list covers the Group's active companies.

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Holding

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