ANNUAL REPORT 2004

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William Demant Holding

# Mission

The international William Demant Holding Group 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 undertakings 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 quality 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 enterprises in existing 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 endeavours to increase its value through continued growth in revenues and results.

All Group undertakings 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 areas*

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

**Hearing Aids**

The Group's core business is hearing aids, and this business area comprises Oticon and Bernafon.

Oticon's vision is "to enable people 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 looks upon the hearing-care professional as its business partner.

Oticon sells its products through sales companies in 21 countries and about 80 independent distributors worldwide.

Bernafon aims to help hearing-impaired people to hear and communicate better through innovative hearing aid solutions. Bernafon offers a large range of quality hearing aid systems in all product categories. Bernafon's hearing aids are flexible and easy to fit for hearing-care professionals, and its products represent some 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 sales companies on the major markets. Today, it sells its products through 13 sales companies and over 60 independent distributors.

A condition for both Oticon's and Bernafon's hearing aid solutions is that the companies 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 having in-depth knowledge of their particular fields and through the interaction of suppliers, users and hearing-care professionals.

**Diagnostic Instruments**

This business area 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 designed for instance for hearing tests in schools to sophisticated equipment for measurement of the hearing of infants. Maico has subsidiary undertakings in Germany and the USA.

Interacoustics develops, manufactures, sells and services audiometers with focus on advanced diagnostic and clinical products, including equipment for fitting of hearing aids. From its head office in Denmark, the Company's products are primarily sold through external distributors and the Group's hearing aid companies.

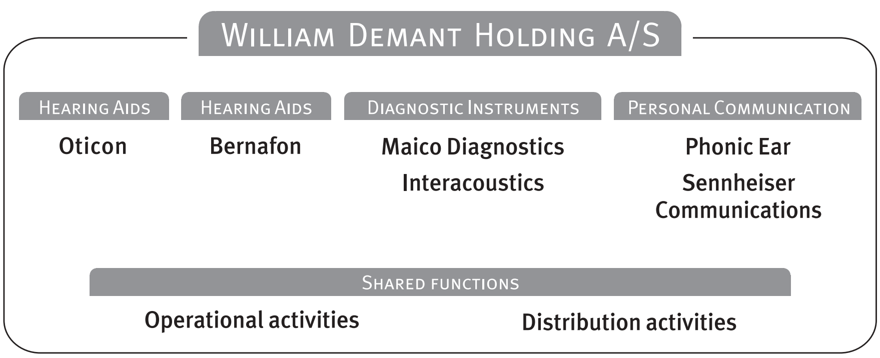
### Personal Communication
This business area includes Phonic Ear, which provides communication systems and Assistive Listening Devices for the hearing impaired, and Sennheiser Communications offering headsets for professional and private users.

Phonic Ear develops, manufactures and distributes wireless communication equipment within four main areas: Assistive Listening Devices (ALD), Assistive Listening Systems (ALS), FM systems and major sound equipment. ALD like for instance alarm systems, teleloop amplifiers and amplifier phones are typically used by hearing impaired in their private homes. ALS comprise equipment including teleloop and audio systems for residential nursing homes, churches, cinemas, theatres etc. Wireless FM systems are mainly used for teaching purposes, and Soundfield, Phonic Ear's sound equipment, is mainly used in classrooms.

Sennheiser Communications, a joint venture created by German Sennheiser electronic and the William Demant Holding Group, develops, manufactures and markets hand-free communication solutions, mainly headsets, and sells these products through a global network of distributors, OEM manufacturers, retailers and telecommunications businesses.

### Shared functions
*Operations*
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*
Group products are mainly distributed through own subsidiary undertakings and external distributors. In some markets, products are distributed to the end-user direct.



## Key figures and ratios - DKK

| Profit and loss account, DKK million | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Net revenue | 2,959.7 | 3,506.2 | 3,923.7 | 3,869.7 | 4,302.7 |
| Gross profit | 1,840.3 | 2,230.0 | 2,505.3 | 2,521.3 | 2,858.5 |
| Operating profit (EBIT) | 582.9 | 683.1 | 810.2 | 855.5 | 1,004.3 |
| Net financials | -22.1 | -43.3 | -30.8 | -28.2 | -38.6 |
| Profit before tax | 560.8 | 639.7 | 779.4 | 827.3 | 965.7 |
| Ordinary profit after tax | 427.5 | 482.0 | 578.6 | 618.3 | 716.4 |
| Net profit for the year | 425.8 | 481.4 | 578.6 | 618.3 | 716.4 |
| **Balance sheet, DKK million** | | | | | |
| Interest-bearing items, net | -595.2 | -897.3 | -741.7 | -632.9 | -880.5 |
| Total assets | 1,554.2 | 2,006.5 | 1,991.6 | 2,015.0 | 2,439.4 |
| Shareholders' equity | 200.3 | 162.8 | 427.8 | 522.2 | 651.1 |
| **Other key figures, DKK million** | | | | | |
| Research and development costs | 197.7 | 253.0 | 272.2 | 294.9 | 324.2 |
| Depreciation and amortisation | 85.8 | 98.1 | 108.0 | 117.0 | 140.7 |
| Investment in tangible fixed assets, net | 105.8 | 168.9 | 114.2 | 124.4 | 311.7 |
| Cash flow from operating activities (CFFO) | 315.9 | 317.4 | 669.4 | 753.7 | 735.4 |
| Free cash flow | 199.6 | 133.7 | 548.8 | 615.5 | 369.2 |
| Cash earnings (CE) | 513.3 | 580.1 | 686.6 | 735.3 | 857.1 |
| Employees (average) | 3,323 | 3,997 | 4,208 | 4,272 | 4,490 |
| **Ratios** | | | | | |
| Gross profit ratio | 62.2% | 63.6% | 63.9% | 65.2% | 66.4% |
| Profit margin | 19.7% | 19.5% | 20.6% | 22.1% | 23.3% |
| Return on equity | 156.4% | 179.2% | 168.0% | 139.8% | 133.5% |
| Equity ratio | 12.9% | 8.1% | 21.5% | 25.9% | 26.7% |
| Earnings per share (EPS), DKK* | 5.8 | 6.5 | 7.9 | 8.8 | 10.7 |
| Cash flow per share (CFPS), DKK* | 4.3 | 4.3 | 9.1 | 10.8 | 11.0 |
| Free cash flow per share, DKK* | 2.7 | 1.8 | 7.5 | 8.8 | 5.5 |
| Cash earnings per share (CEPS), DKK* | 7.0 | 7.8 | 9.4 | 10.5 | 12.8 |
| Dividend per share, DKK* | - | - | - | - | - |
| Book value per share, DKK* | 2.7 | 2.2 | 5.9 | 7.5 | 9.7 |
| Price earnings (P/E) | 62 | 33 | 19 | 23 | 24 |
| Share price, DKK* | 360 | 216 | 152 | 200 | 257 |
| Market capitalisation adj. for own shares, DKK million | 26,727 | 15,981 | 10,935 | 13,710 | 16,989 |
| Average number of shares, million | 73.72 | 74.16 | 73.31 | 69.95 | 67.05 |

*Ratios are calculated in accordance with "Anbefalinger & Nøgletal 2005" (Guidelines and Ratios 2005) from the Danish Society of Financial Analysts.*
*The free cash flow is calculated as the sum of cash flows from operating activities (CFFO) and investing activities (CFFI) adjusted for acquisitions.*
** Per share of DKK 1.*

## Key figures and ratios - EUR**

| Profit and loss account, EUR million | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| Net revenue | 397.9 | 471.4 | 527.5 | 520.3 | 578.5 |
| Gross profit | 247.4 | 299.8 | 336.8 | 339.0 | 384.3 |
| Operating profit (EBIT) | 78.4 | 91.8 | 108.9 | 115.0 | 135.0 |
| Net financials | -3.0 | -5.8 | -4.1 | -3.8 | -5.2 |
| Profit before tax | 75.4 | 86.0 | 104.8 | 111.2 | 129.8 |
| Ordinary profit after tax | 57.5 | 64.8 | 77.8 | 83.1 | 96.3 |
| Net profit for the year | 57.2 | 64.7 | 77.8 | 83.1 | 96.3 |
| **Balance sheet, EUR million** | | | | | |
| Interest-bearing items, net | -80.0 | -120.6 | -99.7 | -85.1 | -118.4 |
| Total assets | 209.0 | 269.8 | 267.8 | 270.9 | 328.0 |
| Shareholders' equity | 26.9 | 21.9 | 57.5 | 70.2 | 87.5 |
| **Other key figures, EUR million** | | | | | |
| Research and development costs | 26.6 | 34.0 | 36.6 | 39.6 | 43.6 |
| Depreciation and amortisation | 11.5 | 13.2 | 14.5 | 15.7 | 18.9 |
| Investment in tangible fixed assets, net | 14.2 | 22.7 | 15.4 | 16.7 | 41.9 |
| Cash flow from operating activities (CFFO) | 42.5 | 42.7 | 90.0 | 101.3 | 98.9 |
| Free cash flow | 26.8 | 18.0 | 73.8 | 82.7 | 49.6 |
| Cash earnings (CE) | 69.0 | 78.0 | 92.3 | 98.9 | 115.2 |
| Employees (average) | 3,323 | 3,997 | 4,208 | 4,272 | 4,490 |
| **Ratios** | | | | | |
| Gross profit ratio | 62.2% | 63.6% | 63.9% | 65.2% | 66.4% |
| Profit margin | 19.7% | 19.5% | 20.6% | 22.1% | 23.3% |
| Return on equity | 156.4% | 179.2% | 168.0% | 139.8% | 133.5% |
| Equity ratio | 12.9% | 8.1% | 21.5% | 25.9% | 26.7% |
| Earnings per share (EPS), EUR* | 0.78 | 0.87 | 1.06 | 1.19 | 1.44 |
| Cash flow per share (CFPS), EUR* | 0.58 | 0.58 | 1.23 | 1.45 | 1.47 |
| Free cash flow per share, EUR* | 0.36 | 0.24 | 1.01 | 1.18 | 0.74 |
| Cash earnings per share (CEPS), EUR* | 0.94 | 1.05 | 1.26 | 1.41 | 1.72 |
| Dividend per share, EUR* | - | - | - | - | - |
| Book value per share, EUR* | 0.36 | 0.30 | 0.80 | 1.00 | 1.31 |
| Price earnings (P/E) | 62 | 33 | 19 | 23 | 24 |
| Share price, EUR* | 48 | 29 | 20 | 27 | 35 |
| Market capitalisation adj. for own shares, EUR million | 3,593 | 2,149 | 1,470 | 1,843 | 2,284 |
| Average number of shares, million | 73.72 | 74.16 | 73.31 | 69.95 | 67.05 |

*Ratios are calculated in accordance with "Anbefalinger & Nøgletal 2005" (Guidelines and Ratios 2005) from the Danish Society of Financial Analysts.*
*The free cash flow is calculated as the sum of cash flows from operating activities (CFFO) and investing activities (CFFI) adjusted for acquisitions.*

** Per share of DKK 1.*

*** Danmarks Nationalbank's rate of exchange at 31 December 2004 of 743.81 has been used on the translation of key figures and ratios from DKK to EUR.*

## Board of Directors and Management

**Parent company**
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william@demant.dk
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**Board of Directors**
Niels Boserup, Chairman
*President and CEO of Københavns Lufthavne A/S.*
*Chairman of the board of directors of TV2/DANMARK A/S.*

Lars Nørby Johansen, Deputy Chairman
*CEO of Group 4 Securicor plc.*
*Deputy chairman of the board of directors of DONG A/S.*

Nils Smedegaard Andersen
*President and CEO of Carlsberg A/S.*

Ole Lundsgaard
*Staff representative.*

Stig Michelsen
*Staff representative.*

Michael Pram Rasmussen
*President and CEO of Topdanmark A/S.*
*Chairman of the board of directors of A.P. Møller - Mærsk A/S.*

Hanne Stephensen
*Staff representative.*

**Management**
Niels Jacobsen, President and CEO
*Member of the boards of directors of Novo Nordisk A/S, Nielsen & Nielsen Holding A/S and Højgaard Holding A/S. Niels Jacobsen is also a member of the boards of a number of wholly and jointly owned William Demant Group undertakings, including HIMPP A/S, William Demant Invest A/S, Sennheiser Communications A/S, HIMSA A/S and HIMSA II A/S.*

**Auditors**
Deloitte
Statsautoriseret Revisionsaktieselskab

KPMG C.Jespersen
Statsautoriseret Revisionsinteressentskab

**Annual general meeting**
The annual general meeting will be held on Tuesday, 5 April 2005 at 4 p.m. in Pyramidesalen, Industriens Hus, H.C. Andersens Boulevard 18, DK-1787 Copenhagen V.

**Oticon introduces new category of hearing aids**
With Oticon Syncro, Oticon introduced a new category of hearing aids that – inspired by the human brain – uses artificial intelligence to analyse the listening environment and provides optimal amplification in all listening situations.

Like the brain, Syncro detects voices and noise and within milliseconds adapts its sound processing accordingly. Decisions in Syncro are not based on predictions and assumptions of the various sound environments. Syncro bases its decisions on meticulous real-time comparisons of the various processing options that are evaluated inside the Syncro chip. In each listening environment, Syncro applies the optimum combination of thousands of settings to deliver the best voice-over-noise ratio.

Thus, Oticon Syncro sets new standards for what people with hearing loss can expect from the best hearing aids.


**Oticon Syncro wins DI's product prize**
"The product is an excellent example of the important role of the industry in the global development of better quality of life for people with hearing impairment," said Johan Schrøder, chairman of the Confederation of Danish Industries (DI), in his mention of Syncro when awarding the prize.

This is the tenth time DI's product prize is awarded to a unique Danish product.

## Affinity – much more than an audiometer

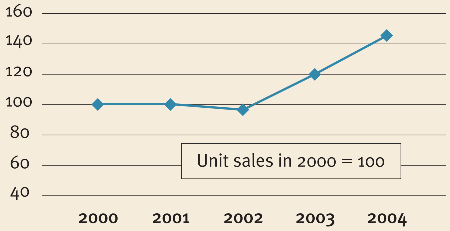
In 2004, Interacoustics introduced Affinity, which is a new computerised audiometer and fitting system for hearing aid dispensers. With its elegant design, new digital technology and user-friendly software, Affinity has made Interacoustics a key player on the market for hearing aid fitting systems.

Hospital audiology wards and private hearing clinics use Affinity to test people's hearing ability and fit hearing aids for children and adults with impaired hearing. To achieve maximum benefit and comfort from a modern digital hearing aid, each aid must be fitted as precisely as possible to the hearing loss it is designed to remedy. Affinity enables dispensers to measure the acoustics of the individual ear. The system then ensures that the hearing aid is not only fitted to the hearing loss but also compensates for the special acoustic conditions of the ear. This improves – sometimes decisively so – comfort as well as speech understanding.

## A banner year for Bernafon

2004 was a banner year for Bernafon. The Company succeeded in boosting its commercial unit sales in 2004 thus contributing to growth in the William Demant Holding Group, despite the discontinuation of supplies to the Australian Government in 2003. Bernafon's growth was stimulated by the optimisation of its distribution channels and the introduction of new products, in particular. Symbio XT, which is the first hearing aid to process sound independently of channels or bandwidth, was introduced in January 2004. At the German EUHA fair in October, Bernafon launched another whole new hearing aid family, Neo. Neo is the first aid to offer product features and user benefits formerly reserved for high-end products to all hearing aid users. Today, with its portfolio of innovative, fully digital hearing aids covering the entire price range, Bernafon meets all user needs.

**Indexed development in Bernafon's commercial unit sales**



**Record year in the William Demant Holding Group**
In 2004 – its centenary year – the William Demant Holding Group achieved its best result ever. Corporate growth improved throughout the year – particularly driven by the introduction of Oticon Syncro. The Group thus enters 2005 with continued optimism.

The year's highlights can be summarised as follows:

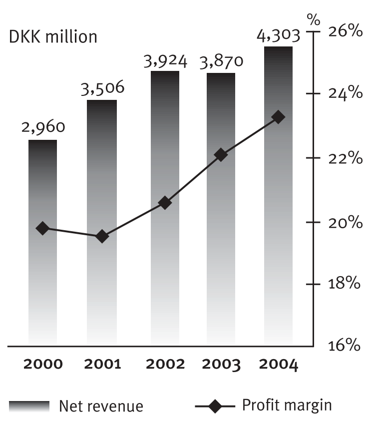
- Corporate growth in local currency rose by 14.3% and organic growth by 14.1%.
- Revenues amounted to DKK 4.3 billion, or an increase in DKK of 11.2%.
- Operating profits (EBIT) totalled DKK 1,004 million, resulting in a profit margin of 23.3%. For the second half of 2004, the profit margin was 24.7%.
- Net profits rose by 15.9% to DKK 716 million, and earnings per share (EPS) improved by 21.6% to DKK 10.7.

Growth significantly exceeded forecasts at the start of the year and matched the expectations most recently announced on the publication of the quarterly review for the third quarter.

Activities and events celebrating Oticon's centenary were successfully launched. At the start of the year, we estimated centenary costs at DKK 30 million, but as the centenary celebrations and the introduction of Oticon Syncro coincided, we derived the maximum commercial benefit out of the two events, and centenary costs are therefore not identifiable as particular cost items.

Fluctuations in the exchange rates of the Group's most important trading currencies, particularly the USD, continue to have a negative impact on consolidated revenues and profits.

**Net revenue and profit margin**




Revenues were affected negatively by 2.7%, which is slightly more than anticipated at the end of the first half-year. The Group's forward exchange contracts delay the impact on EBIT. Falling exchange rates mean that the Group will hedge the net flow of trading currencies at lower rates. In 2004, lower exchange rates had a major impact on operating profits, and compared with realised rates in 2003 we estimate an overall negative effect of DKK 70-80 million, which is in tune with our expectations at the start of the year.

Corporate growth also led to an increase in R&D staff, primarily based in or around the corporate head office in Copenhagen. However, the existing head office is no longer large enough to house the growing number of employees, so at the end of 2004 the Group acquired a new property at Smørum. The newly acquired property will be renovated during the first half-year 2005 to accommodate corporate needs and is expected to be ready for use in summer 2005.

**Business conditions**
*Hearing Aids*
In 2004, the global market for hearing aids as a whole developed in line with our long-term market growth expectations of 3-5%. As in previous years, there have been fluctuations over the year, and the pattern of demand has varied considerably on the various markets.

Any general discussion about short-term trends, past or future, is plagued with great uncertainty, due particularly to large regional differences in market trends and the vulnerability of individual markets to major single events. Following a period in which market growth in the sale of hearing aids concentrated on the mid-priced segment, the past twelve months have seen sales spreading across the various price segments. Low-end hearing aids have improved and now offer comparatively generic and comparable user benefits. This low-end market has increasingly focused on price as a competitive parameter. However, the introduction of Oticon Syncro has sparked greater differentiation in the high-end market, enabling us to maintain or increase our prices for high-end types of hearing aids. Syncro was introduced in April 2004, and demand trends have been very encouraging to date.

However, we must expect intensified competition in the high-end segment in the first half of 2005, as those of our competitors who do not currently have products in this segment are bound to introduce new products. We believe that better high-end products can help to maintain positive growth trends in the high-end market overall.

In addition to Syncro, other newly introduced products also contributed favourably to the development within Hearing Aids. In the first month of 2004, Oticon introduced Atlas Plus and GO. During the same period, Bernafon launched Symbio XT, and at the EUHA fair in October in Frankfurt an entirely new product family, Neo.

Overall, the Group's hearing aid businesses increased the sale of hearing aids manufactured by Group undertakings by 13.3%, which should be viewed against a market unit growth of about 5%. The Group's two hearing aid businesses will introduce new products in 2005 as well. The importance of constantly being able to offer new products with different user benefits and fresh concepts is underscored by the fact that over half the hearing aids manufactured by Group undertakings sold in 2004 were introduced in the past two years.

The Group's largest business area is Oticon, which over the years has contributed significantly to corporate growth, and 2004 was no exception. However, corporate development was also stimulated by Bernafon, which in 2004 reversed the decline in revenues caused by the loss of the Australian Government contract in 2003. In 2004, Bernafon's sales to commercial markets improved dramatically.

In addition to competition on user benefits and product concepts, the Group's hearing aid businesses must be very flexible in the distribution link. This means that manufacturers are occasionally required to offer customers an "exit" in the form of an acquisition or other initiative in connection with succession, etc. It may also be necessary to contribute financially when key customers wish to expand their business. In 2004, the Group acquired a few minor businesses in the distribution link and made some financial resources available to new and existing customers.

In the Annual Report 2003, we mentioned that in recent years the hearing aid industry has worked on a new technology for manufacturing individual shells for in-the-ear hearing aids. The technology is based on 3D scanning of the ear impression, which is modelled on a computer. The computer model is then used for automatic production by means of a 3D printer. In 2004, Oticon and Bernafon implemented this new shell technology in five of the Group's largest production facilities, and another two large production facilities will follow in early 2005. In the short term, the new technology will not generate any savings, but in the long term manufacturers, when developing new types of in-the-ear hearing aids, will be able to cut production time significantly. Furthermore, the new production technology will make individualisation more precise than conventional technology, and may thus reduce the number of hearing aids requiring adjustment due to faulty design.

The Group's retail activities developed more positively than the underlying market.

## Diagnostic Instruments

Diagnostic Instruments saw good growth in 2004, and we estimate that this business area has increased its market share during the year. The underlying market showed slight growth in 2004, a trend that is expected to continue in 2005.

Growth in this business area was distributed on a variety of products. In the second quarter, Interacoustics launched Affinity, a computerised audiometer and fitting system. The product will support future growth, and the AUD (Audiometer), REM (Real Ear Measurement) and HIT (Hearing Instrument Test) modules have now been introduced in most markets.

The business area continued to enhance production and logistics efficiency.

## Personal Communication

This business area includes Phonic Ear and Sennheiser Communications.

Following major restructuring in 2003, Phonic Ear has reversed the trend in 2004. Today, Phonic Ear covers four product areas: FM systems, sound equipment (Soundfield), ALD (Assistive Listening Devices) and ALS (Assistive Listening Systems). FM systems include the Lexis system – introduced in 2003 – which is increasingly sold in combination with hearing aids. The system contributed to growth particularly in the first half-year, whereas for the year as a whole sales were flat. Assistive Listening Devices (ALD) and sound equipment (Soundfield) saw steady growth throughout the year. Soundfield, used as a loudspeaker system in classrooms, has proved to have a positive effect on children's learning ability.

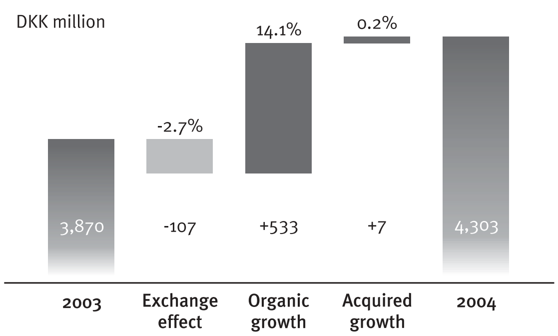
Sennheiser Communications, the Group's joint venture within headsets, matched expectations, and sales of headsets for telecommunications and computers are on the rise. In 2004, Sennheiser Communications expanded its product portfolio in most product areas.

## Financial statements for 2004

*Revenues and foreign exchange rates*

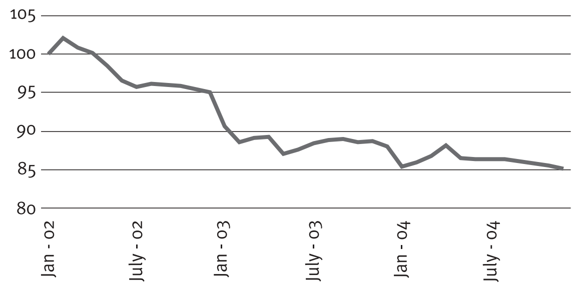
In 2004, revenues amounted to DKK 4,303 million, or a growth rate in DKK of 11.2%. In terms of local currencies, growth was 14.3%. Organic growth in 2004 amounted to DKK 533 million, or 14.1% adjusted for a negative exchange effect of 2.7%. Revenues are in line with our most recent expectations, but are considerably above our forecasts at year-start. Growth was mainly organic, since the Group only made three minor acquisitions in 2004: in Italy, Scotland and Finland. These acquisitions contributed to growth by less than 0.2 percentage points.

**Breakdown of Group growth from 2003 to 2004**




96% of corporate sales are generated outside Denmark, and revenues are therefore still very much affected by trends in foreign currencies. The following graph shows indexed development in the Group's trading currencies. The development is calculated on the basis of the distribution of revenues on the various currencies in 2004 calculated as realised average exchange rates for the individual months.

**Indexed development in trading currencies**




January 2002 = 100

As a large slice of sales goes to the US market and is therefore invoiced in USD, revenues are particularly sensitive to the development of the USD. In 2004, the realised exchange rate of USD was 599, or 9% lower than in 2003. In the last few months of 2004, the USD was further weakened against the DKK, and consolidated revenues will therefore also be affected negatively in 2005, if current rates continue throughout the year.

The Group's major trading currencies are USD, JPY and GBP:

| Foreign exchange rates | USD | JPY | GBP |
|---|---|---|---|
| 31 December 2002 | 708 | 5.97 | 1,140 |
| Realised rate 2003 | 659 | 5.68 | 1,075 |
| 31 December 2003 | 596 | 5.57 | 1,058 |
| Realised rate 2004 | 599 | 5.54 | 1,097 |
| 31 December 2004 | 547 | 5.27 | 1,049 |
| Realised rate January 2005 | 567 | 5.49 | 1,065 |

Using exchange rates realised in January, the negative exchange effect on consolidated revenues in 2005 will be approx. 2%.

**Net revenue**

| (DKK million) | 2002 | 2003 | 2004 |
|---|---|---|---|
| At realised rates | 3,924 | 3,870 | 4,303 |
| At realised rates January 2005 | 3,421 | 3,696 | 4,221 |
| Difference | -12.8% | -4.5% | -1.9% |

Fluctuations in exchange rates will be hedged by forward exchange contracts, so budgeted cash flows are hedged with a horizon of 6-24 months. In line with the falling rate of the USD, we have succeeded in converting a large portion of corporate purchases to USD. This has affected expectations regarding net flows in the various currencies, and thus improved the Group's total hedging into 2005.

At the end of 2004, the Group had forward exchange contracts to the tune of DKK 982 million (DKK 951 million at 31 December 2003) with a market value of DKK 35 million (DKK 31 million at 31 December 2003). The major contracts hedge the following currencies and periods:

| Currency | Hedging period | Hedging rate |
|---|---|---|
| USD | 13 months | 601 |
| JPY | 9 months | 5.74 |
| EUR | 8 months | 746 |

The Group also hedges single investments in foreign subsidiary undertakings by raising loans in the particular currencies. Where goodwill has been written off via shareholders' equity in prior years, the goodwill-related part of such financing will be treated as hedging of any future returns on the investment in such subsidiary undertaking. At 31 December, shareholders' equity included an amount of DKK 161 million for such hedging purposes. At the end of 2004, such loans in foreign currency constituted DKK 298 million.

In the past year, the Group has seen excellent growth in the US market particularly driven by growth in our core business and Diagnostic Instruments, whereas sales trends in other activities in the USA have been moderate. Overall, North America has seen a growth rate of 18.4% in local currency, which is higher than corporate growth as a whole, but the development of the USD caused a slight fall in the regional share of consolidated revenues from 36% in 2003 to 35% in 2004.

Revenues in Europe amounted to 48% of consolidated revenues. The Group enjoyed reasonable growth in all European markets.

As expected, trends in the Pacific Rim region were affected by the loss of the Australian Government contract mid-2003. Despite the loss of this contract, the overall level of Group sales was maintained, emphasising the strong trend in commercial sales in Australia and New Zealand.

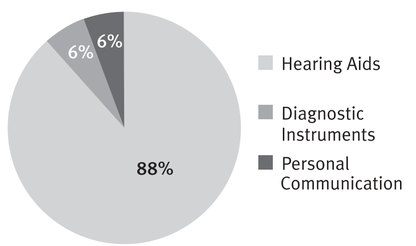
**Revenue by business area**

| (DKK million) | **2003*** | **2003**** | **2004**** |
|---|---|---|---|
| Hearing Aids | 3,424 | 3,334 | 3,817 |
| Diagnostic Instruments | 211 | 206 | 242 |
| Personal Communication | 235 | 223 | 244 |
| **Total** | **3,870** | **3,763** | **4,303** |

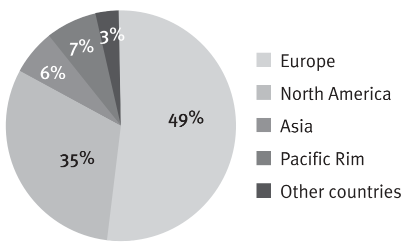
*Computed at 2003 exchange rates **Computed at 2004 exchange rates

In 2004, all corporate business areas grew satisfactorily, and indeed above market growth. The highest rate of growth was generated by the corporate core business – wholesale of hearing aids, which is reported as part of Hearing Aids – and by Diagnostic Instruments. Our core business grew by 14.9% – a rate of growth driven by new product introductions in 2004, as mentioned earlier. Growth was stronger in the second half-year. Conversely, Personal Communication developed flatly in the second half-year after strong growth in the first six months, due to the launch of Lexis in mid-2003.

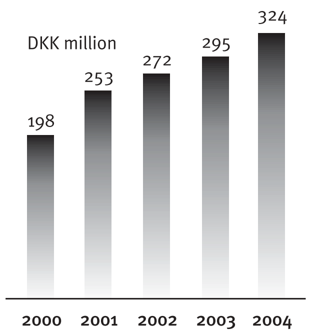
**Net revenue by business unit**




**Net revenue by region**




**R&D costs**



Corporate retail activities accounted for 20% of consolidated revenues and saw reasonable sales trends. Hidden Hearing in particular outgrew the underlying market.

*Gross profits*
The Group improved gross profits by 13.4% to DKK 2,859 million. With fixed exchange rates, the improvement was 14.9%. The gross profit ratio improved from 65.2% in 2003 to 66.4%, due to growth in volume generated by the same production apparatus. This was possible because, for several years, the Group has focused on developing products that require fewer working hours, on better utilising existing capacity and on a higher degree of refinement of externally acquired components. In addition, the rising sales of high-end hearing aids, which generate a relatively higher gross contribution per product, also contributed to the increase in gross profits.

*Capacity costs*
The following table shows that the Group's total capacity costs did not increase as much as revenues, which had a positive effect on the profit margin.

**Capacity costs**

| (DKK million) | 2003 | 2004 | Percentage change | |
|---|---|---|---|---|
| | | | DKK | Local currency |
| R&D costs | 295 | 324 | 9.9% | 11% |
| Distribution costs | 1,130 | 1,264 | 11.8% | 14.6% |
| Admin. expenses | 242 | 270 | 11.7% | 13.7% |
| **Total** | **1,667** | **1,858** | **11.4%** | **13.8%** |

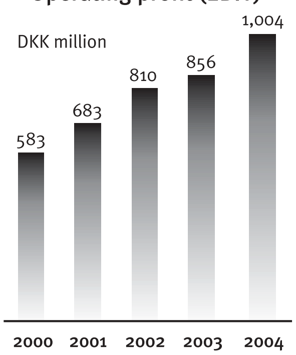
*R&D costs*
In line with the Group's continued focus on R&D, costs rose by 9.9% (11.0% measured in fixed exchange rates). This is a heavier rate of growth than in the underlying market and emphasises the Group's policy to view investments in R&D as decisive as regards long-term competitiveness. It is the Group's ability to constantly innovate and launch products with more user benefits that will drive future growth. The acquisition of the new property at Smørum is an integral part of the focus on expanding the Group's development activities, including the provision of cutting-edge facilities and technology for continued growth.

Development functions in the William Demant Holding Group cooperate worldwide across business areas to ensure optimal utilisation of know-how and expertise, thus ensuring that basic technologies and special competencies developed for specific purposes in one part of the Group will be re-used in other contexts for maximum exploitation of our development resources.

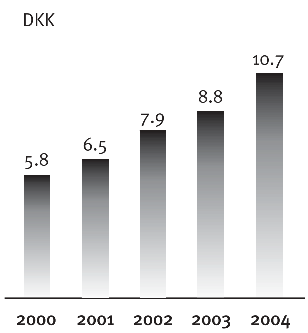
The Group has major development centres in Denmark, Switzerland, Germany and the USA. The Group is a member of various networks of researchers and research institutes throughout the world.

*Distribution costs*
Distribution costs, which account for the biggest slice of the Group's capacity cost, rose by 11.8%, or 14.6% measured in local currency corresponding to the trend in sales. Distribution costs in 2004 include all costs relating to customer-oriented activities in connection with Oticon's centenary celebrations and the introduction of Oticon Syncro. Fair growth in the Group's retail activities, which place a relatively higher burden on distribution costs than the Group's other businesses, also contributed to the increase in distribution costs.

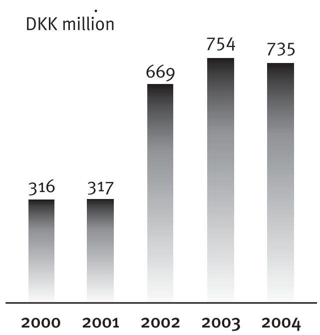
**Operating profit (EBIT)**




**Earnings per share (EPS)**




**Cash flow from operating activities**



*Administrative expenses*
In 2004, administrative expenses rose by 11.7%. With fixed exchange rates, the increase was 13.7%.

*The year's profit*
Operating profits (EBIT) amounted to DKK 1,004 million, or an increase of 17.4% corresponding to the most recently announced expectations. The corporate profit margin rose to 23.3% for all 2004. For the second half-year, the profit margin is 24.7%.

The underlying development in earnings was better than reported profits, because falling exchange rates over the past almost three years have meant that Group currency transactions were hedged at lower exchange rates in 2004 than in 2003.

The Group has also seen a negative effect from the translation of profits and losses in the Group's foreign subsidiary undertakings. The overall negative effect is estimated in the range of DKK 70-80 million in 2004.

Amortisation of goodwill amounted to DKK 0.5 million.

Income from associated undertakings amounted to DKK 4.4 million generated by HIMSA, through which the hearing aid industry collaborates on a joint software platform, NOAH.

In 2004, net financials amounted to DKK -38.6 million against DKK -28.2 million in 2003. The increase is due partly to growth in working capital in connection with inventories and trade debtors during the year, partly to the positive effect of exchange rate adjustments on financial items and tax-free interest income of a non-recurrent nature.

In line with Company policy, the Group bought back own shares worth DKK 611 million in 2004 to give shareholders an opportunity to earn a current return on their investments.

Pre-tax profits rose to DKK 966 million, or an increase of 16.7%. Tax on the year's profit amounts to DKK 249 million, which equals an effective tax rate of 25.8%. The trend in the effective tax rate matches our expectations of a slightly growing tax rate, which in the longer term is expected to reach a level matching the Danish corporation tax rate.

The year's profit amounted to DKK 716 million. Earnings per share (EPS) were DKK 10.7, or a 21.6% rise on last year. The explanation for the relatively higher growth in earnings per share compared with the rise in the year's profit trends is the Group's current buyback of shares, which in 2004 reduced the average number of shares by 2.9 million shares compared with 2003. In 2004, the Company bought back 2,715,247 own shares at a total price of DKK 611 million. At 7 March 2005, the Company's holding is 1,757,912 shares, which corresponds to 2.6% of the share capital. At the next general meeting, the Directors will present a proposal to reduce the share capital by the number of shares held by the Company immediately prior to that date.

**Interest rate risk at 31 December 2004** (DKK million)

| Rate | Under 1 year | 1-5 years | Over 5 years | Total | Weighted interest |
|---|---|---|---|---|---|
| Financial asset investments | 0.0 | 44.9 | 2.0 | 46.9 | |
| Liquid funds | 126.4 | 0.0 | 0.0 | 126.4 | |
| **Interest-bearing assets** | **126.4** | **44.9** | **2.0** | **173.3** | **2.5%** |
| | | | | | |
| Mortgages | 0.4 | 1.9 | 0.5 | 2.8 | |
| Long-term interest-bearing debt | 10.2 | 378.4 | 0.0 | 388.6 | |
| Interest-bearing short-term debt | 662.4 | 0.0 | 0.0 | 626.4 | |
| **Interest-bearing debt** | **673.0** | **380.3** | **0.5** | **1,053.8** | **2.8%** |
| **Net position** | **-546.6** | **-335.4** | **1.5** | **-880.5** | **2.9%** |

The Group has chosen to fix interest rates for part of the long-term debt through interest swaps of USD 17 million and EUR 5 million. At 31 December 2004, there was a non-realised loss on these swaps of DKK 0.9 million. In connection with the acquisition of our new head office, a fixed-rate mortgage loan of DKK 200 million will be raised, the proceeds of which will reduce our interest-bearing, short-term debt.

The Directors will recommend that the shareholders in general meeting decide that all the year's profit be transferred to free reserves.

In this connection, William Demants og Hustru Ida Emilies Fond (the Oticon Foundation) has informed us that it will currently put shares on the market in order to retain its current ownership and thus secure the liquidity of the share. The Foundation presently holds 60-65% of the shares.

*Shareholders' equity and capital*
At 31 December 2004, shareholders' equity was DKK 651.2 million, or 26.7% of the consolidated balance-sheet total.

**Development in consolidated shareholders' equity**

| (DKK million) | **2003** | **2004** |
|---|---|---|
| **Shareholders' equity at 1 January** | **428** | **522** |
| Exchange adjustments of subsidiary undertakings | -33 | -14 |
| Value adjustments of hedging instruments | 43 | 17 |
| Write-down of own shares | -541 | -611 |
| Proceeds from sales of own shares to employees | 0 | 15 |
| Profit for the period | 618 | 716 |
| Other adjustments | 7 | 6 |
| **Shareholders' equity at 31 December** | **522** | **651** |

*Group cash flows, financing and cash position*
In 2004, cash flows from operating activities amounted to DKK 735 million, which is a slight fall on 2003. The explanation is twofold: an increase in taxes and an increase in working capital in connection with inventories and trade debtors.

Free cash flows excluding acquisitions totalled DKK 369 million, which is lower than estimated at the start of 2004 and is mainly due to the purchase of the new head office property. Adjusted for the purchase of the new property, free cash flows excluding acquisitions amounted to DKK 540 million.

**Development in cash flows by main items**

| (DKK million) | **2002** | **2003** | **2004** |
|---|---|---|---|
| **Year's profit** | **579** | **618** | **716** |
| CFFO | 669 | 754 | 735 |
| CFFI, excl. acquisitions | -120 | -138 | -366 |
| **Free cash flow** | **549** | **616** | **369** |
| Acquisitions | -7 | 0 | -30 |
| Buyback of own shares | -423 | -541 | -611 |
| Other financing activities | -84 | -156 | -77 |
| **Year's net effect** | **35** | **-81** | **-349** |

*Investments*
In 2004, net investments in tangible assets excluding acquisitions of businesses and the new property accounted for DKK 140 million, which matched the forecast at the start of the year. In 2005, net investments are estimated to be at a slightly higher level of DKK 160-200 million, owing in part to the continued expansion of production capacity for the new shell technology in the Group's sales subsidiaries and to investments in new technical measuring equipment in relation to relocation to the new headquarters and development centre at Smørum.

Add to this, the completion, renovation and interior decoration of the new property, which will amount to about DKK 80 million. Overall, investments in tangible fixed assets in 2005 are estimated at DKK 240-280 million. As a consequence of the one-time investments in 2005, our development staff, now housed in new state-of-the-art surroundings, will be geared for continued growth in the years to come.

In 2004, the Group's investments totalled DKK 404 million, including the purchase of the property at Smørum, financing initiatives relating to customers and the acquisition of intangible assets such as patents.

According to its investment policy, the Group normally only acquires properties for manufacturing purposes, but the property at Smørum was available at an extremely attractive square metre price, making ownership a more favourable option.

The purchase sum, DKK 171 million, will be funded through mortgage credit loans. After renovation and rebuilding to accommodate our wishes and needs, the aggregate price will be DKK 250 million. With an attractive finance market and a scrap value of the property based on the low square metre price, the cost of operating and financing the property will not exceed today's cost of renting the property at Hellerup – even though the new property has more than twice the floorage space. The property is thus geared for further growth without a corresponding increase in costs.

*Balance sheet*
The consolidated balance-sheet total rose by 21.1% to DKK 2.4 billion. On the assets side, land and buildings (new head office property) and trade debtors accounted for most of the increase. In 2004, we generally succeeded in keeping the remaining asset items at the level of 31 December 2003, which is very satisfactory. Inventories only rose slightly, despite the many introductions in 2004.

The investment in a new head office property was fully financed through loans via corporate bank credits. In the first quarter of 2005, the major part of these loans are expected to be converted into a fixed-rate long-term mortgage credit loan.

*Board of Directors, Management and employees*
At the annual general meeting on 25 March 2004, Mr Niels Boserup (chairman) and Mr Nils Smedegaard Andersen were both re-elected. Mr Jørgen Mølvang (deputy chairman) retired due to age. After the general meeting, the Directors appointed Mr Niels Boserup chairman and Mr Lars Nørby Johansen deputy chairman.

At year-end, the Group employed 4,501 staff. The average number of employees throughout the year on a full-time basis was 4,490 against 4,272 in 2003. Denmark had 1,372 employees against 1,250 in 2003.

Revenue per employee amounted to DKK 958,000, or a 5.8% increase on 2003. Growth was 8.8% measured in fixed rates of exchange.

The Directors would like to thank all staff for their professionalism, commitment and diligence, which is key to the Group's success, and for their dedicated effort throughout the centenary year.

*Incentive programmes*
At two- or three-year intervals, the Group offers its employees the opportunity to acquire shares at a favourable price depending on salary and seniority conditions. The purchased shares are held in trust for five years.

Again in 2004, we successfully carried through an employee share programme, under which about half the Group's approximately 4,500 staff chose to buy a total of 174,038 shares at an aggregate price of DKK 15 million. At the time of purchase, the gift element constituted DKK 32 million.

In connection with the centenary in June, 118,950 shares were distributed to Group staff. According to Danish law, these shares will be held in trust for seven years.

Following the distribution of centenary shares and the sale of shares under the employee share programme, 80% of Group employees are now shareholders in the Company.

An agreement has been made with William Demant Holding's managing director to the effect that for each additional four-year period of employment after 2005, he will be entitled to remuneration equivalent to one year's pay.

The Company has no share option programmes or similar programmes.

*Knowledge resources*
The William Demant Holding Group's mission statement says that the Group must endeavour to expand growth in revenue and profit, and that it must seek innovation through a flexible, knowledge-based organisational structure.

The prerequisite for the Group's continued competitiveness is extensive audiology know-how and a broad spectrum of competencies such as designing integrated circuits for sophisticated analogue and digital processing of sound signals, developing software for optimum fitting of hearing aids, designing micro-amplifiers and related acoustic systems as well as developing and producing micro-mechanic components. The Group's R&D activities are described further on page 13 under the heading R&D costs.

The Group's products are made in collaboration between a wide range of specialists, each with thorough knowledge of their own fields, in-depth understanding of other professional areas and appreciation of the corporate approach. In order to utilise competencies and knowledge across the organisation, substantial resources are channelled into communication and knowledge sharing through a shared IT platform, a high degree of openness, secondment of employees to other Group undertakings and a flat organisational structure.

*The Oticon Foundation*
In the Annual Report 2003, Management gave an outline of the Oticon Foundation's investment strategy. In 2004, William Demant Holding A/S and the Oticon Foundation cooperated

along the lines of this strategy. The Oticon Foundation specifically invested in the property company Jeudan A/S, which is listed on the Copenhagen Stock Exchange, and in the med-tech company Össur hf., listed on the Islandic Stock Exchange in Reykjavik.

*Corporate governance*

At the end of 2001, the Nørby Committee submitted a number of recommendations for good corporate governance in Denmark. The Directors discuss corporate governance on an ongoing basis and how to ensure good corporate management relative to the shareholders. The Directors are of the opinion that corporate governance in the William Demant Holding Group lives up to the basic principles expressed in the Committee's recommendations. Our 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.

We have chosen to publish quarterly reviews rather than quarterly statements. 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 of revenue and performance. In our opinion, quarterly statements would not promote a better understanding of the Group's activities. In fact, it is the Group's conviction that such quarterly statements would only offer very short-term targets for the Group's development, which might provide a misleading picture, because the Group's activities in any given quarter will vary considerably from one year to the next.

## Prospects for the future

We expect growth in consolidated revenues to continue in 2005, but the fall in exchange rates in the Group's trading currencies is expected to cut reported revenues by 2%, and revenues in 2005 are therefore estimated at a level of DKK 4.5-4.6 billion. Organic growth is estimated at 6-9%.

The underlying markets for the Group's products are expected to grow by 3-5%, which compared with the estimated growth requires that the Group continues to gain market shares in 2005.

The expectation is that the substantial progress in the Group's underlying earnings ability will continue in 2005. In line with the continuously falling rates of exchange of our trading currencies, hedging contracts of currency transactions in 2005 will be made at lower rates than in 2004. Profits or losses in the Group's foreign undertakings will also be translated at lower rates. The negative impact hereof is estimated at about DKK 30 million from 2004 to 2005.

Despite this adverse trend, the operating profit (EBIT) is expected to grow to between DKK 1,050 million and DKK 1,100 million, which would provide a profit margin of between 23.5% and 24.5%.

Earnings per share are expected to go up by about 10%.

In 2005, competitors are expected to introduce products in the high-end segment, which will entail keener competition for Oticon Syncro. Our forecasts are therefore subject to greater uncertainty than in previous years. Correspondingly, the expected mounting competition in 2005 means that growth in both revenues and earnings will be more intense in the first half-year.

The consolidated financial statements for 2005 will be presented according to international accounting standards (IFRS), and comparative figures for 2004 will be adjusted accordingly. Based on the existing standards, no major changes are anticipated in the profit and loss account, balance sheet and cash flow statement. Expected minor changes are described under Accounting policies on page 21.

## General meeting

William Demant Holding A/S will hold its annual general meeting on 5 April 2005 at 4 p.m. in Pyramidesalen, Industriens Hus, H.C. Andersens Boulevard 18, DK-1787 Copenhagen V.

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 share capital be reduced by an amount corresponding to the holding of own shares immediately prior to the date of the general meeting.

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

## Capital
At 31 December 2004, the Company's authorised capital was nominally DKK 67,514,816 divided into as many shares of DKK 1. All shares have the same rights, and the shares are not divided into classes.

William Demants og Hustru Ida Emilies Fond (the Oticon Foundation) has notified the Company that the Oticon Foundation holds 60% of the share capital.

In 2004, the Company bought back 2,715,247 own shares at a total price of DKK 611 million. At the general meeting on 25 March 2004, the share capital was reduced by nominally DKK 2,779,137 by cancellation of the Company's own shares. At 31 December 2004, the Company held 1,408,912 own shares (2% of the share capital) after sale and distribution, respectively, of shares to Group employees in 2004. At 7 March 2005, the Company holds 1,757,912 own shares, or 2.6% of the share capital. At the general meeting, the Directors will propose that the share capital be reduced by the number of shares held by the Company at the time of the general meeting.

## Dividend
At the general meeting, the Directors will propose that all profits for the 2004 financial year 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 Holding shares with due regard to the Group's current cash inflow.

## Insider register
In accordance with the Danish Securities Trading Act, the Company is obliged to establish and maintain an insider register. The insider register includes over 600 persons, who might, as a consequence of their attachment to the Company, have internal knowledge of the Group's affairs – knowledge which could be of importance on trading in the Company's shares. Persons entered into the insider register can only buy or sell Company 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 Company shares. At the end of January 2005, Company insiders held a total of 764,852 shares.

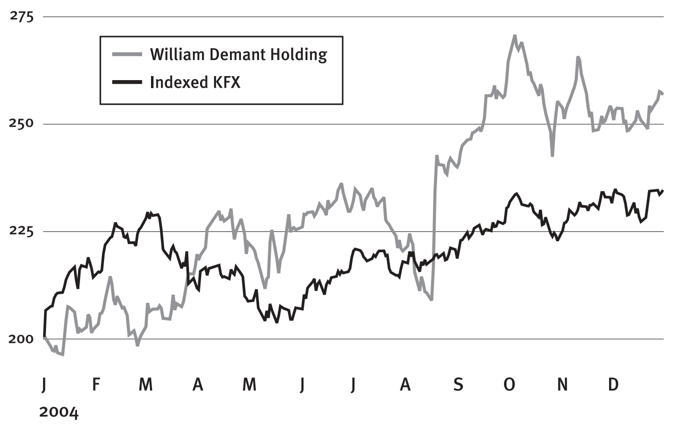
## Investor information
www.demant.com has more information on the Group and its business areas. Investors may also contact Kenneth Aaby Sachse or Stefan Ingildsen by phone at +45 3917 7100 or by e-mail on william@demant.dk.

## Stock exchange information

| DKK | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| High | 484 | 450 | 238 | 222 | 274 |
| Low | 134 | 170 | 139 | 111 | 196 |
| Year-end | 360 | 216 | 152 | 200 | 257 |
| Market cap. DKK million | 26,727 | 15,981 | 10,935 | 13,710 | 16,977 |
| Average no. of shares* | 73.72 | 74.16 | 73.31 | 69.95 | 67.05 |
| No. of shares year-end* | 74.20 | 74.08 | 71.94 | 68.53 | 66.11 |

*Million shares, excluding own shares

## Trends in share prices – William Demant Holding
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 traded shares on the Danish Stock Exchange.




## Main stock exchange announcements in 2004

| | |
|---|---|
| 3 March | Annual Report 2003 |
| 25 March | Annual general meeting |
| 13 May | Quarterly review, first quarter 2004 |
| 27 May | Employee share programme |
| 28 June | Capital reduction |
| 18 August | Interim report, first half 2004 |
| 11 November | Quarterly review, third quarter 2004 |
| 7 December | Purchase of new head office |

## Financial calendar 2005

| | |
|---|---|
| 7 March | Annual Report 2004 |
| 5 April | Annual general meeting |
| 12 May | Quarterly review, first quarter 2005 |
| 17 August | Interim report, first half 2005 |
| 10 November | Quarterly review, third quarter 2005 |

# Founded on care

*– Oticon through 100 years*

1904 100 2004

oticon
PEOPLE FIRST

**1904** 1910 1915 1920 1925 1930 1935 1940 1945 1950 19





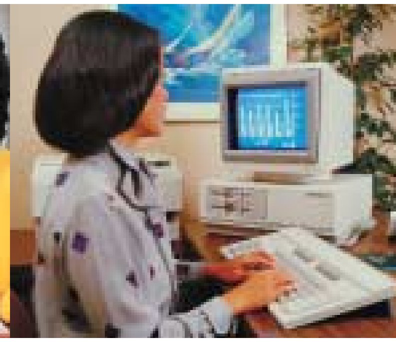

**A full centenary – and geared for the future**
On 8 June 1904, Hans Demant signed a contract granting him sole agency rights for American General Acoustic hearing aids in Denmark and thus paving the way for Oticon – and the William Demant Holding Group – to celebrate its centenary in 2004.

In the early 1900s, Hans Demant's wife was severely affected by her failing hearing. From a trip to the USA and wanting to help his wife, Hans Demant returned with a hearing aid similar to the one used by Danish-born British Queen Alexandra at her coronation in London in 1902.

Oticon was thus founded to help the hearing-impaired live the life they want with the hearing they have, and to this day this remains the cornerstone of the Company's mission.

Hans Demant died in 1910, and his son William took over the business. William Demant worked tirelessly in the Company for the next seven decades to help people with hearing loss by constantly focusing on the needs of hearing aid users, but also by supporting researchers and other organisations dedicated to improving the quality of life for hearing aid users and their families.

55 1960 1965 1970 1975 1980 1985 1990 1995 2000 **2004**



In 1957, William Demant and his wife Ida Emilie set up the William Demants og Hustru Ida Emilies Fond (the Oticon Foundation) and transferred ownership of the business to the Foundation, which today holds over 60% of William Demant Holding A/S. Over the years, the Oticon Foundation has continued to support research and development and other initiatives involving the hearing-impaired and their families, while seeking to broaden people's knowledge of hearing loss and encouraging individuals to look for solutions that fulfil their particular hearing needs.

Today, the business is the world's second-largest manufacturer of hearing aids. With its modern organisational structure, a global distribution network and major investments in research and development, the William Demant Holding Group is also in the future geared to accommodate the constant demand for more sophisticated solutions.


Oticon celebrated its centenary with events for customers and staff worldwide. In early June, we hosted a festive occasion in Copenhagen attended by 800 guests and customers from over 40 countries. Oticon's Danish staff celebrated the centenary with festivities in Copenhagen and in Jutland. The centenary gift for all corporate staff was a piece of Danish craft jewellery designed by jeweller Ole Lynggaard. The introduction of Oticon Syncro, which coincided with the centenary celebrations, created a good platform for continued corporate growth.

## Statement by the Management and the Board of Directors

The Board of Directors and the Management have today presented the annual report for 2004 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 cash flows.

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

Copenhagen, 7 March 2005

***Management:***

Niels Jacobsen

***Board of Directors:***

| | |
|---|---|
| Niels Boserup<br>Chairman | Lars Nørby Johansen<br>Deputy Chairman |
| Nils Smedegaard Andersen | Ole Lundsgaard |
| Stig Michelsen | 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 2004, prepared in accordance with the Danish Financial Statements Act and Danish Accounting Standards.

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 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 financial position at 31 December 2004 and of the results of their operations and the consolidated cash flows for the financial year 2004 in accordance with the Danish Financial Statements Act and Danish Accounting Standards.

Copenhagen, 7 March 2005

**Deloitte**
Statsautoriseret Revisionsaktieselskab

**KPMG C.Jespersen**
Statsautoriseret Revisionsinteressentskab

Lone Møller Olsen
State-authorised
Public Accountant
(Denmark)

Anders Dons
State-authorised
Public Accountant
(Denmark)

Søren Thorup Sørensen
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 class D undertakings. The accounting policies are the same as in 2003.

**Consolidation**
The consolidated financial statements include the undertakings shown on page 39. The consolidated financial statements comprise William Demant Holding A/S (the parent company) and the undertakings, in which the parent company holds more than 50% of the voting rights, or in which in some other manner it 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 its 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. Businesses 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 undertakings 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 fair values at the time of acquisition. Provisions are made for any restructuring either decided or announced on acquisition.

If acquisition cost exceeds the fair 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 assets in the acquiring business.

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

**Translation of foreign currency**
When first recognised, transactions in foreign currency 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 net financials, depending on the purpose of the transaction.

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 adjustments arising from the translation of profit-and-loss-account items of foreign Group undertakings from average rates to exchange rates on the balance-sheet day are recognised via shareholders' equity. Any exchange adjustments from translation at the beginning of the year of shareholders' equity of foreign subsidiary or associated undertakings at the rates on the balance-sheet day are recognised via shareholders' equity.

Any exchange adjustments 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 adjustments from the hedging of shareholders' equity of such undertakings are recognised via shareholders' equity.

Some investments in foreign subsidiary undertakings are hedged through financing in the currency of the particular country. 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 finance will be treated as hedging of exchange of any future returns on the investment in such subsidiary undertaking.

**Derivative financial instruments**
Derivative financial instruments, primarily forward exchange contracts and interest swaps, are measured at their fair values and recognised under debtors and creditors.

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

Changes in fair 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 recognised in the same accounting item as the hedged asset or liability.

**Profit and loss account**
All major income and costs are recognised on an accruals basis. The profit and loss account is broken down by function, and all costs including depreciation expenses are therefore charged to production, distribution, administration or R&D functions.

*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*
Production costs comprise direct and indirect manufacturing costs, including raw materials, consumables, maintenance costs, salaries, depreciation on production plant as well as write-down on inventories.

*Research and 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 on capitalised R&D costs.

In the Group's opinion, R&D activities cannot meaningfully be divided into either the development of new products or the further development of existing products. R&D costs are therefore generally charged to the profit and loss account.

*Distribution costs*
Distribution costs include costs relating to staff training, customer support, sales, marketing, distribution and depreciation on tangible fixed assets used for production purposes.

*Administrative expenses*
Administrative expenses include administrative staff costs, office and IT costs as well as depreciation expenses and losses on debtors.

*Net financials*
These mainly consist of interest income and expenses. They also include loan costs, realised and non-realised exchange gains or losses and value adjustments at fair values.

*Taxation*
The parent company is jointly taxed with certain 100%-owned Danish and foreign subsidiary undertakings. Corporation tax is distributed among the jointly taxed undertakings according to their proportionate shares of the joint income or loss (full distribution with tax relief for losses). For the jointly taxed Danish undertakings, 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 recognised 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 under the balance-sheet liability method of any temporary differences between the valuations for tax and accounting purposes of assets and liabilities. 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 tax on the year's profit. 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 are recognised at their expected realisable values.

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 assets*
Goodwill is capitalised as at 1 January 2002 and depreciated on a straight-line basis over its estimated economic life. Any goodwill acquired before 1 January 2002 was written off via shareholders' equity at the time of acquisition.

Patents and licences acquired from a third party are measured at cost with the deduction of accumulated depreciation and write-down expenses. Patents and licences are depreciated over their estimated economic life.

Intangible assets are assessed annually to decide whether their value has deteriorated. If so, the recoverable value of such assets is calculated, upon which they are written down to their recoverable values if lower than their carrying values.

Provided certain criteria are satisfied, R&D costs are recognised under intangible assets and measured at cost with the deduction of accumulated depreciation expenses. R&D costs are capitalised if the conditions for capitalisation are thought to be satisfied, taking into account whether future earnings are able to adequately cover such R&D costs. In the Group's opinion, the prerequisite for capitalisation is normally that the development of the particular product has been completed and that all required registration approvals have been obtained. If not, R&D costs are charged to the profit and loss account in line with the payment of such costs. In the Group's opinion, its 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.

| | |
|---|---|
| Goodwill | maximum 20 years |
| Patents and licences | maximum 20 years |

*Tangible fixed assets*
Tangible fixed assets are recognised at cost with the addition of capitalised interest with the deduction of accumulated depreciation and write-down expenses. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful life with the exception of land. Assets are currently tested for write-down purposes.

| | |
|---|---|
| Buildings | 33-50 years |
| Manufacturing 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 charged to the profit and loss account in the year of acquisition.

Financially 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 recognised 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 asset investments*
The parent company's interests in subsidiary undertakings are measured on the basis of the equity method, i.e. such interests are recognised in the balance sheet at their proportionate value of net worth. Loans granted by or to the parent company and 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 recognised in the profit and loss account after proportionate deduction of any differences in non-realised intra-group profits and with the deduction of depreciation on consolidated goodwill acquired after 1 January 2002.

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

The accumulated net revaluation of interests in subsidiary and associated undertakings is retained in "Reserve for net revaluation based on the equity method" and recognised under shareholders' equity.

Debtors are measured at cost on acquisition and subsequently adjusted at amortised cost. The risk of bad debts is assessed on an individual basis.

Securities related to investments in shares and bonds are measured at their fair values on the balance-sheet day. Investments, for which a reliable fair value cannot be estimated, are measured at cost.

*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 capacity costs directly related to finished goods or goods in process.

Inventories are measured at cost on a First-In-First-Out (FIFO) basis, i.e. the most recent deliveries are considered to be in stock. Non-marketable goods or slow-moving items are written down as required.

*Debtors*
Debtors are measured at amortised cost. Provisions are made for bad debts based on an assessment of the particular risks. Prepayments and accrued expenses mainly include prepaid costs.

*Own shares and dividend*
On the buyback or sale of own shares, the acquisition cost or divestment sum is recognised direct 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 proposed dividend is recognised as a separate item under shareholders' equity until adoption at the annual general meeting, upon which such dividend will be recognised as a liability.

*Provisions for liabilities*
Provisions for liabilities include redundancy payments, pensions, trade-related guarantees, returned goods, 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 where the redemption of any such liability will draw on the corporate financial resources.

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

*Mortgages and loans*
Mortgages and loans from mortgage credit institutes or credit institutes are recognised at the proceeds after the deduction of transaction costs on the raising of such loan or mortgage. In subsequent periods, mortgages and loans are recognised at amortised cost, so that the difference between the proceeds and the nominal values is recognised in the profit and loss account over the term of the loan.

Other debts include payable taxes and duties, holiday pay, guarantees and obligations in respect of returned products etc. Prepayments and accrued income primarily include prepayments from customers and accrued income from service contracts.

Other debts are measured at amortised cost, which more or less matches their nominal 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, undertakings or activities.

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.

**Segmental 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 segmental information is provided.

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

Segmental liabilities consist of liabilities linked with segment operations including trade creditors and services as well as other creditors.

**Transition to IFRS in 2005**
The consolidated financial statements for 2005 will be drawn up in compliance with International Financial Reporting Standards (IFRS). The preliminary evaluation indicates that changes relate primarily to goodwill. The impact is not thought to be significant.

Under IFRS, goodwill arisen on business combinations is not amortised. In the profit and loss account and shareholders' equity for 2004, included in the restatement figures for 2005, amortised goodwill amounting to DKK 0.5 million will be restated.

Goodwill will be tested annually for impairment, and the restated goodwill shown in the balance sheet on 1 January 2004 is considered the future basic value.

| PARENT COMPANY 2003 | PARENT COMPANY 2004 | Notes | (DKK - in thousands) | GROUP 2004 | GROUP 2003 |
|---|---|---|---|---|---|
| 0 | **0** | 2 | **Net revenue** | **4,302,742** | 3,869,693 |
| 0 | 0 | 7 | Production costs | -1,444,218 | -1,348,438 |
| 0 | **0** | | **Gross profit** | **2,858,524** | 2,521,255 |
| 0 | 0 | 6/7 | Research and development costs | -324,170 | -294,893 |
| 0 | 0 | 7 | Distribution costs | -1,263,464 | -1,130,438 |
| -21,042 | -19,797 | 7 | Administrative expenses | -270,483 | -242,053 |
| 0 | 0 | 6 | Amortisation of goodwill | -506 | -435 |
| 0 | 0 | 8 | Share of profit before tax, associated undertakings | 4,362 | 2,110 |
| 10,305 | 65,914 | | Income from subsidiary undertakings | - | - |
| -10,737 | **46,117** | | **Operating profit (EBIT)** | **1,004,263** | 855,546 |
| 844,575 | 939,362 | 8 | Share of profit before tax, subsidiary undertakings | - | - |
| -6,505 | -19,796 | 3 | Net financials | -38,580 | -28,213 |
| 827,333 | **965,683** | | **Profit before tax** | **965,683** | 827,333 |
| -209,052 | -249,284 | 4 | Tax on the year's profit | -249,284 | -209,052 |
| 618,281 | **716,399** | | **Net profit for the year** | **716,399** | 618,281 |
| | | | Proposed distribution of net profits: | | |
| 618,281 | 716,399 | | Transferred to *Retained earnings* | | |
| | | 5 | Earnings per share (EPS), DKK | 10.7 | 8.8 |

## Balance sheet at 31 december 2004

| PARENT COMPANY 2003 | 2004 | Notes | Assets (DKK - in thousands) | GROUP 2004 | 2003 |
|---|---|---|---|---|---|
| 0 | 0 | | Patents and licences | 16,325 | 6,477 |
| 0 | 0 | | Goodwill | 42,628 | 7,144 |
| 0 | **0** | 6 | **Intangible assets** | **58,953** | 13,621 |
| 25,788 | 24,950 | | Land and buildings | 333,451 | 167,058 |
| 0 | 0 | | Production plant and machinery | 113,312 | 103,563 |
| 1,314 | 998 | | Fixtures, tools and equipment | 137,975 | 135,381 |
| 0 | 0 | | Leasehold improvements | 29,400 | 29,143 |
| 0 | 0 | | Prepayments and plants under construction | 6,426 | 3,694 |
| 27,102 | **25,948** | 7 | **Tangible fixed assets** | **620,564** | 438,839 |
| 792,182 | 1,215,026 | 8 | Shares in subsidiary undertakings | - | - |
| 0 | 0 | 8 | Shares in associated undertakings | 3,828 | 2,174 |
| 1,106 | 1,556 | 8 | Securities and participating interests | 2,038 | 1,720 |
| 0 | 0 | 8 | Debtors | 68,099 | 33,202 |
| 0 | 0 | 9 | Deferred tax, asset | 69,069 | 61,567 |
| 793,288 | **1,216,582** | | **Financial asset investments** | **143,034** | 98,663 |
| 820,390 | **1,242,530** | 2 | **Total fixed assets** | **822,551** | 551,123 |
| 0 | 0 | | Raw materials and purchased components | 247,922 | 231,768 |
| 0 | 0 | | Goods in progress | 37,712 | 42,572 |
| 0 | 0 | | Finished goods | 317,017 | 298,666 |
| 0 | **0** | | **Inventories** | **602,651** | 573,006 |
| 0 | 0 | | Trade debtors | 756,981 | 643,787 |
| 3,904 | 0 | | Intra-group debtors, subsidiary undertakings | - | - |
| 20,503 | 0 | 4 | Corporation tax | 4,674 | 26,712 |
| 373 | 0 | | Other debtors | 59,472 | 55,228 |
| 0 | 62 | | Non-realised gains on financial contracts | 35,322 | 31,091 |
| 785 | 331 | | Prepayments and accrued expenses | 31,276 | 25,881 |
| 25,565 | **393** | | **Debtors** | **887,725** | 782,699 |
| 0 | **0** | | **Liquid funds** | **126,434** | 108,144 |
| 25,565 | **393** | | **Total current assets** | **1,616,810** | 1,463,849 |
| 845,955 | **1,242,923** | | **Total assets** | **2,439,361** | 2,014,972 |

| PARENT COMPANY | | Notes | Liabilities (DKK - in thousands) | GROUP | |
|---|---|---|---|---|---|
| 2003 | 2004 | | | 2004 | 2003 |
| 70,294 | 67,515 | | Share capital | 67,515 | 70,294 |
| -73,317 | -87,068 | | Exchange rate adjustments | -87,068 | -73,317 |
| 525,184 | 670,678 | | Retained earnings | 670,678 | 525,184 |
| 522,161 | **651,125** | 11 | **Shareholders' equity** | **651,125** | 522,161 |
| 3,926 | 4,027 | 9 | Provision for deferred tax | 27,129 | 49,684 |
| 0 | 0 | 12 | Other provisions | 14,184 | 15,216 |
| 3,926 | **4,027** | | **Provisions** | **41,313** | 64,900 |
| 0 | 0 | | Mortgage debt | 2,438 | 2,862 |
| 88,539 | 78,238 | 13 | Other long-term debt | 455,235 | 538,248 |
| 88,539 | **78,238** | | **Long-term creditors** | **457,673** | 541,110 |
| 10,277 | 10,268 | | Short-term part of long-term debt | 12,335 | 15,305 |
| 203,419 | 369,270 | | Interest-bearing short-term debt | 660,775 | 293,725 |
| 0 | 0 | | Trade creditors | 164,721 | 144,794 |
| 0 | 5,769 | 4 | Corporation tax | 20,406 | 36,096 |
| 13,671 | 112,478 | | Intra-group creditors, subsidiary undertakings | - | - |
| 2,365 | 7,920 | | Other creditors | 337,915 | 297,152 |
| 1,012 | 953 | | Non-realised losses on financial contracts | 953 | 5,773 |
| 585 | 2,875 | | Prepayments and accrued income | 92,145 | 93,956 |
| 231,329 | **509,533** | | **Short-term creditors** | **1,289,250** | 886,801 |
| 319,868 | **587,771** | | **Total creditors** | **1,746,923** | 1,427,911 |
| 845,955 | **1,242,923** | | **Total liabilities** | **2,439,361** | 2,014,972 |

10 Shares
14 Rent and lease obligations
15 Contingent liabilities
16 Employees
17 Fees to auditors
18 Related parties
19 Government grants

## Cash flow statement for 2004

| (DKK - in thousands) | Notes | GROUP 2004 | 2003 |
|---|---|---|---|
| Operating profit (EBIT) | | 1,004,262 | 855,546 |
| Depreciation and amortisation etc. | | 140,746 | 116,974 |
| Change in debtors* | | -117,970 | -31,818 |
| Change in inventories* | | -28,128 | 41,069 |
| Change in creditors* | | 44,061 | 5,166 |
| Change in other provisions* | | -1,032 | 2,670 |
| **Cash flow from operating activities excluding net financials and corporation tax** | | **1,041,939** | **989,607** |
| Financial income etc. | 3 | 11,671 | 19,314 |
| Financial expenses etc. | 3 | -50,251 | -47,527 |
| Corporation tax | 4 | -268,001 | -207,657 |
| **Cash flow from operating activities (CFFO)** | | **735,358** | **753,737** |
| Acquisition of undertakings | 1 | -30,066 | 0 |
| Expensed investments under DKK 50,000 | | -18,430 | -16,942 |
| Investment in intangible assets* | | -17,640 | -737 |
| Disposal of intangible assets | | 0 | 18 |
| Investment in tangible fixed assets* | | -301,451 | -120,118 |
| Disposal of tangible fixed assets | | 8,222 | 12,694 |
| Financial asset investments | | -36,869 | -13,153 |
| **Cash flow from investing activities (CFFI)** | | **-396,234** | **-138,238** |
| Change in debt, net | | -56,653 | -113,564 |
| Sale of own shares to Group employees | | 15,049 | 0 |
| Buyback of own shares | | -611,468 | -541,469 |
| Other adjustments | | -34,812 | -41,889 |
| **Cash flow from financing activities (CFFF)** | | **-687,884** | **-696,922** |
| **Net cash flow position for the year** | | **-348,760** | **-81,423** |
| Net cash position at 1 January | | -185,581 | -104,158 |
| **Net cash position at 31 December** | | **-534,341** | **-185,581** |
| **Break-down of net cash position at year-end:** | | | |
| Liquid funds | | 126,434 | 108,144 |
| Interest-bearing short-term debt | | -660,775 | -293,725 |
| | | **-534,341** | **-185,581** |

* Not including additions from acquired undertakings.

## Note 1 – Acquisition of undertakings (DKK - in thousands)

| GROUP | 2004 | 2003 |
|---|---|---|
| Fixed assets | 1,966 | 0 |
| Inventories | 1,517 | 0 |
| Debtors | 4,863 | 0 |
| Short-term creditors | -14,818 | 0 |
| Liquid funds, net | 14,152 | 0 |
| **Acquired assets, net** | **7,680** | 0 |
| Goodwill | 36,538 | 0 |
| **Acquisition cost** | **44,218** | 0 |
| Of which liquid funds | -14,152 | 0 |
| **Cash acquisition cost** | **30,066** | 0 |

## Note 2 – Segment information (DKK - in thousands)

| GROUP | Net revenue | | Fixed assets | | Liabilities | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Europe | 2,067,774 | 1,818,742 | 673,835 | 436,573 | 1,145,659 | 760,988 |
| North America | 1,507,263 | 1,383,682 | 100,057 | 76,323 | 563,384 | 656,721 |
| Asia | 270,718 | 239,748 | 18,253 | 12,594 | 31,051 | 22,010 |
| Pacific Rim | 309,114 | 302,083 | 21,753 | 17,125 | 36,229 | 38,828 |
| Other countries | 147,873 | 125,438 | 8,653 | 8,508 | 11,913 | 14,264 |
| **Total** | **4,302,742** | 3,869,693 | **822,551** | 551,123 | **1,788,236** | 1,492,811 |

Net revenue by customer location.

## Note 3 – Net financials (DKK - in thousands)

| PARENT COMPANY 2003 | PARENT COMPANY 2004 | | GROUP 2004 | GROUP 2003 |
|---|---|---|---|---|
| 6,041 | 6,133 | Interest income from subsidiary undertakings | - | - |
| 5,903 | 908 | Interest income | 10,927 | 14,914 |
| 4,330 | 648 | Realised foreign exchange gains | 648 | 4,330 |
| 70 | 96 | Non-realised foreign exchange gains | 96 | 70 |
| 16,344 | **7,785** | **Financial income** | **11,671** | 19,314 |
| -13,151 | -14,362 | Interest expenses to subsidiary undertakings | - | - |
| -9,516 | -12,306 | Interest expenses | -49,338 | -47,345 |
| -49 | -320 | Realised foreign exchange losses | -320 | -49 |
| -133 | -593 | Non-realised foreign exchange losses | -593 | -133 |
| -22,849 | **-27,581** | **Financial expenses** | **-50,251** | -47,527 |
| -6,505 | **-19,796** | **Net financials** | **-38,580** | -28,213 |

## Note 4 – Corporation tax (DKK - in thousands)

| PARENT COMPANY 2003 | PARENT COMPANY 2004 | | GROUP 2004 | GROUP 2003 |
|---|---|---|---|---|
| | | **Tax on the year's profit** | | |
| 6,884 | 9,616 | Current tax on net profit for 2004 | -277,623 | -207,780 |
| -165,671 | -220,066 | Tax on net profit, jointly taxed Danish undertakings | - | - |
| -58,904 | -38,877 | Tax on net profit, other subsidiary and associated undertakings | - | - |
| 8,716 | 126 | Adjustments of current tax related to prior years | -5,853 | 8,275 |
| 381 | 10 | Change in deferred tax | 25,544 | -5,311 |
| 0 | -93 | Adjustments of deferred tax related to prior years | 7,110 | 0 |
| -458 | 0 | Other taxes | 1,538 | -4,236 |
| -209,052 | **-249,284** | **Total** | **-249,284** | -209,052 |

| | 2004 | 2003 |
|---|---|---|
| **Tax-rate reconciliation*** | | |
| Danish tax rate | 30.0% | 30.0% |
| Differences in tax rates of non-Danish undertakings from Danish tax rate | -0.4% | -1.4% |
| Utilisation of non-capitalised tax losses | -1.0% | -0.6% |
| Tax effect of employee share programme | -1.7% | 0% |
| Permanent differences | -0.4% | -1.7% |
| Other adjustments, prior years | -0.7% | -1.0% |
| **Effective tax rate** | **25.8%** | 25.3% |

| PARENT COMPANY 2003 | PARENT COMPANY 2004 | | GROUP 2004 | GROUP 2003 |
|---|---|---|---|---|
| | | **Corporation tax** | | |
| -22,188 | -20,503 | Corporation tax at 1 January | 9,384 | 20,477 |
| - | - | Foreign exchange adjustments | 139 | 364 |
| 0 | 0 | Acquisitions | 1,165 | 0 |
| 217,691 | 217,627 | Current tax on net profit for 2004 | 276,468 | 207,780 |
| -204,349 | -185,232 | Paid in 2004 | -268,001 | -207,657 |
| -8,716 | 1,521 | Adjustments of current tax related to prior years | 4,221 | -8,639 |
| -2,941 | -7,644 | Corporation tax related to changes in shareholders' equity | -7,644 | -2,941 |
| -20,503 | **5,769** | **Corporation tax at 31 December** | **15,732** | 9,384 |

* Tax-rate reconciliation for the parent company is not shown separately, the tax costs of the parent company and the Group being identical.

## Note 5 – Earnings per share

| | GROUP 2004 | GROUP 2003 |
|---|---|---|
| **Net profit for the year** (DKK - in thousands) | 716,399 | 618,281 |
| Average number of shares | 68,160,244 | 71,310,918 |
| Average number of own shares | -1,107,542 | -1,357,243 |
| Average number of shares on the market | **67,052,702** | 69,953,675 |
| **Earnings per share (EPS), DKK** | **10.7** | 8.8 |

## ■ Note 6 – Intangible assets (DKK - in thousands) GROUP

| | Patents and licences | Goodwill |
|---|---|---|
| Cost at 1 January 2004 | 7,503 | 9,202 |
| Reclassification | - | -1,407 |
| Foreign exchange adjustments | -21 | -641 |
| Additions in 2004 | 18,057 | 36,538 |
| **Cost at 31 December 2004** | **25,539** | **43,692** |
| | | |
| Amortisation at 1 January 2004 | -1,026 | -2,058 |
| Reclassification | - | 1,407 |
| Foreign exchange adjustments | 9 | 55 |
| Amortisation for the year* | -8,197 | -468 |
| **Amortisation at 31 December 2004** | **-9,214** | **-1,064** |
| | | |
| **Book value at 31 December 2004** | **16,325** | **42,628** |
| | | |
| **Book value at 31 December 2003** | **6,477** | **7,144** |

* Amortisation on intangible assets in the Group by function:

| | **2004** | 2003 |
|---|---|---|
| Research and development costs | -8,197 | -1,026 |
| Amortisation of goodwill | -468 | -387 |
| **Total** | **-8,665** | -1,413 |

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

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

Danish Accounting Standard 18 on capitalisation of goodwill is used for acquisitions made after 1 January 2002.

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

## ■ Note 7 – Tangible fixed assets (DKK - in thousands)

PARENT COMPANY

| | Land and buildings | Fixtures, tools and equipment |
|---|---|---|
| Cost at 1 January 2004 | 30,407 | 1,662 |
| **Cost at 31 December 2004** | **30,407** | **1,662** |
| | | |
| Depreciation at 1 January 2004 | -4,619 | -348 |
| Depreciation for the year | -838 | -316 |
| **Depreciation at 31 December 2004** | **-5,457** | **-664** |
| | | |
| **Book value at 31 December 2004** | **24,950** | **998** |
| | | |
| **Book value at 31 December 2003** | **25,788** | **1,314** |

* Depreciation on tangible fixed assets by function:

| | **2004** | 2003 |
|---|---|---|
| Administrative expenses | -1,154 | -1,140 |
| **Total** | **-1,154** | -1,140 |

## ■ **Note 7 – Tangible fixed assets continued** (DKK - in thousands) GROUP

| | Land and buildings | Production plant and machinery | Fixtures, tools and equipment | Leasehold improvements | Prepayments and plants under construction |
|---|---|---|---|---|---|
| Cost at 1 January 2004 | 217,214 | 311,918 | 360,449 | 77,738 | 3,694 |
| Foreign exchange adjustments | -3,055 | -4,190 | -5,814 | -858 | -12 |
| Additions in 2004 | 176,800 | 50,088 | 61,844 | 10,235 | 5,937 |
| Acquisitions | 960 | 129 | 840 | 37 | 0 |
| Disposals in 2004 | -4,028 | -9,120 | -23,326 | -3,071 | 0 |
| Transferred to/from other items | 0 | 1,068 | 972 | 1,153 | -3,193 |
| **Cost at 31 December 2004** | **387,891** | **349,893** | **394,965** | **85,234** | **6,426** |
| | | | | | |
| Depreciation at 1 January 2004 | -50,156 | -208,355 | -225,068 | -48,595 | - |
| Foreign exchange adjustments | 1,210 | 3,620 | 3,455 | 393 | - |
| Depreciation for the year | -8,033 | -40,047 | -53,840 | -8,877 | - |
| Disposals in 2004 | 2,539 | 7,793 | 18,871 | 1,245 | - |
| Transferred to/from other items | 0 | 408 | -408 | 0 | - |
| **Depreciation at 31 December 2004** | **-54,440** | **-236,581** | **-256,990** | **-55,834** | **-** |
| | | | | | |
| **Book value at 31 December 2004** | **333,451** | **113,312** | **137,975** | **29,400** | **6,426** |
| | | | | | |
| **Book value at 31 December 2003** | **167,058** | **103,563** | **135,381** | **29,143** | **3,694** |

* Depreciation on tangible fixed assets by function:

| | **2004** | **2003** |
|---|---|---|
| Production costs | -39,667 | -34,180 |
| Research and development costs | -25,246 | -23,823 |
| Distribution costs | -32,410 | -26,166 |
| Administrative expenses | -13,474 | -14,450 |
| **Total** | **-110,797** | **-98,619** |

The value of Group land and buildings in Denmark according to the public valuation at 1 January 2004 amounts to DKK 295 million (DKK 85 million in 2003) against a book value of DKK 207 million (DKK 92 million in 2003).

The purchase sum for the new property at Smørum was DKK 171 million, of which capitalised interest amounts to DKK 0.3 million.

PARENT COMPANY | **Note 8 – Financial asset investments** (DKK - in thousands) | GROUP

| Shares in subsidiary undertakings | Securities and participating interests | | Shares in associated undertakings | Securities and participating interests | Debtors |
|---|---|---|---|---|---|
| 1,381,180 | 301 | Cost at 1 January 2004 | 850 | 10,312 | 34,365 |
| - | - | Foreign exchange adjustments | 0 | 0 | -692 |
| 18,622 | 0 | Acquisitions | 0 | 0 | 0 |
| 4,069 | 0 | Additions in 2004 | 0 | 6 | 43,814 |
| -11 | 0 | Disposals in 2004 | 0 | 0 | -9,105 |
| **1,403,860** | **301** | **Cost at 31 December 2004** | **850** | **10,318** | **68,382** |
| -588,998 | 805 | Value adjustments at 1 January 2004 | 1,324 | -8,592 | -1,163 |
| -6,384 | 0 | Foreign exchange adjustments | 0 | 0 | 2 |
| 1,036,615 | - | Profit-making undertakings | 5,617 | - | - |
| -62,523 | - | Loss-producing undertakings | -1,255 | - | - |
| -258,943 | - | Tax on the year's profits | 0 | - | - |
| -34,730 | - | Change in internal profits on inventories | 0 | - | - |
| -411,308 | - | Dividends received | 0 | - | - |
| 131,879 | - | Changes in long-term Group loans | 0 | - | - |
| 5,558 | 450 | Other changes | -2,708 | 312 | 878 |
| **-188,834** | **1,255** | **Value adjustments at 31 December 2004** | **2,978** | **-8,280** | **-283** |
| **1,215,026** | **1,556** | **Book value at 31 December 2004** | **3,828** | **2,038** | **68,099** |
| **792,182** | **1,106** | **Book value at 31 December 2003** | **2,174** | **1,720** | **33,202** |

The book value of shares in subsidiary undertakings includes capitalised goodwill in the net amount of DKK 40 million (DKK 7.1 million in 2003). The year's amortisation amounts to DKK 0.5 million (DKK 0.4 million in 2003).

Group undertakings are listed on page 39.

| PARENT COMPANY | | **Note 9 – Deferred tax** (DKK - in thousands) | GROUP | |
|---|---|---|---|---|
| 2003 | **2004** | | **2004** | 2003 |
| 3,545 | 3,926 | Deferred tax, net asset at 1 January | -11,883 | -17,194 |
| - | - | Foreign exchange adjustments | 695 | 199 |
| 381 | -10 | Change in deferred tax, asset | -25,573 | 9,348 |
| 0 | 93 | Adjustments of deferred tax related to prior years | -7,068 | 0 |
| 0 | 18 | Deferred tax related to changes in shareholders' equity | 1,889 | -4,236 |
| 3,926 | **4,027** | **Deferred tax, net asset at 31 December** | **-41,940** | -11,883 |

| Tax assets | Tax liabilities | **Specification of deferred taxes at 31 December 2004** | Tax assets | Tax liabilities |
|---|---|---|---|---|
| 0 | 0 | Intangible assets | 276 | 4,162 |
| 0 | 3,642 | Tangible fixed assets | 6,935 | 8,629 |
| 0 | 0 | Inventories | 46,688 | 12,093 |
| 0 | 0 | Debtors | 4,017 | -279 |
| 0 | 0 | Other provisions | 9,296 | -67 |
| 0 | 0 | Tax losses carried forward | 11,331 | 0 |
| 0 | 385 | Other | -9,474 | 2,591 |
| **0** | **4,027** | **Total** | **69,069** | **27,129** |

## Note 10 – Holding of shares

GROUP

| | Shares/ share capital (1,000 pcs) | Own shares (1,000 pcs) | Percentage of share capital |
|---|---|---|---|
| **Shares at 1 January 2004** | **70,294** | **1,766** | **2.5%** |
| Additions in 2004 | 0 | 2,715 | - |
| Reduction in share capital in 2004 | -2,779 | -2,779 | - |
| Distribution of own shares to employees | - | -119 | - |
| Employee share programme | - | -174 | - |
| **Shares at 31 December 2004** | **67,515** | **1,409** | **2.1%** |

On buyback or sale of own shares, the acquisition cost or divestment sum, respectively, is included direct as an expense or income in retained earnings under shareholders' equity.

The Company's share buyback programme continued in 2004. The Company acquired a total of 2,715,247 own shares (3,412,652 own shares in 2003) at an amount of DKK 611 million (DKK 541 million in 2003). In 2004, on the occasion of its centenary, the Company distributed a number of shares to the employees and launched an employee share programme. Of the Company's holding of own shares, Group employees acquired 292,988 shares at a total price of DKK 15 million.

| PARENT COMPANY | | ■ **Note 11 – Shareholders' equity** (DKK - in thousands) | GROUP | |
|---|---|---|---|---|
| 2003 | **2004** | | **2004** | 2003 |
| 74,713 | 70,294 | Share capital at 1 January | 70,294 | 74,713 |
| -4,419 | -2,779 | Reduction of share capital | -2,779 | -4,419 |
| 70,294 | **67,515** | **Share capital at 31 December** | **67,515** | 70,294 |
| -40,149 | -73,317 | Exchange rate adjustments at 1 January* | -73,317 | -40,149 |
| -1,163 | -2,296 | Translation from P&L rate to balance-sheet rate | -2,296 | -1,163 |
| 23,660 | 40,653 | Foreign subsidiary/associated undertakings | 40,653 | 23,660 |
| -55,665 | -52,108 | Subordinate loan capital etc. | -52,108 | -55,665 |
| -73,317 | **-87,068** | **Exchange rate adjustments at 31 December** | **-87,068** | -73,317 |
| 353,054 | 525,184 | Retained earnings at 1 January | 525,184 | 353,054 |
| 40,149 | 0 | Transferred exchange rate adjustments | 0 | 40,149 |
| 393,203 | **525,184** | **Adjusted retained earnings at 1 January** | **525,184** | 393,203 |
| 168,598 | 185,578 | Value adjustments of hedging instruments at year-end | 185,578 | 168,598 |
| -125,025 | -168,598 | Reversal of value adjustments of hedging instruments at year-start | -168,598 | -125,025 |
| 0 | 15,049 | Proceeds from sale of own shares to employees | 15,049 | 0 |
| 2,941 | 7,644 | Corporation tax related to changes in shareholders' equity | 7,644 | 2,941 |
| 4,236 | -1,889 | Deferred tax related to changes in shareholders' equity in subsidiary undertakings | -1,889 | 4,236 |
| 4,419 | 2,779 | Reduction of share capital | 2,779 | 4,419 |
| -541,469 | -611,468 | Write-down of own shares | -611,468 | -541,469 |
| 618,281 | 716,399 | Transferred from profit and loss account | 716,399 | 618,281 |
| 525,184 | **670,678** | **Retained earnings at 31 December** | **670,678** | 525,184 |
| 522,161 | **651,125** | **Shareholders' equity at 31 December** | **651,125** | 522,161 |

* In the period from 1 January 2002.

After the reduction in share capital in 2004, the share capital of nominally DKK 67,514,816 is now divided into the corresponding number of shares of DKK 1 or multiples thereof. At year-end 2004, the number of shares on the market was 66.1 million, the Company's holding of own shares being 1,408,912. Own shares are not included in key figures and ratios for the period, in which such shares have been held by the Company.

| **Specification of movements in share capital** | **2000** | **2001** | **2002** | **2003** | **2004** |
|---|---|---|---|---|---|
| **Share capital at year-start** | 74,377 | 74,713 | 74,713 | 74,713 | 70,294 |
| Increase of share capital | 336 | 0 | 0 | 0 | 0 |
| Reduction of share capital | 0 | 0 | 0 | -4.419 | -2,779 |
| **Share capital at year-end** | **74,713** | **74,713** | **74,713** | **70,294** | **67,515** |

| PARENT COMPANY | | ■ **Note 12 – Other provisions** (DKK - in thousands) | GROUP | |
|---|---|---|---|---|
| 2003 | **2004** | | **2004** | 2003 |
| 0 | 0 | Other provisions at 1 January | 15,216 | 12,546 |
| - | - | Foreign exchange adjustments | -265 | -47 |
| 0 | 0 | Provisions for the year | 2,492 | 4,159 |
| 0 | 0 | Used in 2004 | -1,162 | -1,366 |
| 0 | 0 | Reversed in 2004 | -2,097 | -76 |
| 0 | **0** | **Other provisions at 31 December** | **14,184** | 15,216 |

Other provisions include estimated costs in respect of pensions, retirement payment etc.

| PARENT COMPANY | | ■ **Note 13 – Long-term creditors** (DKK - in thousands) | GROUP | |
|---|---|---|---|---|
| 2003 | **2004** | | **2004** | 2003 |
| 50,000 | 0 | Long-term creditors, payable after 5 years | 0 | 50,000 |

| PARENT COMPANY | | ■ **Note 14 – Rent and lease obligations** (DKK - in thousands) | GROUP | |
|---|---|---|---|---|
| 2003 | **2004** | | **2004** | 2003 |
| 0 | 0 | Rent | 113,577 | 103,548 |
| 0 | 0 | Other operating leases | 20,640 | 14,373 |
| 0 | **0** | **Total** | **134,217** | 117,921 |
| | | | | |
| 0 | 0 | Operating leases, less than 1 year | 54,422 | 43,751 |
| 0 | 0 | Operating leases, 1-5 years | 66,536 | 60,019 |
| 0 | 0 | Operating leases, over 5 years | 13,259 | 14,151 |
| 0 | **0** | **Total** | **134,217** | 117,921 |

| PARENT COMPANY | | ■ **Note 15 – Contingent liabilities** (DKK - in thousands) | GROUP | |
|---|---|---|---|---|
| 2003 | **2004** | | **2004** | 2003 |
| 170,294 | 95,152 | Guarantee commitments in respect of subsidiary undertakings' credit lines | 0 | 0 |
| 64,333 | 34,920 | Utilised | 0 | 0 |

William Demant Holding A/S acts as a guarantor for the joint credit facility established with its subsidiary undertaking, Oticon A/S, in the amount of DKK 475 million.

The jointly taxed Danish undertakings are jointly and severally liable for tax on the consolidated taxable income.

The William Demant Holding Group is party to a few lawsuits, the outcomes of which, in the Management's and the Board of Directors' opinion, are insignificant in terms of the financial position of the Group.

Land and buildings at a book value of DKK 20 million have been provided in security of a mortgage debt of DKK 3 million.

## Note 16 – Employees (DKK - in thousands)

| PARENT COMPANY 2003 | PARENT COMPANY 2004 | | GROUP 2004 | GROUP 2003 |
|---|---|---|---|---|
| | | **Employee costs:** | | |
| 11,608 | 15,037 | Wages and salaries | 1,240,474 | 1,132,159 |
| 330 | 328 | Pensions | 23,309 | 21,419 |
| 29 | 33 | Social security costs etc. | 102,612 | 99,294 |
| 11,967 | **15,398** | **Total** | **1,366,395** | 1,252,872 |
| | | Of which remuneration of Management and Board of Directors: | | |
| 5,701 | 6,038 | Management | 6,038 | 5,701 |
| 1,470 | 1,660 | Board of Directors | 1,958 | 1,750 |
| 7 | 8 | Average number of full-time employees* | 4,490 | 4,272 |

* The number of employees in pro rata-consolidated undertakings is included in Group staff with the Group's percentage interest in the particular undertakings. The average number of such employees is 536 (554 in 2003), the William Demant Holding Group accounting for 264 (272 in 2003).

## Note 17 – Fees to auditors (DKK - in thousands)

| PARENT COMPANY 2003 | PARENT COMPANY 2004 | | GROUP 2004 | GROUP 2003 |
|---|---|---|---|---|
| | | **Deloitte** | | |
| 425 | 440 | Audit fees | 3,093 | 1,854 |
| 317 | 230 | Other fees | 967 | 750 |
| | | **KPMG** | | |
| 425 | 440 | Audit fees | 3,717 | 4,275 |
| 643 | 566 | Other fees | 2,895 | 3,338 |

## Note 18 – Related parties

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

The Oticon Foundation lets office and production premises on a commercial basis to Oticon A/S and the joint venture Sennheiser Communications A/S amounting to DKK 12 million against DKK 11 milllion in 2003. The Oticon Foundation and William Demant Invest A/S pay administrative fees amounting to DKK 0.7 million (DKK 0.6 million in 2003) and DKK 0.8 million (DKK 0 million i 2003), respectively.

William Demant Holding A/S and the Oticon Foundation have furthermore made an agreement that the Company seeks to identify active investment opportunities, and following any such investment the Company will be in charge of the control and development of the particular investments. In each case, a management agreement will be made on commercial terms.

## Note 19 – Government grants

Neither in 2003 nor in 2004 has the William Demant Holding Group received any significant Government grants.

| *Company* | *Interest* |
|---|---|
| **William Demant Holding A/S, Denmark** | **Parent company** |

| *Subsidiary undertakings* | |
|---|---|
| Oticon A/S, Denmark | 100% |
| Oticon AS, Norway | 100% |
| Oticon AB, Sweden | 100% |
| Oy Oticon Ab, Finland | 100% |
| Oticon GmbH, Germany | 100% |
| Oticon Nederland B.V., the 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 Hörgeräte GmbH, Germany | 100% |
| Bernafon S.r.l., Italy | 100% |
| Maico S.r.l., Italy | 100% |
| Bernafon U.K. Ltd., United Kingdom | 100% |
| Bernafon, LLC, USA | 100% |
| Bernafon Canada Ltd., Canada | 100% |

| *Subsidiary undertakings* | |
|---|---|
| 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 Inc., USA | 100% |
| Phonic Ear Ltd., Canada | 100% |
| Phonic Ear 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% |
| Inmed Sp. z o.o., Poland | 100% |
| Hidden Hearing (UK) Ltd., United Kingdom | 100% |
| Hidden Hearing (Portugal), Unipessoal Lda., Portugal | 100% |
| Hidden Hearing Limited, Ireland | 100% |
| Akoustica Medica M EPE, (Hidden Hearing), Greece | 100% |
| Digital Hearing (UK) Ltd., United Kingdom | 100% |
| Centro Auditivo Telex S.A., Brazil | 100% |

| *Joint-venture companies* | |
|---|---|
| Sennheiser Communications A/S, Denmark | 50% |
| American Hearing Aid Association, Inc. (AHAA), USA | 49% |
| Bernafon Nederland B.V., the Netherlands | 49% |
| Hearing Healthcare Management, Inc. (Avada), USA | 49% |

| *Associated companies* | |
|---|---|
| HIMSA A/S, Denmark | 25% |
| NewDae Technologies Inc., Canada | 25% |

The list includes all active Group undertakings.

Oticon's new head office in Smørum on the outskirts
of Copenhagen. The Company expects to move in
during the summer of 2005.

William Demant Holding

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