Annual Report 2005

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 enterprises 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 enterprises 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 covers 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.

William Demant Holding A/S

Hearing Aids	Hearing Aids	Diagnostic Instruments	Personal Communication
Oticon	Bernafon	Maico Diagnostics Interacoustics	Phonic Ear Sennheiser Communications

Shared functions

Operational activities

Distribution activities

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 at any time 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 22 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 the products represent some of the most attractive combinations on the market in terms of performance and price. Today, Bernafon sells its products through 14 sales companies and over 60 independent distributors.




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, among other products, 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 and Sennheiser Communications.

Phonic Ear develops, manufactures and distributes wireless communication equipment and assistive listening devices. Phonic Ear's business is split in three main areas: Active Learning Systems, Assistive Listening Devices (ALD) and Assistive Listening Systems (ALS).

Among other products, Active Learning Systems comprises audio systems for classrooms (FrontRow). ALD like for instance alarm systems, teleloop amplifiers and amplifier phones are typically used by hearing impaired in their private homes, whereas ALS comprise equipment such as teleloop and audio systems for residential nursing homes, churches, cinemas, theatres etc. Phonic Ear's products are sold through own distribution companies in Denmark and North America and through distributors or Group hearing-aid companies in the rest of the world.

Sennheiser Communications, a joint venture created by German Sennheiser electronic GmbH & Co. KG and the William Demant Holding Group, develops, manufactures and markets hand-free communication solutions, mainly headsets, for both professional users and for home use. The products are sold 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 sales companies 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	2001	2002	2003	2004	2005
Net revenue	3,506.2	3,923.7	3,869.7	4,302.7	4,716.1
Gross profit	2,230.0	2,505.3	2,521.3	2,858.5	3,133.3
Operating profit (EBIT)	683.1	810.2	855.5	1,003.7	1,102.8
Net financials	-43.3	-30.8	-28.2	-38.6	-36.8
Profit before tax	639.7	779.4	827.3	965.1	1,066.0
Net profit for the year	481.4	578.6	618.3	716.9	790.6
BALANCE SHEET, DKK MILLION					
Interest-bearing items, net	-897.3	-741.7	-632.9	-901.8	-1,109.8
Total assets	2,006.5	1,991.6	2,015.0	2,440.9	2,893.4
Shareholders' equity	162.8	427.8	522.2	645.6	756.5
OTHER KEY FIGURES, DKK MILLION					
Research and development costs	253.0	272.2	294.9	324.2	382.5
Depreciation etc.	98.1	108.0	117.0	140.2	148.8
Investment in tangible assets, net	168.9	114.2	124.4	311.7	351.4
Cash flow from operating activities (CFFO)	317.4	669.4	753.7	719.7	891.8
Free cash flow	133.7	548.8	615.5	353.5	467.7
Cash earnings (CE)	580.1	686.6	735.3	857.1	939.4
Employees (average)	3,997	4,208	4,272	4,490	4,730
RATIOS					
Gross profit ratio	63.6%	63.9%	65.2%	66.4%	66.4%
Profit margin	19.5%	20.6%	22.1%	23.3%	23.4%
Return on equity	179.2%	168.0%	139.8%	134.2%	106.7%
Equity ratio	8.1%	21.5%	25.9%	26.4%	26.1%
Earnings per share (EPS), DKK*	6.5	7.9	8.8	10.7	12.2
Cash flow per share (CFPS), DKK*	4.3	9.1	10.8	10.7	13.7
Free cash flow per share, DKK*	1.8	7.5	8.8	5.3	7.2
Cash earnings per share (CEPS), DKK*	7.8	9.4	10.5	12.8	14.4
Dividend per share, DKK*	0	0	0	0	0
Book value per share, DKK*	2.2	5.9	7.5	9.6	11.6
Price earnings (P/E)	33	19	23	24	29
Share price, DKK*	216	152	200	257	350
Market capitalisation adjusted for own shares, DKK million	15,981	10,935	13,710	16,989	22,315
Average number of shares, million	74.16	73.31	69.95	67.05	65.03

Comparative key figures and ratios for 2004 have been restated to match accounting policies on transition to IFRS, see page 30.

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	2001	2002	2003	2004	2005
Net revenue	470.0	525.9	518.7	576.7	632.1
Gross profit	298.9	335.8	338.0	383.2	420.0
Operating profit (EBIT)	91.6	108.6	114.7	134.5	147.8
Net financials	-5.8	-4.1	-3.8	-5.2	-4.9
Profit before tax	85.7	104.5	110.9	129.4	142.9
Net profit for the year	64.5	77.6	82.9	96.1	106.0
BALANCE SHEET, EUR MILLION					
Interest-bearing items, net	-120.3	-99.4	-84.8	-120.9	-148.8
Total assets	268.9	266.9	270.1	327.2	387.8
Shareholders' equity	21.8	57.3	70.0	86.5	101.4
OTHER KEY FIGURES, EUR MILLION					
Research and development costs	33.9	36.5	39.5	43.5	51.3
Depreciation etc.	13.1	14.5	15.7	18.8	20.0
Investment in tangible assets, net	22.6	15.3	16.7	41.8	47.1
Cash flow from operating activities (CFFO)	42.5	89.7	101.0	96.5	119.5
Free cash flow	17.9	73.6	82.5	47.4	62.7
Cash earnings (CE)	77.8	92.0	98.6	114.9	125.9
Employees (average)	3,997	4,208	4,272	4,490	4,730
RATIOS					
Gross profit ratio	63.6%	63.9%	65.2%	66.4%	66.4%
Profit margin	19.5%	20.6%	22.1%	23.3%	23.4%
Return on equity	179.2%	168.0%	139.8%	134.2%	106.7%
Equity ratio	8.1%	21.5%	25.9%	26.4%	26.1%
Earnings per share (EPS), EUR*	0.9	1.1	1.2	1.4	1.6
Cash flow per share (CFPS), EUR*	0.6	1.2	1.4	1.4	1.8
Free cash flow per share, EUR*	0.2	1.0	1.2	0.7	1.0
Cash earnings per share (CEPS), EUR*	1.0	1.3	1.4	1.7	1.9
Dividend per share, EUR*	0	0	0	0	0
Book value per share, EUR*	0.3	0.8	1.0	1.3	1.6
Price earnings (P/E)	33	19	23	24	29
Share price, EUR*	28.9	20.4	26.8	34.4	46.9
Market capitalisation adjusted for own shares, EUR million	2,142.1	1,465.7	1,837.7	2,277.2	2,991.1
Average number of shares, million	74.16	73.31	69.95	67.05	65.03

Comparative key figures and ratios for 2004 have been restated to match accounting policies on transition to IFRS, *see page 30.*

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 2005 of 746.05 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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Board of Directors

Niels Boserup, Chairman
President and CEO of Københavns Lufthavne A/S.
Chairman of the board of directors of TV 2/DANMARK A/S.

Lars Nørby Johansen, Deputy Chairman
Chairman of the board of directors of Falck A/S.
Deputy chairman of the board of directors of DONG A/S.
Deputy chairman of the board of directors of TV 2/DANMARK A/S.

Nils Smedegaard Andersen
President and CEO of Carlsberg A/S.
Member of the board of directors of A.P. Møller - Mærsk A/S.

Ivan Jørgensen
Staff representative.

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.
Member of the board of directors of Coloplast A/S.

Management

Niels Jacobsen, President & CEO
Member of the boards of directors of Novo Nordisk A/S and Nielsen & Nielsen Holding A/S. Niels Jacobsen is also a member of the boards of a number of wholly and jointly owned William Demant Group enterprises, 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 Thursday, 30 March 2006 at 4 p.m.
at Group headquarters
Kongebakken 9, 2765 Smørum, Denmark

Stig Michelsen, Ivan Jørgensen, Ole Lundsgaard, Niels Jacobsen, Niels Boserup, Lars Nørby Johansen, Nils Smedegaard Andersen, Michael Pram Rasmussen.

Management report

Strong cash flow, increased market shares and much stronger corporate development activities

Again in 2005, the William Demant Holding Group expanded its market position. Unit sales of Group-manufactured hearing aids rose by 18%, among other factors driven by Oticon Syncro and the successful mid-priced products Tego og Tego Pro from Oticon and SwissEar from Bernafon. The improvement is to be viewed in the light of an estimated market growth rate in 2005 of 4-6%. In other words, the Group gained market shares also in 2005. Developments in 2005 suggest that our business is in a stronger position than ever before.

The highlights of the year summarised in a few facts and figures:

- In 2005, the Group realised revenues of DKK 4,716 million, or 9.6% growth. In local currencies, growth was 8.4%.
- Operating profits (EBIT) totalled DKK 1,103 million, corresponding to 10% growth or a profit margin of 23.4%.
- Net profits rose 10% to DKK 791 million, and earnings per share (EPS) improved by 14% to DKK 12.2.
- Corporate cash flows from operating activities amounted to DKK 892 million, or 24% growth.
- Based on the year's substantial cash flows, the Company bought back shares worth DKK 695 million.

Realised revenues and operating profits (EBIT) matched the forecasts announced in our stock exchange announcement on 10 November 2005 on the quarterly review for the third quarter.

In many areas, the Group continued its strong focus on innovation and product development in 2005 in an effort to expand corporate growth potential on the long term:

- 2005 was another year of fruitful response to our research and development endeavours, which enabled us to launch a number of new, innovative products with considerable commercial potential. The five product launches in the spring, including Oticon's Tego and Tego Pro, were followed up in the autumn by the introductions of the thin-tube concept, Oticon Corda, the Oticon SAM envirometer and Bernafon's high-end instrument, ICOS.
- The autumn inauguration of our new head office and development centre at Smørum was a milestone in the Group's dedicated effort to always have the very best setting for innovation. Our vision was to create the leading and most exciting development facility in the hearing-aid industry. The move of 450 staff proceeded as planned.

- 2005 was also a year in which the development effort received a tremendous boost from an already very high platform. This was done to gear our business for the development of products with improved features and user benefits also in the future and involved an increase in R&D costs of 18% in 2005.

In 2006, revenues are forecast at DKK 5.2-5.3 billion corresponding to a growth in the underlying business of about 10%. Operating profits (EBIT) are estimated at DKK 1,225-1,275 million. Generally, we plan to increase the buy-back of shares substantially in 2006. We forecast a buy-back of shares of up to DKK 1 billion in 2006. With full utilisation of this frame, it will be an increase of over 40% on 2005. The growth in earnings per share (EPS) is estimated at 15-17% in 2006.

Business conditions

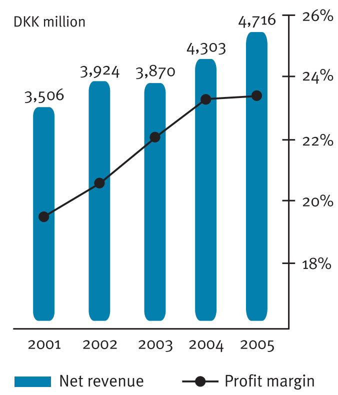
Hearing Aids

Growth in the global market for hearing aids continues in line with our long-term forecasts of 3-5%, with the underlying growth factors being more or less unchanged. Growth is, among other factors, underpinned by the continued 1.5-2.0% increase in the over sixties population in the OECD countries. Moreover, the number of hearing impaired fitted with hearing aids on both ears (binaural fitting) is growing. This growth will, however, decrease gradually in the future. Also, we see a somewhat higher growth rate in some developing countries, albeit from a low level.

In Europe, growth seems overall to match our forecasts. In some countries such as Norway and Holland, growth is higher, whereas other countries, e.g. Switzerland, lag somewhat behind.

For the year as a whole, growth on the US market also matched our expectations, but trends in the US embrace 4% growth in the private market and a drop of 6% in the public segment (Veterans Affairs).

Net revenue and profit margin



Since the fourth quarter of 2004, the William Demant Holding Group has only supplied very few hearing aids under the Veterans Affairs scheme.

Although mix changes between the various price segments are increasingly frequent, which may lead to periodic movements in average selling prices, we are of the opinion that also on the longer term the development in prices will contribute to market growth by 1-2 percentage points. The positive price effect is the result of new innovative products, which typically sell at 5-10% higher prices than the hearing aids they replace.

As forecast in the Annual Report 2004, tougher competition in the high-end market segment has been a distinguishing feature in 2005, because – as expected – many competitors launched hearing aids in this segment in 2005.

One of the major market trends in 2005 was that recent years' substantial growth in the sale of behind-the-ear (BTE) instruments compared with the sale of in-the-ear (ITE) instruments continued. A trend that was particularly conspicuous in the USA, where the proportion of BTE instruments rose from some 26% to 37% from the first quarter of 2004 to the fourth quarter of 2005. Compared with the first quarter of 2003, the increase was as high as 13 percentage points. The reason being solid growth in the sale of cosmetically attractive BTE instruments, which are typically based on thin tubes and open fittings.

The Group estimates that the market for cosmetically attractive thin-tube solutions now accounts for more than 10% of the total market. Almost all manufacturers have now introduced thin-tube instruments, and we are therefore convinced that in the next few years, the BTE market will outgrow the ITE market. Even though we were absent from the fastest growing market segment from 2003 to 2005, it is worth noting that during this period, the Group managed to capture market shares on a current basis. In summer 2005, Bernafon introduced SwissEar in this segment, and Oticon launched its universal thin-tube concept Oticon Corda, in late 2005. Over the next few years, we expect the two hearing-aid businesses together to achieve the same share of the thin-tube market as the Group's share of the hearing-aid market in general.

The first quarter of 2006 saw the launch of the Group's new, ground-breaking high-end hearing aid, Oticon Delta, which belongs to a new generation of communication solutions in the RITE (Receiver-In-The-Ear) category. Oticon Delta stands out from all the traditional ITE and BTE instruments on the market with its ultra-thin, almost invisible copper wire connecting a newly developed loudspeaker placed in the ear canal with a tiny, triangular, digital amplifier concealed behind the ear. Transferring the electronics to behind the ear makes space for an

entirely open fitting without compromising the cosmetic and auditory benefits of ITE instruments. For example, the potential of the loudspeaker is fully utilised by the location close to the ear drum while preserving the robustness and functionality of the BTE instrument. Designed for people with mild or high-frequency hearing losses, Oticon Delta offers all the functions characteristic of the best and most sophisticated products on the market. Delta has been designed to accommodate the functional and design preferences of the rapidly growing group of 50-65-year olds. So far, the so-called baby boomers have been reluctant to use hearing aids, but the Group sees Oticon Delta as the industry's most determined effort to overcome this generation's reservations about using hearing aids.

2005 was another year with many vital product launches from the Group's hearing-aid companies. Apart from the launch of Corda, Oticon in the spring introduced the second generation of its Syncro concept, which made a positive contribution in 2005. Syncro2 has several new functionalities including Syncro Memory (data logging) and an automatic Adaptation Manager for gradual increase of the amplification of the instrument to the desired level. In spring 2005, Oticon also introduced the Tego product brand including two complete product families, Tego and Tego Pro, which in terms of prices and functionalities together cover the entire mid-priced segment. Tego has had considerable success since its launch and has, in an extremely short time span, achieved a status as one of the world's best-selling hearing aids. This summer, Oticon launched Sumo DM, which is a very compact and sophisticated digital Super Power instrument for users with very profound hearing losses. Towards year-end, Oticon presented its new Syncro SAM (Sound Activity Meter), a so-called Envirometer™. Syncro SAM, which is pinned to the user's clothes, collects essential information on an ongoing basis about the hearing impaired's listening environment prior to a fitting session. Based on the recorded information, the fitter creates an Envirogram™, which provides a detailed picture of the most frequent listening environments of the particular hearing-impaired person. This enables the fitter to match the choice of instrument, functionalities and settings precisely to the user's needs.

Apart from SwissEar, Bernafon in spring 2005 launched the Win product family designed for the volume market. Win has contributed to Bernafon's continued growth in sales of less expensive hearing aids. In the autumn, Bernafon unveiled ICOS, a new high-end product. ICOS is a highly adaptive hearing aid with sophisticated fitting tools and a data logging system called ICOS Tracker. ICOS was released for sale in the first quarter of 2006.

In 2005, the sale of self-manufactured hearing aids rose by 18% against a market growth rate of about 4-6%. In other words, recent years' increase of market shares continued in 2005. Syncro, Tego Pro, Tego and GO, in particular, made a favourable contribution to unit

growth in the Oticon business, and in Bernafon, the major growth drivers were SwissEar, Neo and Win.

All the above instruments were launched in the past two years; a fact that emphasises the importance of being able to introduce new, ground-breaking products at the right prices. In 2005, products launched in the past two years accounted for over half of the units sold and manufactured by Group enterprises. Outside the commercial market, Oticon's sales to the British National Health Service also contributed considerably to unit growth.

In addition to being competitive as regards user benefits and product concepts, the Group's hearing-aid companies are also met with a demand for high flexibility in the distribution link. In some cases, for instance, manufacturers must be willing to participate as a finance source in connection with business succession plans or an expansion of the business. In 2005, the Group took over a few minor distribution businesses and in some cases provided financing for new or existing customers.

The corporate effort to implement the so-called SLA technology (stereolithography) for the production of ITE instruments is progressing as planned. SLA technology is based on 3D scanning of the ear impression, which is modelled on a PC. The individually modelled shells are then manufactured automatically by means of a 3D printer. In 2005, Oticon and Bernafon implemented the new technology at another two production sites so that the Group now has seven SLA units. Moreover, scanners and modelling units have been installed locally in a large number of other Group enterprises. Via electronic data transfer, these scanners make it possible to have shells produced at one of the seven major ITE production sites. Further scanners and modelling units are scheduled for installation locally in 2006. At year-end, over three fourths of Group ITE instruments were made using the new SLA technology.

In the short term, SLA technology will not appreciably improve corporate profitability because initial investments are high and so are running-in costs and costs for IT systems, which are necessary to support joint production across national borders. However, in the long term, ITE instruments designed specially for the new technology will result in lower unit costs. SLA technology will also enable the production of more precise, individualised hearing aids; a feature that has already in selected markets reduced the proportion of hearing aids needing correction due to faulty shaping.

The move at the end of October 2005 to new corporate headquarters at Smørum, 25 km north-west of Copenhagen, marked the beginning of a new era for corporate hearing-aid activities. While solving immediate space requirements, the move also paved the way for the world's leading and most exciting development facility for hearing aids. We are convinced that the new ultramodern facilities with sound studios, measuring equipment and laboratories will promote innovation and productivity in corporate development activities. The move will thus support the Group's ability to also in future launch innovative hearing aids based on the most sophisticated functionalities in all segments of the market. The move of our 450 staff proceeded as planned. In connection with the move from the rented premises in central Copenhagen, the Group sold off furniture and fixtures in the amount of DKK 10 million.

In 2005, corporate retail activities saw a slightly weaker trend than the Group as a whole.

Diagnostic Instruments

In 2005, Diagnostic Instruments that include the two audiometer enterprises, Maico and Interacoustics, generated nice two-digit growth rates in a market with an underlying 3-5% rate of growth. This business area continued its positive trend by capturing sizeable market shares.

Growth was broadly founded with progress in all product categories, albeit with equipment for hearing-aid fitting and brain cell audiometry developing particularly favourably. Especially Interacoustics' launch in the second quarter of 2004 of Affinity, a PC-based audiometer and fitting system, contributed positively to growth in this business area in 2005, and so did a targeted sales and marketing effort.

The diagnostic instruments industry continued its consolidation in 2005, now with four major players accounting for about 70% of revenues and with William Demant Holding's diagnostic business as the third-largest in the industry. However, the industry still has a fairly large number of small local manufacturers and many small, niche-oriented manufacturers.

The favourable sales and earnings trends in the Diagnostic Instruments business area are expected to continue in 2006.

Personal Communication
Personal Communication comprising Phonic Ear and the joint venture, Sennheiser Communications, saw a slight improvement in 2005, with flat development in Phonic Ear and fair growth in Sennheiser Communications.

In the future, Phonic Ear will comprise three business areas: Active Learning Systems, Assistive Listening Devices and Assistive Listening Systems.

In 2005, Phonic Ear bolstered its position within Active Learning Systems with the introduction of FrontRow (previously Soundfield) that encompasses school systems consisting of a wireless microphone worn by the teacher and a loudspeaker with a built-in wireless receiver. The FrontRow system is used in classrooms to maintain students' attention in noisy environments with poor acoustics. So far, Active Learning Systems have been particularly popular in North America, UK, Australia and New Zealand. In 2006, Phonic Ear will continue to highlight this area, also on a number of other markets.

Personal FM equipment was previously a focus area for Phonic Ear. In conjunction with the development within the area of Personal FM equipment (PFM), Phonic Ear's activities in this area are however being transferred to Oticon's paediatric business. PFM are wireless systems primarily used in classrooms with the teacher wearing a microphone with a wireless transmitter and the hearing-impaired student wearing a receiver. The transfer of PFM from Phonic Ear to Oticon mirrors Oticon's growing interest in the paediatric market, which is currently experiencing healthy growth driven among other things by the introduction of infant screening programmes in several countries. The FM receivers worn by students are undergoing particularly rapid development. In the past, receivers used to be separate, body-worn instruments, whereas today they are tiny units clicked directly onto the hearing aid. The trend towards integrating FM receivers into the hearing aid is another reason for transferring the activities.

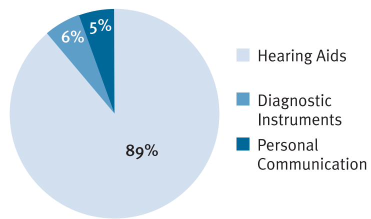
Sennheiser Communications, a corporate joint venture in the headset area, is owned and operated in collaboration with German Sennheiser electronic GmbH & Co. KG. In 2005, Sennheiser Communications saw fair growth in all product areas and thus continued the upward trend in the sale of headsets for telecommunications and PC users. It presented its first wireless Bluetooth headset, BW-900, in 2005. BW-900 is designed for the so-called SOHO segment (Small Office/Home Office). Two of its distinguishing features are long range and outstanding sound quality. The launch has been slightly delayed compared to previous communications, but it is expected to be released for sale in 2006. In 2005, Sennheiser Communications furthermore complemented its product range in the multi-media and mobile segments. The business expects the positive trends to continue in 2006.

Financial statements for 2005

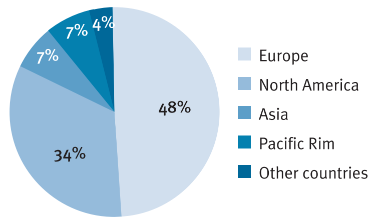
Revenues and foreign exchange conditions
Revenues for 2005 amounted to DKK 4,716 million, or 9.6% growth. Realised revenues matched our most recent forecasts. In terms of local currencies, growth amounted to 8.4%. Realised growth in 2005 should be viewed in the light of the fact that the comparative year 2004 was characterised by significant growth owing to the success of the high-end product Oticon Syncro. Overall, acquisitions contributed 0.6% to annual growth reflecting the fact that we did not carry through any major acquisitions in 2004 and 2005.

97% of consolidated revenues are generated outside Denmark. The revenue-related impact of movements in the Group's trading

Net revenue by business area

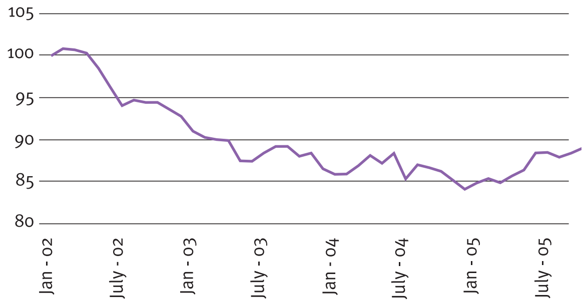


Net revenue by region



currencies is therefore substantial. The graph below shows the indexed development in the Group's trading currencies calculated on the basis of revenues generated in the various currencies in 2005 based on average exchange rates realised month by month.

Indexed development in trading currencies



January 2002 = 100

As the US market accounts for a significant slice of sales, revenues are particularly sensitive to movements in the USD rate. In 2005, the realised exchange rate of USD was 600, which is unchanged compared with 2004. At year-end 2005 and in the first few months of 2006, the USD rate has seen a strengthening compared with the rate realised in 2005. The USD will therefore have a positive effect on consolidated revenues in 2006, provided the current exchange rate remains unchanged throughout the year.

Valutakurser	USD	EUR	GBP	AUD	CAD	JPY
31 December 2003	596	744	1058	445	454	5.57
Realised rate 2004	599	744	1097	441	460	5.54
31 December 2004	547	744	1049	424	451	5.27
Realised rate 2005	600	745	1090	457	495	5.45
31 December 2005	632	746	1089	463	544	5.37
Realised rate January 2006	617	746	1088	462	532	5.34

In North America, the Group's core business generated satisfactory growth in the commercial market sector in 2005. Following the loss of the Veterans Affairs contract in the US in autumn 2004, most of the deliveries of hearing aids to Veterans Affairs have been terminated. This has had a negative impact of 3-4 percentage points on corporate growth rates in the region. Diagnostic Instruments saw fair growth in North America in 2005, whereas the development in the other business areas was slower. Overall, corporate activities in North America increased by 5%, and if adjusted for Veterans Affairs, growth was 8-9%. With lower growth rates in North America than in the rest of the world, consolidated revenues in this region accounted for 34% against 35% last year.

With 48% of revenues, Europe is still the Group's largest geographical area. Growth in Europe was 11% and was spread widely across all markets. Asia saw a rate of growth as high as 21%, driven by Japan and new markets such as China and Korea. The Pacific Rim region accounted for 9% growth.

Revenue by business area (DKK million)	**2004***	**2004****	**2005****
Hearing Aids	3,817	3,861	4,187
Diagnostic Instruments	242	243	271
Personal Communication	244	247	258
Total	**4,303**	**4,351**	**4,716**

**Computed at 2004 exchange rates **Computed at 2005 exchange rates*

The Group's hearing-aid business generated 10% growth in 2005. The development is satisfactory, in particular because the loss of the Veterans Affairs contract in 2004 had full impact on the revenues generated in 2005, and because the comparative year, 2004, saw significant growth driven by the successful launch of the high-end product, Syncro. The total unit sales of self-manufactured hearing aids rose 18% in 2005, which is to be viewed in the light of a market growth rate of about 4-6% in 2005. The product mix in the hearing-aid business in 2005 showed that growth in the mid-priced segment, led by Tego and Tego Pro, and rising sales to the NHS in the UK exceeded the growth in other business segments. In 2005, the Group's average selling prices in the various price segments were either unchanged or rising. Thus, a change in product mix was responsible for the reduction in the Group's average selling price in 2005.

Corporate retail sales, which now constitute about 20% of consolidated revenues, are included in the hearing-aid business. The Group's retail activities developed flatly in 2005.

Revenues from Diagnostic Instruments rose 12% in 2005. This business area continued its positive trend with progress in all product categories, increased market shares and continuous improvement of profitability, which was already at a satisfactory level.

In 2005, Personal Communication saw a minor 6% improvement in revenues with a flat trend for Phonic Ear and fair growth for Sennheiser Communications.

Gross profits

The Group generated gross profits of DKK 3,133 million in 2005, or an increase of 10%, resulting in a gross profit ratio of 66.4%, which is at the same level as last year. Sales of low-end and mid-priced products grew considerably in 2005, which had a negative impact on the gross profit ratio due to a lower gross contribution per product. However, continuous productivity improvements related to fewer working hours per instrument, better utilisation of existing capacity and a higher degree of processing of externally purchased components are on the positive side.

Capacity costs

The table below reflects the year's increase in capacity costs of 9.5%, which matches the improvement in revenues for the period.

			Percentage change	
Capacity costs (DKK million)	**2004**	**2005**	**DKK**	**Local currency**
R&D costs	324.2	382.5	18.0%	18.1%
Distribution costs	1,263.5	1,354.1	7.2%	6.0%
Administrative expenses	270.5	297.5	10.0%	8.2%
Total	**1,858.2**	**2,034.1**	**9.5%**	**8.4%**

Research & Development costs

In the Group's opinion, a continuous focus on innovation and product development is vital to ensure the Group's long-term growth potential. Substantial resources are therefore allocated to R&D activities to bring products on the market with improved user benefits. In pursuit hereof, R&D costs in 2005 rose 18%, which represents a higher increase than the development in sales and the underlying market. In 2005, R&D costs accounted for 8.1% of revenues against 7.5% in 2004. The fairly large increase in R&D costs mirrors the successful progress of several corporate development projects, most recently exemplified by the introduction of Oticon Delta and ICOS from Bernafon.

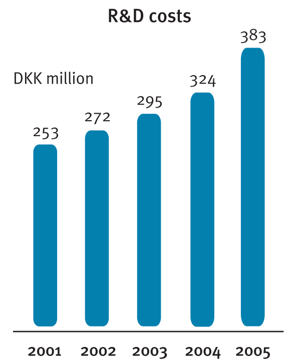
The development functions in the William Demant Holding Group collaborate across business areas and continents for maximum exploitation of know-how and knowledge. This policy ensures that basic technologies and special competencies developed for specific purposes in one part of the Group are being put to use in other corporate contexts for optimal exploitation of development resources. The purchase of our new domicile and development centre at Smørum, 25 kilometres north-west of Copenhagen, should be seen as part of our focused strategy to currently expand corporate development activities and create the very best setting for a strengthening of the Group's innovative force and competitiveness on the long term. In addition to state-of-the-art facilities in Denmark, the Group has major development centres in Switzerland, Germany and the USA. Furthermore, the Group is a member of research networks and institutions all over the world.

Distribution costs

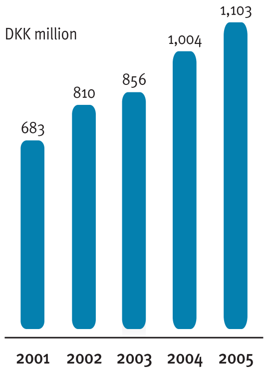
Distribution costs, which accounted for two thirds of capacity costs, rose 7%. Distribution costs for 2004 included costs in connection with customer-related activities on the occasion of Oticon's centenary celebrations, which explains the fairly modest increase in 2005. Fairly low growth in corporate retail activities in 2005, which involve relatively high distribution costs, also contributed to dampened growth at corporate level.

Administrative expenses

Administrative expenses rose 10% in 2005, matching the year's improvement in revenues. Growth was higher in the second half-



Operating profit (EBIT)



year. The explanation is that to some degree other operating income included in the calculation of consolidated administrative expenses positively impacted the restated comparative figure for the second half of 2004.

The year's profit

Operating profits (EBIT) amounted to DKK 1,103 million, matching the most recent forecasts. Operating profits amounted to 10% in 2005. Last year, operating profits (EBIT) rose as much as 17% driven by the successful launch of the high-end product, Oticon Syncro, which must be taken into account when considering operating profits for 2005. The consolidated profit margin in 2005 was 23.4%, which is similar to that of 2004.

Changes in exchange rates are hedged in two ways: by matching cash flows in major currencies as far as possible and by entering into forward-exchange contracts. With the Group's current use of forward-exchange contracts, budgeted cash flows are hedged with a horizon of 6-24 months. Thus, movements in exchange rates affect revenues immediately whereas the effect on earnings is somewhat delayed. Realised forward-exchange contracts are recognised in the profit and loss account together with the items hedged by such contracts.

The underlying development in earnings in 2005 matched reported profits with a modest exchange-rate impact for the year as a whole. The development was negative in the first half and positive in the second half-year.

At year-end 2005, the Group had entered into forward-exchange contracts at a nominal value of DKK 843 million (DKK 982 million at 31 December 2004) with a market value of DKK -2 million (DKK 35 million at 31 December 2004). The major contracts hedged the following currencies:

Currency	Hedging period	Hedging rate
USD	8 months	604
JPY	6 months	5.76
EUR	10 months	746
CAD	7 months	519

Share of profits after tax from associated undertakings totalled DKK 4 million, including income from HIMSA, the association through which the hearing-aid industry collaborates on a common software platform, NOAH.

Net financials amounted to DKK -37 million against DKK -39 million in 2004 despite an increase of well over DKK 200 million in consolidated interest-bearing net debt. The rise in net debt primarily consists of a long-term mortgage loan for financing of the purchase of the Group's new domicile. The explanation for net financials nevertheless showing

a minor improvement on 2004 is that interest paid on the mortgage loan was capitalised until occupancy of the building in the fourth quarter of 2005.

Pre-tax profits were DKK 1,066 million, or a 10% increase. Tax on the year's profits amounted to DKK 275 million, corresponding to an effective tax rate of 25.8%, which is at the same level as in 2004. The Group maintains its previous forecasts of a slightly increasing tax rate, which on the long term is expected to stabilise at a level matching the corporation tax rate in Denmark (28%). Convergence towards 28% will however stretch over a slightly longer period than previously assumed.

The year's profit amounted to DKK 791 million, which is an increase of 10% on 2004. Earnings per share (EPS) were DKK 12.2 against DKK 10.7 in 2004, or a 14% rise. The reason for the relatively higher growth in earnings per share compared with the rise in profits is the Group's current buy-back of shares, which in 2005 reduced the average number of shares by 2.0 million compared with 2004. For further details about the buy-back programme, we refer to the Capital section on page 22.

At the general meeting, the Directors will propose that all the year's profit be retained and transferred to the Company's reserves.

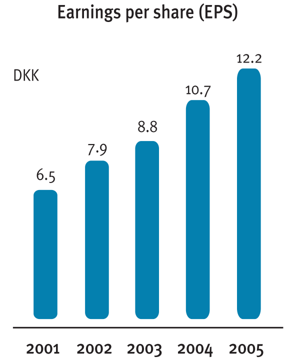
Shareholders' equity and capital

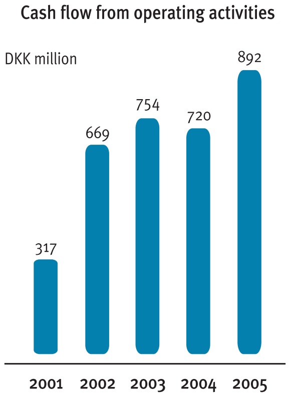
At 31 December 2005, shareholders' equity was DKK 756 million, an equity ratio of 26%.

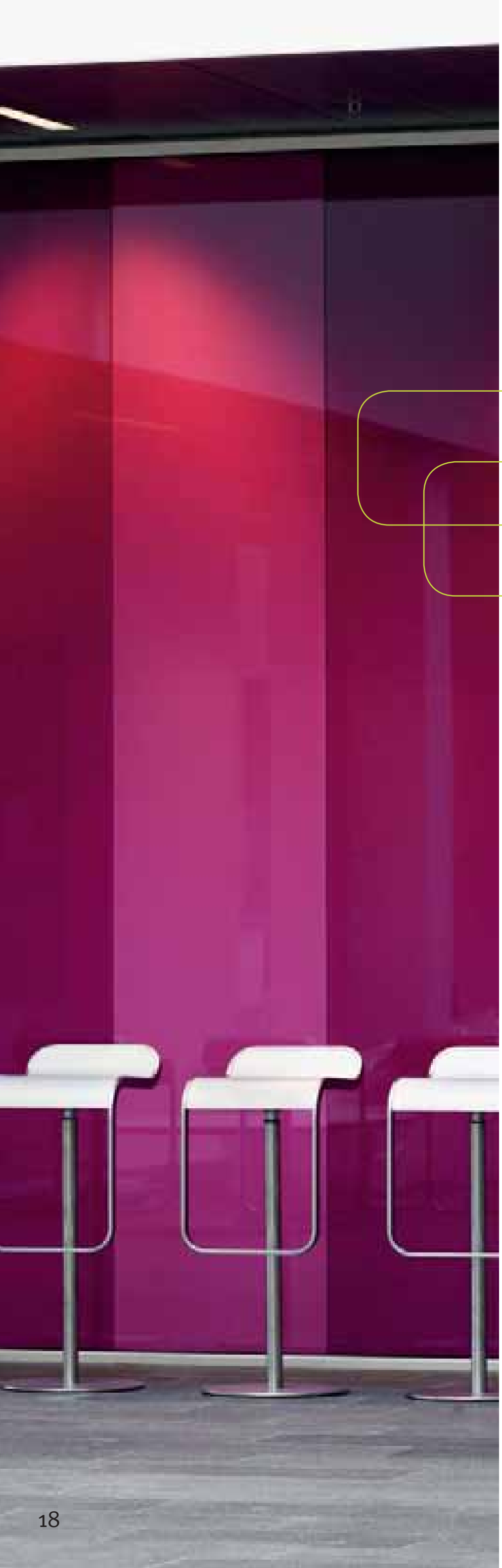
On the transition to IFRS financial reporting standards, shareholders' equity at 1 January 2004 was negatively impacted with DKK 6 million, see Accounting policies.

Consolidated shareholders' equity (DKK million)	**2004**	**2005**
Shareholders equity at 1.1.	522	646
Changes in accounting policies	-6	-
Adjusted shareholders' equity	**516**	**646**
Exchange adjustments of subsidiary undertakings	-14	-26
Value adjustments of hedging instruments	17	-49
Buy-back of shares	-611	-695
Proceeds from sales of own shares to employees	15	0
Profit for the period	717	791
Reversal of reserve recognised in goodwill for prior years	0	89
Other adjustments	6	0
Shareholders' equity at 31.12.	**646**	**756**

At year-end 2005, we found that the recognition of a liability of USD 14 million relating to an acquisition in 2001 was no longer required. This liability was reversed in 2005 in the amount of DKK 89 million, which had a positive impact on shareholders' equity.







At 31 December 2005, shareholders' equity in the parent company was DKK 754 million.

Consolidated cash flows, financing and cash position

Cash flows from operating activities amounted to DKK 892 million in 2005, which is 24% above the level of 2004. The Group's overall inventories, payables and receivables are at the same level as in early 2005. Paid corporation tax went up by 13% which should be viewed in the light of an improvement in pre-tax profits of 10%.

Cash flows by main items (DKK million)	**2004**	**2005**
Year's profit	**717**	**791**
CFFO	720	892
CFFI, excl. acquisitions and investments in new head office	-195	-237
Free cash flows, excl. special investments	**525**	**655**
Acquisitions	-30	-12
Investments in new head office and special investments	-171	-185
Buy-back of own shares	-611	-695
Other financing activities	-62	241
Year's net effect	**-349**	**4**

Free cash flows (excluding special investments) amounted to DKK 655 million in 2005 against DKK 525 million in 2004, or a 25% increase. Including the investments in the Group's new domicile, free cash flows totalled DKK 467 million against DKK 354 million in 2004.

Investments

In 2005, cash flows for investment activities (excluding acquisitions and investments in our new head office) amounted to DKK 237 million compared with DKK 195 million in 2004. The investment level was somewhat higher than forecast at the beginning of 2005.

At the end of 2004, the Group acquired the property at Kongebakken 9, Smørum at an amount of DKK 171 million for the purpose of refurbishing and expanding corporate headquarters and our biggest development centre. This rebuilding, which is the largest single investment project in the Group's more recent history, was finalised in 2005 within the given time frame. The investment amounted to DKK 118 million, which is slightly more than forecast. We also acquired additional installations as well as testing and measuring equipment for the new facilities to the tune of DKK 67 million, which means that the Group's overall development capacity was expanded more than initially planned.

Most staff suggestions as regards development and measuring facilities have been fulfilled, and in terms of facilities we are convinced that the new building is amply geared for substantial future growth. Further expansion of the site in step with corporate growth is possible as significant building permits are attached to the property.

Investments in tangible assets totalled DKK 372 million in 2005. The level for 2006 is estimated at DKK 160-200 million.

Balance sheet

At 31 December 2005, the consolidated balance sheet totalled DKK 2.9 billion, or an increase of 19% compared with the balance sheet total at the beginning of the year (of which 5 percentage points are attributable to changes in exchange rates). The new headquarters accounted for the largest increase in the balance sheet.

Receivables under financial assets rose by DKK 76 million, mainly relating to cases in which the Group provided finance for the expansion of the business of new or existing customers.

Computed at fixed rates, consolidated inventories are by and large the same as at the start of the year. Also, the rate of turnover as regards trade receivables increased, and consequently the balance sheet item rose less than consolidated revenues (6%).

The purchase of Kongebakken was financed through long-term mortgate loans totalling DKK 210 million. Moreover, other long-term loans have been raised in the amount of DKK 114 million, most of which was used for hedging of foreign assets.

Board of Directors, Management and employees

At the annual general meeting on 5 April 2005, Mr Lars Nørby Johansen (Deputy Chairman) and Mr Michael Pram Rasmussen were both re-elected. After the general meeting, the Directors appointed Mr Niels Boserup Chairman and Mr Lars Nørby Johansen Deputy Chairman.

At year-end, the Group employed 4,809 staff. On a full-time basis, the average number of employees throughout the year was 4,730 against 4,490 in 2004. In Denmark, staff numbered 1,487 against 1,372 in 2004. Revenue per employee amounted to DKK 997,000, or an increase of 4% compared with 2004.

Key to the Group's success are the professionalism, commitment and diligence of our staff. Directors and Management would like to thank all staff throughout the world for their dedicated effort – also in 2005.

Incentive programmes

At two- or three-year intervals, the Group offers its employees the opportunity to buy shares at a favourable price depending on their salary and seniority. Such shares are held in trust for five years. The last employee share programme was carried through in 2004. In connection with the Group's 100-year anniversary, also in 2004, shares were distributed to staff. The gift element under the two models totalled DKK 59 million, which was recognised in the share capital in 2004.

The Company has no share option programmes or similar programmes.

An agreement has been made that for every four years' employment after 2005, William Demant Holding's President & CEO is entitled to a severance package corresponding to one year's salary.

Knowledge resources

Our mission statement stipulates that the Group must aim for continuous growth in revenues and earnings, and that we must strive for a high innovation level through a flexible and knowledge-based organisation. The prerequisite for the Group's 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 15 under the heading Research and development costs.

The Group's products are made in an interaction 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 enterprises and a flat organisational structure.

The Group's new development centre at Smørum is a major catalyst for future innovation projects. Pages 26-29 include a detailed description of the centre.

The Oticon Foundation

William Demant Holding's main shareholder, the Oticon Foundation, has as its primary goal to safeguard and expand the William Demant Holding Group's business and provide support for various commercial and charitable purposes. The Oticon Foundation, the full name of which is William Demants og Hustru Ida Emilies Fond, was founded in 1957 by William Demant, son of the Company's founder, Hans Demant. At 31 December 2005, the Foundation's stake in the Company was 57%, which is also the case at 6 March 2006.

The William Demant Holding Group has not carried through any major acquisitions since the autumn of 2001, and in compliance with Company policy any free cash flows are applied for buy-back of shares. Sound liquidity and a satisfactory free flow are important to obtain a fair price of the Company's shares at the Copenhagen Stock Exchange. In order to ensure this the Oticon Foundation in the autumn of 2005 decided that in future it would strive to retain an interest of 55-60% in the Company against previously 60-65%. The Foundation seeks to keep its ownership below 60% by selling shares in the market on an ongoing basis. The execution of this sale is independent of the Company's share buy-back programme.

In accordance with the Oticon Foundation's investment strategy, its investments – apart from shares in William Demant Holding – also include other assets as the Foundation can make direct, active investments in enterprises whose business models and structures resemble that of the William Demant Holding Group, but which are outside our strategic sphere of interest.

On the occasion of Oticon's centenary in 2004, the Oticon Foundation granted 50 million Danish kroner for the renovation of the Kongens Nytorv square in Copenhagen. This work was completed in May 2005, and the new Kongens Nytorv was inaugurated on 28 May 2005 with celebrations in the square for all Copenhageners.

In 2003, William Demant Holding A/S and the Oticon Foundation thus agreed that the Company is to identify active investment opportunities on behalf of the Foundation. In each case, a management agreement will be made on commercial terms, cf. note 19 in the financial statements.

In 2004 and 2005, the Oticon Foundation carried through significant investments in the property company, Jeudan A/S, which is listed on the Copenhagen Stock Exchange, and in the medtech company, Össur hf., listed on the Icelandic stock exchange in Reykjavik. The Oticon Foundation also has an external asset manager for the management of investments in listed securities.

Corporate governance
At the end of 2001, the Nørby Committee submitted a number of recommendations for good corporate governance in Denmark. On an ongoing basis, the Directors discuss corporate governance, 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 financial statements. A quarterly review describes the market situation and provides a general description of the Group's activities in the past quarter compared with previous forecasts of revenues and performance. In our opinion, quarterly statements would not promote a better understanding of the Group's activities. In fact, offering full financial statements on the Group's performance following each quarter might provide a misleading picture, because the Group's activities in any given quarter will vary considerably from one year to the next.

In 2005, the Copenhagen Stock Exchange's committee for good corporate governance revised the Nørby Committee's recommendations and emphasised that they would apply according to the "comply or explain" principle. The revised recommendations also incorporate the European Commission's recommendations as regards independence and remuneration. For financial years starting 1 January 2006 or later, Danish companies must take the revised recommendations into account. In the Annual Report 2006 William Demant Holding will adopt the revised recommendations.

Outlook for the future
The strengthening of the Group's market position in recent years is expected to continue in 2006. Forecast growth in the underlying business is about 10% in a market estimated to grow by 3-5%. The strengthening of trading currencies in 2006 is also estimated to improve revenues. We therefore expect revenues for 2006 to the tune of DKK 5.2-5.3 billion.

With the continuous exploitation of economies of scale, the Group's underlying earnings capability is expected to gain strength in 2006. Operating profits (EBIT) for 2006 are estimated at DKK 1,225-1,275 million, which corresponds to a profit margin of at least the same percentage as in 2005.

The exchange effect on the Company's profit margin in 2006 will be negative. The reason being that since early 2005 the strengthening of our trading currencies is reflected in reported revenues, whereas the effect on operating profits (EBIT) is somewhat delayed due to the Company's hedging transactions.

In 2006, the effective tax rate is estimated at about 26%, i.e. the same level as in 2005, but we do expect the Group's effective tax rate to gradually approach 28%, which is the corporate tax rate in Denmark. The convergence towards 28% is however thought to stretch over a slightly longer period than originally expected.

Investments in tangible assets are estimated at a total of DKK 160-200 million.

With the continuous growth in revenues and profits and following the end of a two-year period characterised by a high investment level, the Company has decided to expand its share buy-back programme in 2006 compared with 2005, and we expect to buy back shares at an aggregate amount of up to DKK 1 billion in 2006. On full utilisation of the frame, it will be an increase on 2005 of over 40%.

Earnings per share (EPS) are estimated to go up by 15-17% in 2006.

Competition in the hearing-aid industry is expected to be intense also in 2006. With the launches of Oticon Delta and ICOS from Bernafon in the first quarter, the William Demant Holding Group will focus particularly on the high-end-segment in 2006. We are of the opinion that the competition will concentrate more on the mid-priced segment in which, since the introduction of the Tego brand in spring 2005, Oticon has been extremely successful.

Oticon Delta belongs to a new generation of communication solutions in the RITE (Receiver-In-The-Ear) category and is a significant product novelty from the William Demant Holding Group. The Company has high expectations as regards the commercial success of Oticon Delta, which will offer its users the combination of all the most sophisticated features and the cosmetically most attractive solution available on the market. However, the RITE category represents a new and so far untested concept for most hearing care professionals, and revenue and earnings forecasts for 2006 are therefore rather more uncertain than in previous years. The introduction of Oticon Delta at the end of the first quarter suggests that revenues and earnings for the second half of 2006 will outmatch the first half-year.

General meeting

William Demant Holding A/S will hold its annual general meeting on Thursday, 30 March 2006 at 4 p.m. at the Company's new address: Kongebakken 9, 2765 Smørum, Denmark

The Directors will propose that the year's profit be transferred to the Company's 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 before the general meeting.

At the annual general meeting, Mr Niels Boserup and Mr Nils Smedegaard Andersen will retire from the Board in accordance with the Company's Articles of Association. The Directors will recommend that both be re-elected.

Shareholder information

Capital

At 31 December 2005, the Company's authorised capital was nominally DKK 65,568,804 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 Founden), Smørum, has notified the Company that at 31 December 2005, it held 57% of the share capital. In September 2005, the Foundation decided that it wished to retain an interest of 55-60% in the Company's capital against a previous level of 60-65%. The Foundation's decision to make additional shares available to the stock market was made for the purpose of strengthening liquidity in the trading of the Company's shares.

The total number of shares held by members of the Board of Directors, by Management and by employees constitutes approx. 2.0% of the share capital. More than 80% of the Group's just over 4,800 employees are shareholders in the Company.

In 2005, the Company bought back 2,319,000 shares at a total price of DKK 695 million. At the general meeting on 5 April 2005, the share capital was reduced by nominally DKK 1.946.012 through the cancellation of Company shares. In 2005, no shares were sold or distributed to corporate staff. At year-end 2005, the Company held 1,781,900 own shares, or 2.7% of its share capital. At 6 March 2006, the Company holds 2,187,050 shares, or 3.3% of the capital. At the general meeting on 30 March 2006, the Directors will propose that the share capital be reduced by the number of shares held by the Company at the date of the general meeting.

Stock exchange information

DKK	2001	2002	2003	2004	2005
High	450	238	222	274	355
Low	170	139	111	196	256
Year-end	216	152	200	257	350
Market cap. DKK million	15,981	10,935	13,710	16,989	22,315
Average no. of shares*	74.16	73.31	69.95	67.05	65.03
No. of shares year-end*	74.08	71.94	68.53	66.11	63.79

**Million shares, excluding own shares*

Dividend

At the general meeting, the Directors will, as in previous years, propose that all profits for the 2005 financial year be retained. In the Company's opinion, the buy-back of shares will pave the way for the planning of a more dynamic dividend policy. On behalf of the Company, the Directors have thus authorised Management to buy back shares at an aggregate amount of up to DKK 1 million with due regard to the Group's current cash inflow.

Insider rules

The rules of the Danish Securities Trading Act relating to insider trading have been changed with effect from 1 April 2005. Corporate insider rules and internal procedures have been updated accordingly. Consequently, Management and Directors and their related parties are now obliged to inform the Company of their transactions with the Company's securities with a view to subsequent reporting to the Copenhagen Stock Exchange. The Company's procedures for trading in own shares have also been updated.

In its internal rules, the Company has chosen to operate an insider register containing over 700 persons, including leading staff members who – through their attachment to the Company – may possess internal, price-affecting knowledge of the Group's internal affairs. Persons recorded in the insider register may only trade in Company shares for four weeks following the Company's four annual, periodic announcements to the Copenhagen Stock Exchange. Such persons are also obliged to inform the Company of their transactions in Company shares.

IR policy and investor information

It is the aim of William Demant Holding to ensure a high and consistent flow of information to stock market players to promote a basis for fair pricing of Company shares – pricing that reflects current corporate strategies, financial capabilities and future prospects. The flow of information should contribute to a reduction of the Company-specific risk associated with investing in William Demant Holding shares, thereby leading to a reduction of the Company's cost of capital.

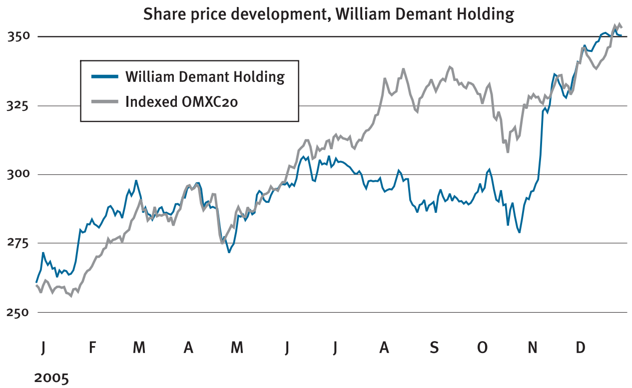
We aim to fulfil this goal by continuously providing relevant, correct and adequate information in announcements to the Copenhagen Stock Exchange. The Company also maintains an active and open dialogue with analysts as well as current and potential investors. Through presentations, individual meetings and participation in investor conferences, we aim to maintain an ongoing dialogue with a broad section of stock market players. In 2005, we held approx. 185 meetings and presentations (150 in 2004) attended by approx. 445 analysts and investors.

The Company also uses its website www.demant.com for communication with the stock market. The website has more information about the Group and its business areas.

Kenneth Aaby Sachse

Stefan Ingildsen

Investors and analysts may also contact Kenneth Aaby Sachse, VP Finance or Stefan Ingildsen, VP Investor Relations on phone +45 3917 7100 or via email william@demant.dk.



Main stock exchange announcements in 2005

7	March	Annual report 2004
22	March	Product introductions at AAA
5	April	Annual general meeting
12	May	Quarterly review, first quarter 2005
18	July	Reduction of capital after expiry of statutory notice
17	August	Interim report 2005
18	October	Product novelties at EUHA
10	November	Quarterly review, third quarter 2005

Financial calendar 2006

6	March	Annual report 2005
28	March	Capital market day
30	March	Annual general meeting
10	May	Quarterly review, first quarter 2006
17	August	Interim report 2006
8	November	Quarterly review, third quarter 2006

Statement, signatures and auditors' report

Statement by the Management and the Board of Directors
We have today presented the annual report for 2005 for William Demant Holding A/S.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent Company's financial statements have been prepared in accordance with the Danish Financial Statements Act and Danish Accounting Standards. Further, the annual report has been prepared in accordance with additional Danish disclosure requirements for annual reports of 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, liabilities and financial position, result and the Group's consolidated cash flows.

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

Smørum, 6 March 2006

Management:

Niels Jacobsen

Board of Directors:

Niels Boserup
Chairman

Lars Nørby Johansen
Deputy Chairman

Nils Smedegaard Andersen

Ivan Jørgensen

Ole Lundsgaard

Stig Michelsen

Michael Pram Rasmussen

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 2005. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent Company's financial statements have been prepared in accordance with the Danish Financial Statements Act and Danish Accounting Standards. Further, the annual report has been prepared in accordance with additional Danish disclosure requirements for annual reports of listed companies.

The annual report is the responsibility of the Company's Executive and Supervisory Boards. 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 Executive and Supervisory Boards, as well as evaluating the overall annual report presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not result in any qualification.

Opinion

In our opinion, the annual report gives a true and fair view of the Group's financial position at 31 December 2005 and of the results of its operations and cash flows for the financial year 2005 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

In addition, in our opinion, the annual report gives a true and fair view of the Parent Company's financial position at 31 December 2005 and of the results of its operations for the financial year 2005 in accordance with the Danish Financial Statements Act, Danish Accounting Standards and additional Danish disclosure requirements for annual reports of listed companies.

Smørum, 6 March 2006

Deloitte
Statsautoriseret Revisionsaktieselskab

Lone Møller Olsen
State-authorised Public Accountant (Denmark)

Anders Dons
State-authorised Public Accountant (Denmark)

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Kongebakken

A philosopher's thoughts on seeing our new head office at Kongebakken

"When global space creates meaningful aesthetics
Infinite reaches of space and diversity are key to conceptual development, job satisfaction and mutual social interaction. An aesthetically defined sphere of meaning moulds our sensitivity and awareness of thoughts and ideas, and of each other. We do not get in each other's way. Almost organically, we revolve around each other — an organisational dance, if you will. In this sphere, the movement of aesthetics turns into a productive spread of interpersonal contexts of meaning and pragmatic applicability. And synergies emerge when architecture becomes aesthetic communication, that is, as soon as and as long as it has a message for us. The architecture metamorphoses into something more than a mere element, a function, a structure, a status or a style. At this point, it transforms into a building above all others: a house inhabited by people who feel at home in the global space.

Designing a corporate culture that attracts and creates the right people
Nowadays, everyone knows how to use sophisticated technology to retrieve information. We soon learn how to copy or reproduce someone else's work technically. The true challenge lies in attracting or creating independent, critical, innovative and team-oriented staff who are totally committed. This is our aim and the recipe for success. If you can staff your business with people who can use their imagination and seize opportunities and are not afraid to do so, you are on the road to success. But how and where do you find such people? That's the question! The answer: you attract them while developing your own staff. But how do you set about it? By creating a place where people thrive – a place with meaning – and by matching the corporate culture with the essential values of the surrounding community such as freedom, understanding and diversity; and by providing scope for creativity and opportunity."

Kim Gørtz, Philosopher

Kim Gørtz (38) graduated from Copenhagen University in 1997 with a degree in philosophy and psychology. To date, his career has focused on teaching economics, organisational theory, management theory, philosophy and psychology as well as on research in knowledge, values and innovation, mainly at Copenhagen Business School. However, more recently his interests have increasingly turned towards the business sector, where he has specialised in developing philosophical and psychological theories relating to business economics.

Kim worked as a consultant in connection with the refurbishment of our new head office.

Kongebakken

Turning theoretical ideas into practical innovation

The house on the hill

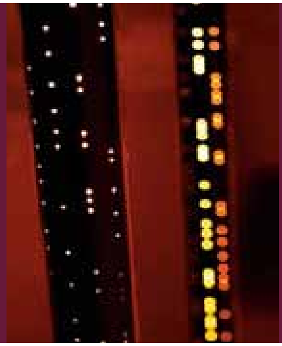
The William Demant Holding Group is represented internationally through its own sales companies in over 20 countries on several continents. For the past 15 years, the Group has been housed in a charming old brewery in the port of Copenhagen. However, after years of strong growth, also in staff numbers, space became cramped and new facilities were required to accommodate the needs of the creative and innovative teams. Towards the end of 2004, the search for new premises resulted in the purchase of Kongebakken in Smørum.

Surrounded by rolling hills, residential areas, a farmhouse and an ancient burial mound, Kongebakken is situated high on the hill, with Roskilde Cathedral just visible in the distance. The Group's vision for its new headquarters is to create an environment that fosters creativity, innovation, dynamism and cross-functional collaboration and at the same time meets every employee's individual need for concentration, contemplation and personal integrity.

The influence and involvement of staff in transforming the building have reflected the dedication characteristic of their general cross-functional and project-oriented approach to work. Naturally, the vision of aesthetic functionality and future-proofing made refurbishment a top priority, and the teamwork between committed staff, imaginative architects and competent contractors was key to the successful outcome.

The central areas of the building differ from the peripheral zones, just like in a metropolis where the central squares are bordered by building facades. Surrounding the squares of this mini-metropolis are clinics, laboratories, auditoriums, training facilities and conference rooms – all facilities for the daily use of corporate staff as well as Danish and international business partners.

The central areas on the upper floors – also known as innovation areas – offer opportunities for inspiration, social interaction and the exchange of ideas. The new innovation areas are extremely popular and encourage collaboration among the many project groups. Here, seated in comfortable sofas or in meeting areas separated by flexible partition walls, which also function as whiteboards, staff can meet informally or have brainstorming sessions without disturbing or being disturbed by other groups. The focus is on comfort, flexibility and acoustics.


Kongebakken

The building is exceptionally transparent, facilitating fast, streamlined information flows. This transparency also stimulates collaboration, promoting commitment and involvement from fellow colleagues who are not necessarily attached to a given project but whose enthusiasm and inventiveness nonetheless compel them to contribute their expertise or assistance. Outsiders may consider this an intrusive or unstructured way of working, but openness and helpfulness stimulate the development of new innovative products. The open organisational structure is a platform for short, efficient decision-making processes in which it is not an employee's position that counts but rather the cogency of his argument.

The hearing-aid business is a product-driven industry in which manufacturers who create the right products and launch them at the right time and right price capture market shares. To a layman, one hearing aid may look very much like another, but intensive development work generates audible benefits for end-users who are the real judges of our work. The Kongebakken premises therefore had to have the most advanced state-of-the-art development facilities including sound studios, sound-treated rooms, acoustic labs, climate chambers, verification and quality control facilities, laser vibrometric measurement rooms, wind noise measurement rooms, a chemical laboratory, prototype workshop and precision mechanics workshop. The Group's extensive cooperation with test persons for testing newly developed aids now continues from new clinics – work that is vital to the Group's ability to introduce new products quickly.

We use different meeting forms, depending on what is most efficient for the purpose: standing at a high conference table, seated in comfortable chairs or sofas, as video conferences with colleagues overseas or in traditional conference rooms. Conference rooms are fitted with modern presentation tools such as projection screens or 45" flat screens as well as so-called wall talkers, that is, wall-to-wall and floor-to-ceiling whiteboards, allowing participants to present and discuss their thoughts and ideas.

Our culture, interior decor and furnishings and organisational structure promote collaborative working with people from a diversity of cultural backgrounds. Many of our staff may be in contact with Australia or New Zealand in the morning, Japan in mid-morning, South Africa at noon, Brazil in the afternoon and North America in the evening. Our new headquarters are therefore open twenty-four seven,

Kongebakken

all year round. Staff members are free to organise their working hours to suit their work load and private lives.

Freedom and responsibility are two elements of the corporate spirit that go hand in hand at Kongebakken. Employees are free to work out their own time schedule while remaining accountable to themselves, their colleagues and the Company. For many years, we have endeavoured to cultivate a corporate culture of goal-directedness without having to resort to complicated measuring systems to monitor goal achievement. We have sought an approach that engenders respect for staff as individuals as well as mutual respect in the workplace.

With Kongebakken and our talented workforce, we will – in line with corporate growth – be able to attract and retain the right staff both inside and outside national borders.

We are convinced that with Kongebakken, we have created the best setting for innovation characterised by the unique combination of technology and people necessary to make good products for people with hearing impairment. A transparent, light, open and welcoming building – a building that makes you feel at home.

Accounting policies

General
The 2005 annual report is presented in compliance with International Financial Reporting Standards (IFRS), as adopted by the EU, and further Danish disclosure requirements for listed companies.

The annual report of the parent company has been drawn up in accordance with the provisions of the Danish Financial Statements Act for listed companies and Danish Accounting Standards.

The parent company's accounting policies on recognition and measurement are consistent with the consolidated accounting policies apart from goodwill, which is amortised over its useful life in the parent company. In order to ensure uniform presentation, the terms and phrases used in the consolidated financial statements have as far as possible been applied in the financial statements of the parent company.

Any further Danish disclosure requirements in respect of consolidated financial statements are laid down in the IFRS order issued in compliance with the Danish Financial Statements Act and in regulations issued by the Copenhagen Stock Exchange, and for the parent company in the Danish Financial Statements Act and regulations issued by the Copenhagen Stock Exchange.

The consolidated financial statements also satisfy the International Financial Reporting Standards issued by the IASB.

Annual reporting figures are stated in Danish kroner (DKK).

Changes in corporate accounting policies as a result of the transition to IFRS
The annual report for 2005 is the Group's first annual report presented in accordance with IFRS.

On transition to IFRS, the Group has applied IFRS 1, First-time Adoption of International Financial Reporting Standards. The opening balance sheet at 1 January 2004 and the restated comparative figures for 2004 have been drawn up in conformance with the standards and interpretation guidelines applicable on 31 December 2005. The opening balance sheet at 1 January 2004 was prepared as if these standards and interpretation guidelines had always been applied, except for the special transition and commencement rules described below.

The transition to IFRS presentation of consolidated financial statements has necessitated changes in accounting policies on the recognition and measurement of certain significant areas:

- Business combinations
- Share-based payment
- Pension obligations etc.

The principal rule governing the treatment of amendments to accounting policies is that in the year of first-time adoption, the annual report must apply the new policies retroactively as if the entity had always applied such new accounting policies including the restatement of comparative figures. However, IFRS 1 provides exemptions to the principal rule on transition to IFRS accounting.

The Group has chosen to apply the following optional exceptions in IFRS 1:

- Business combinations exercised before 1 January 2004 have not been restated in compliance with IFRS, except that any subsequent changes in the consideration as regards the acquired entities will be restated in the recognised goodwill. Reversed goodwill amortised in 2004 amounts to DKK 0.5 million.

- Any exchange rate adjustments recognised in shareholders' equity on translation of foreign subsidiary undertakings have been reset at 1 January 2004.

On transition to IFRS at 1 January 2004, the Group recognised pension obligations etc. At 1 January 2004 and 1 January 2005, shareholders' equity was reduced by DKK 6 million, with an impact on net profits for 2004 of DKK 0 million.

Items have been reclassified.

Comparative figures for 2001 to 2003 included in the summary of financial highlights have not been restated as a result of the changed accounting policies.

Standards and interpretations not yet effective
Changes in standards and interpretations published but not yet effective at the time of publication of this annual report have not been incorporated into this report.

In Management's opinion, the Group's future implementation of these standards and interpretations will not have a significant impact on the annual report.

Changes to IAS 19, Employee Benefits, have been published but are not effective yet. The revised standard has been applied in this annual report.

Material accounting estimates, assumptions and uncertainties
Many items can only be estimated rather than measured accurately. Such estimates are based on the most recent information available at the time of presentation of the accounts.

In 2005, the Group changed its accounting estimates regarding the residual value of buildings, resulting in a positive impact on the year's pre-tax profits by approximately DKK 4 million.

In connection with the practical application of the described accounting policies, Management has made normal valuations for accounting purposes of long-term assets, inventories, receivables and payables.

Consolidation
The consolidated financial statements comprise William Demant Holding A/S (the parent company) and the entities, in which the parent company, either directly or indirectly, holds more than 50% of the voting rights, or in which in some other manner it can or actually does exercise control. The consolidated financial statements have been prepared on the basis of the financial statements of the parent company and its subsidiary undertakings by aggregating uniform items. On pro rata consolidation, the consolidated financial statements also include entities, which by agreement are managed jointly with one or more entities. Intra-group income and expenditure, shareholdings, intra-group balances 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 significant control, are considered associated and have been incorporated proportionately into the consolidated financial statements based on the equity method.

Newly acquired or newly established subsidiary or associated undertakings are recognised in the consolidated financial statements from the time of acquisition or formation. Divested or discontinued entities are recognised until the date of their divestment or discontinuation. Comparative figures and financial highlights in respect of newly acquired or divested entities have not been restated.

On acquiring new entities, the purchase method is applied, under which the identified assets and liabilities of the newly acquired entities are measured at their fair values at the time of acquisition. Any tax effects of revaluations will be taken into account.

The cost of the acquired enterprise includes the fair value of the consideration paid plus costs directly attributable to the acquisition. If the final consideration sum is conditional upon one or more future events, such adjustments will only be recognised in cost if the particular event is likely to happen and its effect on cost can be reliably calculated.

If cost exceeds the fair values of the assets, liabilities and contingent liabilities identified on acquisition, any remaining positive differences (goodwill) are recognised in the balance sheet under intangible assets and tested for impairment at least annually. If the carrying amount of an asset exceeds its recoverable amount, it will be written down to such lower recoverable amount.

Translation of foreign currency
On initial recognition, transactions in foreign currency are translated at the exchange rates ruling at the date of the transaction.

Receivables, payables and other monetary items in foreign currency are translated into Danish kroner at their rates on the balance sheet date. 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.

Tangible and intangible assets, inventories and other non-monetary assets, purchased in foreign currency and measured on the basis of historical cost, are translated at the rates of exchange at the date of the transaction.

For subsidiary and associated undertakings presenting financial statements in foreign currency, 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 date.

Any exchange adjustments arising from the translation at the beginning of the year of balance sheet items of foreign Group undertakings at the exchange rates on the balance sheet date as well as the translation of profit-and-loss-account items from average rates to the exchange rates on the balance sheet date are recognised direct in shareholders' equity. Similarly, exchange adjustments resulting from changes made directly in the shareholders' equity of a foreign entity are also recognised direct in shareholders' equity.

Any exchange adjustments of amounts receivable from or payable to subsidiary undertakings, which are considered part of the parent company's total investment in the particular entity, are recognised direct in shareholders' equity.

Derivative financial instruments
Derivative financial instruments, primarily forward exchange contracts and interest swaps, are measured at their fair values and recognised as receivables and payables.

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 transactions, are recognised direct in shareholders' equity. On realisation of the hedged transactions, the accumulated changes will be recognised as part of the particular transactions.

Share-based incentive programmes
Share-based incentive programmes, solely enabling staff to buy shares in the parent company (equity-settled share-based payment schemes), are measured at the fair values of the equity instruments at the grant date and recognised in the profit and loss account as staff costs over the vesting period. The item is set off directly against shareholders' equity.

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

Net revenue
Net revenue is recognised in the profit and loss account on delivery and transfer of risk to buyer.

If interest-free credit extending beyond the normal credit period has been agreed, the fair value of the consideration is calculated by discounting future payments to net present values. The difference between the fair and nominal values of the consideration is recognised in the profit and loss account under net financials.

Production costs
Production costs are costs paid to generate revenue. Commercial businesses recognise cost of goods sold as production costs, and manufacturers recognise costs of raw materials, consumables and production staff as well as maintenance, depreciation and impairment losses on tangible assets and intangible assets used in the production process.

Research and development costs
These include all costs that do not satisfy capitalisation criteria relating to research and development, prototype construction, the development of new business concepts as well as amortisation of capitalised development costs.

As the Group's product development activities cannot meaningfully be allocated to either the development of new products or to the further development of existing products, development costs are recognised in the profit and loss account.

Distribution costs
Distribution costs include costs relating to staff training, sale, marketing and distribution as well as depreciation and impairment losses on assets used for distribution purposes.

Administrative expenses
Administrative expenses include administrative staff costs, office expenses as well as depreciation and impairment losses on assets used for administrative purposes and bad debts.

Net financials
These mainly consist of interest income and expenses. They also include borrowing costs as well as certain realised and non-realised exchange gains or losses.

Tax
The parent company is jointly taxed with its Danish subsidiary undertakings and the Danish affiliated company, William Demant Invest A/S. Current corporation tax is distributed among the jointly taxed Danish companies in proportion to their taxable incomes.

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 Tax Prepayment Scheme are included in current tax. Tax on movements in shareholders' equity is recognised direct in 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. Exchange gains or losses on deferred taxes are recognised in the year's adjustments of deferred tax.

Current tax payable or receivable is recognised in the balance sheet calculated on the year's taxable income adjusted for any prepaid tax. The tax rates on the balance sheet date are used on calculation of the year's taxable income.

Deferred tax is, under the balance-sheet liability method, recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities. 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 which may be set off against any future taxable income will be carried forward and set off against deferred tax in the same legal tax entity and jurisdiction. Any deferred tax assets are recognised at their estimated realisable values.

Deferred tax of temporary differences relating to investments in subsidiary or associated undertakings is recognised, unless the parent company is able to control the time of realisation of such deferred tax, and if such deferred tax is not likely to be released as current tax in the foreseeable future.

Balance sheet
Intangible assets
On initial recognition, goodwill is recognised and measured as the difference between the cost of the acquired entity and the fair value of the assets acquired and of liabilities and contingent liabilities assumed, see Consolidation.

On recognition of goodwill, goodwill is allocated to each of the corporate activities generating independent inflows (cash-generating units). The definition of a cash-generating unit complies with the corporate managerial structure, internal management control and reporting.

Goodwill is not amortised but tested for impairment at least annually. If the recoverable amount of a cash-generating unit is less than the carrying amount of the tangible and intangible assets, including goodwill, which can be attributed to the cash-generating unit, such assets will be written down.

Any goodwill acquired before 1 January 2002 was written off against shareholders' equity at the time of acquisition.

Patents and licences acquired from a third party are measured at cost less accumulated amortisation and impairment losses. Patents and licences are amortised over their estimated useful lives, maximum 20 years.

Provided certain criteria are satisfied, development costs are recognised as intangible assets and measured at cost less accumulated amortisation and impairment losses.

Tangible assets
Tangible assets are recognised at cost less accumulated depreciation and impairment losses. Cost is defined as the acquisition sum and any costs directly relating to the acquisition. As regards Group-manufactured assets, cost includes any costs directly attributable to the production of such assets including materials, components, sub-suppliers and wages.

Interest expenses on loans directly attributable to the production of tangible assets are recognised in cost if they pertain to the production period. Other borrowing costs are recognised in the profit and loss account.

If the acquisition or use of an asset requires the Group to incur costs for the demolition or reestablishment of such asset, the estimated costs hereof are recognised as a provision or part of the cost of the particular asset.

The cost of a total asset is divided into various elements, which will be depreciated individually if their useful lives are not the same.

The basis of depreciation is cost less estimated residual value after the end of the useful life of an asset.

Tangible assets are depreciated on a straight-line basis over their estimated useful lives with the exception of land.

Buildings	33-50 years
Technical installations	10 years
Manufacturing plant and machinery	3-5 years
Fixtures and fittings, tools and equipment	3-5 years
IT hardware and software	3 years
Leasehold improvements	over the lease period

Depreciation methods, useful lives and residual values are reviewed annually.

Tangible assets are written down to the recoverable amount if this is lower than carrying amount.

Assets held under finance leases are recognised in the balance sheet at the lower of market value and present value of future lease payments at the time of acquisition. Assets held under finance leases are depreciated on the same basis as the Group's other tangible assets. Any capitalised remaining lease obligation is recognised as a liability in the balance sheet.

Impairment of tangible and intangible assets
The carrying amounts of tangible and intangible assets with determinable useful lives are tested for any indication of impairment on the balance sheet date. If so, the recoverable amount of the particular asset is estimated to determine the need for impairment. Recoverable goodwill amounts will be assessed whether or not impairment indicators exist.

The recoverable amount is assessed for the smallest cash-generating unit that includes the asset. The recoverable amount is assessed as the higher of the fair value of the asset or the cash-generating unit less costs to sell and net present value.

If the recoverable amount of an asset or a cash-generating unit is deemed to be lower than its carrying amount, the asset or cash-generating unit is written down to its recoverable amount.

Impairment losses are recognised in the profit and loss account. On any subsequent reversal of impairment due to changes in the assumptions of the computed recoverable amount, the carrying amount of an asset or cash-generating unit is increased to the adjusted, estimated recoverable amount, however maximum to the carrying amount which such asset or cash-generating unit would have had, had it not been impaired.

Other long-term assets
The parent company's investments in subsidiary undertakings are measured according to the equity method, i.e. such investments are recognised in the balance sheet at their proportionate equity value. Loans granted by or to the parent company, which are considered part of the overall investment, are included in the equity value of these entities. The parent company's proportionate shares of pre-tax profits or losses from subsidiary undertakings are recognised in the profit and loss account after net changes for the year in non-realised intra-group profits and less amortisation and impairment losses, if any, of goodwill acquired after 1 January 2002.

Investments in associated undertakings are recognised on the same basis as investments in subsidiary undertakings, however goodwill is not amortised on recognition of profit or loss in the consolidated financial statements.

The accumulated net revaluation of investments in subsidiary undertakings is retained in the parent company under "Net revaluation under the equity method" and recognised under shareholders' equity.

Receivables are measured at cost on acquisition and are subsequently adjusted at amortised cost. The risk of impairment is assessed on an individual basis.

Inventories
Raw materials, components and goods for resale are measured at the lower of cost and net realisable value. Group-manufactured goods and work in progress are measured at the value of direct costs of materials, direct labour costs 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 Group-manufactured goods and work in progress.

Inventories are measured at cost using the FIFO method, i.e. the most recent deliveries are considered to be in stock.

Receivables
Receivables are measured at amortised cost. Impairment losses are recognised for bad debts based on an individual assessment of each risk.

Own shares and dividend
On the buy-back or sale of own shares, the acquisition cost or divestment sum is recognised direct under Other reserves in shareholders' equity. The capital reduction 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 in shareholders' equity until adoption at the annual general meeting, upon which such dividend will be recognised as a liability.

Pension obligations etc.
The Group has entered into pension plans or similar commitments with some of its employees.

As regards defined contribution plans, the Group pays regular, fixed contributions to independent pension companies. Such contributions are recognised in the profit and loss account in the period in which employees have performed work entitling them to contributions under a pension plan. Contributions payable are recognised in the balance sheet as a liability.

As regards defined benefit plans, an actuarial calculation is made regularly of the accrued value in use of future benefits payable under the pension plan. The value in use less fair value of any assets attached to the pension plan is recognised in the balance sheet under pension obligations.

The year's pension costs based on actuarial estimates and financial forecasts at the beginning of the year are recognised in the profit and loss account. Any differences between the forecast development in pension assets or liabilities and the realised values are designated actuarial gains or losses and recognised direct in shareholders' equity.

Other long-term employee benefits are similarly recognised by applying actuarial calculations. Actuarial gains or losses on such benefits are recognised in the profit and loss account immediately.

Provisions
Provisions 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 is likely to draw on corporate financial resources.

Liabilities other than provisions
Mortgages and loans from mortgage credit institutions or other credit institutions are recognised at their proceeds less borrowing costs. Subsequently, financial liabilities are measured at amortised cost. Thus, the difference between proceeds and nominal values is recognised in the profit and loss account over the term of the loan.

Other debts are measured at amortised cost using the effective interest method. Thus, the difference between proceeds and nominal values is recognised in the profit and loss account under net financials over the term of the loan.

Warranty commitments include commitments in relation to the remedying of defective products within the warranty period.

Cash flow statement
The cash flow statement is presented using the indirect method and reflects the Group's net cash flows from operating, investing and financing activities.

Cash flows from operating activities include cash flows from the year's operations, adjusted for operating items not generating cash and for movements in working capital.

Cash flows from investing activities include cash flows generated from the acquisition or divestment of entities and other long-term assets as well as the purchase, development, improvement or sale of intangible and tangible assets.

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

Cash and cash equivalents comprise cash funds less interest-bearing, short-term bank debts.

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

Segmental information
The William Demant Holding 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.

Segmental information is provided in compliance with corporate risks, accounting policies and financial control.

Segmental information includes items directly attributable to the individual segment as well as items reliably attributable to the various segments.

Profit and loss account 2005

PARENT COMPANY			(DKK - in thousands)		GROUP
2004	2005	Note		2005	2004
0	**0**	1	**Net revenue**	**4,716,104**	4,302,742
0	0	2/3/4	Production costs	-1,582,811	-1,444,218
0	**0**		**Gross profit**	**3,133,293**	2,858,524
0	0	2/4	Research and development costs	-382,531	-324,170
0	0	2/4	Distribution costs	-1,354,082	-1,263,464
-19,797	-26,842	2/4/5	Administrative expenses	-297,495	-270,483
0	0	11	Share of profit after tax, associated undertakings	3,629	3,313
65,914	10,343		Income from subsidiary undertakings	-	-
46,117	**-16,499**		**Operating profit (EBIT)**	**1,102,814**	1,003,720
939,362	1,094,423	11	Share of profit before tax, subsidiary undertakings	-	-
-19,796	-14,068	6	Net financials	-36,792	-38,580
965,683	**1,063,856**		**Profit before tax**	**1,066,022**	965,140
-249,284	-275,436	7	Tax on the year's profit	-275,436	-248,235
716,399	**788,420**		**Net profit for the year**	**790,586**	716,905
			Proposed distribution of net profit:		
716,399	760,922		Other reserves		
			Retained for net revaluation reserve		
0	27,498		under the equity method		
716,399	**788,420**				
		8	Earnings per share (EPS), DKK	12.2	10.7
		8	Earnings per share diluted (DEPS), DKK	12.2	10.7

Balance sheet at 31 December 2005

PARENT COMPANY			Assets (DKK - in thousands)		GROUP
2004	2005	Note		2005	2004
0	0	9	Acquired patents and licences	9,675	16,325
0	0	9	Goodwill	54,342	43,096
0	**0**		**Intangible assets**	**64,017**	59,421
24,950	24,770	10	Land and buildings	503,576	333,451
0	0	10	Production plant and machinery	138,263	113,312
998	534	10	Fixtures, tools and equipment	180,214	137,975
0	0	10	Leasehold improvements	26,609	29,400
0	0	10	Prepayments and plants under construction	7,578	6,426
25,948	**25,304**		**Tangible assets**	**856,240**	620,564
1,209,006	1,434,799	11	Shares in subsidiary undertakings	-	-
0	0	11	Shares in associated undertakings	3,824	3,828
1,556	3,118	11	Securities and participating interests	3,505	2,038
0	37,511	11	Receivables	144,344	68,099
0	0	12	Deferred tax	100,766	70,185
1,210,562	**1,475,428**		**Other long-term assets**	**252,439**	144,150
1,236,510	**1,500,732**		**Total long-term assets**	**1,172,696**	824,135
0	**0**	13	**Inventories**	**632,336**	602,651
0	0		Trade receivables	862,599	756,981
0	84	7	Corporation tax	4,385	4,674
0	0		Other receivables	49,510	59,472
62	0		Non-realised gains on financial contracts	1,625	35,322
331	0		Prepayments and accrued expenses	35,545	31,276
393	**84**		**Receivables**	**953,664**	887,725
0	**0**		**Cash and cash equivalents**	**134,685**	126,434
393	**84**		**Total short-term assets**	**1,720,685**	1,616,810
1,236,903	**1,500,816**		**Total assets**	**2,893,381**	2,440,945

Balance sheet at 31 December 2005

PARENT COMPANY			Liabilities (DKK - in thousands)	GROUP	
2004	2005	Note		2005	2004
67,515	65,569		Share capital	65,569	67,515
0	27,498		Net revaluation under the equity method	-	-
577,590	660,703		Retained earnings	690,900	578,058
645,105	**753,770**		**Shareholders’ equity**	**756,469**	645,573
0	0	14	Mortgage debt	196,699	2,438
78,238	68,024	14	Other long-term debt, credit institutes	487,346	455,235
4,027	5,146	12	Provision for deferred tax	35,798	27,004
0	0	15	Provisions	25,393	19,792
82,265	**73,170**		**Long-term payables**	**745,236**	504,469
10,268	10,299		Short-term portion of long-term debt, credit institutes	17,931	12,335
369,270	414,392		Interest-bearing debt	658,938	660,775
0	0		Trade payables	218,585	164,721
5,769	0	7	Corporation tax	15,695	20,406
112,478	239,692		Intra-group payables, subsidiary undertakings	-	-
0	0	15	Provisions	3,351	1,653
7,920	8,493		Other payables	368,950	337,915
953	432		Non-realised losses on financial contracts	2,154	953
2,875	568		Prepayments and accrued income	106,072	92,145
509,533	**673,876**		**Short-term payables**	**1,391,676**	1,290,903
591,798	**747,046**		**Total payables**	**2,136,912**	1,795,372
1,236,903	**1,500,816**		**Total liabilities**	**2,893,381**	2,440,945

16 Interest rate risk
17 Rent and lease obligations
18 Contingent liabilities
19 Related parties
20 Government grants
21 Acquisitions of undertakings

Cash flow statement 2005

(DKK - in thousands)			GROUP
	Note	**2005**	2004
Operating profit (EBIT)		1,102,814	1,003,720
Depreciation etc. and other non-cash movements		115,259	124,563
Change in receivables		-37,287	-117,970
Change in inventories		-16,554	-28,128
Change in payables etc.		59,286	44,061
Change in provisions		6,385	-1,032
Cash flow from operating activities excluding net financials and corporation tax		**1,229,903**	1,025,214
Financial income etc. paid	6	14,775	11,671
Financial expenses etc. paid	6	-51,567	-50,251
Corporation tax paid	7	-301,287	-266,952
Cash flow from operating activities (CFFO)		**891,824**	719,682
Acquisition of undertakings	21	-12,174	-30,066
Investment in intangible assets		-1,654	-17,640
Investment in tangible assets		-371,951	-319,881
Disposal of tangible assets		20,519	8,222
Investments in other long-term assets, net		-71,013	-36,869
Cash flow from investing activities (CFFI)		**-436,273**	-396,234
Repayment of long-term debt		-62,357	-56,653
Proceeds from borrowing transactions		323,809	0
Sale of own shares to Group employees		0	15,049
Buy-back of own shares		-694,671	-611,468
Other adjustments		-18,405	-19,125
Cash flow from financing activities (CFFF)		**-451,624**	-672,197
Net cash flow position for the year		**3,927**	-348,749
Net cash position at 1 January		-534,341	-185,581
Exchange rate adjustment of cash funds		6,161	-11
Net cash position at 31 December		**-524,253**	-534,341
Breakdown of net cash position at 31 December:			
Cash and cash equivalents		134,685	126,434
Interest-bearing debt		-658,938	-660,775
		-524,253	-534,341

Shareholders' equity

GROUP	Share capital	Retained earnings: Foreign currency translation reserve	Retained earnings: Hedging reserve	Retained earnings: Other reserves	Total shareholders' equity
(DKK - in thousands)					
Shareholders' equity at 1.1.2004	**70,294**	**-73,317**	**-**	**525,184**	**522,161**
IFRS-related changes in accounting policies	-	-	-	-6,020	-6,020
Reclassification	-	73,317	163,128	-236,445	-
Adjusted shareholders' equity at 1.1.2004	**70,294**	**-**	**163,128**	**282,719**	**516,141**
Net profit for the year	-	-	-	716,905	716,905
Exchange rate adjustments, foreign undertakings	-	25,202	-	-	25,202
Exchange rate adjustment, subordinated loan capital etc.	-	-38,991	-	-	-38,991
Value adjustment of hedging instruments in the period	-	-	51,188	-	51,188
Reclassification of hedging instruments for the profit and loss account	-	-	-34,208	-	-34,208
Tax related to changes in shareholders' equity	-	9,251	-1,889	-1,607	5,755
Total earnings for the year	**-**	**-4,538**	**15,091**	**715,298**	**725,851**
Proceeds from sale of own shares to employees	-	-	-	15,049	15,049
Reduction of share capital through cancellation of own shares	-2,779	-	-	2,779	-
Buy-back of shares	-	-	-	-611,468	-611,468
Shareholders' equity at 31.12.2004	**67,515**	**-4,538**	**178,219**	**404,377**	**645,573**
Net profit for the year	-	-	-	790,586	790,586
Exchange rate adjustments, foreign undertakings	-	-84,275	-	-	-84,275
Exchange rate adjustment, subordinated loan capital etc.	-	59,049	-	-	59,049
Value adjustment of hedging instruments in the period	-	-	-6,806	-	-6,806
Reclassification of hedging instruments for the profit and loss account	-	-	-41,906	-	-41,906
Reversal of reserve recognised in goodwill for prior years	-	-	-	88,537	88,537
Tax related to changes in shareholders' equity	-	-7,144	7,526	-	382
Total earnings for the year	**-**	**-32,370**	**-41,186**	**879,123**	**805,567**
Reduction of share capital through cancellation of own shares	-1,946	-	-	1,946	-
Buy-back of shares	-	-	-	-694,671	-694,671
Shareholders' equity at 31.12.2005	**65,569**	**-36,908**	**137,033**	**590,775**	**756,469**

Shareholders' equity

PARENT COMPANY (DKK - in thousands)

	Share capital	Net revaluation under the equity method	Retained earnings: Foreign currency translation reserve	Retained earnings: Hedging reserve	Retained earnings: Other reserves	Total share-holders' equity
Shareholders' equity at 1.1.2004	**70,294**	**-**	**-73,317**	**-**	**525,184**	**522,161**
Changes in accounting policies	-	-	-	-	-6,020	-6,020
Reclassification	-	-	-	-708	708	-
Adjusted shareholders' equity at 1.1.2004	**70,294**	**-**	**-73,317**	**-708**	**519,872**	**516,141**
Net profit for the year	-	-	-	-	716,399	716,399
Foreign-currency translation of investments in subsidiary undertakings etc.	-	-	-13,751	-	-	-13,751
Other movements in shareholders' equity in subsidiary undertakings	-	-	-	-	15,050	15,050
Value adjustment of hedging instruments in the period	-	-	-	59	-	59
Tax related to changes in shareholders' equity	-	-	9,251	-18	-1,607	7,626
Proceeds from sale of own shares to employees	-	-	-	-	15,049	15,049
Reduction of share capital through cancellation of own shares	-2,779	-	-	-	2,779	-
Buy-back of shares	-	-	-	-	-611,468	-611,468
Shareholders' equity at 31.12.2004	**67,515**	**-**	**-77,817**	**-667**	**656,074**	**645,105**
Net profit for the year	-	27,498	-	-	760,922	788,420
Foreign-currency translation of investments in subsidiary undertakings etc.	-	-	-25,291	-	-	-25,291
Other movements in shareholders' equity in subsidiary undertakings	-	-	-	-	52,759	52,759
Value adjustment of hedging instruments in the period	-	-	-	522	-	522
Tax related to changes in shareholders' equity	-	-	-12,928	-146	-	-13,074
Reduction of share capital through cancellation of own shares	-1,946	-	-	-	1,946	-
Buy-back of shares	-	-	-	-	-694,671	-694,671
Shareholders' equity at 31.12.2005	**65,569**	**27,498**	**-116,036**	**-291**	**777,030**	**753,770**

After the reduction in share capital in 2005, the share capital of nominally DKK 65,568,804 is now divided into the corresponding number of shares of DKK 1 or multiples thereof. At year-end 2005, the number of shares on the market was 63.8 million, the Company's holding of own shares being 1,781,900. Own shares are not included in key figures and ratios for the period, in which such shares have been held by the Company.

On buy-back or sale of own shares, the acquisition cost or divestment sum, respectively, is recognised direct under shareholders' equity, Other reserves.

The Company's share buy-back programme continued in 2005. The Company acquired a total of 2,319,000 own shares (2,715,247 own shares in 2004) at an amount of DKK 695 million (DKK 611 million in 2004).

Specification of movements in share capital (DKK - in thousands)

	2001	2002	2003	2004	2005
Share capital at 1.1.	74,713	74,713	74,713	70,294	67,515
Increase of share capital	0	0	0	0	0
Reduction of share capital	0	0	-4,419	-2,779	-1,946
Share capital at 31.12.	**74,713**	**74,713**	**70,294**	**67,515**	**65,569**

Holding of shares	Shares/ share capital (1,000 pcs.)	Own shares (1,000 pcs.)	Percentage of share capital
Shares at 1.1.2005	67,515	1,409	2.1%
Buy-back of shares	0	2,319	-
Reduction of share capital	-1,946	-1,946	-
Shares at 31.12.2005	**65,569**	**1,782**	**2.7%**

Notes

Note 1 – Segment information (DKK - in thousands) GROUP

	Net revenue		Assets		Investment in intangible and tangible assets	
	2005	2004	**2005**	2004	**2005**	2004
Europe	2,286,620	2,067,774	1,980,910	1,627,660	337,823	334,096
North America	1,589,136	1,507,263	599,458	528,748	20,718	23,415
Asia	328,206	270,718	109,331	108,684	9,819	7,357
Pacific Rim	336,380	309,114	116,375	107,491	10,194	6,635
Other countries	175,762	147,873	87,307	68,362	4,244	2,556
Total	**4,716,104**	4,302,742	**2,893,381**	2,440,945	**382,798**	374,059

Net revenues are allocated by customer location.

Carrying amounts and purchase sums in respect of assets are allocated according to the physical location of such assets.

PARENT COMPANY — Note 2 – Employees (DKK - in thousands) — GROUP

PARENT COMPANY 2004	PARENT COMPANY **2005**		GROUP **2005**	GROUP 2004
		Employee costs:		
14,707	16,848	Wages and salaries	1,355,847	1,240,109
328	186	Pensions	27,165	23,309
33	36	Social security costs etc.	116,045	102,612
15,068	**17,070**	**Total**	**1,499,057**	1,366,030
		Of which remuneration of Management and Directors:		
6,038	6,340	Management, salary	6,340	6,038
0	1,000	Management, bonus	1,000	0
1,330	1,330	Directors' fees	1,593	1,593
		Breakdown of employee costs:		
0	0	Production costs	465,082	433,188
0	0	Research and development costs	189,600	175,936
0	0	Distribution costs	648,999	578,991
15,068	17,070	Administrative expenses	195,376	177,915
15,068	**17,070**	**Total**	**1,499,057**	1,366,030
8	9	Average number of full-time employees*	4,730	4,490

*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 547 (536 in 2004), the William Demant Holding Group accounting for 271 (264 in 2004).

Information on share-based incentive programmes is provided in the Management report on page 19.

PARENT COMPANY		Note 3 – Production costs (DKK - in thousands)	GROUP	
2004	2005		2005	2004
0	0	Production costs include write-down of inventories, net	20,234	23,013

PARENT COMPANY		Note 4 – Depreciation and write-down (DKK - in thousands)	GROUP	
2004	2005		2005	2004
0	0	Amortisation of intangible assets	-8,320	-8,197
-1,154	-489	Depreciation of tangible assets	-120,060	-110,797
0	0	Net profit on disposal	9,945	-850
-1,154	**-489**	**Total**	**-118,435**	-119,844
		Breakdown of depreciation:		
0	0	Production costs	-46,167	-39,667
0	0	Research and development costs	-26,583	-33,911
0	0	Distribution costs	-33,337	-33,260
-1,154	-489	Administrative expenses	-12,348	-13,006
-1,154	**-489**	**Total**	**-118,435**	-119,844

PARENT COMPANY		Note 5 – Fee to auditors (DKK - in thousands)	GROUP	
2004	2005		2005	2004
		Deloitte		
440	450	Audit fees	3,854	3,093
230	1,225	Other fees	2,419	967
		KPMG C.Jespersen		
440	450	Audit fees	3,570	3,717
566	130	Other fees	890	2,895
1,676	**2,255**	**Total**	**10,733**	10,672

PARENT COMPANY		**Note 6 – Net financials** (DKK - in thousands)		GROUP
2004	**2005**		**2005**	2004
6,133	16,431	Interest income from subsidiary undertakings	-	-
908	2,022	Interest income	14,775	10,927
648	20	Realised foreign-exchange gains	20	648
96	432	Non-realised foreign-exchange gains	431	96
7,785	**18,905**	**Financial income**	**15,226**	11,671
-14,362	-21,974	Interest expenses to subsidiary undertakings	-	-
-12,306	-10,906	Interest expenses	-51,925	-49,338
-320	-33	Realised foreign-exchange losses	-33	-320
-593	-60	Non-realised foreign-exchange losses	-60	-593
-27,581	**-32,973**	**Financial expenses**	**-52,018**	-50,251
-19,796	**-14,068**	**Net financials**	**-36,792**	-38,580

PARENT COMPANY		**Note 7 – Corporation tax** (DKK - in thousands)		GROUP
2004	**2005**		**2005**	2004
		Tax on the year's profit		
9,616	8,811	Current tax on net profit for 2005	-289,980	-276,574
-220,066	-220,675	Tax on net profit, jointly taxed Danish undertakings	-	-
-38,877	-62,208	Tax on net profit, other subsidiary undertakings	-	-
126	-391	Adjustments of current tax related to prior years	6,442	-5,853
10	-1,285	Change in deferred tax	15,531	25,544
-93	47	Adjustments of deferred tax related to prior years	-8,673	7,110
0	265	Adjustment of deferred tax at the beginning of the year resulting from a decrease of the Danish corporation tax rate	1,244	0
0	0	Other taxes	0	1,538
-249,284	**-275,436**	**Total**	**-275,436**	-248,235

PARENT COMPANY — Note 7 – Corporation tax (DKK - in thousands) — GROUP

	2005	2004
Tax-rate reconciliation*		
Danish tax rate	28.0%	30.0%
Differences in tax rates of non-Danish undertakings from Danish tax rate	0.5%	-0.4%
Recognition of tax assets	-2.5%	-1.0%
Tax effect of employee share programme	0.0%	-1.7%
Permanent differences	-0.5%	-0.4%
Other adjustments, prior years	0.3%	-0.8%
Effective tax rate	**25.8%**	25.7%

Parent 2004	Parent **2005**		Group **2005**	Group 2004
		Corporation tax, net		
-20,503	5,769	Corporation tax, net at 1.1.	15,732	9,384
-	-	Foreign-exchange adjustments	-725	139
0	0	Acquisitions	2	1,165
217,627	-8,811	Current tax on net profit for the year	290,971	275,419
-185,232	-10,361	Paid in the year	-301,287	-266,952
1,521	391	Adjustments of current tax related to prior years	-6,265	4,221
-7,644	12,928	Corporation tax related to changes in shareholders' equity	12,882	-7,644
5,769	**-84**	**Corporation tax, net at 31.12.**	**11,310**	15,732

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

Note 8 – Earnings per share — GROUP

	2005	2004
Net profit for 2005 (DKK - in thousands)	790,586	716,905
Average number of shares	66,075,300	68,160,244
Average number of own shares	-1,049,992	-1,107,542
Average number of shares on the market	**65,025,308**	67,052,702
Earnings per share (EPS), DKK	**12.2**	10.7
Earnings per share diluted (DEPS), DKK	**12.2**	10.7

Note 9 – Intangible assets (DKK - in thousands) GROUP

	Acquired patents and licences	Goodwill
Cost at 1.1.2004	7,503	9,202
Transferred accumulated amortisations 1.1.2004	-	-2,058
Foreign-exchange adjustments	-21	-586
Additions in 2004	18,057	36,538
Cost at 31.12.2004	**25,539**	**43,096**
Amortisation at 1.1.2004	-1,026	-2,058
Transferred to cost at 1.1.2004	-	2,058
Foreign-exchange adjustments	9	-
Amortisation for 2004	-8,197	-
Amortisation at 31.12.2004	**-9,214**	**-**
Book value at 31.12.2004	**16,325**	**43,096**
Cost at 1.1.2005	25,539	43,096
Foreign-exchange adjustments	37	2,053
Additions in 2005	1,654	9,193
Cost at 31.12.2005	**27,230**	**54,342**
Amortisation at 1.1.2005	-9,214	-
Foreign-exchange adjustments	-34	-
Amortisation for 2005	-8,307	-
Amortisation at 31.12.2005	**-17,555**	**-**
Book value at 31.12.2005	**9,675**	**54,342**

The addition of consolidated goodwill relates to the acquisition of two small undertakings in Europe.

An impairment test showed no basis for impairment of goodwill at 31 December 2005. Goodwill is tested for impairment at least annually.

The impairment test is made by region (see note 1) representing the smallest cash-flow generating unit, to which the carrying amount of goodwill is attributable, and which may be measured with reasonable certainty. The use of this level should be viewed in the light of the Group's substantial integration of the various areas of activity.

Future cash flows are based on the 2006 budget, strategic plans and projections hereof, whereas projections extending beyond 2008 are based on general parameters. The terminal value for the period after 2008 is determined on the assumption of 1-3% growth. The discounting rate before tax is 6-9%.

PARENT COMPANY **Note 10 – Tangible assets** (DKK - in thousands) GROUP

Parent company: Land and buildings	Parent company: Fixtures, tools and equipment		Group: Land and buildings	Group: Production plant and machinery	Group: Fixtures, tools and equipment	Group: Leasehold improvement	Group: Prepayments and plants under construction
30,407	1,662	Cost at 1.1.2004	217,214	311,918	360,449	77,738	3,694
-	-	Foreign-exchange adjustments	-3,055	-4,190	-5,814	-858	-12
0	0	Additions in 2004	176,800	50,088	61,844	10,235	5,937
0	0	Acquisitions	960	129	840	37	0
0	0	Disposals in 2004	-4,028	-9,120	-23,326	-3,071	0
0	0	Transferred to/from other items	0	1,068	972	1,153	-3,193
30,407	**1,662**	**Cost at 31.12.2004**	**387,891**	**349,893**	**394,965**	**85,234**	**6,426**
-4,619	-348	Depreciation and impairment loss at 1.1.2004	-50,156	-208,355	-225,068	-48,595	-
-	-	Foreign-exchange adjustments	1,210	3,620	3,455	393	-
-838	-316	Depreciation for the year	-8,033	-40,047	-53,840	-8,877	-
0	0	Disposals in 2004	2,539	7,793	18,871	1,245	-
0	0	Transferred to/from other items	0	408	-408	0	-
-5,457	**-664**	**Depreciation and impairment loss at 31.12.2004**	**-54,440**	**-236,581**	**-256,990**	**-55,834**	**-**
24,950	**998**	**Book value at 31.12.2004**	**333,451**	**113,312**	**137,975**	**29,400**	**6,426**
30,407	1,662	Cost at 1.1.2005	387,891	349,893	394,965	85,234	6,426
-	-	Foreign-exchange adjustments	6,198	10,201	16,697	2,693	67
0	0	Additions in 2005	169,091	72,020	97,994	9,476	2,908
0	0	Acquisitions	0	0	677	0	0
0	-386	Disposals in 2005	-4,821	-35,549	-54,923	-21,186	0
0	0	Transferred to/from other items	4,562	-900	1,522	-3,346	-1,823
30,407	**1,276**	**Cost at 31.12.2005**	**562,921**	**395,665**	**456,932**	**72,871**	**7,578**
-5,457	-664	Depreciation and impairment loss at 1.1.2005	-54,440	-236,581	-256,990	-55,834	-
-	-	Foreign-exchange adjustments	-2,570	-6,966	-9,394	-1,462	-
-180	-309	Depreciation for the year	-4,248	-49,933	-57,893	-9,305	-
0	231	Disposals in 2005	3,435	34,896	47,223	20,350	-
0	0	Transferred to/from other items	-1,522	1,182	336	-11	-
-5,637	**-742**	**Depreciation and impairment loss at 31.12.2005**	**-59,345**	**-257,402**	**-276,718**	**-46,262**	**-**
24,770	**534**	**Book value at 31.12.2005**	**503,576**	**138,263**	**180,214**	**26,609**	**7,578**

The value of Group land and buildings in Denmark according to the public valuation at 1 January 2005 amounts to DKK 283 million (DKK 295 million in 2004) against a book value of DKK 426 million (DKK 207 million in 2004).

Under land and buildings, capitalised interest as regards Kongebakken is recognised at a total of DKK 5.9 million, with accumulated depreciation of DKK 0 million.

PARENT COMPANY			**Note 11 – Other long-term assets** (DKK - in thousands)			GROUP
Shares in subsidiary undertakings	Securities and participating interests	Receivables		Shares in associated undertakings	Securities and participating intereste	Receivables
1,381,180	301	0	Cost at 1.1.2004	850	10,312	34,365
-	-	-	Foreign-exchange adjustments	0	0	-692
18,622	0	0	Acquisitions	0	0	0
4,069	0	0	Additions in 2004	0	6	43,814
-11	0	0	Disposals in 2004	0	0	-9,105
1,403,860	**301**	**0**	**Cost at 31.12.2004**	**850**	**10,318**	**68,382**
-588,998	805	0	Value adjustments at 1.1.2004	1,324	-8,592	-1,163
-6,020	0	0	Change in accounting policies	0	0	0
-595,018	805	0	Adjusted value at 1.1.2004	1,324	-8,592	-1,163
-13,751	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 profit	0	-	-
-34,730	-	-	Changes in internal profit on inventories	0	-	-
-411,308	-	-	Dividends received	0	-	-
131,879	-	-	Changes in long-term Group loans	0	-	-
12,925	450	0	Other changes	-2,708	312	878
-194,854	**1,255**	**0**	**Value adjustments at 31.12.2004**	**2,978**	**-8,280**	**-283**
1,209,006	**1,556**	**0**	**Book value at 31.12.2004**	**3,828**	**2,038**	**68,099**

PARENT COMPANY			Note 11 – Other long-term assets (DKK - in thousands)			GROUP
Shares in subsidiary undertakings	Securities and participating interests	Receivables		Shares in associated undertakings	Securities and participating interests	Receivables
1,403,860	301	0	Cost at 1.1.2005	850	10,318	68,382
-	-	-	Foreign-exchange adjustments	0	8	6,670
3,441	0	0	Acquisitions	0	0	0
0	0	37,511	Additions in 2005	0	8	87,975
0	0	0	Disposals in 2005	0	0	-19,204
1,407,301	**301**	**37,511**	**Cost at 31.12.2005**	**850**	**10,334**	**143,823**
-194,854	1,255	0	Value adjustments at 1.1.2005	2,978	-8,280	-283
-25,291	-	-	Foreign-exchange adjustments	0	0	16
1,162,535	-	-	Profit-making undertakings	4,615	-	-
-65,566	-	-	Loss-producing undertakings	0	-	-
-282,883	-	-	Tax on the year's profit	-986	-	-
-2,546	-	-	Changes in internal profit on inventories	0	-	-
-573,030	-	-	Dividends received	-1,500	-	-
-46,042	-	-	Changes in long-term Group loans	0	-	-
55,175	1,562	0	Other changes	-2,133	1,451	788
27,498	**2,817**	**0**	**Value adjustments at 31.12.2005**	**2,974**	**-6,829**	**521**
1,434,799	**3,118**	**37,511**	**Book value at 31.12.2005**	**3,824**	**3,505**	**144,344**

The carrying amount of investments in subsidiary undertakings includes capitalised goodwill in the net amount of DKK 9.8 million (DKK 7.9 million in 2004). Amortisation for the year is DKK 0.3 million (DKK 0 million in 2004).

Group undertakings are listed on page 54.

The consolidated financial statements include the following joint-venture-related amounts:	**2005**	**2004**
Net revenue	493,964	471,570
Costs	473,511	455,292
Long-term assets	31,958	30,264
Short-term assets	115,094	103,895
Long-term liabilities	1,081	500
Short-term liabilities	76,715	82,116

Note 12 – Deferred tax (DKK - in thousands)

PARENT COMPANY 2004	PARENT COMPANY 2005		GROUP 2005	GROUP 2004
		Deferred tax is recognised in the balance sheet as follows:		
0	0	Deferred tax, asset	100,766	70,185
-4,027	-5,146	Provision for deferred tax	-35,798	-27,004
-4,027	**-5,146**	**Deferred tax, net asset at 31.12.**	**64,968**	43,181
-3,926	-4,027	Deferred tax, net asset at 1.1.	43,181	13,117
-	-	Foreign-exchange adjustments	1,489	-688
10	-1,285	Change in deferred tax, asset	15,799	25,573
-93	312	Adjustments of deferred tax related to prior years	-8,765	7,068
-18	-146	Deferred tax related to changes in shareholders' equity, net	13,264	-1,889
-4,027	**-5,146**	**Deferred tax, net asset at 31.12.**	**64,968**	43,181

Tax assets 31.12.2005	Tax liabilities 31.12.2005		Tax assets 31.12.2005	Tax liabilities 31.12.2005
		Breakdown of deferred taxes:		
0	0	Intangible assets	696	2,377
0	2,666	Tangible assets	5,032	15,552
0	0	Inventories	51,979	12,617
0	0	Receivables	4,093	0
0	121	Provisions	21,642	0
0	0	Tax losses carried forward	6,831	0
0	2,359	Other	10,493	5,252
0	**5,146**	**Total**	**100,766**	**35,798**

The tax value of deferred tax assets not recognised is DKK 54.3 million (DKK 56.9 million in 2004) and relates to tax losses and other timing differences. Due to considerable uncertainty as regards the use of these tax assets, they have not been included in the balance sheet.

Any sale of shares in subsidiary or associated undertakings is not expected to result in any significant taxes.

Note 13 – Inventories (DKK - in thousands)

PARENT COMPANY 2004	PARENT COMPANY 2005		GROUP 2005	GROUP 2004
0	0	Raw materials and purchased components	276,984	247,922
0	0	Goods in progress	44,666	37,712
0	0	Finished goods	310,686	317,017
0	**0**	**Inventories**	**632,336**	602,651

PARENT COMPANY		Note 14 – Long-term payables (DKK - in thousands)	GROUP	
2004	2005		2005	2004
0	0	Long-term payables, due after more than 5 years	285,680	0

PARENT COMPANY		Note 15 – Provisions (DKK - in thousands)	GROUP	
2004	2005		2005	2004
0	0	Provisions at 1.1.	21,445	22,442
0	0	Foreign-exchange adjustments	915	-230
0	0	Provisions for the year	7,639	2,492
0	0	Used in the year	-1,122	-1,162
0	0	Reversed in the year	-133	-2,097
0	**0**	**Provisions at 31.12.**	**28,744**	21,445
		Provision breakdown as follows:		
0	0	Long-term liabilities	25,393	19,792
0	0	Short-term liabilities	3,351	1,653
0	**0**	**Provisions at 31.12.**	**28,744**	21,445
0	0	Defined benefit plans	4,188	4,206
0	0	Other long-term employee benefits	18,625	15,269
0	0	Other provisions	5,931	1,970
0	**0**	**Provisions at 31.12.**	**28,744**	21,445

In two foreign subsidiary undertakings (Switzerland), defined benefit plans have been made including 118 employees. According to actuarial calculations at 31 December 2005, the capital value of future benefits is DKK 43.3 million and the fair value of assets attached to the benefit plan is DKK 39.1 million. The discounted interest rate is 3.0% and the return on assets 4.0%. The net provision is DKK 4.2 million.

In Holland, a defined benefit plan has been made for several entities. As the assets cannot be attributed to the single entities, the defined benefit plan is treated as a defined contribution plan.

Note 16 – Interest rate risk (DKK - in thousands)

GROUP

	Under 1 year	1-5 years	Over 5 years	Total	Weighted rate of return
Other interest-bearing long-term assets	0.0	112.1	3.4	115.5	
Cash and cash equivalents	134.7	0.0	0.0	134.7	
Interest-bearing assets	**134.7**	**112.1**	**3.4**	**250.2**	**3.2%**
Mortgage debt	-7.3	-32.5	-164.2	-204.0	
Credit institute debts	-10.3	-365.3	-121.5	-497.1	
Interest-bearing debt	-658.9	0.0	0.0	-658.9	
Interest-bearing liabilities	**-676.5**	**-397.8**	**-285.7**	**-1,360.0**	**3.5%**
Net position	**-541.8**	**-285.7**	**-282.3**	**-1,109.8**	**3.6%**

The Group has locked in interest rates for a portion of its long-term debt through interest swaps of USD 37 million, EUR 4 million and DKK 40 million. At 31 December 2005, non-realised profits amounted to DKK 2.0 million.

Note 17 – Rent and lease obligations (DKK - in thousands)

PARENT COMPANY 2004	PARENT COMPANY 2005		GROUP 2005	GROUP 2004
0	0	Rent	139,283	131,478
0	121	Other operating leases	16,857	20,635
0	**121**	**Total**	**156,140**	152,113
0	61	Operating leases, less than 1 year	55,586	59,233
0	60	Operating leases, 1-5 years	88,328	78,351
0	0	Operating leases, over 5 years	12,226	14,529
0	**121**	**Total**	**156,140**	152,113

In the consolidated profit and loss account, operating leases are recognised at DKK 68.5 million (DKK 68.0 million in 2004).

Note 18 – Contingent liabilities (DKK - in thousands)

PARENT COMPANY			GROUP	
2004	**2005**		**2005**	2004
		Guarantee commitments in respect of subsidiary		
78,152	87,232	undertakings’ credit	0	0
30,740	22,904	Utilised	0	0

William Demant Holding A/S acts as a guarantor for the credit facility etablished with its Danish subsidiary undertakings in the amount of DKK 490 million (DKK 490 million in 2004).

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 Group’s financial position.

As part of corporate activity, the Group has made normal agreements with suppliers, provided letters of intent for certain subsidiary undertakings and made agreements for the purchase of shareholdings.

Group land and buildings at a book value of DKK 356.2 million (DKK 20 million in 2004) have been provided in security of a mortgage debt of DKK 204.1 million (DKK 3 million in 2004).

Note 19 – Related parties (DKK - in thousands)

PARENT COMPANY | GROUP

Related parties are the principal shareholder, William Demants og hustru Ida Emilies Fond (the Oticon Foundation), Kongebakken 9, 2765 Smørum, Denmark, including the Foundation’s subsidiary undertaking (William Demant Invest A/S).

Related parties with significant influence are the Company’s Management and Directors and their family members. Furthermore, related parties are companies in which the above persons have significant interests.

Subsidiary and associated undertakings and the William Demant Holding Group’s ownership interests are shown on page 54.

In 2005, the Oticon Foundation let office and production premises on a commercial basis to the joint-venture company, Sennheiser Communications A/S. From 1 January to 31 October 2005, the subsidiary undertaking, Oticon A/S, rented office premises from the Oticon Foundation. The two leases amounted to a total of DKK 10.9 million (DKK 12.0 million in 2004).

The Oticon Foundation and William Demant Invest A/S paid administration fees amounting to DKK 0.7 million (DKK 0.7 million in 2004) and DKK 0.3 million (DKK 0.8 million in 2004), 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 investment. In each case, a management agreement will be made on commercial terms.

Since 1 January 2005, William Demant Invest A/S has been jointly taxed with the other Danish undertakings. The tax value, DKK 2.2 million, of its taxable result was utilised by the other Danish undertakings which pay joint taxation contributions in respect hereof.

Sales to joint ventures not eliminated in the consolidated financial statements amount to DKK 109.5 million (DKK 99.3 million in 2004).

For transactions with Directors and Management, please refer to note 2 Staff and the mention of share-incentive programmes in the Management report on page 19.

Note 20 – Government grants (DKK - in thousands) GROUP

Neither in 2004 nor in 2005 has the William Demant Holding Group received any significant government grants.

Note 21 – Acquisitions of undertakings (DKK - in thousands) GROUP

	Fair value
Total assets	677
Inventories	2,032
Receivables	1,228
Short-term payables	-956
Cash and cash equivalents, net	973
Acquired assets, net	**3,954**
Goodwill	9,193
Acquisition cost	**13,147**
Of which cash and cash equivalents	-973
Cash acquisition cost including transaction costs	**12,174**

In 2005, the William Demant Holding Group acquired all the shares in two small companies.

Group companies

Company	*Interest*
William Demant Holding A/S, Denmark	**Parent company**
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 UK Ltd., United Kingdom	100%
Bernafon, LLC, USA	100%
Bernafon Canada Ltd., Canada	100%

Company	*Interest*
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 (Canada) Ltd., Canada	100%
Phonic Ear A/S, Denmark	100%
Maico Diagnostic GmbH, Germany	100%
Diagnostic Group LLC, USA	100%
Interacoustics A/S, 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%
Hearing Healthcare Management, Inc. (Avada), USA	51%
Sennheiser Communications A/S, Denmark	50%
American Hearing Aid Associates, Inc. (AHAA), USA	49%
Bernafon Nederland B.V., the Netherlands	49%
HIMSA A/S, Denmark	25%
NewDae Technologies Inc., Canada	25%

The list includes all active Group undertakings.

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