Interim Report 2001

1 January - 30 June

William Demant Holding A/S

Key figures and ratios

Profit and loss account, DKK million	1st half 2001	1st half 2000	% change	Full year 2000
Net revenue	1,648.5	1,406.1	17%	2,959.7
Gross profit	1,067.4	858.3		1,840.3
Operating profit	319.4	279.7	14%	585.0
Financial items, net	-19.7	-12.0		-22.1
Profit before tax and minority interests	299.7	267.6	12%	560.8
Profit after tax	227.4	203.4		427.5
Extraordinary items, net	-	-		-
Net profit for the period	226.8	202.0	12%	425.8
Balance sheet, DKK million				
Interest-bearing items, net	-617.8	-442.7		-595.2
Total assets at 30 June	1,793.2	1,465.4		1,549.0
Shareholders' equity at 30 June	388.3	329.5		212.5
Other key figures, DKK million				
Research and development costs	121.2	91.2	33%	197.7
Depreciation and write-downs	44.2	42.2		85.8
Investment in tangible fixed assets	78.5	51.1		112.6
Cash flow from operations (CFFO)	108.6	198.3		315.9
Cash earnings (CE)	271.0	244.2		513.3
Employees (average)	3,897	3,195		3,323
Ratios				
Gross profit ratio	64.7%	61.0%		62.2%
Profit margin	19.4%	19.9%		19.8%
Return on equity (p.a.)	151.0%	121.0%		145.3%
Equity ratio	21.7%	22.5%		13.7%
Earnings per share (EPS), for the period DKK*	3.1	2.7	12%	5.8
Cash flow per share (CFPS), DKK*	1.5	2.7		4.3
Cash earnings per share (CEPS), DKK *	3.7	3.3		7.0
Dividend per share, DKK*	-	-		-
Book value per share, DKK*	5.2	4.5		2.9
Price earnings (P/E)	42	44		62
Share price DKK*	259	238	9%	360
Market capitalisation, DKK million	19,235	17,519	10%	26,727
Fully diluted no. of shares, million	74.18	73.68	1%	73.72

** Per share of DKK 1*
Ratios are calculated in accordance with "Anbefalinger & Nøgletal 1997" (Guidelines and ratios 1997) from the Danish Society of Financial Analysts.
Cash earnings are calculated as profit after tax with the addition of depreciation and write-downs.
The accounting policies are the same as in 2000.

Interim report 2001

In the first half of 2001 the Group continued its growth trends and realised a revenue of well over DKK 1.6 billion.

The 17% increase in revenue was achieved in a highly competitive market, in which as expected at the start of the year the William Demant Group experienced lower growth rates than in 1999 and 2000, both of which saw major product introductions and acquisitions.

Operating profit amounted to DKK 319 million (+14%) against DKK 280 million in the first half of 2000. Earnings per share rose by 12% to DKK 3.1 per share.

The Group's revenue and profit for the first half-year match the expectations reflected in the Annual Report 2000. Compared with the expectations for the first half of 2001 the product mix has to some extent switched towards an increase in the sale of volume products and a more modest rise in sales of high-end products. The first half-year saw slightly falling average prices which were however offset by growth in unit sales.

The Group maintains its strategy of acquiring undertakings in its existing business areas. The Group has just completed a number of acquisitions, all funded through loans and all reinforcing the individual business areas' capability to maintain high growth rates in the years to come.

The most important investment in the first half of 2001 is in American Hearing Aid Associates, Inc. (AHAA). The Group's investment amounts to USD 50 million and will improve the distribution network on the North American market. This and other acquisitions will be dealt with in more detail under the various business areas.

At the moment Oticon is preparing the introduction of its new third-generation digital hearing aid, the marketing of which is scheduled to begin in October. Oticon originally planned to introduce this new and very advanced product in July, but now the plan is to release the product family for sale in connection with the German hearing aid congress in October.

The Directors and Management expect the William Demant Holding Group to generate a revenue of DKK 3.4-3.5 billion in the 2001 financial year, with an operating profit (EBIT) of DKK 670-700 million.

22 August 2001

Niels Boserup
Chairman

Niels Jacobsen
President & CEO

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FIRST HALF-YEAR

The Interim Report for the first half of 2001 generally matches the targets in our internal budget as well as those announced to the stock market - most recently in connection with the publication of our Annual Report 2000.

The interim financial statements may be summarised as follows:

Group revenue rose by 17% and now aggregates DKK 1,649 million. The rate of organic growth was 9%, which is higher than the underlying market.

The table below shows Group revenues by business area. All our business areas have outperformed the markets, in which they sell their products. The heaviest organic growth was generated by Diagnostic Instruments with a rate of 19%.

Revenues by business area *(DKK million)*	**1st half 2001**	**1st half 2000**	**Full year 2000**
Hearing Aids	1,409	1,198	2,518
Diagnostic Instruments	97	82	177
Personal Communication	143	126	265
Total	**1,649**	**1,406**	**2,960**

Computed at the rates of exchange during the period

The gross profit ratio rose to 65% against 61% in 2000. There are several factors involved in the improvement. First and foremost the relative share of Group sales to end-users has gone up due to the structural impacts of the acquisitions made in 2000.

On the other hand the gross profit ratio was negatively affected by the switch towards sales of more volume products, and the Group's components factory experienced running-in problems on the introduction of new production technologies and capacity-expanding investments. The implementation of these technologies accompanied by a huge demand for the Group's products entailed considerable additional costs which have been included under production costs in the first half-year. At the start of the second half-year most of these production problems will have been solved.

On 1 July 2001 the Group took over the production company, Crystalaid Manufacturing Pty. Ltd. in Brisbane, Australia, which used to be one of Bernafon's sub-suppliers. Its production facilities are located in close proximity to Bernafon's Australian company and will give the Group a much-needed lift in productive capacity and in the long term also reduce unit costs.

The Group's effort to develop new products resulted in a 33% rise in R&D costs which now amount to DKK 121 million. Two factors are involved in this increase. In the first half-year we incurred costs relating to the final development of major new product introductions scheduled to take place in the second half of 2001. Moreover the Group's investment in its long-term product range is larger than in previous years.

The Directors are convinced that one of the ways to secure William Demant's organic growth in revenues and earnings is through a substantial R&D effort.

As was expected distribution costs (due to acquisitions in 2000) rose relatively faster than revenues. We expect to be able to keep the level at about 30% of revenue until year-end - despite the coming product introductions.

If we exclude the effect of the acquisitions in 2000, administrative expenses developed moderately.

In the first six months operating profit rose by 14% to a total of DKK 319 million against DKK 280 million in 2000.

The profit margin is 19.4% (19.9% in the first half of 2000 and 19.8% for the year 2000). The slightly lower profit margin is mainly due to an increase in sales to end-users compared with the first half of 2000. In 2000 Hidden Hearing was only included in the financial results with four months, and the joint-venture agreement with Avada was not effective until November 2000.

The net profit for the period - after 24% tax - is DKK 227 million. The return on average equity is 151% (p.a.) against 121% in the first six months of 2000.

Earnings per share rose by 12% to DKK 3.1, up from DKK 2.7 per share last year.

The Group's positive cash flows have been maintained. As in 2000 we generated a quarter of a billion Danish kroner from operating activities.

Interest-bearing balance-sheet items account for a net debt of DKK 618 million, which is generally the same as at the start of the year. The positive cash flow from operating activities in the first six months were mainly used for capital expenditures, acquisitions and the buyback of own shares.

At 30 June shareholders' equity amounted to DKK 388 million, which matches 22% of total Group assets worth DKK 1.8 billion.

At the annual general meeting on 4 April it was decided to transfer the *share premium account* of shareholders' equity amounting to DKK 138 million to the distributable reserves. The transfer was made on expiry of the statutory notice on 18 July.

The first half-year saw a buyback of own shares totalling 45,150 at an average price of 269. At 30 June the company held 558,762 of its own shares (0.7% of the share capital).

BUSINESS AREAS

Hearing aids

The hearing aid market developed in two speeds in the first half of 2001:

- On the North American market sales in terms of units stagnated according to official statistics. The William Demant Group experienced a positive trend in sales in this market. In the first half-year a number of collaboration agreements were concluded in the US between manufacturers and chains of hearing care professionals, in accordance with which manufacturers increasingly provide finance for these chains.

- On the other markets - particularly in Europe - the hearing aid market developed favourably.

Group sales of hearing aids developed positively in the first half of 2001. In terms of units sales rose by 14%, which is satisfactory just three or four months before the introduction of Oticon's third-generation digital product family.

In the past six months the Group's existing hearing aid families have been supplemented with Power and Super Power aids, which specifically target the 10% of users with the most powerful hearing losses. These new hearing aids have reinforced our position in this market segment. DigiFocus II Super Power was introduced on the market in July with good fitting results.

In October Oticon will start its sale of a new high-end product, which has been developed over the past three years. The product is expected to set a new standard for products competing in the high-end segment.

In the first half-year Bernafon's revenue increased and contributed positively to net profits. At the German hearing aid congress in October Bernafon will also present new products, scheduled for marketing by the end of the year.

The hearing aid companies thus have a good foundation for continued growth in 2002.

AHAA

Effective as of today the William Demant Group has made an agreement with the shareholders of American Hearing Aid Associates, Inc. (AHAA) for the acquisition of 49% of its shares at a total amount of USD 50 million. The amount will be paid with an up-front amount of USD 36 million with the remaining USD 14 million being paid within a four-year period when sales and profits reach the targeted figures.

The acquisition will be financed through a USD loan. On acquisition consolidated group goodwill amounted to DKK 430 million which will be written off via equity in the second half-year of 2001.

AHAA is a multi-brand wholesale distributor of hearing aids and business services on the North American market. AHAA provides services to independent hearing care professionals who are not members of one of the hearing aid chains. One of the advantages of independent hearing care professionals is the systematised and thoroughly tested business principles which AHAA offers its associates. The principles include management and business systems, marketing programmes, referral programmes, training programmes and course modules. Further information on the AHAA service programmes is available on *www.ahaanet.com*.

In 2000 AHAA generated a revenue of USD 36 million. AHAA is experiencing heavy growth both as regards revenues and profits. AHAA will be consolidated pro rata with a 49% interest, and for 2001 we expect it to contribute revenues to the tune of DKK 50-60 million, although its contribution to profits in 2001 is expected to be modest. In 2002 we expect AHAA to contribute positively to the trends in consolidated revenue and profits. The valuation of AHAA is based on an EBITDA multiple of 9 which is the target for payment of the remaining USD 14 million.

AHAA will remain an independent organisation under current management offering hearing aids from several manufacturers including the William Demant Group. Today sales of William Demant products to AHAA members are moderate, but over the next few years they are expected to account for an increasing share of AHAA sales.

In the Board's opinion the William Demant Group will benefit from AHAA's business concept also on other markets than in the US.

Diagnostic Instruments

Diagnostic Instruments showed satisfactory growth in 2001. This area has developed favourably - both in terms of revenue and profit.

We expect the positive trend to continue throughout the year. To strengthen the development we have from the German company, SensoMotoric Instruments GmbH, acquired the rights to a number of products for analysis and measurement of the function of the vestibular system. The vestibular system, which is part of the inner ear, is often measured by ear, nose and throat specialists when they measure the hearing of a person.

Personal Communication
This business area did not realise the targets that were set up at the beginning of the year.

Collaboration with other hearing aid manufacturers concerning the development of wireless solutions will result in the introduction of new products in early 2002 which will bolster up this business area.

On 1 September the William Demant Group will take over the remaining 25% of the shares in Danacom at a total amount of DKK 10 million.

OUTLOOK FOR 2001 AS A WHOLE

For the 2001 financial year we maintain our expectations in respect of Group revenues to the tune of DKK 3.4-3.5 billion including revenues from the AHAA acquisition in the amount of DKK 50-60 million, whereas it is difficult to foresee the impact in 2001 of only two-month sales of Oticon's new third-generation hearing aids. Our expectations are based on the assumption that the rates of exchange generally remain at today's level throughout the rest of the year.

The AHAA acquisition is only expected to have a minor impact on operating profits for 2001, but in 2002 it is expected to contribute to both revenue and profit growth.

Operating profits (EBIT) are thus expected to amount to about DKK 670-700 million - albeit with a slightly higher margin of uncertainty than usual due to the late introduction in 2001 of Oticon's new product family. The related sizeable introduction costs suggest that the profits will most likely be at the lower end of the figures mentioned above, but we expect the new product family to have a good and positive impact on profits in 2002.

Development in shareholders' equity *(DKK million)*	**1st half 2001**	**1st half 2000**
Shareholders' equity 1 Jan	**212**	**499**
Exchange rate adjustments	-31	11
Write-down of goodwill	-8	-371
Write-down of own shares	-12	-11
Profit for the period	227	202
Shareholders' equity 30 June	**388**	**330**

Group *(DKK - in thousands)*	**2001**	**2000**
Net revenue	**1,648,517**	**1,406,108**
Production costs	-581,147	-547,811
Gross profit	**1,067,360**	**858,297**
Research and development costs	-121,220	-91,225
Distribution costs	-501,213	-374,675
Administrative expenses	-125,507	-112,744
Operating profit	**319,430**	**279,653**
Financial items, net	-19,710	-12,036
Profit before tax and minority interests	**299,720**	**267,617**
Corporation tax for the period	-72,289	-64,228
Profit after tax	**227,431**	**203,389**
Minority interests	-629	-1,399
Net profit for the period	**226,802**	**201,990**

Balance sheet at 30 June 2001

Assets *(DKK - in thousands)*	**2001**	**2000**
Leasehold improvements	24,164	25,431
Intangible fixed assets	**24,164**	**25,431**
Land and buildings	132,669	126,456
Technical plant and machinery	89,410	82,718
Fixtures, tools and equipment	113,861	82,667
Tangible fixed assets	**335,940**	**291,841**
Shares in associated companies	120	213
Securities and participating interests	7,410	8,519
Other receivables	13,246	8,285
Deferred tax, asset	28,404	19,041
Financial fixed assets	**49,180**	**36,858**
Total fixed assets	**409,284**	**354,130**
Inventories	**578,120**	**448,715**
Trade debtors	547,998	524,247
Other debtors	64,955	31,557
Prepayments and accrued expenses	30,847	43,008
Debtors	**643,800**	**598,812**
Liquid funds	**161,984**	**63,774**
Total current assets	**1,383,904**	**1,111,301**
Total assets	**1,793,188**	**1,465,431**

Liabilities *(DKK - in thousands)*	**2001**	**2000**
Share capital	74,713	74,377
Reserves	313,593	255,157
Shareholders' equity	**388,306**	**329,534**
Minority interests	**2,425**	**2,497**
Provisions for deferred taxes	18,850	5,656
Other provisions	119,985	96,493
Provisions	**138,835**	**102,149**
Mortgages	3,854	4,531
Other long-term creditors	299,949	297,532
Long-term creditors	**303,803**	**302,063**
Short-term part of long-term creditors	13,855	10,259
Interest-bearing short-term debt	462,147	202,650
Trade creditors	140,626	164,538
Corporation tax	15,016	22,846
Other creditors	261,251	282,782
Prepayments and accrued income	66,924	46,113
Short-term creditors	**959,819**	**729,188**
Total creditors	**1,263,622**	**1,031,251**
Total liabilities	**1,793,188**	**1,465,431**

Cash flow statement, first half-year

Group (DKK - in thousands)	2001	2000
Operating profit	319,430	279,653
Write-downs and depreciation	44,178	42,200
Changes in debtors *	-97,496	-109,184
Changes in inventories *	-77,889	-28,324
Changes in trade creditors etc. *	55,990	64,011
Changes in provisions *	-4,133	16,923
Cash flow from operating activities	**240,080**	**265,279**
Financial items etc.	-20,339	-12,036
Corporation tax	-111,128	-54,981
Net cash flow from operating activities	**108,613**	**198,262**
Acquisition of companies	-7,646	-432,611
Expensed investments under DKK 50,000 *	-9,221	-10,969
Investments in intangible fixed assets *	-2,985	-8,534
Investments in tangible fixed assets *	-58,374	-28,516
Investments in financial fixed assets *	-311	-3,046
Cash flow from investing activities	**-78,537**	**-483,676**
Changes in long-term creditors, net *	4,827	144,880
Buyback of own shares	-12,125	-11,572
Other adjustments	-31,439	12,402
Dividend paid	-	-44,195
Cash flow from financing activities	**-38,737**	**101,515**
Net cash flow position for the period	**-8,661**	**-183,899**
Net cash position at 1 January	**-291,502**	**45,023**
Net cash position at 30 June	**-300,163**	**-138,876**
Breakdown of net cash position at 30 June		
Liquid funds	161,984	63,774
Interest-bearing short-term debt	-462,147	-202,650
	-300,163	**-138,876**

*Not including additions from acquired companies.

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