Interim Report 2004

1 January - 30 June 2004

William Demant Holding

Handsome growth in William Demant Holding Group – upgrading profit expectations for 2004

- Consolidated revenue of DKK 2,067 million rose by 11% compared with the first half of 2003 measured in local currency, outmatching our expectations.
- Continued high profit margin of 21.8% (22.2% in the first six months of 2003).
- Operating profit (EBIT) rose to DKK 451 million (DKK 423 million in the first half of 2003). Operating profit was negatively affected by exchange rates.
- Earnings per share improved by 10% to DKK 4.7 in the first half of 2004 (DKK 4.3 in the first half of 2003).
- Cash flows from operating activities amounted to DKK 371 million (DKK 446 million in the first six months of 2003).

The William Demant Holding Group experienced a good first half of 2004. Consolidated revenue totalled DKK 2,067 million against DKK 1,903 million in the same period last year, corresponding to a rise of 9%. Measured in local currency, growth was 11%. Growth in the second quarter was stronger than in the first quarter.

In the Group's core business – wholesale of hearing aids – the first half of 2004 saw a number of product introductions. The most important one – Oticon Syncro – was launched in May and June, and therefore did not have a chance to boost sales in the first half-year. Growth in core business outdid growth in the underlying market.

The rate of growth in the Personal Communication and Diagnostic Instruments business units exceeded growth rates in the Group as a whole.

Operating profit (EBIT) amounted to DKK 451 million in the first six months, matching a profit margin of 21.8%. Compared with the same period last year, the Group realised sales at lower exchange rate levels, due particularly to the fall in exchange rates of the JPY and USD vis-à-vis the DKK over the past few years, which triggered a fall in EBIT to the tune of DKK 40 million. In this light, the increase in EBIT in the first half of 2004 is therefore extremely positive.

Earnings per share (EPS) rose by 10% to DKK 4.7.

The accounting policies applied in the first half of 2004 are the same as in 2003.

Based on the positive trends in the first six months and our expectations of continued favourable trends in the underlying market, the Group expects to realise a revenue at a level of DKK 4.25-4.35 billion on condition that current exchange rates apply throughout the year.

The introduction of Oticon Syncro is expected to contribute notably to growth in the second-half year. Organic growth in consolidated revenues is therefore estimated at a level of 12-15% for the year as a whole against our previous forecast of 7-10%.

Despite the unfavourable impact from exchange rates, which for the financial year as a whole is estimated to affect operating profit negatively by about 10%, or DKK 80-85 million, we do expect vigorous growth in operating profit (EBIT). At year-start, the Group expected a profit of DKK 875 million, the largest portion of which was to be generated in the second half-year. In the light of the profit produced in the first six months, we now expect an operating profit (EBIT) for 2004 at a level of DKK 950-1,025 million. Profitability in the underlying business thus more than outmatches the negative impact on profit caused by trends in exchange rates.

The major introductions in the first half-year – particularly the introduction of Oticon Syncro shortly before the balance sheet date and sales as a whole – increased working capital as reflected in the balance sheet. We expect the level of trade debtors and inventories to be stable in the second half-year, and cash flows for the financial year as a whole will therefore be at the same level as in 2003.

Earnings per share are expected to grow by 15-20% against a previous growth forecast of 10%.

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Key figures and ratios

GROUP	1st half 2004	1st half 2003	% change	Full year 2003
Profit and loss account, DKK million				
Net revenue	2,066.8	1,903.3	9%	3,869.7
Gross profit	1,368.2	1,254.7	9%	2,521.3
Operating profit (EBIT)	450.9	423.4	7%	855.5
Net financials	-20.8	-13.2	57%	-28.2
Profit before tax	430.2	410.1	5%	827.3
Net profit for the period	318.7	303.5	5%	618.3
Balance sheet, DKK million				
Interest-bearing items, net	-856.1	-766.7	12%	-632.9
Total assets	2,228.1	2,054.3	8%	2,015.0
Shareholders' equity	473.7	419.8	13%	522.2
Other key figures, DKK million				
Research and development costs	149.7	143.3	5%	294.9
Depreciation and amortisation	64.8	59.2	9%	117.0
Investment in tangible fixed assets, net	60.6	56.0	8%	124.4
Cash flow from operating activities (CFFO)	208.9	356.8	-41%	753.7
Free cash flow	123.4	290.5	-58%	615.5
Cash Earnings (CE)	383.5	362.7	6%	735.3
Employees (average)	4,454	4,296	4%	4,272
Ratios				
Gross profit ratio	66.2%	65.9%		65.2%
Profit margin	21.8%	22.2%		22.1%
Return on equity (p.a.)	135.7%	143.2%		139.8%
Equity ratio	21.3%	20.4%		25.9%
Earnings per share (EPS), DKK *	4.7	4.3	10%	8.8
Cash flow per share (CFPS), DKK *	3.1	5.0	-39%	10.8
Free cash flow per share, DKK *	1.8	4.1	-56%	8.8
Cash earnings per share (CEPS), DKK *	5.7	5.1	11%	10.5
Book value per share, DKK *	7.0	6.0	16%	7.5
Price earnings (P/E)	24	17	41%	23
Share price, DKK *	231	149	55%	200
Market capitalisation adjusted for own shares, DKK million	15,458	10,362	49%	13,710
Average number of shares, million	67.68	70.74	-4%	69.95

** 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.
Free cash flow is computed as the sum of cash flows from operating (CFFO) and investing activities (CFFI) adjusted for acquisitions.

INTERIM REPORT FOR THE FIRST HALF OF 2004

The first six months fully matched our expectations at the beginning of the year. Results were created in a market that developed more favourably than expected in January. All business units have shown progress, with the highest rate of growth in Personal Communication.

A number of major introductions of hearing aids in early 2004 promoted growth in the Hearing Aids business unit and the introduction of Oticon Syncro in the second quarter will further promote growth in the last six months of 2004.

The Group's retail activities developed favourably compared with 2003.

Revenue by business area

(DKK million)	1st half 2004*	1st half 2003*	Growth	1st half 2003	Full year 2003
Hearing Aids	1,832	1,660	10%	1,698	3,424
Diagnostic Instruments	117	102	15%	104	211
Personal Communication	118	95	24%	101	235
Total	**2,067**	**1,857**	**11%**	**1,903**	**3,870**

*Computed at realised 1st half 2004 exchange rates

In the first half of 2004, the Group's major trading currency – USD – was reasonably stable vis-à-vis the DKK, but rates were lower than the USD rates realised in the first half of 2003, which is the most important contributor to the adverse exchange impact compared with last year.

The negative exchange impact on Group revenue in the first half-year is 2%, or DKK 46 million, compared with the same period last year. Given the same exchange rates throughout the remaining part of 2004, we expect a negative impact of 2% for 2004 as a whole.

Foreign-exchange rates

	USD	JPY	GBP
Realised rate 1st half 2003	674	5.67	1085
Realised rate 2003	659	5.68	1075
Realised rate for January 2004	591	5.55	1076
Realised rate for 1st half 2004	607	5.60	1105
Realised rate for July 2004	606	5.55	1117

Consolidated gross profit for the first half of 2004 amounted to DKK 1,368 million (DKK 1,255 million in 2003), corresponding to a gross profit ratio of 66.2%. The improvement in gross profit was generated by the increase in consolidated revenue.

Consolidated overheads rose by 10% to DKK 917 million. An increase of 13% measured in local currency.

As planned at the beginning of the year, the Group incurred centenary expenses as well as product introduction costs. The Group's centenary and the introduction of Syncro coincided and most of the activities associated with these events were therefore integrated. Consequently, the centenary has not been highlighted separately in the interim report. In the profit and loss account, introduction costs and centenary expenses have been entered under distribution costs and administrative expenses.

Growth in the Group's R&D effort continued in 2004.
The increase measured in local currency amounted to 6% totalling DKK 150 million, which corresponds to 7.2% of consolidated revenue.

Distribution costs accounted for DKK 631 million (DKK 563 million in 2003), or 30% of consolidated revenue. The introduction programme was considerable in the first half of 2004, resulting in an upward trend in distribution costs.

Administrative expenses rose by 9% to a total of DKK 136 million compared with DKK 125 million last year.

Overheads

(DKK million)	1st half 2004	1st half 2003	Percentage change in DKK	Percentage change in local currency
Research and development costs	150	143	5%	6%
Distribution costs	631	563	12%	15%
Administrative expenses	136	125	9%	11%
Total	**917**	**831**	**10%**	**13%**

Operating profit (EBIT) amounted to DKK 451 million against DKK 423 million in 2003. The profit margin was 21.8% compared with 22.2% in the first half of 2003.

To eliminate short-term exchange impacts in consolidated earnings, the Group currently applies forward-exchange contracts to hedge its exchange flows. With falling exchange rates, hedging rates for the Group's exchange transactions will of course also be lower, and over time this will affect consolidated profits. In the Annual Report for 2003, we estimated the development compared with 2002 to be an annual negative impact on operating profit for 2004 and the years ahead to the tune of DKK 120 million. In 2004 the effect on profit will be DKK 80-85 million compared with 2003. The adverse effect on profit for the first half-year was approx. DKK 40 million compared with the first half of 2003. However profits for the first half-year reflect the fact that the underlying growth in profitability in the Group's business units was able to compensate for the negative trends, and we expect continued earnings growth in the second half despite a persistent negative impact from exchange rates compared with previous years.

At 1 August hedging contracts constituted:

	1st August 2004		31st December 2003	
Currency	**Hedging period**	**Hedging rate**	**Hedging period**	**Hedging rate**
USD	14 months	632	13 months	650
JPY	14 months	5.79	19 months	6.11
EUR	16 months	746	10 months	745

At 30 June, non-realised gains on financial contracts amounted to DKK 11 million (DKK 31 million at 31 December 2003), of which DKK 5 million was entered as income for hedging of the Group's trade debtors (DKK 7 million at 31 December 2003).

Net financials amounted to DKK 21 million against DKK 13 million last year, which matched our forecast, as last year's result included an exchange gain of DKK 4 million. For the year as a whole, we expect net financials in the vicinity of DKK 40 million.

A provision was made for taxes of just under 26%, which equals last year. For the year as a whole, we expect a similar tax rate. For the jointly taxed Danish undertakings, a larger tax amount was paid on account than last year, which had a negative impact on cash flows. However this is just a timing difference that will be evened out by year end.

Interim net profits amounted to DKK 319 million, or an increase of 5% on last year. Growth is 10% measured in terms of earnings per share.

In the first six months of 2004, consolidated cash flows from operating activities totalled DKK 371 million. With the addition of net financials, tax and cash flows from investing activities, free cash flows totalled DKK 123 million compared with DKK 291 million in the first half of 2003. The introduction of Syncro caused a considerable, but short-term increase in working capital tied up in inventories. There was an accumulation of trade debtors in the first half-year, and the amount paid in taxes on account was larger than last year. Despite expectations of an increasing activity level in the second half-year, we expect the consolidated balance sheet total to be reduced from the current level and free cash flows for the year as a whole to be at the same level as last year.

Development in cash flows by main items

(DKK million)	1st half 2004	1st half 2003	Full year 2003
Net profit for the period	**319**	**303**	**618**
Cash flow from operating activities	209	357	754
Cash flow from investing activities excl. acquisitions	-86	-66	-138
Free cash flow	**123**	**291**	**616**
Acquisition of undertakings	-3	0	0
Buyback of own shares	-348	-327	-541
Other financing activities	- 1	-68	-156
Net cash-flow position for the period	**-229**	**-104**	**-81**

The consolidated balance sheet total is DKK 2.2 billion, which is an increase since January 2004, primarily due to a rise in working capital bound up in inventories and trade debtors.

The interest-bearing net debt constituted DKK 856 million against DKK 633 million at the beginning of the year.

Shareholders' equity totalled DKK 474 million at 30 June 2004, or 21% of total assets.

Development in shareholders' equity

(DKK million)	1st half 2004	1st half 2003
Shareholders' equity at the start of the period	**522**	**428**
Foreign-exchange adjustments, subsidiary undertakings	0	-19
Change in gains/losses on financial contracts after tax	-19	35
Write-down of own shares	-348	-327
Profit for the period	319	303
Shareholders' equity at the end of the period	**474**	**420**

In the first half-year, the Company bought back 1,628,897 own shares at a total value of DKK 348 million (DKK 327 million in 2003). At the general meeting in March 2004, a decision was made to write down the share capital by nominally DKK 2.8 million, or 4% of the share capital. The share capital is now nominally DKK 67.5 million.

Since the general meeting, the Company has acquired further 1,062,470 shares. At 18 August 2004, the holding of own shares thus amounts to 943,520, as, in connection with the Group's centenary in June, the Directors decided to distribute 118,950 shares to the Group's employees.

Furthermore, our employees have been offered an employee share programme, under which in November we expect to make 200,000 shares available from our holding of own shares.

With due regard to any investment opportunities, the Company will continue to use any excess liquidity to buy-back own shares.

In the first half of 2004, the Group averaged 4,454 employees against 4,296 in the first half of 2003, 1,345 being employed in Denmark against 1,250 in the first half of 2003.

MARKET AND BUSINESS TRENDS

Hearing Aids

After some years with extremely moderate growth in the hearing aid market, we have seen progress over the past 12 months both in the European and particularly in the US markets. US statistics suggest that the US market grows by more than the 3-5%, which the Group estimates to be the long-term rate of growth in the market. Trends are due to a generally more optimistic buying behaviour of elderly consumers and an accumulated demand following a period of stagnation in the market.

Growth in the market coincides with a number of product introductions from both Oticon and Bernafon.

In the first six months, our core business – wholesale of hearing aids – saw 10% growth measured in local currency and 12% measured in terms of Group-produced hearing aids. In the first half of 2003, sales under contract with the Australian government were included, but as the contract was terminated only very modest sales were recorded in 2004. In return, the growing sale to British hearing care providers under the National Health Service has to some degree offset the fall in Australian sales.

At the start of the year, Oticon introduced two new hearing aid families: GO and Atlas Plus. GO is Oticon's first digital aid in the basic segment, in which price is a major sales parameter. Atlas Plus is a further development of the highly successful Atlas. Both families were introduced in January and have been very successful and matched our expectations.

In connection with the hearing aid convention in the US at the end of March, Oticon introduced its new high-end aid Syncro. The product was released for sale in early May, and as at 30 June 2004 the product has been introduced successfully in all major markets, in which the Group is represented.

Syncro therefore did not boost sales in the first half-year, but is thought to be an essential growth element in the second half-year.

On major introductions in the high-end market, there is always some uncertainty as to whether there will be an immediate acceptance of the new user benefits offered in the market. Now, in August, we can say that hearing care professionals and end-users gave Syncro a very favourable reception, and our expectations of sales in the second half-year are positive.

After expiry of the contract with the Australian government in summer 2003, Bernafon has successfully been able to focus much more on the commercial markets. In early 2004, Bernafon introduced Symbio XT, which is the first hearing aid that processes the incoming sound without using frequency bands or channels.

The Group's retail activities show continued progress both in terms of sales and profitability.

Diagnostic Instruments

Following a quiet January, Diagnostic Instruments saw satisfactory growth in the first half-year. Growth was stronger in the second quarter, carried by new product introductions and a positive recovery in the market.

We estimate that Diagnostic Instruments has improved its market position in the first half of 2004.

Personal Communication

In the first half-year, Personal Communication saw the strongest rate of growth of as much as 24% measured in local currency.

The introduction of Lexis 12 months back contributed favourably to the development in the first half-year. The system has now been introduced on all major markets and is a considerable growth factor in this business unit.

Sennheiser Communications also showed positive trends after a slight delay in the establishment of the joint venture company in 2003.

The Group expects Personal Communications to continue its progress throughout 2004.

Prospects for the 2004 financial year

With the positive trends in the first half of 2004 and an expectation of continued favourable trends in the underlying market, the Group expects to realise revenues to the tune of DKK 4.25-4.35 billion. In the second half-year, we assume exchange rate levels to be the same as the rates realised in July (se previous table).

The introduction of Syncro is expected to contribute favourably to growth in the second half-year, and the growth in Group revenues is therefore estimated to be at a level of 12-15% in local currency for the year as a whole, against a previous forecast of 7-10%.

Despite the unfavourable impact from exchange rates, which for the financial year as a whole is estimated to affect operating profit negatively by about 10%, or DKK 80-85 million, we do expect vigorous growth in operating profit (EBIT). At year-start, the Group expected a profit of DKK 875 million, the largest portion of which was to be generated in the second half-year. In the light of the profit produced in the first six months, we now expect an operating profit (EBIT) for 2004 at a level of DKK 950-1,025 million.

Earnings per share in 2004 are expected to go up by 15-20% compared with 2003.

GROUP (DKK - in thousands)	1st half 2004	1st half 2003	Full year 2003
Net revenue	**2,066,786**	**1,903,256**	**3,869,693**
Production costs	-698,552	-648,527	-1,348,438
Gross profit	**1,368,234**	**1,254,729**	**2,521,255**
Research and development costs	-149,662	-143,254	-294,893
Distribution costs	-631,381	-563,049	-1,130,438
Administrative expenses	-135,650	-125,870	-242,053
Amortisation of goodwill	-259	-210	-435
Income from associated undertakings	-370	1,022	2,110
Operating profit (EBIT)	**450,912**	**423,368**	**855,546**
Net financials	-20,751	-13,246	-28,213
Profit before tax	**430,161**	**410,122**	**827,333**
Corporation tax	-111,496	-106,632	-209,052
Net profit for the period	**318,665**	**303,490**	**618,281**

BALANCE SHEET - ASSETS

GROUP (DKK - in thousands)	30 June 2004	30 June 2003	31 December 2003
Patents and licences	17,446	7,017	6,477
Goodwill	9,848	8,295	7,144
Intangible assets	**27,294**	**15,312**	**13,621**
Land and buildings	164,952	163,439	167,058
Production plant and machinery	102,627	105,848	103,563
Fixtures, tools and equipment	132,696	114,482	135,381
Leasehold improvements	26,874	32,037	29,143
Prepayments and plants under construction	8,819	11,651	3,694
Tangible fixed assets	**435,968**	**427,457**	**438,839**
Shares in associated undertakings	604	1,186	2,174
Securities and participating interests	1,766	2,968	1,720
Other receivables	47,552	28,391	33,202
Deferred tax, asset	61,034	48,715	61,567
Investment in financial fixed assets	**110,956**	**81,260**	**98,663**
Total fixed assets	**574,218**	**524,029**	**551,123**
Inventories	**673,511**	**634,559**	**573,006**
Trade debtors	742,733	632,003	643,787
Corporation tax	19,763	0	26,712
Other debtors	33,684	35,389	55,228
Non-realised gains on financial contracts	10,848	52,774	31,091
Prepayments and accrued expenses	36,657	37,849	25,881
Debtors	**843,685**	**758,015**	**782,699**
Liquid funds	**136,726**	**137,686**	**108,144**
Total current assets	**1,653,922**	**1,530,260**	**1,463,849**
Total assets	**2,228,140**	**2,054,289**	**2,014,972**

GROUP (DKK - in thousands)	30 June 2004	30 June 2003	31 December 2003
Share capital	67,515	70,294	70,294
Retained earnings	406,166	349,462	451,867
Shareholders' equity	**473,681**	**419,756**	**522,161**
Provision for deferred tax	43,346	30,608	49,684
Other provisions	16,342	8,209	15,216
Provisions	**59,688**	**38,817**	**64,900**
Mortgage debt	2,660	3,074	2,862
Other long-term debt	542,279	625,024	538,248
Long-term creditors	**544,939**	**628,098**	**541,110**
Short-term part of long-term debt	12,384	24,043	15,305
Interest-bearing short-term debt	551,717	346,171	293,725
Trade creditors	171,490	128,058	144,794
Corporation tax	5,255	56,670	36,096
Other creditors	319,640	298,144	297,152
Non-realised losses on financial contracts	1,867	9,955	5,773
Prepayments and accrued income	87,479	104,577	93,956
Short-term creditors	**1,149,832**	**967,618**	**886,801**
Total creditors	**1,694,771**	**1,595,716**	**1,427,911**
Total liabilities	**2,228,140**	**2,054,289**	**2,014,972**

Cash flow statement

GROUP (DKK - in thousands)	1st half 2004	1st half 2003	Full year 2003
Operating profit (EBIT)	450,912	423,368	855,546
Depreciation and amortisation	64,788	59,220	116,974
Change in debtors *)	-88,178	-12,163	-31,818
Change in inventories *)	-100,505	-20,484	41,069
Change in creditors *)	42,707	-2,855	5,166
Change in other provisions *)	1,126	-1,439	2,670
Cash flow from operating activities excluding net financials and corporation tax	**370,850**	**445,647**	**989,607**
Financial income/expenses etc.	-20,751	-13,246	-28,213
Corporation tax	-141,193	-75,633	-207,657
Cash flow from operating activities (CFFO)	**208,906**	**356,768**	**753,737**
Acquisition of undertakings	-2,869	0	0
Expensed investments under DKK 50,000 *)	-9,873	-8,265	-16,942
Investment in intangible assets, net *)	-12,159	-1,686	-719
Investment in tangible fixed assets, net *)	-50,689	-47,689	-107,424
Investment in financial fixed assets *)	-12,826	-8,602	-13,153
Cash flow from investing activities (CFFI)	**-88,416**	**-66,242**	**-138,238**
Change in debt, net *)	-8,681	-86,439	-113,564
Buyback of own shares	-347,591	-327,115	-541,469
Other adjustments	6,372	18,701	-41,889
Cash flow from financing activities (CFFF)	**-349,900**	**-394,853**	**-696,922**
Net cash-flow position for the period	**-229,410**	**-104,327**	**-81,423**
Net cash position at the beginning of the period	**-185,581**	**-104,158**	**-104,158**
Net cash position at the end of the period	**-414,991**	**-208,485**	**-185,581**
Break-down of net cash position at the end of the period:			
Liquid funds	136,726	137,686	108,144
Interest-bearing short-term debt	-551,717	-346,171	-293,725
	-414,991	**-208,485**	**-185,581**

*) Not including additions from acquired undertakings.

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