ANNUAL REPORT 2001

William Demant Holding A/S

Mission

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

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

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

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

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

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

Business units

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

Hearing Aids

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

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

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

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

In recent years Bernafon has expanded its distribution power through the establishment or acquisition of sales subsidiaries on the most important markets. Today it sells its products through 13 subsidiaries and more than 40 independent distributors.

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

Diagnostic Instruments

This business unit includes Maico, Interacoustics and RhinoMetrics. Maico and Interacoustics develop, manufacture and distribute audiometers for hearing measurement and other instruments used by audiologists and ear-nose-and-throat specialists. Rhinometrics develops, manufactures and distributes systems for measuring of respiratory irregularities.

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

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

Rhinometrics develops, manufactures and sells systems for measuring of respiratory irregularities. Its acoustic rhinometry and manometry products *RhinoScan* and *RhinoStream* are used for measuring the internal dimensions of and the air flow through the nose.

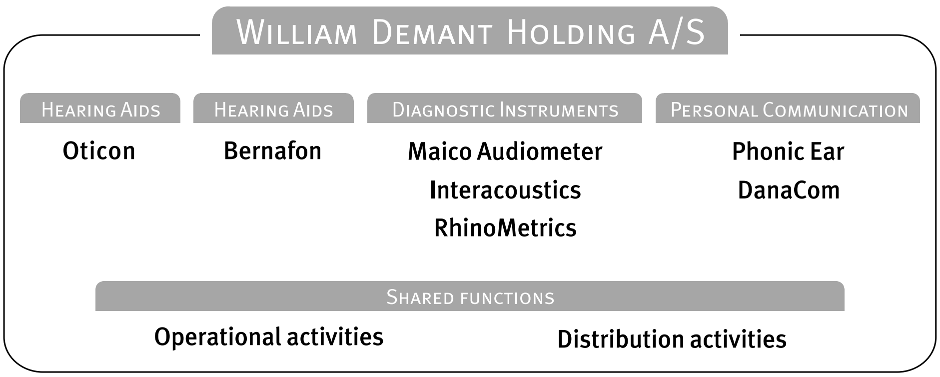
Personal Communication
This unit includes Phonic Ear which provides wireless communication systems and assistive listening equipment for the hearing impaired and Danacom which offers headsets for professional users.

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

Danacom specialises in the development and manufacture of headsets for professionals. The product range includes quality solutions for all telephones on the market. Danacom headsets and related products are marketed with focus on sound quality, comfort, design, user-friendliness and safety.

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

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



Key figures and ratios - DKK

Profit and loss account, DKK million	1997	1998	1999	2000	2001
Net revenue	1,413.4	1,613.1	1,884.3	2,959.7	3,506.2
Gross profit	764.9	892.9	1,045.9	1,840.3	2,230.0
Operating profit	195.6	248.3	337.0	585.0	683.3
Financial items, net	14.4	8.5	3.3	-22.1	-43.3
Profit before tax and minority interests	211.4	259.3	339.7	560.8	639.7
Profit after tax	160.9	199.8	258.1	427.5	482.0
Extraordinary items, net	-13.5	-	-	-	-
Net profit for the year	148.3	200.8	257.4	425.8	481.4
Balance sheet, DKK million					
Interest-bearing items, net	125.9	33.4	-92.5	-595.2	-897.3
Total assets at year-end	1,002.4	1,019.5	1,103.6	1,549.0	2,003.9
Shareholders' equity at year-end	524.3	504.1	499.4	212.5	168.7
Other key figures, DKK million					
Research and development costs	118.0	146.4	158.8	197.7	253.0
Depreciation and write-downs	46.6	53.7	57.2	85.8	116.0
Investment in tangible fixed assets	76.1	71.3	90.0	112.6	177.6
Cash flow from operating activities	204.6	222.9	311.6	450.6	536.5
Cash earnings (CE)	207.4	253.5	315.3	513.3	598.0
Employees (average)	1,760	1,925	2,132	3,323	3,997
Ratios					
Gross profit ratio	54.1%	55.4%	55.5%	62.2%	63.6%
Profit margin	13.8%	15.4%	17.9%	19.8%	19.5%
Return on equity	30.6%	35.7%	53.8%	145.3%	173.4%
Equity ratio	52.3%	49.4%	45.3%	13.7%	8.4%
Earnings per share (EPS), DKK*	2.1	2.6	3.5	5.8	6.5
Cash flow per share (CFPS), DKK*	1.9	2.6	3.0	4.3	4.3
Cash earnings per share (CEPS), DKK*	2.7	3.3	4.2	7.0	8.1
Dividend per share, DKK*	0.36	0.47	0.60	-	-
Book value per share, DKK*	6.8	6.7	6.8	2.9	2.3
Price earnings (P/E)	30	30	40	62	33
Share price at 31 December, DKK*	63	79	140	360	216
Market capitalisation, DKK million	4,896	5,931	10,324	26,727	15,981
Fully diluted number of shares, million	76.90	77.08	74.22	73.72	74.16

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.
**Per share of DKK 1.*

Key figures and ratios - EUR**

Profit and loss account, EUR million	1997	1998	1999	2000	2001
Net revenue	190.1	216.9	253.4	398.0	471.5
Gross profit	102.9	120.1	140.7	247.5	299.9
Operating profit	26.3	33.4	45.3	78.7	91.9
Financial items, net	1.9	1.1	0.4	-3.0	-5.8
Profit before tax and minority interests	28.4	34.9	45.7	75.4	86.0
Profit after tax	21.6	26.9	34.7	57.5	64.8
Extraordinary items, net	-1.8	-	-	-	-
Net profit for the year	19.9	27.0	34.6	57.3	64.7
Balance sheet, EUR million					
Interest-bearing items, net	16.9	4.5	-12.5	-80.0	-120.7
Total assets at year-end	134.8	137.1	148.4	208.3	269.5
Shareholders' equity at year-end	70.5	67.8	67.2	28.6	22.7
Other key figures, EUR million					
Research and development costs	15.9	19.7	21.4	26.6	34.0
Depreciation and write-downs	6.3	7.2	7.7	11.5	15.6
Investment in tangible fixed assets	10.2	9.6	12.1	15.1	23.9
Cash flow from operating activities	27.5	30.0	41.9	60.6	72.1
Cash earnings (CE)	27.9	34.1	42.4	69.0	80.4
Employees (average)	1,759	1,925	2,132	3,323	3,997
Ratios					
Gross profit ratio	54.1%	55.4%	55.5%	62.2%	63.6%
Profit margin	13.8%	15.4%	17.9%	19.8%	19.5%
Return on equity	30.6%	35.7%	53.8%	145.3%	173.4%
Equity ratio	52.3%	49.4%	45.3%	13.7%	8.4%
Earnings per share (EPS), EUR*	0.28	0.35	0.47	0.78	0.87
Cash flow per share (CFPS), EUR*	0.26	0.35	0.40	0.58	0.58
Cash earnings per share (CEPS), EUR*	0.36	0.44	0.57	0.94	1.08
Dividend per share, EUR*	0.05	0.06	0.08	-	-
Book value per share, EUR*	0.91	0.90	0.91	0.39	0.31
Price earnings (P/E)	30	30	40	62	33
Share price at 31 December, EUR*	8.50	10.60	18.80	48.40	29.00
Market capitalisation, EUR million*	658.5	797.7	1,388.4	3,594.4	2,149.2
Fully diluted number of shares, million	76.90	77.08	74.22	73.72	74.16

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.

** Per share of DKK 1.*

***Danmarks Nationalbank's rate of exchange at 31 December 2001 of 743.57 has been used on the translation of key figures and ratios from DKK into EUR.*

Directors and Management

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

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

Franck Fogh Andersen
Elected by the employees.

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

Jørgen Kornum
Elected by the employees.

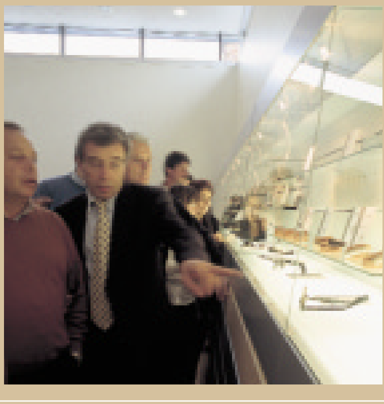
Michael Pram Rasmussen
President & CEO of Topdanmark A/S. Deputy Chairman of the Board of Directors of Bornholms Brandforsikring A/S and Sund og Bælt Holding A/S. Member of the Board of Directors of Dampskibsselskabet af 1912 A/S.

Hanne Stephensen
Elected by the employees.

Management
Niels Jacobsen, President & CEO
Chairman of the Board of Directors of Hearing Instrument Manufacturers Patent Partnership A/S. Member of the Board of Directors of Novo Nordisk A/S, Micro Matic Holding A/S, Højgaard Holding A/S and Hearing Instrument Manufacturers Software Association A/S.

Auditors
Deloitte & Touche, Statsautoriseret Revisionsaktieselskab and KPMG C.Jespersen.

Annual general meeting
The annual general meeting will be held on Thursday 21 March 2002 at 4:00 pm at the Experimentarium, Tuborg Havnevej 7, 2900 Hellerup, Denmark.



Continued growth

The William Demant Holding Group continued its expansion in 2001. The acquisitions made in 2000 are included for the first time in the 2001 financial statements for a full financial year. Moreover new products were introduced at the end of the year which will contribute to continued growth in 2002 and onwards.

Profits for the year match the expectations published in our annual report for 2000 and in the interim report published in August 2001.

The year may be summed up as follows:

- Consolidated revenue rose by DKK 547 million, or 18% to a total of DKK 3.5 billion.
- The gross profit ratio went up from 62.2% to 63.6%.
- Operating profit (EBIT) increased by 17% to DKK 683 million, and the profit margin remained at 20% which is the same level as in 2000.
- Cash flow from operating activities accounted for DKK 536 million, or a 19% rise.

Acquisitions

In 2000 the William Demant Holding Group made a number of major acquisitions, the integration of which was begun in 2000 and continued in 2001. Their integration is now complete. There were fewer acquisitions in 2001, the major one being the takeover of 49% of the US wholesale distributor AHAA (American Hearing Aid Associates Inc.). In addition selected product activities were acquired within the Group's Diagnostic Instruments business. In 2001 the Group also acquired all minority holdings in Danacom A/S and Oticon Polska Sp.zo.o. which are now both wholly-owned Group undertakings.

AHAA

To improve distribution on the North American market, the Group made an agreement with the shareholders of AHAA on 22 August to acquire 49% of their shares at an amount of USD 50 million. AHAA was valued on the basis of an EBITDA multiple of 9. An amount of USD 36 million was paid on completion of the deal with the remaining USD 14 million falling due for payment once both sales and profits reach certain specified targets within a four-year period.

The acquisition was financed through a USD loan. On acquisition the consolidated goodwill amounted to DKK 408 million which was written off at the time of acquisition through shareholders' equity.

AHAA is a multi-brand wholesale distributor of hearing aids and business services on the North American market, providing products and services for independent hearing care professionals operating outside the established chains. For the independent hearing care professionals the advantages of AHAA are its systematic and thoroughly tested business concepts comprising management and business systems, marketing programmes, referral programmes, training programmes and course modules. In the 2001 financial year AHAA's revenue amounted to USD 55 million, or a 50% increase on the year 2000.

AHAA will remain an independent organisation under its present management. It offers hearing aids from several manufacturers including the William Demant Holding Group. Today the sale of William Demant products to AHAA's members is moderate, but sales are expected to increase in the years to come. In our opinion AHAA will contribute positively to the development of Group revenue and profit in 2002.

Diagnostic Instruments

In order to strengthen and expand the product lines of Diagnostic Instruments, the Group acquired the rights in various products for analysing and measuring the function of the vestibular system (videonystagmography) from SensoMotoric Instruments GmbH. The vestibular system is part of the inner ear and its function is often measured by ear, nose and throat specialists when they measure the hearing of people.

This business area has also acquired the rights in various industrial screening audiometry products from Thermo Finnigan, Llc. These products are marketed under the Tremetrics brand.

The Group acquisitions in 2000 and 2001 in the Diagnostic Instruments business area with Interacoustics as the most significant one have progressed as expected or even outmatched our expectations. Since Interacoustics became part of the William Demant Holding Group in January 2000, it has experienced very heavy growth and successfully managed to control this growth while at the same time boosting profitability throughout 2000 and 2001.

General

Over the past two years the Group's acquisition efforts mainly focused on improving distribution power for hearing aids on markets in which Group market shares were relatively low and on developing the Diagnostic Instruments business area in general. The enhanced distribution power has substantially strengthened our market position in Greece, Portugal, England, Ireland and the US.

The integration of the new activities is aimed to ensure that the acquired businesses retain their market positions from before the acquisition, and subsequently as far as distribution companies are concerned that Oticon's and Bernafon's products are incorporated into their product ranges. This aspect of integration has been very successful whereas an effort is still needed to improve profitability levels to reach the desired targets. All the Group's distribution undertakings generated positive profit margins, however slightly lower than expected on acquisition of the particular companies.

Business conditions in 2001

The estimated rate of growth in the market for hearing aids in 2001 was the same as in recent years, i.e. 2-3% in terms of units sold and a slightly higher rate in terms of value. Also in 2001 conditions varied from one market to the next. European markets rose between 4-7%, whereas the US market was rather flat in terms of unit sales although the fourth quarter did show a positive trend. However in the Directors' opinion all main markets improved in terms of value.

Competition on the market for hearing aids is still tough. All major manufacturers need volume to distribute mounting R&D costs which means fierce rivalry for customers. This results in price pressure both in the medium- and low-end segments, but also tangible aggressiveness in the high-end segment.

The Directors are still of the opinion that manufacturers in the hearing aid industry may benefit from further consolidation in larger units because the R&D costs necessary to create new innovative products grow faster than does the underlying market.

In recent years the market for diagnostic instruments has undergone an even more drastic structural development than the hearing aid market. The major diagnostic instruments players today are Natus, GN Otometrics and William Demant with Grason Stadler as a minor competitor. The market for diagnostic instruments is estimated to total some USD 150 million.

Certain segments of the market for diagnostic instruments expand rapidly. OAE equipment (otoacoustic emission) and ABR (brainstem audiometry) for measurement of hearing and the sense of hearing of infants are cases in point, whereas other segments develop more slowly.

On the market for wireless communication equipment for the hearing impaired, the trend is towards placing an increasing number of functions “on the ear”, either built together with or incorporated into the hearing aid.

The market for sophisticated headsets was marked by stagnation or direct decline.

Consolidation in the lines of business, in which the Group is involved, is still part of the overall growth strategy in order to benefit from larger volumes for the purpose of optimising and utilising the increasing R&D resources.

Product introductions

The hearing aid industry is a product-driven business which means that gaining market shares through organic growth is possible in periods with many major product introductions. Periods between major introductions tend to generate lower growth rates.

In 2000 growth in the William Demant Holding Group was thus driven by a great many major product introductions in the second half of 1999 and in early 2000, whereas there were fewer major introductions in 2001.

October saw a very successful introduction of Oticon's third-generation digital hearing aid Adapto in connection with the audiology conference (UHA) in Germany. The product family was extremely well received, and the subsequent introduction in 15 countries in late 2001 proceeded as expected or even better on the individual markets. The Adapto introduction will continue on the remaining markets in the first half of 2002. The product is expected to attract new customers and gain market shares in the first half-year on the markets in which the product was introduced in November and December 2001.

With the relatively late introduction of the Adapto products in 2001 and the related substantial costs, the product family is not expected to have a significant impact on sales and earnings until the first half of 2002.

In the first half of 2002 Bernafon will introduce a new high-end digital product, which is expected to improve sales as well as earnings.

For their new products both Oticon and Bernafon have created new future-oriented fitting software using 32-bit technology rather than 16-bit technology.

Sales trends

Over the past five years the Group has seen considerable progress on the North American market. In 2001 North America thus accounted for 37% of Group revenue against 30% in 1997, the explanations being acquisition of new business activities and tremendous own growth which on an average was 20% annually throughout the five-year period.

In the same period Europe increased its share of Group revenue from 43% to 45%, particularly the markets in Germany, Britain and Scandinavia prospered.

Generally the Group increased its market shares in most of the 20 countries in which it has own sales subsidiaries and also on most of the 80 export markets in which Group products are sold by independent distributors.

For the William Demant Holding Group, 2001 was a year between two product generations with subsequent lower organic growth. In terms of value the rate of organic growth in 2001 was 11%.

For all 2001 total unit sales of Oticon and Bernafon hearing aids went up by 15%. Compared with a 2-3% market growth, the Group gained market share both organically and through acquisitions.

New company accounts act

The Group's financial statements for the year 2001 were drawn up based on the same accounting policies as in 2000.

The Danish Parliament has adopted a new company accounts act which will become effective for financial years beginning on 1 January 2002. Already now companies may choose to present their financial statements in accordance with the new rules. William Demant Holding A/S has chosen to present its 2001 financial statements in accordance with the old company accounts act effective until 31 December 2001 and thus implement the new rules from 1 January 2002.

The following provides an introduction to some of the most important changes that will be introduced with the new company accounts act and how these will be incorporated into the William Demant Holding Group's consolidated financial statements for 2002 and onwards.

Goodwill

The Group's accounting policy is to write off acquired goodwill direct via shareholders' equity in the year of acquisition. The new act demands that goodwill be entered as an asset and written down over its expected life, however not exceeding 20 years. The Group has chosen to apply the transitional provisions of the new act and not enter goodwill acquired until *after* 1 January 2002 as an asset. This means that the comparative figures from prior years will not be adjusted for goodwill written off at the time of acquisition.

The new provisions for entering goodwill as an asset will thus solely have effect on acquisitions made after 1 January 2002, and previously written-off goodwill will have no impact on future financial statements.

R&D costs

In accordance with the new company accounts act companies must under certain circumstances put R&D costs on the assets side and write these off over the expected life of the product, however maximum 20 years.

In the Group's opinion a breakdown of R&D activities into two separate categories - one for development of new products and one for further development of existing products - is not meaningful. Moreover with the authority approvals needed for our products, there is uncertainty as to the final development of the Group's new products.

In the light hereof the Group has decided to continue its previous practice of expensing all R&D costs, and the new company accounts act will thus not affect future results in this respect.

Segment information

The new company accounts act will require additional reporting of segment information including both business and geographic segment data.

The William Demant Holding Group is based on one single segment, i.e. the development, production and sale of products and equipment to facilitate the hearing and communication of individual people.

As far as information on geographic segmentation is concerned, there are no major earnings-related differences on the individual markets which could provide any information other than the revenue details already contained in the existing financial statements.

Financial assets and liabilities

The new company accounts act requires further details of financial assets and liabilities. For the William Demant Holding Group this means that in future the current market rates of forward exchange contracts covering future cash flows will be recorded. Any unrealised gains or losses will thus be adjusted direct via equity, and in line with realisation these adjustments via equity will be reversed.

The provisions thus involve an adjustment of shareholders' equity but will not affect future profit and loss accounts.

Financial statements 2001

Sales and gross profit

In 2001 the William Demant Holding Group improved its revenue by 18% which fully matched the expectations for the year. Organic growth accounted for 11% which is satisfactory in a “middle year” in which the Group's business areas prepared new products for launching in the autumn of 2001 and throughout 2002. Trends are positive for all business areas, with Diagnostic Instruments accounting for the highest organic growth rate and Hearing Aids for the greatest increase in absolute terms.

Sales and distribution of hearing aids now account for more than DKK 3 billion, of which DKK 300 million is organic growth generated from 2000 to 2001.

Revenues by business areas (DKK million)

	2001**	2000**	2000*
Hearing Aids	3,017	2,483	2,518
Diagnostic Instruments	199	177	177
Personal Communication	290	271	265
Total	3,506	2,931	2,960

* Translated at 2000 foreign-exchange rates ** Translated at 2001 foreign-exchange rates

In terms of exchange rates Group revenue was not very affected in 2001. The USD was strengthened 5% vis-à-vis the DKK and thus the EUR. The JPY, SEK and AUD were weakened vis-à-vis the DKK, and there are no exchange effects on consolidated revenue.

The Group's exchange and financing positions are managed centrally from Denmark through the central finance department. The exchange positions are hedged through exchange contracts, raising and servicing of foreign exchange loans, borrowing and lending transactions vis-à-vis associated and subsidiary undertakings and payment of dividends from these undertakings. A very sizeable share of the Group's trading is undertaken through the central logistics function in Denmark. The Group's sales subsidiaries are invoiced in local currencies whereby the greatest portion of the Group's exchange exposure is gathered in Denmark.

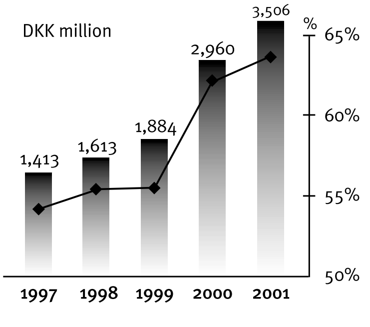
Hedging expected net exchange positions up to 6-24 months ahead is Group policy. On settlement forward contracts are booked under the Group's gross profit and any exchange gains or losses compared with the current market rates are entered under the underlying items. Under the heading *New company accounts act* is a description of the new policy for computation of financial assets and liabilities effective as of 1 January 2002. At 31 December 2001 the hedging value of exchange contracts totalled DKK 1,046 million. The contracts include unrealised losses of less than DKK 6 million.

The major currencies vis-à-vis the DKK are the JPY, USD and EUR. They are hedged at average rates of 7.28, 812 and 750, respectively.

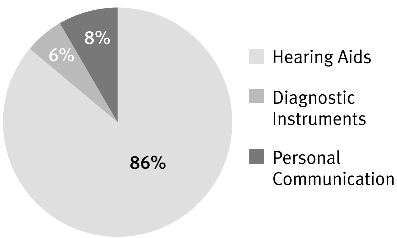
The Group's gross profit rose by 21% to DKK 2.2 billion which exceeded the 18% increase in Group revenue. There are various factors involved in the 1.4 percentage points rise in gross profit ratio: The growth in retail distribution activities has a considerable effect on the gross profit ratio and the effect of the Hidden Hearing and Avada acquisitions in 2000 did not fully materialise until 2001. In return running-in problems at the Group's components factory in the first half-year involved substantial costs due to discarding of products and lower efficiency. These problems were solved in the second half-year, but for the year as a whole cut the gross profit ratio by about 1 percentage point. Finally the consolidation of the wholesale distributor AHAA from August negatively affected the gross profit ratio (due to the nature of the business). The heavy expansion of AHAA will further dilute the gross profit ratio in 2002 on consolidation of the company for a full year.

In 2001 production capacity rose through larger investments in new and sophisticated technology; in particular the automatisation of production and warehousing functions in Denmark. Finally the Group took over production activities from Crystal-aid Manufacturing Pty. Ltd. in Brisbane, Australia which used to be a major sub-supplier of Bernafon's Australian company. The investment in more capacity enables us to meet the expected rise in demand and will on the long view also reduce unit costs.

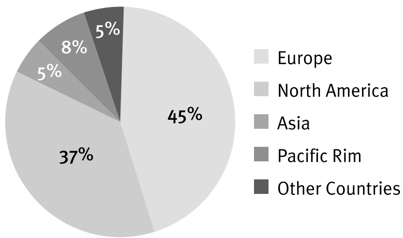
Net revenue and gross profit ratio



Net revenue by business unit



Net revenue by region



R&D costs
The success of our R&D projects continued in 2001. As previously mentioned the substantial resources resulted in a number of breakthrough products. R&D costs totalled DKK 253 million, or an increase of 28% compared with last year. Over the past five years R&D costs on an average rose by 25% annually.

Despite the fact that the majority of businesses acquired by the Group over the past two years did not include any R&D activities the R&D share of costs rose from 6.7% in 2000 to 7.2% for 2001. For 2002 total costs are estimated to go up moderately by 10-15%.

The refurbishment and expansion of Oticon's research centre Eriksholm was completed in the autumn of 2001. The overall investment in the centre amounted to DKK 20 million.

Distribution costs
The composition of retail and wholesale undertakings is relevant to the share of sales and distribution costs compared with Group revenue. Due to the acquisitions in 2000 sales direct to hearing aid users constituted an increasing share of sales. For 2001 distribution costs thus accounted for 29.6%, which is also the percentage expected for 2002.

Administrative expenses
In recent years the Group has updated and expanded its office automation systems. The same finance systems and the same standard computer software are used throughout the Group. The Group has also created an intranet which helps improve efficiency.

The moderate development in administrative expenses compared with consolidated revenue in recent years reduced the share of administrative expenses from 7.8% in 2000 to 7.3% in 2001. This trend is expected to continue in 2002.

The year's profit
The operating profit (EBIT) rose by 17% to DKK 683 million. The Group's profit margin was retained at 20%, which is more or less the same level as in 2000.

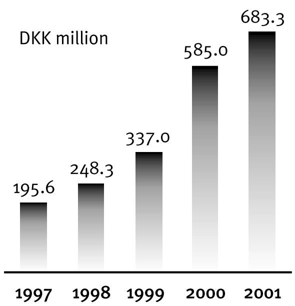
The acquisitions in 2000 and 2001 to the tune of well over DKK 1.2 billion were primarily financed through loans resulting in a doubling of net financial expenses from 2000 to 2001 and mainly funded in local currencies, i.e. with a large share in USD, the majority of acquisitions having been made in North America. The most recent loans were raised in August in connection with the AHAA acquisition and these loans do therefore not fully affect the year. Net financial expenses for 2002 are expected to be at the same level as in 2001 despite the increase in debt towards year-end. The explanation is firstly the large consolidated cash flow which will be mainly be used for reduction of the debt, and secondly the general fall in interest rates which has also had a positive effect.

Pre-tax profit rose to DKK 640 million, or an increase of well over 14%. Tax accounted for DKK 158 million (24.7%). With harmonisation of European corporate tax rates and the exploitation of tax losses that may be carried forward for a number of years, the Group has been able to keep a low effective tax rate. For 2002 a slight increase in tax rates is expected.

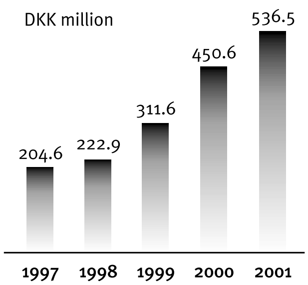
With the Group's takeover of the remaining shares of both Oticon Polska and Danacom in 2001, minority interests' portion of consolidated profits only amounts to DKK 0.6 million. The Group thus does not have any minority shareholders apart from the two joint venture companies which are consolidated on a pro rata basis. No minority items are thus expected for 2002.

The net profit of DKK 481 million generated earnings per share (EPS) of DKK 6.5, or a 13% increase up from DKK 5.8 in 2000.

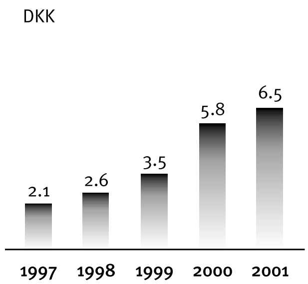
Operating profit (EBIT)



Cash flow from operating activities



Earnings per share (EPS)



At the general meeting the Directors propose that the shareholders decide that the year's profit be retained.

Shareholders' equity, dividend and capital
Shareholders' equity at year-end fell against shareholders' equity at year-start because in 2001 the amount of acquired consolidated goodwill written down and the buyback of own shares together exceed the year's net profit of DKK 481 million. Good-will was written down in the amount of DKK 468 million and the buyback of own shares accounted for DKK 27 million.

In 2000 the Directors decided to use the buyback of own shares as a dividend instrument rather than to pay out traditional annual dividends, enabling us to better plan financial resources. With today's high cash flow and assuming that no major acquisitions be made, the Directors have authorised Management to currently use part of the consolidated earnings to carry through further buyback of shares at the total value of up to DKK 200 million. If the entire buyback programme is carried through at today's market prices, the programme will involve well over 1% of the share capital.

The Group's holding of own shares in 2001 increased by 114,450 worth a total of DKK 27 million. At 31 December 2001 the holding of own shares was 628,062, or some 0.8% of the share capital.

In the autumn of 2002 the company will enable Group staff to participate in an employee share programme on favourable terms. The programme is expected to constitute less than 0.5% of the share capital.

The main shareholder - William Demants og Hustru Ida Emilies Fond (the Oticon Foundation), Gentofte - has notified the company that it holds 61% of the shares in the company.

Consolidated cash flows, financing and liquidity
The Group's cash flow from operating activities rose by 19% aggregating DKK 536 million, which is satisfactory in view of the build-up of inventories in late 2001 for the major Oticon product introductions.

Excluding non-recurrent expenses in connection with the expansion of production areas and the Eriksholm research centre to the tune of DKK 35 million, cash flow from investing activities developed as in 2000. For 2002 investing activities (excluding acquisitions) are expected to remain at the same level (DKK 110-140 million).

Overall the liquidity effect of the period is an increase in interest-bearing debt of DKK 302 million amounting to DKK 897 million at year-end.

In Management's opinion the Group's interest and loan terms are comparable with the best on the market. The Group has unutilised credit facilities of DKK 0.5 billion available for operations and continued expansion.

Balance sheet
The consolidated balance sheet rose to DKK 2 billion, due partly to acquisitions and partly to growth in activities throughout 2001.

Trade debtors rose by 34% primarily due to the pro rata consolidation of AHAA and the increase in consolidated revenue.

Shareholders' equity amounted to DKK 169 million, or 8% of total assets.

On acquisition of AHAA it was agreed that the purchase price be paid in two stages. On signing the agreement an amount of USD 36 million was payable and on fulfilment of certain sales and earnings targets within the next four years, another USD 14 million will be due for payment. The Group expects AHAA to reach these targets, and the amount which is interest-free is therefore entered as long-term debt.

Management and employees
At the ordinary general meeting in April 2001, Mr Lars Nørby Johansen and Mr Michael Pram Rasmussen were both re-elected. Subsequently the Directors appointed Mr Boserup Chairman and Mr Mølvang Deputy Chairman of the Board of Directors.

At year-end the Group employed 4,150 employees. The average number of employees throughout the year on a full-time basis was 3,997 (3,323 in 2000). Denmark had 1,274 employees against 1,098 in 2000.

Revenue per employee amounted to DKK 877,000.

All our employees have done a great job with the integration of new businesses and the creation and marketing of new products as well as the continuous improvement of our competitive power. The Directors would like to thank both old and new staff for their enthusiastic commitment in 2001.

Corporate governance
At the end of 2001 the Nørby Committee submitted a number of recommendations for good company management (corporate governance) in Denmark. The Directors have currently discussed the matters of principle as now described in the Nørby Committee's report, and the Articles of Association and management processes have been amended and upgraded currently in accordance with good corporate governance.

Corporate governance in William Demant Holding is in good harmony with the recommendations and attitudes reflected in the Nørby report. The Directors consider the effort to introduce corporate governance a continuous process and do not at this time find that any further adjustments are required.

The company has chosen not to publish quarterly interim reports. In Management's opinion such reports will not contribute to a better understanding of the Group's activities. The activity level in any given quarter depends on the number of working days in the particular quarter which varies from one year to the next and from market to market. Making a meaningful quarterly comparison of company activities is therefore not possible.

Prospects for 2002

In 2002 continued growth of 2-4% is expected on the hearing aid market as well as on the other markets in which the company operates. With Oticon's introduction of Adapto in the autumn of 2001 and Bernafon's introduction of a new high-end digital product in the spring of 2002, the Directors expect organic growth to the tune of 15-18% in 2002.

In view of the rates of exchange at year-end it is thus expected that Group revenue will go up by some 20% to about DKK 4.2 billion with a profit margin of about 19-20%. This will involve a rise in operating profit (EBIT) of 17-20% to more than DKK 800 million.

For 2002 interest items are expected to remain at this year's level. We expect a slight increase in tax rates, and earnings per share are thus thought to go up by 15-20%.

New acquisitions, if any, are not included in the above estimates.

The Group's next financial announcement is planned for publication on 20 August 2002 in connection with the interim report for the first half of 2002.

Interest rate risk at 31 December 2001 (DKK million)

Maturity	**Under 1 year**	**1-5 years**	**Over 5 years**	**Total**	**Weighted interest**
Financial fixed assets	0.0	5.3	1.5	6.8	
Liquid funds	120.0	0.0	0.0	120.0	
Interest-bearing assets	**120.0**	**5.3**	**1.5**	**126.8**	**3.5%**
Mortgages	0.4	1.6	2.0	4.0	
Long-term interest-bearing debt	13.0	679.9	68.0	760.9	
Interest-bearing short-term debt	259.2	0.0	0.0	259.2	
Interest-bearing debt	**272.6**	**681.5**	**70.0**	**1,024.1**	**4.6%**
Net position	**-152.6**	**-676.2**	**-68.5**	**-897.3**	

Capital

At 31 December 2001 the company's authorised capital was nominally DKK 74,712,906 divided into as many shares of DKK 1. All shares have the same rights and are not divided into classes.

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

The company bought back 114,450 shares in 2001 worth a total of DKK 26.9 million so that the holding of own shares at 31 December 2001 was 628,062 (0.8% of the share capital).

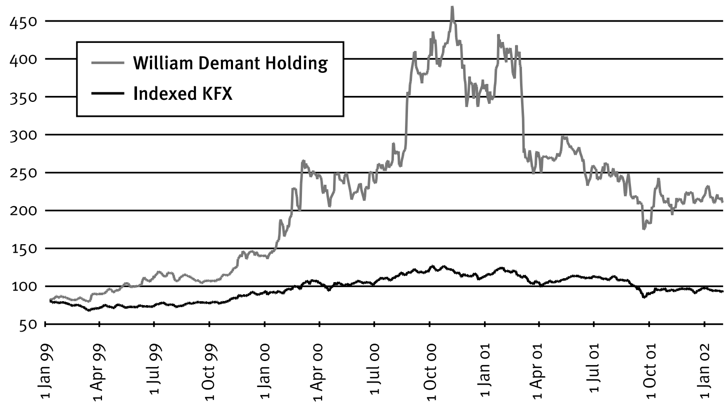
Dividend

At the annual general meeting the Directors will propose that all profits for 2001 be retained. The company will instead currently assess its capital resources and if required use any surplus cash funds to buy back outstanding shares. This approach will provide the basis for a more dynamic planning of dividend policies.

Copenhagen Stock Exchange

The William Demant Holding share is listed on the Copenhagen Stock Exchange and included in the KFX index which is composed of the 20 most liquid shares on the Danish Stock Exchange. As at 27 December 2001 the Stock Exchange revised its criteria for selection of shares to be included in the KFX index. In future shares will be selected based on volume only. At year-end the William Demant Holding share accounted for 2.9% of the KFX index (4.1% at 31 December 2000). The William Demant Holding share is also included in the international MSCI Denmark index.

The trend in share price



Stock exchange information

DKK	1997	1998	1999	2000	2001
High	69	84	147	484	450
Low	49	61	80	134	170
Year-end	63	79	140	360	216
Market cap. DKK million	4,896	5,931	10,324	26,727	15,981
Average no. of shares, million*	76.90	77.08	74.22	73.72	74.16
No. of shares year-end, million*	77.50	75.25	73.70	74.20	74.08

*Excluding own shares

Stock exchange announcements in 2001

6	March	Financial statement 2000 and publication of the 2000 annual report
4	April	Annual general meeting
14	August	Amendment to the Oticon Foundation Charter
22	August	Interim report 2001 and announcement of AHAA investment

Financial calendar for 2002

5	March	Financial statement 2001
21	March	Annual general meeting
20	August	Interim report 2002

Internet

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

Investor relations

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

Signatures

The Directors and the Management have today signed the annual report for 2001 for William Demant Holding A/S.

The annual report has been drawn up in accordance with the Danish Company Accounts Act, Danish accounting standards and the Copenhagen Stock Exchange regulations for quoted companies. We consider the accounting policies appropriate for the annual report to provide a true and fair view.

Management:

Copenhagen, 5 March 2002

Niels Jacobsen

Directors:

Niels Boserup
Chairman

Jørgen Mølvang
Deputy Chairman

Franck Fogh Andersen

Lars Nørby Johansen

Jørgen Kornum

Michael Pram Rasmussen

Hanne Stephensen

Auditors' report

We have audited the consolidated financial statements and the financial statements of William Demant Holding A/S for the year 2001 presented by the Board of Directors and Management.

Basis of opinion
We planned and conducted our audit in accordance with generally accepted Danish auditing principles and international standards on auditing (ISA) to obtain reasonable assurance that the financial statements are free from material misstatement. Based on an evaluation of materiality and risk, during the audit, we tested the basis and documentation for the amounts and disclosures in the financial statements. An audit includes an assessment of the accounting policies applied and the accounting estimates made. In addition, we evaluated the overall adequacy of the presentation in the financial statements.
Our audit did not result in any qualifications.

Opinion
In our opinion, the consolidated financial statements and the financial statements of William Demant Holding A/S have been presented in accordance with the accounting provisions of Danish legislation and give a true and fair view of the Group's and the Parent Company's assets and liabilities, financial position and profit/loss for the year.

Copenhagen, 5 March 2002

Deloitte & Touche
Statsautoriseret Revisionsaktieselskab

Henning Møller
State-authorised
Public Accountant
(Denmark)

Lone Møller Olsen
State-authorised
Public Accountant
(Denmark)

KPMG C.Jespersen

Arne Nielsen
State-authorised
Public Accountant
(Denmark)

Carsten Kjær
State-authorised
Public Accountant
(Denmark)

Accounting policies

General
The consolidated and the parent company's financial statements have been prepared in accordance with the Danish Company Accounts Act, the Copenhagen Stock Exchange regulations for listed companies and Danish accounting standards.

The accounting policies are the same as last year.

Consolidation
The consolidated financial statements include the companies shown on page 33. The consolidated financial statements comprise William Demant Holding A/S (parent company) and the companies in which the parent company holds more than 50% of the voting rights. The consolidated financial statements have been prepared on the basis of accounts for the parent company and subsidiary undertakings reviewed by the company's auditors by aggregating uniform items and eliminating intercompany income and expenditure, shareholdings, intercompany accounts and dividends as well as non-realised intercompany profits on inventories.

Companies in which the Group holds between 20% and 50% of the voting rights, are considered to be associated and have been incorporated proportionately into the consolidated financial statements based on the equity method.

The consolidated financial statements also include undertakings, which by agreement are managed jointly with one or more companies, based on pro rata consolidation, with proportionate ownership shares of individual assets, liabilities, income and expenses.

Newly acquired or established subsidiary and associated undertakings are included in the profit and loss account from the time of acquisition or formation. Companies either sold or closed down are included until the date of divestment or closedown. Comparative key figures and ratios are not corrected in regard to newly acquired or divested companies.

On acquiring a subsidiary undertaking or investing in an associated undertaking, the net assets of such undertaking are valued in accordance with the accounting policies for such valuation to reflect the value of assets and liabilities for William Demant Holding A/S, provisions being made for any restructuring costs. If acquisition cost exceeds net worth for accounting purposes at the time of acquisition, such difference is charged to shareholders' equity as consolidated goodwill in the year of acquisition. Any negative differences attributable to future operating losses (badwill) are entered under provisions.

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

Foreign currency
Transactions in foreign currency are translated at the exchange rates ruling on the transaction day or at the forward rates.

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

For foreign subsidiary undertakings the profit and loss account items are translated at the appropriate average exchange rates for the year, whereas balance sheet items are translated at the appropriate rates on the balance sheet day. Any exchange differences arising from the translation of profit and loss account items of foreign subsidiaries at average rates and balance sheet items at the rates ruling on the balance sheet day are charged to shareholders' equity. Any exchange differences from translation of the equity of foreign subsidiary undertakings at the start of the year at the rates on the balance sheet day are charged to shareholders' equity.

Any exchange differences from intercompany accounts with foreign subsidiary undertakings, which in reality constitute an addition to equity for the particular undertaking, and any exchange differences from hedging of the equity of foreign subsidiary undertakings are charged to shareholders' equity.

Unrealised exchange gains or losses on forward contracts made for the purpose of hedging future income or expenditure are entered on invoicing of the hedged sale.

Other exchange gains or losses are reported in the profit and loss account.

Profit and loss account
All major incomes or costs are entered on an accruals basis. In the profit and loss account all costs including depreciation expenses are broken down by production costs, distribution costs, administrative expenses, R&D costs, regardless of the objectives of the particular company.

Net revenue
The invoicing principle is applied as income criterion. Net revenue represents the year's sales with the deduction of commissions, discounts and returns.

Production costs
These comprise direct and indirect manufacturing costs, including salaries and depreciation expenses.

Research & development costs
These include all costs relating to research, development and prototype construction as well as the development of new business concepts. R&D costs are charged directly to the profit and loss account.

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

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

Extraordinary items
These include substantial income or expenses related to events or transactions that clearly fall outside the Group's ordinary activities.

Taxation
The parent company is jointly taxed with some wholly-owned Danish and foreign subsidiary undertakings. Corporation tax is distributed among the jointly taxed companies according to their proportionate shares of the joint income. For the jointly taxed Danish companies, the tax rate for current taxes is 30% and for deferred taxes 30%.

Tax on the year's profit includes current tax and any changes in deferred taxes. Any additions, deductions or allowances in respect of the Danish on-account tax scheme are included in current tax. Tax on the year's profit is reported under ordinary and extraordinary profits, respectively. Tax on movements in shareholders' equity is entered direct via shareholders' equity. Current tax includes tax payable computed on the basis of the estimated taxable income for the year and any prior-year tax adjustments.

A provision is made for deferred tax on any timing differences between the valuations for tax and accounting purposes apart from any differences originating from shares in subsidiary undertakings. Deferred tax is reported as a balance sheet liability. Deferred tax is based on the current tax rules and rates in the particular countries. Any effect on deferred tax due to a change in tax rate is reflected in the profit and loss account. The tax value of a loss that may be set off against any future taxable income will be carried forward and set off against deferred tax in the same legal tax unit and jurisdiction. Any deferred tax assets (net) are conservatively estimated and recorded in the balance sheet.

Any tax payable on the sale of shares in a subsidiary undertaking is not recorded in the balance sheet if the shares are not likely to be sold within a short period of time.

Balance sheet
Intangible fixed assets
Intangible fixed assets are entered at cost with the deduction of accumulated depreciation expenses. Leasehold improvements are depreciated on a straight-line basis over the term of the lease. Other intangible fixed assets are depreciated on a straight-line basis over their estimated useful lives.

Tangible fixed assets
Tangible fixed assets are entered at cost with the addition of any revaluation and the deduction of accumulated depreciation expenses or write-downs. Tangible fixed assets are depreciated on a straight-line basis over their expected useful lives.

Buildings	33-50 years
Technical plant and machinery	3-5 years
Fixtures, tools and equipment	3-5 years
IT hardware and software	3 years

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

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

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

Financial fixed assets
The parent company's shares in subsidiary undertakings are entered based on the equity method; i.e. shares are entered at their proportionate value of net worth. The parent company's loans or investments made for the purpose of balancing foreign currency amounts in subsidiary undertakings are included in the value of shares in these undertakings. The parent company's proportionate share of the pretax profits of its subsidiary undertakings are included in the profit and loss account after proportionate deduction of any differences in non-realised intercompany profits on inventories.

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

Other securities include bonds and shares valued at cost, but subject to depreciation as a result of any permanent decrease in value.

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

Inventories
Raw materials, components and merchandise are entered at the lower of cost or net market price. Finished goods or goods in process are valued at direct cost, direct payroll and consumables as well as a proportionate share of indirect production overheads. Indirect production overheads include the proportionate share of overhead costs directly related to finished goods or goods in process.

Inventories are valued on a First In First Out basis, i.e. it will be the latest deliveries that will be in stock. Non-marketable goods or slow-moving items have been written down.

Trade debtors
Trade debtors are entered after deduction of provisions for bad debts computed on the basis of an assessment of the particular risks.

Other securities and participating interests
Securities entered as current assets are valued at their market prices on the balance sheet day.

Debts
Debts are entered at their nominal values.

Cash flow statement

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

Cash flows from operating activities include inflows from the year's operations, adjusted for operating items not affecting liquid funds and movements in working capital. Working capital includes current assets excluding liquid assets and short-term debts adjusted for repayment of long-term debts, bank debts and dividends.

Cash flows from investing activities include inflows generated by the purchase or sale of fixed assets.

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

Liquid assets are cash funds and securities with the deduction of bank debts.

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

PARENT COMPANY 2000	PARENT COMPANY 2001	Note	(DKK - in thousands)	GROUP 2001	GROUP 2000
0	**0**	2	**Net revenue**	**3,506,191**	2,959,686
0	0	6	Production costs	-1,276,165	-1,119,382
0	**0**		**Gross profit**	**2,230,026**	1,840,304
0	0	6	Research and development costs	-253,029	-197,661
0	0	6	Distribution costs	-1,037,763	-827,661
-14,439	-18,768	6	Administrative expenses	-255,971	-230,028
9,848	11,770		Income from subsidiary undertakings	-	-
-4,591	**-6,998**		**Operating profit**	**683,263**	584,954
559,180	652,404	5	Share of profits before tax, subsidiary undertakings	-	-
36	199	5, 6	Share of profits before tax, associated undertakings	-195	-2,079
4,435	-6,507	3	Financial items, net	-43,341	-22,050
559,060	**639,098**		**Profit before tax and minority interests**	**639,727**	560,825
-133,293	-157,709	4	Corporation tax	-157,709	-133,293
425,767	**481,389**		**Profit after tax**	**482,018**	427,532
-	-		Minority interests	-629	-1,765
425,767	**481,389**		**Net profit for the year**	**481,389**	425,767
			Proposed distribution of net profit:		
425,767	481,389		Transferred to reserves		

Balance sheet at 31 December 2001

PARENT COMPANY		Note	Assets (DKK - in thousands)	GROUP	
2000	2001			2001	2000
0	0		Leasehold improvements	32,649	24,114
0	**0**	6	**Intangible fixed assets**	**32,649**	24,114
28,210	27,375		Land and buildings	164,211	136,523
0	0		Technical plant and machinery	105,653	68,321
865	594		Fixtures, tools and equipment	117,253	98,303
29,075	**27,969**	5,6	**Tangible fixed assets**	**387,117**	303,147
346,529	110,564		Shares in subsidiary undertakings	-	-
120	0		Shares in associated undertakings	717	120
12,755	0		Loans to subsidiary undertakings	-	-
5,584	5,545		Securities and participating interests	6,831	8,526
0	0		Other receivables	18,864	13,647
0	0	7	Deferred tax, asset	39,311	26,576
0	0	8	Own shares	0	0
364,988	**116,109**	5,6	**Financial fixed assets**	**65,723**	48,869
394,063	**144,078**		**Total fixed assets**	**485,489**	376,130
0	0		Raw materials and purchased components	253,655	191,501
0	0		Goods in progress	62,242	39,153
0	0		Finished goods	357,247	268,714
0	**0**		**Inventories**	**673,144**	499,368
0	0		Trade debtors	641,535	478,341
105,523	138,958		Accounts receivable, subsidiary undertakings	-	-
0	0		Accounts receivable, associated undertakings	0	6,569
241,175	276,277		Dividends receivable	-	-
121	429		Other debtors	39,215	30,678
0	332		Prepayments and accrued expenses	44,516	18,826
346,819	**415,996**		**Debtors**	**725,266**	534,414
0	**0**		**Liquid funds**	**120,045**	139,104
346,819	**415,996**		**Total current assets**	**1,518,455**	1,172,886
740,882	**560,074**		**Total assets**	**2,003,944**	1,549,016

PARENT COMPANY 2000	PARENT COMPANY 2001	Note	Liabilities (DKK - in thousands)	GROUP 2001	GROUP 2000
74,713	74,713		Share capital	74,713	74,713
137,752	0		Share premium account	0	137,752
0	93,943		Other reserves	93,943	0
212,465	**168,656**	9	**Shareholders' equity**	**168,656**	**212,465**
-	**-**		**Minority interests**	**0**	**2,674**
3,367	3,381	7	Provisions for deferred taxes	26,658	18,906
0	0	10	Other provisions	109,514	113,804
3,367	**3,381**		**Provisions**	**136,172**	**132,710**
0	0		Mortgages	3,666	4,023
119,544	109,024		Other long-term debt	865,498	293,958
119,544	**109,024**	11	**Long-term creditors**	**869,164**	**297,981**
10,302	10,265		Short-term part of long-term creditors	13,887	14,210
251,202	155,949		Interest-bearing short-term debt	258,735	430,606
0	0		Trade creditors	164,227	130,939
14,209	13,300	4	Corporation tax	41,666	53,855
126,352	95,971		Debt, subsidiary undertakings	-	-
3,441	3,528		Other creditors	267,160	213,930
0	0		Prepayments and accrued income	84,277	59,646
405,506	**279,013**		**Short-term creditors**	**829,952**	**903,186**
525,050	**388,037**		**Total creditors**	**1,699,116**	**1,201,167**
740,882	**560,074**		**Total liabilities**	**2,003,944**	**1,549,016**

12 Contingent liabilities
13 Employees
14 Audit fees
15 Related party transactions
16 Government subsidies

CASH FLOW STATEMENT FOR 2001

(DKK - in thousands)	Note	GROUP 2001	2000
Operating profit		683,263	584,954
Write-downs and depreciation		98,111	85,779
Changes in debtors*		-128,610	-54,386
Changes in inventories*		-157,055	-101,487
Changes in trade creditors etc.*		47,979	-69,892
Changes in provisions*		-7,232	5,645
Cash flow from operating activities		**536,456**	**450,613**
Financial items etc.		-44,165	-25,894
Corporation tax		-174,881	-108,774
Net cash flow from operating activities		**317,410**	**315,945**
Acquisition of companies	1	-476,883	-773,057
Expensed investments under DKK 50,000*		-17,885	-21,025
Investments in intangible fixed assets*		-10,758	-10,570
Disposals of intangible fixed assets		207	1,234
Investments in tangible fixed assets*		-159,669	-91,580
Disposals of tangible fixed assets		8,488	6,839
Investments in financial fixed assets*		-4,119	-1,250
Cash flow from investing activities		**-660,619**	**-889,409**
Changes in long-term creditors, net		555,737	150,630
Issue of shares		0	147,121
Proceeds from sale of employee shares		0	17,712
Buyback of own shares		-26,946	-20,903
Other adjustments		-32,770	-13,398
Dividend paid		0	-44,223
Cash flow from financing activities		**496,021**	**236,939**
Net cash flow position for the year		**152,812**	**-336,525**
Net cash position at 1 January		**-291,502**	**45,023**
Net cash position at 31 December		**-138,690**	**-291,502**
Breakdown of net cash position at 31 December:			
Liquid funds		120,045	139,104
Interest-bearing short-term debt		-258,735	-430,606
		-138,690	-291,502

* Not including additions from acquired companies.

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

	GROUP 2001	GROUP 2000
Fixed assets	-10,999	-88,980
Inventories	-16,721	-25,609
Debtors	-62,242	-66,990
Provisions	2,942	46,158
Short-term creditors	62,847	175,726
Long-term creditors	15,446	13,142
Liquid funds, net	-44,400	-62,084
Net assets	**-53,127**	-8,637
Goodwill charged to shareholders' equity	-468,156	-826,504
Acquisition cost	**-521,283**	-835,141
Liquid funds, net	44,400	62,084
Purchase price	**-476,883**	-773,057

■ Note 2 - Net revenue (DKK - in thousands)

	GROUP 2001	GROUP 2000
Europe	1,572,104	1,369,312
North America	1,306,795	1,000,503
Asia	182,433	182,216
Pacific Rim	263,043	256,309
Other countries	181,816	151,346
Total	**3,506,191**	2,959,686

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

PARENT COMPANY 2000	PARENT COMPANY 2001		GROUP 2001	GROUP 2000
11,881	15,551	Interest income from subsidiary undertakings	-	-
-5,956	-4,129	Interest expenses to subsidiary undertakings	-	-
293	371	Interest income	13,450	8,984
-19,484	-17,134	Interest expenses	-55,625	-32,630
-644	1,424	Realised exchange adjustments	1,424	-644
18,345	-2,590	Non-realised exchange adjustments	-2,590	2,240
4,435	**-6,507**	**Total**	**-43,341**	-22,050

PARENT COMPANY ■ **Note 4 - Corporation tax** (DKK - in thousands) GROUP

Parent 2000	Parent 2001		Group 2001	Group 2000
		Corporation tax		
26,494	1,369	Tax on profit, parent company	1,369	26,494
-105,523	-138,958	Tax on profit, jointly taxed companies	-138,958	-105,523
-54,675	-25,066	Tax, other subsidiary and associated undertakings	-37,723	-56,823
-932	-14	Change in deferred tax, net	4,983	557
1,361	5,247	Tax adjustments, prior years	12,824	1,361
162	0	Adjustment of deferred tax from 32% to 30%	0	-451
-180	-287	Other taxes	-204	1,092
-133,293	**-157,709**	**Total**	**-157,709**	-133,293

	Group 2001	Group 2000
Corporation tax rate adjustments		
Danish tax rate	30.0%	32.0%
Difference in tax rate of non-Danish companies from Danish tax rate	-1.9%	-1.6%
Adjustment of deferred tax from 32% to 30%	0.0%	-0.1%
Utilisation of non-capitalised tax losses	-2.7%	-5.8%
Other adjustments etc., prior years	-0.7%	-0.7%
Total	**24.7%**	23.8%

Parent 2000	Parent 2001		Group 2001	Group 2000
		Corporation tax, payable		
2,279	14,209	At 1 January	53,855	13,599
-1,361	-5,247	Prior-year adjustments	-12,824	-1,361
79,029	137,589	Tax on the year's profit	175,516	135,211
-80,918	-133,251	Paid in 2001	-174,881	-108,774
15,180	0	Tax on movements in shareholders' equity	0	15,180
14,209	**13,300**	**At 31 December**	**41,666**	53,855

■ Note 5 - Fixed assets (DKK - in thousands)

	Land and buildings	Fixtures, tools and equipment	Shares in subsidiary undertakings	Shares in associated undertakings	Securities and participating interests
Acquisition value at 1 Jan 2001	30,318	1,354	1,344,410	2,819	4,825
Additions in 2001	0	0	99	0	0
Disposals in 2001	0	0	0	-2,819	0
Acquisition value at 31 Dec 2001	**30,318**	**1,354**	**1,344,509**	**0**	**4,825**
Revaluations and write-downs at 1 Jan 2001	0	0	-997,881	-2,699	759
Exchange adjustments of shares in subsidiary undertakings	0	0	-38,679	0	0
Profits before tax in subsidiary undertakings	0	0	725,882	199	0
Losses before tax in subsidiary undertakings	0	0	-73,478	0	0
Tax in subsidiary undertakings	0	0	-164,024	0	0
Change in internal profit on inventories	0	0	-28,323	0	0
Dividends	0	0	-277,077	0	0
Write-down of goodwill charged to shareholders' equity	0	0	-468,156	0	0
Other revaluations and write-downs	0	0	87,791	2,500	-39
Revaluations and write-downs at 31 Dec 2001	**0**	**0**	**-1,233,945**	**0**	**720**
Depreciation at 1 Jan 2001	-2,108	-489	0	0	0
Depreciation for the year	-835	-271	0	0	0
Disposals in 2001	0	0	0	0	0
Depreciation at 31 Dec 2001	**-2,943**	**-760**	**0**	**0**	**0**
Book value at 31 Dec 2001	**27,375**	**594**	**110,564**	**0**	**5,545**
Book value at 31 Dec 2000	**28,210**	**865**	**346,529**	**120**	**5,584**

The Group comprises the companies shown on page 33.

Loans to subsidiary undertakings during the year amount to DKK 3.4 million and instalments to DKK 16.2 million.

■ **Note 6 - Fixed assets** (DKK - in thousands)

GROUP

	Leasehold improvements	Land and buildings	Technical plant and machinery	Fixtures, tools and equipment	Shares in associated undertakings	Securities and participating interests
Acquisition value at 1 Jan 2001	55,309	170,796	216,793	256,628	2,919	15,186
Exchange rate adjustments	-63	930	2,332	1,097	0	0
Additions due to acquisition	2,866	0	0	19,792	0	0
Additions in 2001	10,756	35,431	64,928	57,619	617	0
Disposals in 2001	-1,307	0	-3,881	-23,335	-2,819	0
Acquisition value at 31 Dec 2001	**67,561**	**207,157**	**280,172**	**311,801**	**717**	**15,186**
Write-downs and depreciation at 1 Jan 2001	-31,195	-34,273	-148,472	-158,325	-2,799	-6,660
Exchange rate adjustments	65	-294	-1,809	-565	0	0
Additions due to acquisition	0	0	0	-11,659	-195	0
Depreciation for the year*	-4,882	-8,379	-26,670	-40,295	0	0
Write-downs for the year	0	0	0	0	0	-1,714
Reversal of write-downs	0	0	0	0	0	19
Disposals in 2001	1,100	0	2,432	16,296	2,994	0
Write-downs and depreciation at 31 Dec 2001	**-34,912**	**-42,946**	**-174,519**	**-194,548**	**0**	**-8,355**
Book value at 31 Dec 2001	**32,649**	**164,211**	**105,653**	**117,253**	**717**	**6,831**
Book value at 31 Dec 2000	**24,114**	**136,523**	**68,321**	**98,303**	**120**	**8,526**

The cash-based value of land and buildings in Denmark according to the official public valuation at 1 January 2001 amounts to DKK 69.5 million against a book value of DKK 78.7 million. Land and buildings include financially leased assets at a book value of DKK 6.6 million.

***Depreciation for the year by function**	**2001**	**2000**
Production costs	-22,622	-17,044
Research and development costs	-18,301	-13,932
Distribution costs	-24,090	-16,513
Administrative expenses	-15,213	-17,265
	-80,226	-64,754
Loss/gain on disposals of fixed assets	343	174
Total	**-79,883**	-64,580

Other debtors concern deposits and loans at acquisition cost.

Note 7 - Deferred tax (DKK - in thousands)

PARENT COMPANY 2000	PARENT COMPANY 2001		GROUP 2001	GROUP 2000
		Deferred tax, asset		
0	0	At 1 January	26,576	19,611
0	0	Adjustment of deferred tax from 32% to 30%	0	-1,228
0	0	Change in deferred tax, asset	12,735	8,193
0	**0**	**At 31 December**	**39,311**	26,576
		Provisions for deferred tax		
2,597	3,367	At 1 January	18,906	12,498
-162	0	Adjustment of deferred tax from 32% to 30%	0	-777
932	14	Change in provision for deferred tax	7,752	7,185
3,367	**3,381**	**At 31 December**	**26,658**	18,906

Tax assets	Tax liabilities	**Specification of deferred tax at 31 December 2001**	Tax assets	Tax liabilities
0	0	Intangible fixed assets	0	-398
0	3,381	Tangible fixed assets	0	10,360
0	0	Current assets	37,013	13,248
0	0	Other	2,298	3,448
0	**3,381**	**Total**	**39,311**	**26,658**

Note 8 - Own shares

PARENT COMPANY & GROUP

	Number of shares/ nominal	% of share capital
Own shares at 1 January 2001	**513,612**	**0.7%**
Additions in 2001	114,450	0.1%
Disposals in 2001	0	0.0%
Own shares at 31 December 2001	**628,062**	**0.8%**

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

In 2001 as part of the company's share buyback programme it acquired a total of 114,450 own shares at an amount of DKK 26.9 million.

Note 9 - Shareholders' equity (DKK - in thousands)

PARENT COMPANY 2000	PARENT COMPANY 2001		GROUP 2001	GROUP 2000
74,377	74,713	Share capital at 1 January	74,713	74,377
336	0	Issue of shares	0	336
74,713	**74,713**	**Share capital at 31 December**	**74,713**	74,713
0	137,752	Share premium account at 1 January	137,752	0
146,785	0	Issue of shares	0	146,785
-9,033	-137,752	Transferred to distributable reserves	-137,752	-9,033
137,752	**0**	**Share premium account at 31 December**	**0**	137,752
425,057	0	Distributable reserves at 1 January	0	425,057
-14,982	-30,096	Exchange adjustment of subsidiary undertakings etc.	-30,096	-14,982
0	0	Write-down of share capital	0	0
-826,504	-468,156	Write-down of goodwill	-468,156	-826,504
17,712	0	Proceeds from sale of employee shares	0	17,712
-15,180	0	Tax on movements in shareholders' equity	0	-15,180
-20,903	-26,946	Write-down of own shares	-26,946	-20,903
425,767	481,389	Retained profit	481,389	425,767
9,033	137,752	Transferred from share premium account	137,752	9,033
0	**93,943**	**Distributable reserves at 31 December**	**93,943**	0
212,465	**168,656**	**Shareholders' equity at 31 December**	**168,656**	212,465

The share capital of nominally DKK 74.712.906 is divided into the corresponding number of shares of DKK 1 or multiples thereof. At year-end the number of shares traded on the market was 74.1 million. The company holds 0.6 million of its own shares. In the share ratios own shares are not included for the period in which such shares have been held by the company.

Note 10 - Other provisions (DKK - in thousands)

PARENT COMPANY 2000	PARENT COMPANY 2001		GROUP 2001	GROUP 2000
0	0	Retirement and pension commitments	14,543	6,747
0	0	Provisions for guarantees	75,937	64,834
0	0	Other provisions	19,034	42,223
0	**0**	**Total**	**109,514**	113,804

PARENT COMPANY		■ **Note 11 - Long-term creditors** (DKK - in thousands)	GROUP	
2000	2001		2001	2000
78,333	67,964	Long-term creditors, payable after 5 years	69,994	85,731

PARENT COMPANY		■ **Note 12 - Contingent liabilities** (DKK - in thousands)	GROUP	
2000	2001		2001	2000
43,192	158,297	Guarantee commitment, subsidiary undertakings' credit lines	-	-
32,514	99,012	Utilised	-	-
-	-	Leasehold liabilities	53,183	56,835
-	-	Leasing commitments	13,862	7,635

The jointly taxed Danish companies are jointly and severally liable for tax of the consolidated taxable income.
The Group's exchange exposure at 31 December 2001 is covered by forward contracts at the equivalent of DKK 1,046 million (DKK 927 million in 2000).

PARENT COMPANY		■ **Note 13 - Employees** (DKK - in thousands)	GROUP	
2000	2001		2001	2000
6	6	Number of full-time employees*)	3,997	3,323
		Employee costs:		
7,331	9,183	Wages and salaries	1,078,033	827,500
89	423	Pensions	13,490	11,315
20	23	Social security costs	79,743	58,438
7,440	**9,629**	**Total**	**1,171,266**	897,253
		Of which remuneration of managers and directors:		
3,525	4,531	Management	4,531	3,525
1,140	1,140	Directors	1,335	1,335

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

PARENT COMPANY

■ Note 14 - Audit fees (DKK - in thousands)

2000	2001	
		Deloitte & Touche, Statsautoriseret Revisionsaktieselskab
255	300	Audit fees
45	172	Other fees
		KPMG C.Jespersen
255	300	Audit fees
187	351	Other fees

■ Note 15 - Related party transactions

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

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

Apart from the above no agreements or other arrangements or transactions were made in 2001, in which related parties have a financial interest.

■ Note 16 - Government subsidies

Neither in 2000 nor 2001 has the William Demant Group received any significant Government subsidies.

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

Subsidiary undertakings	
Oticon A/S, Denmark	100%
Oticon A/S, Norway	100%
Oticon AB, Sweden	100%
Oticon GmbH, Germany	100%
Oticon Nederland B.V., the Netherlands	100%
Oticon Belgium N.V., Belgium	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 Danmark A/S, Denmark	100%
Bernafon AB, Sweden	100%
Bernafon Hörgeräte GmbH, Germany	100%
Bernafon S.r.l., Italy	100%
Maico S.r.l., Italy	100%

Subsidiary undertakings	
Bernafon U.K. Ltd., United Kingdom	100%
Bernafon Inc., USA	100%
Dahlberg Sciences Ltd., Canada	100%
Bernafon Australia Pty Ltd., Australia	100%
Australian Hearing Aids Pty. Ltd., Australia	100%
National Hearing Aid Systems Pty. Ltd., Australia	100%
Bernafon K.K., Japan	100%
Phonic Ear Holdings Inc., USA	100%
Phonic Ear Ltd., Canada	100%
Logia A/S, Denmark	100%
Danacom A/S, Denmark	100%
Maico Diagnostic GmbH, Germany	100%
RhinoMetrics A/S, Denmark	100%
Interacoustics A/S, Assens, Denmark	100%
DancoTech A/S, Denmark	100%
Hidden Hearing Ltd., United Kingdom	100%
Hidden Hearing (Portugal), Unipessoal Lda., Portugal	100%
Hidden Hearing Limited, Ireland	100%
Akoustica Medica M EPE (Hidden Hearing), Greece	100%
Centro Auditivo Telex S.A., Brazil	100%

Joint ventures	
American Hearing Aid Association, Inc. (AHAA), USA	49%
Hearing Healthcare Management, Inc. (Avada), USA	47%

Associated undertakings	
HIMSA A/S, Denmark	25%
NewDae Technologies Inc., USA	25%

The above list covers the Group's operative companies.

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