# Annual Report 2007

William Demant Holding

*The English text in this document is an unauthorised translation of the Danish original. In the event of any inconsistencies, the Danish version shall apply.*

## A new era

The current development in the hearing aid market is extremely exciting, with new wireless options fundamentally changing the way people with hearing impairment live.

The advent of wireless communication between two hearing aids has dramatically enhanced sound quality for users with binaural fitting, appreciably improving their ability to localise sources of sound and to understand speech in noisy surroundings. With wireless technology and so-called binaural sound processing, it is possible to recreate the user's sense of space. In other words, audiology has taken a quantum leap forward, decisively boosting the quality of life of the individual hearing aid user.

However, wireless technology can do even more than that. This technology transforms hearing aids into headphones, for instance, for a wireless MP3 player or into a headset for mobile phone users. Until now, this world was closed to users of conventional hearing aids.

Of course, for hearing aid manufacturers, the wireless universe offers a wealth of options, but certainly also many challenges. The launch of Oticon Epoq in 2007 made us industry frontrunners with a truly innovative product whose concept and technology will undoubtedly inspire the creation of new products in the years to come. We took the first steps towards the creation of Epoq seven or eight years ago when we started developing the new wireless RISE architecture, which is the motor of Epoq. Epoq remains the only product on the market that offers true binaural sound processing.

In light of current trends in the wireless sphere, we are firmly convinced that continued in-house R&D in all core disciplines is vital if we are to successfully retain and expand our role as an innovative company in a fiercely competitive industry. There is a good reason that the hearing aid market has only recently taken this decisive step into the realm of wireless technology: extreme demands for *minimising* power consumption and the size of hearing aids combined with ever-tougher demands for *maximising* the audiological qualities mean that only a handful of manufacturers can operate at the cutting edge of wireless technology.

For some of the other companies in the William Demant Holding Group, however, wireless technology has for many years been a part of their day-to-day business: wireless amplifier systems for classrooms, teleloop systems, wireless phones and alarm systems for the hearing-impaired are just some of the products we have developed and are still marketing. Not to mention our FM systems for children and young people with hearing loss and the possibility of remote-controlling a hearing aid. Our wireless headsets based on Bluetooth technology help enhance our overall competencies in this area.

In the years to come, wireless options and challenges will no doubt make a decisive mark on developments in the hearing aid industry and on the competitive strength of the various manufacturers. The extensive complexity and necessary resources will undeniably prevent some of the smaller manufacturers from developing wireless technologies. Having already completed the first development stage, which gave us valuable experience in selling and marketing hearing aids based on wireless features, we have thus put a rather heavy cost burden behind us.

With the advent of wireless technology, the hearing aid market has moved into a completely new era that we have been instrumental in founding. In the William Demant Holding Group, we are proud of our leading position in this field and are looking forward to creating hearing aids with even more features in the future and to providing wireless technologies for the benefit of hearing aid fitters and users alike.

*Niels Jacobsen*
*President & CEO*

## Mission statement

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

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

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

The Group plays a role in overall structural changes by acquiring enterprises to complement the Group's current activities as well as enterprises in related businesses. Through such acquisitions, the Group will capitalise on its technological and audiological expertise, managerial competencies and financial resources to create further growth.

Thus, the Group endeavours to increase its value through continued growth in revenues and profits.

All 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.

## 2007 at a glance

### Greater market share

In 2007, the Group continued the upward trends of previous years, achieving significant growth rates in all three of its business activities. The Group generated total revenues of DKK 5,488 million, an increase of just under 8%. In terms of local currencies, the growth in revenues amounts to almost 11%, reflecting a negative exchange impact of just under 3%. Growth lies considerably above the general market rate, and the Group has thus once more succeeded in capturing market shares from its competitors. In 2007, the Group's underlying business was highly profitable and the Group realised operating profits (EBIT) of DKK 1,268 million. After adjustment for special items, including expenses incurred in the US patent case, operating profits amounted to DKK 1,398 million, corresponding to a profit margin in excess of 25%.

The trend towards open, cosmetically attractive mini-instruments continued in 2007. Despite keener competition, Oticon Delta was able to maintain its position as a reference product in this, the fastest-growing segment of the hearing aid market. In the autumn, Bernafon launched the Brite product concept, thus marking its entry into the same segment. This elegant lifestyle product has been warmly received and also won the prestigious *Red Dot Design Award*.

### Growth underpinned by strong product concepts

In many ways, the introduction of the first fully wireless, binaural hearing aid solution, Oticon Epoq, set the corporate agenda for 2007. Based on our in-house developed wireless broadband RISE architecture, this hearing aid is the biggest technological leap seen by the hearing aid industry in years and the result of the Group's largest development project to date.

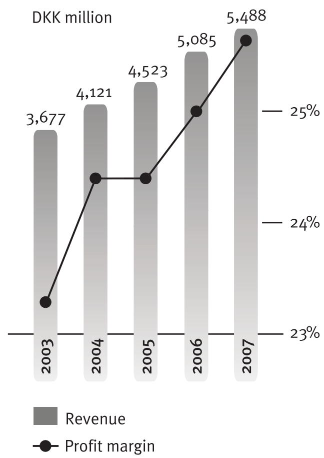
Test results show that users are exceptionally satisfied with Epoq in all typical listening situations and with their improved ability to localise and distinguish between sound sources. The considerably higher user satisfaction with binaural Epoq fittings is consistent with the leap users experience when switching from one to two conventional hearing aids. Together with the transition to new mechanical and technological platforms, the radical and innovative product concept has, however, posed certain technical challenges, prompting a number of production changes in 2007, which, although cost-intensive, have now been fully implemented.

### Ready for further growth in 2008

Having invested heavily in the future in recent years, the Group can now reap the benefits of having the industry's leading technology, the best product portfolio and an exceptionally efficient production system. In 2008, Oticon plans to launch a number of promising new products based on the RISE architecture, making this ground-breaking technology available to more potential users in more product segments. Oticon has thus created an excellent springboard for remaining in the technological vanguard of all key segments in 2008. The establishment of the Group's new production facilities in Poland has been very satisfactorily, with both efficiency and manufactured product quality fully meeting expectations. With access to skilled labour and higher production, the Group is thus geared for future growth.

The Group expects revenues in 2008 to grow by 7-10% in local currencies in a market growing by an estimated 3-5%, a figure in line with the Group's long-term expectations for growth in the hearing aid market. The consolidated revenue forecast of DKK 5,700-5,850 million in 2008 includes a negative exchange impact of about 3%. Operating profits (EBIT) in 2008 are estimated at DKK 1,400-1,500 million, and the Group expects to buy back shares of approximately DKK 900 million.

**Revenue and profit margin**




Profit margin in 2007 excluding US patent case

# Key figures and financial ratios — DKK

| INCOME STATEMENT, DKK MILLION | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Revenue | 3,676.9 | 4,120.9 | 4,522.9 | 5,085.1 | 5,488.3 |
| Gross profit | 2,521.3 | 2,858.5 | 3,133.3 | 3,575.0 | 3,971.2 |
| Research and development costs | 294.9 | 324.2 | 382.5 | 459.8 | 505.1 |
| EBITDA | 972.5 | 1,143.9 | 1,251.6 | 1,433.3 | 1,436.2 |
| Depreciation etc. | 117.0 | 140.2 | 148.8 | 162.7 | 168.6 |
| Operating profit (EBIT) | 855.5 | 1,003.7 | 1,102.8 | 1,270.6 | 1,267.6 |
| Net financials | -28.2 | -38.6 | -36.8 | -61.4 | -96.9 |
| Profit before tax | 827.3 | 965.1 | 1,066.0 | 1,209.2 | 1,170.8 |
| Net profit for the year | 618.3 | 716.9 | 790.6 | 900.7 | 894.5 |
| | | | | | |
| **BALANCE SHEET, DKK MILLION** | | | | | |
| Interest-bearing items, net | -632.9 | -901.8 | -1,110.6 | -1,392.0 | -1,799.6 |
| Total assets | 2,015.0 | 2,440.9 | 2,893.4 | 3,134.5 | 3,725.8 |
| Shareholders' equity | 522.2 | 645.6 | 756.5 | 670.8 | 434.8 |
| | | | | | |
| **OTHER KEY FIGURES, DKK MILLION** | | | | | |
| Investment in property, plant and equipment, net | 124.4 | 311.7 | 351.4 | 207.9 | 165.5 |
| Cash flow from operating activities (CFFO) | 753.7 | 719.7 | 891.8 | 964.1 | 848.4 |
| Free cash flow | 615.5 | 353.5 | 467.7 | 661.0 | 756.3 |
| Employees (average) | 4,272 | 4,490 | 4,730 | 4,797 | 5,072 |
| | | | | | |
| **FINANCIAL RATIOS** | | | | | |
| Gross profit ratio | 68.6% | 69.4% | 69.3% | 70.3% | 72.4% |
| EBITDA-margin | 26.4% | 27.8% | 27.7% | 28.2% | 26.2% |
| Profit margin (EBIT-margin) | 23.3% | 24.4% | 24.4% | 25.0% | 23.1% |
| Return on equity | 139.8% | 134.2% | 106.7% | 114.0% | 169.0% |
| Equity ratio | 25.9% | 26.4% | 26.1% | 21.4% | 11.7% |
| Earnings per share (EPS), DKK* | 8.8 | 10.7 | 12.2 | 14.4 | 14.8 |
| Cash flow per share (CFPS), DKK* | 10.8 | 10.7 | 13.7 | 15.4 | 14.0 |
| Free cash flow per share, DKK* | 8.8 | 5.3 | 7.2 | 10.5 | 12.5 |
| Dividend per share, DKK* | 0 | 0 | 0 | 0 | 0 |
| Book value per share, DKK* | 7.5 | 9.6 | 11.6 | 10.7 | 7.2 |
| Price earnings (P/E) | 23 | 24 | 29 | 32 | 32 |
| Share price, DKK* | 200 | 257 | 350 | 459 | 471 |
| Market capitalisation adj. for treasury shares, DKK million | 13,710 | 16,989 | 22,315 | 28,274 | 28,063 |
| Average number of shares, million | 69.95 | 67.05 | 65.03 | 62.75 | 60.62 |

*Financial ratios are calculated in accordance with "Anbefalinger & Nøgletal 2005" ("Recommendations and Financial Ratios 2005") from the Danish Society of Financial Analysts.*

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

*On computation of the return on equity, average equity is calculated duly considering the current buy-back of shares.*

**Per share of DKK 1.*

# Key figures and financial ratios — EUR**

| INCOME STATEMENT, DKK MILLION | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Revenue | 493.5 | 553.1 | 607.0 | 682.5 | 736.6 |
| Gross profit | 338.4 | 383.7 | 420.5 | 479.8 | 533.0 |
| Research and development costs | 39.6 | 43.5 | 51.3 | 61.7 | 67.8 |
| EBITDA | 130.5 | 153.5 | 168.0 | 192.4 | 192.8 |
| Depreciation etc. | 15.7 | 18.8 | 20.0 | 21.8 | 22.6 |
| Operating profit (EBIT) | 114.8 | 134.7 | 148.0 | 170.5 | 170.1 |
| Net financials | -3.8 | -5.2 | -4.9 | -8.2 | -13.0 |
| Profit before tax | 111.0 | 129.5 | 143.1 | 162.3 | 157.1 |
| Net profit for the year | 83.0 | 96.2 | 106.1 | 120.9 | 120.1 |
| | | | | | |
| **BALANCE SHEET, DKK MILLION** | | | | | |
| Interest-bearing items, net | -84.9 | -120.9 | -148.9 | -186.7 | -241.3 |
| Total assets | 270.2 | 327.4 | 388.0 | 420.4 | 499.7 |
| Shareholders' equity | 70.0 | 86.6 | 101.5 | 90.0 | 58.3 |
| | | | | | |
| **OTHER KEY FIGURES, DKK MILLION** | | | | | |
| Investment in property, plant and equipment, net | 16.7 | 41.8 | 47.1 | 27.9 | 22.2 |
| Cash flow from operating activities (CFFO) | 101.2 | 96.6 | 119.7 | 129.4 | 113.9 |
| Free cash flow | 82.6 | 47.4 | 62.8 | 88.7 | 101.5 |
| Employees (average) | 4,272 | 4,490 | 4,730 | 4,797 | 5,072 |
| | | | | | |
| **FINANCIAL RATIOS** | | | | | |
| Gross profit ratio | 68.6% | 69.4% | 69.3% | 70.3% | 72.4% |
| EBITDA-margin | 26.4% | 27.8% | 27.7% | 28.2% | 26.2% |
| Profit margin (EBIT-margin) | 23.3% | 24.4% | 24.4% | 25.0% | 23.1% |
| Return on equity | 139.8% | 134.2% | 106.7% | 114.0% | 169.0% |
| Equity ratio | 25.9% | 26.4% | 26.1% | 21.4% | 11.7% |
| Earnings per share (EPS), DKK* | 1.2 | 1.4 | 1.6 | 1.9 | 2.0 |
| Cash flow per share (CFPS), DKK* | 1.4 | 1.4 | 1.8 | 2.1 | 1.9 |
| Free cash flow per share, DKK* | 1.2 | 0.7 | 1.0 | 1.4 | 1.7 |
| Dividend per share, DKK* | 0 | 0 | 0 | 0 | 0 |
| Book value per share, DKK* | 1.0 | 1.3 | 1.6 | 1.4 | 1.0 |
| Price earnings (P/E) | 23 | 24 | 29 | 32 | 32 |
| Share price, DKK* | 26.8 | 34.4 | 46.9 | 61.6 | 63.2 |
| Market capitalisation adj. for treasury shares, DKK million | 1,837.7 | 2,277.2 | 2,991.1 | 3,792.1 | 3,763.5 |
| Average number of shares, million | 69.95 | 67.05 | 65.03 | 62.75 | 60.62 |

*Financial ratios are calculated in accordance with "Anbefalinger & Nøgletal 2005" ("Recommendations and Financial Ratios 2005") from the Danish Society of Financial Analysts.*

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

*On computation of the return on equity, average equity is calculated duly considering the current buy-back of shares.*

*Per share of nominally DKK 1.*

**On the translation of key figures and financial ratios from DKK to EUR, Danmarks Nationalbank's rate of exchange at 31 December 2006 of 745.6 has been used for balance sheet items and the average rate of exchange of 745.9 has been used for income statement items.*

# Review

## Market conditions and business trends

*Hearing Aids*

Growth in the global hearing aid market in 2007 is estimated to have surpassed our long-term expectations of 3-5% market growth in terms of value based on an expected 2-4% unit growth and a 1-2% positive contribution from prices and product mix. This higher market growth in 2007 is attributable primarily to the significant increase in demand from the British National Health Service (NHS), the world's largest single purchaser of hearing aids. In 2007, the NHS increased its demand by more than 25% compared with 2006 in an attempt to cut waiting lists. With a unit growth of around 9%, the US Veterans Affairs (VA) also boosted overall market growth in the past year. Leaving out the high growth contribution from the NHS and VA, market growth in 2007, however, was in line with the Company's long-term expectations.

The underlying growth factors in the hearing aid market have essentially remained constant:

- The number of elderly in the OECD countries is rising by 1.5-2.0% annually. The elderly population in the USA, however, is rising somewhat more sharply than in Europe.

- A growing number of hearing-impaired people are fitted with two instruments (binaural fittings). In many European countries and Japan, the share of binaural fittings remains fairly low (10-40%), while in many major markets, including the USA, Germany and Holland, the share has already reached 65-80%.

- Unit growth in some developing countries is considerably higher than in the OECD countries, but the initial sales level in these countries is typically very low.

Looking ahead, the large baby-boomer generation of people born in the post-war years 1946-1964 is projected to result in a gradual rise in the number of people over 65. Longer life-spans have also enlarged the elderly population. On balance, this trend is expected to trigger growing demand for health services, including hearing aids.

The rising popularity of hearing aids based on wireless communication between the two instruments is also likely to help increase the share of binaural fittings. This is because Oticon Epoq, for example, has such obvious audiological benefits that users, hearing care professionals and health authorities can hardly ignore the compelling arguments for fitting two instruments rather than one.

In the global hearing aid market, the share of the many new and cosmetically attractive, Behind-The-Ear solutions (BTE) continues to grow unabated. BTE hearing aids are gaining ground at the expense of In-The-Ear (ITE) instruments in particular. The US market has especially driven this trend, with the BTE share topping 50% in 2007, or more than a doubling in just four years.

Although traditionally holding a high share of total hearing aid sales in Europe, BTE instruments have also recorded significantly higher sales in Europe – also in typical BTE markets like France and Germany. We expect the dramatic increase in small BTE sales to continue and that one in four hearing aids sold globally in 2008 will be a mini-BTE-instrument.

2007 was dominated by the introduction of the high-end product Oticon Epoq, which offers people with hearing impairment the world's first, fully wireless, binaural hearing aid solution with significantly enhanced sound processing. In addition, Oticon Epoq can via a wireless Streamer be connected to Bluetooth applications, e.g. the hearing aid user's mobile phone. Epoq is based on Oticon's wireless broadband architecture RISE, the result of the Group's largest in-house development project to date. The first product to be based on the RISE architecture, Epoq, was presented at the US hearing aid convention AAA in April and released for sale in May/June.

Hearing care professionals and end-users have given Epoq a very positive reception, commending in particular the product's sound reproduction, which recreates the user's sense of space and ability to localise sources of sound. Various clinical product tests have affirmed this tremendous level of user satisfaction in all typical listening situations. Users of binaural Epoq fittings have indicated a significantly higher level of satisfaction on all parameters than users of two conventional hearing aids. The dramatic improvement is consistent with the leap users experience when switching from one to two conventional hearing aids. Oticon Epoq has already garnered a number of prestigious prizes, including the *Danish Product Award 2007*, presented by the engineering magazine Ingeniøren to the most innovative product of the year from a Danish manufacturer. During the *Consumer Electronics Show* (CES), held in January 2008 in Las Vegas, Epoq also received the *Best of Innovations 2008 Design and Engineering Award* in the *Healthcare* category.

In the second half of 2007, sales of Oticon Epoq fell short of plan, because sales in many countries – despite the May/June release – only got up to speed after the summer. Moreover, during the first months after the release, great interest was shown in all of Epoq's innovative features, particularly the possibility of connecting it wirelessly to a mobile phone. Though long-awaited by the industry, this technological breakthrough will only generate real commercial benefits as user demands increase. The flip side is therefore that interest in Bluetooth connections has to a great extent eclipsed Epoq's obvious audiological qualities of Epoq and thus the breakthrough that true binaural sound processing offers to hearing-impaired people.

Towards the end of 2007, the focus of marketing campaigns and ongoing dialogue with customers intensified on Epoq's fundamental audiological qualities, which undeniably make the product the best hearing aid on the market. Sales of Epoq indeed accelerated towards the end of the year and in the first months of 2008. At the same time, a growing number of hearing care professionals have offered Epoq, primarily because of the product's unique audiological qualities – with or without the use of Streamer and mobile telephones. Stronger sales momentum, coupled with exceptional satisfaction on the part of users and hearing care professionals, fuels our expectations for the sale of Epoq in 2008 and beyond.

2007 was yet another good year for the cosmetically attractive product concept Oticon Delta, based on RITE technology (Receiver-In-The-Ear). Released for sale in spring 2006, Oticon Delta continues to contribute significantly to corporate growth. The product's success is underpinned by the expansion of Oticon Delta's audiological fitting options at the end of 2006. Today, Oticon Delta can be fitted to match four out of five hearing losses. At the same time, the product portfolio was supplemented with Oticon Delta 4000, positioned in the mid-priced segment, in other words below Delta 8000 and Delta 6000. The segment for cosmetically attractive mini-instruments, dominated heavily by Oticon Delta since its launch, is currently experiencing keener competition, a reflection of the concept's growing popularity. Nonetheless, throughout 2007 we have been able to sustain and in some cases expand Delta's position as a reference product in this, the fastest-growing segment of the hearing aid market.

At last autumn's German hearing aid congress, EUHA, Oticon introduced nEARcom for true wireless programming of hearing aids, an innovation born of a long-standing collaborative development project with two other hearing aid manufacturers and Bernafon. Oticon's version of wireless programming works with hearing aids based on the RISE architecture and is an offer for hearing care professionals who specifically want to avoid the hassle of cables, who are particularly interested in cutting-edge technology, and who want to provide the most professional customer service and treatment. However, the Group has noted that some hearing aid manufacturers have opted to concentrate on their own wireless programming systems rather than be part

of a joint development system, even though customers would most likely prefer major manufacturers to support a common standard.

For the Bernafon business, 2007 was marked by the autumn launch of the product concept Brite (Bernafon Receiver-In-The-Ear), heralding Bernafon's entry into the market for cosmetically attractive mini-instruments. Based on innovative design and sophisticated technology, Brite was enthusiastically received by customers, a fact to which the EUHA congress attests. The response promises well for future sales of Brite. In 2007, Bernafon also introduced the new Super Power instrument Xtreme as well as new micro-BTE-versions of both ICOS in the high-end segment and Prio in the mid-priced segment.

The Group's total unit growth of in-house produced hearing aids rose by 14% in 2007, reflecting the fact that the Group has also been able to win market shares in 2007. Although Delta and Epoq were the main growth drivers in the Oticon business, sales of the low-end product Go Pro, released for sale in autumn 2006, have also contributed significantly to growth, as did sales of hearing aids to the NHS and a number of international retail chains.

Sales of Oticon Syncro, which has now been on the market for over three years, are declining. As we know, Epoq replaced the high-end product Syncro in 2007 in the portfolio of actively marketed products. The mid-priced products Tego and Tego Pro, which have generated considerable growth for the Group since their launch in spring 2005, moved into the late phases of their life cycles during 2007.

As regards Bernafon, unit growth was driven primarily by sales of Prio, launched in autumn 2006. Using five different lifestyle-based pre-settings, Prio allows individual fitting, automatically selecting the best possible sound processing by continually registering and analysing the listening environment. The low-end products Neo and Win were also among the main contributors to Bernafon's unit growth. Last, Brite was a significant growth factor for Bernafon in 2007, although the product was only available in the last four months of the year.

Products introduced within the last two years thus accounted for about half the Group's total unit sales of in-house manufactured hearing aids during the year under review.

The development and marketing of user benefits, product concepts and fitting systems are still decisive competitive factors in the hearing aid business, along with the service provided to dispensers in the form of marketing activities, repairs, hotline support etc. We are also experiencing a need for greater distribution flexibility. As a manufacturer, we have to be prepared to occasionally act as a source of finance in conjunction with succession processes or the expansion of a customer's business. In 2007, the Group acquired a few minor distribution activities and provided limited financing to existing and new customers. We expect to continue this activity in the years ahead.

In 2007, corporate retail activities generated growth slightly above both the wholesale growth rate and market growth in the markets where the Group does retail business.

*Diagnostic Instruments*

Diagnostic Instruments, which includes our two audiometer businesses, Maico in Germany and the USA, as well as Interacoustics in Denmark, is a leading global supplier of audiological equipment. The core business once more recorded favourable, above-market growth in 2007.

A wide variety of product areas generated growth, but particularly products in the business areas of brain stem audiometry, OtoAcoustic Emission and hearing aid fitting equipment were the main growth drivers. These products thus account for a growing share of our business, and we expect the trend to continue in future.

In 2007, Diagnostic Instruments strengthened distribution in several markets, both by establishing own companies and in some cases by co-operating with other Group companies.

The aim of the business area for 2008 is to sustain and expand its position as one of the world's leading suppliers of audiological equipment. Diagnostic Instruments will thus continue to strengthen business in traditional audiometric and impedance equipment, while expanding a number of the other business areas, in particular the areas of brain stem audiometry, balance equipment and hearing aid fitting equipment. On 1 January 2008, the company took over distribution on the Danish market – an activity previously handled by an external distributor.

*Personal Communication*
Personal Communication, comprising Phonic Ear and the joint venture Sennheiser Communications, increased its revenues in 2007 by 17%, which is considered satisfactory.

Phonic Ear specialises in two product areas: wireless active learning systems and assistive listening devices. As in 2006, growth in Phonic Ear was primarily generated by sales of wireless active learning systems. Wireless active learning systems are marketed under the name FrontRow, and a system typically consists of a wireless microphone, a receiver and a number of loudspeakers. The products are largely used in classrooms with normal-hearing students to help retain their attention in an environment that is often noisy and has poor acoustics. The market for FrontRow's products is characterised by high growth rates, and we estimate that the USA, the largest single market, has grown by over 30% in 2007.

In 2007, Phonic Ear expanded the distribution network for the FrontRow business, one means being more extensive use of the so-called *Value Added Resellers* (VAR). By using these special distributors, we provide more efficient coverage of large geographic areas, while making it possible to scale the business without the ensuing dramatic increases in capacity costs.

Assistive devices for the hearing impaired comprise products such as amplifier phones, alarm systems and teleloop amplifiers. The products are typically used in private homes or public places, and the area has large growth potential, because more attention, particularly on the part of public institutions, is being focused on this type of assistive devices for hearing-impaired people.

Operated in conjunction with German Sennheiser electronic GmbH & Co. KG, Sennheiser Communications is a player in the market for hand-free communication solutions for professional and home users. In 2007, Sennheiser Communications generated substantial double-digit revenue growth, with several successful product launches in the wireless product segment contributing to the considerable improvement. This trend is expected to continue, and the outlook for 2008 is positive.

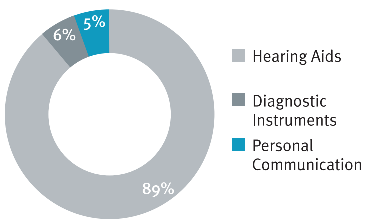
## Financial review 2007

*Revenues and foreign exchange conditions*

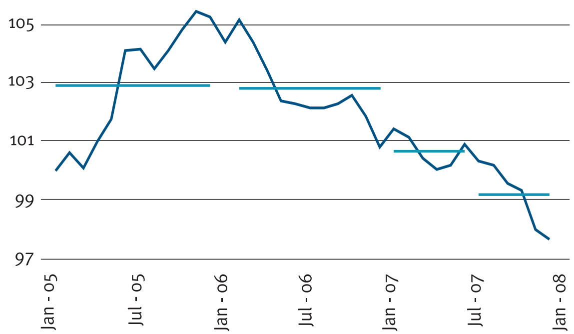
In 2007, consolidated revenues amounted to DKK 5,488 million, or a 7.9% rise on last year. In terms of local currencies, growth was 10.7%, reflecting a negative exchange impact of just under 3%. Realised revenues matched our forecasts. Purchases of distribution activities had a positive effect on revenues of well over 2%.

With 97% of corporate sales being invoiced in foreign currencies, any movements in the exchange rates of corporate trading currencies significantly affect reported revenues. The graph below shows corporate revenues in 2007, calculated on the basis of realised average exchange rates on a month-by-month basis.

**Net revenue by business area**

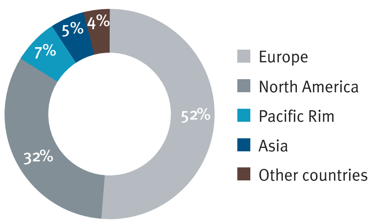



**Indexed development in the Group's currency basket**




January 2005 = 100

**Net revenue by region**




The weakening of the US dollar had a particularly adverse effect on revenues in 2007, with a sizeable portion of corporate sales taking place in the USA. Other negative factors were developments in the exchange rates of the Japanese yen, the Canadian dollar and the Swiss franc. The rate of the British pound sterling, which is also a major corporate invoicing currency, fell most in late 2007 and in January 2008, and the effect on revenues for 2007 is therefore limited.

Revenues in North America rose by 13% in 2007 in terms of local currencies. With market unit growth of 2-3% in the US, which is clearly the largest single regional market, we continue to capture sizeable market shares. North America accounted for 32% of consolidated revenues.

In terms of local currencies, the Group generated 9% growth in revenues in Europe in 2007. In particular, unit growth was boosted by corporate deliveries to the British NHS. Sales to international retail chains also grew. Sales in Europe accounted for 52% of consolidated revenues in 2007.

**Revenue by business area**

| | | | Percentage change | |
|---|---|---|---|---|
| DKK million | 2006 | 2007 | DKK | Local currency |
| Hearing Aids | 4,555 | 4,920 | 8.0% | 10.8% |
| Diagnostic Instruments | 298 | 303 | 1.7% | 3.7% |
| Personal Communication | 232 | 265 | 14.2% | 17.7% |
| **Total** | **5,085** | **5,488** | **7.9%** | **10.7%** |

In local currencies, our hearing aid business generated an increase in revenues in 2007 of just under 11%, driven by our core business, i.e. the development, production and wholesale of hearing aids. In the year under review, the core business improved unit sales of Group-manufactured hearing aids by 14%. As market growth for 2007 was only slightly above our long-term expectations of unit growth of 2-4%, we once again succeeded in capturing substantial market shares. The fact that the increase in the unit sale of Group-manufactured instruments exceeded the growth in core business is the result of a significant improvement in the sale of hearing aids to the NHS, further strengthened by the continuous successful sale of products to a number of international retail chains.

In 2007, corporate retail activities, which are part of our Hearing Aid business, outgrew our wholesale business and indeed the markets in which the Group carries on retail business. Retail activities accounted for about 15-20% of total consolidated revenues.

Diagnostic Instruments achieved 2007 revenue of DKK 303 million, or an improvement in sales of just under 4% in terms of local currencies; this growth rate that matches the estimated market growth rate of 3-5%. This business activity accounts for 6% of consolidated revenues, and its profitability improved from an already high level in the year under review. The positive trend is expected to continue in 2008, the ambition being to retain and expand its position as one of the world's leading suppliers of audiological equipment.

In 2007, Personal Communication boosted revenues to DKK 265 million, or a rate of growth of just under 18% in terms of local currencies. The high growth in Phonic Ear continues to be driven by the successful sale of wireless FrontRow speaker systems mainly designed for school classes with normal-hearing children. The US market, which is our primary market for this equipment, grows by over 30% annually, and the positive trend as regards FrontRow is expected to continue in 2008. Sennheiser Communications is also experiencing extremely favourable development, among other factors driven by their new wireless headsets for offices and mobile telephony. Profitability trends in Sennheiser Communications are highly positive and so is the outlook for 2008.

*Special items*

The consolidated income statement for 2007 includes a number of special items, as did the comparative figures for 2006. The largest special item relates to costs defrayed in 2007 in connection with a US patent case.

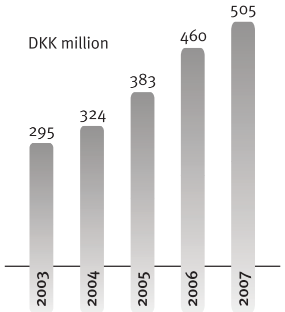
According to a decision announced by a jury at the *District Court of Delaware* in January 2008, William Demant Holding has infringed two patents owned by *Energy Transportation Group* (ETG), which was awarded damages of approximately DKK 80 million. In addition, we expect to defray legal fees amounting to DKK 60 million, of which about half was paid in 2007. The aggregate of DKK 140 million was included in consolidated administrative expenses in 2007, of which provisions in the amount of DKK 110 million have been made for payment of damages and legal costs, including the cost of the pending appeal case.

The case was instituted in 2005 based on two expired patents which ETG claims include certain aspects of the anti-feedback technology normally used in hearing aids. William Demant Holding claims that the Company has not infringed ETG's patents and therefore intends to appeal the decision. The final decision in the appeal case will not be available until 2009. If we win the appeal case, the provision for damages will be reversed.

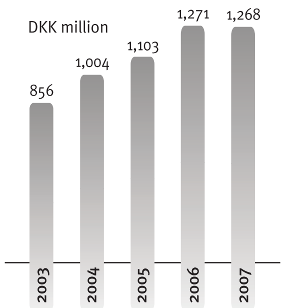
| Effect on earnings of special items | 2006 | 2007 | Change |
|---|---|---|---|
| *Reported gross profit* | *3,575* | *3,971* | *11.1%* |
| Employee share costs | 10 | | |
| Gain from sale of property | | -59 | |
| Production restructuring costs (estimated) | | 50 | |
| **Gross profit before special items** | **3,585** | **3,962** | **10.5%** |
| Reported capacity costs etc. | -2,304 | -2,704 | |
| Employee share costs | 24 | | |
| Due diligence costs | 25 | | |
| Cost of US patent case | | 140 | |
| **EBIT before special items** | **1,330** | **1,398** | **5.1%** |
| Reported net financials | -61 | -97 | |
| **Profit before tax and special items** | **1,269** | **1,301** | **2.5%** |
| Reported tax for the year | -308 | -276 | |
| Tax effect | -15 | -33 | |
| **Profit for the year before special items** | **945** | **992** | **5.0%** |
| *Reported profit after tax* | *901* | *894* | *-0.8%* |
| **EPS before special items** | **15.1** | **16.4** | **8.6%** |
| *Reported earnings per share (EPS)* | *14.4* | *14.8* | *2.8%* |

For a more detailed review of the special items and their impact on profits, reference is made to the subsequent sections.

R&D costs




Operating profit (EBIT)




*Gross profits*
In 2007, the Group realised gross profits of DKK 3,971 million, or an improvement of 11%. The consolidated gross profit ratio was 72.4%, representing an increase of well over 2 percentage points on 2006. The gross profit ratio is favourably affected by the ongoing expansion of corporate distribution activities, which traditionally operate with higher gross profit ratios. Another contributory factor is the emerging effect of the recent establishment of production facilities in Poland.

The Group realised a gain of DKK 59 million from the sale of a property in Brisbane, Australia. The sale was part of the restructuring of our production capacity, which triggered non-recurring costs to the tune of DKK 50 million for the transfer of production from Australia and the establishment of production at Mierzyn, Poland. The amount also includes non-recurring costs in relation to the transfer of production of Behind-The-Ear hearing aids from Scotland to Poland towards the end of 2007. The net effect of these special items in 2006 and 2007 on consolidated gross profits is however limited. The Group has decided to scale down its Thisted production facility in 2008, which means that out of a total of 700 approximately 100 employees will be dismissed.

Consolidated gross profits also includes additional costs of DKK 25-40 million relating to the production of hearing aids caused by the transfer to new technological and mechanical platforms, which was more difficult than anticipated. The required adjustments of the hearing aid production, which have now been fully implemented, were fairly cost-intensive and temporarily resulted in lower production efficiency.

*Capacity costs*
In 2007, consolidated capacity costs rose by 17% to DKK 2,706 million; non-recurring costs in connection with the US patent case accounting for DKK 140 million.

On comparison with capacity costs for 2006, it is worth noting that the 2006 figure included costs relating to employee shares of DKK 24 million and due diligence costs of DKK 25 million. The development in capacity costs is shown in the table below.

**Capacity costs**

| | | | Percentage change | |
|---|---|---|---|---|
| DKK million | **2006** | **2007** | **DKK** | **Local currency** |
| Research and development costs | 460 | 505 | 9.8% | 10.4% |
| Distribution costs | 1,513 | 1,726 | 14.1% | 16.7% |
| Administrative expenses | 334 | 475 | 42.2% | 43.7% |
| **Total** | **2,307** | **2,706** | **17.3%** | **19.3%** |

*Research and development costs*
We remain convinced that substantial and dedicated focus on innovation and product development is absolutely essential to ensure our long-term growth potential. 2007 saw a 10% increase in these costs. Research and development costs accounted for 9% of consolidated revenues, which is at the same level as in 2006.

Corporate development activities in the first half-year were marked by the development and completion of our new, technological, wireless architecture (RISE) and by Oticon Epoq, which is the first product based on the RISE architecture. We expect a substantial portion of future corporate products to be based on RISE.

The development functions in the William Demant Holding Group work across business activities and continents to optimise the use of know-how. This approach ensures that basic technologies and special competencies developed for specific purposes in one part of the Group are utilised in other corporate contexts, thereby optimising the use of development resources. The establishment in 2005 of a new domicile and development centre in Denmark is a natural extension of our focused development effort. Our vision was to create and is to continue to have the world's leading and most sophisticated setting for the development of hearing aids, thereby creating optimal conditions for maintaining our innovative edge and competitiveness. In addition to our Danish facilities, we have major development centres in Switzerland and the USA. We are currently considering setting up certain development activities in Poland in connection with our newly established production facilities at Mierzyn. Furthermore, our researchers are members of research networks and institutions all across the world.

*Distribution costs*

Consolidated distribution costs rose in 2007 by 14% to DKK 1,726 million. The increase is to be considered in light of the stepwise expansion in 2006 and 2007 of corporate retail activities, which generally operate with fairly high selling and marketing costs. Consolidated distribution costs were also affected by the launch of Oticon Epoq, which in the first half-year involved considerable launching costs.

*Administrative expenses*

In 2007, administrative expenses totalled DKK 475 million, including non-recurring costs of DKK 140 million in relation to the US patent case. Adjusted for these costs, administrative expenses amounted to DKK 335 million, matching the 2006 level which included due diligence costs of DKK 25 million and employee share-related costs of DKK 7 million.

*Profits for the year*

Operating profits (EBIT) for the year under review amounted to DKK 1,268 million, or a profit margin of 23.1%. Adjusted for special items including costs for the US patent case, consolidated operating profits aggregated DKK 1,398 million in 2007, which represents a 5% increase when adjusting the 2006 comparative figure for costs relating to employee shares and due diligence. The adjusted operating profits for 2007 provide a profit margin of more than 25%.

To the extent possible, we seek to hedge any fluctuations in exchange rates by matching positive and negative cash flows in the main currencies and by entering into forward exchange contracts. With our current use of such contracts, forecast cash flows are hedged with a horizon of up to 24 months. Consequently, any movements in major exchange rates will affect revenues immediately, whereas the effect on earnings will be somewhat delayed. Realised forward exchange contracts are recognised in the income statement together with the items hedged by such contracts. In addition, we have raised loans in foreign currencies to balance our net receivables. This was previously done through forward exchange contracts.

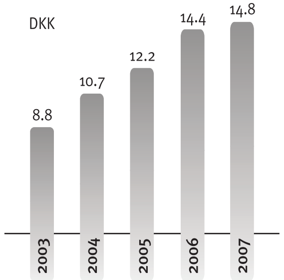
The current weakening of several of our trading currencies, including the US dollar, the British pound sterling and the Japanese yen, means that we hedge our exchange transactions at increasingly lower rates. The lower hedging rates will thus have an adverse effect on operating profits for 2008 and the years ahead.

With the exchange rate fluctuations in 2007 – particularly towards the end of the year – the underlying development in consolidated earnings is more favourable than would appear from the reported profits. The negative exchange impact on operating profits (EBIT) compared with 2006 is approximately DKK 40 million. Overall, the consolidated profit margin in the year under review was only marginally affected by exchange rate fluctuations. At year-end, we had entered into forward exchange contracts at a nominal value of DKK 983 million (DKK 1,031 million at 31 December 2006) with a market value of DKK 17 million (DKK 3 million at 31 December 2006). The major contracts hedged the following currencies at 31 December 2007:

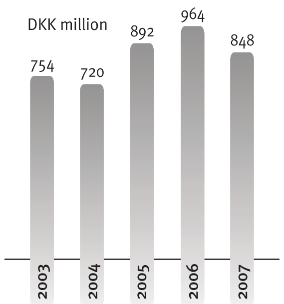
**Forward exchange contracts at 31 December 2007**

| Currency | Hedging period | Hedging rate |
|---|---|---|
| USD | 8 months | 518 |
| JPY | 9 months | 5.03 |
| NOK | 3 months | 96 |
| AUD | 2 months | 469 |
| EUR | 7 months | 747 |
| CAD | 3 months | 541 |

Earnings per share (EPS)




Cash flow from operating activities




Net financials in 2007 amounted to DKK -97 million against DKK -61 million in 2006. The change primarily reflects an increase in consolidated interest-bearing debt and a generally higher interest rate level.

Consolidated profits before tax totalled DKK 1,171 million. Tax on the year's profits is estimated at DKK 276 million, matching an effective tax rate of 23.6%, which is below the level that has applied to the Group in recent years. The reason is a corporation tax reform in Denmark effective as of 1 January 2007. Some of the effects of the reform being a fall in the Danish corporation tax rate by 3 percentage points to 25% and a number of limitations on the use of interest deductions by Danish companies. The one-time effect of the Danish tax reform is neutral as regards the balance sheet.

The year's profits amounted to DKK 894 million, which is marginally lower than in 2006. However, if we adjust for special items, profits rose by 5%. Earnings per share (EPS) were DKK 14.8, or a 3% increase. Calculated before special items, EPS rose by 9%. Our current strategy of buying back shares resulted in earnings per share outpacing the year's profit growth. In 2007, the average number of shares was reduced by 2,136,124 shares compared with 2006. For a more detailed description of the Group's buy-back of shares, we refer to *Shareholder information*, *Capital* on page 22.

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

*Equity and capital*

Consolidated equity amounted to DKK 435 million at year-end (DKK 671 million at the end of 2006), corresponding to an equity ratio of 12%. The Parent's equity was DKK 519 million at year-end (DKK 665 million at the end of 2006).

The buy-back of shares worth a total of DKK 993 million matched the 2006 level, and the amount was recognised directly in equity. We did not carry out any capital increases in 2007.

### Consolidated equity

| DKK million | 2006 | 2007 |
|---|---|---|
| **Equity at the beginning of the year** | **756** | **671** |
| Exchange adjustments of subsidiaries | -5 | -32 |
| Value adjustments of hedging instruments | -41 | -19 |
| Buy-back of shares | -993 | -993 |
| Capital increase relating to employee share ownership plan | 24 | 0 |
| Gift element relating to employee share ownership plan | 34 | 0 |
| Profit for the year | 901 | 894 |
| Other adjustments | -5 | 10 |
| Minority interests | 0 | -96 |
| **Equity at the end of the year** | **671** | **435** |

*Consolidated cash flows, financing and cash position*

In 2007, consolidated cash flows from operating activities amounted to DKK 848 million, or a 12% fall on 2006, which is mainly due to the build-up of inventories and an increase in receivables. The Group paid corporation tax in 2007 of approximately DKK 299 million, of which DKK 234 million was paid in Denmark.

Free cash flows rose to DKK 756 million, which is an increase of 14% on 2006, the major explanations being the fall in the level of capital investments in our corporate headquarters in Denmark and the sale of a property in Australia.

### Cash flows by main items

| DKK million | 2006 | 2007 |
|---|---|---|
| **Profit for the year** | **901** | **894** |
| Cash flows from operating activities | 964 | 848 |
| Cash flows from investing activities * | -303 | -92 |
| **Free cash flows** | **661** | **756** |
| Acquisitions | -28 | -80 |
| Buy-back of shares | -993 | -993 |
| Other financing activities | -22 | -176 |
| **Cash flow for the year, net** | **-382** | **-493** |

* Calculated before acquisitions.

*Investments*
Cash flows for investing activities (excluding acquisitions) amounted to DKK 92 million in 2007 against DKK 303 million in 2006. The fall is mainly due to proceeds of DKK 122 million from the sale of the production property in Australia in 2007, as mentioned above, and the fact that the property was bought at a price of DKK 63 million in 2006. Moreover, 2007 did not see any major investments in corporate headquarters, as was the case from 2004 through 2006. Net investments in property, plant and equipment amounted to DKK 186 million in 2007, and net investments for 2008 are estimated at DKK 200-240 million, of which payment for the production property in Poland acquired in 2007 accounts for DKK 33 million.

In 2007, the Group took over a number of minor distribution businesses in Australia and North America either in full or in part. The cash acquisition sum amounted to DKK 80 million for the year.

The change in other financing activities in 2007 is due to an increase in instalments in respect of long-term liabilities and the fact that we did not raise any further loans as was the case in 2006.

*Balance sheet*
The total consolidated balance sheet rose by 19% in 2007 and at 31 December 2007 amounted to DKK 3.7 billion, including a negative exchange impact of about 3%.

Receivables under long-term assets rose in 2007 by DKK 89 million, and since we received redemptions/instalments worth DKK 43 million in the year under review, we have had a net addition to receivables under long-term assets. Loans to corporate customers and business partners amounted at 31 December 2007 to DKK 180 million (DKK 123 million in 2006), and a further increase is expected for 2008.

In connection with the restructuring of production facilities, we built up buffer stocks in order to secure supplies and further expanded inventories on the launch of Epoq, thereby generally boosting inventories in 2007. Trade receivables also rose, which is among other things due to growth in revenues, including acquisitions.

Consolidated interest-bearing debts (gross) were DKK 480 million higher at year-end than at the end of 2006. The increase was mainly caused by our continuous buy-back of shares and the above-mentioned increases in inventories and trade receivables.

There have been no events to change the assessment of the annual report after the balance sheet date and until today.

*Directors and employees*
At the annual general meeting on 29 March 2007, Lars Nørby Johansen and Michael Pram Rasmussen were both re-elected, and Peter Foss, President & CEO of FOSS A/S, was elected to the Board of Directors. After the general meeting, the Directors elected Lars Nørby Johansen Chairman and Niels Boserup Deputy Chairman of the Board of Directors.

The Group employed 5,091 staff at year-end. The average number of staff in 2007 (full-time equivalent) was 5,072 (4,797 in 2006), of whom 1,619 were employed in Denmark (1,486 in 2006). Revenue per employee amounted to DKK 1,082,000, or a 2% rise on 2006.

Key to the Group's success is the professionalism, commitment and diligence of our staff. The Directors would like to thank all staff for their tremendous and professional effort in 2007, their commitment being the real power behind our success.

*Incentive programmes*
The Group has at two- or three-year intervals offered the employees the opportunity to buy shares at a favourable price depending on their salary and seniority. Such shares are subsequently held on trust for five years. The most recent employee share ownership plan was carried through in 2006.

The Company has no share option programmes or other similar programmes.

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

*Knowledge resources*

Our *Mission statement* stipulates that the Group must aim for continuous growth in revenues and earnings, and that we must strive for a high innovation level through a flexible and knowledge-based organisation. The prerequisite for the Group's continued competitiveness is extensive audiological know-how and a broad spectrum of competencies, such as designing integrated circuits for sophisticated analogue and digital processing of sound signals, developing software for optimum fitting of hearing aids, designing micro-amplifiers and related acoustic systems as well as developing and manufacturing micro-mechanic components. See also *Research and development costs* on page 16.

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

Inaugurated in November 2005, the corporate development centre in Denmark is a major catalyst for both ongoing and future innovation projects.

*The Oticon Foundation*

William Demant Holding's main shareholder, the Oticon Foundation, has as its primary goal to safeguard and expand the William Demant Holding Group's business and provide support for various commercial and charitable purposes. The Oticon Foundation, whose full name is William Demants og Hustru Ida Emilies Fond, was founded in 1957 by William Demant, son of the Company's founder Hans Demant. The Foundation's interest in the Company was 58% at the end of 2007, which is also the case at 6 March 2008.

The William Demant Holding Group has not carried out any major acquisitions since the autumn of 2001, and in compliance with Company policy any free cash flows are applied for the buy-back of shares. Sound liquidity and a satisfactory free flow are important to obtain fair pricing of our shares at the OMX Nordic Exchange Copenhagen. In autumn 2005, the Oticon Foundation consequently announced that in future it would strive to retain an ownership interest of 55-60% against previously 60-65% through current sale of shares in the market. This sale is independent of our share buy-back programme.

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

In 2003, William Demant Holding and the Oticon Foundation thus agreed that the Company would identify active investment opportunities on behalf of the Foundation. In each case, a management agreement would be made on a commercial arm's length basis. Investment activities are mainly carried out by William Demant Invest A/S, a company wholly owned by the Oticon Foundation.

Since 2004, the Oticon Foundation has – in the framework of William Demant Invest – made significant investments in the property company Jeudan A/S, listed on the OMX Nordic Exchange Copenhagen, and in the medical company Össur hf., listed on the

OMX Nordic Exchange Iceland. In 2007, the Foundation increased its stake in Jeudan and also made a minor share purchase in Össur. Moreover, the Oticon Foundation has a portfolio of listed securities that are managed by an external asset manager.

## Outlook for the future

2008 will be another year of growth for the William Demant Holding Group. For 2008, we anticipate growth in revenues of 7-10% in terms of local currencies in a market whose rate of growth we estimate at 3-5%, which matches our long-term growth forecasts for the hearing aid market. Based on average exchange rates for January 2008, the negative exchange impact on consolidated revenues in 2008 is estimated at 3%. In this light, consolidated revenues are forecast at a level of DKK 5,700-5,850 million.

For 2008, we expect that especially Oticon Epoq will continue to be a major contributor to corporate growth. For the first half of 2008, we are planning to introduce a broad palette of products in the mid-priced segment as well as new Epoq variants. Both Oticon and Bernafon will introduce other new products in the second half-year. The many new product introductions will be the basis for growth in 2008 and the years ahead.

The emerging effects of the restructuring of production carried through in 2007 in combination with our current utilisation of economies of scale will positively impact the consolidated gross profit ratio in 2008 and beyond. This margin impact is however expected to be offset – in full or in part – by a steady increase in sales to international retail chains.

For 2008, we expect a continuous increase in the Group's development costs, which are primarily paid in Danish kroner. As development costs are expected to grow at the same level as growth in revenues in terms of local currencies, the reported increase in development costs will exceed reported sales growth.

Particularly in the fourth quarter of 2007, exchange rate trends had an adverse effect on consolidated profits. For 2007 as a whole, the earnings-related exchange effect on operating profits (EBIT) was negative by approximately DKK 40 million. Based on average exchange rates for January 2008, we estimate a further negative effect to the tune of DKK 60 million for 2008 as a whole. As usual, the estimated figure includes anticipated gains and losses on forward exchange contracts. The Group generally estimates operating profits (EBIT) for 2008 at DKK 1,400-1,500 million.

The effective tax rate for 2008 is expected to be 24-25%, which is slightly above the 2007 level.

Total investments in property, plant and equipment are estimated at a level of DKK 200-240 million for 2008.

We expect to buy back shares at an amount of DKK 900 million in 2008.

# Shareholder information

## Capital

At 31 December 2007, the Company's authorised share capital was nominally DKK 60,986,527 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), Egedal has notified the Company that at 31 December 2007 it held 58% of the share capital. In September 2005, the Foundation announced that it wished to retain an interest of 55-60% in the Company's capital.

Shares held by members of the Board of Directors, by the Executive Board and by employees account for approximately 2% of the share capital. More than 80% of the Group's around 5,100 employees are shareholders in the Company.

In 2007, the Company bought back 2,032,820 shares at a total price of DKK 993 million. At the annual general meeting on 29 March 2007, the share capital was reduced by nominally DKK 2,336,675 through the cancellation of treasury shares. The Company did not increase its capital in 2007. At year-end 2007, the Company held 1,406,370 treasury shares, or 2.3% of the share capital. At 6 March 2008, the Company holds 1,819,520 treasury shares, or 3.0% of the share capital. At the next general meeting, the Directors will propose that the share capital be reduced by the number of shares held by the Company at the date of the general meeting, 31 March 2008.

### Share information

| DKK | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Highest rate | 222 | 274 | 355 | 504 | 583 |
| Lowest rate | 111 | 196 | 256 | 343 | 407 |
| Rate at year-end | 200 | 257 | 350 | 459 | 471 |
| Market cap., DKK million. | 13,710 | 16,989 | 22,315 | 28,274 | 28,063 |
| Average no. of shares* | 69.95 | 67.05 | 65.03 | 62.75 | 60.62 |
| No. of shares at year-end* | 68.53 | 66.11 | 63.79 | 61.60 | 59.58 |

* Million shares, excluding treasury shares.

### Specification of movements in share capital

| DKK in thousands | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Share capital at 1.1. | 74,713 | 70,294 | 67,515 | 65,569 | 63,323 |
| Capital increase | 0 | 0 | 0 | 139 | 0 |
| Capital reduction | -4,419 | -2,779 | -1,946 | -2,385 | -2,337 |
| **Share capital at 31.12.** | **70,294** | **67,515** | **65,569** | **63,323** | **60,986** |

## Powers relating to share capital

The shareholders in general meeting have empowered the Directors to increase the share capital by up to nominally DKK 1,179,527 in connection with the issue of employee shares at a subscription price to be determined by the Directors, however minimum DKK 1.05 per share of DKK 1. The powers are valid until 1 January 2011. Until 1 January 2012, the Directors have been authorised to increase the share capital by up to DKK 6,664,384 for other purposes. The subscription price will be determined by the Directors.

Until the next annual general meeting, the Directors have been authorised to acquire treasury shares at a nominal value of up to 10% of the share capital. The purchase price may not deviate by more than 10% from the price listed on the OMX Nordic Exchange Copenhagen.

## Dividend

At the general meeting, the Directors will, as in previous years, propose that all profits for the 2007 financial year be retained. In the Company's opinion, the buy-back of shares will pave the way for a more dynamic planning of dividend policies. The Directors have thus authorised Management – on behalf of the Company – to continue buying back William Demant Holding shares in 2008 worth an approximate amount of DKK 1 billion with due regard to the Group's current cash inflow.

## Insider rules

The Group's insider rules and in-house procedures comply with the provisions of the Danish Securities Trading Act, under which the

Executive Board and the Board of Directors and their related parties are obliged to inform the Company of their transactions with the Company's securities with a view to subsequent publication and reporting to the Danish Financial Supervisory Authority. In 2007, the Company made three such announcements, which can be seen on the Company's website under *Insider trade announcements*.

In its in-house rules, the Company has chosen to operate an insider register containing over 800 persons, including leading staff members who – through their attachment to the Company – may possess price-affecting knowledge of the Group's internal affairs. Persons recorded in the insider register may only trade in Company shares for six weeks following publication of the annual report and the interim report through the OMX Nordic Exchange Copenhagen. Such persons are also obliged to inform the Company of their transactions in Company shares.

## IR policy and investor information

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

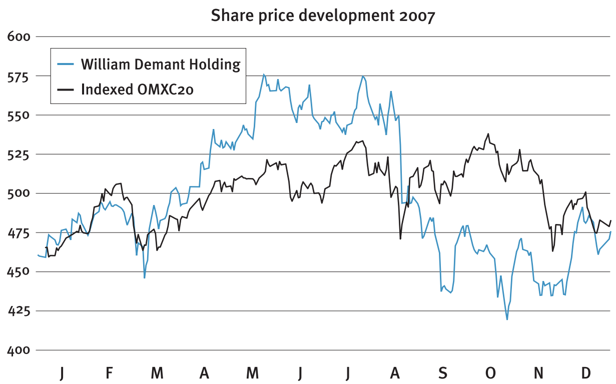
We aim to reach this goal by continuously providing relevant, correct and adequate information in our Company announcements. The Company also maintains an active and open dialogue with analysts as well as current and potential investors. Through presentations, individual meetings and participation in investor conferences, we aim to maintain an ongoing dialogue with a broad section of share market players. In 2007, we held approximately 260 (220 in 2006) meetings and presentations attended by more than 500 analysts and investors.

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

Investors and analysts may also contact Stefan Ingildsen, VP, Finance and IR, or Søren Bergholt Andersson, IR Officer, on phone +45 3917 7100 or via e-mail william@demant.dk.

*Stefan Ingildsen*

*Søren Bergholt Andersson*




## Main Company announcements in 2007

| | | |
|---|---|---|
| 8 | March | Annual Report 2006 |
| 29 | March | Annual general meeting |
| 11 | April | Introduction of Oticon Epoq |
| 9 | May | Quarterly review, first quarter 2007 |
| 2 | July | Reduction of capital after expiry of statutory notice |
| 16 | August | Interim Report 2007 |
| 8 | November | Quarterly review, third quarter 2007 |

## Financial calendar 2008

| | | |
|---|---|---|
| 6 | March | Annual Report 2007 |
| 31 | March | Annual general meeting |
| 7 | May | Interim information, first quarter 2008 |
| 14 | August | Interim Report 2008 |
| 5 | November | Interim information, third quarter 2008 |

## General meeting

The annual general meeting will be held on Monday, 31 March 2008, at 4 p.m. at Kongebakken 9, 2765 Smørum, Denmark.

# Risk management activities

Risk management activities in the William Demant Holding Group primarily focus on the business and financial risks to which the Company with a certain degree of probability may be exposed.

The Company generally operates in a stable market with a limited number of players. The risks to which the Company may be exposed are unlikely to change materially in the short term. When preparing the strategic, budgetary and annual plans, the Directors consider the risks identified by the Company.

## Business risks

The major risks to which the William Demant Holding Group may be exposed are of a business nature – be they risks within the Company's control or external risks due to, for instance, the behaviour of the competition.

The market in which the Company acts is a highly product-driven market. Products introduced on the market in the past two years generated about half of corporate sales. The Group's significant research and development initiatives help underpin our market position. It is therefore also vital in the long term to maintain the Group's innovative edge and to attract the most qualified and competent staff.

The William Demant Holding Group is involved in a few disputes. Apart from a provision relating to the US patent case, Management is of the opinion that any other disputes do not significantly affect or will affect the Group's financial position. We seek to make adequate provisions for legal proceedings. As far as patents are concerned, our policy is to take out patents for our own groundbreaking innovations and currently monitor that our products do not infringe on any third-party patents.

## Financial risks

Financial risk management concentrates on exchange rate, interest rate, credit and liquidity risks and on protecting against the risk of loss of plant, property and equipment. The purpose of financial risk management is to protect the business against potential losses and to make sure that Management's forecasts for the current year will only be affected to a limited extent by changes in the surrounding world – be they fluctuating exchange or interest rates or direct damage to corporate assets. We are exclusively hedging commercial risks and are not involved in any financial transactions of a speculative nature.

*Exchange rate risks*

The Company seeks to hedge against any exchange rate risks through foreign exchange contracts and other hedging instruments. Major net exchange positions are normally hedged up to 24 months ahead. Currency hedging gives Management the opportunity and necessary time to redirect business strategies in the event of persistent foreign exchange fluctuations.

**Effect on EBIT on non-hedged* basis, 5% exchange rate change**

| DKK million | 2007 | 2008 |
|---|---|---|
| USD | 20 | 25 |
| GBP | 15 | 20 |
| CAD | 10 | 15 |
| AUD | 10 | 10 |
| JPY | 5 | 5 |

* Non-hedged is defined as the total annual exchange effect excluding forward exchange contracts.

The exchange risk has been calculated on the basis of simple adding up of EBIT figures for Group companies in local currencies.

Whereas the adding up of EBIT figures includes all Group companies, the net exchange flow is identical to the flow in Oticon A/S. We estimate that about 90% of all exchange translations are made in Oticon A/S and that the analysis therefore provides a true and fair view of the entire Group. The exchange flow includes actual translation transactions as well as any change in net receivables (receivables, payables and bank balances). Realised exchange rates have been used for 2007, whereas for 2008 we have applied early-February rates.

*Interest rate risks*
At present, the Group has limited debts compared with the volume of business activity, and changes in interest rates therefore only have negligible impact on the Group. Interest rate swaps are sometimes used to hedge interest rates. We are of the opinion that the Group has a strong cash flow and satisfactory credit rating to secure current working capital and funds for potential acquisitions.

Based on net debt at year-end 2007, a climb of 1 percentage point in the general interest rate level will increase consolidated annual interest expenses before tax by approximately DKK 13 million.

*Credit risks*
Corporate credit risks relate primarily to trade receivables. Our customer base is fragmented and any credit risks would only involve minor losses on individual customers. Together, our three largest customers account for less than 10% of total consolidated revenues. We thus have no major credit exposure, which is supported by our track record of insignificant previous losses on bad debts. When undertaking lending transactions with customers or business partners, we require the provision of security in their particular businesses.

The Group has no major deposits in financial institutions. Primarily financial institutions with high credit ratings are used.

*Liquidity risk*
The Group is obliged to have sufficient cash resources to meet its obligations. The Group has access to substantial non-utilised credit facilities, and the liquidity risk is therefore considered very low.

## Safeguarding corporate assets

Company Management continuously seeks to minimise any financial consequences of damage to corporate assets, including any operating losses incidental to potential damage. We are currently investing in security and surveillance systems to prevent damage and to minimise such damage, should it arise. Major risks that cannot be adequately minimised are identified by Company Management who will on a continuous basis ensure that appropriate insurance policies are taken out under the corporate global insurance programme administered by recognised and credit-rated insurance companies. The Group's insurance programme has deductible clauses in line with normal market terms. The Directors review the Company's insurance policies once a year, including coverage of any identified risks.

The Directors are regularly briefed on any developments in identified risks. The purpose of this reporting is to keep the Directors fully updated and enable them to take corrective action to minimise such risks.

# Corporate governance

William Demant Holding's Management (Board of Directors and Executive Board) considers corporate governance an ongoing process and regularly assesses whether amendments to the Company's Articles of Association or managerial processes are required. The Board of Directors currently considers the *Corporate Governance Recommendations 2005*, which are part of the disclosure requirements laid down by the *Copenhagen Stock Exchange Committee on Corporate Governance*, and determines the extent to which the Company should implement such recommendations. According to the recommendations, it is acceptable for a company to pursue a different approach to corporate governance from that recommended by the guidelines, provided the company publicly explains its decision not to comply with such guidelines, also known as the "comply-or-explain principle".

A complete review of the manner in which William Demant Holding complies with the corporate governance recommendations in accordance with the "comply-or-explain principle" is available on our website under *Corporate governance*.

## Shareholders' role and interaction with Management

William Demant Holding communicates currently with its shareholders through the annual general meeting, shareholder meetings, investor presentations, e-mail, telephone, website, webcasts, capital market days, the annual report and company announcements etc., and we strive to communicate both in Danish and in English.

The Company has one class of shares, and all shares are listed on OMX Nordic Exchange Copenhagen. In recent years, the Board of Directors has decided that any excess cash funds are to be used for the buy-back of shares for the purpose of writing down the share capital, if it is considered prudent and does not inhibit the Company's long-term development or credit rating.

As on 6 March 2008, the Company's principal shareholder, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation) holds 58% of the share capital and votes. The Oticon Foundation has a statute according to which the Foundation should always – directly or indirectly – seek to hold the majority of shares in the Company in order to limit any attempts at takeover.

## The role of stakeholders and their importance to the Company

Our *Mission statement* includes a description of our visions, strategies and goals. Moreover, our managerial policy builds on high standards of business conduct, including honesty, quality and fairness as well as accountability towards the environment and the community.

## Openness and transparency

Any information essential to shareholders and financial markets for their assessment of the Company and our activities is published as promptly as possible in compliance with the rules of the Danish Financial Supervisory Authority and the OMX.

We have chosen to present our website in English only as we believe that stakeholders seeking information from our website are familiar with this language. However, all documents that can be downloaded from the website are available in both Danish and English.

Apart from the requirements of the IFRS and other Danish accounting legislation, we have found that the publication of additional non-financial particulars, such as information relating to impact on the external environment, development of internal knowledge resources, ethical and social responsibilities and the working environment, is not expedient. Our opinion on these issues is integral to our *Mission statement*.

In compliance with the Danish Securities Trading Act, the Company publishes annual and interim reports. In the time span between publication of such reports, we have chosen to publish quarterly information rather than actual quarterly reports. In Management's opinion, actual quarterly reports will not enhance a better understanding of the Company's activities, as the quarterly information gives an adequate account of the important events and transactions which have taken place during the period in question. Furthermore, such information gives a general account of the Group and its financial position and results.

### Duties and responsibilities of the Board of Directors

The Board of Directors is responsible for the overall strategic management as well as the financial and managerial supervision of the Company, and it regularly evaluates the work of the Executive Board as for instance stated in the Annual Plan and Budget prepared for the Board of Directors. Its duties and responsibilities are determined through the rules of procedure for the Board of Directors and instructions to the Executive Board. Specific work and task descriptions for the Chairman and Deputy Chairman of the Board of Directors are incorporated into the rules of procedure for the Board of Directors.

### Composition of the Board of Directors

The Company has chosen not to publish a complete overview of the special competencies of the individual Directors that might be relevant to their duties as Directors, as we are of the opinion that such an overview would not adequately reflect their expertise.

Currently, the Board has eight Directors: five Directors elected by the general meeting and three Directors elected by staff in Denmark.

The majority of the Directors are shareholders of the Company. The Board of Directors has chosen not to specify the holding of shares in the Company held by the individual Director, as the Board is of the opinion that such information is not useful. Any changes in Directors' shareholdings are published in each instance and are at the same time reported to the Danish Financial Supervisory Authority. Such changes are also published on the Company's website.

None of the Directors elected by the general meeting has been employed with the Company or has (had) any attachment to or interest in the Company apart from the duty as Director and as shareholder.

Normally, the Company holds five ordinary Board meetings a year as well as extraordinary meetings if deemed necessary by the Executive Board or the Board of Directors. The general meeting elects the Company's Directors for a term of one year and the staff-elected Directors for a term of four years. Staff-elected Directors are elected in accordance with the provisions of the Danish Companies Act. A Director cannot be re-elected once he or she has reached the age of 70.

The Board of Directors does not use any formalised system of self-evaluation. The Chairman currently evaluates the work carried out by the Board, and it is the Board's opinion that the result of this evaluation is satisfactory.

### Board of Directors' and Executive Board's remuneration

Once a year, the Board of Directors assesses the remuneration paid to Directors and the Executive Board. The basis for the assessment is a competitive and reasonable level that will attract and retain the most suitable and competent candidates. Please also refer to *Incentive programmes* on page 19.

## Board committees

At present, no independent Board committees have been nominated as the Board of Directors finds that such committees are deemed unnecessary, given the Company's business activities and the size of the Board.

## Risk management

The Company operates in a stable market with a limited number of players. The risks to which the Company may be exposed are not likely to change materially in the short term. A description of all material risks is given in the Annual Plan and Budget for the Board of Directors. Please also see *Risk management activities* on page 24.

## Audit

The audit fee is agreed with the auditor prior to a financial year and is subject to approval by the chairmanship of the Board of Directors. The auditor may be asked to perform non-audit services. Such services are to be agreed with the Company's Executive Board in each case. If the fee in respect of non-audit services exceeds the ordinary audit fee, such fee is subject to approval by the Board of Directors.

## Amendments to articles of association

The adoption of a resolution to make amendments to articles other than those listed in s. 79 of the Danish Public Companies Act shall require that at least 51% of the share capital is represented at the general meeting, and that the resolution is approved by a two-thirds majority of the votes cast and of the represented share capital which is entitled to vote. Where 51% of the share capital is not represented at the general meeting, but two thirds of the votes cast and of the represented share capital which is entitled to vote have approved the proposal, the Board shall call an extraordinary general meeting within 14 days, at which meeting the proposal may be adopted by a two-thirds majority of the votes cast irrespective of the number of shares represented.

# Board of Directors and Executive Board

Ole Lundsgaard, Lars Nørby Johansen, Niels Jacobsen, Michael Pram Rasmussen, Niels Boserup, Peter Foss, Susanne Kold, Nils Smedegaard Andersen, Ivan Jørgensen.

## Board of Directors

**Lars Nørby Johansen (aged 58), Chairman**
*Falck A/S, chairman of the board of directors*
*Georg Jensen A/S, chairman of the board of directors*
*Stig Jørgensen & Partners A/S, chairman of the board of directors*
*DONG Energy A/S, deputy chairman of the board of directors*
*The Danish Growth Council, chairman*
*Lars Nørby Johansen joined the Board of Directors of the Company in 1998 and is considered an independent Director.*

**Niels Boserup (aged 64), Deputy Chairman**
*Øresundsinstituttet, chairman of the board of directors*
*Wonderful Copenhagen, deputy chairman of the board of directors*
*Birmingham International Airport Ltd., deputy chairman of the board of directors*
*Wemind A/S, director*
*Niels Boserup joined the Board of Directors of the Company in 1996. Due to his seat on the Board of Directors of the Company's principal shareholder, the Oticon Foundation, he is not considered an independent Director.*

**Nils Smedegaard Andersen (aged 49)**
*A.P. Møller - Mærsk A/S, Partner and Group CEO*
*Nils Smedegaard Andersen joined the Board of Directors of the Company in 2003 and is considered an independent Director.*

**Peter Foss (aged 51)**
*FOSS A/S, President & CEO*
*A.R. Holding af 1999 A/S, director*
*Peter Foss joined the Board of Directors of the Company in 2007 and is considered an independent Director.*

**Ivan Jørgensen (aged 40), PhD, Electronic Engineering**
*Oticon A/S, competence manager for IC design (analogue and RF)*
*Staff representative*
*Ivan Jørgensen joined the Board of Directors of the Company in 2005.*

**Susanne Kold (aged 46)**
*Oticon A/S, Thisted, shop steward for 3F members*
*3F Thy-Mors, director*
*Staff representative*
*Susanne Kold joined the Board of Directors of the Company in 2007.*

**Ole Lundsgaard (aged 38), Electronics Mechanic**
*Diagnostic Instruments, technical support specialist*
*Staff representative*
*Ole Lundsgaard joined the Board of Directors of the Company in 2003.*

**Michael Pram Rasmussen (aged 53)**
*A.P. Møller - Mærsk A/S, chairman of the board of directors*
*Coloplast A/S, chairman of the board of directors*
*Topdanmark A/S, chairman of the board of directors*
*Louisiana Museum of Modern Art, director*
*JPMorgan Chase International Council, member*
*Michael Pram Rasmussen joined the Board of Directors of the Company in 1999 and is considered an independent Director.*

## Executive Board

**Niels Jacobsen (aged 50), President & CEO**
*Niels Jacobsen joined the Company in 1992 as Executive Vice President and was appointed President & CEO in 1998.*
*A.P. Møller - Mærsk A/S, director*
*Novo Nordisk A/S, director*
*Directorships in a number of wholly and partly owned companies in the William Demant Group, including William Demant Invest A/S, Össur hf., Sennheiser Communications A/S, HIMPP A/S, HIMSA A/S and HIMSA II A/S.*

## Auditors

**Deloitte**
*Statsautoriseret Revisionsaktieselskab*

**KPMG C.Jespersen**
*Statsautoriseret Revisionsinteressentskab*

## Board meetings

During the year, the Board of Directors has convened on five occasions.

# Signatures

## Statement by Executive Board and Board of Directors

We have today presented the Annual Report 2007 for William Demant Holding A/S.

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

In our opinion, the accounting policies used are appropriate and the Annual Report gives a true and fair view of the Group's and the Parent's assets, liabilities and financial position, result and the Group's cash flows.

We present the Annual Report for approval at the general meeting.

*Smørum, 6 March 2008*

***Executive Board:***

Niels Jacobsen

***Board of Directors:***

| | |
|---|---|
| Lars Nørby Johansen<br>Chairman | Niels Boserup<br>Deputy Chairman |
| Nils Smedegaard Andersen | Peter Foss |
| Ivan Jørgensen | Susanne Kold |
| Ole Lundsgaard | Michael Pram Rasmussen |

## Independent auditor's report

**To the shareholders of William Demant Holding A/S**

We have audited the Annual Report of William Demant Holding A/S for the financial year 1 January-31 December 2007, which comprises Management's review, the statement by the Executive Board and the Board of Directors on the Annual Report, accounting policies, income statement, balance sheet, statement of changes in equity and notes for the Group as well as for the Parent and the consolidated statement of recognised income and expenses and cash flow statement. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent's financial statements have been prepared in accordance with the Danish Financial Statements Act. Further, the Annual Report has been prepared in accordance with the additional Danish disclosure requirements for annual reports of listed companies.

**The Executive Board's and Board of Directors' responsibility for the Annual Report**

The Executive Board and the Board of Directors are responsible for the preparation and fair presentation of this Annual Report in accordance with International Financial Reporting Standards as adopted by the EU (the Group), the Danish Financial Statements Act (the Parent), and additional Danish disclosure requirements for annual reports of listed companies. This responsibility includes: Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an annual report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility and basis of opinion**

Our responsibility is to express an opinion on this Annual Report based on our audit. We conducted our audit in accordance with Danish Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Annual Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the executive board and board of directors, as well as evaluating the overall presentation of the annual report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit did not result in any qualification.

**Opinion**

In our opinion, the Annual Report gives a true and fair view of the Group's financial position at 31 December 2007 and of the results of its operations and its cash flows for the financial year 1 January-31 December 2007 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

Further, in our opinion, the Annual Report gives a true and fair view of the Parent's financial position at 31 December 2007 and of the results of its operations for the financial year 1 January-31 December 2007 in accordance with the Danish Financial Statements Act, and additional Danish disclosure requirements for annual reports of listed companies.

*Copenhagen, 6 March 2008*

**Deloitte**
*Statsautoriseret Revisionsaktieselskab*

Anders Dons
*State-authorised Public Accountant*
*(Denmark)*

**KPMG C.Jespersen**
*Statsautoriseret Revisionsinteressentskab*

Finn L. Meyer
*State-authorised Public Accountant*
*(Denmark)*

# Accounting policies

**General**
The consolidated financial statements are presented in compliance with the International Financial Reporting Standards as adopted by the EU. The financial statements for the Parent are presented in accordance with the provisions of the Danish Financial Statements Act for class D entities. The Annual Report has been prepared in accordance with further Danish disclosure requirements for annual reports published by listed entities as formulated by the OMX Nordic Exchange Copenhagen as well as the IFRS order issued in compliance with the Danish Financial Statements Act.

The Parent's accounting policies on recognition and measurement are generally consistent with the Group's accounting policies. The instances in which the Parent's accounting policies deviate from those of the Group have been described below. To ensure uniform presentation the terminology used in the consolidated financial statements has as far as possible also been applied in the Parent's financial statements.

Effective as of 1 January 2007, the Group has implemented IFRS 7 (Financial Instruments: Disclosures), the amended standards IAS 1 (Presentation of Financial Statements), IAS 32 (Financial Instruments: Disclosure and Presentation) and IFRIC 7-10. The new accounting standards and interpretations have not caused any changes in the accounting policies, but solely affected the scope and nature of presentation and notes in the Annual Report and comparative figures.

Annual reporting figures are stated in Danish kroner (DKK) rounded to the nearest 1,000 DKK.

**Standards and interpretations not yet effective**
Amended standards (IAS 23 and 27 as well as IFRS 2, 3 and 8) and interpretations (IFRIC 11-14), published but not yet effective at the time of publication of the Annual Report, have not been incorporated into the Annual Report. In Management's opinion, any future implementation of these standards and interpretations will not materially affect the Annual Report.

**Accounting estimates and judgements**
Many accounting items can only be estimated rather than accurately measured. Such estimates are based on the most recent information available on preparation of the accounts. Estimates and assumptions are revalued on a current basis. Any changes in accounting estimates will be recognised in the accounting period in which such changes are made.

In connection with the practical application of the accounting policies, Management has made normal accounting estimates and judgements concerning development costs and business combinations as well as the valuation of long-term assets, inventories, receivables and payables.

It is the Group's opinion that the product development undertaken by the Group today cannot meaningfully be allocated to either the development of new products or to the further development of existing products. As the products are subject to various authority approvals, it is difficult to determine the final completion of new corporate products.

**Consolidation**
The consolidated financial statements comprise William Demant Holding A/S (the Parent) and the entities, in which the Parent holds more than 50% of voting rights, or in which in some other manner it can or actually does exercise a controlling interest. The consolidated financial statements have been prepared on the basis of the financial statements for the Parent and its subsidiaries by aggregating uniform items. Using proportionate consolidation, the consolidated financial statements also include entities, which by agreement are managed jointly with one or more entities. Intra-Group income, expenditure, shareholdings, accounts and dividends as well as non-realised intra-Group profits on inventories are eliminated.

Entities, in which the Group holds 20-50% of the voting rights or in some other manner can or actually does exercise a significant interest, are considered to be associates and have been incorporated proportionately into the consolidated financial statements using the equity method.

Newly acquired or newly established subsidiaries or associates are recognised in the consolidated financial statements from the time of acquisition or formation. Entities either divested or discontinued are recognised until the date of divestment or discontinuation. Comparative figures and financial highlights in respect of newly acquired entities have not been restated.

The accounting items of subsidiary companies are recognised 100% in the consolidated financial statements. The proportionate share of profits for the year of minority interests is included in consolidated profits for the year and as a separate portion of consolidated equity.

**Business combinations**
On acquiring new entities, the purchase method is applied, according to which the identified assets, liabilities and contingent liabilities of the acquired entities are measured at their fair values on acquisition. Any tax effects of revaluations will be taken into account.

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

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

On the purchase or sale of minority interests after gaining control, the effect hereof is recognised directly in equity, and no revaluation will be made of the acquired net assets. In the Parent's financial statements, such transactions are treated as additional purchases of shares in subsidiaries.

**Translation of foreign currency**
On initial recognition, transactions in foreign currency are translated at the exchange rates ruling on the transaction date. The functional currency and the presentation currency are the same in the consolidated financial statements. The functional currencies of foreign entities are determined by the economic environment in which such entities operate (normally the local currency).

Receivables, payables and other monetary items in foreign currency are translated into Danish kroner at their rates on the balance sheet date. Realised and non-realised exchange adjustments are recognised in the income statement under gross profit or financial items, depending on the purpose of the transaction.

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

For subsidiaries and associates presenting financial statements in foreign currency, income statement items are translated at the rates of exchange of the transaction date, whereas balance sheet items are translated at the rates on the balance sheet date.

Any exchange adjustments, arising from the translation at the beginning of the year of balance sheet items of foreign entities at the exchange rates on the balance sheet date and from the translation of income statement items from the rates of exchange of the transaction date to the rates of exchange on the balance sheet date, are recognised directly in equity. Any exchange adjustments resulting from changes made directly in the equity of a foreign entity are also recognised directly in equity.

Any exchange adjustments of intra-Group accounts considered additions to or deductions from the total investment in the particular entity are recognised directly in equity under foreign currency translation reserve.

**Derivative financial instruments**
Derivative financial instruments, primarily forward exchange contracts and interest rate swaps, are recognised from the transaction date and measured at their fair values in the balance sheet. Derivative financial instruments are recognised under other receivables and other payables, respectively.

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

Changes in fair values of derivative financial instruments, classified as and satisfying the conditions for effective hedging of future transactions, are recognised directly in equity. The ineffective portion is recognised in the income statement. On realisation of the hedged transactions, the accumulated changes will be recognised as part of the particular transactions from equity to the income statement. In the financial statements, purchase or sale of financial assets is recognised on the transaction date.

**Calculating fair values of financial instruments**
The fair values of financial instruments are calculated on the basis of current market data and recognised valuation methods.

**Employee shares**
The Group has employee share ownership plans, enabling employees to subscribe for shares in the Parent at a lower-than-market price. The fair value (gift element) is recognised as an expense under employee benefits on the grant date (in the Parent, with the deduction of re-invoiced benefits to subsidiaries). The item is set off directly against equity.

**Income statement**
Income and costs are recognised on an accruals basis. The income statement is broken down by function and all costs including depreciation expenses are therefore charged to production, distribution, administration or research and development.

*Revenue*
Revenue is recognised in the income statement on delivery and transfer of risk to buyer. Revenue from services including service packages and extended warranties is recognised on a straight-line basis in step with the delivery of such services.

Revenue is measured at fair value of the agreed consideration excluding charges. Discounts and returned goods are recognised in revenue.

Revenue from agency-like business is measured at the agency commission value.

*Production costs*
Production costs are costs paid to generate revenue. Commercial firms recognise cost of goods sold under production costs. Manufacturers recognise cost of raw materials, consumables and production staff as well as maintenance, depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets used in the production process under production costs.

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

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

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

*Net financials*
Net financials mainly consist of interest income and expenses.

They also include interest on financial leases, amortisation of financial assets and liabilities as well as certain realised and non-realised exchange gains or losses.

*Tax*
Tax on the year's profit includes current tax and any changes in deferred tax. Current tax includes tax payable computed on the basis of the estimated taxable income for the year and any prior-year tax adjustments. Tax on movements in equity is recognised directly in equity.

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

Deferred tax is recognised under the balance sheet liability method on all temporary differences between the tax base of assets and liabilities and the carrying amounts of such assets and liabilities. Deferred tax is computed on the basis of the tax rules and rates existing on the balance sheet date in the particular countries. Any effect on deferred tax due to changes in tax rates is reflected in tax on the year's profit, unless such deferred tax is attributable to items previously recognised directly in equity. If so, such change will also be recognised directly in equity. The tax base of a loss, which may be set off against any future taxable income, will be carried forward and set off against deferred tax in the same legal tax entity and jurisdiction. Any deferred tax assets are recognised at their expected realisable values.

Deferred tax on any temporary differences relating to investments in subsidiaries and associates is recognised, unless the Parent is able to control the time of realisation of such deferred tax, and it is probable that such deferred tax will not be released as current tax in the foreseeable future.

Deferred tax is recognised in respect of eliminations of intra-Group profits or losses.

The Parent is jointly taxed with its Danish subsidiaries and the Danish affiliated company William Demant Invest A/S. Current corporation tax is distributed among the jointly taxed Danish entities in proportion to their taxable incomes.

**Balance sheet**
*Intangible assets*
On initial recognition, goodwill is recognised and measured as the difference between the cost of the acquisition and the fair values of the assets acquired and of liabilities and contingent liabilities assumed, see Business combinations.

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

Goodwill is not amortised, but reviewed for impairment at least annually. If the recoverable amount of a cash-generating unit exceeds the carrying amounts of the property, plant and equipment and intangible assets, including goodwill, allocated to the cash-generating unit, such assets will be written down.

Goodwill acquired before 1 January 2002 was written off in equity at the time of acquisition.

Patents and licences acquired from a third party are measured at cost with the deduction of accumulated amortisation and impairment losses. Patents and licences are amortised over their estimated economic lives, maximum 20 years.

Other intangible assets, including intangible assets acquired in connection with a business combination, are measured at cost with the deduction of accumulated depreciation and impairment losses. Other intangible assets are depreciated on a straight-line basis over their estimated useful lives of 3-5 years. Intangible assets with non-definable useful lives are not depreciated, but tested annually for impairment.

*Property, plant and equipment*
Property, plant and equipment are recognised at cost with the deduction of accumulated depreciation and impairment losses. Cost is defined as the acquisition sum and costs directly relating to the acquisition. As regards assets produced by the Group, cost includes any costs directly attributable to the production of such assets, including materials, components, sub-suppliers and wages. Cost in respect of financially leased assets is calculated either as the fair value or the current value of future lease payments.

Interest expenses on loans for financing of the production of property, plant and equipment are recognised at cost, if they pertain to the manufacturing period. Other borrowing costs are recognised in the income statement.

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

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

The depreciation basis is cost less the estimated residual value of an asset after the end of its useful life. The residual value is determined at the time of acquisition and reviewed annually. If the residual value exceeds the carrying amount, depreciation will be discontinued.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives with the exception of land.

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

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

Property, plant and equipment are written down to their recoverable amounts, if lower than their carrying amounts.

**Impairment of property, plant and equipment and intangible assets**
The carrying amounts of property, plant and equipment and intangible assets with definite useful lives are reviewed on the balance sheet date to determine whether indicators suggest impairment. If so, the recoverable amount of the particular asset is calculated to determine the need for impairment, if any. The recoverable amounts of goodwill and other intangible assets with indefinite useful lives will be assessed whether or not there are indicators suggesting impairment.

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

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

Impairment losses are recognised in the income statement. On any subsequent reversal of impairment losses due to changes in the assumptions of the calculated recoverable amount, the carrying amount of an asset or cash-generating unit is increased to the adjusted estimate of the recoverable amount, however maximum to the carrying amount which such asset or cash-generating unit would have had, had it not been written down. Amortisation on goodwill is not reversed.

**Interests in subsidiaries and associates**
The Parent's investments in subsidiaries are measured on the basis of the equity method, i.e. such investments are recognised in the balance sheet at their proportionate values of net worth. The Parent's proportionate shares of profits after tax from subsidiaries are recognised in the income statement after the year's changes in non-realised intra-Group profits and with the deduction of depreciation and amortisation on goodwill, if any, acquired after 1 January 2002.

The accumulated net revaluation of investments in subsidiaries is retained in the Parent on distribution of profit under net revaluation according to the equity method under equity, unless prior to the next annual general meeting in the Parent, matching dividends have been paid by the subsidiaries.

Investments in associates are recognised on the same basis as investments in subsidiaries, however goodwill is not amortised on recognition of profit or loss for the year in the consolidated financial statements.

*Other securities and interests*
On initial recognition, other securities and interests are recognised at cost and subsequently measured at fair value. Non-realised value adjustments are recognised directly in equity. On realisation, value adjustments will be transferred to net financials in the income statement. In the Parent, non-realised value adjustments are recognised in the income statement.

*Inventories*
Raw materials, components and merchandise are measured at the lower of cost or net market price. Group-manufactured goods and work in progress are measured at direct cost, direct payroll and consumables as well as a proportionate share of indirect production costs. Indirect production costs include the proportionate share of capacity costs directly relating to finished goods or work in progress.

Inventories are measured at the lower of cost on a First-In-First-Out basis, i.e. the most recent supplies are considered to be in stock, or at net market price.

*Receivables*
Receivables are measured at cost on initial recognition and are subsequently adjusted at amortised cost. Provisions are made for bad debts based on an assessment of the particular risks using an impairment account.

*Assets held for sale*
Assets held for sale include long-term assets and disposal groups held for sale. Any liabilities relating to assets held for sale are liabilities directly associated with such assets. Assets are classified as "held for sale", if their carrying amounts will be recovered principally through a sale within 12 months.

Assets or disposal groups held for sale are measured at the lower of the carrying amount at the time of classification as "held for sale" or the fair value with deduction of costs to sell. Assets classified as "held for sale" are not depreciated or amortised.

Assets and any related liabilities are shown as line items in the balance sheet and the main items are specified in the notes. Any gains or losses are shown in the notes.

*Equity*
Foreign currency translation reserve includes any exchange differences on translation of accounts of foreign subsidiaries or associates from their respective functional currencies into Danish kroner. Exchange adjustments are recognised in the income statement on realisation of the net investment.

Hedging reserve includes fair value adjustments of financial instruments or loans satisfying the criteria for hedging of future transactions. The amounts are recognised in the income statement or the balance sheet in step with the recognition of the hedged transactions.

*Treasury shares and dividend*
On the purchase or sale of treasury shares, the acquisition cost or divestment sum is recognised directly in equity under distributable reserves. The reduction in capital on cancellation of treasury shares will reduce the share capital by an amount corresponding to the nominal value of such shares.

Proposed dividend is recognised as a separate item under equity until adoption at the annual general meeting, upon which such dividend will be recognised as a liability.

*Pension benefit plans and similar commitments*
The Group has pension benefit plans or similar commitments with a number of its employees. As regards defined contribution plans, the Group pays regular, fixed contributions to independent pension companies. Such contributions are recognised in the income statement in the period in which employees have performed work entitling them to contributions under a benefit plan. Contributions due are recognised in the balance sheet as a liability.

As regards defined benefit plans, an actuarial calculation is made on a periodical basis of the accrued value in use of future benefits payable under the benefit plan. The value in use is calculated on the basis of assumptions in respect of the future development in wage levels, interest rates and inflation rates. The value in use with deduction of the fair value of any assets attaching to the benefit plan is recognised in the balance sheet under provisions.

The annual pension costs are recognised in the income statement based on actuarial estimates and the financial forecasts at the beginning of the year. Any differences between the estimated development of pension assets and liabilities and the realised values are termed actuarial gains or losses and are recognised directly in equity. In the Parent, any actuarial gains or losses are recognised directly in the income statement.

Other long-term employee benefits are similarly recognised using actuarial computation. Actuarial gains or losses on such benefits are recognised directly in the income statement.

*Provisions*
Provisions are recognised, where as a result of an earlier event, the Group has a legal or actual liability and where the redemption of any such liability is likely to draw on corporate financial resources. Provisions are measured on a discounted basis of Management's best estimate of the amount at which the liability may be redeemed. The discount effect of any differences in current value of provisions in the financial year is recognised as a financial expense.

*Lease commitments*
Lease commitments concerning financially leased assets are recognised in the balance sheet as a liability and measured at the time of signing the particular lease agreement at the lower of the fair value of the leased asset or the current value of future lease payments. After initial recognition, lease liabilities are measured at amortised cost. The difference between the current value and the nominal value of lease payments is recognised in the income statement as a financial expense over the lease period.

Lease payments concerning operational lease agreements are recognised on a straight-line basis in the income statement over the lease period.

*Other financial liabilities*
Payables to credit institutions are recognised at their proceeds after deduction of borrowing costs. In subsequent periods, financial liabilities are measured at amortised cost for the difference between proceeds and nominal values to be recognised in the income statement under financial expenses over the term of the loan.

On initial recognition, other payables are measured at fair value and subsequently at amortised cost using the effective interest method for the difference between proceeds and nominal values to be recognised in the income statement under financial expenses over the term of the loan.

*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 generating cash and for movements in working capital.

Cash flows from investing activities include payments in respect of the acquisition or divestment of entities and other financial assets as well as the purchase, development, improvement or sale of intangible assets and property, plant and equipment.

Financial lease agreements are considered non-cash transactions. Cash flows relating to financially leased assets are recognised as payment of interest and instalments.

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

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

*Segmental information*
The William Demant Holding Group's activities are based on a single business segment, i.e. the development, manufacturing and sale of products and equipment designed to facilitate people's hearing and communication. Consequently, only geographic segmental information is provided.

The segmental information provided complies with the Group's internal financial management and risks. Segmental information includes items directly attributable to the individual segment as well as items reliably attributable to the various segments.

# Income statement

| PARENT | | (DKK – in thousands) | | GROUP | |
|---|---|---|---|---|---|
| 2006 | **2007** | Note | | **2007** | 2006 |
| 0 | **0** | 1 | **Revenue** | **5,488,296** | 5,085,055 |
| 0 | 0 | 2/3 | Production costs | -1,517,053 | -1,510,040 |
| 0 | **0** | | **Gross profit** | **3,971,243** | 3,575,015 |
| 0 | 0 | 2/3 | Research and development costs | -505,053 | -459,781 |
| 0 | 0 | 2/3 | Distribution costs | -1,725,916 | -1,513,277 |
| -46,362 | -33,105 | 2/3/4 | Administrative expenses | -474,642 | -334,441 |
| 0 | 0 | | Share of profit after tax, associates | 2,011 | 3,080 |
| 22,945 | 18,752 | | Income from subsidiaries | - | - |
| -23,417 | **-14,353** | | **Operating profit (EBIT)** | **1,267,643** | 1,270,596 |
| 927,436 | 925,841 | 10 | Share of profit after tax, subsidiaries | - | - |
| 28,528 | 28,559 | 5 | Financial income | 28,729 | 19,553 |
| -43,359 | -77,048 | 5 | Financial expenses | -125,593 | -80,932 |
| 889,188 | **862,999** | | **Profit before tax** | **1,170,779** | 1,209,217 |
| 8,806 | 21,015 | 6 | Tax on the year's profit | -276,300 | -308,471 |
| 897,994 | **884,014** | | **Net profit for the year** | **894,479** | 900,746 |
| | | | **Proposed distribution of net profit/Distribution of Group profit:** | | |
| 897,994 | 884,014 | | Retained earnings/Shareholders of William Demant Holding A/S | 894,479 | 900,746 |
| - | - | | Minority interests | 0 | 0 |
| 897,994 | **884,014** | | | **894,479** | 900,746 |
| | | 7 | Earnings per share (EPS), DKK | 14.8 | 14.4 |
| | | 7 | Diluted earnings per share (DEPS), DKK | 14.8 | 14.4 |

# Balance sheet at 31 December

| PARENT 2006 | PARENT 2007 | Note | Assets (DKK – in thousands) | GROUP 2007 | GROUP 2006 |
|---|---|---|---|---|---|
| 0 | 0 | | Goodwill | 222,517 | 86,713 |
| 0 | 0 | | Patents and licences | 5,725 | 7,334 |
| 0 | 0 | | Other intangible assets | 12,565 | 1,654 |
| **0** | **0** | 8 | **Intangible assets** | **240,807** | **95,701** |
| 24,590 | 24,409 | | Land and buildings | 561,252 | 505,863 |
| 0 | 0 | | Plant and machinery | 159,640 | 157,590 |
| 1,623 | 1,250 | | Other plant, fixtures and operating equipment | 171,495 | 192,261 |
| 0 | 0 | | Leasehold improvements | 70,909 | 39,873 |
| 0 | 0 | | Prepayments and property, plant and equipment in progress | 14,175 | 14,587 |
| **26,213** | **25,659** | 9 | **Property, plant and equipment** | **977,471** | **910,174** |
| 1,772,502 | 2,003,622 | 10 | Interests in subsidiaries | - | - |
| 0 | 0 | | Interests in associates | 1,496 | 2,925 |
| 415,953 | 369,845 | 10 | Receivables from subsidiaries | - | - |
| 3,477 | 5,524 | 10/17 | Other investments | 7,438 | 6,422 |
| 38,988 | 41,023 | 10/13/15/17 | Other receivables | 222,879 | 162,513 |
| 0 | 0 | 11 | Deferred tax assets | 134,589 | 112,661 |
| **2,230,920** | **2,420,014** | | **Other long-term assets** | **366,402** | **284,521** |
| **2,257,133** | **2,445,673** | | **Total long-term assets** | **1,584,680** | **1,290,396** |
| 0 | 0 | 12 | Inventories | 747,139 | 621,051 |
| 0 | 0 | 13/17 | Trade receivables | 1,106,954 | 901,559 |
| 7,386 | 7,344 | | Corporation tax | 41,494 | 36,605 |
| 2,033 | 106 | 13/17 | Other receivables | 23,513 | 33,076 |
| 2 | 26 | 17/18 | Unrealised gains on financial contracts | 19,760 | 6,190 |
| 582 | 111 | | Prepayments and accrued expenses | 51,026 | 47,797 |
| 0 | 0 | 15/17 | Cash | 151,188 | 135,130 |
| **10,003** | **7,587** | | **Short-term assets** | **2,141,074** | **1,781,408** |
| **-** | **-** | 25 | **Assets held for sale** | **0** | **62,700** |
| **10,003** | **7,587** | | **Total short-term assets** | **2,141,074** | **1,844,108** |
| **2,267,136** | **2,453,260** | | **Total assets** | **3,725,754** | **3,134,504** |

# Balance sheet at 31 December

| PARENT | | | **Liabilities** (DKK – in thousands) | | GROUP |
|---|---|---|---|---|---|
| 2006 | **2007** | Note | | **2007** | 2006 |
| 63,323 | 60,986 | | Share capital | 60,986 | 63,323 |
| 602,027 | 454,021 | | Other reserves | 365,125 | 607,478 |
| 665,350 | 515,007 | | William Demant Holding A/S' shareholders' share | 426,111 | 670,801 |
| - | - | | Minority interests | 8,674 | 0 |
| 665,350 | **515,007** | | **Total equity** | **434,785** | 670,801 |
| 57,719 | 50,000 | 15/17 | Interest-bearing debt | 515,049 | 595,390 |
| 4,975 | 4,704 | 11 | Deferred tax liabilities | 43,603 | 51,542 |
| 599,564 | 679,363 | | Payables to subsidiaries | - | - |
| 0 | 0 | 14 | Provisions | 120,993 | 31,711 |
| 662,258 | **734,067** | | **Long-term payables** | **679,645** | 678,643 |
| 734,574 | 891,193 | 15/17 | Interest-bearing debt | 1,623,306 | 1,060,927 |
| 0 | 0 | 17 | Trade payables | 232,338 | 180,609 |
| 0 | 0 | | Corporation tax | 28,986 | 19,316 |
| 195,860 | 300,135 | | Payables to subsidiaries | - | - |
| 0 | 0 | 14 | Provisions | 27,432 | 4,379 |
| 8,327 | 10,881 | 16/17 | Other payables | 592,363 | 425,800 |
| 0 | 0 | 17/18 | Unrealised losses on financial contracts | 2,009 | 0 |
| 767 | 1,977 | | Prepayments and accrued income | 104,890 | 94,029 |
| 939,528 | **1,204,186** | | **Short-term payables** | **2,611,324** | 1,785,060 |
| 1,601,786 | **1,938,253** | | **Total payables** | **3,290,969** | 2,463,703 |
| 2,267,136 | **2,453,260** | | **Total liabilities** | **3,725,754** | 3,134,504 |

19 Operating lease commitments
20 Contingent liabilities
21 Related parties
22 Government grants
23 Non-cash items
24 Acquisitions
25 Assets held for sale

## Cash flow statement

| (DKK – in thousands) | | | GROUP |
|---|---|---|---|
| | Note | 2007 | 2006 |
| Operating profit (EBIT) | | 1,267,643 | 1,270,596 |
| Non-cash items | 23 | 72,215 | 154,711 |
| Change in receivables etc. | | -177,698 | -81,012 |
| Change in inventories | | -132,733 | -750 |
| Change in trade payables and other payables etc. | | 112,627 | 13,254 |
| Change in provisions | | 113,405 | -590 |
| **Cash flow excluding net financials and corporation tax** | | **1,255,459** | 1,356,209 |
| Financial income etc. received | 5 | 17,795 | 19,553 |
| Financial expenses etc. paid | 5 | -125,593 | -80,932 |
| Corporation tax paid | | -299,255 | -330,761 |
| **Cash flow from operating activities (CFFO)** | | **848,406** | **964,069** |
| Acquisitions | 24 | -80,423 | -27,996 |
| Investment in intangible assets | | -2,707 | -7,422 |
| Investment in property, plant and equipment | 23 | -185,864 | -222,384 |
| Disposal of property, plant and equipment | | 20,317 | 14,471 |
| Purchase and disposal of assets held for sale | | 122,416 | -62,700 |
| Investments in other long-term assets | | -89,303 | -63,968 |
| Disposal of other long-term assets | | 43,038 | 38,973 |
| **Cash flow from investing activities (CFFI)** | | **-172,526** | **-331,026** |
| Repayment on long-term payables | | -173,410 | -107,009 |
| Proceeds from borrowings | 23 | 0 | 58,072 |
| Proceeds from capital increase relating to employee share ownership plan | | 0 | 23,855 |
| Buy-back of shares | | -992,848 | -993,155 |
| Other adjustments | | -2,728 | 2,993 |
| **Cash flow from financing activities (CFFF)** | | **-1,168,986** | **-1,015,244** |
| **Cash flow for the year, net** | | **-493,106** | **-382,201** |
| Net cash and cash equivalents at the beginning of the year | | -907,385 | -524,253 |
| Foreign currency adjustment of net cash and cash equivalents | | -1,261 | -931 |
| **Net cash and cash equivalents at the end of the year** | | **-1,401,752** | **-907,385** |
| **Breakdown of net cash and cash equivalents at the end of the year:** | | | |
| Cash | 15 | 151,188 | 135,130 |
| Interest-bearing, short-term bank debt | 15 | -1,552,940 | -1,042,515 |
| **Net cash and cash equivalents at the end of the year** | | **-1,401,752** | **-907,385** |

# Statement of changes in equity

| PARENT | | | | | (DKK – in thousands) |
|---|---|---|---|---|---|
| | Share capital | Other reserves | | | Total equity |
| | | Foreign currency translation reserve | Hedging reserve | Retained earnings | |
| **Equity at 1.1.2006** | **65,569** | **-116,036** | **-291** | **804,528** | **753,770** |
| Net profit for the year | - | - | - | 897,994 | 897,994 |
| Foreign currency adjustment of investments in subsidiaries etc. | - | -4,536 | - | - | -4,536 |
| Other movements in equity in subsidiaries | - | - | - | -53,088 | -53,088 |
| Value adjustment of hedging instruments | - | - | 434 | - | 434 |
| Tax related to changes in equity | - | 6,397 | -141 | 0 | 6,256 |
| Reduction of share capital through cancellation of treasury shares | -2,385 | - | - | 2,385 | 0 |
| Gift element related to employee share ownership plan | - | - | - | 33,820 | 33,820 |
| Capital increase related to employee share ownership plan | 139 | - | - | 23,716 | 23,855 |
| Buy-back of shares | - | - | - | -993,155 | -993,155 |
| **Equity at 31.12.2006** | **63,323** | **-114,175** | **2** | **716,200** | **665,350** |
| Net profit for the year | - | - | - | 884,014 | 884,014 |
| Foreign currency adjustment of investments in subsidiaries etc. | - | -5,196 | - | - | -5,196 |
| Other movements in equity in subsidiaries | - | - | - | -40,068 | -40,068 |
| Value adjustment of hedging instruments | - | - | 24 | - | 24 |
| Tax related to changes in equity | - | 3,738 | -7 | - | 3,731 |
| Reduction of share capital through cancellation of treasury shares | -2,337 | - | - | 2,337 | 0 |
| Buy-back of shares | - | - | - | -992,848 | -992,848 |
| **Equity at 31.12.2007** | **60,986** | **-115,633** | **19** | **569,635** | **515,007** |

At year-end 2007, the share capital was nominally DKK 60,986,527 (DKK 63,323,202 in 2006) divided into the corresponding number of shares of DKK 1. There are no restrictions on the negotiability or voting rights of the shares. At year-end 2007, the number of shares on the market was 59,580,157 (61,603,977 in 2006), the Company's holding of treasury shares being 1,406,370 (1,719,225 in 2006).

| | **2007** | | **2006** | |
|---|---|---|---|---|
| | Treasury shares (1.000 shares) | Percentage of share capital | Treasury shares (1.000 shares) | Percentage of share capital |
| **Holding of treasury shares:** | | | | |
| Treasury shares at 1.1. | 1,719 | 2.7% | 1,782 | 2.7% |
| Buy-back of shares | 2,024 | 3.3% | 2,322 | 3.7% |
| Used for capital reduction during the year | -2,337 | -3.7% | -2,385 | -3.7% |
| **Treasury shares at 31.12.** | **1,406** | **2.3%** | 1,719 | 2.7% |

On buy-back of shares, the acquisition cost is recognised in retained earnings under equity.

The Company's share buy-back programme continued in 2007. The Company acquired a total of 2,023,820 shares (2,321,925 in 2006) at an amount of DKK 993 million (DKK 993 million in 2006). No dividend was distributed in 2006 and 2007.

# Recognised income and expenses

GROUP (DKK – in thousands)

| | 2007 | 2006 |
|---|---|---|
| Foreign currency translation, foreign companies etc. | -31,674 | -4,783 |
| Value adjustment of hedging instruments: | | |
| Transferred to revenue | -31,027 | -23,640 |
| Transferred to production costs | -2,689 | -21,946 |
| Value adjustment for the year | 14,250 | 5,038 |
| Value adjustment of other investments | 1,034 | 0 |
| Actuarial gains/(losses) on defined benefit plans | 1,657 | -8,738 |
| Tax relating to above items | 3,934 | 3,135 |
| **Income and expenses recognised directly in equity** | **-44,515** | **-50,934** |
| Net profit for the year | 894,479 | 900,746 |
| **Total recognised income and expenses** | **849,964** | **849,812** |

| | 2007 | 2006 |
|---|---|---|
| **Distribution:** | | |
| Shareholders of William Demant Holding A/S | 852,969 | 849,812 |
| Minority interests | -3,005 | 0 |
| | 849,964 | 849,812 |

| GROUP | | | | | | | (DKK – in thousands) |
|---|---|---|---|---|---|---|---|
| | Share capital | Other reserves | | | William Demant Holding A/S' shareholders' share | Minority interests | Total equity |
| | | Foreign currency translation reserve | Hedging reserve | Retained earnings | | | |
| **Equity at 1.1.2006** | 65,569 | -36,908 | 137,033 | 590,775 | 756,469 | 0 | 756,469 |
| Total recognised income and expenses | - | -1,440 | -42,449 | 893,701 | 849,812 | - | 849,812 |
| Reduction of share capital through cancellation of treasury shares | -2,385 | - | - | 2,385 | 0 | - | 0 |
| Gift element related to employee share ownership plan | - | - | - | 33,820 | 33,820 | - | 33,820 |
| Capital increase related to employee share ownership plan | 139 | - | - | 23,716 | 23,855 | - | 23,855 |
| Buy-back of shares | - | - | - | -993,155 | -993,155 | - | -993,155 |
| **Equity at 31.12.2006** | 63,323 | -38,348 | 94,584 | 551,242 | 670,801 | 0 | 670,801 |
| Additions relating to acquisitions | - | - | - | - | - | 29,034 | 29,034 |
| Total recognised income and expenses | - | -22,509 | -22,232 | 897,710 | 852,969 | -3,005 | 849,964 |
| Reduction of share capital through cancellation of treasury shares | -2,337 | - | - | 2,337 | 0 | - | 0 |
| Buy-back of shares | - | - | - | -992,848 | -992,848 | - | -992,848 |
| Addition of minority interests | - | - | - | -107,796 | -107,796 | -17,355 | -125,151 |
| Other changes | - | - | - | 2,985 | 2,985 | - | 2,985 |
| **Equity at 31.12.2007** | **60,986** | **-60,857** | **72,352** | **353,630** | **426,111** | **8,674** | **434,785** |

# Statement of changes in equity

# Notes

## Note 1 – Geographical segment information (DKK – in thousands)

GROUP

Consolidated revenues mainly derive from the sale of goods.

Transfers between segments are settled on market terms.

Revenues are broken down by customers' geographical location, assets and acquisitions of assets by the physical location of such assets.

| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| | Revenue | | Assets | | Investment in intangible assets and property, plant and equipment | |
| Europe | 2,804,317 | 2,571,429 | 2,369,930 | 2,006,916 | 212,124 | 226,639 |
| North America | 1,783,217 | 1,690,058 | 898,078 | 684,618 | 123,675 | 21,736 |
| Pacific Rim | 403,622 | 334,509 | 201,955 | 220,428 | 1,880 | 10,442 |
| Asia | 291,000 | 303,720 | 115,735 | 111,683 | 56,123 | 4,294 |
| Other countries | 206,140 | 185,339 | 140,056 | 110,859 | 4,296 | 6,455 |
| **Total** | **5,488,296** | 5,085,055 | **3,725,754** | 3,134,504 | **398,098** | 269,566 |

## Note 2 – Employees (DKK – in thousands)

PARENT | GROUP

The Executive Board's contract includes a termination clause and a severance clause, both of which are in line with normal market terms.

In 2007, the basic remuneration for a Director in the Parent is DKK 200,000 (DKK 200,000 in 2006). The Chairman of the Board receives three times the basic remuneration and the Deputy Chairman receives twice the basic remuneration. Five Directors also serve on the Board of our subsidiary Oticon A/S, where the basic remuneration is DKK 50,000 (DKK 50,000 in 2006).

In relation to the employee share ownership plan in 2006, the Executive Board subscribed for 3,849 shares at a price of 200. No employee shares were issued in 2007. For further information, please see *Incentive programmes* on page 19.

| Parent 2006 | Parent 2007 | | Group 2007 | Group 2006 |
|---|---|---|---|---|
| | | **Employee benefits:** | | |
| 18,364 | 19,728 | Wages and salaries | 1,650,789 | 1,491,639 |
| 203 | 422 | Defined contribution plans | 29,844 | 26,862 |
| - | - | Defined benefit plans (note 14) | 4,265 | 3,854 |
| 40 | 94 | Social security costs etc. | 136,768 | 130,622 |
| 1,290 | 0 | Gift element related to employee share ownership plan | 0 | 33,820 |
| 19,897 | **20,244** | **Total** | **1,821,666** | 1,686,797 |
| | | **Of which cash remuneration for Executive Board and Board of Directors:** | | |
| 7,397 | 8,482 | Executive Board, salary | 8,482 | 7,397 |
| 0 | 0 | Executive Board, bonus and pension | 0 | 0 |
| 2,000 | 2,200 | Remuneration for Directors | 2,650 | 2,400 |

| PARENT | | Note 2 – Employees – continued (DKK – in thousands) | | GROUP |
|---|---|---|---|---|
| 2006 | 2007 | | 2007 | 2006 |
| | | **Breakdown by function of employee benefits:** | | |
| 0 | 0 | Production costs | 502,948 | 524,241 |
| 0 | 0 | Research and development costs | 248,951 | 221,909 |
| 0 | 0 | Distribution costs | 838,142 | 724,482 |
| 19,897 | 20,244 | Administrative expenses | 231,625 | 216,165 |
| 19,897 | 20,244 | Total | 1,821,666 | 1,686,797 |
| 9 | 10 | Average number of full-time employees* | 5,072 | 4,797 |

*The number of employees in proportionately consolidated companies is included in Group staff with the Group's percentage interest in the particular companies. The average number of such employees is 484 (557 in 2006), the William Demant Holding Group accounting for 246 (280 in 2006).

| PARENT | | Note 3 – Amortisation, depreciation and impairment losses (DKK – in thousands) | | GROUP |
|---|---|---|---|---|
| 2006 | 2007 | | 2007 | 2006 |
| 0 | 0 | Amortisation on intangible assets | -3,488 | -9,054 |
| -501 | -458 | Depreciation on property, plant and equipment | -143,476 | -135,500 |
| -501 | -458 | Total | -146,964 | -144,554 |
| | | **Breakdown by function of amortisation and depreciation:** | | |
| 0 | 0 | Production costs | -45,067 | -47,293 |
| 0 | 0 | Research and development costs | -39,615 | -41,151 |
| 0 | 0 | Distribution costs | -47,260 | -43,311 |
| -501 | -458 | Administrative expenses | -15,022 | -12,799 |
| -501 | -458 | Total | -146,964 | -144,554 |
| 0 | 0 | Gain on sale of property held for sale | 59,093 | 0 |
| 127 | 74 | Gain on sale of other assets, net | 10,024 | 1,261 |
| 127 | 74 | Total | 69,117 | 1,261 |
| | | **Breakdown by function of gain on sale of assets, net:** | | |
| 0 | 0 | Production costs | 59,492 | 102 |
| 0 | 0 | Research and development costs | -620 | 130 |
| 0 | 0 | Distribution costs | 2,981 | 655 |
| 127 | 74 | Administrative expenses | 7,264 | 374 |
| 127 | 74 | Total | 69,117 | 1,261 |

There has not been any impairment of intangible assets or property, plant and equipment in 2007 or 2006.

| PARENT | | Note 4 – Fee for auditors elected by the general meeting (DKK – in thousands) | | GROUP |
|---|---|---|---|---|
| 2006 | 2007 | | 2007 | 2006 |
| | | **Fees for Deloitte:** | | |
| 475 | 500 | Audit | 2,769 | 4,166 |
| 703 | 716 | Other services | 2,352 | 2,553 |
| | | **Fees for KPMG:** | | |
| 475 | 500 | Audit | 4,372 | 4,235 |
| 312 | 0 | Other services | 2,216 | 2,211 |
| 1,965 | **1,716** | **Total** | **11,709** | 13,165 |

A few Group companies are not audited by auditors elected by shareholders at the annual general meeting.

| PARENT | | Note 5 – Net financials (DKK – in thousands) | | GROUP |
|---|---|---|---|---|
| 2006 | 2007 | | 2007 | 2006 |
| 24,634 | 21,643 | Interest income from subsidiaries | - | - |
| 2,231 | 1,917 | Interest income | 23,399 | 17,890 |
| 1,663 | 4,983 | Foreign exchange gains, net | 4,983 | 1,663 |
| 0 | 16 | Gains on derivative financial instruments, net | 347 | 0 |
| 28,528 | **28,559** | **Financial income** | **28,729** | 19,553 |
| -24,200 | -33,828 | Interest expenses to subsidiaries | - | - |
| -19,140 | -43,205 | Interest expenses | -102,509 | -65,288 |
| 0 | -15 | Transaction costs | -23,084 | -15,625 |
| -19 | 0 | Foreign exchange losses, net | 0 | -19 |
| -43,359 | **-77,048** | **Financial expenses** | **-125,593** | -80,932 |

Interest income and expenses are related to items measured at amortised cost.

| PARENT 2006 | PARENT 2007 | Note 6 – Tax (DKK – in thousands) | GROUP 2007 | GROUP 2006 |
|---|---|---|---|---|
| | | **Tax on the year's profit:** | | |
| 9,099 | 15,832 | Current tax on net profit for the year | -323,138 | -318,368 |
| -464 | 4,912 | Adjustment of current tax for previous years | 8,300 | 7,186 |
| -327 | 96 | Change in deferred tax | 46,395 | 2,587 |
| 498 | -86 | Adjustment of deferred tax for previous year | -8,465 | 124 |
| - | 261 | Adjustment of deferred tax at the beginning of the year resulting from a reduction of corporation tax rates | 608 | 0 |
| 8,806 | **21,015** | **Total** | **-276,300** | -308,471 |

| | GROUP 2007 | GROUP 2006 |
|---|---|---|
| **Reconciliation of tax rates:** | | |
| Danish tax rate | 25.0% | 28.0% |
| Differences in tax rates of non-Danish companies from Danish tax rate | 0.4% | -1.1% |
| Use of not previously recognised tax assets | -2.2% | -2.1% |
| Write-down on tax assets | 0.7% | 1.9% |
| Permanent differences | -0.4% | -0.6% |
| Other items, including adjustments related to previous years | 0.1% | -0.6% |
| **Effective tax rate** | **23.6%** | 25.5% |

| Note 7 – Earnings per share | GROUP 2007 | GROUP 2006 |
|---|---|---|
| William Demant Holding A/S' shareholders' share of net profit for the year, DKK 1,000 | 894,479 | 900,746 |
| Average number of shares | 61,556,292 | 63,785,076 |
| Average number of treasury shares | -938,026 | -1,030,686 |
| **Average number of shares on the market** | **60,618,266** | 62,754,390 |
| **Earnings per share (EPS), DKK** | **14.8** | 14.4 |
| **Diluted earnings per share (DEPS), DKK** | **14.8** | 14.4 |

Impairment testing is carried out annually in preparation of the annual report. On impairment testing, discounted values of future cash flows are compared with the book values.

Group companies co-operate closely on research and development, purchasing and production as well as marketing and sale, where the use of resources in the individual markets is co-ordinated and monitored by Management in Denmark. The Group companies are therefore highly integrated. Consequently, Management considers the overall business as one cash-generating unit.

Certain business activities, which to a higher degree act with more autonomy in relation to the Group, and whose profitability can be measured independently of the other activities, will constitute a separate cash-generating unit. With the existing integration in the Group and recognised goodwill at 31 December 2007 and 31 December 2006, no separate cash-generating units have been identified to which goodwill can be allocated. The annual impairment test was thus based on the Group as a whole.

Based on the impairment test, there was no indication to suggest impairment of goodwill at 31 December 2007 and 31 December 2006.

Future cash flows are based on the budget for 2008, strategic plans and projections hereof. Projections extending beyond 2009 are based on general parameters. The terminal value for the period after 2009 is determined on the assumption of 2% growth (2% in 2006). The discount rate is 8% (8% in 2006).

Apart from goodwill, all intangible assets have definite lives.

## **Note 8 – Intangible assets** (DKK – in thousands) GROUP

| | Goodwill | Patents and licences | Other intangible assets | Total intangible assets |
|---|---|---|---|---|
| Cost at 1.1.2006 | 54,342 | 27,230 | 0 | 81,572 |
| Foreign currency adjustments | -812 | -29 | 0 | -841 |
| Additions during the year | 0 | 6,678 | 744 | 7,422 |
| Additions relating to acquisitions | 33,183 | 0 | 945 | 34,128 |
| **Cost at 31.12.2006** | **86,713** | **33,879** | **1,689** | **122,281** |
| Amortisation at 1.1.2006 | - | -17,555 | 0 | -17,555 |
| Foreign currency adjustments | - | 29 | 0 | 29 |
| Amortisation for the year | - | -9,019 | -35 | -9,054 |
| **Amortisation at 31.12.2006** | **-** | **-26,545** | **-35** | **-26,580** |
| **Carrying amount at 31.12.2006** | **86,713** | **7,334** | **1,654** | **95,701** |
| Cost at 1.1.2007 | 86,713 | 33,879 | 1,689 | 122,281 |
| Foreign currency adjustments | -7,193 | -26 | -1,261 | -8,480 |
| Additions during the year | 0 | 1,424 | 1,283 | 2,707 |
| Additions relating to acquisitions | 142,129 | 10 | 5,775 | 147,914 |
| Disposals during the year | 0 | -218 | 0 | -218 |
| Other changes | 868 | 0 | 5,548 | 6,416 |
| **Cost at 31.12.2007** | **222,517** | **35,069** | **13,034** | **270,620** |
| Amortisation at 1.1.2007 | - | -26,545 | -35 | -26,580 |
| Foreign currency adjustments | - | 35 | 2 | 37 |
| Amortisation for the year | - | -3,052 | -436 | -3,488 |
| Disposals during the year | - | 218 | 0 | 218 |
| **Amortisation at 31.12.2007** | **-** | **-29,344** | **-469** | **-29,813** |
| **Carrying amount at 31.12.2007** | **222,517** | **5,725** | **12,565** | **240,807** |

PARENT — **Note 9 – Property, plant and equipment** (DKK – in thousands) — GROUP

| Land and buildings (Parent) | Other plant, fixtures and operating equipment (Parent) | Total property, plant and equipment (Parent) | | Land and buildings | Plant and machinery | Other plant, fixtures and operating equipment | Leasehold improvements | Prepayments and property, plant and equipment in progress | Total property, plant and equipment |
|---|---|---|---|---|---|---|---|---|---|
| 30,407 | 1,276 | 31,683 | Cost at 1.1.2006 | 562,921 | 395,665 | 456,932 | 72,871 | 7,578 | 1,495,967 |
| - | - | - | Foreign currency adjustments | -3,133 | -4,422 | -9,289 | -2,287 | -21 | -19,152 |
| 0 | 1,571 | 1,571 | Additions during the year | 15,206 | 69,911 | 85,556 | 19,048 | 14,489 | 204,210 |
| 0 | 0 | 0 | Additions relating to acquisitions | 0 | 103 | 3,436 | 2,093 | 0 | 5,632 |
| 0 | -808 | -808 | Disposals during the year | -1,596 | -11,441 | -31,528 | -1,454 | -365 | -46,384 |
| 0 | 0 | 0 | Transferred to/from other items | 0 | 7,080 | 15 | -1 | -7,094 | 0 |
| **30,407** | **2,039** | **32,446** | **Cost at 31.12.2006** | **573,398** | **456,896** | **505,122** | **90,270** | **14,587** | **1,640,273** |
| -5,637 | -742 | -6,379 | Depreciation and impairment losses at 1.1.2006 | -59,345 | -257,402 | -276,718 | -46,262 | - | -639,727 |
| - | - | - | Foreign currency adjustments | 1,324 | 2,215 | 6,050 | 1,416 | - | 11,005 |
| -180 | -320 | -500 | Depreciation for the year | -9,700 | -52,930 | -66,119 | -5,802 | - | -134,551 |
| 0 | 646 | 646 | Disposals during the year | 186 | 8,806 | 23,932 | 250 | - | 33,174 |
| 0 | 0 | 0 | Transferred to/from other items | 0 | 5 | -6 | 1 | - | 0 |
| **-5,817** | **-416** | **-6,233** | **Depreciation and impairment losses at 31.12.2006** | **-67,535** | **-299,306** | **-312,861** | **-50,397** | **-** | **-730,099** |
| **24,590** | **1,623** | **26,213** | **Carrying amount at 31.12.2006** | **505,863** | **157,590** | **192,261** | **39,873** | **14,587** | **910,174** |
| 30,407 | 2,039 | 32,446 | Cost at 1.1.2007 | 573,398 | 456,896 | 505,122 | 90,270 | 14,587 | 1,640,273 |
| - | - | - | Foreign currency adjustments | -5,377 | -3,165 | -9,053 | -492 | 11 | -18,076 |
| 0 | 0 | 0 | Additions during the year | 64,219 | 52,788 | 69,003 | 19,947 | 17,510 | 223,467 |
| 0 | 0 | 0 | Additions relating to acquisitions | 0 | 1,515 | 5,481 | 888 | 0 | 7,884 |
| 0 | -385 | -385 | Disposals during the year | 0 | -12,310 | -38,408 | -9,432 | -370 | -60,520 |
| 0 | 0 | 0 | Transferred to/from other items | 5,059 | -11,784 | -10,729 | 35,017 | -17,563 | 0 |
| **30,407** | **1,654** | **32,061** | **Cost at 31.12.2007** | **637,299** | **483,940** | **521,416** | **136,198** | **14,175** | **1,793,028** |
| -5,817 | -416 | -6,233 | Depreciation and impairment losses at 1.1.2007 | -67,535 | -299,306 | -312,861 | -50,397 | - | -730,099 |
| - | - | - | Foreign currency adjustments | 1,929 | 2,855 | 2,455 | 552 | - | 7,791 |
| -181 | -277 | -458 | Depreciation for the year | -10,441 | -53,249 | -66,746 | -13,040 | - | -143,476 |
| 0 | 289 | 289 | Disposals during the year | 0 | 10,797 | 30,495 | 8,935 | - | 50,227 |
| 0 | 0 | 0 | Transferred to/from other items | 0 | 14,603 | -3,264 | -11,339 | - | 0 |
| **-5,998** | **-404** | **-6,402** | **Depreciation and impairment losses at 31.12.2007** | **-76,047** | **-324,300** | **-349,921** | **-65,289** | **-** | **-815,557** |
| **24,409** | **1,250** | **25,659** | **Carrying amount at 31.12.2007** | **561,252** | **159,640** | **171,495** | **70,909** | **14,175** | **977,471** |
| **0** | **0** | **0** | **Of which financially leased assets** | **59,377** | **0** | **1,055** | **0** | **0** | **60,432** |

At 1 January 2007, the public assessment of land and buildings in Denmark amounted to DKK 298 million (DKK 279 million in 2006) with a carrying amount of DKK 431 million (DKK 432 million in 2006).

Group land and buildings at a carrying amount of DKK 354 million (DKK 361 million in 2006) have been provided in security of a mortgage debt of DKK 192 million (DKK 199 million in 2006).

Under land and buildings, capitalised interest as regards the property Kongebakken 9 at Smørum, Denmark, is recognised at a total of DKK 5.9 million (DKK 5.9 million in 2006), with accumulated depreciation of DKK 0.3 million (DKK 0.2 million in 2006).

Financial leases mainly concern properties acquirable at favourable prices on expiry of the term of such leases.

At year-end, the contractual obligation as regards property, plant and equipment amounted to DKK 0 million (DKK 0 million in 2006).

Neither in 2007 nor in 2006, have changes been made of material estimates in respect of property, plant and equipment.

As regards buildings acquired and held for sale, reference is made to note 25.

PARENT

**Note 10 – Other long-term assets** (DKK – in thousands)

| Interests in subsidiaries | Receivables from subsidiaries | Other investments | Other receivables | |
|---|---|---|---|---|
| 1,407,301 | 455,799 | 301 | 37,511 | Cost at 1.1.2006 |
| - | -42,668 | - | - | Foreign currency adjustments |
| 30,849 | 32,931 | 0 | 1,477 | Additions during the year |
| -2,567 | -30,109 | 0 | 0 | Disposals during the year |
| **1,435,583** | **415,953** | **301** | **38,988** | **Cost at 31.12.2006** |
| -7,563 | - | 2,817 | - | Value changes at 1.1.2006 |
| 18,063 | - | - | - | Foreign currency adjustments |
| 927,436 | - | - | - | Share of profit after tax |
| -548,179 | - | - | - | Dividends received |
| -52,838 | - | 359 | - | Other changes |
| **336,919** | **-** | **3,176** | **-** | **Value changes at 31.12.2006** |
| **1,772,502** | **415,953** | **3,477** | **38,988** | **Carrying amount at 31.12.2006** |

PARENT

**Note 10 – Other long-term assets** – continued (DKK – in thousands)

| Interests in subsidiaries | Receivables from subsidiaries | Other investments | Other receivables | |
|---|---|---|---|---|
| 1,435,583 | 415,953 | 301 | 38,988 | Cost at 1.1.2007 |
| - | -40,758 | - | - | Foreign currency adjustments |
| 76,465 | 522 | 0 | 2,035 | Additions during the year |
| 0 | 0 | 0 | 0 | Additions relating to acquisitions |
| 0 | -5,872 | 0 | 0 | Disposals during the year |
| **1,512,048** | **369,845** | **301** | **41,023** | **Cost at 31.12.2007** |
| | | | | |
| 336,919 | - | 3,176 | - | Value changes at 1.1.2007 |
| -7,962 | - | - | - | Foreign currency adjustments |
| 925,841 | - | - | - | Share of profit after tax |
| -740,350 | - | - | - | Dividends received |
| -22,874 | - | 2,047 | - | Other changes |
| **491,574** | **-** | **5,223** | **-** | **Value changes at 31.12.2007** |
| | | | | |
| **2,003,622** | **369,845** | **5,524** | **41,023** | **Carrying amount at 31.12.2007** |

The carrying amount of interests in subsidiaries includes capitalised goodwill in the net amount of DKK 53.0 million (DKK 28.9 million in 2006). Amortisation of goodwill for the year is DKK 1.4 million (DKK 0.5 million in 2006).

| PARENT | | Note 11 – Deferred tax (DKK – in thousands) | GROUP | |
|---|---|---|---|---|
| 2006 | 2007 | | 2007 | 2006 |
| | | **Deferred tax is recognised in the balance sheet as follows:** | | |
| 0 | 0 | Deferred tax assets | 134,589 | 112,661 |
| -4,975 | -4,704 | Deferred tax liabilities | -43,603 | -51,542 |
| -4,975 | **-4,704** | **Deferred tax, net at 31.12.** | **90,986** | 61,119 |
| -5,146 | -4,975 | Deferred tax, net at 1.1. | 61,119 | 64,968 |
| - | - | Foreign currency adjustments | -4,972 | -4,395 |
| -327 | 96 | Change in deferred tax | 46,395 | 26 |
| - | - | Additions relating to acquisitions | 771 | 3,461 |
| 498 | -86 | Adjustment of deferred tax for previous years | -8,465 | -1,458 |
| 0 | 261 | Adjustment of deferred tax at the beginning of the year due to reduction of corporation tax rates | 608 | 0 |
| 0 | 0 | Deferred tax related to changes in equity, net | -2,480 | -1,483 |
| 0 | 0 | Other changes | -1,990 | 0 |
| -4,975 | **-4,704** | **Deferred tax, net at 31.12.** | **90,986** | 61,119 |

The tax base of deferred tax assets not recognised is DKK 33.3 million (DKK 60.0 million in 2006) and relates mainly to tax losses. The provision is due to considerable uncertainty concerning the use of the above tax assets. The tax losses will not expire in the near future.

Any sale of shares in subsidiaries and associates at the balance sheet date is expected to result in tax in the amount of DKK 0 million (DKK 0 million in 2006).

**Breakdown of the Group's temporary differences and changes:**

| | Temporary differences at 1.1.2007 | Foreign currency adjustments | Recognised in profit for the year | Recognised in equity | Additions relating to acquisitions | Other changes | Temporary differences at 31.12.2007 |
|---|---|---|---|---|---|---|---|
| Intangible assets | -1,220 | -34 | -8,099 | 0 | -1,973 | -1,990 | -13,316 |
| Property, plant and equipment | -23,365 | -111 | 822 | 0 | -629 | 0 | -23,283 |
| Inventories | 36,961 | -359 | 19,622 | 0 | 0 | 0 | 56,224 |
| Receivables | 8,399 | -230 | -933 | 0 | 0 | 0 | 7,236 |
| Provisions | 29,182 | -1,967 | 27,154 | 0 | 1,816 | 0 | 56,185 |
| Tax losses | 5,845 | -273 | 3,608 | 0 | 0 | 0 | 9,180 |
| Other | 5,317 | -1,998 | -3,636 | -2,480 | 1,557 | 0 | -1,240 |
| **Total** | **61,119** | **-4,972** | **38,538** | **-2,480** | **771** | **-1,990** | **90,986** |

## Note 12 – Inventories (DKK – in thousands)

| | GROUP | |
|---|---|---|
| | **2007** | **2006** |
| Raw materials and purchased components | 341,550 | 297,543 |
| Work in progress | 36,836 | 39,645 |
| Finished goods and goods for resale | 368,753 | 283,863 |
| **Inventories** | **747,139** | **621,051** |
| The above includes write-downs in the amount of | 97,873 | 87,953 |
| Carrying amount of inventories recognised at fair value after deduction of selling costs | 0 | 0 |
| **The following is recognised under production costs in the income statement:** | | |
| Write-downs of inventories for the year, net | 49,339 | 24,928 |
| Cost of sales for the year | 1,205,729 | 1,158,243 |

Write-downs for the year are shown net, as breakdown into reversed write-downs and new write-downs is not possible.

Inventories are generally expected to be sold within one year.

## Note 13 – Receivables (DKK – in thousands)

| | GROUP | |
|---|---|---|
| | **2007** | **2006** |
| Trade receivables | 1,106,954 | 901,559 |
| Other long-term receivables | 222,879 | 162,513 |
| Other short-term receivables | 23,513 | 33,076 |
| **Total** | **1,353,346** | **1,097,148** |
| **Receivables by age:** | | |
| Balance not due | 996,568 | 872,161 |
| 0-3 months | 242,484 | 147,976 |
| 3-6 months | 49,513 | 33,818 |
| 6-12 months | 33,919 | 17,084 |
| Over 12 months | 30,862 | 26,109 |
| **Total** | **1,353,346** | **1,097,148** |
| **Breakdown of the year's development in provisions:** | | |
| Provision for bad debt at 1.1. | 49,316 | 41,545 |
| Foreign currency adjustment | -601 | -1,666 |
| Applied during the year | -5,631 | -2,253 |
| Additions during the year | 14,204 | 11,684 |
| Reversals during the year | 606 | 6 |
| **Provision for bad debt at 31.12.** | **57,894** | **49,316** |

For information on security or collateral, please see *Risk management activities* on page 24.

## Note 14 – Provisions (DKK – in thousands)

GROUP

| | 2007 | 2006 |
|---|---|---|
| Other long-term employee benefits | 19,468 | 18,791 |
| Miscellaneous provisions | 119,112 | 4,922 |
| Other provisions | 138,580 | 23,713 |
| Defined benefit plans | 9,845 | 12,377 |
| **Provisions at 31.12.** | **148,425** | 36,090 |
| **Breakdown of provisions:** | | |
| Long-term provisions | 120,993 | 31,711 |
| Short-term provisions | 27,432 | 4,379 |
| **Provisions at 31.12.** | **148,425** | 36,090 |
| **Other provisions:** | | |
| Other provisions at 1.1. | 23,713 | 24,556 |
| Foreign currency adjustments | 129 | -665 |
| Additions relating to acquisitions | 624 | 0 |
| Provisions for the year | 119,711 | 5,336 |
| Applied during the year | -5,166 | -4,488 |
| Reversed during the year | -807 | -1,364 |
| Discount effect | 376 | 338 |
| **Other provisions at 31.12.** | **138,580** | 23,713 |
| **Defined benefit costs recognised in the income statement:** | | |
| Current service costs | 4,220 | 3,819 |
| Calculated interest on obligations | 2,044 | 1,877 |
| Expected return on plan assets | -1,999 | -1,842 |
| **Costs recognised in the income statement (note 2)** | **4,265** | 3,854 |
| **Breakdown by function of defined benefit costs:** | | |
| Production costs | 648 | 602 |
| Research and development costs | 1,452 | 1,446 |
| Distribution costs | 1,824 | 1,580 |
| Administrative expenses | 341 | 226 |
| **Total** | **4,265** | 3,854 |
| **Accumulated actuarial loss recognised in the statement of recognised income and expenses** | **-7,081** | -8,738 |

Apart from the provision of DKK 110 million made in respect of the US patent case, other provisions mainly relate to other disputes and are generally expected to be applied within the next two years.

**Note 14 – Provisions** – continued (DKK – in thousands) GROUP

| | 2007 | 2006 |
|---|---|---|
| **Present value of defined benefit obligations** | | |
| Defined benefit obligations at 1.1. | 64,766 | 43,421 |
| Foreign currency adjustments | -1,578 | -1,425 |
| Current service costs | 4,220 | 3,819 |
| Calculated interest on obligations | 2,044 | 1,877 |
| Actuarial loss/(gains) | -2,775 | 3,438 |
| Actuarial loss relating to the Netherlands | 0 | 13,987 |
| Benefits paid | -3,193 | -3,241 |
| Contributions from plan participants | 2,870 | 2,890 |
| **Defined benefit obligations at 31.12.** | **66,354** | 64,766 |
| | | |
| **Fair value of plan assets:** | | |
| Plan assets at 1.1. | 52,389 | 39,233 |
| Foreign currency adjustments | -1,404 | -1,287 |
| Expected return on plan assets | 1,999 | 1,842 |
| Actuarial gains/(losses) | -1,118 | 1,485 |
| Actuarial gain relating to the Netherlands | 0 | 7,202 |
| Contributions | 7,836 | 7,155 |
| Benefits paid | -3,193 | -3,241 |
| **Plan assets at 31.12.** | **56,509** | 52,389 |
| | | |
| **Net obligation recognised in the balance sheet** | **9,845** | 12,377 |
| | | |
| **Return on plan assets:** | | |
| Actual return on plan assets | 881 | 3,327 |
| Estimated return on plan assets | 1,999 | 1,842 |
| **Actuarial gains/(losses) on plan assets** | **-1,118** | 1,485 |
| | | |
| **Assumptions:** | | |
| Discount rate | 3.7% | 3.3% |
| Estimated return on plan assets | 4.0% | 4.0% |
| Future salary increase rate | 1.8% | 1.7% |

| **Key figures for defined benefit plans:** | 2007 | 2006 | 2005 |
|---|---|---|---|
| Present value of defined benefit obligations | 66,354 | 64,766 | 43,421 |
| Fair value of plan assets | 56,509 | 52,389 | 39,233 |
| **Deficit** | **9,845** | 12,377 | 4,188 |
| | | | |
| **Experience adjustments on plan obligations** | **-2,775** | 3,438 | 0 |
| **Experience adjustments on plan assets** | **-1,118** | 1,485 | 0 |

Normally, the Group does not offer defined benefit plans, but it has such plans in Switzerland and the Netherlands, where they are required by law.

Pension assets at 31 December 2007 include bonds (40%), shares (22%), property investments (18%), cash and cash equivalents (7%) and other assets (13%).

The Group expects to pay approximately DKK 5 million in 2008 (DKK 5 million in 2007) into defined benefit plans.

In 2006, it became possible to actuarially calculate the Group's share of assets and liabilities in the Dutch pension plan (multi-employer plan), which was therefore reclassified as a defined benefit plan. On reclassification, the part of net obligations of DKK 6.8 million at 1 January 2006 has been recognised in the equity as an actuarial loss.

The Group has locked in interest rates for a part of its long-term payables through interest rate swaps of USD 20 million, EUR 1 million and DKK 40 million (USD 20 million, EUR 2 million and DKK 40 million in 2006). At 31 December 2007, unrealised gains on these interest rate swaps amounted to DKK 1.2 million (DKK 3.3 million in 2006), which are recognised in the equity. The ineffective share of interest rate swaps amounts to DKK 0 (DKK 0 in 2006).

Group cash mainly consists of bank deposits, of which DKK 33.8 million (DKK 25.6 million in 2006) is in joint venture companies.

For information on risks, please refer to *Risk management activities* on page 24.

All the Parent's external receivables of DKK 41 million (DKK 39 million in 2006) will fall due after five years. Of the Parent's long-term debt, DKK 50 million (DKK 58 million in 2006) will fall due within five years. Receivables of DKK 370 million (DKK 416 million in 2006) and debt of DKK 679 million (DKK 600 million in 2006) relating to subsidiaries are considered additions to and deductions from, respectively, the overall investments in the particular companies and are therefore considered long-term assets.

Consolidated interest-bearing debt broken down by currency: 63% DKK (67% in 2006), 21% USD (12% in 2006) and 16% for other currencies (22% in 2006).

Some properties leased by the Group have been sublet to third parties. Future rents from these properties will as a minimum amount to DKK 4.0 million (DKK 0 million in 2006) in the non-cancellable period.

Apart from variable interest rates, lease agreements contain no conditional rent payments.

**Note 15 – Interest bearing items** (DKK – in thousands) GROUP

| | Under 1 year | 1-5 years | Over 5 years | Total | Weighted rate of return |
|---|---|---|---|---|---|
| **2006:** | | | | | |
| Other interest-bearing long-term assets | 0 | 122,776 | 6,422 | 129,198 | |
| Cash | 135,130 | 0 | 0 | 135,130 | |
| **Interest-bearing assets** | **135,130** | **122,776** | **6,422** | **264,328** | 3.7% |
| Mortgage debt | -7,622 | -33,443 | -155,597 | -196,662 | |
| Debt to credit institutions etc. | -10,790 | -366,350 | -40,000 | -417,140 | |
| Interest-bearing, short-term bank debt | -1,042,515 | 0 | 0 | -1,042,515 | |
| **Interest-bearing debt** | **-1,060,927** | **-399,793** | **-195,597** | **-1,656,317** | 4.3% |
| **Net position** | **-925,797** | **-277,017** | **-189,175** | **-1,391,989** | 4.5% |
| **2007:** | | | | | |
| Other interest-bearing long-term assets | 0 | 180,119 | 7,438 | 187,557 | |
| Cash | 151,188 | 0 | 0 | 151,188 | |
| **Interest-bearing assets** | **151,188** | **180,119** | **7,438** | **338,745** | **3.7%** |
| Financial lease commitments | -2,806 | -18,722 | -5,720 | -27,248 | |
| Mortgage debt | -7,947 | -34,398 | -146,695 | -189,040 | |
| Debt to credit institutions etc. | -59,613 | -269,514 | -40,000 | -369,127 | |
| Interest-bearing, short-term bank debt | -1,552,940 | 0 | 0 | -1,552,940 | |
| **Interest-bearing debt** | **-1,623,306** | **-322,634** | **-192,415** | **-2,138,355** | **4.9%** |
| **Net position** | **-1,472,118** | **-142,515** | **-184,977** | **-1,799,610** | **5.1%** |

| | Under 1 year | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|
| **Financial lease commitments:** | | | | |
| Minimum lease payments | 4,393 | 22,955 | 5,857 | 33,205 |
| Interest element | -1,587 | -4,233 | -137 | -5,957 |
| **Carrying amount** | **2,806** | **18,722** | **5,720** | **27,248** |

PARENT | **Note 16 – Other payables** (DKK – in thousands) | GROUP

| 2006 | **2007** | | **2007** | 2006 |
|---|---|---|---|---|
| 0 | 0 | Product-related liabilities | 102,175 | 98,872 |
| 4,384 | 6,211 | Staff-related liabilities | 168,641 | 124,787 |
| 0 | 0 | Other payables to public authorities | 65,984 | 62,384 |
| 0 | 3,008 | Payables relating to acquisitions | 79,002 | 19,181 |
| 3,943 | 1,662 | Other payables | 176,561 | 120,576 |
| **8,327** | **10,881** | **Other payables** | **592,363** | **425,800** |

Product-related liabilities mainly relate to provisions concerning service packages, warranties and expected returns.

Staff-related liabilities include holiday pay, wages and salaries etc.

## Note 17 – Financial assets and liabilities as defined in IAS 39 (DKK – in thousands) GROUP

| | 2007 | 2006 |
|---|---|---|
| **Financial assets:** | | |
| Other long-term receivables | 222,879 | 162,513 |
| Trade receivables | 1,106,954 | 901,559 |
| Other short-term receivables | 19,851 | 29,878 |
| Cash | 151,188 | 135,130 |
| **Financial assets** | **1,500,872** | **1,229,080** |
| | | |
| Other investments | 7,438 | 6,422 |
| **Financial assets available for sale** | **7,438** | **6,422** |
| | | |
| Unrealised profit on financial contracts | 19,760 | 6,190 |
| **Financial assets used as hedging instruments** | **19,760** | **6,190** |
| | | |
| **Financial liabilities:** | | |
| Financial lease commitments | 27,248 | 0 |
| Mortgage debt | 189,040 | 196,662 |
| Payables to credit institutions etc. | 1,922,067 | 1,459,655 |
| Trade payables | 232,338 | 180,609 |
| Other payables | 490,188 | 326,912 |
| **Financial liabilities measured at amortised cost** | **2,860,881** | **2,163,838** |
| | | |
| Unrealised losses on financial contracts | 2,009 | 0 |
| **Financial liabilities used as hedging instruments** | **2,009** | **0** |

The fair value of mortgage debts is DKK 180 million (DKK 195 million in 2006). The carrying amount is DKK 189 million (DKK 197 million in 2006). For other financial assets and liabilities, as defined in IAS 39, the carrying amount in all material respects matches the fair value.

Other investments include listed shares worth DKK 4.2 million (DKK 2.1 million in 2006).

For computation of fair value, please refer to *Accounting policies* on page 32.

**Note 18 – Derivative financial instruments** (DKK – in thousands) GROUP

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Contract amount at year-end | Positive fair values at year-end | Negative fair values at year-end | Contract amount at year-end | Positive fair values at year-end | Negative fair values at year-end |
| **Forward exchange contracts, net sales:** | | | | | | |
| USD | 223,313 | 4,632 | 0 | 45,291 | 1,929 | 0 |
| JPY | 67,326 | 6,475 | 0 | 0 | 0 | 0 |
| AUD | 26,741 | 1,480 | 0 | 62,539 | 9 | 0 |
| EUR | 566,702 | 398 | 0 | 864,896 | 582 | 0 |
| CAD | 62,186 | 2,971 | 0 | 4,879 | 370 | 0 |
| Others | 18,702 | 607 | 0 | 50,387 | 23 | 0 |
| **Total** | **964,970** | **16,563** | **0** | **1,027,992** | **2,913** | **0** |
| | | | | | | |
| **Interest rate swaps:** | | | | | | |
| USD/USD | 101,506 | 0 | 2,009 | 113,228 | 1,225 | 0 |
| EUR/EUR | 7,718 | 26 | 0 | 18,014 | 2 | 0 |
| DKK/DKK | 40,000 | 3,171 | 0 | 40,000 | 2,050 | 0 |
| **Total** | **149,224** | **3,197** | **2,009** | **171,242** | **3,277** | **0** |

Operating leases are recognised in the income statement at an amount of DKK 81.9 million (DKK 74.2 million in 2006).

The Group has operating leases mainly in relation to rent and vehicles.

| PARENT | | Note 19 – Operating lease commitments (DKK – in thousands) | | GROUP |
|---|---|---|---|---|
| 2006 | **2007** | | **2007** | 2006 |
| 0 | 0 | Rent commitments | 194,814 | 159,819 |
| 0 | 0 | Other operating lease commitments | 22,257 | 16,728 |
| **0** | **0** | **Total** | **217,071** | **176,547** |
| 0 | 0 | Operating lease commitments, less than 1 year | 52,381 | 42,354 |
| 0 | 0 | Operating lease commitments, 1-5 years | 92,088 | 87,768 |
| 0 | 0 | Operating lease commitments, over 5 years | 72,602 | 46,425 |
| **0** | **0** | **Total** | **217,071** | **176,547** |

| PARENT | | Note 20 – Contingent liabilities (DKK – in thousands) | | GROUP |
|---|---|---|---|---|
| 2006 | **2007** | | **2007** | 2006 |
| 81,934 | 84,404 | Recourse guarantee commitments relating to subsidiaries' credit facilities | 0 | 0 |
| 34,335 | 44,733 | Utilised credit facilities | 0 | 0 |

William Demant Holding A/S acts as a guarantor for the credit facilities established with the Group's Danish subsidiaries in the amount of DKK 794 million (DKK 794 million in 2006).

William Demant Holding A/S has guaranteed the payment of rent by a subsidiary in the amount of DKK 9.2 million (DKK 11.2 million in 2006) and provided guarantees in respect of the continued operation and payment obligations of certain subsidiaries in 2008.

Together with the jointly taxed entities, William Demant Holding A/S is jointly and severally liable for the payment of corporation tax for the 2004 tax year and previous years.

The William Demant Holding Group is involved in a few disputes. Apart from the provision relating to the US patent case, Management is of the opinion that any other disputes do not significantly affect or will affect the Group's financial position. The Group seeks to make adequate provisions for legal proceedings.

As part of our business activities, the Group has entered into normal agreements with customers and suppliers etc. as well as agreements for the purchase of shareholdings.

## Note 21 – Related parties

Related parties include the principal shareholder, *William Demants og Hustru Ida Emilies Fond* (the Oticon Foundation), Kongebakken 9, 2765 Smørum, Denmark, including the Foundation's subsidiary (William Demant Invest A/S).

Related parties with significant influence are the Company's Executive Board, Board of Directors and their related parties. Furthermore, related parties are companies in which the above persons have significant interests.

The William Demant Holding subsidiaries and associates as well as the Group's ownership interests in these companies are shown on page 65.

The Oticon Foundation lets office and production premises to the joint venture, Sennheiser Communications A/S. In 2007, the rental expense amounted to DKK 1.6 million (DKK 1.5 million in 2006). The Oticon Foundation and William Demant Invest A/S paid administration fees to the Group of DKK 0.4 million (DKK 0.4 million in 2006) and DKK 0.8 million (DKK 0.3 million in 2006), respectively.

William Demant Invest A/S is jointly taxed with William Demant Holding A/S and its fully owned Danish subsidiaries. The tax base, DKK 7.0 million (DKK 9.6 million in 2006), of the taxable result in William Demant Invest A/S was utilised by the other Danish companies which pay joint taxation contributions in respect hereof.

Sales to joint ventures not eliminated in the consolidated financial statements amounted to DKK 38 million (DKK 244 million in 2006). At year-end, non-eliminated receivables, net, with joint ventures totalled DKK 8 million (DKK 26 million in 2006).

In 2007, the Group paid royalties amounting to DKK 2.9 million (DKK 2.6 million in 2006) to associates and received dividends in the amount of DKK 1.5 million (DKK 2.3 million in 2006).

There have been no transactions with the Executive Board and the Board of Directors apart from normal remuneration, see note 2 *Employees* and *Incentive programmes* on page 19.

| | 2007 | 2006 |
|---|---|---|
| **The consolidated financial statements include the following amounts related to joint ventures:** | | |
| Revenue | 260,058 | 282,986 |
| Costs | 240,303 | 255,488 |
| Long-term assets | 24,373 | 40,436 |
| Short-term assets | 79,532 | 111,559 |
| Long-term liabilities | 977 | 1,526 |
| Short-term liabilities | 44,994 | 69,714 |
| **Financial information with respect to associates:** | | |
| Revenue | 31,150 | 50,852 |
| Net profit for the year | 1,387 | 6,824 |
| Assets | 9,341 | 16,772 |
| Liabilities | 3,469 | 11,187 |

Apart from the activities in Sennheiser Communications A/S, joint venture activities consist of distribution activities.

There are no major contingent liabilities in joint venture companies.

## Note 22 – Government grants

GROUP

In 2007, the William Demant Holding Group received government grants in the amount of DKK 0.4 million (DKK 0.4 million in 2006). Grants are offset against research and development costs.

## Note 23 – Non-cash items (DKK – in thousands)

GROUP

| | 2007 | 2006 |
|---|---|---|
| Amortisation and depreciation expenses | 168,596 | 162,725 |
| Share of profit after tax in associates | -2,011 | -3,080 |
| Proceeds from sale of intangible assets and property, plant and equipment | -69,117 | -1,261 |
| Other non-cash items | -25,253 | -3,673 |
| **Other non-cash items** | **72,215** | 154,711 |
| | | |
| Acquired property, plant and equipment | -211,719 | -222,384 |
| Of which financially leased assets | 25,855 | 0 |
| **Acquired property, plant and equipment, paid** | **-185,864** | -222,384 |
| | | |
| Proceeds from raising of financial liabilities | 25,855 | 58,072 |
| Of which lease debt | -25,855 | 0 |
| **Proceeds from raising of financial liabilities** | **0** | 58,072 |

## Note 24 – Acquisitions (DKK – in thousands) GROUP

| | 2007 | | | | | | 2006 | |
|---|---|---|---|---|---|---|---|---|
| | North America | | Australia | | Total | | Total | |
| | Carrying amount prior to acquisition | Fair value on acquisition | Carrying amount prior to acquisition | Fair value on acquisition | Carrying amount prior to acquisition | Fair value on acquisition | Carrying amount prior to acquisition | Fair value on acquisition |
| Intangible assets | 0 | 5,775 | 10 | 10 | 10 | 5,785 | 0 | 943 |
| Property, plant and equipment | 4,847 | 4,847 | 3,037 | 3,037 | 7,884 | 7,884 | 5,580 | 5,580 |
| Other long-term assets | 14,940 | 14,940 | 553 | 1,566 | 15,493 | 16,506 | 670 | 3,457 |
| Inventories | 955 | 955 | 677 | 677 | 1,632 | 1,632 | 1,503 | 1,503 |
| Receivables | 55,502 | 55,502 | 3,235 | 3,235 | 58,737 | 58,737 | 1,303 | 1,303 |
| Cash and bank debt | -243 | -243 | 645 | 645 | 402 | 402 | 443 | 443 |
| Long-term payables | 0 | -2,310 | 0 | 0 | 0 | -2,310 | 0 | 0 |
| Short-term payables | -36,145 | -36,145 | -6,965 | -6,965 | -43,110 | -43,110 | -8,682 | -8,682 |
| Minority interests | -26,436 | -29,034 | 0 | 0 | -26,436 | -29,034 | 0 | 0 |
| **Acquired net assets** | **13,420** | **14,287** | **1,192** | **2,205** | **14,612** | **16,492** | 817 | 4,547 |
| Goodwill | | 102,627 | | 39,502 | | 142,129 | | 33,183 |
| **Acquisition cost including transaction costs** | | **116,914** | | **41,707** | | **158,621** | | 37,730 |
| Of which earn-outs and deferred payments | | -71,209 | | -6,587 | | -77,796 | | -9,291 |
| Acquired cash and bank debt | | 243 | | -645 | | -402 | | -443 |
| **Cash acquisition cost** | | **45,948** | | **34,475** | | **80,423** | | 27,996 |

In 2007, the Group's acquisitions related to the acquisition in full or in part of the activities in minor distribution businesses in Australia and North America. In 2006, acquisitions related to minor distribution businesses in Australia, North America and Poland.

In connection with these acquisitions, the purchase sums exceeded the fair values of identifiable assets, liabilities and contingent liabilities. The positive differences are mainly due to expected synergies between actitivities in the acquired businesses and the Group's existing activities, future growth potential and the value of the employees of such businesses. Such value cannot be reliably measured.

The above computations of the fair values at the time of acquisition in 2007 is not final as regards acquisitions made immediately before year-end. In 2007, we found no basis for revising the computations of 2006.

Consolidated revenues and profits for the year are estimated to have been DKK 5,510 million (DKK 5,128 million in 2006) and DKK 896 million (DKK 904 million in 2006), respectively, had the businesses been taken over at 1 January 2007. The acquired businesses did not significantly affect profits for the year.

From the balance sheet date and until presentation of the annual report in 2008, we have acquired some minor distribution businesses in Holland, Australia and North America at an acquisition sum of DKK 12 million. Fair value computations are ongoing. It is expected that acquisition sums will mainly be related to goodwill.

## Note 25 – Assets held for sale



On expiry of a lease in respect of a production property, the Group acquired the property in 2006 on beneficial terms. Subsequently, the property was sold to a third party in the first half-year 2007 with a net profit of DKK 59 million.

For further information on the disposal of this property, please see *Review* on page 10.

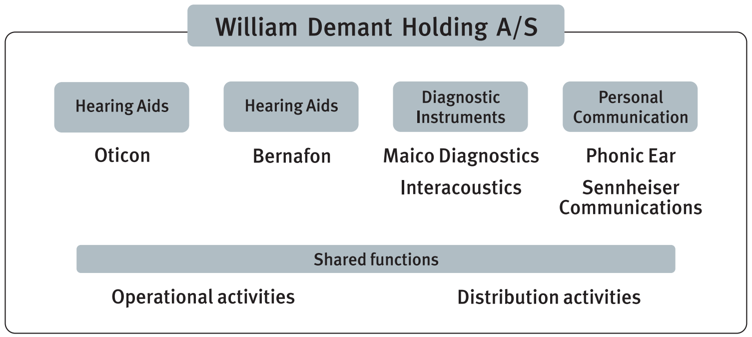
## Subsidiaries and associates

| *Company* | *Interest* |
|---|---|
| **William Demant Holding A/S, Denmark** | **Parent** |
| Oticon A/S, Denmark | 100% |
| Oticon AS, Norway | 100% |
| Oticon AB, Sweden | 100% |
| Oy Oticon Ab, Finland | 100% |
| Oticon GmbH, Germany | 100% |
| Oticon Nederland B.V., the Netherlands | 100% |
| Oticon S.A., Switzerland | 100% |
| Oticon Italia S.r.l., Italy | 100% |
| Oticon España S.A., Spain | 100% |
| Oticon Polska Sp. z o.o., Poland | 100% |
| Oticon Polska Production 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 Shanghai Hearing Technology Co. Ltd., China | 100% |
| Oticon International Trading Shanghai Co. Ltd., China | 100% |
| Oticon South Africa (Pty) Ltd., South Africa | 100% |
| Prodition S.A., France | 100% |
| Bernafon AG, Switzerland | 100% |
| Bernafon Hörgeräte GmbH, Germany | 100% |
| Bernafon S.r.l., Italy | 100% |
| Maico S.r.l., Italy | 100% |
| Bernafon, LLC, USA | 100% |
| Bernafon Canada Ltd., Canada | 100% |
| Bernafon Australia Pty. Ltd., Australia | 100% |
| Australian Hearing Aids Pty. Ltd., Australia | 100% |
| Bernafon New Zealand Pty. Ltd., New Zealand | 100% |
| Bernafon K.K., Japan | 100% |
| Acustica Sp. z o.o., Poland | 100% |
| Phonic Ear Inc., USA | 100% |
| DelNew Inc., USA | 100% |
| WDH Canada Ltd., Canada | 100% |
| Phonic Ear (Canada) Ltd., Canada | 100% |
| Phonic Ear A/S, Denmark | 100% |
| Maico Diagnostic GmbH, Germany | 100% |
| Diagnostic Group LLC, USA | 100% |
| Interacoustics A/S, Denmark | 100% |
| Interacoustics A/S Pty. Ltd., Australia | 100% |
| DancoTech A/S, Denmark | 100% |
| Danacom Produktion A/S, Denmark | 100% |
| Inmed Sp. z o.o., Poland | 100% |
| Hidden Hearing (UK) Ltd., United Kingdom | 100% |
| Hidden Hearing (Portugal), Unipessoal Lda., Portugal | 100% |
| Hidden Hearing Limited, Ireland | 100% |
| Akoustica Medica M EPE, (Hidden Hearing), Greece | 100% |
| Digital Hearing (UK) Ltd., United Kingdom | 100% |
| Centro Auditivo Telex S.A., Brazil | 100% |
| Western Hearing Services Pty. Ltd., Australia | 100% |
| Adelaide Digital Hearing Solutions Pty. Ltd., Australia | 100% |
| AD Styla Sp. z o.o., Poland | 100% |
| Hearing Healthcare Management, Inc. (Avada), USA | 51% |
| Sennheiser Communications A/S, Denmark | 50% |
| American Hearing Aid Associates, Inc. (AHAA), USA | 49% |
| Bernafon Nederland B.V., the Netherlands | 49% |
| HIMSA A/S, Denmark | 25% |

The list includes all active Group companies.

# Business activities

The William Demant Holding Group develops, manufactures and sells products and equipment designed to aid the hearing and communication of individuals. The Group covers three business activities: Hearing Aids, Diagnostic Instruments and Personal Communication. Subsidiaries collaborate in many areas and to a wide extent also share resources and technologies in areas such as production, research, development, IT infrastructure and administration.




## Hearing Aids

The Group's core business is Hearing Aids represented by 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 at any time to offer a complete product portfolio of the best hearing aids and fitting systems on the market. Oticon wishes to be the most attractive provider of hearing aids and looks upon the hearing care professional as its business partner. Oticon sells its products through own sales companies in 22 countries and through about 80 independent distributors worldwide.

Bernafon aims to help hearing-impaired people to hear and communicate better through innovative hearing aid solutions. Bernafon offers a large range of quality hearing aid systems in all product categories. Bernafon's hearing aids are flexible and easy to fit for hearing care professionals and represent some of the most attractive combinations on the market in terms of performance and price. Today, Bernafon sells its products through 15 sales companies and about 80 independent distributors.

## Diagnostic Instruments

Diagnostic Instruments includes the two audiometer companies Maico in Germany and the USA and Interacoustics in Denmark, which develop, manufacture and distribute audiometers for the measurement of hearing and related areas by audiologists and ear, nose and throat specialists.

Maico sells and services, among other products, its own audiometers and tympanometers. The products designed for hearing measurement cover the entire spectrum from simple, mobile units designed for instance for hearing tests in schools to sophisticated equipment for the measurement of the hearing of infants.

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

## Personal Communication

This business activity includes Phonic Ear and Sennheiser Communications.

Phonic Ear focuses on the development, manufacture and distribution of equipment within two main areas: wireless sound systems and assistive listening devices. Wireless sound systems (FrontRow) comprise audio systems primarily for classrooms with students hearing normally. Consisting typically of a wireless microphone and a speaker with a built-in wireless receiver, one of the purposes of this equipment is to maintain students' attention in surroundings often affected by noise and poor acoustics. Assistive listening devices like for instance alarm systems, teleloop amplifiers and amplifier phones are typically used by hearing impaired in their private homes, at their workplace or in public. Phonic Ear's products are sold through own distribution companies in Denmark and North America and through distributors or other Group companies in the rest of the world.

Sennheiser Communications, a joint venture created by German Sennheiser electronic GmbH & Co. KG and William Demant Holding A/S, develops, manufactures and markets handsfree communication solutions, mainly headsets, both for professional users and for home use. The products are sold through a global network of distributors, OEM manufacturers, retailers and telecommunications companies.

## Shared functions

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

*Distribution*
Group products are mainly distributed through own sales companies and external distributors. In some markets, products are however distributed to the end-user direct.

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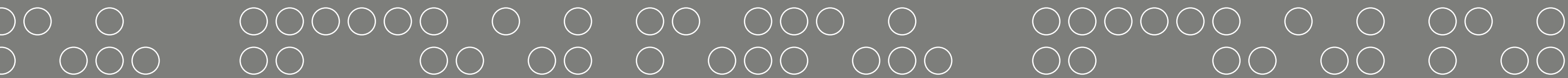
Editor, design and production:
William Demant Holding A/S

Print: Quickly Tryk A/S
Print run: 5,000



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