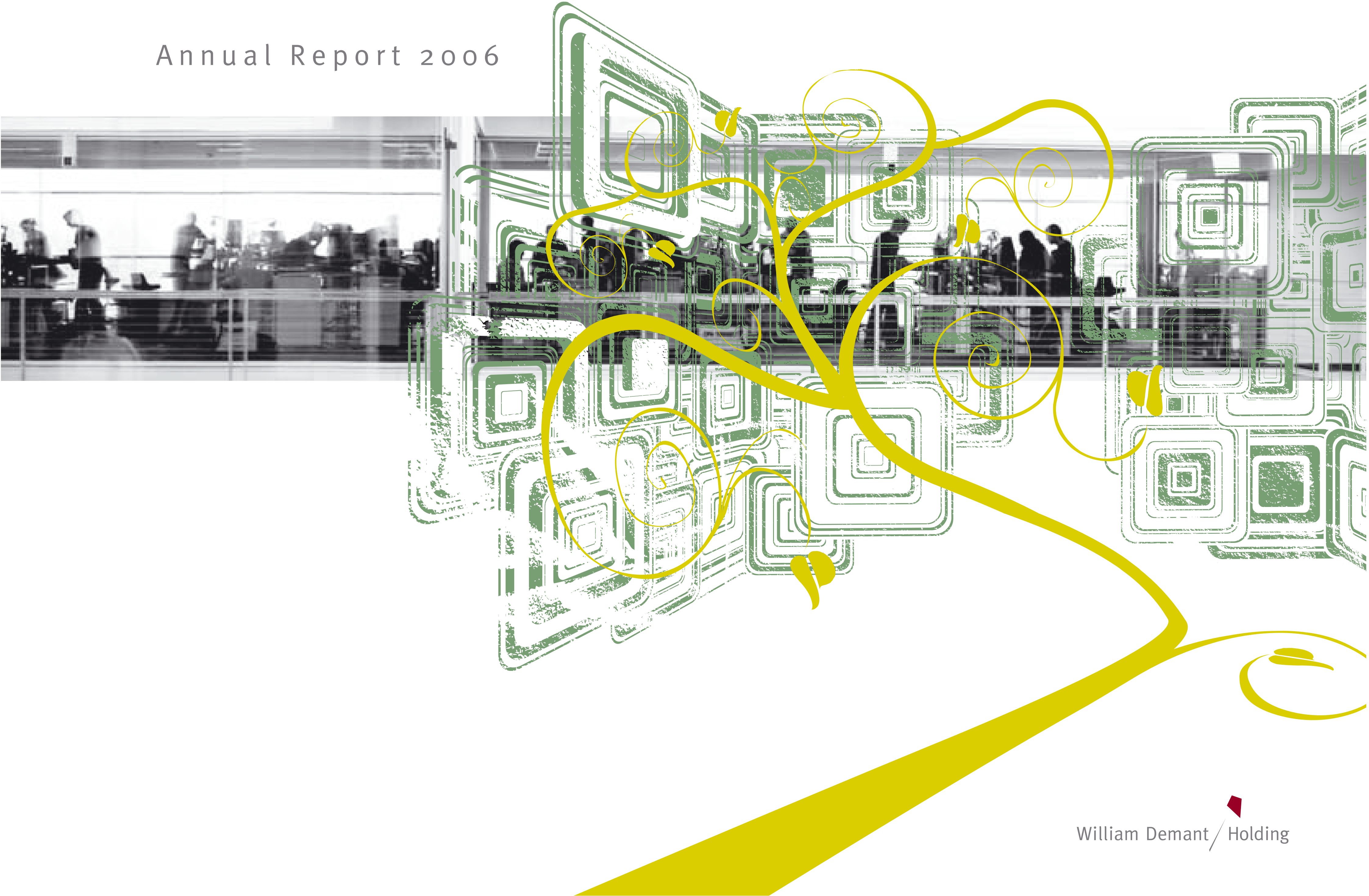
Annual Report 2006



William Demant Holding

2006 at a glance

A key milestone

2006 marked the achievement of yet another decisive milestone in the history of the William Demant Holding Group. With the spring launch of the cosmetically attractive product concept Oticon Delta and its RITE technology (Receiver-In-The-Ear), the Group's hearing aid business has set the pace with a whole new generation of hearing aids.

The response from customers and end-users to Oticon Delta has been overwhelmingly positive. Now available in several price segments and covering most types of hearing loss, the new Delta versions introduced towards the end of the year have solidly positioned the Group to capture market shares again in 2007.

The Group's other hearing aid activities also benefited from the strengthened market position in 2006. Oticon introduced Oticon Amigo, a new, advanced FM product range with special focus on relieving hearing losses in children and young people in teaching situations. The launch of a complete, wireless product range consisting of both FM transmitters and receivers is expected to significantly bolster Oticon's position on the markets for FM systems and hearing aids for children and young people over a number of years. Early in the year, Bernafon released its high-end instrument ICOS, a highly adaptive hearing aid that completes Bernafon's product range and firmly takes into account the listening needs and preferences of the individual user.

Double-digit growth rates

The positive trends of 2006 have driven double-digit growth for all three of the Group's business activities. Overall, the Group generated revenue of DKK 5,085 million in 2006, corresponding to a rate of growth of a little more than 12%, which is significantly higher than the growth rate in the Group's operating markets. The increase of the Group's market shares in recent years thus continued in 2006.

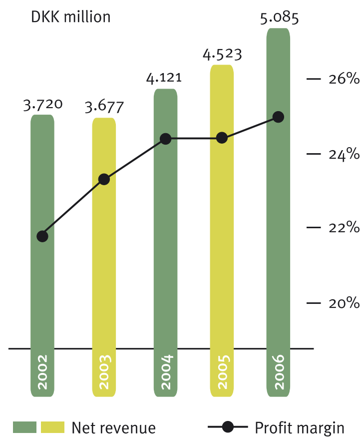
Profitability also improved in the year under review. With operating profits (EBIT) of DKK 1,271 million, corresponding to an increase of 15% on 2005, the Group realised a profit margin of 25.0%, or 0.6 percentage points above that realised in 2005. The statement of the operating profits for the year includes non-recurring costs relating to the employee share ownership plan and due diligence totalling DKK 59 million. After adjustment for these items, the operating profit for the Group amounted to DKK 1,330 million, or an increase of 21%.

Strong platform for 2007

The Group has thus created a strong platform for its activities in 2007, a year that will also bring significant new products to generate further growth. For example, in the second quarter of the year Oticon expects to launch a new, ground-breaking high-end product concept that will provide end-users with vital new features. Representing a paradigm shift in the hearing aid industry, the new product concept is supported by RISE, the world's first wireless technology architecture designed exclusively for hearing aids. RISE is the result of Oticon's biggest development effort to date, presenting new concepts and possibilities in all aspects of sound processing and wireless connectivity, including ear-to-ear broadband communication and connection to Bluetooth products.

Against this background, growth in revenue is expected to be 9-12% in local currencies in a market with an estimated rate of growth of 3-5%. The consolidated revenue forecast of DKK 5,450-5,600 million in 2007 is adversely affected by about 2% due to a negative currency impact. Operating profits are estimated at DKK 1,425-1,500 million, corresponding to a 12-18% increase. In 2007, the Company expects to buy back shares for an amount in the region of DKK 1 billion.

Net revenue and profit margin



Key figures and financial ratios — DKK

INCOME STATEMENT, DKK MILLION	2002	2003	2004	2005	2006
Revenue	3,720.3	3,676.9	4,120.9	4,522.9	5,085.1
Gross profit	2,505.3	2,521.3	2,858.5	3,133.3	3,575.0
Research and development costs	272.2	294.9	324.2	382.5	459.8
Depreciation etc.	108.0	117.0	140.2	148.8	162.7
Operating profit (EBIT)	810.2	855.5	1,003.7	1,102.8	1,270.6
Net financials	-30.8	-28.2	-38.6	-36.8	-61.4
Profit before tax	779.4	827.3	965.1	1,066.0	1,209.2
Net profit for the year	578.6	618.3	716.9	790.6	900.7
BALANCE SHEET, DKK MILLION					
Interest-bearing items, net	-741.7	-632.9	-901.8	-1,110.6	-1,392.0
Total assets	1,991.6	2,015.0	2,440.9	2,893.4	3,134.5
Shareholders' equity	427.8	522.2	645.6	756.5	670.8
OTHER KEY FIGURES, DKK MILLION					
Investment in property, plant and equipment, net	114.2	124.4	311.7	351.4	207.9
Cash flow from operating activities (CFFO)	669.4	753.7	719.7	891.8	964.1
Free cash flow	548.8	615.5	353.5	467.7	661.0
Cash earnings (CE)	686.6	735.3	857.1	939.4	1,094.1
Employees (average)	4,208	4,272	4,490	4,730	4,797
FINANCIAL RATIOS					
Gross profit ratio	67.3%	68.6%	69.4%	69.3%	70.3%
Profit margin	21.8%	23.3%	24.4%	24.4%	25.0%
Return on equity	168.0%	139.8%	134.2%	106.7%	114.0%
Equity ratio	21.5%	25.9%	26.4%	26.1%	21.4%
Earnings per share (EPS), DKK*	7.9	8.8	10.7	12.2	14.4
Cash flow per share (CFPS), DKK*	9.1	10.8	10.7	13.7	15.4
Free cash flow per share, DKK*	7.5	8.8	5.3	7.2	10.5
Cash earnings per share (CEPS), DKK*	9.4	10.5	12.8	14.4	17.4
Dividend per share, DKK*	0	0	0	0	0
Book value per share, DKK*	5.9	7.5	9.6	11.6	10.7
Price earnings (P/E)	19	23	24	29	32
Share price, DKK*	152	200	257	350	459
Market capitalisation adj. for treasury shares, DKK million	10,935	13,710	16,989	22,315	28,274
Average number of shares, million	73.31	69.95	67.05	65.03	62.75

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.

**Per share of DKK 1.*

Key figures and financial ratios — EUR**

INCOME STATEMENT, DKK MILLION	2002	2003	2004	2005	2006
Revenue	498.8	429.9	552.5	606.4	681.7
Gross profit	335.9	338.0	383.2	420.1	479.3
Research and development costs	36.5	39.5	43.5	51.3	61.6
Depreciation etc.	14.5	15.7	18.8	20.0	21.8
Operating profit (EBIT)	108.6	114.7	134.6	147.8	170.3
Net financials	-4.1	-3.8	-5.2	-4.9	-8.2
Profit before tax	104.5	110.9	129.4	142.9	162.1
Net profit for the year	77.6	82.9	96.1	106.0	120.8
BALANCE SHEET, EUR MILLION					
Interest-bearing items, net	-99.5	-84.9	-120.9	-149.0	-186.7
Total assets	267.1	270.2	327.4	388.1	420.4
Shareholders' equity	57.4	70.0	86.6	101.5	90.0
OTHER KEY FIGURES, EUR MILLION					
Investment in property, plant and equipment, net	15.3	16.7	41.8	47.1	27.9
Cash flow from operating activities (CFFO)	89.7	101.0	96.5	119.6	129.2
Free cash flow	73.6	82.5	47.4	62.7	88.6
Cash earnings (CE)	92.0	98.6	114.9	125.9	146.7
Employees (average)	4,208	4,272	4,490	4,730	4,797
FINANCIAL RATIOS					
Gross profit ratio	67.3%	68.6%	69.4%	69.3%	70.3%
Profit margin	21.8%	23.3%	24.4%	24.4%	25.0%
Return on equity	168.0%	139.8%	134.2%	106.7%	114.0%
Equity ratio	21.5%	25.9%	26.4%	26.1%	21.4%
Earnings per share (EPS), EUR*	1.1	1.2	1.4	1.6	1.9
Cash flow per share (CFPS), EUR*	1.2	1.4	1.4	1.8	2.1
Free cash flow per share, EUR*	1.0	1.2	0.7	1.0	1.4
Cash earnings per share (CEPS), EUR*	1.3	1.4	1.7	1.9	2.3
Dividend per share, EUR*	0	0	0	0	0
Book value per share, EUR*	0.8	1.0	1.3	1.6	1.4
Price earnings (P/E)	19	23	24	29	32
Share price, EUR*	20.4	26.8	34.4	46.9	61.6
Market capitalisation adj. for treasury shares, DKK million	1,465.7	1,837.7	2,277.2	2,991.1	3,792.1
Average number of shares, million	73.31	69.95	67.05	65.03	62.75

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.

**Per share of 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

Hearing Aids

We are of the opinion that the global market for hearing aids is growing in line with our long-term expectations of 3-5% market growth. Our forecasts are based on the prospect of 2-4% volume growth plus a 1-2% contribution from current increases in average selling prices. This estimate has been confirmed by available market statistics throughout 2006 even though, as in previous years, market growth varied considerably from one country to the next and over the year.

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% annually.
- An increasing number of hearing-impaired people have binaural fittings. In many European countries and in Japan, the share of binaural fittings remains at a fairly low level of 10-40%, while the contribution from growth in binaural fittings is gradually diminishing because the share in many major markets, including the USA, Germany and Holland, has now reached 65-80%.
- In some developing countries, unit growth is considerably above the growth level of the OECD countries, but the initial sales level in these countries is typically very low.

In terms of units, the US market experienced growth somewhat above the 2-4% interval in 2006, with particularly high growth in the first and fourth quarters of the year. However, in several markets outside the US growth was moderate. Since the end of 2005, Japan has seen negative growth rates, a trend that must be viewed in light of the general slowdown in consumer demand in Japan and a shift in the health area towards increasing user payment.

In Europe, the mid-year rate of market growth was negative, with Great Britain and Norway, in particular, recording weak growth figures. Fairly satisfactory market trends in large countries such as Germany and France could, however, not prevent the European hearing aid market in 2006 from experiencing flat development in terms of units compared with 2005.

In terms of the size, design and colour of hearing aids, the hearing aid market is currently undergoing the biggest change since the introduction of individualised in-the-ear instruments in the 1970's. The current trend towards cosmetically attractive mini-aids (behind-the-ear) has gathered significant momentum in the past two years. The most recent European hearing aid congress, EUHA, in October 2006 fully confirmed the current market focus on cosmetics and design. Taking a new promotional approach, manufacturers focused primarily on the cosmetic aspects rather than on actual features such as noise reduction, directionality and processor capacity.

The wide range of new, popular, cosmetically attractive behind-the-ear solutions has had a notable impact on available market statistics, particularly in the US. The share of behind-the-ear instruments sold in the US has now reached approx. 45% on the commercial market, which is a doubling over the past few years. The sale of behind-the-ear aids has grown at the expense of in-the-ear aids. This trend is also apparent in Europe although the share of behind-the-ear instruments was much higher than in the US. In large countries such as France and Germany, the share of behind-the-ear aids has risen by over 10 percentage points since 2003 and has now reached 85-90%.

In terms of units, we estimate that the market for tiny behind-the-ear aids accounts for about 15% of the global market for hearing aids, and we are convinced that the segment will continue to grow substantially above the general market growth rate.

In the first quarter of 2006, the Group launched the innovative Oticon Delta, a new generation of hearing aids in the RITE (Receiver-In-The-Ear) category. Oticon Delta is in an entirely different league from the market's traditional in-the-ear and behind-the-ear instruments, featuring an ultra-thin, almost invisible copper wire that links a newly developed loudspeaker placed in the ear canal with a tiny, triangular, digital amplifier concealed behind the ear. Moving the electronics behind the ear enables a completely open fitting without compromising the cosmetic and auditory benefits of an in-the-ear instrument.

Responses by hearing care professionals and users to Oticon Delta and the RITE technology have been extremely positive. The product concept quickly gained a strong position on hearing aid markets worldwide, and Oticon Delta thus contributed significantly to corporate growth in 2006. Oticon Delta has already won several prestigious prizes including the "Red Dot Design Award" and the "Design Award of the Federal Republic of Germany" as well as the "Best of Innovations 2007 Design and Engineering Award", which was presented at the Consumer Electronics Show in Las Vegas in January 2007.

Oticon's substantial sale of Delta in the first few months of the introductory phase reflected both a strong underlying demand and the normal demand by sales channels for a large number of instruments following the release of a product. Moreover, increased inventory building by our customers was a natural consequence of the special product concept, which requires clinics and hearing care professionals to carry out much of the assembly work and repairs. The massive stockpiling meant that in the first few months Oticon Delta sales did not accurately reflect underlying demand by consumers. However, towards the end of 2006 the situation had returned to normal.

The Group still expects the Delta product family to have great growth potential – in 2007 as well as in the years to come. Among other things, this optimism is based on the appreciable commercial opportunities resulting from the most recent extension of the product concept as regards price and audiological fitting areas. With the new Delta variants presented at the European hearing aid congress, EUHA, the product concept can now be fitted to match almost the entire spectrum of conventional hearing losses of up to 80 dB, i.e. both high-frequency hearing losses and more broadly founded hearing losses. This means that Oticon Delta now addresses four out of five hearing losses. At the EUHA congress, Oticon also introduced Oticon Delta 4000, whose price and features position it just below the two existing Delta products launched in March 2006 (Delta 8000 and Delta 6000). Oticon Delta is thus available in three price/performance versions, all of which can be fitted to match two different compensation strategies.

At EUHA in autumn 2006, Oticon also presented Oticon Go Pro, a substantially improved version of Go, which was very successfully launched almost three years ago as Oticon's first digital hearing aid in the low-end segment. With the launch of an updated version of Go, which now offers advanced, but well-known features such as noise reduction, automatic programming and OpenEar Acoustics, we plan to create a platform for Oticon to continue its impressive sales success also in the low-end segment.

Also in 2006, Oticon introduced Oticon Amigo, a new, advanced FM product range with special focus on relieving hearing losses in children and young people in teaching situations. An FM system consists of a microphone combined with an FM transmitter, both worn by the teacher, and a tiny FM receiver placed on the student's behind-the-ear instrument. Oticon's launch of an entirely wireless product range consisting of both FM transmitters and receivers is expected to significantly bolster Oticon's position on the markets for FM systems and hearing aids for children and young people. Oticon Amigo was released for sale in the third quarter of 2006 and was favourably received by customers and users. This promising early response underpins the Group's ambition to become one of the world's leading players on the paediatric market over the next few years.

The Group's FM activities were formerly part of Personal Communication (Phonic Ear). Taking place in the first six months of the year, the transfer of these activities to Oticon coincided with the launch of Oticon Amigo and mirrors the increasing integration of hearing aids for children and young people with the related wireless FM systems.

In February 2006, the Bernafon business released ICOS, a highly adaptive, high-end hearing aid that completes Bernafon's product range and firmly takes into account the listening needs and preferences of the individual user. At EUHA in the autumn, Bernafon presented its new mid-ranged product Prio, one of the most sophisticated hearing aids in this segment and one that allows individual fitting based on five different lifestyle-based presettings. Positioned between Neo and Smile Plus in Bernafon's product portfolio, Prio automatically selects the best possible

sound processing based on continual registration and analysis of the listening environment. Prio comes with a number of sophisticated features, including Bernafon's Tracker datalogging system.

In the autumn, Bernafon also introduced its new, universal thin-tube system Spiraflex. The system is available in two diameters, a feature that expands the fitting area. Spiraflex can be used with a broad range of Bernafon's hearing aids (see also page 27).

Total corporate unit sales of Group-manufactured hearing aids rose by 9%, which should be considered in light of a market growth rate in 2006 of 3-4%. Thus, the rise in recent years of the Group's market shares continued in 2006. In the Oticon business, Delta, Safran and Tego, in particular, added to unit growth whereas ICOS, SwissEar and Win were the key contributors to Bernafon's growth. All the instruments mentioned above have been introduced in the past two years, a fact that underscores the importance of constantly being able to launch new, innovative products at the right price. In the past year, products introduced during the last two years thus accounted for about half the total, corporate, commercial unit sales of Group-manufactured hearing aids.

The development and marketing of user benefits and product concepts are still decisive competitive factors in the hearing aid business. However, we are also currently experiencing a need for greater distribution flexibility. As a manufacturer, we have to be prepared, occasionally, to act as a source of finance in conjunction with succession processes or the expansion of a customer's business. In 2006, the Group carried out a few minor acquisitions of distribution activities and on a limited scale made financing available to existing and new customers. We expect to continue this activity in 2007.

In 2006, corporate retail activities generated growth slightly below the rate of growth in wholesale, but substantially above market growth in the markets where the Group is involved in retail business.

Diagnostic Instruments

Diagnostic Instruments, which includes our two audiometer businesses, Maico and Interacoustics, generated 10% growth in 2006 in a market with an estimated growth rate of 3-4%. Thus, the business activity continued its positive trend.

As in previous years, growth was broadly founded on the various product areas, driven in particular by PC-based audiometers such as Equinox from Interacoustics and MA55 from Maico. Affinity, a combined PC-based audiometer and fitting system, also contributed to growth. During 2006, we introduced upgraded software modules for Affinity. Sales will, however, not reflect the full impact of the upgrades until 2007.

Diagnostic Instruments will further reinforce its sales and marketing initiatives in 2007, and the favourable trend is therefore expected to continue in 2007.

Personal Communication

Personal Communication, which comprises Phonic Ear and the joint venture, Sennheiser Communications, increased revenues in 2006 by 12%.

The transfer of Phonic Ear's activities in personal FM equipment to the Oticon business progressed as planned. As previously described, we have for comparability reasons reclassified the portion of revenues previously reported as personal FM equipment under Personal Communication. This revenue is now reported under Hearing Aids.

After the transfer, Phonic Ear now focuses on two main areas: wireless active learning systems and assistive listening devices.

In 2006, growth in Phonic Ear was primarily generated by the FrontRow wireless active learning systems, which include loudspeaker systems for school classes of normal-hearing students. With FrontRow, Phonic Ear operates in a rapidly growing market with the US as the key growth driver. The system, which typically consists of a wireless microphone and a loudspeaker with a built-in wireless receiver, is used in classrooms to retain students' attention in an often quite noisy environment with poor acoustics.

Assistive listening devices include for instance alarm systems, teleloop amplifiers and amplifier phones and are typically used by people with impaired hearing in their own homes, at their workplace or in public places. Today, this business activity constitutes a minor part of Phonic Ear, but the growth potential in this area is relatively positive, partly due to the prospect of increased use of assistive listening devices over the next few years. To an increasingly higher degree, hearing aids are expected to be connected to various sound sources through the use of wireless technology.

Sennheiser Communications, owned and operated in conjunction with German Sennheiser electronic GmbH & Co. KG, develops, manufactures and markets hand-free communication solutions, mainly headsets, for professional and home users. In 2006, Sennheiser Communications generated substantial two-digit growth, which is broadly founded across the various segments, and most products have thus sold much better than forecast. Sennheiser Communications is expected to continue its favourable development in 2007.

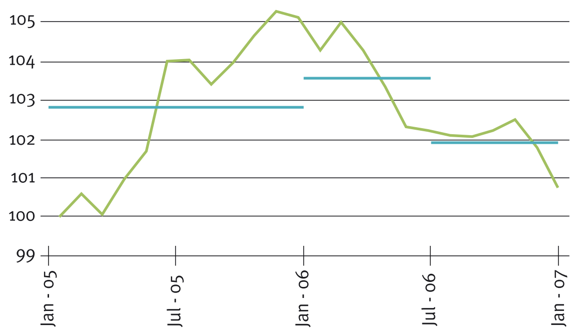
Financial statements 2006

Revenues and foreign exchange conditions

In 2006, consolidated revenues totalled DKK 5,085 million, or a 12.4% rise. Realised revenues matched our most recent forecasts. Revenues improved first and foremost through the release of Oticon Delta for sale in March 2006. In terms of local currencies, growth was 12.5%, a rate reflecting a modest exchange impact for the year as a whole. However, the trend masks a fair positive exchange impact in the first few months of 2006 offset by a negative impact in the latter half of the year.

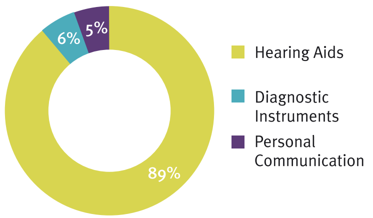
97% of consolidated revenues are invoiced in foreign currencies. Consequently, revenues translated into Danish kroner are significantly affected by movements in the exchange rates of corporate trading currencies. The graph below shows the indexed development in the Group's currency basket calculated on the basis of realised average exchange rates on a month-by-month basis.

Indexed development in the Group's currency basket

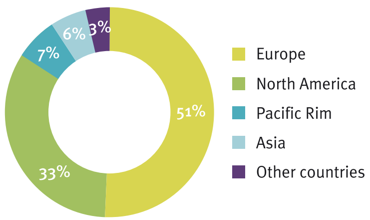


January 2005 = 100

Net revenue by business area



Net revenue by region



As the US market accounts for a significant part of corporate sales, reported revenues in Danish kroner are particularly sensitive to fluctuations in the US dollar. For the year as a whole, the Group's trading currencies almost matched realised rates in 2005, and consolidated revenues for 2006 are therefore only slightly affected by foreign exchange movements.

In 2006, the Group generated 21% growth in North America in terms of local currencies. The favourable trend should be viewed in light of the launch of Oticon Delta which, with its RITE technology and cosmetically attractive design, especially appealed to the commercial sector of the US market. The Group was also favoured by a relatively high market growth on the US market. As corporate growth in North America was essentially above growth in the rest of the world, the regional share of total consolidated revenues grew by 2 percentage points to 33%.

In 2006, corporate growth in Europe was 12% in terms of local currencies, a level that matches the total corporate growth rate. With a 51% share of revenues, Europe remains the Group's largest geographic region. Europe's share of revenues in 2006 was marginally above the 2005 level. In the other geographical areas, we have seen growth somewhat below the European level. In Asia, corporate growth has been stunted by weak market conditions in Japan, where unit growth in the market has been negative since the end of 2005 and throughout 2006.

Revenue by business area

DKK million	2005*	2005**	2006**
Hearing Aids	4,044	4,040	4,555
Diagnostic Instruments	271	271	298
Personal Communication	208	207	232
Total	**4,523**	**4,518**	**5,085**

** Computed at 2005 exchange rates. ** Computed at 2006 exchange rates.*

In 2006, our hearing aid business generated a 13% increase in revenues. The total sale of Group-manufactured hearing aids rose by 9% in 2006. This development is satisfactory, the market unit growth rate for the same period being estimated at 3-4%. The unit growth in the hearing aid business in 2006 should be viewed against the background of a significant volume increase in the comparative year 2005, in which the success of the mid-ranged products, Tego and Tego Pro, boosted the unit growth rate to 18%. In 2006, the successful Oticon Delta product concept and Bernafon's high-end product ICOS contributed to an improvement of the Group's product mix, an enhancement that drove the overall increase in the average selling price for the period.

Corporate retail sales, which are included in the hearing aid business, recorded a rate of growth slightly below that of our wholesale business but considerably above the global rate. Retail activities accounted for about 15% of consolidated revenues.

In 2006, revenues from Diagnostic Instruments rose by 10%, outmatching the estimated market growth rate of 3-4%. Diagnostic Instruments accounts for 6% of consolidated revenues and, as in previous years, the profitability of the activity has been satisfactory in 2006. The positive trend is expected to continue in 2007, which will see a stronger sales and marketing effort.

In 2006, Personal Communication generated 12% growth. In Phonic Ear, the high rate of growth is largely driven by the successful sale of wireless FrontRow loudspeaker systems for class rooms with normal-hearing students. In the second half of 2006, Phonic Ear experienced a satisfactory order intake, albeit lower than the high level earlier in 2006. In the second half-year, Phonic Ear was however affected by delivery delays which adversely affected revenues. We have positive expectations of Phonic Ear in 2007. In 2006, Sennheiser Communications generated substantial growth which was broadly founded on the various headset segments. This positive trend for Sennheiser Communications is expected to continue in 2007.

Gross profits

In 2006, the Group realised a gross profit of DKK 3,575 million, or a 14% increase. The corporate gross profit ratio is 70.3%, up 1 percentage point compared with 2005. Particularly for the second half-year, this reflects a continuous improvement of profitability in production. For 2007, with the current utilisation of economies of scale as the primary driving force, we believe we can as a minimum maintain the high gross profit ratio level recorded particularly in the second half of 2006.

The corporate employee share ownership plan implemented in autumn 2006 had a gift element of DKK 34 million, of which DKK 10 million are included in production costs and DKK 24 million in capacity costs.

Capacity costs
Consolidated capacity costs rose by 13% to DKK 2,307 million, which is marginally above the revenue increase for the period under review. If we disregard costs relating to the employee share ownership plan and due diligence costs, the rise in Group capacity costs was 11%. The development in capacity costs is shown in the table below.

Capacity costs

			Percentage change in	
DKK million	2005	2006	DKK	local currency
Research and development costs	383	460	20.2%	20.4%
Distribution costs	1,354	1,513	11.8%	11.7%
Administrative expenses	297	334	12.4%	11.9%
Total	**2,034**	**2,307**	**13.4%**	**13.3%**

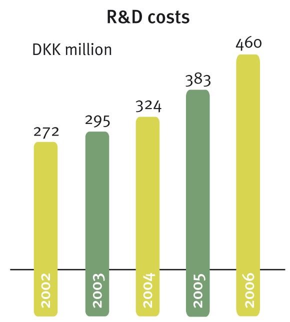
Research and development costs
We are of the opinion that continuous focus on innovation and product development is essential to ensure our long-term growth potential. In 2006, we thus boosted research and development resources by 20% to DKK 460 million, of which DKK 7 million, however, relates to the employee share ownership plan carried through in 2006.

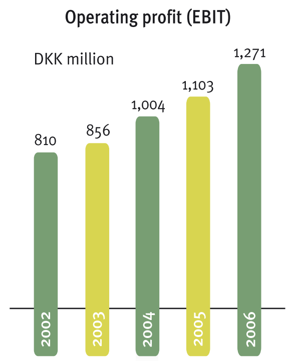
Research and development costs accounted for 9.0% of revenue in 2006, which is about 0.5 percentage point more than in 2005. In 2007, the plan is to continue the sharp focus on research and development of recent years – particularly due to the constant pressure from the competition and the consolidation currently taking place in the hearing aid industry. The increase in corporate research and development costs is therefore again estimated to exceed sales growth in 2007. The primary drivers of the boost in development activities in 2006 and 2007 are the introduction in the first half of 2007 of the new technological architecture (RISE) for Oticon's future hearing aids and the development of new products using this architecture.

The development functions in the William Demant Holding Group collaborate across business areas and continents to maximise know-how and knowledge. This policy 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 resources. The establishment in 2004/2005 of our new domicile and development centre in Smørum is a natural extension of our focused development strategy. Our vision was to create and continue to have the world's leading and most sophisticated centre for developing hearing aids, thereby creating optimal conditions for maintaining our innovative edge and competitiveness. In addition to the facilities in Denmark, the Group has major development centres in Switzerland, Germany and the USA. Our researchers are members of research networks and institutions all over the world.

Distribution costs
Distribution costs rose to DKK 1,513 million, or a 12% increase, which matches the growth in consolidated revenues for the period. Distribution costs include DKK 10 million relating to the employee share ownership plan carried through in 2006. Major launch activities in connection with the introduction of Oticon Delta in spring and summer further boosted distribution costs, particularly in the first half-year. Corporate retail activities, which in relative terms operate with high distribution costs, pulled in the opposite direction. In 2006, revenues from retail activities grew more than market growth, but nevertheless not as much as our wholesale business.

Administrative expenses
Administrative expenses increased to DKK 334 million in 2006, or 12%, matching the growth in revenues for the period. These expenses were strongly affected by due diligence costs of DKK 25 million and costs relating to the employee share ownership plan of DKK 7 million. Ignoring these two items, administrative expenses would have grown by a mere 2%.





Profits for the year

Operating profits (EBIT) amounted to DKK 1,271 million, which matches our most recent forecasts. This represents an increase of 15% compared with 2005 and an improvement in the profit margin of 0.6 percentage point to 25.0%. As previously mentioned, operating profits include costs relating to the employee share ownership plan of DKK 34 million and due diligence costs of a non-recurring nature in the amount of DKK 25 million. Before these costs, consolidated operating profits totalled DKK 1,330 million in 2006, or a 21% rise.

In addition to the substantial growth in revenues for the period, which among other things resulted in the realisation of economies of scale, the favourable trend in operating profits for 2006 reflects an improved product mix driven primarily by the successes of Oticon Delta as well as Bernafon's ICOS.

We seek to hedge any fluctuations in exchange rates by – to the maximum extent possible – matching positive and negative cash flows in the the Group's main trading 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 affect revenues immediately, whereas the effect on earnings is somewhat delayed. Realised forward exchange contracts are recognised in the income statement together with the items hedged by such contracts. In 2006, we also raised loans in foreign currency to balance our net receivables. Previously, this was done using forward exchange contracts.

The underlying development in earnings in 2006 matched reported profits with a modest exchange rate impact for the year as a whole.

At year-end, the Group had entered into forward exchange contracts at a nominal value of DKK 1,031 million (DKK 843 million at 31 December 2005) with a market value of DKK 3 million (DKK -2 million at 31 December 2005). At 31 January 2007, the major contracts hedged the following currencies:

Currency	Hedging period	Hedging rate
USD	6 months	577
JPY	6 months	4.90
EUR	12 months	747
AUD	5 months	444
GBP	4 months	1,119

In 2006, net financials amounted to DKK -61 million against DKK -37 million in 2005. The change primarily reflects an increase in consolidated interest-bearing debt due to the accelerated buy-back of shares in 2006 and investments in the new corporate headquarters and development centre. It is worth noting that interest paid on the mortgage for financing the purchase of the new headquarters was capitalised in the refurbishment period, i.e. from autumn 2004 to commissioning in the fourth quarter of 2005. In 2005, interest payments were capitalised at an amount of DKK 6 million. Moreover, consolidated net financials in 2006 were affected by a generally higher interest rate level compared with 2005.

Consolidated profits before tax amounted to DKK 1,209 million, or an increase of 13%. Tax on the year's profits totalled DKK 308 million, which corresponds to an effective tax rate of 25.5%. The effective corporate tax rate for 2007 is estimated at 26%. In January 2007, the Danish Government announced a reform of corporate income taxation in Denmark, and exactly how the Group will be taxed in future is therefore very uncertain. If the legislation is amended as set out by the Government in its initial proposal, the effective tax rate for the Group will be reduced in 2007 and in the years to come.

The year's profit amounted to DKK 901 million, or a 14% rise on 2005. Earnings per share (EPS) were DKK 14.4 against DKK 12.2 in 2005, which is an 18% increase. Before costs relating to the employee share ownership plan and due diligence costs, the Group generated a rate of growth in earnings per share of 24% in 2006. The reason for the relatively higher growth in earnings per share compared with the rise in profits is the Group's current buy-back of shares, which in 2006 reduced the average number of shares by 2.3 million compared with 2005. For further details about the buy-back programme, we refer to *Shareholder information, Capital* on page 18.

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

Equity and capital
At 31 December 2006, consolidated equity amounted to DKK 671 million (DKK 756 million at 31 December 2005), matching an equity ratio of 21%.

In 2006, we executed an employee share ownership plan. In compliance with article 6.1 in the Articles of Association, the subscription for shares was made without any pre-emption rights for existing shareholders. We issued a total of 138,998 shares of DKK 1, of which 39,444 shares were subscribed for at a share price of DKK 100 and 99,554 at a share price of DKK 200. The proceeds totalling DKK 24 million and the gift element of DKK 34 million have been recognised in equity.

The buy-back of shares worth DKK 993 million was also recognised directly in equity.

At 31 December 2006, the Parent's equity was DKK 665 million (DKK 754 million at 31 December 2005).

Consolidated equity

DKK million	2005	2006
Equity at the beginning of the year	**646**	**756**
Exchange adjustments of subsidiaries	-26	-5
Value adjustments of hedging instruments	-49	-41
Buy-back of shares	-695	-993
Capital increase relating to employee share ownership plan	0	24
Gift element relating to employee share ownership plan	0	34
Profit for the year	791	901
Reversal of provision relating to acquisition	89	0
Other adjustments	0	-5
Equity at 31 December 2006	**756**	**671**

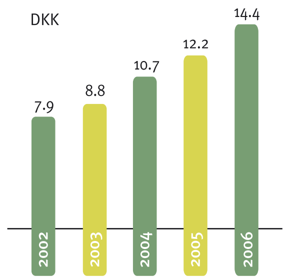
Consolidated cash flows, financing and cash position
The favourable development in consolidated cash flows continued in 2006. Cash flows from operating activities amounted to DKK 964 million in 2006, or an 8% increase on 2005.

Funds tied up in receivables rose by DKK 81 million, or about 8%. In 2006, inventories were kept at the same level as in 2005 despite growth in activities. In the year under review, the Group paid DKK 331 million in corporate taxes, of which DKK 225 million was paid in Denmark.

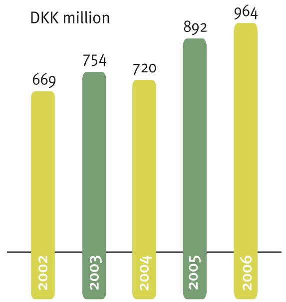
Cash flows by main items

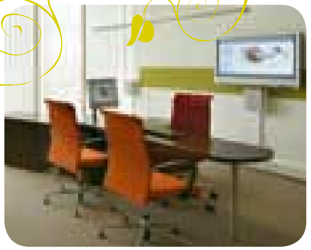
DKK million	2005	2006
Profit for the year	**791**	**901**
Cash flows from operating activities	892	964
Cash flows from investing activities excluding acquisitions	-424	-303
Free cash flows	**468**	**661**
Acquisitions	-12	-28
Buy-back of shares	-695	-993
Other financing activities	243	-22
Net change in cash and cash equivalents for the yrear	**4**	**-382**

Earnings per share (EPS)



Cash flow from operating activities





THE STATE-OF-THE-ART CLINIC FOCUSES ON FUNCTION AND MODERN DESIGN.

THE CLINIC IS DESIGNED TO GIVE HEARING-IMPAIRED PEOPLE A PLEASANT EXPERIENCE IN AN INSPIRING ENVIRONMENT.

Following a couple of years with major investments in the new development centre at Smørum, free cash flows rose to DKK 661 million, which is a 41% increase on 2005.

Investments

In 2006, cash flows to investing activities (excluding acquisitions) amounted to DKK 303 million, a level below that of both 2004 and 2005, which were affected by the investment in the Group's new development centre. Net investments in property, plant and equipment totalled DKK 208 million in 2006 and are estimated at the same level, i.e. DKK 180-220 million, for 2007.

In connection with the expiry of a lease, we exercised a purchase option and acquired a previously rented property on beneficial terms at a total price of DKK 63 million. On relocation, we expect the property to be sold to a third party in 2007.

In the fourth quarter of 2006, we acquired some minor distribution activities in Australia and Poland. We also acquired regional distributors for Avada, one of the Group's US joint ventures. Cash acquisition costs amounted to DKK 28 million.

Balance sheet

At 31 December 2006, the consolidated balance sheet totalled DKK 3.1 billion, which is an 8% rise compared with the beginning of the year. The figure includes a negative currency impact of 3%.

Receivables under financial assets rose by DKK 63 million with receipt of redemptions or instalments worth a total of DKK 37 million. At 31 December 2006, the Group had lent an amount of DKK 123 million to the Group's customers and business partners. This amount is expected to increase in 2007.

Overall, inventories and trade receivables rose less than the increase in revenue in the period, which is a result of our continuous focus on these assets. Thus, the rates of turnover for both items rose in 2006.

Corporate interest-bearing debt rose by just under DKK 300 million in the year under review, mainly due to the accelerated buy-back of shares. The debt is included in the Parent in the form of withdrawals from bank facilities.

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

Board of Directors and employees

At the annual general meeting on 30 March 2006, Mr Niels Boserup (Chairman) and Mr Nils Smedegaard Andersen were both re-elected. After the general meeting, the Directors appointed Mr Niels Boserup Chairman and Mr Lars Nørby Johansen Deputy Chairman.

At year-end, the Group employed 4,818 staff. On a full-time basis, the average number of employees throughout the year was 4,797 against 4,730 in 2005. In Denmark, staff numbered 1,486 against 1,487 in 2005. Revenue per employee amounted to DKK 1,060,000, or an increase of 11% compared with 2005.

Key to the Group's success is the professionalism, commitment and diligence of our staff. The Board of Directors and the Executive Board would like to thank all staff for their dedicated effort in 2006.

Incentive programmes

At two- or three-year intervals, the Group has offered its employees the opportunity to buy shares at a favourable price depending on their salary or seniority. Such shares are held in trust for five years.

In 2006, the Group carried through such an employee share ownership plan, under which more than 2,100 of the Group's 4,800 total staff chose to buy a total of 138,998 shares at a total price of DKK 24 million. At the time of granting, the gift element amounted to DKK 34 million.

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

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

Knowledge resources
Our mission statement stipulates that the Group must aim for continuous growth in revenues and earnings, and that we must strive for a high innovation level through a flexible and knowledge-based organisation. The prerequisite for the Group's 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 11.

The Group's products are made in collaboration 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 em-ployees to other Group companies, a flat organisational structure etc.

The Group's development centre at Smørum inaugurated in autumn 2005 is a major catalyst for both ongoing and future innovation projects. For a detailed description of the new development centre, please see Annual Report 2005, pages 26-29.

The Oticon Foundation
William Demant Holding's main shareholder, the Oticon Foundation, has as its primary goal to safeguard and expand the William Demant Holding Group's business and provide support for various commercial and charitable purposes. The Oticon Foundation, the full name of which is William Demants og Hustru Ida Emilies Fond, was founded in 1957 by William Demant, son of the Company's founder, Hans Demant. At 31 December 2006, the Foundation's stake in the Company was 57%, which is also the case at 8 March 2007.

The William Demant Holding Group has not carried through any major acquisitions since the autumn of 2001, and in compliance with Company policy any free cash flows are applied for buy-back of shares. Sound liquidity and a satisfactory free float are important to obtain a fair pricing of the Company's shares at OMX Copenhagen Stock Exchange. In order to ensure this the Oticon Foundation announced in autumn 2005 that in future it would strive to retain an ownership interest of 55-60% in the Company against previously 60-65% by currently selling shares in the market. This sale is independent of the Company's 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 which are outside its strategic sphere of interest.

In 2003, William Demant Holding and the Oticon Foundation thus agreed that the Company is to identify active investment opportunities on behalf of the Foundation. In each case, a management agreement will be made on commercial arms' length terms. Investment activities mainly take place through 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 Jeudan A/S, a property company listed on OMX Copenhagen Stock Exchange, and in Össur hf., a medical company listed on the Icelandic stock exchange in Reykjavik. In 2006, the Foundation slightly increased its investment in Jeudan. Moreover, the Oticon Foundation has a portfolio of listed securities that are managed by an external asset manager.

Outlook for the future
The Group expects to capture further market share in 2007. Computed in local currencies, growth in revenue is estimated at 9-12% in a market with an estimated rate of growth of 3-5%. Using the average exchange rates in December 2006, we expect consolidated revenues for 2007 to be adversely impacted by currencies of about 2% with resulting revenues for 2007 in the region of DKK 5,450-5,600 million.


Present-day clinics have a more aesthetic and less clinical appearance than in the past.


Interactive tools are used for professional counselling and fitting.

As mentioned earlier, we expect corporate growth in 2007 to be driven mainly by Oticon Delta and the launch in the second quarter of a new, ground-breaking high-end product concept consisting of a complete series of hearing aids. Representing a paradigm shift in the hearing aid industry, the new product concept will provide end-users with vital new features. Moreover, the FM product concept, Oticon Amigo, and a range of planned product introductions currently in the pipeline from Bernafon are expected to contribute favourably to corporate growth in 2007.

For 2007 as a whole, we expect our current exploitation of economies of scale to contribute to a continuous increase in the gross profit ratio.

Recent years' intensified focus on research and development will continue – particularly due to the increasing competition and the current consolidation in the hearing aid industry. Also in 2007, the growth in research and development costs will exceed growth in sales. Coupled with the prospect of a generally increased cost pressure, this will somewhat dilute the favourable development in gross profit ratio. Against this background, we forecast operating profits (EBIT) of DKK 1,425-1,500 million for 2007, corresponding to a 12-18% increase.

For 2007, we expect the effective tax rate to be about 26%, which is on a par with the 2006 level. In January 2007, the Danish Government announced a reform of corporate income taxation in Denmark, and exactly how the Group will be taxed in the future is therefore very uncertain. If legislation is amended as set out by the Government in its initial proposal, the effective tax rate for the Group will be reduced in 2007 and in the years to come.

Total investments in property, plant and equipment are estimated at DKK 180-220 million in 2007.

Following a decision to accelerate our share buy-back programme in 2006, we bought back shares at an amount of just under DKK 1 billion, or an increase of over 40% compared with 2005. Based on an expectation for a continued strong cash flow, the Board has decided to maintain the high level for the buy-back programme in 2007 as well. We thus expect to buy back shares worth about DKK 1 billion in 2007.

In light of this, we foresee an increase in earnings per share (EPS) of 16-20%. Any amendments to rules on corporate income taxation in Denmark along the lines suggested initially by the Government will generate a higher EPS growth for the Group, provided that any change in legislation becomes effective in 2007.

As the launch of the new high-end hearing aid based on Oticon's new technological architecture, RISE, is planned for the second quarter of 2007, revenues and earnings are expected to be higher in the latter half of the year.

In spring 2007, Oticon will present RISE – the world's first wireless, technological architecture designed exclusively for hearing aids. Based on an ambition to ensure the best possible integration of hearing impaired as regards means of communication, RISE will be the foundation for Oticon's coming generations of hearing aids.

Being the result of Oticon's largest development effort ever, RISE introduces new concepts and possibilities in all aspects of sound processing and wireless interfacing:

- *As a result of ear-to-ear broadband communication, two instruments will in future be able to work as one central processor. This will improve the user's communication abilities through an increased ability to localise sound from left to right and from front to back. Depth, quality of sound and the user's ability to register and localise sounds will thus be taken to a whole new level.*

- *The wireless RISE technology also provides a breeding ground for the dream of total synchronisation and interfacing with Bluetooth devices. Thus, RISE will pave the way for hearing aids to move from simple amplifying and sound processing devices to portals that enable the hearing impaired to get the full benefit of modern means of communication.*

The RISE technology makes all this possible without jeopardising the size, power consumption or user friendliness of hearing aids. In order to achieve this new IC architectures are applied, combining the best from exclusively hard-wired and software-based IC architectures with some of the latest multicore processing techniques used in state-of-the-art computer chips.

The first instrument based on RISE will be a new high-end instrument scheduled for launch, as previously indicated, during the second quarter of 2007. RISE and the new high-end instrument will indeed represent a paradigm shift in the hearing aid industry, but the full potential of the new ground-breaking architecture will materialise over time, as additional features and user benefits are added based on the extended flexibility offered by the new RISE architecture.

Shareholder information

Capital

At 31 December 2006, the Company's authorised share capital was nominally DKK 63,323,202 divided into as many shares of DKK 1. All shares have the same rights, and the shares are not divided into classes.

William Demants og Hustru Ida Emilies Fond (the Oticon Foundation), Egedal, has notified the Company that at 31 December 2006 it held 57% 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.

The total number of shares held by members of the Board of Directors, by the Executive Board and by employees constitutes approx. 2% of the share capital. More than 85% of the Group's just over 4,800 employees are thus shareholders in the Company.

In 2006, the Company bought back 2,321,925 shares at a total price of DKK 993 million. At the annual general meeting on 30 March 2006, the share capital was reduced by nominally DKK 2,384,600 through the cancellation of treasury shares. In autumn 2006, shares at a nominal price of DKK 138,998 were sold to corporate staff. At year-end 2006, the Company held 1,719,225 treasury shares, or 2.7% of the share capital. At 8 March 2007, the Company holds 2,325,525 treasury shares, or 3.7% 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 on 29 March 2007.

Share information

DKK	2002	2003	2004	2005	2006
Highest rate	238	222	274	355	504
Lowest rate	139	111	196	256	343
Rate at year-end	152	200	257	350	459
Market cap., DKK million.	10,935	13,710	16,989	22,315	28,274
Average no. of shares*	73.31	69.95	67.05	65.03	62.75
No. of shares at year-end*	71.94	68.53	66.11	63.79	61.60

Million shares, excluding treasury shares.

Specification of movements in share capital

DKK in thousands	2002	2003	2004	2005	2006
Share capital at 1.1.	74,713	74,713	70,294	67,515	65,569
Capital increase	0	0	0	0	139
Capital reduction	0	-4,419	-2,779	-1,946	-2,385
Share capital at 31.12.	**74,713**	**70,294**	**67,515**	**65,569**	**63,323**

Dividend

At the general meeting, the Directors will, as in previous years, propose that all profits for the 2006 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 to – on behalf of the Company – continue in 2007 the buy-back of William Demant Holding shares in the amount of about DKK 1 billion with due regard to the Group's current cash inflow.

Insider rules

The Group's insider rules and internal procedures follow 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 reporting to OMX Copenhagen Stock Exchange. In 2006, the Company made a total of eight such announcements, which can be found on the Company's website under *Insider trade announcements*.

In its internal rules, the Company has chosen to operate an insider register containing over 770 persons, including leading staff members who – through their attachment to the Company – may possess internal, price-affecting knowledge of the Group's internal affairs. Persons recorded in the insider register may only trade in Company shares for four weeks following the Company's four annual, periodic announcements to the Stock Exchange. Such persons are also obliged to inform the Company of their transactions in Company shares.

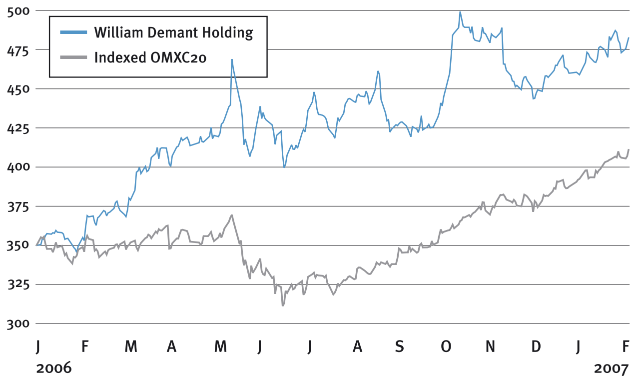
IR policy and investor information

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

We aim to reach this goal by continuously providing relevant, correct and adequate information in announcements to the Stock Exchange. The Company also maintains an active and open dialogue with analysts as well as current and potential investors. Through presentations, individual meetings and participation in investor conferences, we aim to maintain an ongoing dialogue with a broad section of stock market players. In 2006, we held approx. 220 (185 in 2005) meetings and presentations attended by approx. 550 analysts and investors.

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

Share price development



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


Kenneth Aaby Sachse


Stefan Ingildsen

Main stock exchange announcements in 2006

1	February	Launch of Oticon Delta
6	March	Annual Report 2005
30	March	Annual general meeting
5	April	Introduction of Oticon Amigo
10	May	Quarterly review, first quarter 2006
26	June	Profits upgrade 2006 and launch of employee share programme
10	July	Reduction of capital after expiry of statutory notice
17	August	Interim Report 2006
8	November	Quarterly review, third quarter 2006
27	November	Capital increase after issue of employee shares

Financial calendar 2007

8	March	Annual Report 2006
29	March	Annual general meeting
9	May	Quarterly review, first quarter 2007
16	August	Interim Report 2007
8	November	Quarterly review, third quarter 2007

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* 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 ("comply-or-explain" principle).

A complete review of corporate governance in William Demant Holding 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 stock exchange 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 Copenhagen Stock Exchange. 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.

The Company's principal shareholder, William Demants og Hustru Ida Emilies Fond (the Oticon Foundation), currently holds 57% 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 Stock Exchange rules.

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 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.

We have chosen to publish quarterly reviews (rather than quarterly financial reports) of the development of the Company and the relevant markets. The reviews include no financial information as in Management's opinion actual quarterly reports will not enhance a better understanding of the Company's activities.

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. Its duties and responsibilities are determined through the rules of procedure for the Board of Directors, instructions to the Executive Board as well as the annual plan and budget. Apart from the above, we have not drawn up specific work and task descriptions for the Chairman and Deputy Chairman of the Board of Directors.

The 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 are relevant to their duties as Directors, as we are of the opinion that such an overview would not adequately reflect their expertise.

The Board has seven Directors: four Directors elected by the general meeting and three Directors elected by staff in Denmark.

All Directors are shareholders of the Company. The Board of Directors has chosen not to specify the holding of shares held by the individual Director. Any changes in Directors' shareholdings are reported in each case in separate announcements to OMX Copenhagen Stock Exchange and 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 four 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 two years. At the next general meeting (March 2007), this provision in the Company's Articles of Association is expected to be amended such that all Directors elected by the general meeting will be up for re-election every year. A Director cannot be re-elected once he 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.

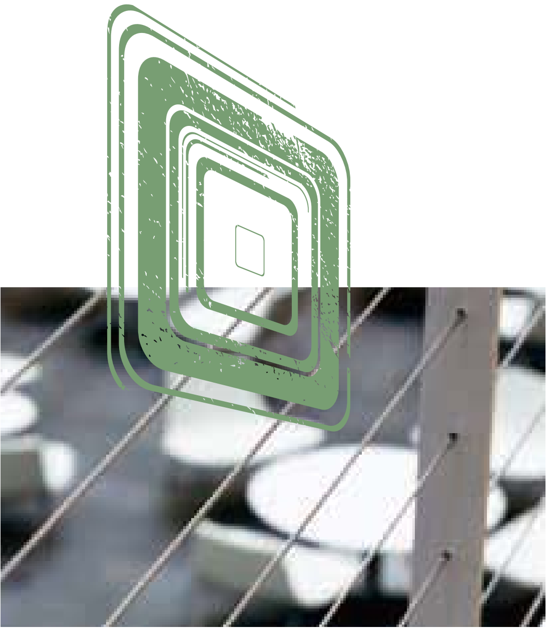
Board of Directors' and Executive Board's remuneration
Once a year, the Board of Directors assesses the remuneration paid to Directors and the Executive Board. The basis for the assessment is a competitive and reasonable level that will attract and retain the most suitable and competent candidates. Please also refer to *Incentive programmes* on page 14.

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. Please also see *Risk management activities* on page 22.

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.

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

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.

Generally, the Company 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 annual strategic and budgetary plans, the Board of Directors considers 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 the behaviour of the competition, for instance.

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.

Financial risks

Financial risk management concentrates on exchange, interest and liquidity risks and protecting against the risk of loss of plant, property and equipment. The purpose of financial risk management is to protect the business against avoidable losses and 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.

Exchange, interest and liquidity risks

The Company seeks to hedge against exchange 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 the business strategy in the event of persistent foreign exchange fluctuations.

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. In some cases, interest rate swaps are 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 possible acquisitions.

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 minimise potential damage. 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 Board of Directors annually reviews the Company's insurance policies, including coverage of any identified risks.

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

Board of Directors

Niels Boserup, Chairman *(age 63)*
President and CEO of Københavns Lufthavne A/S.
Chairman of the board of directors of TV 2/DANMARK A/S.

Lars Nørby Johansen, Deputy Chairman *(age 52)*
Chairman of the board of directors of Falck A/S.
Chairman of the board of directors of Georg Jensen A/S.
Chairman of the board of directors of Stig Jørgensen & Partners A/S.
Deputy chairman of the board of directors of DONG Energy A/S.
Deputy chairman of the board of directors of TV 2/DANMARK A/S.
Chairman of The Danish Growth Council.

Nils Smedegaard Andersen *(age 48)*
President & CEO of Carlsberg A/S.
Member of the board of directors of A.P. Møller - Mærsk A/S.

Ivan Jørgensen *(age 39)*
Staff representative.

Ole Lundsgaard *(age 37)*
Staff representative.

Stig Michelsen (age 61)
Staff representative.

Michael Pram Rasmussen *(age 52)*
Chairman of the board of directors of A.P. Møller - Mærsk A/S.
Chairman of the board of directors of Coloplast A/S.
Chairman of the board of directors of Topdanmark A/S.
Chairman of the board of directors of Louisiana Museum of Modern Art.

Executive Board

Niels Jacobsen, President & CEO *(age 49)*
Member of the board of directors of Novo Nordisk A/S.
Member of the board of directors of Nielsen & Nielsen Holding A/S.
Member of the boards of directors of a number of wholly and jointly owned William Demant Group subsidiaries, including HIMPP A/S, William Demant Invest A/S, Össur hf., Sennheiser Communications 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 six occasions.

Annual general meeting

The annual general meeting will be held
on Thursday, 29 March 2007 at 4 p.m.
at Group headquarters
Kongebakken 9
DK-2765 Smørum
Denmark

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

Focus on innovation

Focus on innovation

In 2006, Oticon won the Innovation Cup award. The Innovation Cup is a Danish competition created at the initiative of the Monday Morning Weekly, the Innovation Council and other stakeholders. Like the other 114 contestants, Oticon was measured against 60 different parameters, including the ability to create frameworks for innovation, drive innovation processes and generate innovation results.

Focus on innovation

The hearing aid industry is a high-tech business known for its high speed of innovation. The key to the corporate success in an intensely competitive international market is our ability to create an ideal framework for innovation and that we allocate the necessary resources for this purpose.

Being hailed as Denmark's most innovative enterprise prompted us to look at what actually characterises us as an innovative organisation. Winning the Innovation Cup proved once again that our corporate culture and entire approach to work act as a spur to development and creative thinking. Our corporate culture, which focuses on people and collaboration, has been our hallmark for many years. And we are basically convinced that innovation and product development are key to realising our long-term growth potential.

In awarding the prize, Innovation Cup stated that:

"Oticon has a distinctly innovative culture in which curiosity, research and venture spirit all represent the attitudes towards and values applied in everyday work. The organisation is highly aware that "people make innovation happen". Intelligent organisational openness and flexibility promote contact and knowledge sharing throughout the Company. The result is innovation that generates higher sales and earnings and raises the value of the Company. A model example of innovation."

Innovation culture

Maintaining a high degree of innovation through a flexible and knowledge-based organisation is part of our corporate mission statement. We have a flat structure and an open management style in which the best argument wins. But at the same time, we are aware of the need for structure and we constantly seek to strike the right balance between inventiveness and personal initiative on one side and a well-structured project culture on the other side.

Ideas are our first priority, and we are highly conscious of the importance of finding good ways to create, communicate and implement new ideas. New ideas require latitude, time to think and the opportunity to exchange views with colleagues. Several of our teams work towards extremely long-term goals exploring the technological possibilities of the future over a 10-15 year horizon. In an innovative incubator, so to speak, these multi-disciplinary teams probe tomorrow's technological platforms in mechanics, digital signal processing, acoustics and electronics. Many ideas are put to the test. Some are modified or revised through the innovatory processes. And a few filter through, setting new standards and contributing to the development of concrete products.

Multi-disciplinary teams and close collaboration with research institutes worldwide are the backbone of the development processes. Large numbers of PhD students and students working on theses are always to be found on the Group's premises. Danish and foreign scientists are invited inside, and we travel abroad to attend conferences or spend longer periods sharing and developing knowledge.

An example: One of our subsidiaries, Interacoustics, has launched a new diagnostic instrument for testing hearing without the active participation of the patient – typically newborns. The new instrument has been developed through international collaboration between Interacoustics, our corporate research centre Eriksholm and universities in Germany and the USA. When testing the hearing of newborns, time is of the essence. By testing four different frequencies and both ears in a single operation, the new device has successfully reduced the testing time to an eighth. The instrument uses an entirely new type of sound stimuli, which very accurately reveal any hearing disability. The device can be operated by lab technicians, and an advanced statistical calculation program automatically interprets the results with a high degree of precision. After a three-year development period, the new instrument was clinically tested in 2006 and is now ready for launch on the market in early 2007.

A setting for innovation

In every part of the Group, we strive to create a physical setting that supports our innovation culture in the best possible way. This is most apparent at Kongebakken, the new corporate domicile in Smørum, where our vision is to create the world's best development centre for hearing aids and a perfect environment for a flexible and holistic project culture. It is important that our employees understand that they work for the Group as a whole – and not just for one isolated division.

> *"Innovation depends on having time to devote oneself 100% to a given project and not necessarily being under pressure to deliver results overnight. Collaboration is another key factor. Innovation requires dialogue, a diversity of problem-solving approaches and creative discussions. By way of example, we have had an American professor attached to my team for the past four months. This provides valuable input and opportunities for using colleagues as sounding boards."*
>
> Michael Syskind Pedersen
> *PhD in digital signal processing,*
> *now developer with Oticon*

Focus on innovation

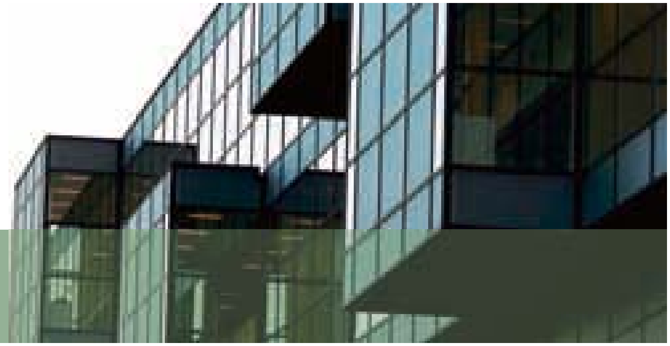
> *"Our employees are good at networking. In fact, knowing our colleagues' competencies is one of our most important qualifications. Knowing how to collaborate across the organisation and how to navigate in an occasionally highly chaotic environment where things never stand still are key to creative thinking. In return, the sky is the limit in our organisation, and we have ample scope for thinking in new and daring ways, and at times we come up with some pretty wild ideas."*
>
> Frank Engel Rasmussen
> *PhD in microtechnology,*
> *now project manager with Oticon*

Projects determine the physical location of the individual member of staff. Teams are mixed and new constellations formed enabling us to continuously challenge each other. The work environment must stimulate creativity, dialogue, knowledge sharing and efficiency.

This setting creates ground-breaking products. In 2006, a three-year development project resulted in a new hearing aid, Oticon Delta. The vision was to set completely new standards and change the perception of hearing aids in the growing group of sophisticated, quality-conscious users who want a better sound experience combined with cosmetically attractive solutions. The innovative design of Delta signals high-tech communication equipment rather than hearing aids. Delta also embodies highly advanced features such as noise reduction and directional microphones, which contribute to an optimal sound experience. Delta was designed and created by a broad team of mechanical and plastics engineers, acoustic engineers specialising in electronics, designers, clinical and technological audiologists, software specialists and marketing experts.

Not only was the development of Delta innovative; so was the manufacturing process. Thanks to fundamentally new thinking at our production facility in Thisted, Delta is manufactured three times faster than any other generation of hearing aids. Delta is manufactured using an entirely new process line developed by a team of engineers and operators who use the lean philosophy to streamline production processes and achieve optimal interaction between production and handling. Several fully assembled components are supplied direct from sub-suppliers, which has resulted in drastically reduced assembly time. Generally, our production staff are involved earlier and earlier in development projects to ensure a smooth and efficient transition from idea via prototype to mass production.

The packaging line operators at our factory in Thisted, which manufactures both Bernafon and Oticon products, have also demonstrated new thinking through further automation of manufacturing processes in 2006. The new packaging concept has been developed in close collaboration between production managers, operators and safety representatives. The last stage of the development process was a full-scale test at the supplier's with six operators testing the solution to optimise functional efficiency and ergonomics. The testing procedure gave fresh impetus to innovative thinking. The result is a packaging line of five pickers and five packers who, by working together closely and using entirely new IT systems, can pack products tailored to the various markets almost twice as fast as they were able to using the old packaging line. The new solution reduces the operators' stress level and adds



variety to their working day while offering a far better and more efficient packaging solution geared to the challenges of the future.

Bernafon in Switzerland has also taken innovative initiatives in 2006. Thus, Bernafon launched two new series of hearing aids, Prio and ICOS. A third innovation was the thin-tube concept Spiraflex. The flexible thin tube, which can be used for all Bernafon's products, is fitted by means of a tiny adapter. Spiraflex provides hearing aid users with an almost invisible solution and has also made life much easier for hearing clinic staff who can now fit all instruments using the same equipment. Spiraflex is a good example of Bernafon's innovation philosophy, which focuses not only on technological innovation, but also on finding smart solutions to simplify life for users and hearing care professionals alike.

Introduced together with ICOS, the new fitting software Oasis Plus defines the first fitting of the hearing aid in a series of listening situations in which data on the user's lifestyle and preferences are entered. This software has been further developed and introduced with four pre-defined programs in connection with the launch of Prio.

Spiraflex thin-tube concept

"Innovative solutions have characterised our business philosophy since the formation of the company over 60 years ago. To promote new thinking we have introduced a portal for ideas on the intranet enabling staff to present their ideas for development, whether for new products, new processes or working conditions. The ideas are evaluated by a committee consisting of management and staff, and the best ones are rewarded and put into practice."

Bernhard Baeriswyl
Head of Business Team, Bernafon

"All the fundamentals for innovation are in place. They have strong values that pervade and govern the operation and development of the entire organisation from top to bottom. The innovation culture is solidly anchored in Management and everyone in the entire organisation is passionate about innovation. It quite simply runs in their blood. Moreover, Oticon has an efficient project model and competent project managers. Their results – ground-breaking new products, high-speed innovation, sound earnings and high value creation – speak for themselves."

Anders Drejer
Professor at the Aarhus School of Business, University of Aarhus, and a member of the Innovation Cup jury

Signatures

Statement by Executive Board and Board of Directors

We have today presented the Annual Report 2006 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 and Danish Accounting Standards. Further, the Annual Report has been prepared in accordance with additional Danish disclosure requirements for annual reports of listed companies.

In our opinion, the accounting policies used are appropriate and the Annual Report gives a true and fair view of the Group's and the Parent'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, 8 March 2007

Management:

Niels Jacobsen

Board of Directors:

Niels Boserup
Chairman

Lars Nørby Johansen
Deputy Chairman

Nils Smedegaard Andersen

Ivan Jørgensen

Ole Lundsgaard

Stig Michelsen

Michael Pram Rasmussen

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 2006, 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 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 and Danish Accounting Standards. 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 and Danish Accounting Standards (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 2006 and of the results of its operations and its cash flows for the financial year 1 January-31 December 2006 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 2006 and of the results of its operations for the financial year 1 January-31 December 2006 in accordance with the Danish Financial Statements Act, Danish Accounting Standards and additional Danish disclosure requirements for annual reports of listed companies.

Copenhagen, 8 March 2007

Deloitte
Statsautoriseret Revisionsaktieselskab

Lone Møller Olsen
State-authorised Public Accountant (Denmark)

Anders Dons
State-authorised Public Accountant (Denmark)

KPMG C.Jespersen
Statsautoriseret Revisionsinteressentskab

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

Carsten Kjær
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 and Danish Accounting Standards. Further, the Annual Report has been prepared in accordance with the additional Danish disclosure requirements for annual reports of listed entities.

Any further Danish disclosure requirements in respect of consolidated annual reports are found in regulations issued by OMX Copenhagen Stock Exchange as well as in the statutory order on the adoption of IFRS issued in compliance with the Danish Financial Statements Act and for the Parent in regulations issued by the Stock Exchange as well as in the Danish Financial Statements Act.

The Parent's accounting policies on recognition and measurement are consistent with the consolidated accounting policies apart from goodwill, which in the Parent is amortised over its useful life. To ensure uniform presentation the terminology used in the consolidated financial statements has as far as possible also been applied in the financial statements for the Parent.

The accounting policies are the same as last year, however with a change in the measurement criteria and presentation of activities made on an agency-like basis. Revenue generated from this business only includes agency commission and not, as previously, also the value of invoiced products. The negative effect on revenue has been restated in the historical comparative figures and constituted DKK 193 million for 2005.

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

Moreover, we have reclassified some of the Parent's balance sheet items.

Standards and Interpretations not yet effective
Any changes in Standards or Interpretations 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, the future implementation by the Group of IFRS 7 Financial Instruments and IFRS 8 Operating Segments as well as new Interpretations will not have any significant impact on the Annual Report.

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

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

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 does exercise a controlling interest. The consolidated financial statements have been prepared on the basis of the financial information for the Parent and its subsidiaries by aggregating uniform items. Using pro rata 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 unrealised intra-Group profits on inventories are eliminated.

Entities, in which the Group holds between 20% and 50% of the voting rights or in some other manner can or 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.

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 at the time of acquisition. Any tax effects of revaluations will be taken into account.

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

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

Translation of foreign currency
On initial recognition, transactions in foreign currency are translated at the exchange rates ruling on the transaction date. The functional currency and the presentation currency are the same in the consolidated financial statements.

Receivables, payables and other monetary items in foreign currency are translated into Danish kroner at their rates on the ba-lance sheet date. Realised and unrealised 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 rate 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 of 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 measured at their fair values and recognised under receivables and payables.

Changes in fair values of derivative financial instruments, classified as and satisfying the criteria for hedging of the fair value of a recognised asset or a recognised liability, are recognised in the 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 hedging of future transactions, are recognised directly in equity. On realisation of the hedged transactions, the accumulated changes will be recognised as part of the particular transactions.

In the financial statements, purchase or sale of financial assets is recognised on the transaction date.

Share-based incentive programmes
The Group's incentive programmes include employee share ownership plans enabling employees to subscribe for shares in the Parent at a lower price than the 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 recognised in 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.

Any 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 research and development costs.

In our opinion, 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 our products are subject to various authority approvals, it is difficult to determine the final development of new corporate products.

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

Tax
Tax on the year's profit includes current tax and any changes in deferred tax. Tax on movements in equity is recognised directly in equity. Current tax includes tax payable computed on the

basis of the estimated taxable income for the year and any prior-year tax adjustments.

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 any 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. 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 if such deferred tax is not likely to be released as current tax in the foreseeable future.

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 is consistent 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 through 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. Intangible assets with undefinable 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.

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 a 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 over their respective useful lives.

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 definable 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. Recoverable goodwill amounts will be calculated whether or not there are indicators suggesting impairment.

The recoverable amount is calculated for the smallest cash-generating unit that includes the asset. The recoverable amount is calculated 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, the 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. Impairment losses on goodwill is not reversed.

Other long-term assets
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 before tax from subsidiaries are recognised in the income statement after recognition of the year's changes in unrealised intra-Group profits with the deduction of depreciation and amortisation on goodwill, if any, acquired after 1 January 2002.

Investments in associates are recognised on the same basis as investments in subsidiaries, however goodwill is not amortised in the consolidated financial statements.

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.

Receivables are measured at cost on initial recognition and are subsequently measured at amortised cost. The risk of bad debts is assessed on an individual basis.

Inventories
Raw materials, components and merchandise are recognised at the lower of cost or net realisable value. 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 overheads. Indirect production overheads include the proportionate share of capacity costs directly re-lating to finished goods or work in progress.

Inventories are measured at cost on a First-In-First-Out basis, i.e. the most recent purchases are considered to be in stock.

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 specific risks.

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 for foreign subsidiaries and associates from their respective currencies into Danish kroner. Exchange adjustments are recognised in the income statement on realisation of the net investment.

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

Treasury shares and dividends
On the buy-back or sale of treasury shares, the acquisition cost or divestment sum is recognised directly in distributable reserves under equity. 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 dividends are 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 some of its employees.

As regards defined contribution plans, the Group pays regular, fixed contributions to independent pension companies. Such contributions are recognised in the 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 annually of the accrued value in use of future benefits payable under the benefit plan. The value in use of the pension commitments less 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.

Other long-term employee benefits are similarly recognised using actuarial computation. Actuarial gains or losses on such benefits are recognised 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.

Liabilities other than provisions

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 over the term of the loan.

Other payables are measured 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 flow from operating activities include inflows from the year's operations, adjusted for operating items not generating cash and movements in working capital.

Cash flow from investing activities include inflows generated from 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.

Cash flow 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 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
2005	2006	Note		2006	2005
0	**0**	1	**Revenue**	**5,085,055**	4,522,925
0	0	2/3	Production costs	-1,510,040	-1,389,632
0	**0**		**Gross profit**	**3,575,015**	3,133,293
0	0	2/3	Research and development costs	-459,781	-382,531
0	0	2/3	Distribution costs	-1,513,277	-1,354,082
-26,842	-46,362	2/3/4	Administrative expenses	-334,441	-297,495
0	0	10	Share of profit after tax, associates	3,080	3,629
10,343	22,945		Income from subsidiaries	-	-
-16,499	**-23,417**		**Operating profit (EBIT)**	**1,270,596**	1,102,814
1,094,423	1,244,713	10	Share of profit before tax, subsidiaries	-	-
18,905	28,528	5	Financial income	19,553	15,226
-32,973	-43,359	5	Financial expenses	-80,932	-52,018
1,063,856	**1,206,465**		**Profit before tax**	**1,209,217**	1,066,022
-275,436	-308,471	6	Tax on the year's profit	-308,471	-275,436
788,420	**897,994**		**Net profit for the year**	**900,746**	790,586
			Proposed distribution of net profit:		
788,420	897,994		Retained earnings		
788,420	**897,994**				
		7	Earnings per share (EPS), DKK	14.4	12.2
		7	Diluted earnings per share (DEPS), DKK	14.4	12.2

Balance sheet at 31 December

PARENT			Assets (DKK - in thousands)		GROUP
2005	2006	Note		2006	2005
0	0	8	Goodwill	86,713	54,342
0	0	8	Acquired patents and licences	7,334	9,675
0	0	8	Other intangible assets	1,654	0
0	**0**		**Intangible assets**	**95,701**	**64,017**
24,770	24,590	9	Land and buildings	505,863	503,576
0	0	9	Plant and machinery	157,590	138,263
534	1,623	9	Other plant, fixtures and operating equipment	192,261	180,214
0	0	9	Leasehold improvements	39,873	26,609
0	0	9	Prepayments and property, plant and equipment in progress	14,587	7,578
25,304	**26,213**		**Property, plant and equipment**	**910,174**	**856,240**
1,399,738	1,772,502	10	Interests in subsidiaries	-	-
0	0	10	Interests in associates	2,925	3,824
455,799	415,953	10	Receivables from subsidiaries	-	-
3,118	3,477	10	Other investments	6,422	3,505
37,511	38,988	10/15	Receivables	162,513	144,344
0	0	11	Deferred tax	112,661	100,766
1,896,166	**2,230,920**		**Other long-term assets**	**284,521**	**252,439**
1,921,470	**2,257,133**		**Total long-term assets**	**1,290,396**	**1,172,696**
0	0	12	Inventories	621,051	632,336
0	0	13	Trade receivables	901,559	862,599
84	7,386		Corporation tax	36,605	4,385
0	2,033		Other receivables	33,076	49,510
0	2	15	Unrealised gains on financial contracts	6,190	1,625
0	582		Prepayments and accrued expenses	47,797	35,545
0	0	15	Cash	135,130	134,685
84	**10,003**		**Short-term assets**	**1,781,408**	**1,720,685**
0	**0**	22	**Assets held for sale**	**62,700**	**0**
84	**10,003**		**Total short-term assets**	**1,844,108**	**1,720,685**
1,921,554	**2,267,136**		**Total assets**	**3,134,504**	**2,893,381**

Balance sheet at 31 December

PARENT 2005	PARENT 2006	Note	Liabilities (DKK - in thousands)	GROUP 2006	GROUP 2005
65,569	63,323		Share capital	63,323	65,569
688,201	602,027		Other reserves	607,478	690,900
753,770	665,350		**Equity**	670,801	756,469
68,024	57,719	15	Interest-bearing debt	595,390	684,045
5,146	4,975	11	Payables to subsidiaries	51,542	35,798
420,738	599,564		Deferred tax liabilities	-	-
0	0	14	Provisions	31,711	25,393
493,908	662,258		**Long-term payables**	678,643	745,236
424,691	734,574	15	Interest-bearing debt	1,060,927	676,869
0	0		Trade payables	180,609	218,585
0	0		Corporation tax	19,316	15,695
239,692	195,860		Payables to subsidiaries	-	-
0	0	14	Provisions	4,379	3,351
8,493	8,327	16	Other payables	425,800	368,950
432	0	15	Unrealised losses on financial contracts	0	2,154
568	767		Prepayments and accrued income	94,029	106,072
673,876	939,528		**Short-term payables**	1,785,060	1,391,676
1,167,784	1,601,786		**Total payables**	2,463,703	2,136,912
1,921,554	2,267,136		**Total liabilities**	3,134,504	2,893,381

17 Rental and lease commitments
18 Contingent liabilities
19 Related parties
20 Government grants
21 Acquisitions
22 Assets held for sale

Cash flow statement

(DKK - in thousands)	Note	2006	GROUP 2005
Operating profit (EBIT)		1,270,596	1,102,814
Depreciation etc. and other non-cash movements		154,711	115,259
Change in receivables		-81,012	-37,287
Change in inventories		-750	-16,554
Change in payables etc.		13,254	59,286
Change in provisions		-590	6,385
Cash flow excluding net financials and corporation tax		**1,356,209**	**1,229,903**
Financial income etc. received	5	19,553	14,775
Financial expenses etc. paid	5	-80,932	-51,567
Corporation tax paid		-330,761	-301,287
Cash flow from operating activities (CFFO)		**964,069**	**891,824**
Acquisitions	21	-27,996	-12,174
Investment in intangible assets		-7,422	-1,654
Investment in property, plant and equipment		-222,384	-371,951
Disposal of property, plant and equipment		14,471	20,519
Purchase of assets held for sale	22	-62,700	0
Investments in other long-term assets		-63,968	-90,217
Disposal of other long-term assets		38,973	19,204
Cash flow from investing activities (CFFI)		**-331,026**	**-436,273**
Repayment on long-term payables		-107,009	-70,084
Proceeds from borrowings		58,072	331,536
Proceeds from capital increase relating to employee share ownership plan		23,855	0
Buy-back of shares		-993,155	-694,671
Other adjustments		2,993	-18,405
Cash flow from financing activities (CFFF)		**-1,015,244**	**-451,624**
Net change in cash and cash equivalents for the year		**-382,201**	**3,927**
Net cash and cash equivalents at the beginning of the year		-524,253	-534,341
Foreign currency adjustment of cash		-931	6,161
Net cash and cash equivalents at the end of the year		**-907,385**	**-524,253**
Breakdown of net cash at the end of the year:			
Cash	15	135,130	134,685
Interest-bearing, short-term bank debt	15	-1,042,515	-658,938
		-907,385	**-524,253**

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 1.1.2005	67,515	-77,817	-667	656,074	645,105
Net profit for the year	-	-	-	788,420	788,420
Foreign currency adjustment of investments in subsidiaries etc.	-	-25,291	-	-	-25,291
Other movements in equity in subsidiaries	-	-	-	52,759	52,759
Value adjustment of hedging instruments	-	-	522	-	522
Tax related to changes in equity	-	-12,928	-146	0	-13,074
Reduction of share capital through cancellation of treasury shares	-1,946	-	-	1,946	0
Buy-back of shares	-	-	-	-694,671	-694,671
Equity at 31.12.2005	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**

At year-end 2006, the share capital was nominally DKK 63,323,202 divided into the corresponding number of shares of DKK 1. At year-end 2006, the number of shares on the market was 61,603,977, the Company's holding of treasury shares being 1,719,225.

Holding of shares	Shares/ share capital (1.000 shares)	Treasury shares (1.000 shares)	Percentage of share capital
Shares at 1.1.2006	65,569	1,782	2.7%
Buy-back of shares	-	2,322	3.5%
Used for capital reduction in 2006	-2,385	-2,385	-3.7%
Capital increase related to employee share ownership plan	139	-	0.2%
Shares at 31.12.2006	**63,323**	**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 2006. The Company acquired a total of 2,321,925 shares (2,319,000 shares in 2005) at an amount of DKK 993 million (DKK 695 million in 2005). No dividend was distributed in 2005 and 2006.

Statement of changes in equity

GROUP (DKK - in thousands)

	Share capital	Other reserves			Total equity
		Foreign currency translation reserve	Hedging reserve	Retained earnings	
Statement of recognised income and expense 2005					
Foreign currency translation, foreign enterprises etc.	-	-25,226	-	-	-25,226
Value adjustment of hedging instruments	-	-	-6,806	-	-6,806
Reclassification of hedging instruments to the income statement	-	-	-41,906	-	-41,906
Carryback of reserve recognised in goodwill for prior years	-	-	-	88,537	88,537
Tax related to changes in equity	-	-7,144	7,526	0	382
Income and expense recognised directly in equity	**-**	**-32,370**	**-41,186**	**88,537**	**14,981**
Net profit for the year	-	-	-	790,586	790,586
Total recognised income and expense 2005	**-**	**-32,370**	**-41,186**	**879,123**	**805,567**
Equity at 1.1.2005	**67,515**	**-4,538**	**178,219**	**404,377**	**645,573**
Total recognised income and expense 2005	-	-32,370	-41,186	879,123	805,567
Reduction of share capital through cancellation of treasury shares	-1,946	-	-	1,946	0
Buy-back of shares	-	-	-	-694,671	-694,671
Equity at 31.12.2005	**65,569**	**-36,908**	**137,033**	**590,775**	**756,469**

Statement of changes in equity

GROUP (DKK - in thousands)

	Share capital	Other reserves			Total equity
		Foreign currency translation reserve	Hedging reserve	Retained earnings	
Statement of recognised income and expense 2006					
Foreign currency translation, foreign enterprises etc.	-	-4,783	-	-	-4,783
Value adjustment of hedging instruments	-	-	5,038	-	5,038
Reclassification of hedging instruments to the income statement	-	-	-45,586	-	-45,586
Actuarial losses	-	-	-	-8,738	-8,738
Tax related to changes in equity	-	3,343	-1,901	1,693	3,135
Income and expense recognised directly in equity	**-**	**-1,440**	**-42,449**	**-7,045**	**-50,934**
Net profit for the year	-	-	-	900,746	900,746
Total recognised income and expense 2006	**-**	**-1,440**	**-42,449**	**893,701**	**849,812**
Equity at 1.1.2006	**65,569**	**-36,908**	**137,033**	**590,775**	**756,469**
Total recognised income and expense 2006	-	-1,440	-42,449	893,701	849,812
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**	**-38,348**	**94,584**	**551,242**	**670,801**

Notes to the income statement

Revenue is allocated by customer location.

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

Note 1 – Geographical segment information (DKK - in thousands) GROUP

	Revenue		Assets		Investment in intangible assets and property, plant and equipment	
	2006	2005	**2006**	2005	**2006**	2005
Europe	2,571,429	2,286,620	2,006,916	1,980,910	226,639	337,823
North America	1,690,058	1,395,957	684,618	599,458	21,736	20,718
Asia	303,720	328,206	111,683	109,331	4,294	9,819
Pacific Rim	334,509	336,380	220,428	116,375	10,442	10,194
Other countries	185,339	175,762	110,859	87,307	6,455	4,244
Total	**5,085,055**	4,522,925	**3,134,504**	2,893,381	**269,566**	382,798

In connection with the employee share ownership plan, the Executive Board subscribed for 3,849 shares at a rate of 200 per share.

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

In 2006, the basic remuneration for a Director in the Parent was raised from DKK 140,000 to DKK 200,000. The Chairman of the Board receives three times the basic remuneration and the Deputy Chairman receives twice the basic remuneration (1.5 times in 2005). Five Directors also serve on the Board of our subsidiary Oticon A/S. Their basic remuneration is DKK 50,000 (DKK 35,000 in 2005).

For further information, we refer to *Incentive programmes* on page 14.

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

PARENT 2005	PARENT **2006**		GROUP **2006**	GROUP 2005
		Employee benefits:		
16,848	18,364	Wages and salaries	1,491,639	1,355,847
186	203	Defined contribution plans	26,862	24,182
-	-	Defined benefit plans (note 14)	3,854	2,983
36	40	Social security costs etc.	130,622	116,045
0	1,290	Gift element related to employee share ownership plan	33,820	0
17,070	**19,897**	**Total**	**1,686,797**	1,499,057
		Of which cash remuneration for Executive Board and Board of Directors:		
6,340	7,397	Executive Board, salary	7,397	6,340
1,000	0	Executive Board, bonus	0	1,000
1,330	2,000	Remuneration for Directors	2,400	1,593

PARENT		Note 2 – Employees - continued (DKK - in thousands)	GROUP	
2005	2006		2006	2005
		Breakdown of employee benefits:		
0	0	Production costs	524,241	465,082
0	0	Research and development costs	221,909	189,600
0	0	Distribution costs	724,482	648,999
17,070	19,897	Administrative expenses	216,165	195,376
17,070	**19,897**	**Total**	**1,686,797**	1,499,057
9	9	Average number of full-time employees*	4,797	4,730

*The number of employees in proportionately consolidated enterprises is included in Group staff with the Group's percentage interest in the particular enterprises. The average number of such employees is 557 (547 in 2005), the William Demant Holding Group accounting for 280 (271 in 2005).

PARENT		Note 3 – Amortisation, depreciation and impairment losses (DKK - in thousands)	GROUP	
2005	2006		2006	2005
0	0	Amortisation on intangible assets	-9,054	-8,320
-489	-501	Depreciation and impairment losses on property, plant and equipment	-135,500	-120,060
0	127	Gain on sale of assets	1,261	9,945
-489	**-374**	**Total**	**-143,293**	-118,435
		Breakdown:		
0	0	Production costs	-47,191	-46,167
0	0	Research and development costs	-41,021	-26,583
0	0	Distribution costs	-42,656	-33,337
-489	-374	Administrative expenses	-12,425	-12,348
-489	**-374**	**Total**	**-143,293**	-118,435

PARENT		Note 4 – Fee for auditors elected by the general meeting (DKK - in thousands)		GROUP
2005	2006		2006	2005
		Deloitte		
450	475	Audit fee	4,166	3,854
1,225	703	Other fees	2,553	2,419
		KPMG C.Jespersen		
450	475	Audit fee	4,235	3,570
130	312	Other fees	2,211	890
2,255	1,965	**Total**	13,165	10,733

PARENT		Note 5 – Net financials (DKK - in thousands)		GROUP
2005	2006		2006	2005
16,431	24,634	Interest income from subsidiaries	-	-
2,022	2,231	Interest income	17,890	14,775
452	1,663	Foreign exchange gains	1,663	451
18,905	28,528	**Financial income**	19,553	15,226
-21,974	-24,200	Interest expenses to subsidiaries	-	-
-10,906	-19,140	Interest expenses	-80,913	-51,925
-93	-19	Foreign exchange losses	-19	-93
-32,973	-43,359	**Financial expenses**	-80,932	-52,018

PARENT		Note 6 – Tax (DKK - in thousands)	GROUP	
2005	2006		2006	2005
		Tax on the year's profit		
8,811	9,099	Current tax on net profit for 2006	-318,368	-289,980
-220,675	-241,729	Tax on net profit, jointly taxed Danish enterprises	-	-
-62,208	-75,548	Tax on net profit, other subsidiaries	-	-
-391	-464	Adjustment of current tax for previous years	7,186	6,442
-1,285	-327	Change in deferred tax	2,587	15,531
47	498	Adjustment of deferred tax for previous year	124	-8,673
265	-	Adjustment of deferred tax at the beginning of the year resulting from a reduction of the Danish corporation tax rate	-	1,244
-275,436	-308,471	**Total**	-308,471	-275,436
		Reconciliation of tax rate*		
		Danish tax rate	28.0%	28.0%
		Differences in tax rates of non-Danish enterprises from Danish tax rate	-1.1%	0.5%
		Write-down on tax assets, net	-0.2%	-2.5%
		Permanent differences	-0.6%	-0.5%
		Other items, including adjustments related to previous years	-0.6%	0.3%
		Effective tax rate	25.5%	25.8%

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

Note 7 – Earnings per share	GROUP	
	2006	2005
Net profit for 2006 (DKK - in thousands)	900,746	790,586
Average number of shares	63,785,076	66,075,300
Average number of treasury shares	-1,030,686	-1,049,992
Average number of shares on the market	62,754,390	65,025,308
Earnings per share (EPS), DKK	14.4	12.2
Diluted earnings per share (DEPS), DKK	14.4	12.2

Impairment testing showed no basis for impairment of goodwill at 31 December 2006.

Goodwill is tested for impairment annually on preparation of the annual report. On impairment testing the discounted values of future cash flows are compared with the carrying amounts.

The Group entities collaborate closely on research and development, purchasing and production as well as marketing and sale, where the use of resources on the individual markets is co-ordinated and monitored by Management in Denmark. The Group entities 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 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.

Future cash flows are based on the 2007 budget, strategic plans and projections hereof, whereas 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. The discounting rate before tax is 8%.

Note 8 – Intangible assets (DKK - in thousands) GROUP

	Goodwill	Acquired patents and licences	Other intangible assets
Cost at 1.1.2005	43,096	25,539	0
Foreign currency adjustments	2,053	37	0
Additions in 2005	0	1,654	0
Additions relating to acquisitions	9,193	0	0
Cost at 31.12.2005	**54,342**	**27,230**	**0**
Amortisation at 1.1.2005	-	-9,214	0
Foreign currency adjustments	-	-34	0
Amortisation for 2005	-	-8,307	0
Amortisation at 31.12.2005	**-**	**-17,555**	**0**
Carrying amount at 31.12.2005	**54,342**	**9,675**	**0**
Cost at 1.1.2006	54,342	27,230	0
Foreign currency adjustments	-812	-29	0
Additions in 2006	0	6,678	744
Additions relating to acquisitions	33,183	0	945
Cost at 31.12.2006	**86,713**	**33,879**	**1,689**
Amortisation at 1.1.2006	-	-17,555	0
Foreign currency adjustments	-	29	0
Amortisation for 2006	-	-9,019	-35
Amortisation at 31.12.2006	**-**	**-26,545**	**-35**
Carrying amount at 31.12.2006	**86,713**	**7,334**	**1,654**

Note 9 – Property, plant and equipment (DKK - in thousands)

PARENT Land and buildings	PARENT Other plant, fixtures and operating equipment		GROUP Land and buildings	GROUP Plant and machinery	GROUP Other plant, fixtures and operating equipment	GROUP Leasehold improvements	GROUP Prepayments and property, plant and equipment in progress
30,407	1,662	Cost at 1.1.2005	387,891	349,893	394,965	85,234	6,426
-	-	Foreign currency adjustments	6,198	10,201	16,697	2,693	67
0	0	Additions in 2005	169,091	72,020	97,994	9,476	2,908
0	0	Additions relating to acquisitions	0	0	677	0	0
0	-386	Disposals in 2005	-4,821	-35,549	-54,923	-21,186	0
0	0	Transferred to/from other items	4,562	-900	1,522	-3,346	-1,823
30,407	1,276	Cost at 31.12.2005	562,921	395,665	456,932	72,871	7,578
		Depreciation and impairment losses					
-5,457	-664	at 1.1.2005	-54,440	-236,581	-256,990	-55,834	-
-	-	Foreign currency adjustments	-2,570	-6,966	-9,394	-1,462	-
-180	-309	Depreciation for the year	-4,248	-49,933	-57,893	-9,305	-
0	231	Disposals in 2005	3,435	34,896	47,223	20,350	-
0	0	Transferred to/from other items	-1,522	1,182	336	-11	-
		Depreciation and impairment losses					
-5,637	-742	at 31.12.2005	-59,345	-257,402	-276,718	-46,262	-
24,770	534	Carrying amount at 31.12.2005	503,576	138,263	180,214	26,609	7,578
30,407	1,276	Cost at 1.1.2006	562,921	395,665	456,932	72,871	7,578
-	-	Foreign currency adjustments	-3,133	-4,422	-9,289	-2,287	-21
0	1,571	Additions in 2006	15,206	69,911	85,556	19,048	14,489
0	0	Additions relating to acquisitions	0	103	3,436	2,093	0
0	-808	Disposals in 2006	-1,596	-11,441	-31,528	-1,454	-365
0	0	Transferred to/from other items	0	7,080	15	-1	-7,094
30,407	**2,039**	**Cost at 31.12.2006**	**573,398**	**456,896**	**505,122**	**90,270**	**14,587**
		Depreciation and impairment losses					
-5,637	-742	at 1.1.2006	-59,345	-257,402	-276,718	-46,262	-
-	-	Foreign currency adjustments	1,324	2,215	6,050	1,416	-
-180	-320	Depreciation for the year	-9,700	-52,930	-66,119	-5,802	-
0	646	Disposals in 2006	186	8,806	23,932	250	-
0	0	Transferred to/from other items	0	5	-6	1	-
		Depreciation and impairment losses					
-5,817	**-416**	**at 31.12.2006**	**-67,535**	**-299,306**	**-312,861**	**-50,397**	**-**
24,590	**1,623**	**Carrying amount at 31.12.2006**	**505,863**	**157,590**	**192,261**	**39,873**	**14,587**

At 1 January, the public assessment of land and buildings in Denmark amounted to DKK 279 million (DKK 283 million in 2005) with a carrying amount of DKK 432 million (DKK 426 million in 2005).

Group land and buildings at a carrying amount of DKK 361 million (DKK 356 million in 2005) have been provided in security of a mortgage debt of DKK 199 million (DKK 204 million in 2005).

Under *Land and buildings*, capitalised interest as regards the property Kongebakken is recognised at a total of DKK 5.9 million (DKK 5.9 million in 2005), with accumulated depreciation of DKK 0.2 million (DKK 0 million in 2005).

At year-end, the contractual obligation as regards property, plant and equipment amounted to DKK 0 million (DKK 0.3 million in 2005).

As regards buildings acquired and held for sale, reference is made to note 22.

PARENT				Note 10 – Other long-term assets (DKK - in thousands)	GROUP		
Interests in subsidiaries	Receivables from subsidiaries	Other investments	Receivables		Interests in associates	Other investments	Receivables
1,403,860	372,905	301	0	Cost at 1.1.2005	850	10,318	68,099
-	54,847	-	-	Foreign currency adjustments	0	8	6,686
3,441	56,198	0	37,511	Additions in 2005	0	8	88,763
0	-28,151	0	0	Disposals in 2005	0	0	-19,204
1,407,301	**455,799**	**301**	**37,511**	**Cost at 31.12.2005**	**850**	**10,334**	**144,344**
-227,442	-	1,255	-	Value changes at 1.1.2005	2,978	-8,280	-
-73,806	-	-	-	Foreign currency adjustments	-	-	-
1,094,423	-	-	-	Share of profit before tax	4,615	-	-
-282,883	-	-	-	Tax on net profit for the year	-986	-	-
-573,030	-	-	-	Dividends received	-1,500	-	-
55,175	-	1,562	-	Other changes	-2,133	1,451	-
-7,563	**-**	**2,817**	**-**	**Value changes at 31.12.2005**	**2,974**	**-6,829**	**-**
1,399,738	455,799	3,118	37,511	Carrying amount at 31.12.2005	3,824	3,505	144,344

PARENT				Note 10 – Other long-term assets - continued (DKK - in thousands)			GROUP
Interests in subsidiaries	Receivables from subsidiaries	Other investments	Receivables		Interests in associates	Other investments	Receivables
1,407,301	455,799	301	37,511	Cost at 1.1.2006	850	10,334	144,344
-	-42,668	-	-	Foreign currency adjustments	0	-7	-7,881
30,849	32,931	0	1,477	Additions in 2006	0	611	62,748
-2,567	-30,109	0	0	Disposals in 2006	-600	-25	-36,698
1,435,583	**415,953**	**301**	**38,988**	**Cost at 31.12.2006**	**250**	**10,913**	**162,513**
-7,563	-	2,817	-	Value changes at 1.1.2006	2,974	-6,829	-
18,063	-	-	-	Foreign currency adjustments	-	-	-
1,244,713	-	-	-	Share of profit before tax	3,919	-	-
-317,277	-	-	-	Tax on net profit for the year	-839	-	-
-548,179	-	-	-	Dividends received	-2,250	-	-
-52,838	-	359	-	Other changes	-1,129	2,338	-
336,919	**-**	**3,176**	**-**	**Value changes at 31.12.2006**	**2,675**	**-4,491**	**-**
1,772,502	**415,953**	**3,477**	**38,988**	**Carrying amount at 31.12.2006**	**2,925**	**6,422**	**162,513**

The carrying amount of interests in subsidiaries includes capitalised goodwill in the net amount of DKK 28.9 million (DKK 9.5 million in 2005). Amortisation for the year is DKK 0.5 million (DKK 0.3 million in 2005).

	2006	2005
The consolidated financtial statements include the following joint-venture-related amounts:		
Revenue	282,986	243,381
Costs	255,488	222,928
Long-term assets	40,436	31,958
Short-term assets	111,559	115,094
Long-term liabilities	1,526	1,081
Short-term liabilities	69,714	76,715
Financial information with respect to associates:		
Revenue	50,852	54,652
Net profit for the year	6,824	10,602
Receivables	6,927	9,170
Payables	11,187	15,990

In addition to the activities in Sennheiser Communications A/S, joint-ventures consist of distribution actitivies.

Note 11 – Deferred tax (DKK - in thousands)

PARENT 2005	PARENT 2006		GROUP 2006	GROUP 2005
		Deferred tax is recognised in the balance sheet as follows:		
0	0	Deferred tax asset	112,661	100,766
-5,146	-4,975	Deferred tax liabilities	-51,542	-35,798
-5,146	**-4,975**	**Deferred tax, net at 31.12.**	**61,119**	64,968
-4,027	-5,146	Deferred tax, net at 1.1.	64,968	43,181
-	-	Foreign currency adjustments	-4,395	1,489
-1,285	-327	Change in deferred tax	26	15,799
-	-	Additions relating to acquisitions	3,461	-
312	498	Adjustment of deferred tax for previous years	-1,458	-8,765
-146	0	Deferred tax related to changes in equity, net	-1,483	13,264
-5,146	**-4,975**	**Deferred tax, net at 31.12.**	**61,119**	64,968
		Breakdown of deferred taxes:		
0	0	Intangible assets	-1,220	-1,681
-2,666	-3,121	Property, plant and equipment	-23,365	-10,520
0	0	Inventories	36,961	39,362
0	0	Receivables	8,399	4,092
-121	0	Provisions	29,182	21,642
0	0	Tax losses	5,845	6,831
-2,359	-1,854	Other	5,317	5,242
-5,146	**-4,975**	**Total**	**61,119**	64,968

The tax base of deferred tax assets not recognised is DKK 60.0 million (DKK 54.3 million in 2005) and relates mainly to tax losses. Due to considerable uncertainty as regards the use of these tax assets, they have not been included in the balance sheet.

Any sale of shares in subsidiaries and associates is not expected to result in any significant taxes.

Change in temporary differences: (Group)	Temporary differences 1.1.2006	Foreign currency adjustments	Recognised in profit for the year	Recognised in equity	Acquisitions	Temporary differences 31.12.2006
Intangible assets	-1,681	-13	474	0	0	-1,220
Property, plant and equipment	-10,520	48	-12,893	0	0	-23,365
Inventories	39,362	-96	-231	-2,074	0	36,961
Receivables	4,092	-133	4,440	0	0	8,399
Provisions	21,642	-3,077	8,887	1,730	0	29,182
Tax losses	6,831	-285	-701	0	0	5,845
Other	5,242	-839	-1,408	-1,139	3,461	5,317
Total	**64,968**	**-4,395**	**-1,432**	**-1,483**	**3,461**	**61,119**

Note 12 – Inventories (DKK - in thousands)

GROUP	2006	2005
Raw materials and purchased components	297,543	276,984
Work in progress	39,645	44,666
Finished goods and goods for resale	283,863	310,686
Inventories	**621,051**	**632,336**
The above includes write-downs in the amount of	87,953	84,527
The following is recognised under production costs in the income statement:		
Write-downs for the year, net	24,928	20,234
Cost of sales for the year	1,158,243	1,070,545

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

Note 13 – Trade receivables (DKK - in thousands)

GROUP	2006	2005
Impairment for probable losses set off against trade receivables in the amount of	**49,316**	41,187

The carrying amount of trade receivables is estimated to correspond to the fair value.

Note 14 – Provisions (DKK - in thousands) GROUP

	2006	2005
Other long-term employee benefits	18,791	18,625
Miscellaneous provisions	4,922	5,931
Other provisions	23,713	24,556
Defined benefit plans	12,377	4,188
Provisions at 31.12.	**36,090**	28,744
Provision breakdown as follows:		
Long-term provisions	31,711	25,393
Short-term provisions	4,379	3,351
Provisions at 31.12.	**36,090**	28,744
Other provisions		
Other provisions at 1.1.	24,556	17,239
Foreign currency adjustments	-665	933
Provisions for 2006	5,674	7,639
Used in 2006	-4,488	-1,122
Reversed in 2006	-1,364	-133
Other provisions at 31.12.	**23,713**	24,556

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

	2006	2005
Defined benefit costs recognised in the income statement:		
Current service cost	3,819	3,277
Calculated interest on obligation	1,877	1,140
Expected return on plan assets	-1,842	-1,434
Costs recognised in the income statement (note 2)	**3,854**	2,983
Accumulated actuarial loss recognised in statement of recognised income and expense	**-8,738**	0
Present value of defined benefit obligations		
Defined benefit obligations at 1.1.	43,421	39,662
Foreign currency adjustments	-1,425	-177
Current service cost	3,819	3,277
Calculated interest on obligations	1,877	1,140
Actuarial loss	3,438	0
Actuarial loss relating to Holland	13,987	0
Benefits paid	-3,241	-3,008
Contributions from plan participants	2,890	2,527
Defined benefit obligations at 31.12.	**64,766**	43,421
Fair value of plan assets		
Plan assets at 1.1.	39,233	35,456
Foreign currency adjustments	-1,287	-160
Expected return on plan assets	1,842	1,434
Actuarial gains	1,485	0
Actuarial gain relating to Holland	7,202	0
Contributions	7,155	5,511
Benefits paid	-3,241	-3,008
Plan assets at 31.12.	**52,389**	39,233
Present value of defined benefit obligations	64,766	43,421
Fair value of plan assets	-52,389	-39,233
Net obligation recognised in the balance sheet	**12,377**	4,188
Discount rate	3.0%-4.3%	3.0%
Expected return on plan assets	3.4%-4.3%	4.0%
Future rate of salary rises	1.5%-2.5%	2.0%

The Gruop has defined benefit plans, which are required by law, in Switzerland and Holland.

In 2005, the benefit plan in Holland (multi-employer plan) was treated as a defined contribution plan in the financial statements. In 2006, it became possible to actuarially calculate the Group's share of net obligations, and the plan has therefore been reclassified as a defined benefit plan. On reclassification, the part of net obligations of DKK 6.8 million at 1 January 2006 has been charged to 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 2 million and DKK 40 million (USD 37 million, EUR 4 million and DKK 40 million in 2005). At 31 December 2006, unrealised gains on these interest rate swaps amounted to DKK 3.3 million (DKK -2.0 million in 2005), which are recognised in the equity.

The carrying amount of other financial assets corresponds to the fair value.

Group cash mainly consists of bank deposits, of which DKK 25.6 million (DKK 26.1 million in 2005) is in jointly managed enterprises.

For information on risks, please refer to *Risk management activities* on page 22.

All the Parent's external receivables of DKK 39 million (DKK 38 million in 2005) will fall due after five years. Of the Parent's long-term debt, DKK 58 million (DKK 68 million in 2005) will fall due within five years. Both receivables and debt relating to subsidiaries are considered either additions to or deductions from the overall investments in the particular entities and are therefore considered long-term items.

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

	Under 1 year	1-5 years	Over 5 years	Total	Weighted rate of return
2005					
Other interest-bearing long-term assets	0	112,077	3,505	115,582	
Cash	134,685	0	0	134,685	
Interest-bearing assets	**134,685**	**112,077**	**3,505**	**250,267**	**3.2%**
Mortgage debt	-7,305	-32,555	-164,144	-204,004	
Debt to credit institutions	-10,626	-365,790	-121,556	-497,972	
Interest-bearing, short-term bank debt	-658,938	0	0	-658,938	
Interest-bearing debt	**-676,869**	**-398,345**	**-285,700**	**-1,360,914**	**3.5%**
Net position	**-542,184**	**-286,268**	**-282,195**	**-1,110,647**	**3.6%**
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	-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%**

PARENT		Note 16 – Other payables (DKK - in thousands)	GROUP	
2005	2006		2006	2005
0	0	Product-related liabilities	98,872	93,752
2,750	4,384	Staff-related liabilities	124,787	110,412
2,229	0	Other payables to public authorities	62,384	54,524
3,514	3,943	Other expenses payables	139,757	110,262
8,493	**8,327**	**Other payables**	**425,800**	368,950

PARENT		Note 17 – Rental and lease commitments (DKK - in thousands)	GROUP	
2005	2006		2006	2005
0	0	Rent commitments	159,819	139,283
121	0	Other operating lease commitments	16,728	16,857
121	**0**	**Total**	**176,547**	156,140
61	0	Operating lease commitments, less than 1 year	42,354	55,586
60	0	Operating lease commitments, 1-5 years	87,768	88,328
0	0	Operating lease commitments, over 5 years	46,425	12,226
121	**0**	**Total**	**176,547**	156,140

In the consolidated income statement, operating lease commitments are recognised at DKK 74.2 million (DKK 68.5 million in 2005).

The William Demant Holding Group has entered into operational lease agreements, essentially concerning rent and cars.

PARENT		Note 18 – Contingent liabilities (DKK - in thousands)		GROUP
2005	**2006**		**2006**	2005
87,232	81,934	Recourse guarantee commitments in relation to subsidiaries' credit facilities	0	0
22,904	34,335	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 490 million in 2005).

William Demant Holding A/S has guaranteed the payment of rent by a subsidiary in the amount of DKK 11.2 million (DKK 0 million in 2005) and provided guarantees in respect of the continued operation of certain subsidiaries in 2007.

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 party to a few lawsuits, the outcomes of which, in Management's opinion, are insignificant in terms of the Group's financial position. Provisions are made for lawsuits to the best of our knowledge.

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.

PARENT	Note 19 – Related parties	GROUP

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 enterprises 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 enterprises are shown on page 59.

The Oticon Foundation lets office and production premises to the joint venture, Sennheiser Communications A/S. In 2006, the rental expense amounted to DKK 1.5 million (DKK 1.4 million in 2005). The Oticon Foundation and William Demant Invest A/S paid administration fees amounting to DKK 0.4 million (DKK 0.7 million in 2005) and DKK 0.3 million (DKK 0.3 million in 2005), respectively.

William Demant Invest A/S is jointly taxed with the other Danish enterprises. The tax base, DKK 9.6 million (DKK 2.2 million in 2005), of the taxable result in William Demant Invest A/S was utilised by the other Danish enterprises which pay joint taxation contributions in respect hereof.

Joint ventures have been consolidated using the interests held by the Group in the particular entities. Sales to joint ventures not eliminated in the consolidated financial statements amounted to DKK 244 million (DKK 184 million in 2005). At year-end, non-eliminated receivables, net with joint ventures totalled DKK 26 million (DKK 24 million in 2005).

In 2006, the Group paid royalties amounting to DKK 2.6 million (DKK 2.3 million in 2005) to associates and received dividends as shown in note 10.

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 15.

Note 20 – Government grants	GROUP

In 2006, the William Demant Holding Group received Government grants in the amount of DKK 0.4 million (DKK 0.3 million in 2005).

Note 21 – Acquisitions (DKK - in thousands) GROUP

	2006		2005	
	Carrying amount prior to acquisition	Opening balance sheet of fair value	Carrying amount prior to acquisition	Opening balance sheet of fair value
Intangible assets	0	943	0	0
Property, plant and equipment	5,580	5,580	677	677
Other long-term assets	670	3,457	0	0
Inventories	1,503	1,503	2,032	2,032
Receivables	1,303	1,303	1,228	1,228
Cash	443	443	973	973
Short-term payables	-8,682	-8,682	-956	-956
Acquired net assets	**817**	**4,547**	3,954	3,954
Goodwill		33,183		9,193
Acquisition cost including transaction costs		**37,730**		13,147
Provisions for any earn-outs		-9,291		0
Of which cash		-443		-973
Cash acquisition cost		**27,996**		12,174

The Group's acquisitions relate to the acquisition of all activities in minor distribution entities in Australia, the USA 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 entities and the Group's existing activities, future growth potential and the value of the employees of such entities whose value cannot be reliably measured.

The above computation of the fair values at the time of acquisition in 2006 is not final as regards acquisitions made immediately be-fore year-end. In 2006, we found no basis for revising the computations of 2005.

No acquisitions have been made from the balance sheet date until the presentation of the financial statements.

It is estimated that consolidated revenue and profit would have been DKK 5,128 million and DKK 904 million, respectively, had the entities been acquired at 1 January 2006. The acquired entities have not significantly affected consolidated profit for the year.

Note 22 – Assets held for sale GROUP

On expiry of a lease in respect of a production property, the Group has acquired this property on beneficial terms. On relocation, the property is expected to be sold to a third party in the 2007 financial year.

Group companies

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 Limited, United Kingdom	100%
Oticon Inc., USA	100%
Oticon Australia Pty. Ltd., Australia	100%
Oticon New Zealand Ltd., New Zealand	100%
Oticon K.K., Japan	100%
Oticon Singapore Pte Ltd., Singapore	100%
Oticon Nanjing Audiological Technology Co. Ltd., China	100%
Oticon South Africa (Pty) Ltd., South Africa	100%
Prodition S.A., France	100%
Bernafon AG, Switzerland	100%
Bernafon Hörgeräte GmbH, Germany	100%
Bernafon S.r.l., Italy	100%
Maico S.r.l., Italy	100%
Bernafon, LLC, USA	100%
Bernafon Canada Ltd., Canada	100%
Bernafon Australia Pty. Ltd., Australia	100%

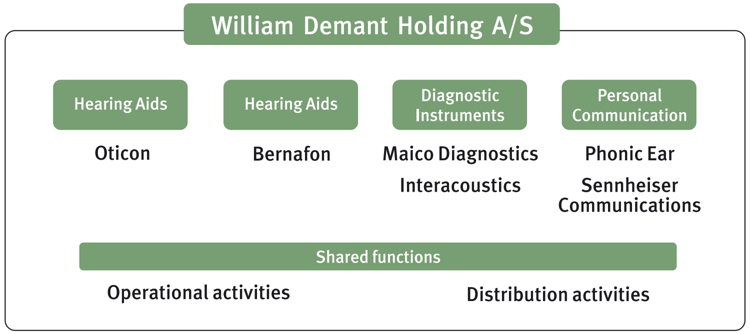
Company	*Interest*
Australian Hearing Aids Pty. Ltd., Australia	100%
Bernafon New Zealand Pty. Ltd., New Zealand	100%
Bernafon K.K., Japan	100%
Acustica Sp. z o.o., Poland	100%
Phonic Ear Inc., USA	100%
Phonic Ear (Canada) Ltd., Canada	100%
Phonic Ear A/S, Denmark	100%
Maico Diagnostic GmbH, Germany	100%
Diagnostic Group LLC, USA	100%
Interacoustics A/S, Denmark	100%
DancoTech A/S, Denmark	100%
Danacom Produktion A/S, Denmark	100%
Inmed Sp. z o.o., Poland	100%
Hidden Hearing (UK) Ltd., United Kingdom	100%
Hidden Hearing (Portugal), Unipessoal Lda., Portugal	100%
Hidden Hearing Limited, Ireland	100%
Akoustica Medica M EPE, (Hidden Hearing), Greece	100%
Digital Hearing (UK) Ltd., United Kingdom	100%
Centro Auditivo Telex S.A., Brazil	100%
Western Hearing Services Pty. Ltd., Australia	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 undertakings.

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.

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 the areas of production, research and development etc.



Hearing Aids

The Group's core business is Hearing Aids, and this business activity comprises Oticon and Bernafon.

Oticon's vision is "to help people live the life they want, with the hearing they have". Oticon aims to supply the most sophisticated technology and audiology based on the needs and wishes of the hearing impaired and at any time to offer a full range of the best hearing aids and fitting systems on the market. Oticon wishes to be the most attractive provider of hearing aids and looks upon the hearing care professional as its business partner. Oticon sells its products through sales enterprises in 22 countries and about 80 independent distributors worldwide.

Bernafon aims to help hearing-impaired people to hear and communicate better through innovative hearing aid solutions. Bernafon offers a large range of quality hearing aid systems in all product categories. Bernafon's hearing aids are flexible and easy to fit for hearing care professionals, and the products represent some of the most attractive combinations on the market in terms of performance and price. Today, Bernafon sells its products through 14 sales enterprises and over 70 independent distributors.

Diagnostic Instruments

This business activity includes Maico and Interacoustics, 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 measurement of the hearing of infants. Maico has enter-prises in Germany and the USA.

Interacoustics develops, manufactures, sells and services audiometric equipment with focus on advanced diagnostic and clinical products, including equipment for fitting of hearing aids.

From its head office in Denmark, the company's products are primarily sold through external distributors and the Group's hearing aid enterprises.

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 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 enterprises in Denmark and North America and through distributors or other subsidiaries in the rest of the world.

Sennheiser Communications, a joint venture created by German Sennheiser electronic and the William Demant Holding Group, develops, manufactures and markets handsfree communication solutions, mainly headsets, for both professional users and for home use. The products are sold through a global network of distributors, OEM manufacturers, retailers and telecommunications 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 enterprises and external distributors. In some markets, products are distributed to the end-user direct.

Delta
Check

Delta
Mother of Pearl

Delta
Deep Purple

Delta
Cabernet Red

Delta
Racing Green

Delta
Charcoal Grey

Delta
Chocolate Brown

Delta
Champagne Beige

Delta
Diamond Black

Delta
High-tech Silver

Delta
Shy Violet

Delta
Samoa Blue

Delta
Wildlife

Delta
Green Chameleon

Delta
Sunset Orange

Delta
Wall Street

Delta
Midnight Blue

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Mission

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

All 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 bound up with 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 results.

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.