



# GN Q3 Interim Report

Mogens Hugo, Chairman  
Toon Bouten, CEO  
Anders Boyer, CFO  
Jesper Mailind, CEO GN ReSound  
Jens Bille Bergholdt, VP IR

November 6, 2007



## Safe Harbor Statement

The forward-looking statements in this interim report reflect management's current expectations of certain future events and financial results. Statements regarding 2007 are, of course, subject to risks and uncertainties which may result in material deviations from the outlook set forth. Furthermore, some of these expectations are based on assumptions regarding future events which may prove incorrect.

Factors that may cause actual results to deviate materially from expectations include – but are not limited to – general economic developments and developments in the financial markets, technological developments, changes and amendments to legislation and regulations governing GN's markets, changes in the demand for GN's products, competition, fluctuations in sub-contractor supplies, and the integration of company acquisitions.

Class action lawsuits are being brought in the United States against our American subsidiary and other Bluetooth headset manufacturers claiming failure to warn of 'noise induced hearing loss.' While we believe these suits are without merit, the costs to defend against them could be high and the outcome of litigation is not predictable.

This interim report, announcement or presentation should not be considered an offer to sell securities in GN Store Nord.





## Agenda

- Q3 Summary
- CC&O and Mobile Headsets
- Hearing Instruments and ADE update
- Financial update for Headsets
- Strategy and governance



## Q3 Summary

- The results for the Headset business improved strongly to DKK 12m from DKK (126)m Y-o-Y, however the results were in the low end of expectations
- As a consequence of a very long sales process, the results for GN ReSound did not meet expectations
- The Board has decided to abandon the sales process concerning GN ReSound and keep the activities within GN
- New governance structure: Headsets and GN ReSound will be run as separate entities; two equally ranked Executives in GN Store Nord.
- CEO for the headset business will remain Toon Bouten. New CEO for GN ReSound will be filled as soon as possible
- Deputy CEO Jens Due Olsen will resign from GN's Executive Management. GN ReSound CEO Jesper Mailind will remain in place until a new CEO takes over.
- Second preliminary expert report has not led DPTG I/S to alter its claim of DKK 5 billion against TPSA. A second expert should review the modeling. The next hearing is set for December 2007

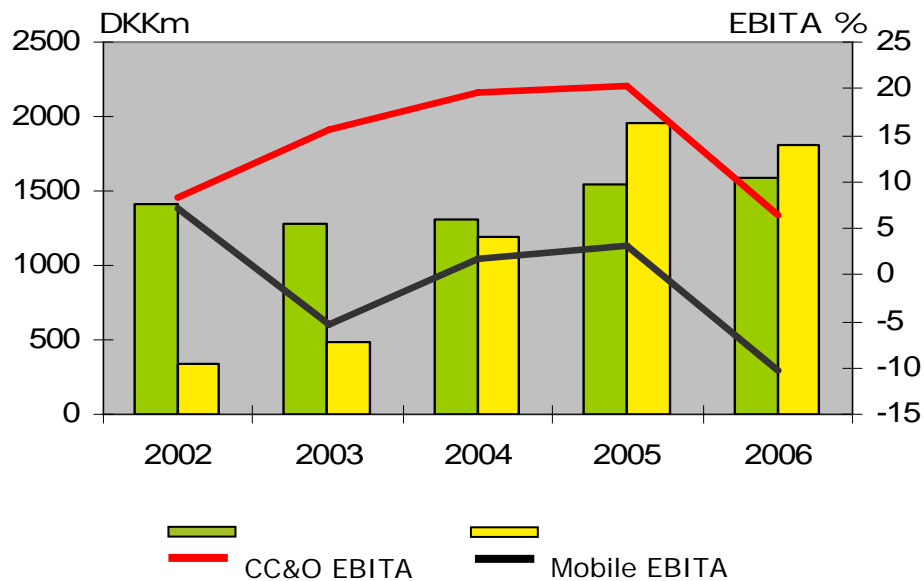
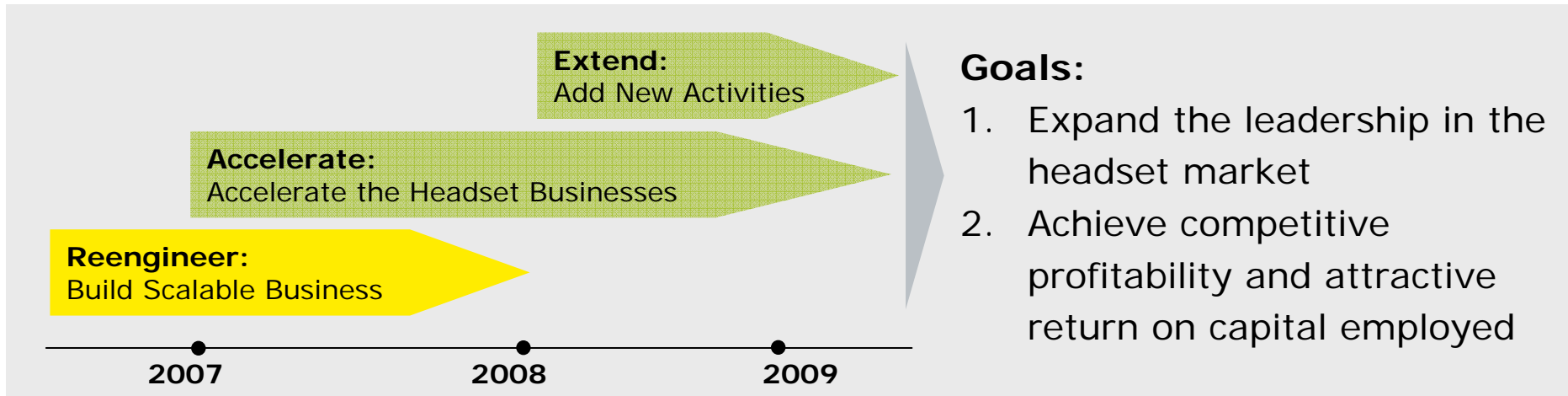


## Headsets





# Headset strategy plan is on track even though main partner agreement slightly delayed



**Reengineer:**  
**Build Scalable Business**

1. Market-oriented Organization
2. Operational Excellence
3. Increase Productivity





# Strategy Update

## People

- Market-oriented organization is in place
- No. of employees reduced from approx. 1,800 end of 2006 to approx. 1,600

## Products

- Two new platforms are being mass produced
- More R&D activities will move from Mobile Headsets into CC&O Headsets

## Manufacturing

- Milestone supply chain agreement signed
- Main partner strategy is expected to be fully operational to high season in 2008.

## Customers and distribution

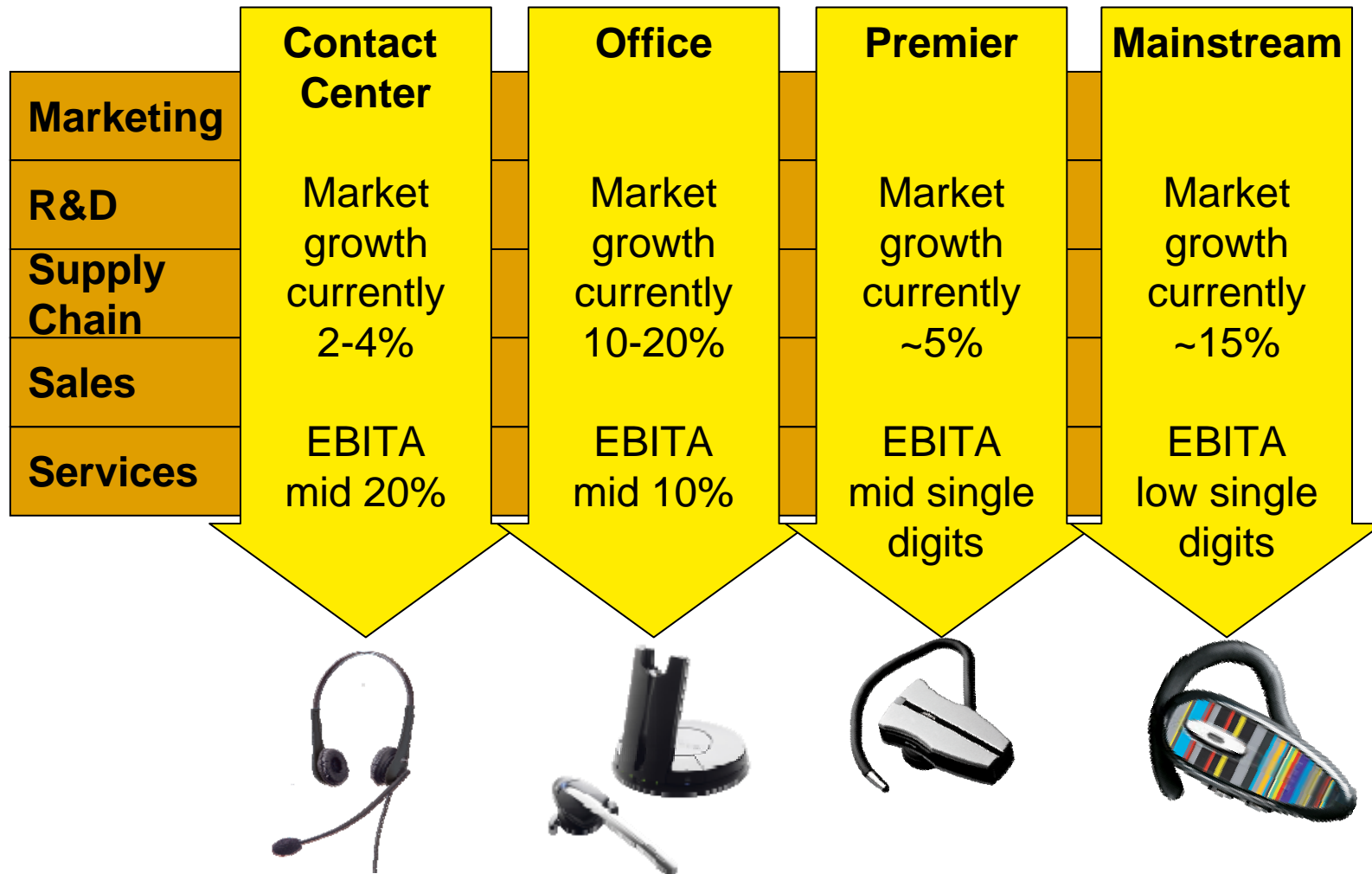
- A number of new OEM programs were won during Q3 with effect mainly in 2008
- OEM organization strengthened to grow existing and new global accounts

## Capital employed and cost structure

- Build up of inventory due to preparation for the high season
- Several projects addressing cost structure and cost level



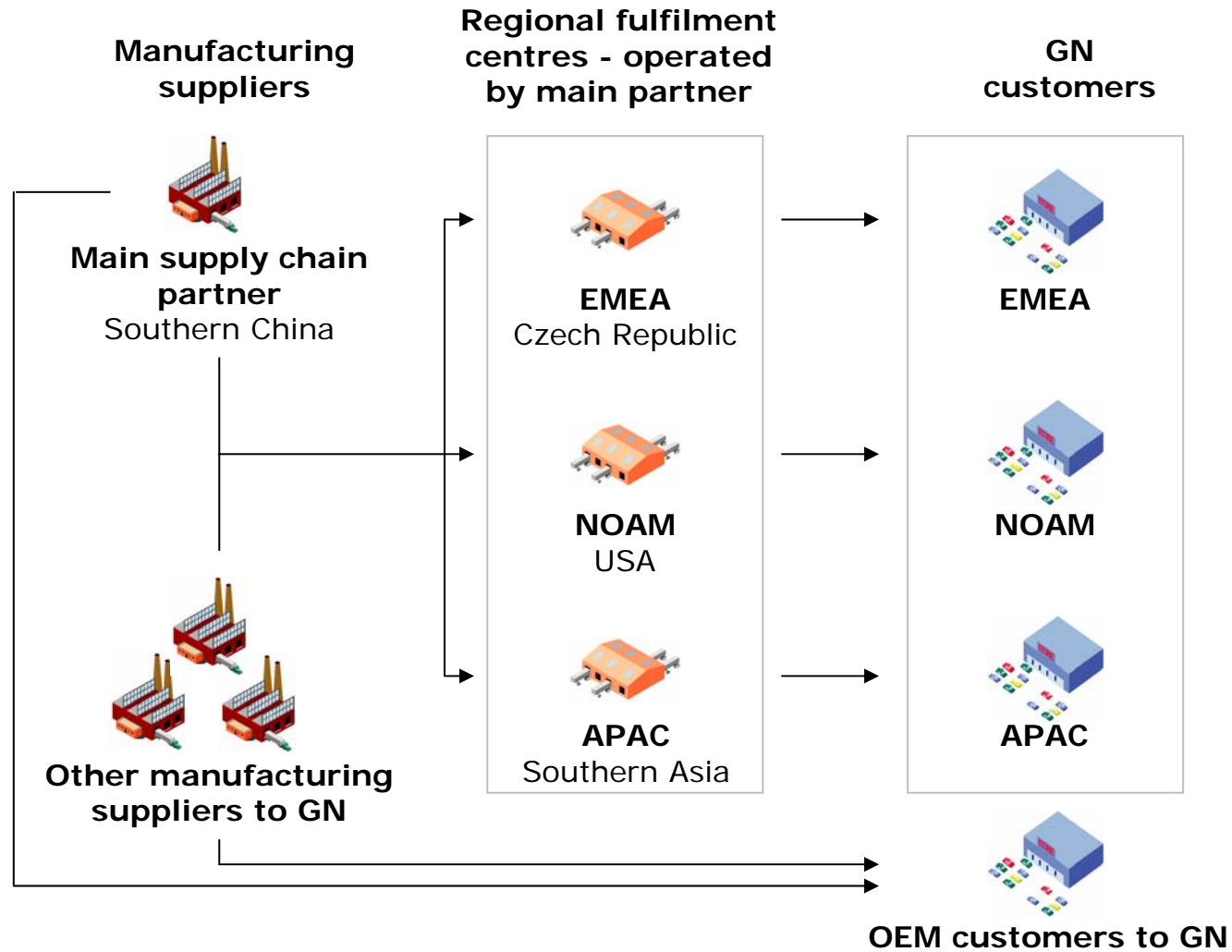
## Mobile market growth has decreased







# Future GN supply chain structure





## GN headsets for Microsoft®



- First wireless headsets for Microsoft® Office Communicator 2007
- Vast market and channel opportunity:
  - 260,000 MS resellers worldwide
  - 420 million MS users
- Strategic partnership and shared vision of “Unified Communication”
- Close co-operation on next generation headsets for the mobile MS office

**Microsoft®**  
**GOLD CERTIFIED**  
*Partner*

OPTIMIZED FOR  
Microsoft®  
Office Communicator





GN ReSound





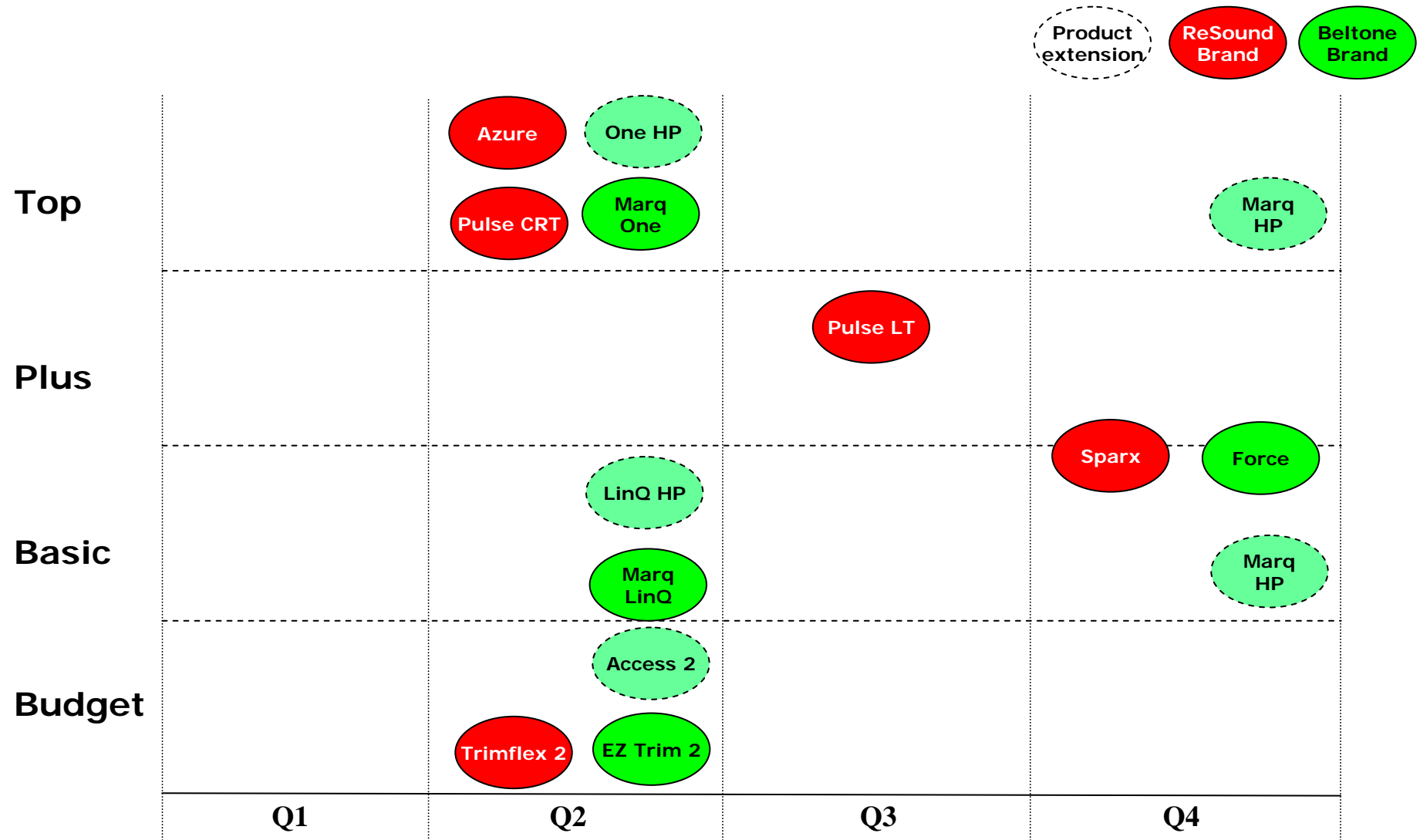
# Hearing Instruments

(DKK million)	Q1	Q2	Q3	Q4	2006	Q1	Q2	Q3
Revenue	764	729	732	807	3,032	731	760	676
Growth	5%	(3)%	1%	5%	2%	0%	8%	(4)%
Gross margin	61%	64%	63%	64%	63%	64%	66%	64%
EBITA before one-offs	105	98	107	122	432	121	127	53
EBITA margin before one-offs	13.7%	13.4%	14.6%	15.1%	14.2%	16.6%	16.7%	7.8%
EBITA	50	98	107	122	377	121	127	53

- Organic growth of (4)% adversely affected by the long sales process
- Gross margin was up 1% Y-o-Y following last year's restructuring measures in Interton
- EBITA was adversely affected by negative growth and extraordinary costs following a settlement in a lawsuit against GN ReSound. Settlement amount can not be disclosed



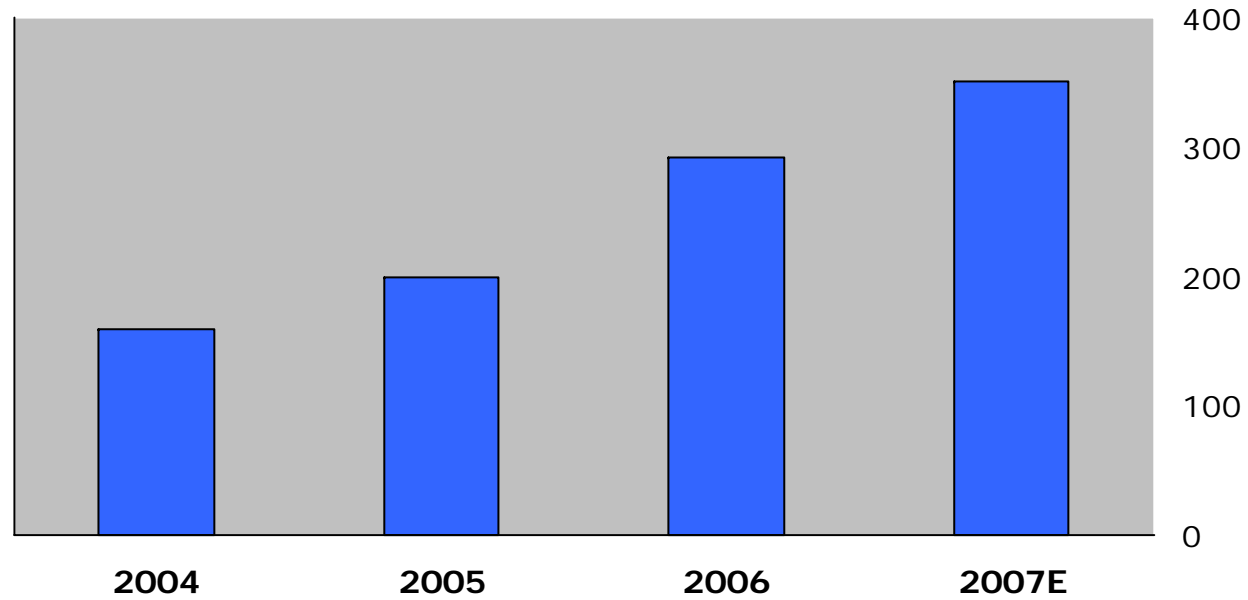
# Continued launch of products in 2007





## Strong product pipeline following continued investments in R&D

R&D spending in Hearing Instruments (2004-2007)  
DKK million





# Strongest Super Power product launched at EUHA



**ReSound Sparx™**

**Super Power receiver** ✨  
- robust & back-vented  
- in embedded suspension

**Analogue Volume Control** ✨  
- setting of 1-4  
- rubber protected

**Gold-plated battery spring** ✨  
- anti-corrosion  
- years in the market

**675 Battery** ✨  
- up to 685 hours life time  
- battery door lock

**Screw-on tone tube adaptor** ✨  
- damped & undamped  
- adult & baby size

**Microphone in shock-resistant frame** ✨

**Low battery Digital processing Chip** ✨  
- optimal battery life  
- state-of-the-art algorithm features

**High sensitive Telecoil** ✨  
- induction loops  
- telecoil-ready telephones

**Direct Audio Input**  
- connector to Audio shoe  
- compatible to accessories; FM-link, MP3, mobile phone

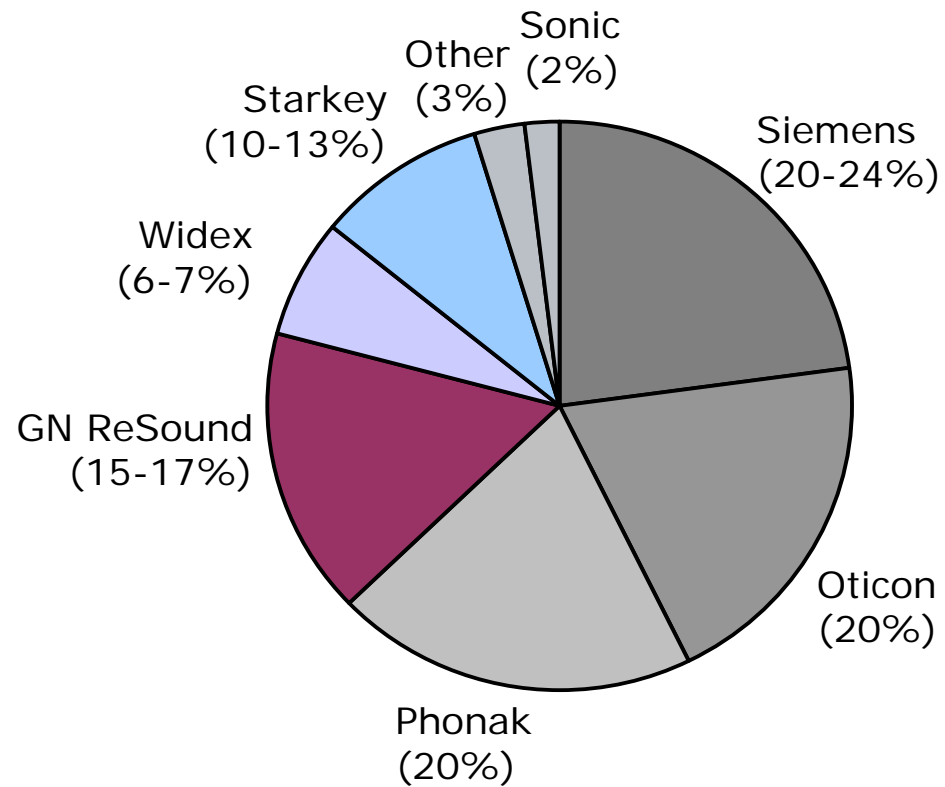


Blonde Blue Brown Grey Red



## Significant presence with 15-17% global share

Worldwide market share distribution, 2006



Source: FCO, Merrill Lynch, Kaupthing Bank and internal analysis





## Financial update for Headsets





## Profit and Loss

(DKK million)	2005	Q3/2006	2006	Q3/2007
Revenue	3,533	711	3,413	673
Gross margin	41%	32%	36%	44%
EBITA before one-offs	322	(26)	70	16
EBITA margin before one-offs	9.1%	(3.7)%	2.1%	2.4%
EBITA	322	(126)	(120)	12

- Financial results improved strongly Y-o-Y
- Flat organic growth Y-o-Y
- Gross margin improvement was primarily driven by an increase in the gross margin in Mobile Headsets and partly driven by lower Mobile Headsets revenue share
- EBITA improved but was in the low end of expectations



## Balance Sheet (selected items)

(DKK million)	End Q3/2006*	End 2006	End Q2/2007	End Q3/2007
Goodwill	470	455	445	427
Tangible assets	454	501	501	498
Inventories	471	316	282	381
Trade receivables	538	604	491	563
Assets held for sale	5,463	5,596	5,784	5,637
Equity	4,711	4,900	5,063	4,875
Trade payables	132	220	169	226
Liabilities held for sale	1,367	1,326	1,338	1,302
Total assets/liabilities	8,158	8,227	8,278	8,191
Net interest bearing debt**	1,448	1,387	1,272	1,346

\* Pro forma

\*\* incl. discontinuing operations

- Value of TPSA and tax disputes not included in balance sheet
- NIBD increased by DKK 74 million in Q3 2007



## Cash Flow (selected items)

(DKK million)	2005	Q3/2006	2006	Q3/2007
CFFO before working capital	498	(38)	67	56
Change in working capital	(357)	(90)	185	(83)
Cash flow from operations	137	(119)	231	(22)
CFFI excl. HQ and disposals	(156)	(46)	(201)	(43)
Disposal of companies	1	49	49	0
Invest. in new HQ	(20)	(62)	(306)	(5)
Cash flow from investments	(175)	(59)	(458)	(48)
Free cash flow, continuing	(38)	(178)	(227)	(70)
Free cash flow, discontinuing	112	52	(4)	7

- Headsets CFFO before working capital improving
- Build up of inventory due to preparation for the high season increases working capital as expected
- Minor but positive free cash flow in GN ReSound



## CC&O Headsets

(DKK million)	Q1	Q2	Q3	Q4	2006	Q1	Q2	Q3
Revenue	447	386	349	405	1,587	400	369	366
Growth	25%	4%	(6)%	(7)%	3%	(6)%	(2)%	8%
Gross margin	64%	59%	59%	61%	61%	64%	65%	64%
EBITA before one-offs	79	48	21	86	234	82	61	48
EBITA margin before one-offs	17.7%	12.4%	6.0%	21.2%	14.7%	20.5%	16.5%	13.1%
EBITA	79	(7)	(39)	70	103	82	61	47

- Good overall organic growth
- Organic growth excluding Hello Direct was 9%. EMEA was up 10% and North America down (9)% Y-o-Y
- North America: several changes made and in progress
- Hello Direct was profitable and performing according to plan
- The EBITA margin excluding Hello Direct and one-offs was 14.0% compared to 14.2% last year



## Mobile Headsets

(DKK million)	Q1	Q2	Q3	Q4	2006	Q1	Q2	Q3
Revenue	463	556	355	435	1,809	349	248	304
Growth	54%	15%	(48)%	(8)%	(7)%	(22)%	(54)%	(12)%
Gross margin	21%	18%	5%	9%	14%	10%	6%	19%
EBITA before one-offs	(14)	(18)	(44)	(49)	(125)	(66)	(50)	(38)
EBITA margin before one-offs	(3.0)%	(3.2)%	(12.4)%	(11.3)%	(6.9)%	(18.9)%	(20.2)%	(12.5)%
EBITA	(14)	(18)	(84)	(68)	(184)	(66)	(78)	(41)

- Organic growth improved significantly from Q2 to Q3 2007
- Gross margins are improving
- Results showing good progression but still affected by a low revenue level
- OEM programs and other substantial carrier and industry orders were won with revenue impact mainly in 2008
- Mobile business streams joined under one management
- Mainstream achieved positive EBITA in Q3



## 2007 guidance

(DKK million - approximate figures)	Outlook for 2007	Comments
<b><u>Continuing operations:</u></b>		
<b>Revenue</b>		
Contact Center & Office Headsets	1,275-1,300	Org. growth of above 10% in Q4
Hello Direct	275-300	
Mobile Headsets	1,300	Very dependent on OEM
GN Total*	2,850-2,900	
<b>EBITA (before one-offs)</b>		
Contact Center & Office Headsets	275	} CC&O Q4 impact from Microsoft® OC
Hello Direct	25	
Mobile Headsets	(150)	} Mobile close to break-even in Q4
Other	(50)	
GN Total*	100	} 2006 EBITA (excl. one-offs) = 70
Restructuring (one-offs)	(50)-(100)	
Amortization (10) & finance (65), net	(75)	
<b><u>GN ReSound</u></b>		
Revenue*	3,200	Hereof ADE 325-350
EBITA*	400-450	Hereof ADE just below 25
<b>Estimated transaction costs</b>	275	

\*uncertainty due to the ongoing restructuring in Headsets and the discontinued strategic process in GN ReSound



## Strategy and governance

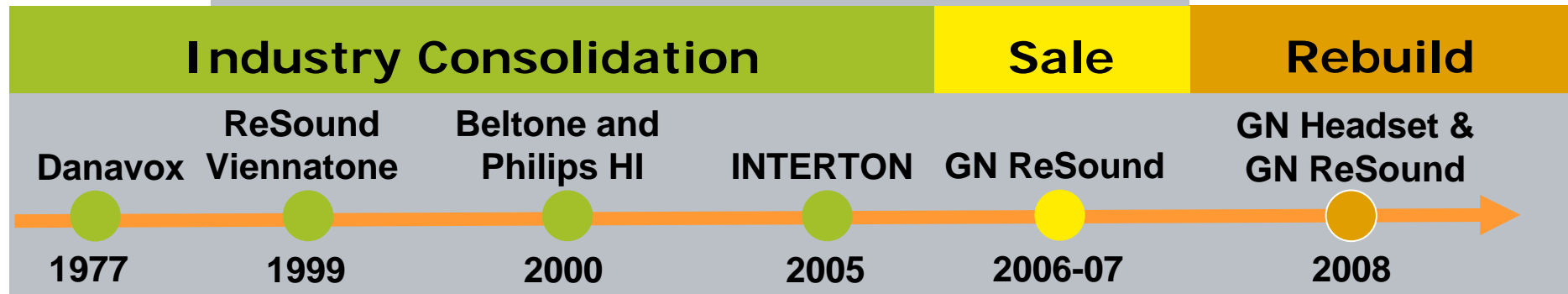






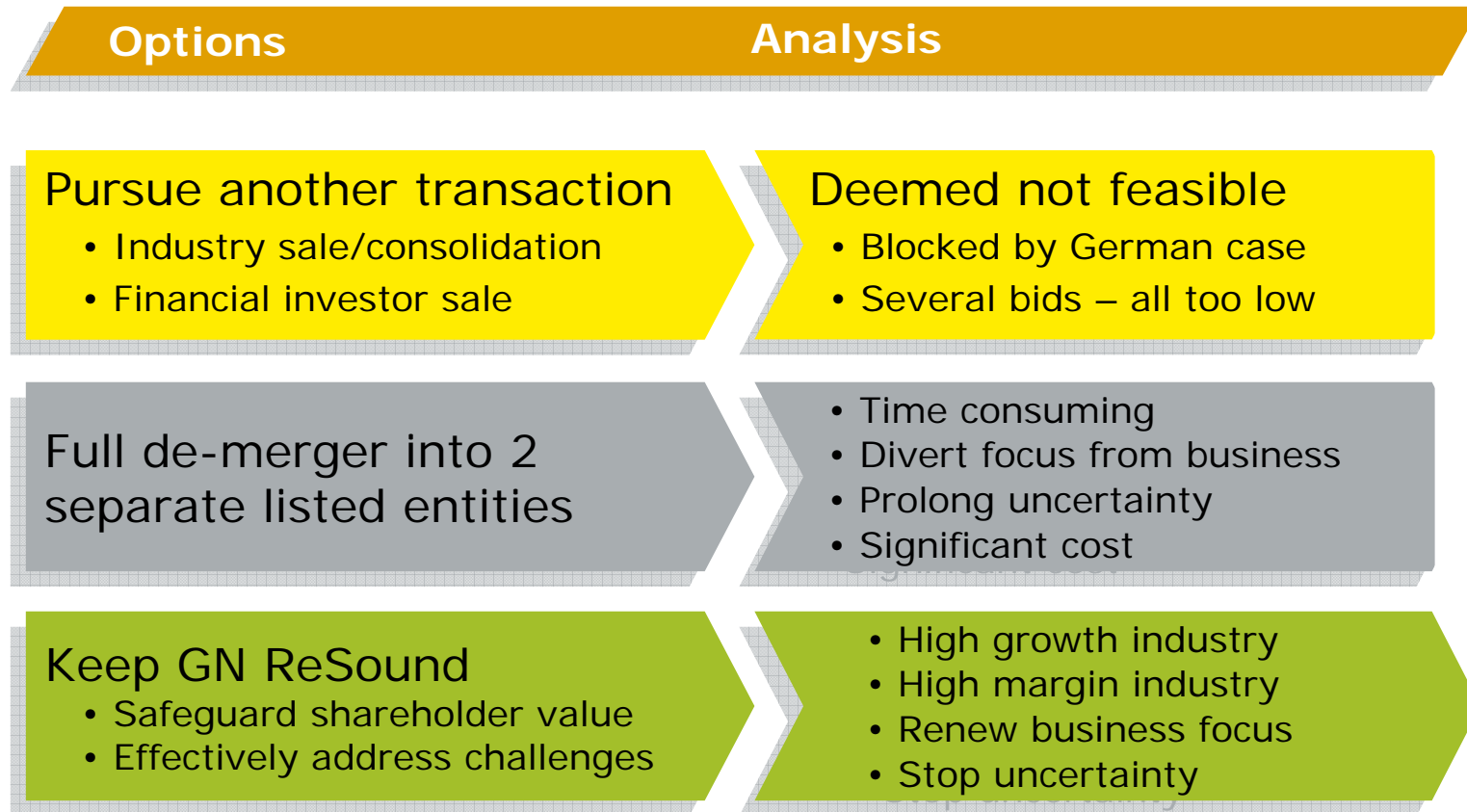
# ReSound Sales Process

- Consolidation followed by closing the margin gap
- Extraordinary good sale followed by surprising German obstruction
- Forward strategy & rebuilding with renewed business focus



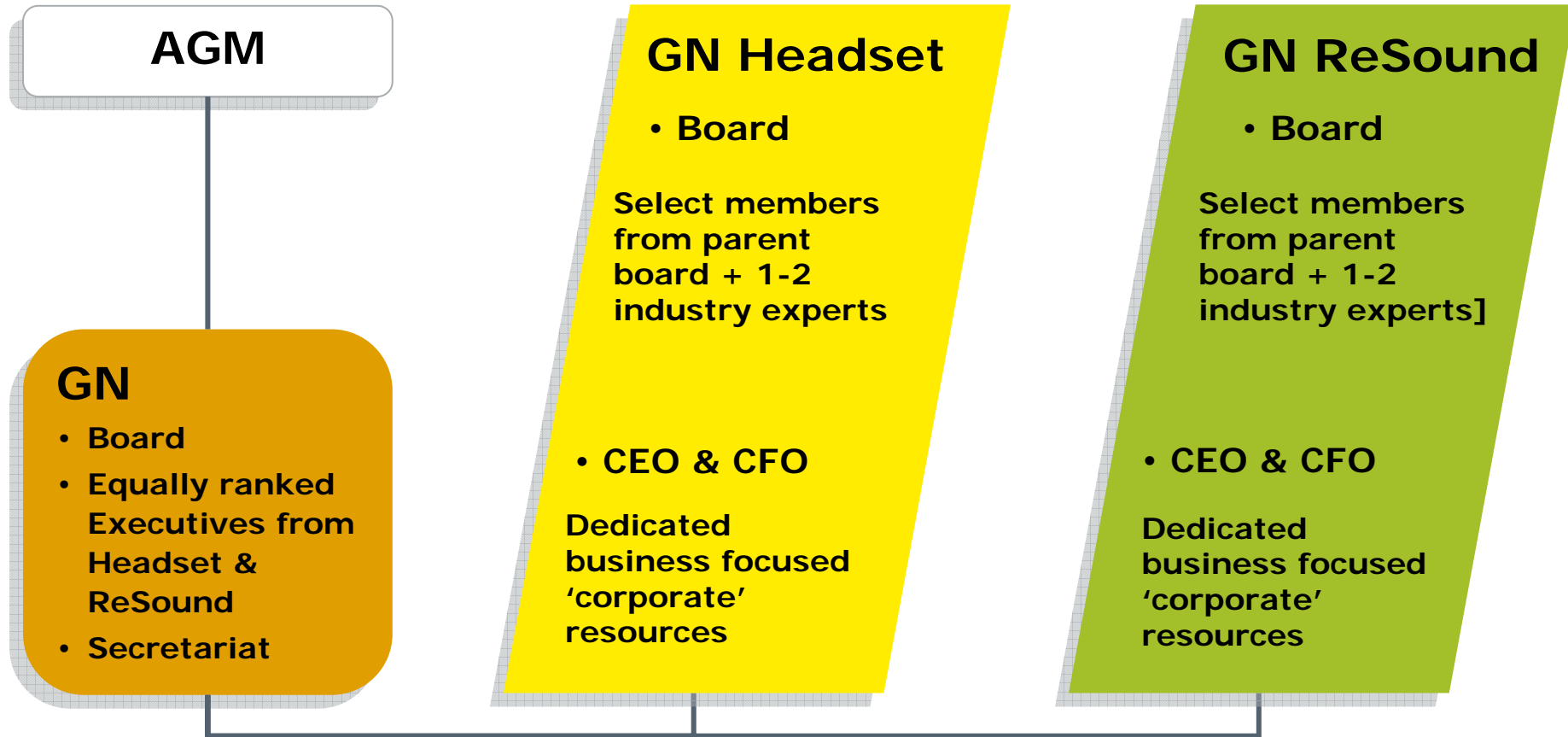


# The Board's Analysis on ReSound





# New Governance Structure





## Key Action Points in Headset

1. Pursue strategy imposed early 2007
2. Comprehensive reengineering of the business, including new supply-chain setup
3. Reengineering to be followed by growth acceleration from frequent product launches
4. Revenue growth without parallel growth in costs, capital expenditure and working capital

*→ Target margins of mid 20% in CC, mid 10% in Office, mid single digit in Premier, low single digit in Mainstream*



## Key Action Points in GN ReSound

1. Win back key customers lost in sales process
2. Invest in sales channels
3. Leverage strong product pipeline
4. Aggressively address Asian market leader opportunity
5. Revisit/finalize stalled business engineering projects

*Underperformance into H1-2008. Afterwards: Sustained higher growth and better margins.*



## Changes in Management



- GN Executive Management is Toon Bouten (CEO) and Anders Boyer (CFO)
  - Until new GN ReSound management is in place and new governance structure fully implemented



- Deputy CEO Jens Due Olsen
  - Anchored the sales process regarding GN ReSound
  - Leaves GN in light of abandoned sales process and GN's new governance structure



- GN ReSound CEO Jesper Mailind
  - Integrated 6 companies and improved margins
  - Accepted to head transition following GN ReSound sale
  - Continues until new CEO is onboard

