



MAGAZINE



CLASS OF 2006



Lots of new GN products on the shelves in 2006.

Read more about the many new products – pages 12-15.



Mogens Hugo Jørgensen, Chairman, GN Store Nord:

**“Our goal is to make a profit
for our shareholders”**

New Products, Increased Investment

EDITORIAL



The market is making ever-greater demands on manufacturers; in both the hearing instrument and headset industries. More frequent product launches, market presence and increased marketing promotion are some of the requirements GN must constantly meet, and we do that by investing more both in R&D and in sales and marketing.

Through these investments, we've brought the number of product launches to the highest level ever for GN's Hearing Instruments: eleven new products are coming to the market this year. These product launches create the framework for future growth.

However, the Supervisory Board believes that the need for critical mass in the hearing instrument industry will continue to grow and that GN ReSound may thus benefit from operating under a different ownership. As a result, the Board has decided to start a process to investigate the strategic options available to our hearing instrument business. In the interview on page 4, our Supervisory Board Chairman, Mogens Hugo Jørgensen, talks about this decision.

However, the process will not bring hearing instruments operations to a halt. We continue to invest in improving our in-house procedures. In R&D, for example, enhanced work processes and new equipment shall reduce the time it takes to develop a hearing instrument by 50%, to a total of about 15 months. Our goal is to constantly

satisfy the market's demand that we launch new products more and more frequently.

A number of countries, including the US, the UK and Poland, have begun to screen newborns for hearing loss and to provide the necessary help at an early stage. Studies have shown that providing sound stimulation to newborns with a hearing impairment helps them to do better than children whose hearing loss diagnosis comes later in life. A two-year research project in Denmark on screening newborns is almost at an end now, and GN Magazine has met with the senior physician in charge of the screening project in Copenhagen to find out what has been learned from the project, in which GN Otometrics equipment was used.

On May 15, GN combined its headset operations into one global organization, an organization which is now the world's largest headset manufacturer. The integration of the two business areas is progressing according to plan, and a number of projects have been launched to make sure that GN will also be able to capitalize on being the world's largest headset manufacturer going forward. The R&D and the sales and marketing departments will gear up to handle more development projects and product launches in all product categories. At the same time, we are currently integrating our sales organizations so GN can work sales channels more efficiently across the contact center, office and mobile markets.

Jørn Kildegaard

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Strong Revenues in the Second Quarter

The customers have given a warm welcome to the world's largest headset business, which was created this spring when GN combined CC&O Headsets and Mobile Headsets into one operation.

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Innovation Faster

The hearing industry's R&D departments are facing ever-tougher demands.



GN Otometrics Teaching

Over the past five years, GN Otometrics has trained more than 1,000 medical specialists, technicians and other health-care professionals from all over the world.

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Convergence

How do you integrate two independent businesses with a total of 1,800 employees without creating doubts and uncertainty and losing momentum? Now the world's largest of its kind, GN's headset business may have the answer.



INTEGRATION

We're discovering new synergies all the time. With feedback like that coming from the effort to integrate GN's two individual headset organizations, there is no doubt that staff, area managers and top executives are all very satisfied with the process so far.

GN launched the world's largest headset manufacturer three months ago when the company announced the integration of CC&O Headsets and Mobile Headsets.

Three months later, the encouraging report above comes from Niels Jørgensen. As senior vice president of Product Creation, the department that develops GN's products for the highly demanding and increasingly global headset market, he is more than almost anyone else truly where the action is, working to integrate the 1,800 employees of the two businesses into a single organization.

"It's actually true. We are finding new synergies all the time," says Jørgensen, who sees his 200 R&D staff working together much more on their various projects.

"Staff from GN Netcom are learning how we can use systems from GN Mobile and vice versa. We're constantly identifying new areas where the new organization can draw upon the contributions from all parts of what used to be two individual units," says Jørgensen. For example, GN quickly introduced a common meeting structure and a short time after the integration the two "old" headset organizations were bonded together by a shared reporting system facilitating follow-ups on all aspects of product development.

He points to one factor that got the integration process off to a good start: all the preparations for GN's new organization were completed "behind the scenes", so the new headset organization was operational from the very first day it was announced to the staff and the general public.

"This meant that I was able to hold a meeting with all my employees as early as the next morning to tell them about our short- and long-term goals. That same after-

noon, each of my seven Product Creation department managers presented the plan to their own staff. As a result, there were very few doubts and very little uncertainty among the staff," he says.

A second factor Jørgensen highlights is that the physical locations, i.e. where people would actually be sitting, were all in place – literally – less than a week later.

"Now, we've begun to develop a joint corporate spirit, so to speak, which is very much due to the fact that everyone is working right next to one another, no matter which part of the old organizations they came from. It helps a lot when you meet people at the coffee machine," says Jørgensen, who also emphasizes that there is still some way to go before the integration process will be complete.

The people at the top of the headset organization have a good idea of how the integration process is going. In an employee survey, the process was rated four on a scale of five.

"Everywhere I've gone around the world to visit the organization, people have been extremely flexible. They seem to really understand that the two headset businesses belong together," says Hans Henrik Lund, who is at the helm of the new organization.

As planned, the integration is mainly an in-house GN event so far. Not until later in the year will Lund and his staff launch a campaign to brand the new business operation to customers and sales channels.

However, Lund is not afraid to reveal now the theme of that campaign: that the integration process will ensure that GN, as the world's leading headset manufacturer, can continue to offer the full range of headset products customers' demand.

But will integration gradually lead to more product launches?

"Not necessarily," says Jørgensen. "I believe there will be fewer launches than if we had remained on our own, but we will have better and more focused product launches in the future."

Niels Jørgensen, senior vice president of Product Creation, believes that the success so far of the process of integrating GN's headset businesses is due to an incredibly well-prepared start. He holds a Jabra JX10 Bluetooth® headset.



Our Goal is to Make a Pro

GN Store Nord issued a stock exchange announcement on July 5 informing the market about a process that could lead to a sale of GN ReSound. In this article, GN Chairman Mogens Hugo Jørgensen explains the background for that decision.

STRATEGY

About six years ago, GN was the owner of a small hearing instrument manufacturer called GN Danavox.

"It was a good company with a good management, but it was too small to become a world leader among hearing instrument manufacturers," explains GN Supervisory Board Chairman Mogens Hugo Jørgensen.

"That's why we took the initiative and started a process of consolidation in this industry, acquiring four businesses of about the same size as GN Danavox, businesses that all faced the same challenge of achieving critical mass."

GN acquired ReSound Corp. and Viennatone in 1999 and Beltone and Philips' hearing instrument division the following year, before taking over German company INTERTON in November 2005.

"Through these acquisitions, we built the world's fourth-largest manufacturer of hearing instruments. None of the five businesses were among the top performers profit-wise, so it was necessary to start an extensive restructuring process and refocus operations on growth and earnings. This approach has yielded results. In the course of only a few years, we lifted the EBITA margin of the hearing instrument business from only 6.5% to about

20% in 2005. This was an achievement no one – or only very few people – believed possible."

But you haven't managed to fully match the competition's results. Why not?

"Although our competitors have reported higher growth rates than us in their recent quarterly announcements, GN ReSound is still a strong business with a strong business plan and a great deal of unexploited potential. All in all, I'm confident that, even at this point, GN ReSound has a solid platform for future growth. However, in spite of having invested heavily in new products and marketing, we still have some way to go. In addition, we believe that trying to expand our position further in the hearing instrument industry on our own may entail substantial risk. That's why we decided earlier this summer to investigate the strategic opportunities available to GN ReSound and GN Otometrics. One possibility could be for another company to buy our hearing instrument business. We take an open position on an outcome like that, and we're looking into it, but it wouldn't be at any price. It is important that we find the solution that provides the best return on our shareholders' investment," explains Jørgensen, and he continues:



"We are very much aware that, basically, we have to launch new and innovative products in all price segments and at a faster pace."

*Mogens Hugo Jørgensen,
chairman, GN Store Nord.*

fit for our Shareholders

"The industry has changed. The demand for more frequent and faster product launches has increased sharply in all price categories, necessitating more investment in development, marketing and sales. Customer consolidation is also taking place."

In the headsets business, GN intends to continue working on a number of projects launched to help GN capitalize even more on being the world's largest headset manufacturer.

"This is a challenge we feel we're well prepared for," says Jørgensen.

GN issued a stock exchange announcement informing the market about the process immediately after GN's Supervisory Board resolved on July 5 to investigate the strategic options open to GN ReSound and the company's associated operations in audiologic diagnostics equipment in GN Otometrics.

Have you heard from any interested buyers?

"Our financial adviser, JP Morgan, is in contact with a number of interested companies, but we don't want to comment on who we are talking to and who we're not, or talk about how the process is going," the chairman emphasizes.

"At GN, we are driven by our ambition to create maximum value for our customers, because at the end

of the day that is what creates the best prospects for our company, for our employees and for our shareholders.

Backed by its skilled and competent employees, its strong brands and its broad product portfolio of advanced hearing instruments, GN ReSound can nourish its ambitions of being a strong and attractive partner in any new constellation. No matter what we decide on, that approach will help to maximize return on shareholder investment," he explains.

Jørgensen highlights the fact that GN ReSound intends to continue to invest heavily in new product development and in sales and marketing.

"We are very much aware that, basically, we have to launch new and innovative products in all price segments and at a faster pace."

There is no specific deadline for a decision on whether the hearing instrument business will continue under a new ownership or whether it will continue as a part of GN.

"The process of analyzing our strategic opportunities must not be allowed to go on for too many months, so we are absolutely confident that we can conclude the process by the end of the year," says Jørgensen.

Strong Quarter in Europe

The most profitable part of GN's headset operations is generating even higher growth rates, but prices on the already large mobile market are under pressure.



Hans Henrik Lund is at the helm of GN's headset business.

HEADSET GROWTH

The customers have truly given a warm welcome to the world's largest headset business, which was created when GN combined its two headset businesses into one operation. It may be a little early to draw such a conclusion, seeing as the integration only took place in May, but GN has retained its position as the market leader, also after the second quarter of this year.

Sales of headsets to offices and contact centers (the CC&O segment) continue to rise, according to the Q2 sales figures, and it is the most profitable part of the headset business that is growing the most.

"Excluding Hello Direct, CC&O Headsets had a strong second quarter, reporting 12% organic growth. We especially saw strong growth in Europe, which is truly becoming the largest and most profitable CC&O market for us," says Hans Henrik Lund, who heads up GN's new combined headset business.

The reason why GN still had to lower its full-year 2006 guidance for the headset business was that Hello Direct, GN's US sales channel, had little luck with its large-scale Try'n'Buy campaigns of allowing prospective office market customers to try out a headset for free. While smaller-scale Try'n'Buy campaigns had been a success in Europe, many more US customers than expected returned the products they tried.

Hello Direct has now discontinued the campaigns altogether and swallowed the resulting one-time loss.

"This expense is the only reason we had to lower our CC&O Headsets forecast: we're performing to budget in all other areas," explains Lund.

GN is also selling more units in the mobile market. Sales of Bluetooth headsets as up by 37% in the second quarter over the same period of 2005. However, the unit increase in headsets sold did not translate into corresponding revenue growth for the quarterly period. The reason is that the international headset market is increasingly becoming focused on less expensive products, so revenue performance is unable to keep up with the rising unit sales.

At the same time, prices are coming under pressure from the mobile carriers, who are growing in size and gaining more and more buying power over their suppliers such as GN.

"This is also confirmed by the sales data we see from the competition," says Lund, pointing to a two-pronged strategy for enhancing profitability on the mobile headset market.

"We have to build on GN's unique ability to bring the most innovative products to consumers, products that can do more and which people are willing to pay more for. At the same time, we must constantly develop and improve our production of the less expensive headsets so that we can capitalize on the volume benefits our leading position gives us," Lund concludes.

GN'S HEADSET BUSINESS

- On May 15, GN announced the world's largest business operation in headset development, manufacturing and marketing.
- With more than 30% of the world market, GN is the leader in Bluetooth enabled headsets for cell phones and headsets for the CC&O market.
- Headsets is GN's largest business area.
- GN plans to continue to develop and invest in its headset operations.
- GN's headset business is the result of a integration of its two former divisions, CC&O headsets and Mobile headsets.
- The headset market is expected to expand by 25% annually up to 2010.

Revenue Growth

- Revenue improved to DKK 1,759 million from DKK 1,630 million in Q2 2005.
- EBITA fell to DKK 66 million from DKK 223 million in Q2 2005.
- Profit before tax fell to DKK 113 million from DKK 215 million in Q2 2005.
- Cash flows from operations fell to DKK 2 million from DKK 206 million in Q2 2005.

The excerpt has been taken from GN's interim report released through the Copenhagen Stock Exchange. The Danish version of the interim report shall be the governing text. The entire Q2/2006 report is available at www.gn.com.

Financial results

Revenue improved by DKK 129 million on 4% organic growth to DKK 1,759 million.

Volume growth remained high in Mobile Headsets. However, it was the highest in the low-end segment. The performance consolidates GN's position as the largest headset manufacturer in the market.

In Hearing Instruments demand for the ReSound Pixel and the ReSound Plus5 remained healthy, while, as expected, the ReSoundAIR faced an increasingly competitive market due to similar products launched by the competition. More new products were launched at the end of the quarter.

New products and product upgrades launched in the past 24 months contributed more than 60% of overall revenue.

Revenue was DKK 840 million in North America, DKK 715 million in Europe and DKK 204 million in the rest of the world.

Q2 gross profit was DKK 843 million against DKK 846 million in Q2 2005 in spite of the higher revenue, as the gross margin fell to 48% from 52% in the year-earlier period. The drop in the gross margin was due to part of the costs for Hello Direct, the changed product mix in Hearing Instruments and the increased proportion of sales contributed by low-priced mobile products.

Total sales and distribution costs were DKK 456 million (Q2 2005: DKK 367 million), impacted by a part of the costs related to Hello Direct's Try'n'Buy campaigns, and R&D costs incurred were up by DKK 47 million to DKK 141 million. The increase was driven by the

continuing plans to accelerate growth in both the headset and the hearing instrument businesses by strengthening sales, marketing and R&D activities. As previously announced, these plans will cause a shift in GN earnings towards the second half-year of 2006.

Q2 EBITA fell to DKK 66 million from DKK 223 million in Q2 2005. The setback was due mainly to costs of DKK 55 million related to Hello Direct's Try'n'Buy campaigns and the increased sales, marketing and R&D efforts.

The share of the profit/(loss) in associates, consisting mainly of the divested ownership interest in UK-based Ultravox Holdings, was DKK (5) million, while amortization of acquired intangible assets was DKK (10) million, this item being slightly higher than in Q2 2005 due to the acquisition of INTERTON at the end of 2005. The divestment of the ownership interest in Ultravox Holdings produced an accounting profit of DKK 60 million and Q2 net financials amounted to DKK 1 million. Net interest-bearing debt rose by DKK 430 million during the quarter to stand at DKK 1,339 million at 30 June 2006. The main reason for the increase was the share buybacks of DKK 348 million and net investments totaling DKK 77 million, including investments in development projects.

GN's Q2 profit before tax was DKK 113 million, a drop of DKK 102 million relative to Q2 2005.

GN had an average of 5,638 employees during the quarter, against 4,568 in Q2 2005.

Balance Sheet

Total assets amounted to DKK 8,217 million

at June 30, 2006, compared to DKK 8,068 million at March 31, 2006. Goodwill was DKK 469 million on headset operations and DKK 2,380 million on Hearing Instruments and Audiologic Diagnostics Equipment.

Trade receivables were unchanged at DKK 1,386 million. Inventories rose by DKK 90 million during the quarter to DKK 794 million, as the weakened growth in Mobile Headsets caused an increase in component and finished goods inventories. Cash and cash equivalents rose by DKK 129 million during the quarter as GN received the consideration for the ownership interest in Ultravox Holdings.

Equity stood at DKK 4,725 million, compared to DKK 5,172 million at March 31, 2006. The fall was due to exchange adjustments of DKK (223) million and shares bought back during the quarter of DKK 348 million.

Cash flows

Cash flows from operations were DKK 2 million against DKK 206 million in Q2 2005. The weaker cash flow was due to the lower profit and the increase in working capital in Mobile Headsets and restructurings relating to the closure of the Cork, Ireland operations.

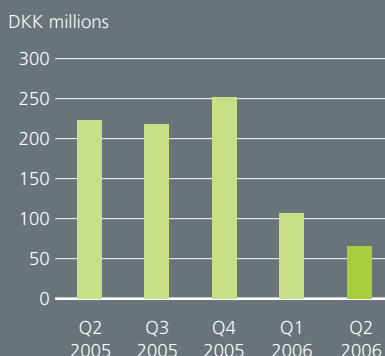
The cash flow from investments was DKK (77) million against DKK (118) million in Q2 2005, because investments in the new GN corporate headquarters and the greater R&D efforts were offset by the DKK 143 million consideration relating to Ultravox Holdings.

The free cash flow was DKK (75) million against DKK 88 million in Q2 2005

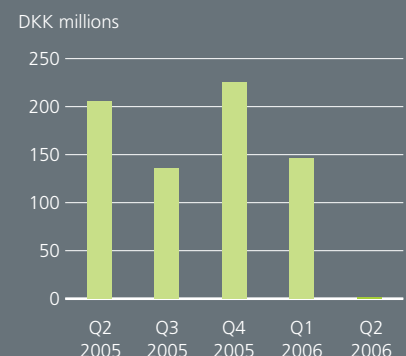
Revenue



EBITA



Cash Flows from Operating Activities



Q2 Operations by Business Area

CONTACT CENTER & OFFICE HEADSETS

(DKK millions)	Q2 2005	Q2 2006
Revenue	373	386
Gross profit	249	229
Gross profit margin	67%	59%
EBITA	81	(7)
EBITA margin	22%	(2)%

Revenue rose to DKK 386 million, the highest level ever in a second quarter, with organic growth at 4%.

CC&O revenue, excluding Hello Direct, the US sales channel, continued to accelerate, improving by 12% to DKK 305 million. The strongest improvements were reported in Europe, the largest and most profitable market for CC&O Headsets. The growth rate in this market moved from 13% in Q1 2006 to 17% in Q2 2006, marking the third straight quarter of double-digit growth rates. Growth was at 5% in the United States, exclusive of Hello Direct.

Revenue was DKK 172 million in North America, DKK 185 million in Europe and DKK 29 million in Asia and the rest of the world. Wireless headsets accounted for about 36% of revenue.

The Q2 innovation rate was 10%, up from 7% in Q1, lifted by the launch of the GN 9300 series.

The gross margin exclusive of Hello Direct fell slightly short of expectations due to shifts in the product mix. The gross margin including Hello Direct was impacted by the costs of discontinuing the Try'n'Buy campaigns.

EBITA, exclusive of Hello Direct, was DKK 52 million in the second quarter, compared to DKK 69 million in the year-earlier period, due to planned, increased investments in R&D, sales and marketing, and certain severance costs related to the integration of the headset operations. In aggregate, sales, distribution, R&D and administrative costs were DKK 67 million higher than the figure for Q2 2005.

The Try'n'Buy campaigns were discontinued effective June 30. As a result, Hello Direct reported revenue of DKK 82 million, equal to 18% negative organic growth in the second quarter.

MOBILE HEADSETS

(DKK millions)	Q2 2005	Q2 2006
Revenue	482	556
Gross profit	101	98
Gross profit margin	21%	18%
EBITA	15	(18)
EBITA margin	3%	(3)%

Revenue was up 15% to DKK 556 million. The improvement was lower than had been expected, because low-priced Jabra headsets to mobile carriers made up an increased part of sales. Also, revenue generated through mobile carriers on the US market and sales in the UK and Central Europe failed to meet expectations. Stronger-than-expected sales of the exclusive Jabra JX10 Bluetooth headset were unable to prevent the downturn, and revenue from Jabra products was in line with the year-earlier period at DKK 231 million. Revenue from OEM headsets for cell phones rose by 34% to DKK 325 million.

Wireless products accounted for more than 90% of revenue. The innovation rate remained above 90% and sales of new products this fall will sustain the innovation rate at a high level. Jabra brand product launches in the second quarter included the Jabra BT325s, a stereo headset to be used both with a music player and for wireless telephony. This is yet another important product for the converging music and mobile markets.

Revenue was DKK 325 million in North America, DKK 166 million in Europe and DKK 65 million in the rest of the world.

The gross margin did not meet expectations, because the low-priced products represented a growing part of sales and because the OEM sales rate also rose.

In aggregate, sales, distribution, R&D and administrative costs were DKK 27 million higher than the figure for Q2 2005.

The overall cash flow from operations fell to DKK (33) million from DKK 74 million in Q2 2005. The Mobile Headsets inventories are expected to be reduced during the busy months of the second half-year.

Outlook for 2006

GN retains the forecasts for the consolidated group and for the individual business areas announced on July 5 2006.

Accordingly, the full-year forecasts are: revenue of DKK 7.6–7.7 billion, EBITA of approximately DKK 800 million and profit before tax of approximately DKK 775 million assuming a US dollar–Danish krone exchange rate of 6.00.

Group functions are still expected to have a negative impact of approximately DKK 50 million on EBITA. Amortization of intangible assets acquired through company acquisitions is expected to amount to DKK 30–40 million, while net financial items are expected to be DKK (50) million. The latter figure includes the impact of the year's DKK 400 million share buyback program completed on June 30. The divestment of GN's ownership interest in Ultravox Holdings Ltd. contributed approximately DKK 60 million to gains/losses on the disposal of operations.

Investments in property, plant and equipment and in intangible assets, including in development projects, are still projected at just over DKK 1

billion. The amount allocated to R&D and sales and marketing efforts is now expected to be increased by approximately DKK 450 million relative to the 2005 figure.

DPTG I/S, in which GN has a 75% ownership interest, is still a party to arbitration proceedings with Telekomunikacja Polska S.A. As previously announced, developments in the case have led DPTG I/S to claim DKK 5 billion for the period from 1994 to mid-2005. DPTG's agreement with TPSA covers the period 1994–2009.

With around 60% of GN's revenue and some 65% of costs generated in US dollars or US dollar-related currencies, GN's long-term industrial competitiveness and its EBITA are resilient to likely US dollar fluctuations. Short-term fluctuations in the dollar would impact profit as and when products manufactured at a given exchange rate are sold at a different exchange rate at a later point in time. GN's cost base in China amounts to about DKK 900 million annually.

HEARING INSTRUMENTS

(DKK millions)	Q2 2005	Q2 2006
Revenue	690	729
Gross profit	456	468
Gross profit margin	66%	64%
EBITA	143	98
EBITA margin	21%	13%

The moderate sales improvement in the high-end segment means that Q2 organic growth was about (3)%. When adjusted for the Easter holidays, the rate was about (1)%.

The number of units sold was in line with the second quarter of last year. Sales are improving in the mid-price segments. On the other hand, Q2 sales in the high-end segment were lower than projected, because the ReSoundAIR is battling in an increasingly competitive market against rival manufacturers that have launched similar products, and because the ReSound Metrix, launched last year, has failed to meet expectations.

GN ReSound continued the string of new product launches and upgrades in the second quarter, intending to strengthen its market position in all price segments. With the June launches of the Metrix Mini and the Metrix Power as well as the Beltone One and the Beltone LINQ, GN ReSound launched a total of eight new products during Q1 and Q2.

The innovation rate remains high. New products and product upgrades launched in the past 24 months contributed 70% of Q2 revenue.

Revenue was DKK 321 million in North America, DKK 302 million in Europe and DKK 106 million in Asia and the rest of the world.

As expected, the EBITA margin is still being held down by investment in R&D, sales and marketing, and by the lower-than-expected sales of high-end products. In aggregate, sales, distribution, R&D and administrative costs were DKK 55 million higher than the figure for Q2 2005.

The relocation of the global distribution center from Ireland to Denmark and the transfer of production from Ireland to China have been completed according to plan. The moves are expected to strengthen EBITA by approximately DKK 40 million from 2007, at which time the projected synergies of approximately DKK 30 million from the INTER-TON acquisition are expected to take effect gradually.

AUDIOLOGIC DIAGNOSTICS EQUIPMENT

(DKK millions)	Q2 2005	Q2 2006
Revenue	84	86
Gross profit	37	43
Gross profit margin	44%	50%
EBITA	1	3
EBITA margin	1%	4%

The work to restructure production and streamline the organization and the product portfolio is progressing according to plan. As expected, the restructuring will impact revenue and earnings, but it will help GN Otometrics to achieve reasonable earnings in the slightly longer term by enabling the company to concentrate on business activities in which the company is a global market leader.

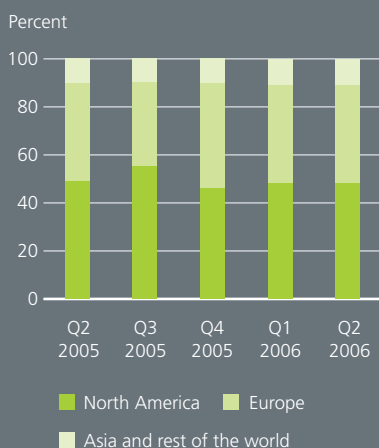
Q2 revenue was DKK 86 million against DKK 84 million in Q2 2005. The innovation rate was 10%.

Revenue was DKK 21 million in North America, DKK 56 million in Europe and DKK 9 million in Asia and the rest of the world.

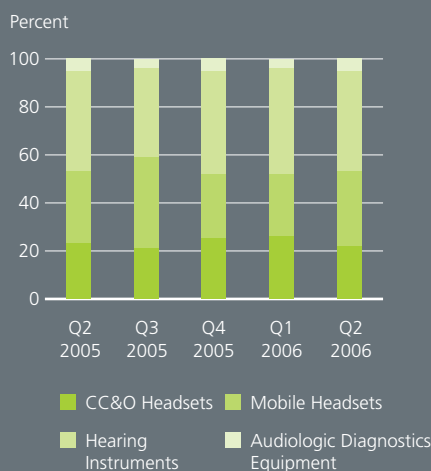
The Audiologic Diagnostics Equipment business reported EBITA of DKK 3 million compared to DKK 1 million in Q2 2005.

The aggregate cash flows from operating activities in the hearing instrument and audiologic diagnostics equipment businesses were DKK 69 million compared to DKK 133 million in Q2 2005. The drop was mainly due to increased investments in R&D and sales and marketing.

Revenue Distributed Geographically



Revenue Distributed by Business Area



Other Business Activities

The GN Great Northern Telegraph Company reported Q1 revenue of DKK 4 million and an EBITA loss of DKK 3 million.

Headsets

Effective May 15, GN's headset operations were consolidated in a single global organization. The integration process is progressing according to plan. A number of projects have been launched to help GN capitalize even more on being the world's largest headset manufacturer.

As the Headsets organization gradually changes, GN will begin to report on the headset operations in a manner better suited to reflect the new structure.

(DKK millions)	Q2 2006 (unaud.)	Q2 2005 (unaud.)	YTD 2006 (unaud.)	YTD 2005 (unaud.)	Total 2005 (aud.)
Earnings – Income statement in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU					
Revenue	1,759	1,630	3,515	2,991	6,644
Operating profit (loss) before share of profit (loss) in subsidiaries and associates	56	215	153	391	834
Operating profit (loss)	51	211	148	387	823
Profit (loss) from ordinary activities before tax	113	215	204	385	815
Profit (loss) for the period	97	162	163	283	850
Earnings – Investor-specific highlights					
Earnings before depreciation, amortization, impairment and items of a non-recurring nature (EBITDA)	111	263	262	486	1,051
Earnings before amortization and impairment of goodwill and other intangible assets acquired in company acquisitions and items of a non-recurring nature (EBITA)	66	223	173	406	876
Balance sheet					
Share capital	879	879	879	879	879
Group Equity	4,725	4,789	4,725	4,789	5,349
Total assets	8,217	6,830	8,217	6,830	8,091
Net interest bearing debt	(1,339)	(444)	(1,339)	(444)	(720)
Cash flows					
Cash flows from operating activities (CFFO)	2	206	148	467	828
Cash flows from investing activities	(77)	(118)	(261)	(182)	(751)
Total cash flows from operating and investing activities	(75)	88	(113)	285	77
Development costs					
Development costs incurred	141	94	259	166	371
Restructuring costs					
Restructuring recognized in income statement	-	-	55	-	7
Restructurings, paid	18	-	30	6	8
Investments					
Plant and machinery etc.	143	28	216	50	168
Real property including leasehold improvements	4	5	8	9	18
Development projects, developed in-house	67	50	133	88	188
Other intangible assets excluding goodwill	25	21	43	26	49
Total (excluding company acquisitions)	239	104	400	173	423
Company acquisitions	-	17	-	17	457
Acquisition of associates	-	12	-	12	74
Total investments	239	133	400	202	954
Depreciation and impairment of property, plant and equipment and amortization of intangible assets	93	74	185	147	335
Impairment of intangible assets	-	-	-	-	8
Key ratios					
EBITA margin	3.8%	13.7%	4.9%	13.6%	13.2%
Return on equity	1.9%	3.4%	3.2%	6.0%	17.1%
Equity ratio	57.5%	70.1%	57.5%	70.1%	66.1%
Key ratios per share					
Earnings per share (EPS)	0.47	0.77	0.79	1.35	4.04
Earnings per share diluted (EPS diluted)	0.47	0.77	0.78	1.34	4.00
Earnings per share excluding amortization and impairment of intangible assets and restructurings, etc.,	0.52	0.81	1.15	1.42	4.28
Earnings per share excluding amortization and impairment of intangible assets and restructurings, etc., diluted	0.52	0.80	1.14	1.41	4.23
Cash flow per share (CFPS)	-	0.98	1	2.20	3.94
Book value per DKK 4 share	23	23	23	23	25
Share price at the end of the period	68	70	68	70	83
Employees					
Average number	5,638	4,568	5,690	4,593	5,190

Share Option Plans

There were a total of 2,864,075 European and 1,743,863 American share options outstanding at June 30, 2006, corresponding to 2.1% of the share capital. Members of the Executive Management held 900,425 options at an average strike price of 45, senior employees held 956,473 options (average strike price 53), while other employees held 2,751,040 share options (average strike price 49). A total of 476,500 options were exercised in the second quarter.

In the second quarter, members of the Executive Management were awarded 159,444 share options, senior employees received 202,973, while other employees received 504,040 share options. The options awarded have a strike price of 86, equal to the average share price during the 20 business days immediately following the release of GN's Annual Report for 2005.

Shareholdings

At August 16, 2006, members of the Supervisory Board and the Executive Management, respectively, held 65,948 and 33,010 shares in GN.

At August 16, 2006, GN held 12,019,063 treasury shares, equivalent to 5.6% of the share capital. The treasury shares held cover the share option plan and 5,402,800 shares acquired under the year's share buyback program. The 6,012,000 shares GN acquired during last year's share buyback program were cancelled at the date of this announcement.

The GN stock is 100% free float. Foreign investors have reduced their aggregate holding from just over 50% at the end of 2005 to around 20–30%. Danish institutional investors hold an estimated 45% and private investors hold 20% of the GN share capital. The ATP pension fund and Centaurus Capital have reported ownership interests in excess of 5% of the share capital.



Konrád Konrádsson is a senior physician and coordinator for all hearing screening in Copenhagen. He believes the project is a success.

Little Test, Big Impact

Newborns can be tested for congenital hearing loss in less than 30 seconds. Quick diagnosis and early intervention can have a major impact on the rest of a child's life, for it is in the first six months after birth that the foundations are laid for language development.

SCREENING

Hearing loss is the most frequently occurring birth defect in Western countries. According to the results of a new Danish study, approximately two out of every one thousand babies born have hearing loss in one or both ears. Hearing loss has major consequences for both the child and its family, so newborn hearing screening has become more common in a number of countries in recent years and widespread in the US, Australia, Britain and Poland today.

Danish Study

All new parents in Denmark have been offered free hearing screening of their newborn since 2005, as part of a two-year research project. Infants are tested at their local hospital when they are four to ten days old, and what is called otoacoustic emissions (OAE) testing is done on both ears. At most hospitals, this test is performed using GN Otometrics' AccuScreen equipment, which was specially developed for this purpose. First, a small probe that can both emit sound and act as a microphone transmits soft sounds into the ear. If the baby's ear is functioning normally, it responds with a small echo. If no echo is registered, it may be a sign of hearing loss, and the infant will undergo additional testing at an audiological clinic that specializes in testing small children. At the clinic, the child will be OAE tested again and then undergo automated auditory brainstem response (AABR) testing. AABR testing stimulates the ear with sound and then registers the electrical signals that the inner ear sends to the brainstem, using electrodes on the child's head to pick up the signals. In Denmark, parents of newborns have been very interested in having their children checked, with Copenhagen hospitals reporting a participation rate of about 99%. The first year these tests were performed, a total of 96 children were diagnosed with severe hearing loss.

Time a Crucial Factor

"It used to be that hearing loss would remain undetected in small children for as long as three years. Now,

hearing loss can be detected before the child is even three months of age. An early diagnosis has a huge impact, giving children a much better chance at a good start in life. The time factor is crucial," says Dr. Konrád Konrádsson, senior consultant at Bispebjerg Hospital's audiological department and coordinator for all hearing screening in Copenhagen.

"In the first months of a newborn's life, the brain is especially receptive to new impulses, and this is when the senses, including the ability to see, smell, taste, hear, and differentiate and interpret various types of input, develop at a very rapid pace. For this reason, it is a crucial time in the child's hearing and language development. Roughly speaking, it is during this time that the pathway from the ear to the language center in the brain is formed. This means we have a very specific 'window' of time during the first six months of a child's life to ensure a good language development and well-functioning social interaction," he explains.

Experience Shows Early Intervention Helps

"We think that many of the young children who are diagnosed with hearing loss and who receive early treatment and care will do well in everyday life and be on the same level language-wise and socially as their peers. It's really satisfying to help ensure that happens," says Dr. Konrádsson.

"It's very easy for people to see the advantages in the everyday lives of both child and parents in terms of improved quality of life, but it's much more difficult to quantify the advantages of newborn hearing screening in monetary terms," notes Jane Dalå, product manager at GN Otometrics.

"However, studies from the US, Australia and other countries show that early intervention for hearing loss means that many of these children will need less special training and support, will be able to go to ordinary schools instead of needing more expensive schooling for the hearing impaired, and will function far better in both work and social contexts," she says.

OAE SCREENING IS EASY TO PERFORM:



- 1: Check the baby's ear to make sure it is clean and obstruction-free.
- 2: Put the soft earplug on the probe and insert it into the infant's ear canal.
- 3: Select the desired test, and the results appear on screen within ten seconds.

A Hearing Instrument for Every Preference

Reloaded, Trim, Shape, Budget: just some of the names of the many new hearing instruments GN's development department has brought to the market this year.



ReSound Matrix Reloaded

(High-end). Collective term for two new versions of Matrix: the Matrix Mini is one of the smaller BTE devices on the market, and the Matrix Power is designed to combat very severe hearing loss.



ReSound Pixel (Mid-price). This device offers the best sound in the mid-price segment.



Beltone One (High-end). Designed to simulate the way the human ear processes sound, this model features efficient noise suppression, providing better speech reproduction even in noisy surroundings.



Beltone EZ Trim (Low-end). Offers good sound through digital signal processing and easy computer-free fitting.

PRODUCT INTRODUCTIONS

Back in April, GN took everyone by surprise by announcing the launch of a total of ten new hearing instruments for all market segments by the end of the year. Since then, the number has increased to 11.

Turning its words into action, GN has now brought most of its new hearing instruments to the market, and the rest are in the pipeline. All along, its strategy has been clear: GN will build a broad portfolio of products covering the entire range from low-end to high-end price segments, so there will always be a GN hearing instrument to meet the needs and requirements of any user.

Three Price Segments

The hearing instrument industry has three price segments. The high-end segment features state-of-the-art hearing instruments with the newest and most advanced technology. These are hearing aids that address even the most difficult and complicated types of hearing loss. As innovation yields new technologies for this segment,

Innovation at a Record Pace

The hearing industry's R&D departments are facing ever-tougher demands: shorter product life cycles, more frequent product launches and shorter lead times require innovative thinking.

PRODUCT INNOVATION

There has been a massive flow of new products from GN's hearing instrument pipeline over the past couple of years. This year, GN launches eleven new products. By comparison, GN launched three new hearing instruments in 2002. A massive effort to develop new products and technologies is necessary, and it is a major challenge for the organization and the GN staff.

The head of GN's R&D, Senior Vice President Henrik Schimmell, explains what is required of the R&D departments in today's hearing instrument industry and how he is adapting his organization to the new reality.

"A few years ago, we spent less on R&D than our competitors did. In 2003, we allocated about 6% of our hearing instrument revenue to R&D, but in 2004, GN stepped up a gear, increasing R&D spending to 8% of revenue. This year we expect to allocate just over 10%. The multitude of product launches we're making now are the result of these investments," says Schimmell.

State-of-the-Art Products

The increased focus on R&D requires a well-oiled research and development department with all the processes and human resources in place, because one thing has certainly changed in the industry today: everything has to go much faster.

"The entire product range must be replaced every 24 months. That's simply a basic requirement in the market today. It all happens in an ongoing process in which we have to consider all our different brands, segments and product variants, so we are sure to have new products in all areas. However, one thing is having a diversified and dynamic product portfolio: we must also successfully develop state-of-the-art products that stand out above all the mainstream products. The ReSoundAIR was that type of product. It set a whole new standard in the market in terms of design and functionality, standards that the competition has now adopted. With the increased resources



ReSound Plus5 (Mid-price). The first hearing instrument to feature open fitting in the lower end of the mid-price segment.



Belton LINQ (Mid-price). The device that introduces advanced speech comprehension to the mid-price segment.

“old” technologies trickle down from the high end to devices in the mid-price and low-end segments.

Accounting for more than half of the global hearing instrument market in terms of units sold, the mid-price segment is very important to all hearing instrument manufacturers. Typical products in the mid-price segment are advanced hearing instruments with a proven technology previously used in high-end devices.

The low-end segment consists of less expensive hearing instruments that generally feature technologies introduced in the more expensive segments a few years back. Devices in this segment have the advantage of being easy to fit: some, for example, can be fitted without using a PC. In many cases, this is an advantage in markets where the latest computer technology is not always available.

On the pages here is a short presentation of the hearing instruments launched by GN in 2006 and their most important characteristics.



Interton Shape (High-end). This device features one of the latest trends in the industry: RITE (Receiver In the Ear) technology. A great deal of attention has been paid to the design of this product.



ReSound V (Low-end). Based on the successful and proven Canta software with digital signal processing, this model meets all basic requirements for a hearing aid.

ReSound Trimflex (Low-end). Designed for emerging hearing instrument markets, this model does not need to be hooked up to a computer to be fitted. A powerful and reliable hearing aid with advanced digital signal processing.



allocated to R&D, we are assigning a much higher priority to product innovation. Without giving too much away, I can tell you that we've already got a lot in our pipeline," says Schimmell.

Expanding the R&D Department

Under the project title "Match Race", Henrik Schimmell's team has defined a number of key areas that the R&D department will target to keep GN in the premier league of the hearing instrument industry today. The lead time for a new hearing instrument must be reduced to a maximum of 15 months. Previously, lead times for a whole new product were up to two or three years. Efficiency in the development process must be further enhanced through collaboration and coordination across departments and product quality must be improved in spite of the shorter lead times.

"It should take 15 months at the most from the initial draft until we bring a new tested hearing instrument to market," explains Schimmell. "Match Race is not about introducing new processes in our R&D department; they are already in place and we innovate them regularly. Instead, it's about fine-tuning and making adjustments to the way we work. We teamed up with a consulting firm



Henrik Schimmell, Senior Vice President for GN's Hearing Instruments Research & Development, aims to bring lead times for new hearing instruments down to a maximum of 15 months.

to look into our work flows and processes, and based on what we learned from that process, we have identified a number of areas that we can now improve on in our Match Race program," he says.

"We've already started working towards the new 15-month target. Adjusting our processes and getting used to the new objectives will be an ongoing process, but I feel that we've already come a long way," says Schimmell.

Headsets on the Shelves in 2006

Contact center and office staff and cell phone users continue to be major buyers of GN headsets, but there is a demand for new products among new target groups such as young people and design-conscious consumers, and this is paving the way for new product categories. Music and designer headsets are the latest additions to GN's product portfolio.

GN was first on the market with wireless office headsets, Bluetooth headsets, and headsets for fixed-line and IP telephony. And now, with the May 15 integration of GN Netcom and GN Mobile, GN can also claim to be the world's largest manufacturer of headsets.

GN's strategy is to always have a large and diversified product range that serves all target groups and price segments. New target groups such as young people and design-conscious consumers are growing fast and bringing forward new demands. In response, GN has expanded its product range to include music and designer headsets and has already launched ten new innovative headsets in 2006. As the products featured on these page show, there is something for everyone in terms of sound, design and technology features.

MOBILE PRODUCTS FOR MUSIC:



Jabra BT620s

- A Bluetooth stereo headset for cell phones, music players, PCs and other Bluetooth enabled equipment
- Quality speakers with hi-fi stereo sound
- Intuitive control buttons make it easy to switch between music and telephone functions
- Stylish neckband provides comfort fit
- Up to 16 hours of talk time or up to 14 hours of music and as many as 240 hours of stand-by time.



Jabra BT325s

- Headset offering stereo sound for music and mono sound for phone use.
- Connected via cord to music player
- Bluetooth connection to cell phone
- Music automatically fades out when a call comes in.



Jabra BT320s

- Bluetooth stereo headset for music players, cell phones, and other Bluetooth enabled equipment
- Quality headsets offering hi-fi stereo sound
- Weighs 23 grams (less than 1 oz.)
- Up to 6 hours of talk time or music and up to 160 hours of stand-by time.

OFFICE AND CONTACT CENTER PRODUCTS:



GN 9300 Series

- Stylish and lightweight design
- Excellent sound clarity
- Wireless range up to 100 meters
- Multiple wearing styles
- Easy to set up and use
- Effective background noise reduction.



GN 9300

- Up to nine hours of talk time without recharging

GN 9330 USB

- Improved sound quality for IP telephony
- Up to six hours of talk time without recharging.



GN 9350

- Digital signal processing and IntelliTone™ for superb sound quality. Complies with EU "noise-at-work" rules.
- Built-in USB interface for IP telephony
- Around-the-clock talk time with optional second battery.



MOBILE PHONE PRODUCTS:



Jabra C820s

- High performance stereo head-
phone
- Noise suppression effectively elimi-
nates background noise
- Comes with carry case and adapter
for cell phones, music players,
stereo systems, PCs, use in air-
planes and more.



Jabra BT160

- Includes 33 different design covers to
reflect user mood and style
- Users can design their own headset
cover at www.jabra.com
- Comfortable and easy to use
- Up to six hours of talk time and up to
110 hours of stand-by time.



Jabra BT150

- Weighs 16 grams (just over
0.5 oz.)
- Designed for an active lifestyle
- Comfortable on either ear
- Up to six hours of talk time
and up to 110 hours of stand-
by time.



Jabra BT500v

- Lightweight design and optimum fit maximize comfort
- Silent vibration function
- Wireless connection to cell phone at the press of a button
- Up to 12 hours of talk time and up to 300 hours of stand-by
time.

Important Stock Exchange Announcements since Q1/2006

Ann. 16:	Stock Options Granted to GN Store Nord Insiders...	May 10, 2006
Ann. 17:	GN Mobile and GN Netcom Join Forces	May 15, 2006
Ann. 23:	GN sells its stake in Ultravox and enters into long-term supply agreement with Amplifon	June 30, 2006
Ann. 25:	Stock Options Granted to GN Store Nord Insiders ..	July 5, 2006
Ann. 26:	Stock Options Granted to GN Store Nord Insiders ..	July 7, 2006

Financial Calendar

Carenigie, London, England	Sep. 5, 2006
Handelsbanken, New York, USA	Sep. 6, 2006
Handelsbanken, Boston, USA	Sep. 7, 2006
Interim Report 3/2006	Nov. 6, 2006

Upcoming Trade Shows

International Congress of Audiology, Innsbruck, Austria	Sep. 3, 2006
CeBIT Bilisim Eurasia, Istanbul, Turkey	Sep. 5, 2006
AAI-HNS 2006, Toronto, Canada	Sep. 17, 2006
ADA, 14th Annual Session, Las Vegas, Nevada, USA	Oct. 16, 2006
E[UHA, Frankfurt, Germany	Oct. 18, 2006
Telecom Israel, Tel Aviv, Israel	Nov. 5, 2006

About 50 physicians from all over China attended the course held in Guanzhou, China in March 2006.



Knowledge Sharing Is the Key to Success

In collaboration with one of the world's leading experts in the field of balance disorders, GN Otometrics has trained more than 1,000 medical specialists, technicians and other healthcare professionals from all over the world in using advanced equipment to diagnose dizziness and balance disorders.

EDUCATION

The training and guidance at the courses in the use of the GN Otometrics equipment for balance assessment is provided by one of the world's leading experts in the field, Dr. Kamran Barin of the Ohio State University Medical Center. Dr. Barin is Director of the Balance Disorders Clinic at Ohio State University Medical Clinic. He also holds a Ph.D. in Electrical/Biomedical Engineering from Ohio State and has a great deal of international experience as a researcher and instructor in the field of balance disorders.

"There is a great deal of interest in and need for the courses, and for users to constantly improve their skills in operating the equipment from GN Otometrics and interpreting the results," says Dr. Barin, who receives four or five e-mails a week from former course attendees from all over the world asking questions about interpreting results and about the latest research and clinical knowledge in the field.

"This tells me that there is a great need for this type of activity, and being able to offer users highly specialized education, training and feedback that builds on both research and clinical results will become an increasingly important competitive factor among industry players, as this becomes more and more of a specialist field. It will be a completely indispensable part of each company's product and service offering," he says.

Providing Knowledge is Essential

The philosophy behind the training GN Otometrics provides is that offering good diagnostics equipment is not enough. It is equally important to also offer extensive

medical and clinical information so users can get the most out of the equipment, perform precise tests and make diagnoses.

"At GN Otometrics, we believe that sharing knowledge, tools and results with our users is essential if we want to achieve success and retain our position as the leader in diagnosing balance disorders and dizziness. Our VNG/ENG (videonystagmography and electronystagmography) and balance testing courses form an important part of our efforts to provide end users with a good understanding of how to test for dizziness and balance disorders," says GN Otometrics product manager Michelle Petrak.

"We continuously develop the VNG/ENG equipment and the diagnostics software to find more and more ways to help improve the clinical assessment of patients. At the same time, there is more medical knowledge about the structure and functions of the inner ear and about balance and dizziness all the time. To test patients and interpret the results correctly, it is essential that users have up-to-date information on both of these things. That's why GN Otometrics works together with the world's leading specialists to teach users and develop the diagnostics software – the algorithms," she explains.

Considerable Need for More Training

Since 2002, GN Otometrics has held 12 VNG/ENG courses in the United States and two in China, and in addition to a number of courses internationally, the company is planning to organize at least two courses in the US each year.



Dr. Kamran Barin, Ph.D., is among the world's leading experts in the field of balance disorders. He works with GN Otometrics to teach users how to operate advanced diagnostics equipment.