

Company Announcement no 2007-13

Quarterly review, third quarter 2007

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Very promising Epoq sales after prolonged introduction phase

- Driven by growth in unit sales of own-manufactured hearing aids, the Group generated substantial double-digit growth rates in the third quarter, which significantly exceed market growth rates. Add to this solid growth in the Group's other business activities.
- In the third quarter, the sale of the Group's newest high-end hearing aid Oticon Epoq developed at the lower end of the plans made due to a prolonged introduction. However, preliminary trends in the fourth quarter bear witness to strengthened momentum in Epoq sales.
- Feedback from hearing aid fitters and end-users on Epoq is extremely positive, and the Group's expectations for Epoq sales continue to be high.
- In the third quarter, the Group was favoured by substantial growth in sales to the NHS and a number of international retail chains and also by continued progress in the Group's own retail activities. Conversely, Oticon Tego has gradually moved into the later stages of its lifecycle.
- For 2007, the Group maintains its expectation of revenue growth of 9-12% in local currencies and a negative exchange rate effect of approx. 3%. Based on this, the Group maintains its expectation of revenues of DKK 5,400-5,550 million in 2007.
- Due to changes in the Group's product and customer mix, the Group now expects an operating profit (EBIT) of DKK 1,375-1,425 million in 2007 against previously DKK 1,425-1,500 million. This includes non-recurring additional cost in the production of hearing aids of an estimated DKK 25-40 million in consequence of the transition to new technological and mechanical platforms.
- Based on the ongoing budget process, it is expected that in 2008 the Group will continue to generate high revenue growth, which – calculated in local currencies – will exceed market growth. This growth is expected to be driven by Oticon Epoq, Brite from Bernafon and by a number of promising product introductions in 2008.

Market conditions and business development

Hearing Aids

Growth in the global hearing aid market is still within the range of the Group's long-term expectations of 2-4% unit growth. Throughout 2007, the demand for instruments by the National Health Service (NHS) in the UK and by Veterans Affairs (VA) in the USA has been above the level in the commercial part of the market.

Recent years' significant trend towards open and cosmetically attractive mini-instruments is continuing. Extensively dominated by Oticon Delta since its launch in spring 2006, this segment is at the moment characterised by increased competition – a trend manifested among other factors in a considerable number of product launches from the competition, which reflects growing acceptance of the concept. The fact that the overall share of behind-the-ear instruments on the US market exceeded 50% in 2007 also reflects this trend. It is obvious that the Oticon Delta products have been drivers of this market development and the success of Oticon Delta seems to continue with unabated strength.

In the third quarter, the Group's core business – the development, manufacture and wholesale of hearing aids – generated double-digit growth rates. This growth was driven by increased unit sales of Group-manufactured hearing aids and significantly exceeded market growth. Both the Oticon business and the Bernafon business grew considerably in the third quarter – especially in terms of volume. Unit growth in the Oticon business was in particular driven by Epoq, Delta and Go Pro, while Prio and Neo were the main unit growth drivers in the Bernafon business. Generally speaking, the Group's hearing aid businesses were favoured by handsome growth in sales to the NHS and a number of international retail chains in the third quarter.

As far as Oticon is concerned, the third quarter was to a wide extent dominated by the introduction of the high-end product Oticon Epoq, which offers the hearing impaired the world's hitherto only, truly wireless, binaural hearing aid solution with notably improved sound processing. We continue to receive positive feedback on Epoq from hearing aid fitters and end-users, who emphasise, in particular, the sound reproduction of the product, including the recreation of the user's sense of space and ability to localise a sound source. Oticon took the opportunity to present Epoq at the European hearing aid congress, EUHA, held in mid-October in Nuremberg, Germany. The interest in Epoq was considerable and centred particularly on new clinical results, which were presented at the congress. These results show very high user satisfaction with Epoq both in typical listening situations and in connection with the user's ability to localise and separate sound sources. On a 10-point scale, the leap in satisfaction when using two Epoq instruments with binaural sound processing is significant on all parameters compared to using two conventional hearing aids. This improvement is so significant that it compares to the leap from using one to using two conventional hearing aids.

However, in the third quarter Oticon Epoq sales developed at the low end of the plans made, as sales did not get off the ground until early autumn in many countries, despite the fact that the product was released for sale as early as May/June. Moreover, the first few months after Epoq's release were characterised by keen interest in the innovative possibility of wirelessly connecting Epoq with for instance a mobile phone via a Bluetooth-based Streamer. This possibility represents a big technological breakthrough that the industry has waited for in years, but the breakthrough will not really materialise commercially, until the demand by end-users increases. The possibility of Bluetooth connectivity has to a great extent cast a shadow over Epoq's obvious audiological features and the breakthrough that genuine binaural sound processing based on wireless broadband communication between the two instruments offer all hearing impaired. In overall terms, this resulted in a more gradual penetration in the first few months after its launch, which put a damper on Epoq sales in the third quarter.

After a period with much enthusiasm amongst customers for the possibility of Bluetooth connectivity, our marketing materials and the ongoing dialogue with the customers now focus much more on Epoq's fundamental audiological features, which undoubtedly make the product the best hearing aid on the market at the moment. Thus, the development in the past part of the fourth quarter also points towards a considerably improved pace in the sale of Epoq, as an increasing number of hearing aid fitters offer Epoq primarily due to its unique audiological features – with or without a Streamer and mobile phone. Due to the positive sales momentum in the past part of the fourth quarter combined with unusually high satisfaction among fitters and end-users, the Group continues to have high expectations for Epoq sales.

Based on the so-called RITE technology (Receiver-In-The-Ear), the cosmetically attractive product concept Oticon Delta still contributes significantly to corporate growth. Despite increased competition in the area for designed mini-instruments, it is obvious that also in the past quarter Oticon succeeded in maintaining and in some cases even expanding Delta's position as a benchmark product in the fastest growing segment on the hearing aid market.

Since their launch in spring 2005, Oticon Tego and Oticon Tego Pro have generated substantial growth for the Group in the mid-priced segment. It has, however, now been more than two and a half years since the products were introduced, and it is becoming increasingly clear that the Tego instruments have moved into the later stages of their lifecycle.

In autumn, Bernafon launched the product concept Brite (Bernafon Receiver-In-The-Ear), which marks Bernafon's entry into the market for cosmetically attractive mini-instruments. Based on an innovative design and state-of-the-art technology, Brite was very well received by the customers, not least at the EUHA congress in October. The reactions are full of promise for Brite sales during the coming quarters. Bernafon also used EUHA to present its new Super Power instrument Xtreme.

The outlined changes in the product and customer mix in the hearing aid business will have a negative impact on the Group's expected operating profit (EBIT) in 2007. Moreover, Epoq is a fundamentally new product concept in all respects – both technologically and mechanically. From a production point of view, the transition to the new platforms has presented greater technical challenges than foreseen. The necessary adjustments of the hearing aid production, which have now been fully implemented, were rather cost-intensive and temporarily resulted in reduced production efficiency. The negative one-off effect will amount to an estimated total of DKK 25-40 million in 2007, or approx. 0.5-0.7 percentage point on the corporate gross margin.

In the third quarter, the Group's retail activities generated sales growth significantly above growth on the markets where the Group is involved in retailing.

Diagnostic Instruments

In the third quarter, Diagnostic Instruments generated revenue growth exceeding growth in the first half-year. Growth in the third quarter was well-founded in the different product categories – however with particularly high growth rates within brainstem audiometry (ABR).

Personal Communication

In the third quarter, Personal Communication saw considerable revenue growth. In Phonic Ear, growth was satisfactory with FrontRow as the main growth driver.

In the past quarter, Sennheiser Communications – the Group's joint venture within high-end headsets – continued its very positive development from the first half-year. A major part of this growth was driven by the new wireless headsets for offices (BW-900) and mobile telephony (VMX 100).

Other matters

After write-down of the share capital to nominally DKK 60,986,527 at the general meeting on 29 March 2007, the Company continued its buy-back of shares. In the third quarter, the Company bought back 604,645 shares for a total amount of DKK 300 million. At 8 November 2007, the Company holds a total of 961,320 treasury shares, or 1.58% of the share capital. Since 1 January 2007 and up until today, the Company has acquired a total of 1,578,770 shares at a total value of DKK 784 million. The Group expects to continue to buy back shares in 2007 at a total value of approx. DKK 1 billion.

Expectations

In 2007, the Group expects to see continued revenue growth rates of 9-12% in local currencies and a negative exchange rate effect of approx. 3%. Based on this, we still expect to see revenues in 2007 in the DKK 5,400-5,550 million interval.

As a result of changes in the Group's product and customer mix, the Group now expects an operating profit (EBIT) of DKK 1,375-1,425 million for 2007, including additional cost in the production of hearing aids of an estimated DKK 25-40 million as a consequence of the transition to new technological and mechanical platforms.

Based on the ongoing budget process, it is expected that in 2008 the Group will be able to continue to generate high revenue growth, which – calculated in local currencies – will exceed market growth. This growth is expected to be driven by Oticon Epoq, Brite from Bernafon and by an number of promising product introductions in 2008. The Group's success with the sale of hearing aids to international retail chains is expected to continue in 2008. Based on current exchange rates, the operating profit (EBIT) is expected to be negatively impacted in 2008 by movements in foreign currencies by an estimated DKK 30-50 million compared to 2007. The previously announced restructuring of the Group's production facilities and the establishment of production facilities in Poland are proceeding successfully and at a quicker pace than originally planned, which means that the announced saving will be realised earlier than assumed.

Financial calendar 2008

6 March 2008	Annual Report 2007
31 Marts 2008	Annual general meeting
7 May 2008	Quarterly review, first quarter 2008
14 August 2008	Interim Report 2008
5 November 2008	Quarterly review, third quarter 2008



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