Great Nordic

*A World of Communications*

# 2

SECOND QUARTER REPORT 2001

At a meeting today, the Board of Directors of GN Great Nordic approved the Second Quarter Report 2001 for the parent company and the Group, and is accordingly issuing the present Second Quarter Report 2001.

*Copenhagen, August 29, 2001.*

Elvar Vinum
Chairman

Jørn Kildegaard
President & CEO

## Second Quarter Highlights:

- Revenue reached DKK 1,944 million, which was in line with the Q1-figure and a 14% increase relative to the same period of last year.
- EBITA was DKK 35 million, equal to a decline of 74% relative to Q1-2001 and of 78% relative to the same period of last year.
- The globally declining market for headsets has caused a significant downturn in GN Netcom's second-quarter results and its forecast for the second half.
- NetTest's Q2 revenue and earnings were in line with expectations.
- The integration of companies in GN ReSound continues according to plan.
- Due to the ongoing integration process and the negative business cycle, all the companies have strengthened the adjustments of their organizations and costs.
- An impairment loss of DKK 6,000 million on goodwill and other intangibles has been recorded.
- Earnings before tax were DKK (6,269) million after an impairment loss on goodwill and other intangibles.
- The planned listing of NetTest is postponed and will not be completed until the spring of 2002 at the earliest, depending on developments on the stock market and pending approval by the relevant stock exchange authorities. As a result, initial public offering (IPO) costs amounting to DKK 51 million have been expensed in the second quarter. It is still the intention to float NetTest.
- The uncertain economic trends have reduced the transparency of the company's core markets. As a result, above-normal uncertainty attaches to the expectations expressed for the second half of 2001.
- The revised full-year forecasts are for revenue of DKK 7,500-7,700 million and an EBITA in the range of DKK 450 million excluding costs charged in relation to the preparation for the listing of NetTest. Earnings before tax and extraordinary items including costs related to preparing the NetTest IPO and including impairment losses on goodwill and other intangibles are expected to amount to approximately DKK (6,450) million.

**For additional information, please contact:**

Jørn Kildegaard
President & CEO
Telephone +45 7211 1888

Jens Due Olsen
Executive Vice President
Telephone +45 7211 1888

| **Group Financial Highlights** (DKK millions) | **2001 2nd quarter Unaudited** | 2000 2nd quarter Unaudited | **2001 Interim Unaudited** | 2000 Interim Unaudited |
|---|---|---|---|---|
| **Earnings** | | | | |
| Total revenue | **1,944** | 1,706 | **3,927** | 3,196 |
| Earnings before interest, tax, depreciation, and amortization of goodwill and other acquired intangible assets (EBITDA) | **90** | 255 | **281** | 486 |
| Earnings before interest, tax, and amortization of goodwill and other acquired intangible assets (EBITA) | **35** | 162 | **170** | 314 |
| Amortization of acquired intangible assets | **(6,299)** | (70) | **(6,570)** | (111) |
| Income before taxes and extraordinary items | **(6,264)** | 92 | **(6,400)** | 203 |
| Earnings before tax (EBT) | **(6,269)** | 35 | **(6,396)** | 165 |
| Net income for the period | **(5,992)** | 9 | **(6,142)** | 88 |
| GN Great Nordic's share of net income for the period | **(5,992)** | 9 | **(6,142)** | 88 |
| GN Great Nordic's share of net income for the period excl. goodwill amortization | **(5,750)** | 71 | **(5,649)** | 190 |
| **Balance Sheet** | | | | |
| Capital stock (GN Great Nordic) | **879** | 820 | **879** | 820 |
| Equity | **14,228** | 4,176 | **14,228** | 4,176 |
| Total assets | **18,500** | 13,342 | **18,500** | 13,342 |
| **Cash Flow** | | | | |
| Cash flow from operations | **(236)** | 153 | **(467)** | 87 |
| Cash flow from investing activities | **(426)** | (3,804) | **(686)** | (4,030) |
| **Research and Development** | | | | |
| Research and development costs incurred for the period | **200** | 80 | **402** | 198 |
| **Investments** | | | | |
| Plant and machinery | **132** | 276 | **221** | 318 |
| Property | **9** | 10 | **21** | 12 |
| Intangible fixed assets | **192** | 101 | **301** | 129 |
| Total (excl. acquisitions) | **333** | 387 | **543** | 459 |
| Acquisition of companies | **69** | 3,761 | **124** | 3,761 |
| Total investments | **402** | 4,148 | **667** | 4,220 |
| Depreciation and amortization | **317** | 181 | **649** | 323 |
| Impairment | **(6,019)** | - | **(6,019)** | - |
| **Personnel** | | | | |
| Average number of employees | **6,246** | 4,716 | **6,320** | 4,936 |
| **Key Figures** | | | | |
| Average number of DKK 4 shares (1,000 shares) | **219,775** | 196,195 | **219,775** | 196,195 |
| Earnings and fully diluted earnings per DKK 4 share (EPS) | **(27.26)** | 0.05 | **(27.95)** | 0.44 |
| Earnings and fully diluted earnings per DKK 4 share, excl. amortization of intangible assets and non-recurring items | **1.39** | 0.41 | **1.94** | 1.01 |

## Special Factors

***Impairment Loss on Goodwill and Other Intangibles***
The Group's technology companies saw the long-term opportunities improve substantially during 2000 through a number of acquisitions paid for in a combination of cash and GN Great Nordic stock. These were acquisitions made possible by the sale of SONOFON and the substantial cash proceeds received during the same period of time.

Both the divestment of SONOFON and the technology company acquisitions were made at a time, when the market capitalizations of the respective companies, and of GN Great Nordic, were greater than they are today.

Since then, the Group and the underlying companies have suffered the impact of the major fluctuations in the stock markets and the business cycles of each company's underlying market. At the present time, it is not possible to predict when the market will recover. Given this situation, GN Great Nordic has, in line with a number of its competitors, decided to increase the amortization of goodwill and other intangible assets.

Accordingly, the Board of Directors resolved today to make impairment charges for a total of DKK 6,000 million on the carrying value of goodwill and other intangibles relating to Photonetics, Beltone and Hello Direct.

While it will not be possible to assess the strategic value of the companies acquired until after a number of years, they are still considered to have led to essential improvements in the strategic opportunities of our three core companies.

***Changes in Assumptions for Economic Trends***
In the quarterly report of May 30, 2001, the expectations expressed for GN Netcom's revenue were conditional upon favorable economic developments. The negative business cycle has continued throughout the reporting period. This will have a significant impact on income, both for the period and the full-year forecast.

***NetTest IPO***
Due to the planned listing of NetTest, GN Great Nordic has been obliged to observe restrictions in its communications regarding the expectations for NetTest's performance. We believe that developments on the stock markets do not favor a listing of NetTest this year. Consequently, the listing of NetTest is postponed until an unspecified future date, and we are therefore once more in a position to comment on the expectations for NetTest's performance. It is still our intention to list NetTest, but this is not expected to take place until in the spring of 2002 at the earliest.

## Financial Results

GN Great Nordic's second-quarter results were strongly influenced by the impairment loss on goodwill and other intangibles.

NetTest performed in line with expectations in the second quarter. GN ReSound's earnings were slightly lower than expected due to the costs of launching the new, digital Canta hearing instruments.

In an announcement to the Copenhagen Stock Exchange of May 30, 2001, the expectations expressed for GN Netcom were conditional upon favorable economic developments. Due to the continued economic slump and the downturn in the market for headsets, GN Netcom's revenue and earnings before interest and tax fell well short of expectations.

Furthermore, the weaker, fluctuating economic trends reduced expectations for and the transparency of the Group's projected revenue and earnings for the second half.

Revenue for the second quarter of 2001 reached DKK 1,944 million, which was in line with the Q1-2001 figure and DKK 238 million, or 14%, higher than revenue for the same period of last year. Revenue for the first half of 2001 was DKK 3,927 million, a 23% improvement from DKK 3,196 million in the first half of 2000.

Revenue for the second quarter was 50% higher than in the same period of last year excluding SONOFON, and the year-to-date revenue for 2001 was 63% higher than last year's level, excluding SONOFON.

Combined, the three core businesses, NetTest, GN ReSound and GN Netcom, reported a Q2-2001 EBITA of DKK 97 million, compared to DKK 152 million in Q1-2001 and DKK 151 million in Q2-2000. The decline was almost exclusively due to a DKK 51 million drop in GN Netcom's EBITA relative to the first quarter resulting from the continued slump in the US and parts of the European markets for headsets.

Group EBITA was DKK 35 million in the second quarter of 2001, as compared to DKK 135 million in the first quarter and DKK 162 million in Q2 of last year.

Amortization of goodwill and other intangibles was DKK 6,249 million in the second quarter, including the DKK 6,000 million impairment loss. Excluding this impairment loss, amortization of goodwill and other intangibles was DKK 249 million, which was as expected and in line with amortization in the first quarter. Restructuring costs were DKK 31 million, which was in line with the Q1 figure.

Other impairment losses in the second quarter totaled DKK 19 million. This amount refers to a number of minor R&D projects and to other financial assets.

Financial items and gains on property totaled an expense of DKK 5 million.

Excluding the effect of the impairment loss on goodwill and other intangibles, this led to overall earnings before tax and extraordinary items of DKK (269) million, which was somewhat worse than expected. Including the impairment loss on goodwill and other intangibles, the earnings before tax and extraordinary items for the period were DKK (6,269) million, and the earnings after tax were DKK (5,992) million.

**Balance Sheet**

Total assets amounted to DKK 18,500 million at June 30, 2001, compared to DKK 24,367 million at March 31, 2001. The major movements in total assets consisted of goodwill and other intangibles, which were reduced by DKK 6,000 million due to the impairment loss mentioned above, inventories and debt, which rose by DKK 267 million and DKK 286 million, respectively, and cash and cash equivalents, which fell by DKK 390 million.

Shareholders' equity was DKK 14,228 million at June 30, 2001, a DKK 5,788 million drop from the figure of DKK 20,016 million at March 31, 2001. In addition to the effect of the impairment loss on goodwill and other intangibles, the reduction was also due to the net effect of the results for the period along with dividends paid, which was partly eliminated by exchange rate adjustments resulting from the appreciation of USD against DKK.

**Cash Flows**

The Group recorded a cash outflow from operating activities of DKK 236 million in the second quarter of 2001, as compared to an outflow of DKK 231 million in the first quarter of 2001 and a cash inflow of DKK 153 million in Q2 of 2000. In addition to the lower earnings, cash flows from operating activities were impacted by a DKK 132 million increase in working capital, which was primarily due to an increase in capital tied up in inventories in NetTest resulting from expectations of an increase in revenue in the optical layer early in the second quarter. In light of the market developments, the amount of capital tied up in inventories is disproportionately high.

The cash outflow from investing activities was DKK 426 million in the second quarter, as compared to DKK 260 million in the first quarter of 2001 and DKK 3,804 million in Q2 of 2000. Investing activities mainly consist of R&D projects in all of the Group's companies and operating investments, mainly in NetTest.

Dividends totaling DKK 127 million were paid to the company's shareholders in the second quarter.

The cash outflow for the period was funded through additional bank debt of DKK 394 million and a decline in cash and cash equivalents of DKK 390 million.

**Major Corporate Transactions and Investments**

In the second quarter, the Group invested DKK 141 million in tangible assets and DKK 192 million in intangibles, mainly involving development projects in NetTest. By comparison, the corresponding figures were DKK 101 million and DKK 109 million, respectively, for the first quarter of 2001 and DKK 286 million and DKK 101 million for the second quarter of 2000. No major acquisitions were made in the second quarter.

**NetTest IPO**

GN Great Nordic still plans to list NetTest, but not until in 2002 at the earliest. It is also still the intention to spin off NetTest within 12 months after the listing, although GN Great Nordic is not legally obligated to do so.

During the preparations for the IPO, the institutions in charge of securities issues, i.e., the Copenhagen Stock Exchange in Denmark and the Securities and Exchange Commission in the United States, have imposed certain customary publicity limitations on GN Great Nordic as to the communication of the results and prospects of the company's business.

Given the current economic, stock market and other customary conditions, it is believed that it would be extremely difficult to complete an initial public offering (IPO) in 2001 with a satisfactory outcome for GN Great Nordic's shareholders. In addition, the above-mentioned publicity limitations in the communication about the company are impractical given the major changes a number of NetTest's customers and competitors have made to their earnings forecasts.

As a result, the GN Great Nordic Board of Directors resolved today to postpone the planned listing until an unspecified future date or until such time as an IPO can be carried out under satisfactory conditions. Expectedly, this will not be until in the spring of 2002 at the earliest.

In accordance with Danish and international accounting standards, therefore, IPO costs amounting to DKK 51 million have been expensed in the second quarter accounts. This amount was previously included in prepayments.

As can be seen, NetTest's second quarter earnings were in line with expectations.

**Organization and Management**

On June 1, 2001, Jens Due Olsen took up the position as Executive Vice President & CFO of GN Great Nordic, as the former CFO, Poul Erik Tofte, was appointed Executive Vice President & CFO of NetTest.

**Stock Option Plans**

GN Great Nordic has three different stock option plans.

At the beginning of the year, senior management held 122,020 outstanding stock options awarded in 1998 at an average strike price of 39.2, all of which were exercised in the first half of 2001, producing net proceeds of DKK 5 million. As a result, the program was terminated at June 30, 2001.

At the beginning of the year, the European program included 948,606 outstanding stock options awarded from 1999 to 2001 at an average price of 119.7 and 799,199 additional stock options awarded in the first half of 2001 at an average strike price of 90. No stock options were exercised in this program during the first half of 2001.

At the beginning of the year, the US stock option program included 2,138,250 outstanding stock options awarded in 2000 at an average price of 125. No stock options were awarded or exercised in this program during the first half of 2001.

At June 30, 2001, there were a total of 3,886,055 outstanding stock options at a weighted average strike price of 116.5.

The DKK 5 million net proceeds have been hedged through a sale of shares from the part of the treasury stock earmarked to hedge stock option commitments. As a result, the effect on shareholders' equity is eliminated.

**Outlook for 2001**

Due to the general economic developments, above-normal risks attach to the forecasts and expectations for future earnings expressed in this second quarter report. Forecasts and expectations expressed are based on the assumption of continued weak growth in both the US and the European economies, but not on expectations of a recession as such. We have also assumed a USD/DKK exchange rate at the current level.

GN Great Nordic expects full-year revenue of DKK 7,500-7,700 million and an EBITA in the range of DKK 450 million excluding costs charged in relation to the preparation for a possible listing of NetTest. The earnings before tax and extraordinary items including costs related to preparing the NetTest IPO and including impairment losses on goodwill and other intangibles are expected to amount to approximately DKK (6,450) million.

**Forward-looking statements**

The forward-looking statements in this second quarter report reflect management's current expectations for certain future events and financial results. Statements regarding 2001 and onwards are, of course, subject to risks and uncertainties which may result in material deviations from the outlook set forth above. Furthermore, some of these expectations are based on assumptions regarding future events, which may prove incorrect.

Factors that may cause the actual results to deviate materially from the above-mentioned expectations include, but are not limited to, general economic developments and developments in the financial markets, technological developments, changes and amendments to Danish, EU and US legislation and regulations, changes in the demand for the Group's products, competition, shortages of components needed in production (bottlenecks), especially components needed in the production of fiber optic test equipment, and the integration of company acquisitions.

This interim report should not be considered as an offer to sell securities in GN Great Nordic or NetTest.

## NETTEST

**Financial Results**

NetTest's revenue for the second quarter reached DKK 701 million, which is in line with the Q1 figure of DKK 714 million and 92% higher than the Q2-2000 figure of DKK 365 million. The improvement was due primarily to the acquisition of Photonetics and secondarily to organic growth in NetTest's sales of fiber optics test equipment.

Revenue for the first half of 2001 was DKK 1,415 million, a 121% improvement from DKK 641 million in the first half of 2000.

Optical layer revenue was DKK 562 million in Q2-2001, an increase of 150% over the Q2-2000 figure of DKK 224 million. Accordingly, the first-half revenue was DKK 1,109 million or 185% greater than the first-half 2000 figure of DKK 389 million. The significant growth in revenue was due primarily to the acquisition of Photonetics and secondarily to growth in sales of test equipment to manufacturers of fiber-optic cables.

NetTest reported network layer revenue of DKK 139 million in the second quarter, compared to DKK 167 million in the first quarter and DKK 141 million in the same period of 2000. Accordingly, the first-half network layer revenue was DKK 306 million or 21% higher than the first-half 2000 figure of DKK 253 million.

NetTest's second-quarter EBITA was DKK 62 million, which was in line with the Q1 figure of DKK 63 million and well above the EBITA-figure of DKK 42 million for the same period of last year. EBITA for the first-half of 2001 was DKK 125 million, as compared to DKK 34 million in the same period of last year.

As already mentioned, the Board of Directors resolved today to make a DKK 4,500 million impairment charge on the carrying value of goodwill and other intangibles relating to Photonetics.

**The Market**

There is still significant growth in telecom network traffic volumes, mainly driven by growth in the use of the Internet.

Nevertheless, the uncertainty as to future business volumes was a main market driver in the second quarter, resulting in a number of NetTest's customers cutting back their investment budgets.

A number of telcos have now begun to focus on optimizing their existing networks rather than installing new fiber optic networks. This has increased demand for network layer products that help telcos optimize their operations and support and retain their revenues.

A number of manufacturers of fiber optic cables have expanded their output capacity substantially in recent years, triggering test equipment sales growth. However, a number of these manufacturers reported in the second quarter that they expected to postpone any further expansion and this is expected to reduce the order intake on this type of test equipment for a period of time. However, we believe that there will still be a substantial market for test equipment for upgrading existing manufacturing plant as new fiber optic technology is gradually introduced.

Overall, NetTest has been impacted negatively by the market situation, recording a second-quarter order inflow of DKK 635 million, compared to the Q1 figure of DKK 839 million.

Several of NetTest's competitors have announced that they will be scaling back their organizations in anticipation of lower-than-previously-expected business operations. Due to the difficult market situation, NetTest will accelerate the organizational changes intended to refocus the company from being product-oriented to being customer-oriented. As part of the related organizational adjustments, steps have been taken to lay off some 225 employees.

**New products**

In the first half, NetTest launched Questfiber, a new, improved product for fiber optic system solutions. In addition, a new device has been launched for automatic handling of optical fibers in connection with fiber and optical component testing.

At the annual Optical Fiber Conference held in March, NetTest introduced a number of new products, including two new optical components: an optical multiplexer and a tunable laser diode, which are the first results of the company's strategy to exploit its optical technologies to develop optical components.

Finally, the company introduced a number of products for telcos to optimize their existing telecom networks and for the installation and operational startup of future GPRS networks.

**Outlook for 2001**

NetTest projects revenues for the full year 2001 of DKK 2,700-3,000 million and an EBITA margin of 10%-13%.

The projection is based on the order backlog and the slightly improving operating margin resulting from the ongoing changes in the product mix towards network layer products and the small decline in fixed costs resulting from the organizational adjustments.

NetTest's results will also be impacted by the impairment loss of DKK 4,500 million on goodwill and other intangibles relating to Photonetics.

## GN NETCOM

**Financial Results**

GN Netcom reported Q2-2001 revenue of DKK 456 million, as compared to DKK 506 million in the first quarter and DKK 307 million in Q2-2000. We believe that GN Netcom retained its market share during the second quarter.

The fall in revenues relative to the first quarter of 2001 was driven in particular by the performances of the call center and office markets, including Hello

Direct, the group's direct sales channel, as sales of headsets for cell phones (JABRA) rose from the first to the second quarter. The increase in revenue relative to Q2-2000 was due to the acquisitions of JABRA and Hello Direct.

The GN Netcom EBITA was negative at DKK 4 million in the second quarter, as compared to positive amounts of DKK 47 million in the first quarter of 2001 and DKK 75 million in Q2 of last year. The performance was substantially weaker than expected, which was caused in part by the continued weak North American market, in part by the fact that the downturn has now reached parts of the European market, and finally by increased provisions for trade accounts and inventories.

Substantial cost adjustments made in the first half had a gradual, positive impact on fixed costs during the period. As a result, restructuring costs were incurred, especially in North America, amounting to approximately DKK 16 million in the first and approximately DKK 10 million in the second quarter.

GN Netcom reported revenue of DKK 962 million in the first half of 2001, as compared to DKK 617 million in the same period of last year, and an EBITA of DKK 43 million against DKK 159 million last year.

As already mentioned, the Board of Directors resolved today to make a DKK 250 million impairment charge on the carrying value of goodwill and other intangibles relating to Hello Direct.

**The Market**

The cyclical slowdown continues to impact negatively on the US and, increasingly, the European markets, and the demand for headsets has been considerably lower than expected.

Both the call center and office market and the market for cell phone headsets recorded considerably lower-than-expected revenue in North America and Europe. However, the market for cell phone headsets has now begun to recover. In addition, it would appear that the major distributors have largely completed adjusting their inventories.

Judging by GN Netcom's sales of wireless headsets for call centers and offices, this segment is still expanding. For example, GN Netcom's sales of wireless headsets improved by 81% to DKK 116 million in the first half. GN Netcom's market share is still believed to be substantially greater in wireless headsets than in traditional headsets.

**New Products**

In the second quarter, GN Netcom launched a number of new product lines for the call center and office market and for the mobile segment. All products were well received by the market.

As previously announced, GN Netcom signed an agreement with Motorola in March for the supply of a unique second-generation Bluetooth™ enabled wireless headset. GN Netcom plans to launch similar headsets under the JABRA brand later this year. GN Netcom is the first headset manufacturer to supply Bluetooth headsets to the cell phone market and the first shipments are expected in October 2001.

**Outlook for 2001**

The future general economic developments, especially the uncertainty relating to the market for headsets in the fourth quarter, increase the uncertainty attaching to GN Netcom's full-year financial results.

Assuming an unchanged economic outlook, GN Netcom projects revenue of DKK 1,750-1,950 million for the full year 2001. The company's products are expected to experience only moderate price pressure. In addition, the organizational adjustments announced in February and May and, most recently, by Hello Direct in August are expected to reduce fixed costs by a fair margin in the second half. As a result, GN Netcom projects a full-year 2001 EBITA margin of 5%-7%. Full-year restructuring costs are expected to amount to DKK 30 million.

GN Netcom's results will also be impacted by the impairment loss of DKK 250 million on goodwill and other intangibles relating to Hello Direct.

## GN RESOUND

### Financial Results

GN ReSound reported Q2-2001 revenue of DKK 724 million, as compared to DKK 702 million in the first quarter and DKK 497 million in Q2-2000. The increase relative to the first quarter was due to the launch of the new, digital Canta products, whereas the year-on-year increase was due to the acquisitions of Beltone and Phillips in April 2000.

GN ReSound reported Q2-2001 EBITA of DKK 39 million, as compared to DKK 42 million in the first quarter and DKK 34 million in Q2-2000. EBITA was slightly lower than expected due to the greater-than-expected costs of launching Canta products as well as the costs of starting-up production and increasing the output capacity soon thereafter.

Restructuring costs of DKK 21 million were incurred in the second quarter of 2001, primarily in relation to planned cuts in administrative expenses at Beltone in Chicago, the continuing transfer of production to China as well as the closing of former local distribution centers and the setting up of the new central distribution center in Cork, Ireland in mid-April.

First-half revenue was DKK 1,426 million, as compared to DKK 888 million in the same period of last year. Similarly, the first-half EBITA was DKK 81 million, up from DKK 63 million in the same period of last year.

As already mentioned, the Board of Directors resolved today to make a DKK 1,250 million impairment charge on the carrying value of goodwill and other intangibles relating to Beltone.

### The Market

Although the market for hearing instruments is generally considered to be only slightly cyclical, the US and the German markets grew by less than 1% in terms of units sold in Q2-2001 relative to the year before.

The US market contracted slightly in Q2 relative to Q1 (seasonality) and was unchanged from Q2-2000. However, the successful introduction of the Canta products has helped GN ReSound to increase its market share of digital hearing instruments and to retain its overall market share. A number of dealers discontinued their contracts with the Beltone chain during the first quarter. The trend reversed in the second quarter and the number of dealers is now once more rising slightly. However, Beltone's performance on the US market is still not satisfactory. In June, GN ReSound set up an alliance with Sonus, the largest hearing aid retailer in the United States. The alliance is developing according to plan.

While developments were generally satisfactory in the European and the Asian markets, the late approval obtained for the Canta products from the French authorities caused a delayed launch in this key market.

In addition, GN ReSound acquired ORL Services, a French distributor of audiological measuring equipment, in July in order to strengthen the sale of Otometrics' products to this market.

In August, GN ReSound set up a strategic alliance with Ultravox Holdings Ltd., the largest hearing aid dispenser in the UK. GN ReSound has acquired 25% of the shares in Ultravox and the parties have signed an agreement for future shipments.

### New Products

In the second quarter, GN ReSound introduced the new Canta product line, which ranges from CIC (Completely-In-the-Canal) products to BTE (Behind-The-Ear) and power products. Canta was very well received by the market and the greater-than-expected demand caused shipping shortages. As a result, the product will not be launched in a number of markets until in the second half of the year.

### Outlook for 2001

GN ReSound projects revenue of DKK 2,850-3,000 million. As digital hearing instruments continue to make up most of the sales, the operating margin is expected to rise slightly in the second half, while the growing level of activity and the first-half 2001 acquisitions will lead to a slight increase in fixed costs.

As a result, GN ReSound projects a full-year 2001 EBITA margin of 7%-8% and restructuring costs of approximately DKK 70 million.

GN ReSound's results will also be impacted by the impairment loss of DKK 1,250 million on goodwill and other intangibles relating to Beltone.

## OTHER GROUP OPERATIONS

GN Comtext reported revenue of DKK 44 million and an EBITA of DKK 3 million for the second quarter and revenue of DKK 93 million and an EBITA of DKK 4 million for the first half.

The GN Great Nordic Telegraph Company reported revenue of DKK 19 million and an EBITA of DKK 5 million for the second quarter and revenue of DKK 33 million and an EBITA of DKK 8 million for the first half. The company's business operations continue to develop as planned.

## EVENTS AFTER JUNE 30, 2001

In line with its strategy to enhance its focus on its core businesses NetTest, GN ReSound and GN Netcom, GN Great Nordic has divested a number of operations with mutually offsetting gains and losses.

- The company sold its stake in oil company Denerco A/S on July 4.
- GN Comtext was divested on July 13.
- The company sold its portfolio of apartments on August 14.

In addition, on August 22, GN ReSound acquired 25% of Ultravox Holdings Ltd., the largest hearing aid dispenser in the UK and set up a partnership for the supply of hearing aids.

## ACCOUNTING POLICIES

This quarterly report has been prepared in accordance with the accounting policies applied in the Annual Report 2000.

| **Consolidated** (DKK millions) | **2001 2nd quarter Unaudited** | 2000 2nd quarter Unaudited | **2001 Interim Unaudited** | 2000 Interim Unaudited |
|---|---|---|---|---|
| **Total revenue** | **1,944** | 1,706 | **3,927** | 3,196 |
| Production costs | **(992)** | (862) | **(2,007)** | (1,660) |
| **Gross profit** | **952** | 844 | **1,920** | 1,536 |
| Research and development costs | **(82)** | (76) | **(187)** | (134) |
| Sales and distribution costs | **(497)** | (403) | **(938)** | (719) |
| Management and administration costs | **(284)** | (205) | **(569)** | (369) |
| Costs related to NetTest IPO | **(51)** | - | **(51)** | - |
| Other operating revenue | **1** | 3 | **3** | 4 |
| Share of income from associated companies | **(4)** | (1) | **(8)** | (4) |
| **Earnings before interest, tax and amortization** | **35** | 162 | **170** | 314 |
| Amortization of acquired intangible assets | **(54)** | (10) | **(105)** | (19) |
| Goodwill amortization | **(195)** | (52) | **(388)** | (84) |
| Restructuring | **(31)** | (8) | **(58)** | (8) |
| Impairment losses | **(6,019)** | - | **(6,019)** | - |
| **Earnings before interest and tax** | **(6,264)** | 92 | **(6,400)** | 203 |
| Gains on sale of property | **1** | 3 | **8** | 4 |
| Capital gains on shares | **-** | (51) | **-** | 49 |
| Financial income | **27** | 51 | **59** | 27 |
| Financial expenses | **(33)** | (60) | **(63)** | (118) |
| **Income before tax and extraordinary items** | **(6,269)** | 35 | **(6,396)** | 165 |
| Tax on income before tax | **277** | (26) | **254** | (77) |
| **Net income for the period** | **(5,992)** | 9 | **(6,142)** | 88 |
| Minority interests' share of net income for the period | **-** | - | **-** | - |
| **GN Great Nordic's share of net income for the period** | **(5,992)** | 9 | **(6,142)** | 88 |

| **Assets** (DKK millions) | **2001 June 30 Unaudited** | 2001 March 31 Unaudited | 2000 Dec. 31 | 2000 June 30 Unaudited |
|---|---|---|---|---|
| **Noncurrent Assets** | | | | |
| Goodwill | **9,536** | 14,817 | 14,598 | 5,879 |
| Development projects | **1,107** | 1,471 | 1,418 | 353 |
| Software | **85** | 105 | 98 | 319 |
| Patents and rights | **291** | 446 | 449 | 134 |
| Telecommunications systems | **94** | 97 | 100 | 103 |
| Other intangible assets | **503** | 583 | 563 | 345 |
| **Total intangible assets** | **11,616** | 17,519 | 17,226 | 7,133 |
| Rental properties | **34** | 31 | 31 | 34 |
| Leasehold properties | **-** | - | - | 106 |
| Factory and office buildings | **276** | 220 | 194 | 258 |
| Plant and machinery | **217** | 184 | 162 | 846 |
| Operating assets and equipment | **212** | 203 | 196 | 223 |
| Leased plant and equipment | **7** | 5 | 5 | 1 |
| Telecommunications systems | **21** | 22 | 24 | - |
| Plant under construction | **28** | 40 | 18 | 142 |
| **Total tangible assets** | **795** | 705 | 630 | 1,610 |
| Investments in associated companies | **56** | 64 | 82 | 10 |
| Receivables in associated companies | **-** | - | - | 286 |
| Other securities | **38** | 51 | 44 | 15 |
| Other receivables and bank deposits | **612** | 540 | 543 | - |
| Deferred tax assets | **142** | 125 | 121 | 177 |
| **Total financial assets** | **848** | 780 | 790 | 488 |
| **Total noncurrent assets** | **13,259** | 19,004 | 18,646 | 9,231 |
| **Current Assets** | | | | |
| **Inventories** | **1,929** | 1,662 | 1,368 | 1,031 |
| Trade accounts | **1,917** | 1,964 | 1,840 | 1,630 |
| Receivables from associated companies | **12** | 11 | 5 | 16 |
| Tax receivables | **338** | 305 | 326 | 184 |
| Other receivables | **330** | 311 | 249 | 186 |
| Prepayments | **142** | 152 | 124 | 105 |
| **Total receivables** | **2,739** | 2,743 | 2,544 | 2,121 |
| **Listed stocks and bonds** | **34** | 29 | 31 | 318 |
| **Cash and cash equivalents** | **539** | 929 | 1,220 | 641 |
| **Total current assets** | **5,241** | 5,363 | 5,163 | 4,111 |
| **Total Assets** | **18,500** | 24,367 | 23,809 | 13,342 |

| **Liabilities**<br>(DKK millions) | **2001**<br>**June 30**<br>**Unaudited** | 2001<br>March 31<br>Unaudited | 2000<br>Dec. 31 | 2000<br>June 30<br>Unaudited |
|---|---|---|---|---|
| **Stockholders' Equity** | | | | |
| Capital stock | **879** | 879 | 879 | 820 |
| Additional paid-in fund | **4,170** | 4,170 | 4,170 | 1,520 |
| Revaluation surplus | **2** | 1 | 1 | 102 |
| Exchange differences | **893** | 567 | 128 | 77 |
| Other reserves | **8,284** | 14,399 | 14,520 | 1,657 |
| **Total equity** | **14,228** | 20,016 | 19,698 | 4,176 |
| **Minority Interests** | **-** | - | - | - |
| **Provisions** | | | | |
| Provisions for pension commitments and similar commitments | **37** | 36 | 21 | 21 |
| Deferred tax | **407** | 687 | 694 | 100 |
| Other provisions | **398** | 484 | 452 | 553 |
| **Total provisions** | **842** | 1,207 | 1,167 | 674 |
| **Debt** | | | | |
| Mortgage debt | **7** | 7 | 5 | 5 |
| Bank debt | **876** | 555 | 509 | 2,768 |
| Capitalized leasing obligations | **4** | 7 | 5 | 110 |
| Other debt | **626** | 568 | 529 | 292 |
| **Total long-term debt** | **1,513** | 1,137 | 1,048 | 3,175 |
| Repayment of long-term debt | **18** | 5 | 19 | 37 |
| Bank debt | **339** | 305 | 199 | 3,831 |
| Trade payables | **644** | 765 | 694 | 587 |
| Payable to associated companies | **1** | - | - | - |
| Tax | **90** | 103 | 96 | 40 |
| Other debt | **694** | 720 | 779 | 733 |
| Accruals and deferred income | **131** | 109 | 109 | 89 |
| **Total current liabilities** | **1,917** | 2,007 | 1,896 | 5,317 |
| **Total debt** | **3,430** | 3,144 | 2,944 | 8,492 |
| **Total Liabilities** | **18,500** | 24,367 | 23,809 | 13,342 |

| **Consolidated Statement of Cash Flows** (DKK millions) | **2001 2nd quarter Unaudited** | 2000 2nd quarter Unaudited | **2001 Interim Unaudited** | 2000 Interim Unaudited |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| EBIT | **(6,264)** | 92 | **(6,400)** | 203 |
| Depreciation, amortization, etc. | **6,317** | 181 | **6,649** | 323 |
| Other adjustments | **(85)** | 6 | **(47)** | (4) |
| Interest, dividends, etc. received | **21** | 51 | **40** | 118 |
| Interest paid | **(27)** | (55) | **(44)** | (103) |
| Tax paid | **(66)** | 123 | **(68)** | (171) |
| Change in receivables | **123** | (68) | **(52)** | 43 |
| Change in inventories | **(183)** | (107) | **(449)** | (247) |
| Change in payables, etc. | **(72)** | (70) | **(96)** | (75) |
| **Cash flow from operating activities** | **(236)** | 153 | **(467)** | 87 |
| **Investing Activities** | | | | |
| Acquisition of intangible assets | **(192)** | (73) | **(301)** | (101) |
| Acquisition of tangible assets and real property | **(119)** | (189) | **(242)** | (371) |
| Disposal of tangible assets and real property | **1** | 20 | **8** | 20 |
| Acquisition of financial assets | **(41)** | (2) | **(24)** | - |
| Change in listed securities | **(6)** | 7 | **(3)** | (11) |
| Acquisition of companies | **(69)** | (3,567) | **(124)** | (3,567) |
| **Cash flow from investing activities** | **(426)** | (3,804) | **(686)** | (4,030) |
| **Free cash flow** | **(662)** | (3,651) | **(1,153)** | (3,943) |
| **Financing Activities** | | | | |
| Proceeds from share issue | **-** | 1,367 | **-** | 1,367 |
| Treasury stock/stock options settled | **5** | (336) | **34** | (336) |
| Change in long-term debt | **375** | 41 | **425** | 37 |
| Change in short-term bank debt | **19** | 2,797 | **140** | 2,905 |
| Dividends paid to shareholders | **(127)** | (112) | **(127)** | (112) |
| **Cash flow from financing activities** | **272** | 3,757 | **472** | 3,861 |
| **Net cash flow** | **(390)** | 106 | **(681)** | (82) |
| **Cash funds at January 1** | **929** | 535 | **1,220** | 723 |
| **Cash funds at March 31** | **539** | 641 | **539** | 641 |

| **Consolidated** (DKK millions) | Share Capital (in shares of DKK 4) | Additional paid-in-fund | Revaluation surplus | Exchange differences | Other reserves | Total equity |
|---|---|---|---|---|---|---|
| **Balance at year-end 1999** | **782** | **190** | **80** | **77** | **1,985** | **3,114** |
| Implication due to change of accounting policies | - | - | - | - | (16) | (16) |
| **Adjusted balance at year-end 1999** | **782** | **190** | **80** | **77** | **1,969** | **3,098** |
| Stock issue | 97 | 3,980 | - | - | - | 4,077 |
| Transfer | - | - | (79) | - | 79 | - |
| Net income for the year | - | - | - | - | 12,697 | 12,697 |
| Paid dividend | - | - | - | - | (117) | (117) |
| Treasury stock | - | - | - | - | 77 | 77 |
| Tax of changes incapital and reserves | - | - | - | - | 33 | 33 |
| Stock options settled | - | - | - | - | (218) | (218) |
| Exchange differences etc. | - | - | - | 51 | - | 51 |
| **Balance at year-end 2000** | **879** | **4,170** | **1** | **128** | **14,520** | **19,698** |
| Net income for the period | - | - | - | - | (150) | (150) |
| Treasury stock | - | - | - | - | 29 | 29 |
| Exchange differences etc. | - | - | - | 439 | - | 439 |
| **Balance at March 31, 2001** | **879** | **4,170** | **1** | **567** | **14,399** | **20,016** |
| Transfer | - | - | 1 | - | (1) | 0 |
| Net income for the period | - | - | - | - | (5,992) | (5,992) |
| Paid dividend | - | - | - | - | (127) | (127) |
| Treasury stock | - | - | - | - | 10 | 10 |
| Stock options settled | - | - | - | - | (5) | (5) |
| Exchange differences etc. | - | - | - | 326 | - | 326 |
| **Balance at June 30, 2001** | **879** | **4,170** | **2** | **893** | **8,284** | **14,228** |

| Result of Group Operations (DKK millions) | 2001 2nd quarter Unaudited | 2000 2nd quarter Unaudited | 2001 Year to date Unaudited | 2000 Year to date Unaudited | 2001 2nd quarter Change in % rel. to the same period of 2000 | 2000 Year to date Change in % rel. to the same period of 2000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| NetTest | **701** | 365 | **1,415** | 641 | **92%** | 121% |
| GN Netcom | **456** | 307 | **962** | 617 | **49%** | 56% |
| GN ReSound | **724** | 497 | **1,426** | 888 | **46%** | 61% |
| **Total** | **1,881** | 1,169 | **3,803** | 2,146 | **61%** | 77% |
| SONOFON | **0** | 409 | **0** | 790 | | |
| Others | **62** | 128 | **126** | 260 | | |
| **EBITDA** | | | | | | |
| NetTest | **76** | 48 | **154** | 42 | **58%** | 272% |
| GN Netcom | **12** | 81 | **74** | 171 | **(85%)** | (56%) |
| GN ReSound | **59** | 44 | **122** | 85 | **34%** | 44% |
| **Total** | **147** | 173 | **350** | 298 | **(15%)** | 17% |
| SONOFON | **0** | 82 | **0** | 189 | | |
| Others | **12** | 18 | **21** | 33 | | |
| **EBITA** | | | | | | |
| NetTest | **62** | 42 | **125** | 34 | **46%** | 267% |
| GN Netcom | **(4)** | 75 | **43** | 159 | **(106%)** | (73%) |
| GN ReSound | **39** | 34 | **81** | 63 | **13%** | 29% |
| **Total** | **97** | 151 | **249** | 256 | **(35%)** | (3%) |
| SONOFON | **0** | 30 | **0** | 87 | | |
| Others | **8** | - | **12** | 7 | | |
| **EBITA margin** | | | | | | |
| NetTest | **8.8%** | 11.6% | **8.8%** | 5.3% | | |
| GN Netcom | **(0.9%)** | 24.3% | **4.4%** | 25.8% | | |
| GN ReSound | **5.4%** | 6.9% | **5.7%** | 7.1% | | |
| **Total** | **5.2%** | 12.9% | **6.5%** | 11.9% | | |
| SONOFON | **-** | 7.3% | **-** | 11.0% | | |
| Others | **12.4%** | (0.3%) | **9.6%** | 2.7% | | |

GN Great Nordic

Kongens Nytorv 26
P.O. Box 2167
1016 Copenhagen K
Tel: +45 72 111 888
Fax: +45 72 111 889
www.gn.com
info@gn.com
wap.gn.com