William Demant / Holding

Company Announcement No 2008-10 — 14 August 2008

First half-year impacted by weak market trends and negative exchange rate effects

Today, the Board of Directors of William Demant Holding A/S approved the Company's *Interim Report 2008*, the highlights of which may be summarised as follows:

- In first half-year 2008, the Group realised revenues totalling DKK 2,689 million, corresponding to 6% growth measured in local currencies (0% measured in Danish kroner). Volume growth of 6% in hearing aid sales through the wholesale business means that the Group has once again won market share.
- Sales trends in the period under review have not lived up to the plans made, which is mainly attributable to the slow-down on the global hearing aid market, where unit growth in the private market is estimated to account for 0-1%.
- Operating profits (EBIT) in the period under review amounted to DKK 577 million, matching a profit margin of 21.4%.
- Compared with 2007, consolidated profits were negatively impacted by exchange rate movements and lower average sales prices as well as failing market growth in the private sector of the hearing aid market.
- Consequently, the Group now expects revenues of DKK 5,450-5,550 million against forecast revenues of DKK 5,550-5,700 million. In 2008, operating profits (EBIT) are expected to total DKK 1,150-1,250 million against the forecast DKK 1,340-1,440 million.

"The development in the first half-year was not satisfactory. We have realised that the hearing aid business too seems to be affected by the economic recession and declining private consumption, especially in countries with only limited or no public subsidies for hearing aids. In the private sector of the US market, we have in the first half-year seen zero market growth and similar weak market trends in a number of other countries, and this development has of course affected us," says Niels Jacobsen, President & CEO of William Demant Holding.

Our estimate that in the first half of 2008 overall unit growth was nonetheless 2-4% is based on significant demand from the National Health Service (NHS) in the UK and Veterans Affairs (VA) in the USA, both of which buy in bulk at low prices.

We estimate that at the moment prices and product mix contribute neutrally or negatively to market growth in terms of value, partly because unit growth is at present primarily driven by the NHS and VA, and partly because of general reluctance on the part of consumers, making some customers in the commercial markets choose a less expensive solution. There are also certain signs of more aggressive competition on prices between manufacturers in the design segment. We expect the next few quarters to give a more precise picture of the development.

Principal key figures and financial ratios

	1st half 2008	1st half 2007	Change
Key figures, DKK million			
Revenue	2,689	2,684	0%
Gross profit	1,889	1,946	-3%
Operating profit (EBIT)	577	672	-14%
Net financials	-61	-40	50%
Profit before tax	516	632	-18%
Net profit for the period	390	477	-18%
Total assets	3,882	3,409	14%
Shareholders' equity	452	693	-35%
Cash flow from operating activities (CFFO)	354	470	-25%
Financial ratios			
Earnings per share (EPS), DKK	6.6	7.8	-16%
Gross profit ratio	70.2%	72.5%	-
Profit margin (EBIT margin)	21.4%	25.0%	-
Return on equity	193.2%	151.2%	-

In our long-term forecasts, we still expect growth in the global hearing aid market to be 3-5% in terms of value, of which prices and product mix are estimated to contribute by 1-2 percentage points. At the moment, the estimates of short-term growth contributions from prices and product mix are, however, slightly more uncertain than they would normally be.

In addition to the lower market growth, the Group's hearing aid business was negatively affected in the first six months by the tougher competition in the segment for cosmetically attractive mini-instruments. As described in the Company's *Interim Information* in May 2008, this segment has seen many product launches by our competitors since the beginning of this year, resulting in substantial pressure on Oticon Delta. Competition in this segment has become even more critical in the summer months.

As announced earlier, Oticon is planning a decisive improvement and expansion of its product range with a number of conspicuous product novelties, particularly in the high-end segment, to be launched in the autumn of 2008. The fundamental principle of the new product concept, Oticon Dual, is that users no longer have to choose between design on the one hand and technology on the other. With Oticon Dual, Oticon has created uncompromising and hitherto unseen product synergy, combining the most attractive design and the most sophisticated technologies on the market. By combining in just one product the best of Oticon Delta with the best of Oticon Epoq, including all the wireless features, we are setting new standards for fitters' and users' expectations in respect of the most attractive and sophisticated products in the market. By virtue of a great number of product variants – both in terms of prices and user benefits – Oticon Dual will appeal to a very wide target group and is thus expected to contribute to a significant strengthening of Oticon's market position.

In the first half-year, the sale of Oticon Epoq developed satisfactorily given the market situation. The spring introduction of the mid-priced products Vigo and Vigo Pro was also satisfactory, which promises well for Vigo sales in the coming quarters. In the Bernafon business, unit growth was primarily driven by the design product Brite launched in autumn 2007.

Operating profits (EBIT) were DKK 577 million in the first half-year, matching a profit margin of 21.4%. Compared with the first half of 2007, we are seeing a fall, which is – apart from the failure to realise economies of scale caused by lower-than-estimated sales – due to changes in corporate product and customer mixes. The consolidated gross profit ratio was also impaired by the transition to hearing aids with wireless features, which contain more components than conventional hearing aids and are consequently more expensive to produce. Also in the first half-year, corporate retail activities were impacted by the difficult market conditions, particularly in the UK market.

In the period under review, the Group bought back 867,100 shares worth DKK 319 million. Since 30 June 2008, we have bought back another 43,450 shares worth a total of DKK 12 million, i.e. the total buy-back of shares since the beginning of 2008 amounts to DKK 331 million.

Outlook for the future

The prospect of lower-than-anticipated market growth on the short term and continuously intense competition in certain segments of the hearing aid market result in a forecast for 2008 of 5-7% growth in revenues measured in local currencies. 2008 is expected to see a continued negative exchange rate effect of 5-6%. Consequently, we forecast revenues for 2008 at DKK 5,450-5,550 million against previously DKK 5,550-5,700 million.

The expectation of lower revenues in 2008 combined with continuous changes in the product and customer mixes in the wholesale business results in lower profitability for 2008 than previously anticipated. In addition, we expect difficult market conditions for the retail business throughout the remaining part of 2008.

The impact of exchange rate movements on operating profits (EBIT) is only in part counterbalanced by forward exchange contracts. The overall negative exchange rate effect on consolidated operating profits (EBIT) for 2008 is still expected to be at approx. DKK 120 million. We therefore forecast consolidated operating profits (EBIT) in 2008 of DKK 1,150-1,250 million against our previous forecast of 1,340-1,440 million.

The effective tax rate for 2008 is estimated at 24-25%.

Aggregate investments for the year in property, plant and equipment are estimated at DKK 200 million.

We continue to pursue our strategy of channelling any surplus liquidity back to the shareholders, duly considering consolidated cash flows and acquisitions. We are convinced that the buy-back of shares enables more dynamic planning of dividend policies. Bearing the pursuit of this strategy and any current acquisition opportunities in mind, we expect to buy back shares in 2008 at an amount of DKK 450-750 million against our previous forecast of DKK 900 million.

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The full *Interim Report 2008* for William Demant Holding A/S totalling 14 pages will be published in continuation of this announcement.

Please be advised that we will host a teleconference for analysts and investors **today at 4.30 p.m. CEST**. The teleconference will be conducted in English and broadcast via our website, www.demant.com.