

Media release

Phonak Holding Ltd.Laubisrütistrasse 28
CH-8712 Stäfa
Switzerland

Phone +41 1 928 01 01

Fax +41 1 928 03 90

Subject	Annual Accounts 2000/01
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Date	June 14, 2001
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Contact	Peter Pfluger (CEO), Ernst Vogelsang (CFO)
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Record years as sales and margins soar

EBIT doubled to CHF 95.3 million – Claro generates 30% of sales

The Phonak Group can look back on an extremely successful financial year 2000/01 (ending March 31, 2001). Consolidated sales rose by a record 46.4% from CHF 314.3 million to CHF 460.2 million. Operating profit (EBIT) and consolidated net profit virtually doubled, with operating profit climbing by 95.3% to CHF 95.3 million and consolidated net profit by 93.1% to CHF 65.7 million. At the same time there was a considerable improvement in margins, with the EBIT margin rising from 15.5% to 20.7% and the net margin from 10.8% to 14.3%. The General Meeting will be asked to approve a par value repayment of CHF 15 per share (instead of a dividend) and a 1:100 share split. As planned for some time now, long-time CFO Ernst Vogelsang will be retiring from Group Executive Management at the end of 2001. His position will be taken by Unitron's current COO and CFO, Paul Thompson.

The dominant feature of the financial year 2000/01 was Claro's resounding market success. Phonak's new fully digital product line was largely responsible for high internal growth of 34% and led to a significant shift in the individual hearing instrument segments. Of sales totalling CHF 460.2 million, no less than 31% (previous year 6.5%) was accounted for by instruments in the top price and performance segment. As expected, sales of digitally programmable hearing computers in the middle range were down by 8.6% and accounted for 24.6% of consolidated sales. Despite a reduced share of the total, classic analog instruments saw a 14% increase in turnover. Sales of wireless communication systems

developed likewise very positively, growing 38% and accounting for 7% of consolidated sales.

The past financial year was also one marked by acquisitions and thus investment in the future. For the first time ever, Phonak acquired one of its main competitors, the Canadian Unitron Group, which is the world's seventh-largest hearing instrument manufacturer. The purchase has considerably strengthened the Group's position in North America and during the year under review fuelled growth of 50% (36% excluding Unitron) in the world's largest market. Today, the "new" Phonak Group holds a market share of 15% in the USA and over 20% in Canada. The sales and distribution network was also expanded: in Spain and Austria through acquisitions of organisations with strong market positions; and in Switzerland and the Middle East (Dubai) through the foundation of new companies. In Denmark the Group purchased Auris A/S, a producer of In-The-Ear (ITE) instruments, thus expanding its ITE production capacity in northern Europe.

Thanks to Claro, Phonak posted especially strong growth in the European countries. Sales in the important German market were up by more than 60%, in Scandinavia by 40% and France by 35%. Even more impressively, Phonak BV in Holland – founded just two years ago – reported a 120% sales increase.

The significant improvements in margins were due primarily to the shift towards products in the upper price bracket as well as a disproportionately low increase in operating expenses (+35.5%). Operating cash flow (EBITDA) was up 85.9% from CHF 60.9 million to CHF 113.3 million and operating profit (EBIT) 95.3% from CHF 48.8 million to CHF 95.3 million. This represents an increase from 19.4% to 24.6% in the EBITDA margin and from 15.5% to 20.7% in the EBIT margin. Consolidated net profit rose by 93.1% to CHF 65.7 million, with a resulting increase in net margin from 10.8% to 14.3%.

Investment at record level

Investment during the year under review hit the record level of CHF 235 million. Of this total, CHF 214 million was spent on four acquisitions: Auris (Denmark), Laem (Spain), Unitron (Canada) and Hansaton (Austria). The last-named company will only be consolidated with effect from April 1, 2001.

Capital expenditure increased by 25% to CHF 21.8 million. As in previous years, significant sums were spent on the modernization and expansion of production and on new information technology.

In the course of the financial year, strong growth and acquisitions saw the Phonak Group's workforce leap by 843 to 2,122 employees. Of these, 650 were accounted for by acquisitions. A further 121 jobs were created by the existing companies, including 41 in Switzerland and 36 with Phonak USA. The newly founded companies – Phonak Switzerland, Phonak Middle East and Phonak Marketing International – employ a total of 72 persons.

Par value repayment and stock split

Instead of a dividend (CHF 12 per share last year), the General Meeting on July 5, 2001, will be asked to approve a CHF 15 par value repayment per share as well as a 1:100 share split. The aim of this step is to make Phonak shares more marketable and make the new, "lower-priced" stock accessible to private investors with a limited amount of capital to invest.

Continued strong growth thanks to expansion of the fully digital range and successful acquisitions

Hearing instruments with digital technology continue to advance. Of the approximately six million hearing instruments sold worldwide every year, approximately 25% now feature digital technology and account for almost 50% of the total value of sales. This share is set to increase still further. Phonak is ideally equipped to deal with this shift in the market. Firstly, with its own brands: the Claro line is being extended and rounded off by the Claro CIC, an instrument worn completely in the auditory canal. This tiny breakthrough hearing computer, the first ever to feature a digital microphone, will be launched in summer 2001 and should make a substantial contribution to sales during the second half of the year. Phonak will, furthermore, be launching a digital hearing computer line in the medium price bracket during the second half of the year, giving it also a foothold in this rapidly growing segment. Secondly, with the Unitron and Argosy brands: the Nexus and Axiom hearing computer lines are currently being introduced to the market and are posting rapidly increasing production and sales figures every month. Here, too, contributions towards sales and profitability will start to come through significantly during the second half of the year. The Phonak Group will, therefore, soon have a solid, wide-ranging portfolio of fully digital products, ensuring further sustained growth in the years ahead.

We can also look forward to uninterrupted growth from our wireless communication systems now that MicroLink has clearly established itself as **the** industrial standard for FM systems – even for the hearing instruments offered by most of the competition. A number of new products will also have their market launches during the current financial year, in particular the new TelCom transmitter, used to derive optimum performance from telephones and audio systems, such as television and CD players.

"We are thus expecting another above-average increase in sales of at least 30% and are confident of topping the CHF 600 million mark during the current financial year, which means a continuation of our steep growth rate," says Peter Pfluger. Internal growth will be fuelled mainly by new digital products in the middle and top price brackets, while growth from acquisitions will be generated by our newly purchased subsidiaries (primarily Unitron and Hansaton).

With regard to the development of profits, we expect - following last year's doubling of earnings - a period of consolidation in preparation for our next big targets. The first objective is to get Unitron's operations and profitability up to a high level as quickly as possible and to make maximum use of existing and potential synergies. Furthermore, following the massive growth of the past year, the Phonak Group has had to strengthen its staff and organizational structures, most of which have now taken place. These long-term measures will assure sustained growth for the Phonak Group in the years to come.

For the financial year 2001/02 this means - considering also a three-fold increase in the goodwill amortization - that we can expect an increase in operating profit (EBIT) in the region of 15 to 20%. Thereby we foresee the two halves of the year to be very different: the first will contain considerable ramp-up costs of the various new products, while the second should reflect the growth generated by these new products.

Replacement of long-standing CFO Ernst Vogelsang by Paul Thompson

At the end of 2001, Ernst Vogelsang will be stepping down from Group Executive Management and handing over his position as CFO to Paul Thompson. Over the past 14 years Ernst Vogelsang, together with the founding shareholders, has been instrumental in shaping Phonak's destiny. He has played a central role in many of the milestones along the road, particularly the company's listing on the Swiss Stock Exchange in 1994. In future he will be working with the Chairman of the Board of Phonak Holding Ltd., Andy Rihs, supporting him with his manifold industrial and financial activities. He will thus retain close links with the Phonak Group. His retirement has been planned for some time now and Paul Thompson, current CFO and COO of the Unitron Group, which was acquired last autumn, is a suitable successor. The latest appointment means that the hand-over of senior management to a new generation, commenced four years ago, is now complete. Paul Thompson (35) is Canadian by birth. A certified public accountant (CPA) by training, he joined Unitron three years ago, where he initiated and successfully engineered the company's turnaround. Prior to that, he was employed by Ernst & Young as a management consultant.

Key figures

	2000/01 (CHF m)	1999/00 (CHF m)	Increase over previous year
Consolidated sales	460.2	314.3	46.4 %
Operating profit (EBIT)	95.3	48.8	95.3 %
as % of consolidated sales	20.7	15.5	
Consolidated net profit	65.7	34.0	93.1 %
as % of consolidated sales	14.3	10.8	
Cash flow from operating activities	91.5	36.4	151.3 %
Research and development	33.4	25.3	32.0 %
as % of consolidated sales	7.3	8.1	
Capital expenditure	21.8	17.4	25.3 %
Total assets	704.5	346.3	103.5 %
Shareholders' equity	323.6	182.8	77.0 %
as % of total assets	45.9	52.8	
Number of employees (average)	1,583	1,239	27.8 %
Earnings per share in CHF	103.89	54.12	92.0 %
Dividend per share in CHF	0 ¹⁾	12.00	

¹⁾ Instead of a dividend, the Annual General Meeting of July 5, 2001, will be asked to approve a repayment of CHF 15 on the par value of each share.

Investor Relations Calendar

July 5, 2001, 3 p.m.	Annual General Meeting of Phonak Holding Ltd. (at the Frohberg Sport and Recreation Center in Stäfa)
November 2001	Semi-annual report per September 30, 2001
April 2002	Shareholder Letter with preliminary sales figures and outlook
June 6, 2002	Media Conference/Analyst Meeting; Mailing of Annual Report 2001/02
June 27, 2002	General Meeting of Phonak Holding Ltd.