

Media Release

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Strong start to Phonak financial year 2006/07

Announced acquisition of ReSound Group is an important milestone in securing the long-term success of the Phonak Group and will create significant added value for all stakeholders

- Sales increase by 29.0% to CHF 504.2 million (whereof 15.6% organic, 12.7% from acquisitions, 0.7% from currencies)
- EBITA margin improves to 25.1% (prior year 24.8%)
- Income after taxes grows by 32.0% to CHF 102.2 million
- Phonak organic sales growth of 15.6% clearly exceeds hearing instrument market growth
- EUHA – Savia Art of Phonak again sets the benchmark in the hearing instrument industry
- Hear the World – Plácido Domingo and the Vienna Philharmonic Orchestra support Phonak in raising the awareness of people around the world about the importance of hearing
- In 2006/07 several new, highly competitive hearing systems have been launched: Savia Art, microPower, Verve Steinway Edition, Indigo, and Element
- Outlook for financial year 2006/07:
Continuous strong organic sales growth and further improvement of the EBITA margin. Due to the strong comparison base of the second half of 2005/06, sales growth will be lower in the second half of 2006/07

The Phonak Group got off to a strong start to the financial year 2006/07, posting a half-year result that exceeded our expectations. Both sales and profit rose to record highs. For the first time in the company's history, our six-month sales figures broke through the CHF 500 million mark. Revenues rose 29.0% year-on-year to reach CHF 504.2 million. Organic growth in local currencies was 15.6%. Apart from Savia, the main contributors to this dynamic performance were the new hearing systems Eleva, microPower, and eXtra. Our wireless communication systems also posted strong sales growth. Gross profit margin improved to 68.0% from 66.0% last year due to efficiency gains from higher production volumes, cost savings on materials purchasing, and a higher proportion of value added from our Chinese production facilities. Operating profit before acquisition-related amortization (EBITA) rose 30.7% to CHF 126.6 million, which corresponds to an EBITA margin of 25.1%. Growth in operating expenses is mainly attributable to the ongoing expansion of our research & development and global distribution capabilities. Phonak's income after taxes rose 32.0% to CHF 102.2 million, which is more than we earned in the entire 2004/05 financial year.

Announcement of ReSound acquisition – an important milestone for the Phonak Group

The highlight of the current financial year has undoubtedly been the announcement of an agreement to purchase Denmark's ReSound Group, one of the world's leading producers of hearing instruments. We strongly believe that this acquisition is an important milestone in securing the long-term success of the Phonak Group and creates significant added value for all stakeholders. The combined Group will be able to call on unprecedented research and development capabilities and marketing resources. This acquisition will take us one step closer to realizing our vision of actively exploiting the untapped potential of the hearing instruments market in favor of hearing impaired people. The transaction is subject to clearance by the competent merger control authorities. We expect the transaction to close in the first half of 2007.

Further strengthening of our highly competitive product portfolio

At the recent International Congress of Hearing Aid Acousticians (EUHA) in October 2006, we demonstrated our innovation power with a series of new products. Savia Art is another masterpiece of hearing performance that sets the benchmark in the industry. An unrivalled palette of world-first features such as SoundRelax, Self Learning, and NoWhistle Technology provide Savia Art hearing systems with a level of natural intelligence that allows the hearing device to be fully personalized to the user's hearing and lifestyle preferences. This business year, besides Savia Art, Phonak hearing systems also introduced the microPower series and the Verve Steinway Edition, the first co-branding model in the history of the hearing instrument industry.

After having introduced Indigo earlier this spring, Unitron Hearing completed its product portfolio by introducing new PALIO-based hearing systems in the entry to mid-level product range. The Element series consists of three feature-rich models, Element 16, Element 8, and Element 4, with varying degrees of automatic performance and comfort features such as AntiShock.

Phonak Group retains its strong position

In recent years the Phonak Group has continued to strengthen its position as the hearing instrument industry's innovation and technology leader. The company has a very strong global management team and a high level of competitiveness. Our excellent business performance relies on the consistent execution of our strategy to focus on product innovation and to improve our sales and distribution capabilities. This strategy will also apply for the new Phonak Group including the ReSound operations. We are very confident that we shall successfully master the challenges of the integration of the ReSound Group and that the timing for this step forward could not have been better.

Outlook for financial year 2006/07

Phonak has one of the most competitive product portfolios in the hearing instrument industry and can rely on a full product pipeline. Based on current market conditions, without taking into account the effects of the planned integration of the ReSound Group, and barring unforeseen events, we forecast a continuous strong organic sales growth and a further improvement of the EBITA margin for the financial year 2006/07. Due to the strong comparison base of the second half of 2005/06, year-on-year sales growth will be lower in the second half of 2006/07. However, we expect to be able to continue to grow faster than the market during the second half of 2006/07.

The Interim Report 2006/07 can be downloaded from:

<http://www.phonak.com/company/investors/financial/semiannual.htm>

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Key Figures Phonak Group

April to September, 1,000 CHF unless otherwise specified	2006	2005 ¹⁾
Sales	504,211	390,935
change compared to previous year (%)	29.0	23.5
Gross profit	342,816	258,150
change compared to previous year (%)	32.8	31.5
in % of sales	68.0	66.0
Research & development costs	33,391	30,335
in % of sales	6.6	7.8
Sales & marketing costs	137,786	85,796
in % of sales	27.3	21.9
Operating profit before acquisition-related amortization (EBITA)	126,621	96,863
change compared to previous year (%)	30.7	75.9
in % of sales	25.1	24.8
Operating profit (EBIT)	124,491	96,668
change compared to previous year (%)	28.8	75.5
in % of sales	24.7	24.7
Income after taxes	102,159	77,388
change compared to previous year (%)	32.0	90.2
in % of sales	20.3	19.8
Number of employees (average)	3,708	2,984
change compared to previous year (%)	24.3	9.2
Number of employees (end of period)	3,758	3,057
change compared to previous year (%)	22.9	11.4
Net cash²⁾	179,603	114,533
Net working capital³⁾	116,956	113,689
in % of sales	23.2	29.1
Capital expenditure (tangible and intangible assets)⁴⁾	14,364	16,003
Capital employed⁵⁾	501,003	406,575
in % of sales	99.4	104.0
Total assets	1,016,607	780,416
Equity	680,606	521,108
Equity financing ratio (%)⁶⁾	66.9	66.8
Free cash flow⁷⁾	62,765	44,911
in % of sales	12.4	11.5
Return on capital employed (%)⁸⁾	26.3	25.4
Return on equity (%)⁹⁾	15.7	16.0
Basic earnings per share (CHF)	1.533	1.165
Diluted earnings per share (CHF)	1.510	1.154
Cash-based diluted earnings per share (CHF) ¹⁰⁾	1.531	1.157

¹⁾ Including adjustments in accordance with revised IFRS accounting standards and improvements of the presentation of financial statements (see Notes to the Interim Consolidated Financial Statements of the Interim Report per September 30, 2006)

²⁾ Cash and cash equivalents + financial assets at fair value through profit or loss – short-term debts
– financial liabilities at fair value through profit or loss and other financial liabilities – mortgages – other long-term debts

³⁾ Receivables + inventories – trade payables – other short-term liabilities – taxes payable – short-term provisions

⁴⁾ Without goodwill and acquisition-related intangibles

⁵⁾ Total assets – cash and cash equivalents – financial assets at fair value through profit or loss – trade payables – other liabilities – provisions – deferred tax liabilities

⁶⁾ Equity in % of total assets

⁷⁾ Cash flow from operating activities + cash flow from investing activities

⁸⁾ EBIT in % of capital employed (average)

⁹⁾ Income after taxes in % of equity (average)

¹⁰⁾ Excludes the amortization of acquisition-related intangibles, net of tax