

## Media Release

Phonak Holding AG

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Subject	Financial Results 2004/05
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## Record Level of Sales and Strong Increase in Profitability

### 50% Dividend Increase Proposed

The Management of the Phonak Group is pleased to report very positive results for the financial year 2004/05. Starting from a record level of sales in the previous year, sales in local currencies increased by another 9.5% and reached CHF 678.8 million. At the same time, the operating profit before amortization of goodwill (EBITA) went up by 23.3% to CHF 127.7 million. The operating profit margin of 18.8% considerably surpassed the comparable previous year figure of 16.2%. Consolidated income after taxes reached CHF 96.9 million, which yields diluted earnings per share of CHF 1.46.

The Phonak Group continued to increase its global market share as sales developed favorably in all key markets, including Asia Pacific. Sales growth was driven by a broad base of product lines: the established full range of hearing instruments by Phonak and Unitron Hearing, Phonak's unique wireless FM systems and the recently launched Savia product line. Improvements in profitability stem primarily from lower manufacturing costs due to economies of scale, the Chinese production facility, as well as from further material purchase price reductions.

Valentin Chapero, CEO, stated, "I am very pleased that we were able to outgrow the market, at the same time significantly improve profitability, and on top of that create more than 230 new jobs worldwide, 22 of which are in Switzerland."

During 2005/06, management is confident that sales and profitability will continue to grow as the Group focuses on its strategy of product innovation, expanding sales and distribution channels, and proactive cost management. Specifically, management expects sales improvement in 2005/06 to come from further Savia sales, the new products launched in April 2005 as well as additional products that will be launched in October 2005.

At the Annual General Shareholders' Meeting, shareholders will be asked to approve a dividend payment of CHF 0.30 per share, which represents a 50% increase over the previous year.

### **Overview of Operating Performance**

Premium hearing instruments accounted for 31% of total sales (as in the previous year). Perseo sales were developing as planned throughout the year. The new premium hearing instrument, Savia, had a very successful launch, but only contributed to sales in February and March 2005. In 2005/06, Savia will be the major contributor of sales in the premium segment.

The mid-level share of total sales was 21% (previous year 24%). The decreasing share reflects the overall development of this market segment; however, the key mid-level product lines of the Phonak brand, Aero, Supero and the successfully launched Valeo, as well as Unitron's Conversa, performed according to expectations.

The economy segment accounted for 27% of total sales (previous year 25%). The strong increase of this segment reflects the strategic initiatives undertaken to strengthen the position in this market segment. The main contributor to this success was MAXX, Phonak's first digital offering in this class. In 2004/05, this product line was extended with the introduction of PowerMAXX, the world's most powerful miniature digital hearing instrument. For Unitron Hearing, Unison 3-6-Essential, the new entry-level digital line, was introduced to expand the success of Unison.

FM systems are important additions to Phonak's and Unitron Hearing's hearing instrument product lines. These products accounted for 8% of total sales (previous year 7%).

The measures taken to further increase margins were very successful. Gross profit increased to CHF 411.6 million or 60.6% of sales, compared to CHF 367.7 million or 57.7% of sales in the prior year. Gross profit improved due to economies of scale and as a result of a number of new initiatives taken in different areas of the Group. As an example, in the course of 2004/05, Kitchener manufacturing activities have been scaled down and production in China has increased.

Since the beginning of the fourth quarter of the financial year 2004/05, almost half of the group-wide added value in manufacturing is performed in our Chinese production facility. In addition, further material purchase price reductions were realized through intensified global sourcing.

Operating profit before amortization of goodwill (EBITA) increased by 23.3% to CHF 127.7 million or 18.8% of sales, compared to CHF 103.5 million or 16.2% of sales in the previous year.

Research and development spending decreased, as planned, in 2004/05 to CHF 48.7 million or 7.2% of sales (previous year 9.1%). Major development projects, especially PALIO, the new product hardware platform, reached peak spending levels in the financial year 2003/04. In the reporting year, development activities were primarily focused on the development of new products, of which Savia, the first PALIO platform product was the most significant.

Spending for sales and marketing increased by 22.3% to CHF 154.2 million or 22.7% of sales. The additional spending is related to improvements in current sales organizations as well as the build up of new markets and the strengthening of the Unitron brand. By continuing these investments in 2005/06, spending for sales and marketing will grow at a slightly lower rate than sales.

General and administration expenses increased to CHF 82.8 million or 12.2% of sales (previous year CHF 78.2 million or 12.3% of sales) due to the strengthening of the Group's management team and reinforced IT infrastructure and systems, mainly related to the worldwide roll-out of the ERP software SAP R/3.

Consolidated income after taxes reached CHF 96.9 million compared to CHF 68.9 million in the previous year, which represents an increase of 40.7%.

### **Many new products launched in 2004/05**

In addition to the launch of **Savia** in October 2004, the Group successfully introduced, on a worldwide basis, a variety of other new products:

- **PowerMAXX**, an extension to the popular MAXX entry level product line by Phonak, which is the world's most powerful miniature digital hearing instrument;
- **Unison 3–6–Essential**, the new entry-level digital line of Unitron Hearing, building on the success of the Unison product family;
- **EduLink**, is a new solution for people suffering from a special form of central auditory processing disorder.

### **More new products launched in 2005/06**

As a stated objective, the Group will continue to set the pace for innovative product development in the industry. The Phonak Group already launched a number of new products that will contribute to sales in the fiscal year 2005/06:

- Phonak launched a new miniaturized Behind-the-Ear (BTE) hearing instrument called **miniValeo**, which offers all the proven functions of the Valeo mid-range digital product line, yet in a new, appealing and miniaturized BTE shell;
- Phonak also launched **iLink**, a hearing system that combines, in one device, a digital multi-frequency FM receiver and a digital multi-channel hearing instrument. When **iLink** is combined with **EasyLink** – an easy to operate remote microphone system – the end user benefits from wireless communication that is very easy to use and accessible;
- Unitron Hearing presented the new **Conversa.NT** product line which brings unparalleled value into the mid-range digital segment. Conversa.NT is also available in a modern, miniaturized and easy-to-fit version called **Moda**.

Finally, throughout 2005/06, more new products based on the new PALIO platform will be launched.

### **New market development**

During 2004/05, sales to key accounts increased further as a result of increased focus and cooperation with these industry players. In China, Phonak completed the acquisitions of former Phonak and Unitron Hearing distributors, which included both wholesale and retail activities. The Group began the ramp-up of the sales presence in this market. In Scandinavia, Phonak acquired its former distributor in Finland, while Phonak opened a sales office in Russia, from which this market will be expanded. In 2005/06, the focus of the Group will remain on developing its wholesale network in Eastern Europe, India and Latin America.

## Outlook

While the market for hearing instruments is expected to grow in line with the previous years, management targets to outgrow the market significantly and to achieve a sales growth in local currencies of more than 10%, based on the recent and planned product launches. The management of the Phonak Group is confident that sales and profitability will continue to grow as the Group focuses on its strategy of product innovation, expanding sales and distribution channels, and proactive cost management.

Phonak Group expects a further increase in the gross profit margin in 2005/06; however, the year-over-year increase is not expected to be as significant as the increases seen in 2004/05 and 2003/04. The gross profit margin improvement will come from the increased share of the Chinese manufacturing in the overall production value added compared to the previous year as well as the expected slight shift in product mix towards the high-end, especially driven by Savia.

Management also expects a further improvement in the EBITA margin as a result of the expected gross margin improvement and from operating expenses growing at a lower rate than sales. Assuming that the expected gross margin improvement will materialize, the Group is expected to reach its mid-term EBITA target of 20%.

Capital expenditures will increase slightly over the level in 2004/05 and will be used to accommodate the expansion in sales as well as to replace depreciated equipment. Major capital projects will include tooling for new products, production equipment, IT infrastructure and systems, mainly related to the SAP implementation.

## Investor Relations Calendar

July 7, 2005	Annual General Shareholders' Meeting of Phonak Holding AG at the Congress Hall in Zurich
November 2005	Semi-annual Report per September 30, 2005
May 2006	Media and Analyst Conference Mailing of Annual Report 2005/06
July 2006	Annual General Shareholders' Meeting of Phonak Holding AG

## Key Figures

	2004/05 (CHF m)	2003/04 (CHF m)	Change over previous year
Consolidated sales	678.8	637.6	+6.5%
Operating income before amortization of goodwill (EBITA) <i>as % of consolidated sales</i>	127.7 18.8	103.5 16.2	+23.3%
Operating income before amortization of goodwill (EBIT) <i>as % of consolidated sales</i>	127.7 18.8	95.0 14.9	+34.4%
Consolidated income after taxes <i>as % of consolidated sales</i>	96.9 14.3	68.9 10.8	+40.7%
Free cash flow	83.8	118.3	-29.2%
Research and development <i>as % of consolidated sales</i>	48.7 7.2	58.2 9.1	-16.3%
Capital expenditure (tangible and intangible assets)	23.1	21.4	+8.1%
Total assets	743.4	683.7	+8.7%
Shareholders' equity <i>as % of total assets</i>	447.8 60.2	349.1 51.1	+28.3%
Number of employees March 31	2,926	2,689	+8.8%
Diluted earnings per share in CHF	1.462	1.050	+39.2%
Dividend per share in CHF <sup>1)</sup>	0.30 <sup>1)</sup>	0.20	

<sup>1)</sup> Proposal to the Annual General Meeting of July 7, 2005