

Media Release

Phonak Holding AG

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Sales hit the billion mark and profitability further improves

Further improvement of the competitive capabilities of the Phonak Group

- Sales increase of 23.8% to CHF 1.073 billion
- Internal sales growth of 16.1% (in local currencies and excluding acquisitions) is significantly higher than the hearing instrument market growth
- EBITA margin rises to 26.4% (previous year 24.7%)
- Income after taxes grows by 40.0% to CHF 243 million or 22.6% of sales
- Market share gains in all major markets
- Several new, highly competitive hearing systems were launched at the AAA (American Academy of Audiology) convention held in Denver, USA, in April 2007: Audéo, the Personal Communication Assistant, Una in the entry-level segment and Moxi from Unitron Hearing
- The Phonak Group expects to outgrow the hearing instrument market once again in 2007/08

The Phonak Group is pleased to report very positive results for the financial year 2006/07. Starting from the record level of last year, we increased sales by 23.8% to CHF 1,072.8 million (previous year CHF 866.7 million). Internal growth – measured in local currencies and excluding acquisitions – came to 16.1%. As a result of enhanced operational efficiencies, our gross profit margin climbed by 1.6 percentage points to 68.2% while achieving a more balanced product mix. Operating profit (EBITA) increased by 32.6% to CHF 283.6 million from last year's CHF 213.9 million. The EBITA margin reached 26.4%, up from 24.7% in the previous financial year, underlining the over proportional profit growth. Assisted by a positive financial result and a lower tax rate, income after taxes climbed 40.0% to a record level of CHF 242.9 million. This year's dividend proposed to the Annual General Shareholders' Meeting amounts to CHF 0.75 per share, an increase of 50% over last year's dividend of CHF 0.50.

Market share gains in all major markets

The positive sales performance in all key markets enabled the Phonak Group to continue to expand its global market share. The US and the major European markets were the biggest contributors to the company's sales growth. Emerging markets, including China, performed very well, even though they still only represent a small share of the global market measured by value.

Sales growth was driven by the dynamic performance of a broad range of product lines, most notably Savia Art, Eleva, eXtra, microPower and Unitron Hearing's Element 16, Element 8 and Element 4. The product mix was more balanced due to our efforts to expand market shares in the low and mid price segments which are now starting to bear fruit.

Both the Phonak hearing systems and Unitron Hearing brands contributed to overall sales growth. Although Unitron Hearing did not grow as rapidly as the rest of the Group, sales picked up significantly in the second half of the year following the launch of the important product line Element at the EUHA in October 2006. Wireless communication systems also made a positive contribution to the good business performance, consolidating their strong market position.

Further strengthening of our highly competitive product portfolio

At this year's AAA (American Academy of Audiology) convention held in Denver, USA, in April 2007, the Phonak Group presented several new, highly competitive hearing systems.

Phonak's new Audéo, the Personal Communication Assistant, is set to change how hearing systems are perceived. Audéo has been developed to address the enormous potential of a virtually untapped market of first-time users. It is a "cool" new product, designed for a younger generation of active people. The baby-boomers, extremely sensitive to the stigma surrounding hearing systems, reject traditional models as an obvious sign of ageing and infirmity. Audéo is set to dispel those prejudices with an innovative blend of cutting-edge engineering and award-winning design that will give them effortless listening, even in the most difficult environments. Tiny, light and discreet, the device boasts the industry-leading features that set Phonak apart: Crystal-Sound, which digitally amplifies the subtle, high-pitched sounds essential to understanding speech and ensures nothing gets lost, and digital SurroundZoom, the industry's best directional microphone system. At the premium level, Audéo IX offers the most sophisticated features available in the industry. In the mid price range, Audéo V offers more features than most other premium-level products.

Focus on innovation, distribution, costs and communication

The Phonak Group is in a favourable position: we have the strongest product portfolio of the hearing instrument industry and can rely on a full product pipeline. Our excellent business performance relies on the consistent execution of our strategy to focus on innovation and to improve our sales and distribution capabilities while maintaining effective and cost-efficient back-office operations.

The Phonak Group is ceaselessly striving for evermore improved hearing systems, with better hearing performance. This is the key driver behind our innovation strategy. We produce technical masterpieces and want the world to know about them. This is why we launched the *Hear the World* initiative, an education campaign that aims to raise public awareness worldwide of the importance of hearing. *Hear the World* joins forces with leading international musicians to help the public understand hearing loss and appreciate their sense of hearing. Phonak's mission is supported by renowned musicians acting as ambassadors for this important and emotional topic: Plácido Domingo, the Vienna Philharmonic Orchestra and Bryan Adams all support the initiative.

Furthermore, we want to support our business partners in addressing the end users in a modern and more stylish way. In combination with new designs such as Audéo, we see the potential to radically transform the market situation. Our goal is to change end user perceptions and to make buying a hearing system the most normal thing in the world.

In addition, we will continue to work hard to further develop the Group in the areas of human resources, organization and processes, and thereby building an even stronger base for continued sustained growth.

Information regarding the planned ReSound acquisition

As of October 2, 2006, the Phonak Group entered into a share purchase agreement with GN Store Nord A/S of Denmark to acquire its division ReSound Group. The German Federal Cartel Office (FCO) has prohibited the acquisition. The Phonak Group appealed against the prohibition of the FCO to the competent court, the "Oberlandesgericht Düsseldorf". The Oberlandesgericht Düsseldorf has not yet come to a decision.

Outlook for financial year 2007/08

The delay of the ReSound acquisition is annoying, but will not impact our strategy or competitiveness in any way. We are confident that Phonak Group's sales will continue to develop in line with our mid-term target to grow the company by around 10% on an annual basis. Thus, we expect once again to be able to outgrow the hearing instrument market in 2007/08. Management anticipates a further improvement in the EBITA margin as a result of an expected gross profit margin increase as well as a reduction in operating expenses as a percentage of sales.

The Annual Report 2006/07 can be downloaded from:
www.phonak.com/company/investors/financial/annual.htm

Key Figures Phonak Group

(Consolidated)

in 1,000 CHF unless otherwise specified	2006/07	2005/06 ¹⁾
Sales	1,072,796	866,682
change compared to previous year (%)	23.8	31.2
Gross profit	732,075	577,587
change compared to previous year (%)	26.7	38.2
in % of sales	68.2	66.6
Research & development costs	67,590	62,780
in % of sales	6.3	7.2
Sales & marketing costs	278,978	205,731
in % of sales	26.0	23.7
Operating profit before acquisition-related amortization (EBITA)	283,643	213,862
change compared to previous year (%)	32.6	70.0
in % of sales	26.4	24.7
Operating profit (EBIT)	279,765	212,696
change compared to previous year (%)	31.5	69.1
in % of sales	26.1	24.5
Income after taxes	242,875	173,499
change compared to previous year (%)	40.0	81.0
in % of sales	22.6	20.0
Number of employees (average)	3,813	3,166
change compared to previous year (%)	20.4	16.4
Number of employees (end of period)	4,023	3,428
change compared to previous year (%)	17.3	17.2
Net cash²⁾	347,472	177,934
Net working capital³⁾	96,313	125,866
in % of sales	9.0	14.5
Capital expenditure (tangible and intangible assets)⁴⁾	31,242	26,995
Capital employed⁵⁾	547,215	446,588
in % of sales	51.0	51.5
Total assets	1,263,392	928,125
Equity	894,687	624,522
Equity financing ratio (%)⁶⁾	70.8	67.3
Free cash flow⁷⁾	144,542	101,834
in % of sales	13.5	11.7
Return on capital employed (%)⁸⁾	56.3	53.0
Return on equity (%)⁹⁾	32.0	32.3
Basic earnings per share (CHF)	3.637	2.607
Diluted earnings per share (CHF)	3.590	2.584
Cash-based diluted earnings per share (CHF) ¹⁰⁾	3.628	2.596
Dividend per share (CHF)	0.75 ¹¹⁾	0.50

¹⁾ Including adjustments in accordance with revised IFRS accounting standards and improvements of the presentation of financial statements (see Notes to the Consolidated Financial Statements of the Annual Report 2006/07)

²⁾ Cash and cash equivalents + other current financial assets – short-term debts
– other current 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 intangibles relating to acquisitions

⁵⁾ Total assets – cash and cash equivalents – other current financial assets – 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/(loss) after taxes in % of equity (average)

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

¹¹⁾ Proposal to the Annual General Shareholders' Meeting of June 12, 2007