

Media Release

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Contact	Dr. Valentin Chapero (CEO), Oliver Walker (CFO)

Phonak Holding AG

Laubisrütistrasse 28
CH-8712 Stäfa
Switzerland

Phone +41 44 928 01 01
Fax +41 44 928 03 90

Dynamic growth through superior innovation

Further expansion of market share and sharp rise in profitability

- Sales increase by 23% (in local currencies and in CHF) to CHF 399 million
- Market share gains in all major markets
- Savia establishes itself as the benchmark product in the hearing instrument industry
- EBIT margin rises to 24% (prior year 17%)
- Income after taxes grows by 88%
- 131 new jobs created in the first half of 2005/06
- eXtra and microSavia launched at EUHA
- Outlook for financial year 2005/06:
sales growth of 17-19% (in local currencies) and EBIT margin of 22-24%

The Phonak Group is pleased to report very positive financial results for the first half of the financial year 2005/06. Sales increased by 22.8% (in local currencies and in CHF) to CHF 399.2 million. This increase is attributable to the dynamic performance of Savia, although miniValeo in the mid price and performance segment, the Unitron brand and the wireless communication systems also made a decisive contribution. Gross profit rose to CHF 255.7 million, representing a 32.2% increase on the prior-year figure. The gross profit margin improved to 64.0% due to a favorable product mix, efficiency gains from higher production volumes and cost savings on materials purchasing. EBIT increased by 73.3% year-on-year to CHF 95.4 million. The EBIT margin rose to 23.9%, compared to 16.9% in the first half of 2004/05. Consolidated income after taxes was CHF 76.4 million, up 87.8% compared to the prior-year.

Further strengthening of our highly competitive product portfolio

At the International Congress of Hearing Aid Acousticians (EUHA) in October 2005, the Phonak Group presented a raft of innovations. Attracting considerable attention was the new eXtra hearing system with DataLogging, which is setting new standards in the value segment. The extended frequency response and automatic tuning to a wide variety of listening situations ensure impressive sound quality and speech clarity – a revolution in this segment. Also meeting with an extremely positive response was microSavia, which combines all Savia's functions in an ultra-miniaturized behind-the-ear hearing system. With the addition of microSavia, Phonak now offers a comprehensive product portfolio of open fitting solutions for any customer preference. As the DataLogging pioneer, we have been able to translate our customers' ideas and wishes into new functionalities and make them accessible to the users through iPFG fitting software.

Unitron Hearing has substantially improved the hearing performance of the Unison and Conversa.NT product lines and now offers both product lines for open fitting as well. Moda for Unison is the first miniaturized behind-the-ear hearing system available in the lower price and performance segment.

Focus on innovation, distribution and cost management

We will keep our innovation speed on a high level. Our platform strategy provides the right tool for ongoing innovations that are ideally adapted to customer requirements. Our second strategic goal is to systematically expand our global distribution channels. By acquiring a controlling interest in CAS Produtos Médicos Ltda., the Brazilian market leader in hearing instrument distribution, we clearly strengthened our presence in Latin America. In Eastern Europe, we took the first step toward strengthening our market position by acquiring our independent distribution partner in Poland. In China, we achieved our goal of expanding production capacity, and the focus is now on building up the distribution network.

Outlook for financial year 2005/06

Phonak has one of the most competitive product portfolios in the hearing instrument industry. We expect the second half of 2005/06 to be as successful for Phonak as the first half of 2005/06. Due to very strong sales in the second half of 2004/05 we expect somewhat lower year-on-year growth rates for the second half of 2005/06. Based on current market conditions and subject to unforeseen events, we forecast sales growth in local currencies of 17-19% and an EBIT margin of 22-24% for the financial year 2005/06.

The Interim Report 2005/06 can be downloaded from:
www.phonak.com/company/investors/financial/semiannual.htm.

Key Figures

April to September (CHF 1,000 unless otherwise specified)	2005	2004 ¹⁾
Sales	399,233	325,032
change compared to previous year (%)	22.8	8.0
Gross profit	255,699	193,393
change compared to previous year (%)	32.2	17.4
in % of sales	64.0	59.5
Research & development costs	30,668	26,591
in % of sales	7.7	8.2
Sales & marketing costs	84,842	73,681
in % of sales	21.3	22.7
Operating profit (EBIT)	95,417	55,072
change compared to previous year (%)	73.3	57.7
in % of sales	23.9	16.9
Income after taxes	76,386	40,681
change compared to previous year (%)	87.8	55.8
in % of sales	19.1	12.5
Number of employees (average)	2,984	2,733
change compared to previous year (%)	9.2	12.7
Number of employees (end of period)	3,057	2,743
change compared to previous year (%)	11.4	11.5
Net cash²⁾	114,533	45,043
Net working capital³⁾	113,689	56,989
in % of sales	28.5	17.5
Capital expenditure (tangible and intangible assets)	16,003	10,362
Capital employed⁴⁾	408,084	344,701
in % of sales	102.2	106.1
Total assets	782,300	699,024
Shareholders' equity	522,617	389,744
Equity financing ratio (%)⁵⁾	66.8	55.8
Free cash flow⁶⁾	44,911	36,897
in % of sales	11.2	11.4
Return on capital employed (%)⁷⁾	25.0	16.1
Return on equity (%)⁸⁾	15.7	11.0
Basic earnings per share (CHF)⁹⁾	1.150	0.616
Diluted earnings per share (CHF)⁹⁾	1.140	0.609

1) Including adjustments in accordance with new IFRS accounting standards (see Notes in the Interim Report per September 30, 2005)

2) Cash and cash equivalents + financial assets held for trading – short-term debts – financial liabilities held for trading – mortgages – long-term debts

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

4) Total assets – cash and cash equivalents – financial assets held for trading – payables – other liabilities – provisions – tax liabilities

5) Shareholders' equity in % of total assets

6) Cash flow from operating activities plus cash flow from investing activities

7) EBIT in % of capital employed (average)

8) Income after taxes in % of shareholders' equity (average)

9) For calculation refer to Note 4 in the Interim Report per September 30, 2005