

Media release

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Subject	Annual Accounts 2001/02
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25% Sales Growth in 2001/02

Positive Outlook for 2002/03 Fueled by Many New Products

For the 2001/02 business year, the Phonak Group achieved another 25% growth in sales, on top of the outstanding 46% growth rate from the prior year driven by the success of the Claro product, bringing the sales to a record level of CHF 576 million. Phonak also posted the second highest level of EBITA in the company's history at CHF 73 million. Despite achieving these results, sales and profit were below original expectations and the Phonak Group looks forward to positive development in sales and profit in 2002/03, fueled by the launch of new products. Dr. Herbert Baechler has been formally appointed to the position of Chief Technology Officer, responsible for directing the Group's key research projects. At the General Meeting, shareholders will be asked to approve a dividend payment of CHF 0.12 per share.

Despite achieving the milestones in consolidated sales and profit, the results were below original expectations for a number of reasons. Over the last twelve months, the industry experienced a rapid development of the mid-level digital product segment and, until recently with the launch of Aero, Phonak did not have a competitive product to offer in this segment.

Further, Phonak did not sell as many Claro premium digital products as planned. This said, approximately 10% more Claro units were sold this year, indicating that, in spite of the

introduction of several new premium product lines by competitors, Claro is still regarded as an exceptional premium product.

In addition, the integration of Unitron has required more effort and cost than expected. During this past year, the integration of Unitron's two manufacturing divisions, and two brands, in the United States was accelerated. This integration effort led to increased costs, and less EBITA than originally forecasted; however, the Unitron Hearing brand has emerged and is now well-positioned to increase its share of the U.S. market.

Finally, as discussed last year, following the period of strong growth in 2000/01, the personnel, organization and infrastructure of the Phonak Group, particularly in marketing and sales, have been reinforced during 2001/02 to ensure the Group's success in the long term. These costs became fully realized in this past financial year.

Amortization of goodwill was CHF 13.2 million, up CHF 8.8 million from last year, and reflects a full year of amortization of the Unitron goodwill as well as the goodwill on acquisitions during the past year. Therefore, operating profit after goodwill amortization (EBIT) amounted to CHF 59.8 million and was thus down by 37% compared to the previous year.

Consolidated net profit amounted to CHF 42.0 million, compared to CHF 65.7 million in 2000/01. The decline in net profit is directly attributable to the decline in operating profit, as well as an increase in interest expense due to the financing of acquisitions made in the prior year.

The operational restructuring of the Phonak Group, with the integrated Unitron Group, is mostly completed. It is now time to focus again on marketing and sales effort. Therefore, the Board agreed with the former CEO, Dr. Peter Pfluger, to part company effective the beginning of the 2002/03 business year. The search for a suitable marketing-oriented successor is well under way and the management is confident that, by the end of 2002, a new CEO will be presented.

Appointment of Dr. Herbert Baechler as CTO

Dr. Herbert Baechler, a key member of Phonak's management team for the past 20 years, has been formally appointed to the position of Chief Technology Officer and member of the Group Executive Management. In this role, Dr. Baechler continues to be responsible, on a group-wide basis, for directing the various research projects including the pursuit of new technologies and the application to hearing instrument and related business opportunities.

Outlook for 2002/03: Many New Products on the Way

Looking forward, the Phonak Group will no doubt benefit from the new products developed recently. The Group has made very encouraging progress enlarging its product offering under both the Phonak and Unitron Hearing brands. More than ever, the product pipeline is broad and competitive. This past year, new product launches have included the Claro Completely-In-the-Canal (CIC), the fully digital mid-level hearing computers, Aero (Phonak) and Axiom (Unitron Hearing), and the first transmitters with synthesizer technology.

This coming year, the Group will launch a number of new products, including **the Aero Behind-the-Ear (BTE)**, **Supero** – the first line of digital super high power instruments, and **Unison**, a new line of digital products offered by Unitron Hearing to the economy-level market. Phonak will also launch a **new premium line of hearing computers** – the next generation following Claro. This product line will comprise an entire communication system incorporating a complete range of compact hearing instruments along with wireless and remote control products.

From a financial perspective, the Group expects organic sales growth in 2002/03 above 10%, fueled by the many new product launches, and an over-proportionate improvement in profit in the range of 20%. The exact amount of sales and profit improvement will depend on the Group's ability to deliver according to the demand for its new products being launched in 2002/03. The timing of new products will result in slower sales and profit performance in the first half of the year, followed by a stronger second half year.

Higher Investments in R&D

Also in 2002/03, the Group will increase its investment in R&D projects to approximately CHF 45 million (+43%). This investment will ensure Phonak's leading position in technology within the industry, while achieving our goal of broadening the digital product offering in all segments, under the Phonak and Unitron Hearing brands. Capital expenditures will increase over the previous year, by approximately 10%, to CHF 33 million. Major projects include new product platforms, further automation of production facilities – including the expansion of NemoTech automated shell manufacturing for In-the-Ear (ITE) products, and the implementation of IT systems.

Key Figures

	2001/02 (CHF m)	2000/01 (CHF m)	Change over previous year
Consolidated sales	576.1	460.2	+25.2%
Operating profit (EBITA)	73.0	99.8	-26.8%
as % of consolidated sales	12.7	21.7	
Operating profit (EBIT)	59.8	95.3	-37.3%
as % of consolidated sales	10.4	20.7	
Consolidated net profit	42.6	65.7	-35.1%
as % of consolidated sales	7.4	14.3	
Cash flow from operating activities	57.5	91.5	-37.1%
Research and development	31.5	31.4	+0.2%
as % of consolidated sales	5.5	6.8	
Capital expenditure	29.8	21.8	+36.4%
Total assets	742.2	703.8	+5.4%
Shareholders' equity	360.8	322.9	+11.7%
as % of total assets	48.6	45.9	
Number of employees (March 31,2002)	2,416	2,122	+13.9%
Earnings per share in CHF	0.6577	1.0389	-36.7%
Dividend per share in CHF	0.12 ¹⁾	0 ²⁾	

¹⁾ Proposal to the General Meeting of July 11, 2002.

²⁾ Instead of a dividend, a repayment of CHF 0.15 (considering the share split of 1:100) on the par value of each share was made.

Investor Relations Calendar

July 11, 2002, 4 p.m. Annual General Meeting of Phonak Holding Ltd.
(at the Congress Hall in Zurich)

November 2002 Semi-annual Report per September 30, 2002

April 2003 Shareholder Letter with preliminary sales figures and outlook

June 12, 2003 Media Conference/Analyst Meeting;
Mailing of Annual Report 2002/03

July 11, 2003 Annual General Meeting of Phonak Holding Ltd.