

## Media Release

Phonak Holding Ltd.

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| Subject | Financial Results 2002/03                              |
| Date    | June 12, 2003  |
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## Financial Year 2002/03: Many New Products Launched

### Dividend Payment of CHF 0.12 per Share

The financial year 2002/03 was a transition and turnaround year for the Phonak Group. In a changing and overall flat market environment that was characterized by increased competitiveness, consolidated sales reached CHF 550 million. Compared to the previous year, this represents an overall decline of 4%. However, this decline is exclusively due to the negative currency effect (-7%), meaning that the Group experienced organic growth of +3%. Sales in the second half year were 10% (excluding exchange impact) above the first half, a direct result of four new product launches during the year.

Operating profit (EBITA) amounted to CHF 48 million (-34% from prior year) due to the lower reported sales and increased spending in R&D. The net result (before the one-time goodwill impairment charge of CHF 75 million) was CHF 28 million. Free cash flow increased CHF 13 million over last year to CHF 29 million. Net debt fell CHF 36 million to CHF 87 million. The equity financing ratio remained at a high level of 48%, reflecting the continued strong financial position of the Group.

During 2003/04, management believes that the Group will benefit, in terms of top and bottom line growth, from the sales of the new products and the sales of new and existing products to new markets, in terms of geography and customer segment.

At the General Meeting, shareholders will be asked to approve a dividend payment of CHF 0.12 per share. In addition, the Board of Directors proposes the election of three new members: William D. Dearstyne, Dr. Michael Jacobi and Robert F. Spoerry.

## Overview of Operating Performance

Sales of premium products, primarily of Claro, accounted for 25% (previous year 30%) of total sales. Perseo, Phonak's new premium product line, was launched with promising sales results. The company expects that the success of Perseo and Claro will increase the Group's sales from premium products in 2003/04. Mid-level products, primarily digital, accounted for 28% of total sales (previous year 24%). The completion of the Aero product family with the BTE versions has resulted in improved sales for the entire Aero line. In addition, sales of Supero, the world's first digital line specifically designed to meet the needs of severe to profound hearing impaired people, developed well, especially in the second half of the year. Sales of the economy segment were 25% of total sales (previous year 25%). The result in this segment is primarily due to the success of Unison, Unitron Hearing's entry level digital product line, which was launched in June 2002 and continues to sell very well. Sales of wireless FM systems – a unique and competitive advantage for both brands – accounted for 7% of total sales as in the previous year and delivered over-proportionate profitability to the Group.

Gross margin, as a percentage of sales, remained consistent with the prior year. R&D spending increased significantly, as expected in 2002/03, to CHF 49 million. The increase was due to the timing of major development projects, including NemoTech (automated shell manufacturing), Palio (new single hardware platform) and Chinook (new fitting software platform). This level of spending brings the investment level to 9% (previous year 6%) of sales, consistent with the past and in line with targets.

Sales and marketing costs were reduced from the prior year level, consistent with the exchange effect and the decline in reported sales. As a percentage of sales, however, sales and marketing spending is consistent with prior year.

Administration and general overhead costs, combined with other expenses (net), were also reduced from prior year due to the exchange effect and reduced overhead costs.

Before the one-time charge, the operating profit after goodwill amortization (EBIT) was CHF 38 million, compared to CHF 60 million in the prior year. Including the one-time charge, EBIT was a loss of CHF 37 million.

The consolidated net result was a loss of CHF 47 million, compared to a net profit of CHF 43 million in the prior year. The decline in net profit is directly attributable to the decline in operating profit, driven due a large extent by the one-time charge.

### **Many new products launched in 2002/03**

A major focus within the Group over the past 18 months has been to complete its digital product portfolios, by developing products in the missing segments. We are pleased to report that the efforts of the combined development teams have led to an impressive amount of new products brought to the market in 2002/03, including:

- As already mentioned, the Aero BTE product line, which represents the completion of Phonak's mid-level digital line;
- Supero, Phonak's – and the industry's only – super high power digital product for severe to profound hearing losses;
- Unison, a complete line of entry-level digital products from Unitron Hearing; and
- Perseo, Phonak's new premium digital product, launched in March 2003 with very encouraging results.

As a result of the new products launched, sales in the second half year increased 10%, excluding the exchange impact, over the first half year.

### **More new products launched in Q1 2003/04**

Furthermore, the intense R&D efforts during the year have resulted in another five product launches in the first three months of the 2003/04 business year:

- MAXX, Phonak's new entry-level digital product, launched in a complete range from BTE through CIC;
- Amio, another entry-level digital product from Phonak, designed specifically for the North American market, available in a complete ITE line;
- Conversa, a mid-level digital product line from Unitron Hearing with proprietary ClearCall technology to effectively handle the common complaint of hearing aid feedback with telephone use; and
- Finally, Phonak has launched two additions to the Aero and Supero product families: Aero 311 Forte and Supero 413 AZ. Both are designed for power amplification and are equipped with the proprietary AudioZoom function. Supero 413 AZ will be launched together with KeyPilot, a new low-priced remote control in a key-ring size.

Unitron Hearing is also developing a first class product line to be introduced in the second half of 2003/04. This offering as well as a power line, planned to be launched in the next business year, will complement the digital offering of this brand.

Within the FM business segment, Phonak has now introduced a new FM synthesizer receiver that allows automatic frequency selection and, therefore, the highest level of flexibility and user benefits.

## **Outlook for 2003/04**

The Phonak Group looks forward to positive sales and profit development in 2003/04. Although difficult to predict in the current environment, for 2003/04, the company expects, as mentioned in the Shareholder Letter in April 2003, an overall market growth in the range of two to three percent. However, the management expects that sales from new products, and from new markets, will allow the Phonak Group to grow above the market rate. Based on today's perspective of exchange rates and growth prospects, it expects consolidated sales for 2003/04 to be around CHF 600 million. On the bottom line, the Group expects further improvements in EBITA margin in the following years as the Group begins to benefit from the current projects aimed at bringing the product cost down substantially.

From the perspective of top line growth opportunities, the Group will benefit by bringing its new products to the market (i.e. completing or expanding the product portfolios) and by bringing new and existing products to new markets. In Japan, for example, Phonak has established a wholly-owned Group company to expand its presence in this key market. In addition, the company leverages its knowledge and key competencies in the FM segment into new applications.

Bottom line growth opportunities, to be realized over the next few years, will come from reducing the complexity and cost of products as a result of the following major initiatives: the development of new products on a single, flexible hardware platform, the use of NemoTech to build ITE products and eliminate costs in the distribution, and the establishment of a low-cost manufacturing environment, where we will begin by transferring manually-intensive faceplate production and reprocessing of returned products. Phonak will continue producing in Switzerland, especially for high value-added products requiring high-tech processes as well as pilot manufacturing.

In 2003/04, the Group will increase its investment in R&D projects to approximately CHF 55 million (+12%), which is consistent with the prior year, as a percentage of sales. This investment will ensure Phonak's leading position in technology within the industry, while achieving its goal of broadening the digital product offering in all segments, under the Phonak and Unitron Hearing brands.

Capital expenditures will remain consistent with the previous year, at approximately CHF 22 million. Major projects include tooling for new products, IT infrastructure and SAP project implementation, production equipment and the expansion of retail locations in our retail companies.

### **Changes on the Board of Directors**

The terms of two of the Phonak pioneers, Beda Diethelm and Hans-Ueli Rihs, expire at the upcoming General Meeting of July 11, 2003. After their long-term membership – since the foundation of Phonak Holding Ltd. – Beda Diethelm and Hans-Ueli Rihs will not stand for re-election. They will join the newly formed Advisory Committee. The Board of Directors proposes to the General Meeting the election of three new members: William D. Dearstynne (former Company Group Chairman, Johnson & Johnson), Dr. Michael Jacobi (CFO, Ciba Specialty Chemicals) and Robert F. Sperry (CEO, Mettler-Toledo) for a term of three years.

### **Investor Relations Calendar**

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|------------------------|---|
| July 11, 2003, 4 p. m. | Annual General Meeting of Phonak Holding Ltd.<br>(at the Congress Hall in Zurich) |
| November 2003          | Semi-annual Report per September 30, 2003   |
| June 8, 2004           | Media Conference/Analyst Meeting;<br>Mailing of Annual Report 2003/04             |
| July 8, 2004           | Annual General Meeting of Phonak Holding Ltd.                                     |

## Key Figures

|  | 2002/03<br>(CHF m) | 2001/02<br>(CHF m) | Change over<br>previous year |
|--|--------------------|--------------------|------------------------------|
| Consolidated sales                                 | 550                | 576                | -4%                          |
| Operating income (EBITA)                           | 48                 | 73                 | -34%                         |
| <i>as % of consolidated sales</i>                  | 8.7                | 12.7               |                              |
| Operating income (EBIT) – ordinary <sup>1)</sup>   | 38                 | 60                 | -37%                         |
| <i>as % of consolidated sales</i>                  | 6.8                | 10.4               |                              |
| Operating loss /income (EBIT) – as reported        | -37                | 60                 |                              |
| <i>as % of consolidated sales</i>                  | -6.8               | 10.4               |                              |
| Consolidated net income – ordinary <sup>1)</sup>   | 28                 | 43                 | -34%                         |
| <i>as % of consolidated sales</i>                  | 5.1                | 7.4                |                              |
| Consolidated net loss /income – as reported        | -47                | 43                 |                              |
| <i>as % of consolidated sales</i>                  | -8.5               | 7.4                |                              |
| Cash flow from operating activities                | 49                 | 58                 | -15%                         |
| Research and development                           | 49                 | 31                 | +55%                         |
| <i>as % of consolidated sales</i>                  | 8.9                | 5.5                |                              |
| Capital expenditure                                | 22                 | 30                 | -28%                         |
| Total assets                                       | 607                | 742                | -18%                         |
| Shareholders' equity                               | 290                | 361                | -20%                         |
| <i>as % of total assets</i>                        | 47.7               | 48.6               |                              |
| Number of employees (March 31, 2003)               | 2,385              | 2,416              | -1%                          |
| Earnings per share in CHF – ordinary <sup>1)</sup> | 0.4322             | 0.6577             | -34%                         |
| Earnings per share in CHF – as reported            | -0.7205            | 0.6577             |                              |
| Dividend per share in CHF                          | 0.12 <sup>2)</sup> | 0.12               |                              |

<sup>1)</sup> Before one-time impairment charge of CHF 75 m

<sup>2)</sup> Proposal to the General Meeting of July 11, 2003.