

Media Release

Phonak Holding Ltd.Laubisrütistrasse 28
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Subject	Semi-annual report as per September 30, 2001
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Phonak pushes sales up by 40% in first six months

Integration of Unitron on course – full product pipeline

The Phonak Group reported a 39% increase in sales to CHF 290 million during the first six months of its current business year (2001/02). In view of the difficult market conditions, the 7.5% internal growth was very encouraging. Operating profit (EBITA) remained at the same high level as last year. Integration of the Unitron Group is proceeding according to plan and the first jointly developed products are being launched at the moment. After a phase of consolidation during recent months, Phonak expects internal growth to accelerate considerably.

Vigorous sales growth – consolidation following acquisitions

The first half of the current business year (April to September 2001) was marked by further strong expansion. A further feature of note was the integration of companies acquired last year. In addition, following last year's quantum leap in the wake of the Claro launch, the focus was on consolidation of structures and resources. As a result, sales and earnings were very much as predicted at our media conference and presentation to financial analysts on June 14, 2001:

- **Consolidated sales** rose by 39.0% from CHF 208.4 million to CHF 289.6 million. Of this total, 32.5% was due to acquisitions, since the Group companies Indo Laem (Spain), Unitron Industries (Canada) and Hansaton (Austria) were not yet consolidated in the first six months of 2000/01. Internal growth topped 7.5%, while the currency exchange effect was 1.0% negative, caused mainly by the weakness of the euro.

- **Operating profit before goodwill amortization (EBITA)** showed a slight increase to CHF 48.2 million (+0.2%).
- **Operating profit after goodwill amortization (EBIT)** amounted to CHF 41.5 million and was thus down by 12.1% compared with the same period last year.
- **Consolidated net profit** amounted to CHF 26.7 million and showed a 21.5% drop. As predicted and announced, this sharper fall compared with the operating profit was due to higher financial expense (the cost of financing acquisitions made last year).

Phonak gains market share – further growth in North America

The situation in the international markets has become measurably tougher over the past few months and was exacerbated by the events of September 11. Hearing instrument sales in the US fell by more than 5% during the third quarter of 2001 and most European markets are either declining or, at best, stagnating. In view of this market environment, the 7.5% internal growth posted by Phonak during the period under review is genuinely encouraging because it indicates that Phonak continues to gain market share. Developments in the North American market were particularly pleasing once again. If we exclude Unitron, Phonak Group sales there were up by 14%; if Unitron is included, growth showed an impressive 53% increase. This means that North America accounted for 52.5% of consolidated sales during the first six months of the current business year. In Europe, progress in Scandinavia (Sweden and Norway) was particularly excellent, with Phonak posting growth of 44% and 35%, respectively, in these two countries.

Improved sales figures in all hearing instrument segments

The problems facing the economy have not left individual hearing instrument segments unscathed. Growth in the top-range bracket has slowed noticeably for everyone in the market. Nevertheless, Phonak's flagship product at this level, the Claro line, remained firmly on course with a 7% increase in sales. Developments in the mid-range segment were considerably better than expected. Especially sales of PiCS instruments, which used to be our top product, have remained very solid. The economy segment also posted improved figures compared with last year. In all, hearing instrument sales accounted for 78% of total sales (previous year 79%), 29% of which was generated by the top-range segment (previous year 31%), 24% by the mid-range segment (previous year 26%) and 25% by the economy segment (previous year 22%). These shifts are primarily the result of acquisitions because

Unitron - at least for the time being - still generates a higher level of its sales in the lower range than the "old" Phonak (before the acquisition of Unitron).

Wireless communications sales skyrocket

Once again, the wireless communication division outperformed all the other product segments. Sales here increased by no less than 42% and this was due entirely to internal growth. Phonak Communications Ltd. in Murten, founded just under ten years ago, has turned out to be a veritable success story, with consistently high growth and above-average margins. The exclusive MicroLink and MicroVox systems have established themselves as definitive benchmarks for the industry. They are clearly more advanced than similar products from the competition and have further substantial growth potential.

Integration of Unitron well under way

The integration of Unitron is making good progress. Existing resources and know-how, particularly in Research & Development, have been pooled, tasks and responsibilities clearly defined and the teams are cooperating closely on a variety of projects. The first concrete result is Aero, Phonak's first fully digital hearing instrument line for the mid-range segment. Aero has been developed jointly with Unitron and the two companies are now also co-operating closely on production.

Unitron USA has brought all its resources together under one roof: two previously independent organizations - Lori/Unitron and Argosy - with their own production facilities moved into joint premises in August 2001. As part of this new direction, the previous brands Unitron, Argosy and Lori were merged into a **single**, global brand: Unitron Hearing.

Nexus, the first fully digital hearing computer based on an open platform, did not quite live up to expectations. For technical reasons, the introduction did not progress as quickly as hoped for. In the meantime, the problems have been solved and we are looking forward to much improved sales figures during the second half-year.

Nemotech – a new era in the manufacture of in-the-ear instruments

Nemotech, a laser and scanning technology developed jointly by Phonak and Siemens, was given its first showing to a wide audience at the Nuremberg Congress of Hearing Aid Acousticians in mid-October 2001. This production technology will set new standards in the manufacture of in-the-ear instruments: for the first time ever, it will be possible to produce

cases and housings - until now hand-made - using industrial, computer-aided production methods. The resulting improvement in case quality will also be welcomed by hearing instrument wearers.

Outlook for the second half of 2001/02: Further upward momentum from new products

We are expecting much stronger internal growth during the second half of the year. This will be fueled by our latest products, the miniature Claro CIC and the first fully digital hearing systems in the mid-range segment, Aero (a Phonak brand) and Axiom (a Unitron brand). We expect considerable contributions to sales from these three innovative hearing computers, particularly in the North American market, which is also our most important. Despite the current gloomy economic outlook, we can therefore confirm that our previous sales target of at least CHF 600 million still stands.

Regarding profits, we foresee a slight increase in our operating profit (EBITA). As a result of the acquisitions made in the course of our last business year, goodwill amortization will be sharply up. We are expecting EBIT therefore to be at roughly its high previous-year level.

High-level investment in the future

Capital expenditure during the first half of the year totaled CHF 13.9 million, which was almost double the figure of CHF 7.1 million for the previous year. The lion's share was accounted for by the Unitron subgroup as well as Phonak AG (Switzerland) and Phonak USA. Investments were focused mainly on modernization and the expansion of production capacity, development tools, IT (information technology) and infrastructure.

Compared with the figure at the end of our last business year (March 31, 2001), the **number of employees** increased by just under 300 to over 2400 at the end of September 2001. About two thirds of these came from newly acquired companies. The remaining jobs were newly created, mainly with the Swiss and North American Group companies.

Total assets slightly increased to CHF 717 million (+1.8%) compared to March 31, 2001. This increase is due mainly to business expansion, with correspondingly higher current assets. The substantial decrease of the position "Other investments" (-CHF 39.6 million) is related to Hansaton (Austria), which was acquired last year but only consolidated with effect from April 1, 2001.

Management reinforced

As part of measures designed to develop resources for the future, the Phonak Group has considerably strengthened its middle management. Perhaps most importantly, the company has been able to attract a number of individuals who know the industry very well.

At senior management level - as planned for some time and previously announced - Paul Thompson will be taking over the position of CFO on January 1, 2002, and succeeding Ernst Vogelsang, who has been in charge of Finance for many years. This continues the process of rejuvenation in the top echelons of the Phonak Group, initiated four years ago.

Stock split and par value repayment

The 100:1 stock split decided at the last General Meeting together with the par value repayment of CHF 15 per registered share was successfully implemented on September 24, 2001. As a result the stock is now more marketable and considerably more attractive, as reflected by the increase in the number of shareholders from 6,728 to over 11,300 between the end of March and the end of October 2001.

Open House for shareholders

Finally, we would like to invite you to our Open House, which will be taking place on **April 26 and 27, 2002**. The first day will be reserved exclusively for shareholders while the second day is intended for the general public. Please make a note of this date in your diary now.

Investor Relations Calendar

April 2002

Shareholder Letter with provisional sales and outlook

April 26 and 27, 2002

Open House at the Phonak technology center in Stäfa

June 13, 2002

Media conference; presentation to financial analysts

July 11, 2002

General Meeting of Phonak Holding Ltd.

November 2002

Semi-annual report per September 30, 2002

Phonak Group: Key figures for the six months ended September 30, 2001

	April to September		Change 6 months 2001/2000
	2001 (CHF in millions)	2000	
Consolidated sales	289.6	208.4	+39.0%
Operating profit EBITA	48.2	48.1	+0.2%
% of consolidated sales	16.7	23.1	
Operating profit EBIT	41.5	47.2	-12.1%
% of consolidated sales	14.3	22.6	
Consolidated net profit	26.7	34.0	-21.5%
% of consolidated sales	9.2	16.3	
Net cash from operating activities	32.4	36.3	-10.8%
% of consolidated sales	11.2	17.4	
Capital expenditure	13.9	7.1	+96.1%
% of net cash from operating activities	42.9	19.5	
Total assets	717.1	381.6	+87.9%
Shareholders' equity	339.5	210.3	+61.5%
% of total assets	47.3	55.1	
Number of employees			
At September 30	2,406	1,410	+70.6%
Average	2,356	1,368	+72.2%