

Media Release

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Phonak Begins a New Era

New CEO; New products successfully launched; One-time non cash write-off of Unitron goodwill; Improved outlook for H2

The Phonak Group announces the financial results for the first half of 2002/03. Consolidated sales for the first six months of 2002/03 totaled CHF 267 million (-8% from prior year, yet almost flat considering currency effect) while EBITA for the six month period was CHF 20.5 million. As reported in October, the half year results were comprised of two different quarters: a difficult first quarter affected by the late introduction of key products, followed by an improved second quarter in which the Company introduced their new products Aero (BTE version), Supero and Unison.

While the integration of Unitron has taken longer than planned, first positive developments can be seen, including this year's launch of the Unison digital product family. However, the Group recognized that the goodwill asset related to this acquisition must be revalued, consistent with the general decline in market valuations. Therefore, at this time of transition, and in accordance with IAS guidelines, the Phonak Group has taken a one-time write-off, equal to about one-half of this goodwill, of CHF 75 million. This one-time write-off has no impact on operating income, cash flow or next year's dividend payment. In addition, equity remains at a high level of 44%.

At the start of H2, a new era for the Phonak Group has begun, with the appointment of the new CEO, Dr. Valentin Chapero, who expects improved sales and profit results in the second half year, due to the successful launches of the new products.

Financial Results

Consolidated sales for the first six months of 2002/03 totaled CHF 267 million, which represents nominally an 8% decline over the same period last year, but is almost flat if adjusted for currency changes. As the company previously reported, these sales are below expectation and the result of a number of negative factors that converged in a short period of time. First, Phonak sold fewer premium Claro units than planned due to the increased market interest in mid-level and entry-level digital products, combined with a number of new competitive products in the premium segment. Second, the forecasted sales of Nexus, the premium digital product offered under the Unitron Hearing brand, were not achieved as this product did not find the expected market acceptance. Third, Phonak was missing a complete mid-level digital product offering, which affected sales especially in the BTE-weighted European markets, until the Behind-the-Ear (BTE) version of Aero was launched in July. Finally, because the Company reports its consolidated results in Swiss francs, the weakening of the United States and Canadian dollars, as well as the Euro, resulted in a 6% decline in the value of sales over the same period last year. Eliminating the negative currency effect, sales were at a level close to last year (-2%).

Analyzing the sales results by market, the Phonak Group has seen above market growth in North America as well as in the Scandinavian markets. In particular, Phonak in the United States, where the market overall declined, increased sales by 10% over the same period last year. Also the wholesale/retail organizations in Belgium and Austria have seen good year on year growth. On the other hand, the late introduction of new products has hurt sales in several European countries as well as with key accounts and agents.

Gross profit reached CHF 137 million, falling by 11% over last year. As a percentage of sales, gross profit fell slightly from the H1 result last year, yet is consistent with the full year result last year. Within product segments, Phonak has seen some improvement in gross margin from the new mid-level and entry-level digital products replacing their analogue versions, offset by some deterioration from the premium digital products.

Operating expenses were up CHF 4 million, or 3.8% over the same period last year, due mainly to a substantial increase in R&D spending of CHF 8 million. This reflects the increase in the number of R&D projects, particularly for new products (Aero BTE, Unison, Supero, next generation following Claro, and new synthesizer products from our wireless communications division) and key projects such as the automated shell manufacturing technology, called NemoTech. The negative exchange differences (-CHF 5.2 million), compared to a gain of CHF 2.8 million in H1 last year, represent primarily unrealized losses on the conversion of inter-company loans, denominated in United States and Canadian dollars, to Swiss francs.

As a consequence of the factors mentioned above, EBITA for the six month period was CHF 20.5 million, which is 57% below the same period last year. EBITA is net of depreciation expense of CHF 9.7 million.

While the integration of Unitron has taken longer than planned, first positive developments can be seen, including this year's launch of the Unison digital product family. However, the board of directors recognized that the goodwill asset in the accounts arising from this acquisition must be revalued, consistent with the general decline in market valuations. Therefore, in accordance with IAS guidelines, the Phonak Group will take a one-time write-off, equal to about one-half of this goodwill, of CHF 75 million. This special one-time write-off has no impact on operating income, cash flow or next year's dividend. In addition, the strength of the Group's balance sheet is preserved as indicated by the equity ratio which, following the write-off, remains at a high level of 44%. Further, the management remains confident in the long-term success of a second brand strategy. By acquiring Unitron, the Group has already gained access to a new market of approximately 200,000 units and have now seen the entry of Unitron into the digital segment with the successful launch of the Unison product family. In the future, Phonak expects to see increased synergies, from technology development and manufacturing, as well as sales volume growth from this second brand.

Income after taxes, excluding the impact of the one-time write-off of Unitron goodwill, is CHF 8.6 million. Including the one-time charge, the result is a net loss of CHF 66.4 million. However, this net loss does not reflect the operating performance of the Group, nor does it have any effect on cash flow.

Phonak Group's New CEO: Dr. Valentin Chapero

Dr. Valentin Chapero has now taken over as CEO for the Phonak Group, effective the beginning of H2, October 1. The Group has attracted an individual who knows the industry very well and has a great reputation among customers and other business partners. Dr. Chapero commented on his role within the Group: "It is a privilege for me to join the Phonak Group as the new CEO. It is with great expectation that I now work to bring back the company on its growth path. First, we will complete the product developments currently underway, launching these new products on time and thereby completing the product portfolios for Phonak, Unitron Hearing and Phonak Communications. Second, we will grow by successfully introducing the new products, focusing on key account business and leveraging the Unitron Hearing brand into some under-developed markets. Third, we will address the cost structure of the Group and, through improvements in technology and processes, improve the margins on the products. Fourth, we must effectively leverage our global investment in basic technologies and R&D to substantially increase the rate of

innovation and new product introduction. The combination of these efforts will transition Phonak from a single brand company to a multi-brand, full product supplier, also offering a unique and expanding line of wireless products. "

Outlook for the remainder of 2002/03

Based on the analysis of the current market situation, as well as the recent sales of new products, and based on current exchange rates, management forecasts sales for 2002/03 to be around CHF 560 million, which approximately represents a 10% improvement in H2 over H1 this year and a 7% improvement in H2 over the same period last year, when adjusted for exchange impact. The growth in the second half year will be driven by the sales of Aero, Supero and Unison.

In terms of EBITA, the Phonak Group expects to see an improvement over the first six months; however, given the poorer than planned performance in H1, management estimates EBITA for the full year to be in the range of CHF 45 to 50 million.

Phonak Group: Key figures for the six months ended September 30, 2002

	April to September		Change 6 months 2002/2001
	2002 (in CHF m)	2001	
Consolidated sales	266.6	289.6	-7.9%
Operating profit EBITA	20.5	48.2	-57.5%
% of consolidated sales	7.7	16.7	
Operating loss / profit EBIT *	-60.9	41.5	
% of consolidated sales	-22.8	14.3	
Consolidated net loss / profit *	-66.4	26.7	
% of consolidated sales	-24.9	9.2	
Cash flow from operating activities	35.5	32.4	+9.5%
% of consolidated sales	13.3	11.2	
Capital expenditure	10.0	13.9	-28.1%
% of cash flow from operating activities	28.2	42.9	
Total assets	636.5	717.1	-11.2%
Shareholders' equity	279.1	339.5	-17.8%
% of total assets	43.8	47.3	
Number of employees			
- At September 30	2,416	2,406	+0.4%
- Average	2,404	2,356	+2.0%
* After one-time non cash impairment charge for goodwill of CHF 75 million			
Interim financial statements are unaudited and are prepared in accordance with International Accounting Standards (IAS 34)			

Investor Relations Calendar

April 2003

Shareholder Letter with provisional sales and outlook

June 12, 2003

Media Conference; Presentation to Financial Analysts; Mailing of Annual Report

July 11, 2003

General Meeting of Phonak Holding Ltd.

November 2003

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