

The Art
and Science
of Better
Hearing

**Media and Financial Analysts Meeting
H1 2004/05**

**Media and Financial Analysts Meeting
November 25, 2004**

Welcome
Comments on H1 2004/05

Dr. Valentin Chapero Rueda, Chief Executive Officer

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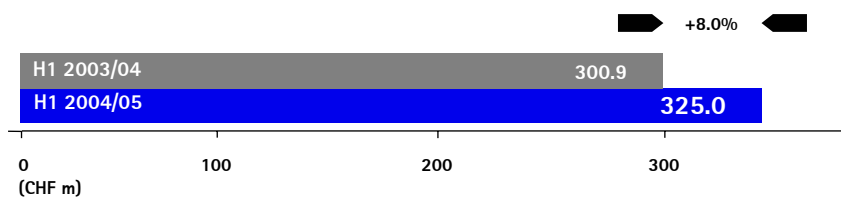
H1 2004/05: On Track

- Many key projects culminating in Savia launch
- Important Unison 6-3-Essential launch in Economy segment
- Entry in BICROS/CROS market with Phonak CROSLink and Unitron WiFi mic
- MLxS synthesized FM technology became the new industry standard
- Chinese manufacturing site ramped up

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Consolidated Sales H1 2004/05 10% growth in local currencies



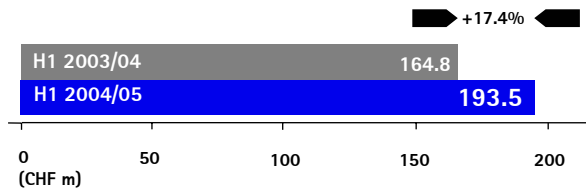
- Represents 8% year over year growth
- Growth based primarily on:
 - Consistent sales of Perseo
 - Strong growth in economy product segment
 - Continued growth in key markets

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Gross Profit H1 2004/05

Significant improvement to 59.5%



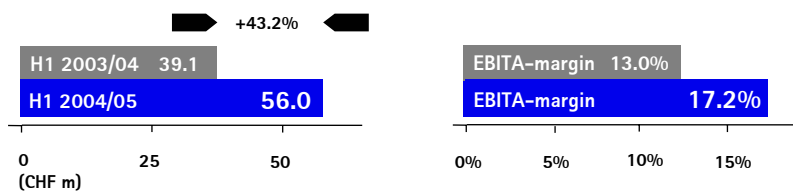
- Gross profit up to 59.5% from 54.8% in H1 2003/04
- Improvement comes from:
 - Volume increases
 - Savings in the purchase price of material
 - Reduced manufacturing costs in China

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EBITA H1 2004/05

43% increase over prior year






- Increase due to improvement in sales and gross profit
- Ongoing investment in sales and distribution network

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New Products Launched in 2004/05

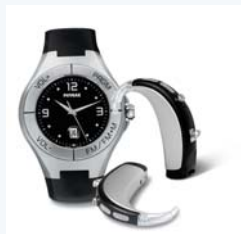
		Hearing systems			BiCROS	
		First	Business	Economy		
Phonak	Savia Digital Bionics				CROSLink	
	Unitron		Unison 6-3-Essential		WiFi mic	

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Savia™

Digital Bionics

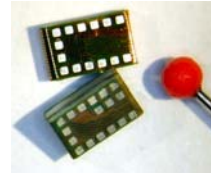
Natural Wisdom
Captured in Technology



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hearing systems

"Palio" chipset – The ultimate 0.13µm power engine in Savia

- The new industry benchmark for computing power/energy consumption efficiency
- Freely programmable DSP processor tailor-made to hearing aid application
- Future proof flexibility (new applications)
- Vast untapped power resources (more functions)
- Smallest size for given computing power



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Savia is the first system to exploit the full potential of digital technology. A unique combination of cutting edge hard- and software innovations



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hearing systems

Real Ear Sound – restores natural localization abilities to BTE users. It significantly increases spontaneous user acceptance and creates the most natural hearing experience

Using the high resolution filter bank, Real Ear Sound adjusts directivity within 20 frequency bands, restoring the pinna front-to-back localization abilities

- World first -



Hearing with natural front-to-back localization



Loss of localization cues due to microphone position behind the ear



Restored localization with Real Ear Sound

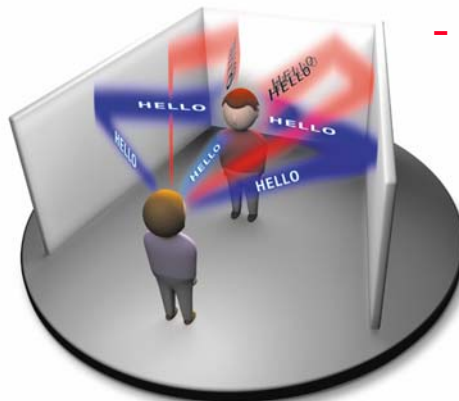
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hearing systems

EchoBlock – reinstates effortless hearing by removing the disturbing reverberant components of the signal

Ease of communication in echo filled environments is dramatically improved by eliminating the smearing effects and by deblurring the speech signal

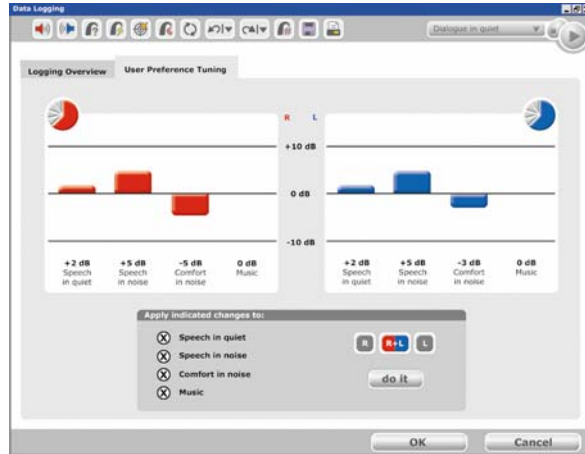
- World first -



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hearing systems

DataLogging with User Preference Tuning – solves the problem of unprecise user feedback and supports fine tuning decisions



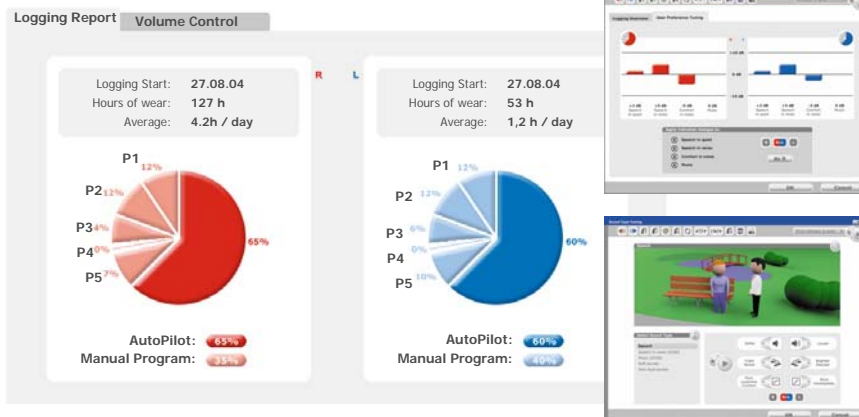
User Preference Tuning:
Analyses the raw data collected in order to propose optimal volume corrections.

A breakthrough combination of user feedback, logged data and professional experience

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hearing systems

"Chinook" became iPFG Successware – One software platform for all hearing systems



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MLxS synthesized FM technology – Set the new standard in the industry



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Facts & Figures H1 2004/05

Paul Thompson, EVP Corporate Development

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Financial Report H1 2004/05

Brief summary

- Sales developing as expected
- Margin improvements continue
 - stable product mix
 - cost reductions
 - manufacturing efficiencies
- Strong free cash flow generation
- Solid balance sheet with net cash CHF 46.4m

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Summary of Results

In millions of CHF	H1 2004/05 Actual	H1 2003/04 Actual	Change in % vs. H1 2003/04
Sales	325.0	300.9	+8.0%
Gross profit Gross-margin	193.5 59.5%	164.8 54.8%	+17.4%
Operating expenses	137.5	125.7	+9.5%
EBITA EBITA-margin	56.0 17.2%	39.1 13.0%	+43.2%
EBIT	56.0	34.9	+60.5%
Income after taxes	41.2	25.8	+59.7%

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Sales Development H1 2003/04 to H1 2004/05 In millions of CHF

H1 2003/04 sales	301
Organic growth +10%	+ 30
Currency effect -2%	- 6
H1 2004/05 sales as reported	325

Income Statement Analysis In millions of CHF

Account	H1 2004/05	H1 2003/04	Change	Explanation
Sales	325	301	+24	10% growth, in local currency, over the prior year, or 8% year over year growth
R&D	-26	-31	+5	Timing/completion of "Palio" and "Chinook" projects
Marketing and sales	-73	-61	-12	Increase due to increased sales volume and new sales companies (Japan, China)
Admin Et overhead	-39	-35	-4	Increase due to global rollout of SAP, new sales companies

H1 2004/05 EBITA vs. Prior Year - Summary

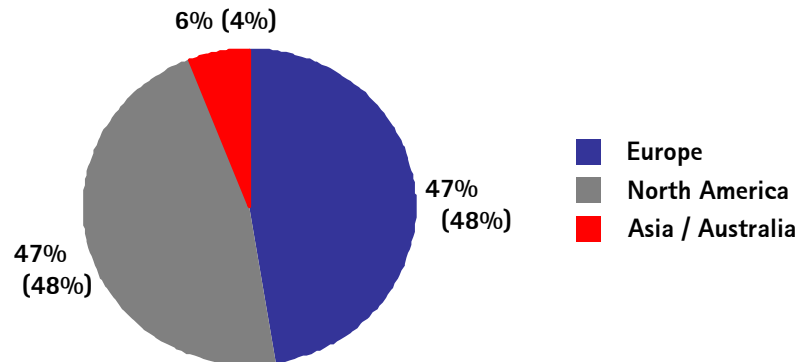
In millions of CHF	CHF m
EBITA – H1 2003/04	39
Volume - organic growth	+13
Cost reduction, product mix	+16
Increased operating expenses	-12
EBITA – H1 2004/05	56

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Sales by Main Markets H1 2004/05 (H1 2003/04)

The share of sales is balanced between Europe and North America. Share of sales outside these regions is expected to continue growing.

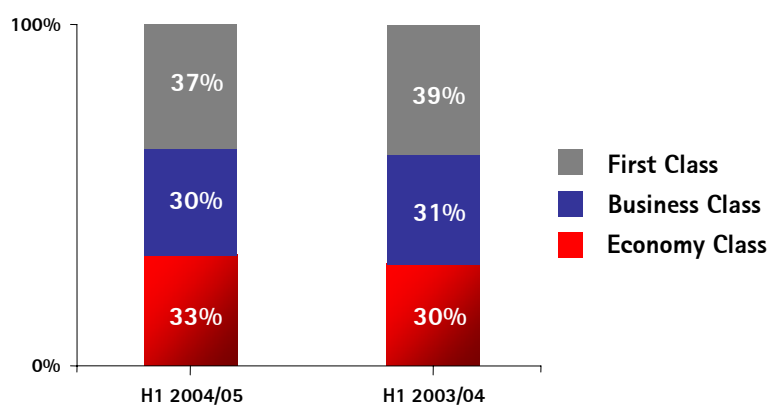


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Product Mix in Sales Value – H1 2004/05 vs. H1 2003/04

Product mix remained stable



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Changes in the Balance Sheet In millions of CHF

Account	H1 04/05	H1 03/04	Change	Explanation
Inventory	78	72	-6	Increased business volume
Taxes payable	23	15	-8	Higher profit level
Other liabilities and provisions	113	97	-16	Related to trade payables, increased business volume, timing differences
Other long-term debts	60	94	+34	Regular repayments on debt, repayments on high-interest debt

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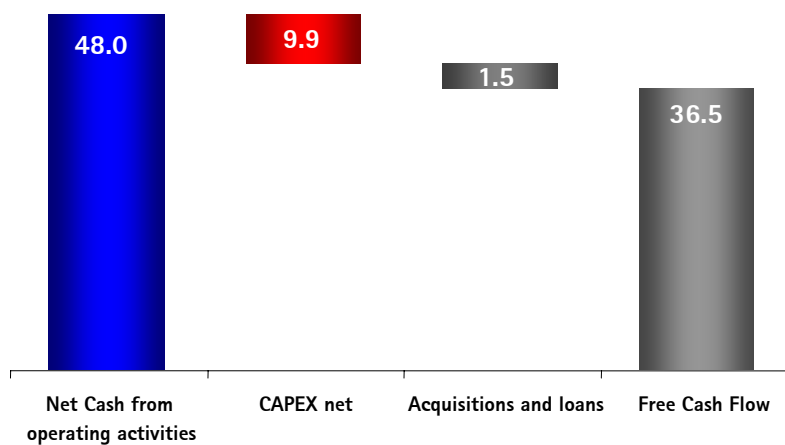
Cash Flow Statement In millions of CHF

	H1 2004/05 Actual	H1 2003/04 Actual	Change
Cash Flow before changes in working capital	68.7	49.6	+39%
Net cash from operating activities	48.0	65.1	-26%
Free Cash Flow	36.5	52.9	-32%
Balance of Cash at September 30	153.6	96.5	+59%
Net Cash / (Debt)	46.4	(49.7)	

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Cash Flow In millions of CHF



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Outlook

Dr. Valentin Chapero Rueda, Chief Executive Officer



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Sales

We reiterate our 10% growth target in local currencies

- Sales of CHF 700m at constant exchange rates
- Negative currency impact of around 3% expected
- Products launched in FY 2003/04
- Savia sales in Q4 of FY 2004/05
- Lessening impact of Perseo versus launch of the first Palio-based hearing system Savia



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Gross Profit and EBITA

Further improvement in gross profit and EBITA in FY 2004/05 due to:

- Higher business volume
- Impact of Chinese manufacturing
- Savia sales in Q4 of FY 2004/05
- Lessening impact of Perseo in H2 2004/05

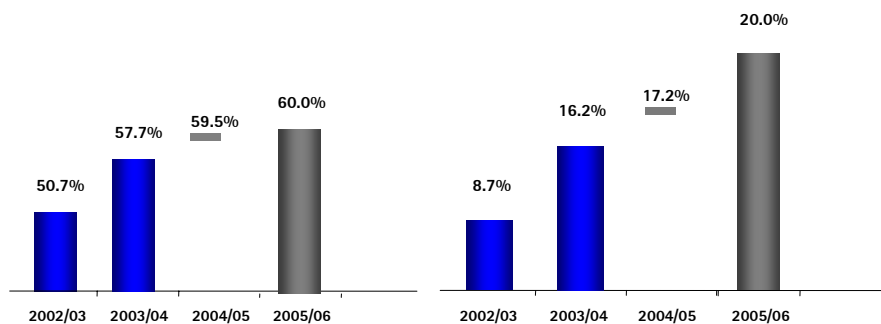
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Gross Profit and EBITA Targets

Gross profit

EBITA



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**Thank you
for your Attention**

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Questions & Answers

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