



Semi-annual report

per September 30, 2001

PHONAK

hearing systems

All the big news in brief: challenges successfully mastered

The first six months of the current business year (2001/2002) have been highly encouraging. Consolidated sales have shown another major 39% increase. This was due in part to the companies acquired last year in Canada (Unitron), Austria (Hansaton), and Spain (Indo Laem). Although the market overall has shown signs of stagnation, Phonak still managed to post **healthy internal growth** of 7.5%, which means we have again won market share.

As forecast, the last few months have been a period of consolidation. First of all, we have been working hard to integrate the companies purchased last year. Unitron in Canada was our first acquisition of an important competitor. Then we had to underpin last year's growth by strengthening our structures and resources. And thirdly, we have been making preparations for the **launch of several new products** that are due for introduction in the second half of the current business year.

Profitability has developed in line with expectations. Operating profit (EBITA) remained at the same high level as last year.

Integration of the **Unitron Group** has been proceeding largely according to plan. Particularly in Research and Development the synergies are already clearly visible. Aero, the first fully digital, mid-range Phonak hearing computer, is being jointly developed and produced by Unitron and Phonak. We are currently launching Aero worldwide with very good success. The introduction of the Nexus hearing computer was, on the other hand, somewhat delayed for technical reasons. The problems have meanwhile been solved and we are looking forward to substantially increased Nexus sales in the second half-year.



All this means that Phonak is ideally equipped for the **growth phases that lie ahead**. These will be fueled mainly by sales of the tiny, fully digital Claro CIC, the fully digital, mid-range hearing computers as well as the world's first fully digital product line for the high gain sector. The latter will be launched in the course of our next business year.

It was a very demanding first half-year under noticeably more difficult economic conditions and the burden on our staff was considerable. However, once again they passed the test with flying colors! For that and for their untiring commitment, we should like to express our sincere thanks.

A handwritten signature in black ink, appearing to read 'A. Rihs', written in a cursive style.

Andreas E. Rihs

Chairman of the Board of Directors

A handwritten signature in black ink, appearing to read 'Peter Pfluger', written in a cursive style.

Peter Pfluger

CEO

Financial results in brief: Healthy sales growth

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 re-sources. As a result, sales and earnings were very much as predicted at our 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.

Phonak Group:

Key figures for the six months ended September 30, 2001

	April to September		Change 6 months 2001/02
	2001	2000	
	(CHF in millions)		
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	
Cash flow from operating activities	32.4	36.3	-10.8%
% of consolidated sales	11.2	17.4	
Capitals expenditure	13.9	7.1	+96.1%
% of cash flow 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%

Financial statements are prepared in accordance with «International Accounting Standards» (IAS)

- **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 on 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. 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 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.



Unitron's US divisions Lori/Unitron in Golden Valley (Minnesota) and Argosy in Eden Prairie (Minnesota), moved into a joint facility in Plymouth (Minneapolis), Minnesota. At the same time, in order to ensure a focused market presence and appearance, the three hitherto independent brands, Unitron, Lori and Argosy, were merged into a single brand "Unitron Hearing".



Aero™ – Easy listening



Many unique features make Aero the best hearing system in its class: sophisticated digital technology and a full range of user convenience features offer benefits for every lifestyle. Three digital MultiMode Signal Processing strategies are applied with the high resolution of 15 channels.

Aero is a complete line of in-the-ear products, ranging from the tiny CIC instrument to a high-gain hearing computer.

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 will be met.

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 therefore expecting EBIT to be at roughly its 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.

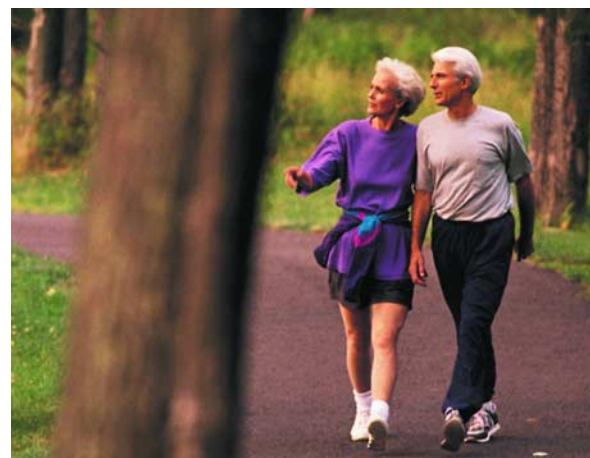
Management reinforced

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.



Axiom is the result of listening carefully to customer needs. As a result of the open hardware platform, the system provides exceptional value: upgradable through software updates as they become available.

Axiom is a complete in-the-ear product line, ranging from a virtually invisible CIC instrument to a full-size, high-gain ITE.



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.

Price trend of Phonak registered share since December 1, 1994

(Compared with the Swiss Performance Index, SPI)

14/11/2001



— Phonak share price ACTUAL in CHF
— Phonak share price, if it had moved in line with the SPI

Source: DATASTREAM

Consolidated Income Statement

	April to September	
	2001 1,000 CHF	2000 1,000 CHF
Consolidated sales	289,569	208,391
Sales related costs	(14,892)	(10,252)
Changes in finished goods and work-in-process	510	(884)
Own work capitalized	2,014	511
Other operating income	70	19
Operating income	277,271	197,785
Direct material costs	(87,516)	(47,794)
Personnel expenses	(82,031)	(60,201)
Other operating expenses	(50,916)	(39,748)
Depreciation	(10,137)	(6,030)
Exchange differences	2,795	3,754
Other income (expenses), net	(1,241)	380
Operating profit EBITA	48,225	48,146
Amortization of goodwill	(6,775)	(987)
Operating profit EBIT	41,450	47,159
Financial expense, net	(4,186)	(632)
Profit before deduction of taxes and minority interests	37,264	46,527
Taxes	(10,369)	(12,334)
Minority interests' share of profit	(195)	(166)
Consolidated net profit	26,700	34,027
Basic earnings per share (CHF/share)	0.41	0.54

Consolidated Balance Sheet

Assets

	30.9.2001	31.3.2001	30.9.2000
	1,000 CHF	1,000 CHF	1,000 CHF
Cash and cash equivalents	89,748	96,108	46,880
Trade receivables	102,166	92,616	77,969
Other receivables and prepayments	17,917	15,654	17,886
Inventories	94,319	85,555	66,183
Total current assets	304,150	289,933	208,918
Land and buildings	69,333	70,085	67,556
Plant and equipment	52,444	49,322	37,504
Total tangible fixed assets	121,777	119,407	105,060
Investments in associates	0	0	185
Other investments	7,947	47,577	14,870
Deferred tax assets	40,481	33,803	20,236
Intangible assets	242,761	213,778	32,329
Total non-current assets	412,966	414,565	172,680
Total assets	717,116	704,498	381,598

Liabilities and shareholders' equity

	30.9.2001	31.3.2001	30.9.2000
	1,000 CHF	1,000 CHF	1,000 CHF
Short-term debts	30,565	32,687	3,639
Trade payables	37,012	31,380	20,111
Tax payable	23,761	18,635	12,888
Other payables and accruals	67,257	71,987	48,638
Total current liabilities	158,595	154,689	85,276
Mortgages	41,217	42,504	43,894
Other long-term debts	147,018	160,263	19,179
Deferred taxes	19,971	17,607	15,612
Other long-term provisions	9,713	5,282	6,992
Total long-term liabilities	217,919	225,656	85,677
Total liabilities	376,514	380,345	170,953
Minority interests	1,090	543	376
Share capital	3,296	12,937	12,629
Capital reserves	127,236	121,198	37,569
Treasury shares	(3,920)	(3,969)	(1,198)
Retained earnings	216,587	189,887	158,197
Cumulative translation adjustment	(3,687)	3,557	3,072
Total shareholders' equity	339,512	323,610	210,269
Total liabilities and shareholders' equity	717,116	704,498	381,598

Consolidated Statement of Cash Flows

	April to September	
	2001 1,000 CHF	2000 1,000 CHF
Consolidated net profit	26,700	34,027
Depreciation and amortization	16,912	7,017
Other non cash items	(5,660)	(2,691)
Changes in net current assets	(5,564)	(2,043)
Net cash from operating activities	32,388	36,310
Purchase of tangible fixed assets	(13,897)	(7,085)
Proceeds from sale of tangible fixed assets	1,268	801
Acquisition of subsidiaries, other financial investments (net)	(7,246)	(14,834)
Net cash used in investing activities	(19,875)	(21,118)
Decrease in debts (net)	(18,076)	(9,183)
Dividend paid by Phonak Holding Ltd.	(0)	(7,561)
Par value repayment by Phonak Holding Ltd.	(9,701)	0
Other financing items (net)	5,983	1,038
Net cash from financing activities	(21,794)	(15,706)
Currency translation differences	2,921	(571)
Decrease in cash and cash equivalents	(6,360)	(1,085)
Cash and cash equivalents per April 1	96,108	47,965
Cash and cash equivalents per September 30	89,748	46,880

Summary of Changes in Shareholders' Equity

	Share capital	Capital reserves	Retained earnings	Cumulative translation adjustment 1,000 CHF	Treasury shares	Total shareholders' equity	
						2001	2000
Balance April 1	12,937	121,198	189,887	3,557	(3,969)	323,610	182,839
Capital increase of Phonak Holding Ltd. ¹⁾	81	6,038				6,119	1,092
Dividend paid by Phonak Holding Ltd.						0	(7,561)
Par value repayment by Phonak Holding Ltd.	(9,722)				21	(9,701)	0
Disposal of treasury shares					28	28	0
Consolidated net profit			26,700			26,700	34,027
Currency translation differences				(7,244)		(7,244)	(128)
Balance September 30	3,296	127,236	216,587	(3,687)	(3,920)	339,512	210,269

¹⁾ The capital increase was made, as in the previous year, from the conditional capital

Notes to the semi-annual accounts per September 30, 2001

1. Basis of preparation of the consolidated financial statements

The unaudited semi-annual accounts per September 30, 2001 have been prepared in accordance with the International Accounting Standard (IAS) 34 "Interim Financial Reporting". They are based on the accounting policies set out in the Consolidated Financial Statements for the year ended March 31, 2001 applied on a consistent basis.

2. Introduction of IAS 39 (Financial Instruments: Recognition and Measurement)

The work for the implementation of this standard has not been completed yet. We do, however, not expect any material adjustments resulting therefrom.

3. Earnings per share

The earnings per share for the six months ended September 30, 2001 were based on a weighted average number of shares (net of treasury shares and after the share split of 100:1) of 64,615,961 (previous year 63,021,400).

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

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