

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

Semi-Annual Report per September 30, 2003

Phonak Holding Ltd.

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Financial Report

Semi-Annual Report



per September 30, 2002

PHONAK
hearing systems

Dear Phonak Shareholder

We are at a very important point in the development of the Phonak Group. The end of the first half of 2002/03 marks the beginning of a new era, driven, to a large extent, by the arrival of our new CEO, Dr. Valentin Chapero, as well as the launch of three important new product lines.

This semi-annual report is a commentary on the past six months' financial performance, in which we have seen two different quarters: a difficult first quarter affected by a number of negative factors, especially the late introduction of key products, followed by an improved second quarter in which we launched our new products. While the integration of Unitron has taken longer than planned, we are beginning to see positive developments, including this year's launch of the Unison digital product family. However, we recognize that the goodwill asset in our 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 has taken 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, is still at a high level of 44%. Further, we remain confident in the long-term success of a second brand strategy. By acquiring Unitron, we have 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, we expect to see increased synergies, from technology development and manufacturing, as well as sales volume growth from this second brand.

I want to thank our employees and partners for their support and hard work during this important and demanding time of transition and preparation. I also want to thank our customers and our investors for their support, patience and confidence in the Phonak Group. It is with great confidence that I hand over the management of the Group to Dr. Chapero. He brings his experience and successful track record to lead our company into this new era of growth and increased shareholder value.



Andy Rihs, Chairman

It is a privilege for me to join the Phonak Group as the new CEO. Although new to Phonak, this appointment represents for me a return to an industry with which I am very familiar and in which I have had both success and fun! During that phase of my career,

I always regarded Phonak as a great company, with great products and an outstanding brand image.

I do not want to comment on the past financial results of the Group. Rather, I would like to focus on the future opportunities that lie ahead for Phonak. I see great potential for the Group in four main areas.

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 underdeveloped 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.

It is with great expectation that I now work to bring back the company on its growth path. I look forward to working with our employees, customers, investors and other partners.



Dr. Valentin Chapero, CEO



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 we previously reported, these sales are below our expectation and the result of a number of negative factors that converged in a short period of time. First, we sold fewer premium Claro units than planned. The increased market interest in mid-level and entry-level digital products, combined with a number of new competitive products in the premium segment, caused us to fall short of our Claro sales budget. Second, we did not achieve the forecasted sales of Nexus, the premium digital product offered under the Unitron Hearing brand, as this product did not find the market acceptance we had expected. Third, Phonak was missing a complete mid-level digital product offering, since we did not have, until it was launched in July, a Behind-the-Ear (BTE) version of Aero, which affected sales especially in the BTE-weighted European markets. Finally, because we report our 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, we have 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. We have also seen good year over year growth from the wholesale/retail organizations in Belgium and Austria. 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.

H1 year over year, sales of premium digital products (i.e. Claro and Nexus) have declined while the sales of mid-level and economy-level products have improved, due to the early impact of Aero and Unison.

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, we have 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 is CHF 20.5 million, which is 57% below the same period last year. EBITA is net of depreciation expense of CHF 9.7 million.

Phonak Group:		
Key figures for the six months ended September 30, 2002		
	April to September 2002	Change 6 months 2002/2001
	(CHF in millions)	
Consolidated sales	266.6	(7.9%)
Operating profit EBITA	20.5	(57.5%)
% of consolidated sales	7.7	
Operating loss EBIT*	(60.9)	
% of consolidated sales	(22.8)	
Consolidated net loss*	(66.4)	
% of consolidated sales	(24.9)	
Cash flow from operating activities	35.5	9.5%
% of consolidated sales	13.3	
Capital expenditure	10.0	(28.1%)
% of cash flow from operating activities	28.2	
Total assets	636.5	(11.2%)
Shareholders' equity	279.1	(17.8%)
% of total assets	43.8	(7.3%)
Number of employees		
- At September 30	2,416	0.4%
- Average	2,404	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)

Income after taxes, excluding the impact of the one-time write-off of Unitron goodwill, as explained in the Chairman's foreword, 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 liquidity or on next year's dividend payment.

Capital expenditures during the first half of the year totaled CHF 10.0 million, which was 28% less than the amount of CHF 13.9 million for the previous year. The Group continues to invest in production capacity, development tools, IT (information technology) and infrastructure.

The number of employees within the Group was 2,416 at the end of September 2002, comparable to the figure at the end of our last business year (March 31, 2002).

Management Changes

At the senior management level, Dr. Valentin Chapero has now taken over the position of the CEO for the Phonak Group, effective the beginning of H2, October 1. The Group has attracted an individual for this position who knows the industry very well and has a great reputation among our customers and other business partners.

Due to a restructuring of functions, Stefan Dingerkus has left his position as Director of Worldwide Operations and Member of the Group Executive Management as of October 15, 2002. His responsibilities were taken over by the existing management team.

New Products Launched in H1

At the beginning of the year, we announced that the Group would launch three new important product lines during the first half year. We also stated that these new products will drive sales growth in the second half year. We are pleased to update you on the status of these launches and provide you

with some details on the early sales results of these products. Although we did not see substantial impact from these new products in the first half year results, due to timing of the launches, we have seen good market acceptance of each of these products and expect that sales in the last half of this year, and certainly the full year effect of next year, will be evident. Just as we have seen the impact, in the first four months of this year, of not having the new products, we can now see, very clearly, the turn-around impact from new product sales.

To illustrate this fact, we have seen over 10,000 units of Aero BTE sold by Phonak since the product was launched in July. We have also seen sales of the Aero ITE product (launched last fall) increase by 45% since the launch of the Aero BTE version. Second, Phonak has sold 7,000 units of Supero since its launch in July. Third, Unitron Hearing has sold over 25,000 units of Unison since the product was launched in June. Finally, for the month of October, we have achieved a record unit sales level for the Phonak Group, which includes 15,000 units of new products sold!

Product



Aero™



Supero™



unison

Outlook for the Remainder of 2002/03

Based on our analysis of the current market situation as well as our recent sales performance, and based on current exchange rates, we forecast sales for 2002/03 to be around CHF 560 million, which approximately represents a 10% improvement over H1 this year and a 7% improvement 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, we expect to see an improvement over the first six months; however, given the poorer than planned performance in H1, we estimate EBITA for the full year to be in the range of CHF 45 to 50 million.

	Description	Launch Date
 <p>Aero by Phonak</p>	<p>A mid-level digital product</p> <p>A behind-the-ear version; particularly welcomed by the European markets</p> <p>Completion of the Aero product family</p>	July 2002
 <p>Supero by Phonak</p>	<p>The world's first fully digital – and most powerful – product line specifically designed to meet the needs of severe to profound impaired people.</p> <p>Available in BTE style as mid- or high-end instrument depending on choice of features</p>	July 2002
 <p>Unison by Unitron Hearing</p>	<p>A value-priced digital line introduced by Unitron Hearing</p> <p>Available in an entry and mid-level product line</p> <p>Available in a complete range of styles from BTE through ITE (including CIC)</p>	June 2002

Consolidated Income Statement

April to September (1,000 CHF)	Notes	2002	2001
Consolidated sales	3	266,558	289,569
Sales related costs		(18,078)	(14,515)
Cost of sales		(110,891)	(120,928)
Gross profit		137,589	154,126
Research and development		(23,620)	(15,365)
Marketing and sales		(56,923)	(58,739)
Administration and general overheads		(31,082)	(33,421)
Exchange differences		(5,165)	2,795
Other expenses, net		(260)	(1,171)
Operating profit (EBITA)		20,539	48,225
Amortization of goodwill		(6,428)	(6,775)
One-time charge for goodwill impairment		(75,000)	0
Operating (loss) / profit (EBIT)		(60,889)	41,450
Financial expense, net		(2,924)	(4,186)
(Loss) / income before deduction of taxes and minority interests		(63,813)	37,264
Income taxes		(2,415)	(10,369)
Minority interest in net income		(168)	(195)
(Loss) / income after taxes		(66,396)	26,700
Basic earnings / (loss) per share (CHF/share)			
before one-time charge		0.1322	0.4132
after one-time charge		(1.0200)	0.4132
Diluted earnings / (loss) per share (CHF/share)			
before one-time charge		0.1320	0.4104
after one-time charge		(1.0190)	0.4104

Consolidated Balance Sheet

Assets

(1,000 CHF)	30.09.2002	31.03.2002	30.09.2001
Cash and cash equivalents	73,404	73,046	79,752
Marketable securities	12,000	10,564	9,996
Trade receivables	98,053	103,573	102,166
Other receivables and prepayments	14,921	14,738	17,917
Inventories	103,828	104,953	94,319
Total current assets	302,206	306,874	304,150
Land and buildings	67,385	68,535	69,333
Plant and equipment	60,302	61,379	52,444
Total tangible assets	127,687	129,914	121,777
Other investments and long-term loans	6,991	7,925	7,947
Deferred tax assets	51,735	52,096	40,481
Intangible assets	144,056	241,661	242,761
Retirement benefit assets	3,776	3,776	0
Total non-current assets	334,245	435,372	412,966
Total assets	636,451	742,246	717,116

Liabilities and shareholder's equity

(1,000 CHF)	30.09.2002	31.03.2002	30.09.2001
Short-term debts	32,385	33,864	30,565
Trade payables	29,661	33,299	37,012
Taxes payable	29,019	27,614	23,761
Other liabilities and provisions	77,485	83,647	67,257
Total current liabilities	168,550	178,424	158,595
Mortgages	38,464	39,748	41,217
Other long-term debts	118,953	131,788	147,018
Deferred tax liabilities	21,962	22,685	19,971
Other provisions	8,161	7,742	9,713
Total long-term liabilities	187,540	201,963	217,919
Total liabilities	356,090	380,387	376,514
Minority interests	1,214	1,038	1,090
Share capital	3,268	3,260	3,296
Capital reserves	133,644	130,544	127,236
Treasury shares	(7,976)	(3,920)	(3,920)
Retained earnings	157,600	231,808	216,587
Cumulative translation adjustment	(7,389)	(871)	(3,687)
Total shareholder's equity	279,147	360,821	339,512
Total liabilities and shareholder's equity	636,451	742,246	717,116

Consolidated Statement of Cash Flows

April to September (1,000 CHF)	Notes	2002	2001
(Loss) / income after taxes		(66,396)	26,700
Depreciation of tangible assets		9,677	9,847
Amortization of intangible assets		6,972	7,065
One-time non cash charge for goodwill impairment		75,000	0
Other non cash items		15,539	(5,660)
Changes in net current assets and liabilities		(5,340)	(5,564)
Net cash from operating activities		35,452	32,388
Purchase of tangible assets		(9,965)	(13,897)
Proceeds from sale of tangible assets		439	1,268
Acquisition of subsidiaries (net of cash acquired)	2	(1,654)	(7,246)
Net cash used in investing activities		(11,180)	(19,875)
(Increase) / decrease in marketable securities		(1,436)	4,684
Decrease in debts, net		(15,336)	(18,076)
Dividend paid by Phonak Holding Ltd.		(7,812)	0
Par value repayment by Phonak Holding Ltd.		0	(9,701)
Other financial items, net		(855)	5,983
Net cash from financing activities		(25,439)	(17,110)
Currency translation differences		1,525	2,921
Increase / (decrease) in cash and cash equivalents		358	(1,676)
Cash and cash equivalents at April 1		73,046	81,428
Cash and cash equivalents at September 30		73,404	79,752

Summary of Changes in Shareholders' Equity

(1,000 CHF)	Share capital	Capital reserves	Retained earnings	Cumulative translation adjustment	Treasury shares	Total shareholders' equity
Balance April 1, 2001	12,937	121,198	189,887	3,557	(3,969)	323,610
Capital increase of Phonak Holding Ltd.						
from conditional capital	81	6,038				6,119
Par value repayment by Phonak Holding Ltd.	(9,722)				21	(9,701)
Disposal of treasury shares					28	28
Consolidated net income			26,700			26,700
Currency translation differences				(7,244)		(7,244)
Balance September 30, 2001	3,296	127,236	216,587	(3,687)	(3,920)	339,512
Balance April 1, 2002	3,260	130,544	231,808	(871)	(3,920)	360,821
Capital increase of Phonak Holding Ltd.						
from conditional capital	8	3,100				3,108
Dividend paid by Phonak Holding Ltd.			(7,812)			(7,812)
Purchase of treasury shares, net					(4,056)	(4,056)
Consolidated net loss			(66,396)			(66,396)
Currency translation differences				(6,518)		(6,518)
Balance September 30, 2002	3,268	133,644	157,600	(7,389)	(7,976)	279,147

Notes to the Consolidated Financial Statements per September 30, 2002

1. Basis of preparation of the consolidated financial statements

These unaudited financial statements are the interim condensed consolidated financial statements of Phonak Holding Ltd. and its subsidiaries for the six-month period ended September 30, 2002. These financial statements are prepared in accordance with the International Accounting Standards on Interim Financial Reporting, IAS 34 and should be read in conjunction with the consolidated financial statements for the year ended March 31, 2002. The accounting policies used are consistent with those used in the annual financial statements. The presentation of the interim financial statements is consistent with the annual financial statements.

The preparation of these interim consolidated financial statements requires management to make assumptions and estimates that affect the reported amounts of revenues, expenses, assets and liabilities at the date of these interim financial statements. If in the future such assumptions and estimates deviate from the actual circumstances, the original assumptions and estimates will be modified as appropriate in the year in which the circumstances change. Income tax expense is recognized based upon the best estimate of the average annual income tax rate expected for the full year.

At September 30, a one-time, non-cash impairment charge of CHF 75 million was recorded to restate the goodwill asset related to the Unitron acquisition, consistent with the decline in general market valuations.

The Phonak Group (the "Group") is involved in the development, manufacture and distribution of hearing systems and related products for the hearing impaired. The Group operates worldwide and distributes its products through its own distribution network in the major industrial countries and through independent representatives in over 60 other countries. The Group operates in industries where material seasonal or cyclical variations in total sales are not experienced during the financial year. The ultimate parent company is Phonak Holding Ltd., a limited liability company incorporated in Switzerland. Phonak Holding Ltd. registered office is located at Laubisrütistrasse 28, CH-8712 Stäfa, Switzerland.

2. Acquisition of subsidiaries

As mentioned in note 35 "Events after the balance sheet date" of the annual report for the period ended March 31, 2002, the Group acquired a 100% interest in Jordan Hearing Aids Manufacturing Co. Ltd. (Amman, Jordan), effective April 1, 2002. The Group also acquired a 100% interest in Van Opstal Compro BV (Netherlands), effective April 1, 2002. The cost to acquire these companies, paid in cash, was CHF 1.8 million and the goodwill recorded was CHF 1.5 million.

3. Segment information

The Group is active in only one segment: the development, production, distribution and service of hearing instruments and related products. The primary segment information is presented according to geographical regions, which also correspond to the organisational structure. Transactions between segments are generally conducted at market rates.

	Europe	North America	Australasia	Eliminations/others	Total
Six months ended September 30, 2002 (1,000 CHF)					
Sales					
Third parties	110,483	146,344	10,879	(1,148)	266,558
Sales within the same segment	16,633	9,444	321	(26,398)	0
Intersegment sales	94,378	8,735	5,729	(108,842)	0
Total sales	221,494	164,523	16,929	(136,388)	266,558
Operating profit / (loss) (EBIT)	45,772	526	1,934	(109,121)	(60,889)
Financial expense, net					(2,924)
Loss before taxes and minority interests					(63,813)
Taxes					(2,415)
Minority interest in associates					(168)
Consolidated net loss					(66,396)
Total assets	1,053,698	491,923	14,438	(923,608)	636,451
Total liabilities	632,085	269,367	5,930	(551,292)	356,090

Other information:

Investments in tangible assets	8,169	1,587	209	0	9,965
Depreciation on tangible assets	7,097	2,394	186	0	9,677
Depreciation on intangible assets and write-offs of other investments	618	4,459	0	1,895	6,972
One-time charge for goodwill impairment	0	0	0	75,000	75,000

4. Earnings (loss) per share

The basic earnings (loss) per share are calculated by dividing the consolidated net income (loss) by the weighted average number of shares outstanding (net of treasury shares) during the period. For the current business year, the weighted average number of shares outstanding amounted to 65,095,521 shares (previous year 64,615,961 shares). The diluted earnings per share consider the dilutive effect which could arise upon the possible exercise of all outstanding options. The weighted average number of shares used to determine the diluted earnings (loss) per share was 65,160,505 shares.

5. Contingencies

There were no material changes in contingent liabilities.

6. Share capital, capital reserves and treasury shares

	Number of shares	Share capital	Capital reserves	Treasury shares
Six months ended September 30, 2002 (1,000 CHF)				
Opening balance April 1, 2002	65,066,500	3,260	130,544	(3,920)
Purchase of treasury shares, net	(232,806)	0	0	(4,056)
Issue of new shares from conditional capital	168,000	8	3,100	0
Closing balance September 30, 2002	65,001,694	3,268	133,644	(7,976)

A dividend in respect of 2001/02 of 0.12 per share (amounting to a total of CHF 7,812,000) was paid in July 2002 to all shares outstanding, excluding treasury shares.