

Media Release

Phonak Holding Ltd.Laubisrütistrasse 28
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Subject	Semi-Annual Report as of September 30, 2003
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Sales up 13% over prior year

50% increase in EBITA

The Phonak Group announces the financial results for the first half of 2003/04. Consolidated sales for the first six months reached a record high of CHF 300 million. This represents 13% growth, and 18% growth in local currencies, over the same period last year. The strong sales of new products, in particular Perseo, have contributed to the overall sales result and to an increase in the gross profit to 54.8%, up from 51.6% last year. EBITA for the period reached CHF 39 million, which is a 50% increase over last year, and represents 13.0% of sales – a significant improvement from the 8.7% posted last year.

Several milestones were also achieved in the first six months of 2003/04 on the operational side. The new Phonak/Unitron facility in China was opened, from which first shipments of products were made on September 30th. Phonak Japan, the newest distribution company, started its activities, preparing to tackle the 3rd largest private market in the industry. In addition, Phonak entered into a joint venture with Cochlear of Australia to develop a new implantable hearing system.

Consolidated sales for H1 reached CHF 300.9 million. This represents 13% year over year growth or 18% growth in local currencies. The strong sales performance is a result of:

- sales of many new products, especially Perseo;
- recovery and/or continued growth in key markets;
- improvement in the Unitron Hearing sub-Group performance; and
- signs of market growth in certain markets.

The sales of new products generally exceeded the expectations, in particular sales of Perseo, Phonak's new high-end digital line. While sales of Claro have naturally receded against the strength of Perseo, the first class product segment (Perseo and Claro together) is now accounting for approximately 35% of total hearing instrument sales. MAXX and Amio, Phonak's new entry-level digital products launched in June 2003, have also been very successful in just the first three months. The Group is now seeing the effect and benefit of having a complete digital product portfolio in all segments. On the other hand, this leads to a significant sales decline of older, analog products. Conversa, Unitron Hearing's mid-level digital product launched in June 2003, has also been selling above expectation and contributing to a general increase in average selling prices for the brand. Sales of the other top-selling products, Aero from Phonak and Unison from Unitron Hearing, continue according to expectations. Sales of Supero, Phonak's digital high power product line, will be boosted by the launch of Supero+ in October, which will reconfirm Phonak's strength in this product segment.

From a market perspective, the company has generally seen good year over year improvement. Based on local currencies, highlights include over-proportionate growth in the United States, Australia and New Zealand, the United Kingdom, the Netherlands, Spain and the Middle East. Phonak in Switzerland has also improved significantly – over 30% growth compared to last year. Finally, the Group has also seen a tremendous recovery and growth in sales in the key German and French markets, over the previous year, as a result of the new products launched in the past year.

The Group is pleased to report that Unitron Hearing is progressing well. Compared to last year, Unitron Hearing has grown over-proportionately to the consolidated growth rate of the Group, due to the success of its new products, the increasing average selling prices and the recovery and growth in the key United States market. The management expects further improvement in Unitron Hearing, fueled by the launch of Liaison, the company's new premium digital product family, of which the Behind-the-Ear versions are being launched in new, modern housings.

Gross profit improves 3 percentage points from prior year

In June, the company announced its target to increase gross profit from the 51.6% (of sales) reported last year to around 60% in the mid-term (approximately three years from now). For H1, a quick improvement in gross profit to 54.8% is reported, an improvement of 3 percentage points from last year. As expected, this gross profit improvement comes from:

- strong Perseo sales in the premium segment where average selling prices are higher;

- strong sales of MAXX, in the entry-level segment, where the cost structure yields a good gross profit (especially relative to the analog products that MAXX is replacing), despite lower average selling prices than the premium segment; and
- strong sales of Conversa, the mid-level digital product line from Unitron Hearing which is bringing up the reported average selling price of this brand.

Operating expenses are in line with budget and represent an increase of 13% over the same period last year. The main increases in operating expenses are related to R&D, specifically to the Palio (new product hardware platform) and Chinook (new fitting software architecture) projects, as well as an increase in marketing and sales costs, consistent with the reported sales increase. The exchange differences are slightly positive, compared to last year's result, driven mainly by the stronger Euro. EBITA in H1 reached CHF 39 million, 50% higher than the level reported for the same period last year. This represents 13.0% of sales, compared to 8.7% reported for 2002/03. This improvement, due mainly to the improvement in gross profit, is in line with our mid-term target of increasing EBITA to 15-20% over the mid-term.

Phonak goes East: Japan and China

In April, the Group announced its plans to open a wholly-owned group company in Japan and a low-cost manufacturing facility in Asia. Several weeks ago, the company announced the grand opening of Phonak Japan and Unitron Hearing (Suzhou) in China.

Unitron Hearing (Suzhou) is a wholly-owned subsidiary of Phonak Holding AG and will manufacture products for both the Phonak and the Unitron Hearing brands, leveraging common hardware platforms and manufacturing processes.

On October 24 and 25, 2003, Phonak held its grand opening ceremonies for Phonak Japan, a complete distribution company in Tokyo – including sales, marketing, service and In-the-Ear product customization – to increase its focus and sales in the Japanese market.

Key projects well on track

During the reporting period, good progress was made on all key projects. The company expects to launch the first premium products on the Palio hardware platform next fiscal year. Furthermore, a second NemoTech production facility could be established in Stäfa. It will increase the number of ITE products made with this innovative technology, receiving positive customer feedback. In addition, the Group plans to launch the first updated fitting software, on the Chinook software architecture, at next year's two major tradeshows.

Finally, in October 2003, the Group enjoyed a very successful UHA industry convention in Nuremberg, Germany – during which the Phonak Group was praised for launching another slate of innovative products. Highlights include **Liaison**, Unitron Hearing's new premium digital product, **Supero+**, an upgraded version of Phonak's digital high power product line

launched last year, and **MAXX Directional**, which adds directional signal processing to the popular product family launched by Phonak in June. Exciting new products from Phonak Communications include **SmartLink** that incorporates a remote control, a transmitter, a directional microphone system and bluetooth mobile phone access into a single device, as well as **EduLink**, an innovative FM device to assist the learning development of children with Auditory Processing Disorder (APD).

New management members

During the past six months, a number of key people have joined the management team of the Phonak Group to support the expanding business and new opportunities. On December 1, 2003, **Toni Schrofner** will join as Executive Vice President Operations & Supply Chain and a member of the Group Executive Management of the Phonak Group. Prior to joining Phonak, Toni Schrofner was President of Tecan Instruments and a member of Tecan's Executive Leadership Committee.

Key persons that joined Phonak Group during the past months are **Hans Leysieffer**, Vice President of R&D, **Gary Roesel**, Director of Global ITE Competence Center, **Christian Stromsted**, Vice President of Marketing (Phonak brand) as well as **Michaela Stoeckli**, Vice President of Sales (Phonak brand). Phonak Group also announced the appointment of **Urs Eller** as Managing Director of Unitron Hearing (Suzhou) as well as **Teruo Ishii** as President of Phonak Japan. Finally, **Christian Dotzauer** has joined Hansaton as Co-Managing Director of Phonak's retail organization in Austria.

Outlook for the remainder of 2003/04

Based on the current perspective, the management reiterates its full year target of around CHF 600 million in consolidated sales. This target is based on the forecast of new product sales, offset by the reduced analog product sales and by the weaker United States dollar.

The company expects that the gross profit and EBITA percentages will also be consistent with what has been reported in the first half of the year.

Phonak Group: Key figures for the six months ended September 30, 2003

	April to September		Change 6 months 2003/2002
	2003 (in CHF m)	2002	
Consolidated sales	300.9	266.6	+12.9%
Gross profit	164.8	137.6	+19.7%
% of sales	54.8	51.6	
Operating profit EBITA	39.1	26.1	+49.9%
% of sales	13.0	9.8	
Operating profit / (loss) EBIT	34.9	(55.3)	
% of sales	11.6	(20.7)	
Income / (loss) after taxes	25.8	(60.8)	
% of sales	8.6	(22.8)	
Net cash flow from operating activities	65.1	23.3	+179.5%
% of sales	21.6	8.7	
Capital expenditure	8.5	10.0	-14.8%
% of cash flow from operating activities	13.1	42.9	
Total assets	630.4	636.5	-0.9%
Shareholders' equity	307.9	279.1	+10.3%
% of total assets	48.8	43.8	+5.0%
Number of employees			
- At September 30	2,459	2,416	+1.8%
- Average	2,425	2,404	+0.9%
Interim financial statements are unaudited and are prepared in accordance with International Accounting Standards (IAS 34)			

Investor Relations Calendar

June 8, 2004

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

July 8, 2004

General Meeting of Phonak Holding Ltd.

November 2004

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