

PHONAK HOLDING AG

INVITATION to the Annual Shareholders' Meeting

to be held on Thursday, July 7, 2005, 2 pm (doors open at 1 pm)
at Kongresshaus Zürich, Claridenstrasse 5, Entrance K, 8001 Zürich

Agenda

1. **Approval of the Annual Report, of the Annual Financial Statements and of the Consolidated Statements for 2004/05; acknowledgment of the Reports of the Auditors and of the independent Group Auditors**

Motion

The Board of Directors proposes to approve the Annual Report 2004/05, consisting of Business Report, Annual Financial Statements, and Consolidated Financial Statements.

2. **Discharge of the Members of the Board of Directors and of the Executive Management**

Motion

The Board of Directors proposes to discharge the members of the Board of Directors and of the executive management from liability for their activities in the business year 2004/05.

3. **Resolution on allocation of profit**

Motion

The Board of Directors proposes to distribute out of the available net profit of CHF 47,558,000 a dividend of CHF 0.30 gross (after deduction of 35% Swiss withholding tax CHF 0.195 net) per share. The remaining net profit of CHF 27,754,000 shall be carried forward to new account.

Comments

The following balance sheet profit is at the disposal of the Shareholders' Meeting:

| | <i>TCHF</i> |
|---|----------------------|
| <i>Balance carried forward from the previous year</i> | <i>4,233</i> |
| <i>Release from reserves for treasury shares</i> | <i>3,641</i> |
| <i>Net profit for the financial year 2004/05</i> | <u><i>39,684</i></u> |
| <i>Total balance sheet profit</i> | <u><i>47,558</i></u> |

If the Shareholders' Meeting approves this motion, the dividend will be paid out free of costs with the value date July 12, 2005.

No dividends will be distributed on treasury shares held by Phonak Holding AG.

4. Election of Members of the Board of Directors

Motion

The Board of Directors proposes to re-elect Ms. Heliane Canepa and Mr. Daniel Borel as members of the Board of Directors for the statutory term of office of three years.

Comments

The terms of office of Heliane Canepa and of Daniel Borel expire at the Annual Shareholders' Meeting 2005. Ms. Heliane Canepa and Mr. Daniel Borel are prepared to stand for re-election.

5. Election of Auditors and of Group Auditors

Motion

The Board of Directors proposes to re-elect PricewaterhouseCoopers AG, Zurich, as Auditors and Group Auditors for a further period of one year.

6. Amendment of Articles of Association

6.1 Reduction of the share capital amount required to have an item put on the agenda and extension of the respective request period to 60 days (amendment of article 10 para. 3 of the Articles of Association)

Motion

The Board of Directors proposes the amendment of article 10 para. 3 of the Articles of Association to reduce the existing threshold for requests to have an item put on the agenda from a par value of CHF 1 million to 5 percent of the share capital. The Board of Directors, moreover, proposes to extend the period for such requests from 30 to 60 days. The new wording will be as follows (revised text):

"Shareholders entitled to vote who represent at least 5 percent of the share capital may request items to be added to the agenda by indicating the relevant proposals. Such requests must be addressed in writing to the chairman of the Board no later than 60 days before the meeting."

Comments

According to the present wording of the Articles of Association, shareholders may request an item to be added to the agenda if they represent shares with a par value of at least CHF 1 million, which corresponds to 20 million shares. In accordance with the principles of good corporate governance the threshold shall be reduced so that 5 percent of the share capital – currently equaling shares with a par value of CHF 165,056 – will be sufficient to request an item to be added to the agenda. The extension of the request period from 30 to 60 days is necessary in order to ensure that in terms of organization the proposals can be appropriately treated by the Board of Directors and added to the agenda.

6.2 Maintaining existing conditional capital of CHF 264,270, creation of new conditional capital of CHF 165,056 and expansion of authorized purpose of use (Amendment of Article 3a of the Articles of Association)

Motion

The Board of Directors proposes to maintain the existing conditional capital in the amount of CHF 264,270 and to create new conditional capital in the amount of CHF 165,056 and to extend the authorized purpose of use through the following amendment of article 3a of the Articles of Association (revised text):

"The share capital is to be increased by no more than CHF 429,326 through the issue of no more than 8,586,520 registered shares with a par value of CHF 0.05 each, to be fully paid up, namely

- a) up to an amount of CHF 264,270 through the exercise of option rights by members of the Board of Directors, of the Executive Management and by selected employees of the Phonak Group. Shareholders' subscription rights are excluded;
- b) up to an amount of CHF 165,056 through the exercise of option and conversion rights granted in connection with bonds or similar debt instruments issued by the company. Shareholders' subscription rights are excluded. Shareholders' preferential subscription rights may be excluded if such debt instruments are issued for the purpose of financing the acquisition of or investment in companies.

The acquisition of registered shares through the exercise of option rights or conversion rights by members of the Board of Directors or the Executive Management or by selected employees of the Phonak Group as well as by holders of bonds and/or other debt instruments, and any subsequent transfer of the new registered shares shall be subject to the transfer restrictions set forth in article 6 of these Articles of Association.

If preferential subscription rights are excluded, the bonds are to be placed with the public at market conditions, the exercise period is not to exceed five years from the date of issue for option rights or ten years for conversion rights, and the conversion or exercise price for the new shares is to be set at least in line with the market conditions prevailing on the date on which the bonds are issued."

Comments

At the Shareholders' Meetings of 1994 and 2000, conditional capital of no more than CHF 14,000,000 was created through respective amendment of the Articles of Association for the purpose of granting an interest to members of the Board of Directors of the company, of the Executive Management and to selected employees of the Phonak Group. Through the exercise of option rights granted to the authorized persons and through the resolution on a reduction of the conditional capital passed by the Shareholders' Meeting of July 5, 2001, the original maximum conditional capital has been reduced to CHF 264,270.

The company would like to maintain the additional financial flexibility offered by conditional capital. For this reason, the Board of Directors proposes to create additional conditional capital for the exercise of option and conversion rights granted in connection with bonds and similar debt instruments issued by the company for the purpose of financing the acquisition of or investment in companies.

6.3 Creation of authorized capital of CHF 165,056 (Amendment of Article 3b of the Articles of Association)

Motion

The Board of Directors proposes again to create authorized capital in the amount of CHF 165,056 through the following amendment of article 3b of the Articles of Association (revised text):

"The Board of Directors is authorized at any time until July 6, 2007 to increase the share capital of the company by no more than CHF 165,056 by issuing no more than 3,301,120 registered shares with a par value of CHF 0.05 each, to be fully paid up. The Board of Directors is authorized to fully pay up these shares out of equity capital. Increases by firm underwriting, as well as partial increases, are permissible.

The issue price, the type of contribution, the conditions for exercising subscription rights and the date for entitlement to dividends will be determined by the Board of Directors. Subscription rights that have not been exercised are at the disposal of the Board of Directors who will use them in the interest of the company.

The Board of Directors is authorized to exclude subscription rights of shareholders and to allocate them to third parties if the new shares are to be used for the acquisition of companies, parts of companies, equity stakes or the financing of such transactions.

Upon acquisition, the new registered shares are subject to the transfer restrictions set forth in article 6 of the Articles of Association."

Comments

At the extraordinary Shareholders' Meeting of 2000, the Board of Directors, was pursuant to Article 651 CO, authorized to increase the share capital within a period of no more than two years. This authorization expired on December 7, 2002. The company would again like to be granted the additional financial flexibility offered by authorized capital. For this reason, the Board of Directors proposes again to create authorized capital.

6.4 Amendment of the Articles of Association in connection with the requirements of good corporate governance (Amendment of Article 15, Article 16, Article 20 para. 1, Article 21 para. 1 and Article 24 para. 2 of the Articles of Association)

Motion

The Board of Directors proposes to adjust the Articles of Associations in accordance with the generally recognized principles of good corporate governance through the following amendments of article 15, article 16, article 20 para. 1, article 21 para. 1 and article 24 para. 2 of the Articles of Association:

Article 15: Resolutions and Elections (revised text)

"Resolutions and elections by the Shareholders' Meeting require the approval of an absolute majority of the votes represented, except as otherwise provided by law or by the Articles of Associations.

Resolutions and elections are conducted openly, unless the Shareholders' Meeting or the chairman orders ballots or elections to be conducted in writing. The chairman may at any time order resolutions or elections that have been conducted openly to be repeated in writing, provided that, in his opinion, the results of the election are

questionable. In such case, the previous open election or vote is considered not to have been effected.

If, in case of elections, the first ballot is inconclusive, the chairman shall order a second ballot, in which the relative majority decides."

The last paragraph remains unchanged.

Article 16: Ballots and Elections

This article shall be deleted.

Article 20 para. 1: Resolutions (revised text)

"At least half of the members of the Board of Directors must be present at meetings to constitute a quorum. There is no quorum requirement to pass resolutions on amendments and declarations of the Board of Directors concerning capital increases."

Article 21 para. 1: Duties and Competences (revised text)

"The Board of Directors is responsible for the overall direction of the company and for the supervision and control of the management."

Article 24 para. 2: Election, Office Period and Tasks (revised text)

"The Shareholders' Meeting may elect special auditors which prepare the special audit report required in connection with capital increases (art. 652f, 653f and 653i CO) for a maximum term of office of three years."

Comments

In the financial year 2004/05, the Board of Directors decided to examine the relevant regulations as to their compliance with the generally recognized principles of good corporate governance and to make the necessary amendments. In the course of these efforts, the Board of Directors now proposes to amend the above mentioned articles of the Articles of Association, in order to better meet the requirements of good corporate governance.

Documents

The Annual Report 2004/05, as well as the original reports of the Auditors and the Group Auditors, will be available for inspection by the shareholders from June 7, 2005 at the company's head office in 8712 Stäfa, Laubisrütistrasse 28. The documents may also be ordered from the share register by returning the enclosed reply slip or may be viewed on the website www.phonak.com.

Admission Cards

Shareholders entitled to vote who have been registered in the share register by July 1, 2005, will directly receive the invitation to the shareholders' meeting including all the proposals of the Board of Directors. Upon returning the reply slip, they will receive their admission cards and voting documents after June 17, 2005.

From July 4 to July 8, 2005 there will be no new entries in the shares register. Registered shareholders who sell their shares before the Shareholders' Meeting takes place will no longer be entitled to vote.

Representation / Proxy

Shareholders who cannot attend the Shareholders' Meeting in person may be represented as follows:

- by another shareholder: complete proxy on the reverse side of the admission card and give it to the authorized shareholder;
- by the independent proxy holder, Dr. Kurt U. Blickenstorfer, attorney-at-law, Bahnhofstrasse 44, Postfach 6040, 8023 Zürich. The enclosed reply slip is sufficient for authorization (the admission card does not have to be ordered). In case of missing written instructions regarding certain or all agenda items, the independent proxy holder will cast the votes in line with the motions of the Board of Directors;
- by Phonak Holding AG: send blank proxy on reply slip with the enclosed return envelope to Phonak Holding AG (the admission card does not have to be ordered). The votes will be cast in line with the motions of the Board of Directors. Proxies with contrary instructions will be forwarded to the independent proxy holder. For the vote on granting discharge to the officers, the company's proxy will transfer his authorizations to the independent proxy holder, who will cast his votes in line with the motions of the Board of Directors.

Persons acting as proxies for deposited shares in the sense of article 689d CO are asked to inform the company by July 6, 2005, 4 pm (CET), of the number of shares they represent.

Restrictions on Voting Rights and Proxies

The shareholders' attention is called to article 12 of the Articles of Association, according to which in exercising their voting rights no shareholder may unite, by a combination of own and represented shares together, more than 10% of the total number of shares reported to the commercial register.

Language

The Shareholders' Meeting will be held in German. Simultaneous translation in English will be provided.

Stäfa, June 7, 2005

For the Board of Directors

Andy Rihs
Chairman of the Board