Interim Report
per September 30, 2005

The Art and Science of Better Hearing

PHONAK
hearing systems

Highlights

- Sales increase by 23% (in local currencies and in CHF) to CHF 399 million
- Market share gains in all major markets
- Savia establishes itself as the benchmark product in the hearing instrument industry
- EBIT margin rises to 24% (prior year 17%)
- Income after taxes grows by 88%
- 131 new jobs created in the first half of 2005/06
- eXtra and microSavia launched at EUHA
- Outlook for financial year 2005/06:
  sales growth of 17–19% (in local currencies) and EBIT margin of 22–24%

Dear Phonak Shareholder

In the first half of 2005/06, the Phonak Group achieved excellent results that clearly exceed our expectations. Consolidated sales rose by 23% year-on-year to CHF 399 million, and the Group was once again able to sharply increase its gross profit and EBIT margins. Operating profit (EBIT) rose by 73% to CHF 95 million, equating to an EBIT margin of 24%. One of the main drivers of our success is the sustainable innovation strategy which has led to the most competitive product portfolio in the hearing industry, with the sound quality, speech intelligibility and comfort of our products setting new benchmarks. The results of our efforts are many satisfied hearing instrument specialists and many happy end-users.

The market success of Savia played a key role in driving our significant growth. Savia is testimony to the enormous capability of the new hardware and software platforms, which are now being integrated into other product lines as well. Other growth drivers included the Unitron brand, the wireless communication systems and, not least, miniValeo, a miniaturized behind-the-ear hearing system for open fitting.

We will keep our innovation speed on a high level. Our platform strategy provides the right tool for ongoing innovations that are ideally adapted to customer requirements. Our second strategic goal is to systematically expand our global distribution channels. By acquiring a controlling interest in CAS Produtos Médicos Ltda., the Brazilian market leader in hearing instrument distribution, we clearly strengthened our presence in Latin America. In Eastern Europe, we took the first step toward strengthening our market position by acquiring our independent distribution partner in Poland. In China, we achieved our goal of expanding production capacity, and the focus is now on building up the distribution network.

At the International Congress of Hearing Aid Acousticians (EUHA) in October 2005, the Phonak Group presented a raft of innovations. Attracting considerable attention was the new eXtra hearing system with DataLogging, which is setting new standards in the value segment. The extended frequency response and automatic tuning to a wide variety of listening situations ensure impressive sound quality and speech clarity – a revolution in this segment. Also meeting with an extremely positive response was microSavia, which combines all Savia's functions in an ultra-miniaturized behind-the-ear hearing system. As a DataLogging pioneer, we have been able to translate our customers' ideas and wishes into new functionalities and make them accessible to the users through iPFG fitting software.

Unitron Hearing has substantially improved the hearing performance of the Unison and Conversa.NT product lines and now offers both product lines for open fitting as well. Moda for Unison is the first miniaturized behind-the-ear hearing system available in the lower price and performance segment.

The Phonak Group continues to extend its position as the hearing instrument industry's innovation and technology leader. We would like to thank all those accompanying us on this journey. Our special thanks go to our employees and partners for their great efforts and to our shareholders for their interest and support.

Andy Rihs, Chairman of the Board

Dr. Valentin Chapero Rueda, CEO

eXtra™
DataLogging inside

A new world of extraordinary value

SoundManager with EasyPhone

Hearing enjoyment no matter what the communication situation – automatically

eXtraSound

Exceptional sound quality for a fuller and more natural sound experience

DataLogging

First class fitting convenience in the value segment using real life usage data for individualized fine tuning

Modern Design

Appealing custom and BTE designs to meet clients' cosmetic expectations

Financial Results

Sales increase by 23% – market share gains in all major markets

In the first half of 2005/06, consolidated sales rose to CHF 399.2 million, representing a year-on-year increase of 22.8% in local currencies as well as in reporting currency (CHF). Sales growth slightly exceeded the target, which had been revised up to 19-21% in September.

The sales increase is attributable to the dynamic performance of Savia, although miniValeo in the mid price and performance segment, the Unitron brand and the wireless communication systems also made a decisive contribution.

The first class segment accounted for 36% of total sales due to excellent Savia sales. The business and economy segments contributed 20% and 24% to the total portfolio. FM systems grew in line with total sales and remained with an 8% share.

Gross profit rises by 32% – gross profit margin continues to improve

Gross profit rose to CHF 255.7 million, representing a 32.2% increase on the prior-year figure (CHF 193.4 million). The gross profit margin reached 64.0%, up 450 basis points on last year (59.5%). This was due to a favorable product mix, efficiency gains from higher production volumes and cost savings on materials purchasing. As the production in China was still being ramped up during the business year 2004/05, we benefited from the increased manufacturing volume in China in the first half of 2005/06.

EBIT grows by 73% – EBIT margin rises sharply

Operating expenses were CHF 160.3 million in total and therefore 15.9% up on last year. Research and development expenses were CHF 30.7 million (prior year CHF 26.6 million) or 7.7% (prior year 8.2%) of consolidated sales. The increase in research and development expenses reflects the fast pace of innovation at the Phonak Group with a number of new product developments. Sales and marketing costs were CHF 84.8 million, which equates to 21.3% of sales and a year-on-year increase of 15.1%. This increase is attributable to the expansion and the further strengthening of our distribution activities. Administration and general overheads rose by 10.5% to CHF 43.2 million mainly due to the ongoing implementation of SAP. As a percentage of sales, administration and general overheads decreased from 12.0% in the prior year to 10.8%.

In the first half of the year, EBIT was CHF 95.4 million, an increase of 73.3% on the prior-year period. The EBIT margin therefore rose to 23.9%, compared to 16.9% in the first half of 2004/05.

Income after taxes grows by 88%

Tax expenses as a percentage of income before taxes decreased from 24.6% in the prior year to 22.4%; due to higher non-taxable income and lower non-tax deductible expenses. Consolidated income after taxes was CHF 76.4 million, up 87.8%. On a diluted basis, earnings per share rose by 87.2% year-on-year to CHF 1.14.

A solid balance sheet

Capital employed rose to CHF 408.1 million as of September 30, 2005 or by 18.4% year-on-year. The increase is mainly due to the sales-related rise in trade receivables and to higher inventories. Inventories rose towards the end of the reporting period due to the launch of eXtra, a hearing system in the value segment with typically high sales volumes, and microSavia, a new ultra-miniaturized behind-the-ear hearing system, both of which are scheduled for the second half of 2005/06.

Net cash (cash and marketable securities less financial liabilities) as of September 30, 2005 reached CHF 114.5 million, compared with CHF 45.0 million as of September 30, 2004. Reduction in interest-bearing liabilities totalled CHF 72.0 million. The equity financing ratio (shareholders' equity in % of total assets) also rose markedly – from 55.8% last year to 66.8% this year.

A healthy cash flow

In the first half of 2005/06, cash flow from operating activities was CHF 65.7 million and therefore 36.8% up on the prior-year period. Due to the increase in trade receivables and inventories totalling CHF 20.6 million and the rise in income taxes paid of CHF 11.1 million, cash flow growth was below the growth in operating profit. Amounting to CHF 20.8 million, investing activities consisted primarily of purchases of tangible assets (CHF 10.1 million), cash considerations for acquisitions (CHF 5.0 million) as well as purchase of intangible assets (CHF 5.9 million). The free cash flow of CHF 44.9 million was mainly used to repay financial liabilities and mortgages (CHF 42.7 million). Taking all items on the consolidated cash flow statement into consideration, cash and cash equivalents declined by CHF 20.3 million to CHF 153.0 million, since April 1, 2005.

Changes to the Group Executive Team

After almost 11 years working for the Phonak Group, Michael Jones, 56, has left the company. He was responsible for the North American market and, between January 2002 and January 2005, also served as CEO for the Unitron Hearing brand. Michael Jones played a key role in the successful development of Phonak's business in the USA.

Outlook for financial year 2005/06

Phonak has one of the most competitive product portfolios in the hearing instrument industry. Based on current market conditions and subject to unforeseen events, we forecast sales growth in local currencies of 17-19% and an EBIT margin of 22-24% for the financial year 2005/06. We expect the second half of 2005/06 to be as successful for Phonak as the first half of 2005/06. But due to the strong comparison with the second half of 2004/05, year-on-year growth rates will not reflect the same level in the second half of 2005/06.

The management firmly believes that our focus on the strategic goals of innovation, expanding distribution channels and proactive cost management will pay off in the form of sustainable sales and profit growth.

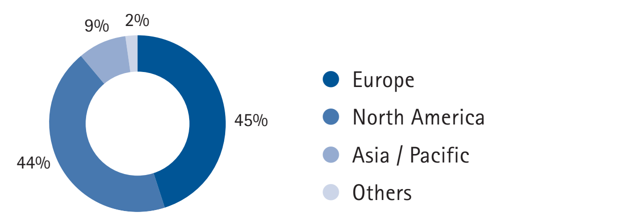
It's time to discover microSavia, the most sophisticated hearing system available today. microSavia combines hassle-free hearing excellence in all situations with highest sound quality. And thanks to its small, ultra slim design microSavia is extremly comfortable to wear and very elegant.

It's time to discover the beauty of invisible hearing.

Interim Consolidated Financial Statements[1)]

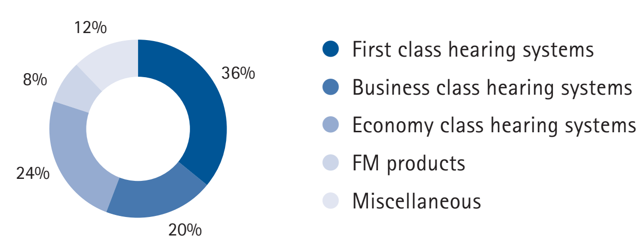
Share of sales by main markets first half of 2005/06

The share of Europe and North America remained stable and accounted for 89% of total sales.



Share of sales by product groups first half of 2005/06

The first class hearing systems increased their share of total sales due to excellent Savia sales.



1) Interim consolidated financial statements are unaudited and are prepared in accordance with International Financial Reporting Standards (IAS 34)

Key Figures

April to September (CHF 1,000 unless otherwise specified)	2005	2004[1)]
Sales	**399,233**	**325,032**
change compared to previous year (%)	22.8	8.0
Gross profit	**255,699**	**193,393**
change compared to previous year (%)	32.2	17.4
in % of sales	64.0	59.5
Research & development costs	**30,668**	**26,591**
in % of sales	7.7	8.2
Sales & marketing costs	**84,842**	**73,681**
in % of sales	21.3	22.7
Operating profit (EBIT)	**95,417**	**55,072**
change compared to previous year (%)	73.3	57.7
in % of sales	23.9	16.9
Income after taxes	**76,386**	**40,681**
change compared to previous year (%)	87.8	55.8
in % of sales	19.1	12.5
Number of employees (average)	**2,984**	**2,733**
change compared to previous year (%)	9.2	12.7
Number of employees (end of period)	**3,057**	**2,743**
change compared to previous year (%)	11.4	11.5
Net cash [2)]	**114,533**	**45,043**
Net working capital [3)]	**113,689**	**56,989**
in % of sales	28.5	17.5
Capital expenditure (tangible and intangible assets)	**16,003**	**10,362**
Capital employed [4)]	**408,084**	**344,701**
in % of sales	102.2	106.1
Total assets	**782,300**	**699,024**
Shareholders' equity	**522,617**	**389,744**
Equity financing ratio (%) [5)]	**66.8**	**55.8**
Free cash flow [6)]	**44,911**	**36,897**
in % of sales	11.2	11.4
Return on capital employed (%) [7)]	**25.0**	**16.1**
Return on equity (%) [8)]	**15.7**	**11.0**
Basic earnings per share (CHF) [9)]	**1.150**	**0.616**
Diluted earnings per share (CHF) [9)]	**1.140**	**0.609**

1) Including adjustments in accordance with new IFRS accounting standards (see Notes)
2) Cash and cash equivalents + financial assets held for trading – short-term debts – financial liabilities held for trading – mortgages – long-term debts
3) Receivables + inventories – payables – other short-term liabilities – short-term provisions
4) Total assets – cash and cash equivalents – financial assets held for trading – payables – other liabilities – provisions – tax liabilities
5) Shareholders' equity in % of total assets
6) Cash flow from operating activities plus cash flow from investing activities
7) EBIT in % of capital employed (average)
8) Income after taxes in % of shareholders' equity (average)
9) For calculation refer to Note 4

Consolidated Income Statement

April to September (CHF 1,000)	2005	2004 [1)]
Sales	**399,233**	**325,032**
Sales related costs	(12,124)	(12,424)
Cost of sales	(131,410)	(119,215)
Gross profit	**255,699**	**193,393**
Research and development	(30,668)	(26,591)
Sales and marketing	(84,842)	(73,681)
General and administration	(43,208)	(39,107)
Other (expenses) / income, net	(1,564)	1,058
Operating profit (EBIT)	**95,417**	**55,072**
Financial income / (expenses), net	2,856	(771)
Share of gain / (loss) in associate / joint venture	162	(373)
Income before taxes	**98,435**	**53,928**
Income taxes	(22,049)	(13,247)
Income after taxes	**76,386**	**40,681**
Attributable to:		
Equity holders of the parent	75,984	40,282
Minority interest	402	399
Basic earnings per share (CHF)	1.150	0.616
Diluted earnings per share (CHF)	1.140	0.609

1) Including adjustments in accordance with new IFRS accounting standards (see Notes)

Consolidated Balance Sheet

Assets			
(CHF 1,000)	30.9.2005	31.3.2005	30.9.2004[1]
Cash and cash equivalents	152,956	173,243	153,574
Financial assets held for trading	14,713	12,401	12,675
Trade receivables	155,592	139,197	114,828
Other receivables and prepaid expenses	27,316	19,972	23,177
Inventories	99,599	86,550	78,247
Total current assets	**450,176**	**431,363**	**382,501**
Tangible assets	116,533	115,391	116,903
Intangible assets	152,775	139,141	139,344
Investments in associates / joint ventures	4,169	1,596	1,280
Other investments and long-term loans	8,568	7,811	10,422
Deferred tax assets	48,195	44,923	43,731
Retirement benefit assets	1,884	3,135	4,843
Total non-current assets	**332,124**	**311,997**	**316,523**
Total assets	**782,300**	**743,360**	**699,024**

Liabilities and shareholders' equity			
(CHF 1,000)	30.9.2005	31.3.2005	30.9.2004[1]
Short-term debts	24,957	30,789	26,922
Trade payables	23,229	30,988	24,324
Taxes payable	26,568	22,960	23,116
Financial liabilities held for trading	5,354	1,421	1,397
Other short-term liabilities	68,605	61,709	66,610
Short-term provisions	50,416	50,566	45,213
Total current liabilities	**199,129**	**198,433**	**187,582**
Mortgages	11,392	12,571	32,518
Other long-term debts	11,433	47,078	60,369
Long-term provisions	15,635	12,881	10,074
Other long-term liabilities	5,037	5,137	1,104
Deferred tax liabilities	17,057	17,556	17,633
Total non-current liabilities	**60,554**	**95,223**	**121,698**
Total liabilities	**259,683**	**293,656**	**309,280**
Shareholders' equity	**522,617**	**449,704**	**389,744**
Total liabilities and shareholders' equity	**782,300**	**743,360**	**699,024**

1) Including adjustments in accordance with new IFRS accounting standards (see Notes)

Consolidated Statement of Cash Flows

April to September (CHF 1,000)		2005		2004
Income before taxes		**98,435**		**53,928**
Depreciation of tangible assets	11,489		10,208	
Amortization of intangible assets	1,550		1,408	
(Gain) / loss on sale of tangible assets, net	(77)		6	
Gain on sale of other investments, net	(1,220)		0	
Other financial (expenses) / income, net	(1,636)		771	
Share of (gain) / loss of associates / joint ventures	(162)		373	
Increase in other long-term provisions, long-term liabilities	1,961		158	
Other non-cash items	4,266	16,171	1,816	14,740
Cash flow before changes in working capital		**114,606**		**68,668**
(Increase) / decrease in trade receivables	(12,057)		663	
Increase in other receivables and prepayments	(6,679)		(6,783)	
Increase in inventories	(8,583)		(1,343)	
Decrease in trade payables	(7,776)		(10,095)	
Increase in other payables, accruals and short-term provisions	6,043		5,643	
Income taxes paid	(19,825)	(48,877)	(8,697)	(20,612)
Cash flow from operating activities		**65,729**		**48,056**
Purchase of tangible assets	(10,122)		(8,864)	
Proceeds from sale of tangible assets	1,565		353	
Cash consideration for acquisitions, net of cash acquired	(5,002)		(364)	
Purchase of intangible assets	(5,881)		(1,498)	
Purchase of financial assets held for trading, net	(705)		(1,556)	
(Increase) / decrease in other investments and long-term loans	(1,831)		145	
Interest received and realized gain from financial assets available for sale	1,158		625	
Cash flow from investing activities		**(20,818)**		**(11,159)**
Free cash flow		**44,911**		**36,897**
Repayments of borrowings and mortgages	(42,660)		(23,193)	
Proceeds from capital increases	2,630		1,430	
(Purchase) / Sale of treasury shares	(4,833)		5,601	
Dividend paid	(19,977)		(13,210)	
Interest paid	(610)		(1,452)	
(Payments for) / proceeds from foreign exchange contracts	(1,985)		637	
Cash flow from financing activities		**(67,435)**		**(30,187)**
Currency translation differences		2,237		1,736
(Decrease) / increase in cash and cash equivalents		**(20,287)**		**8,446**
Cash and cash equivalents at April 1		173,243		145,128
Cash and cash equivalents at September 30		**152,956**		**153,574**

Summary of Changes in Shareholders' Equity

(CHF 1,000)	Share capital	Capital reserves[2)]	Retained earnings[2)]	Cumulative translation adjustment	Treasury shares	Minority interest	Total share-holders' equity
Balance April 1, 2004	**3,273**	**135,528**	**237,826**	**(23,577)**	**(3,960)**	**1,248**	**350,338**
Changes in accounting principles (IFRS 3)			107				107
Tax on items taken directly to the equity			42				42
Share based payments		907					907
Capital increase of Phonak Holding Ltd. from conditional capital	5	3,066					3,071
Dividend paid[1)]			(13,074)			(136)	(13,210)
Sale of treasury shares					3,960		3,960
Consolidated net income			40,282			399	40,681
Currency translation differences				3,857		(9)	3,848
Balance September 30, 2004	**3,278**	**139,501**	**265,183**	**(19,720)**	**0**	**1,502**	**389,744**
Balance April 1, 2005	**3,301**	**146,971**	**319,532**	**(21,694)**	**(319)**	**1,913**	**449,704**
Changes in minorities						(760)	(760)
Share based payments		(218)					(218)
Capital increase of Phonak Holding Ltd. from conditional capital	9	2,621					2,630
Dividend paid[1)]			(19,841)			(136)	(19,977)
Sale of treasury shares		(966)			6,095		5,129
Purchase of treasury shares					(5,903)		(5,903)
Consolidated net income			75,984			402	76,386
Currency translation differences				15,628		(2)	15,626
Balance September 30, 2005	**3,310**	**148,408**	**375,675**	**(6,066)**	**(127)**	**1,417**	**522,617**

1) Gross dividend per registered share by Phonak Holding Ltd. amounted to CHF 0.30 for financial year 2004/05 and CHF 0.20 for financial year 2003/04

2) Including adjustments in accordance with new IFRS accounting standards (see Notes)

Changes in Outstanding Shares

(each share has a nominal value of CHF 0.05)	Issued shares	Treasury shares	Outstanding shares
Balance April 1, 2004	**65,462,200**	**(141,712)**	**65,320,488**
Issue of new shares from conditional capital	92,500	0	92,500
Sale of treasury shares	0	141,712	141,712
Balance September 30, 2004	**65,554,700**	**0**	**65,554,700**
Balance April 1, 2005	**66,022,400**	**(7,700)**	**66,014,700**
Issue of new shares from conditional capital	179,800	0	179,800
Purchase of treasury shares	0	(125,170)	(125,170)
Sale of treasury shares	0	130,224	130,224
Balance September 30, 2005	**66,202,200**	**(2,646)**	**66,199,554**

Segment Information

April to September (CHF 1,000)	Europe 2005	Europe 2004	North America 2005	North America 2004
Income statement based on location of assets				
Sales				
Third parties	194,671	161,843	179,676	144,688
Intersegment sales	206,487	115,826	17,117	11,164
Total sales	**401,158**	**277,669**	**196,793**	**155,852**
Operating profit / (loss) (EBIT)	**125,502**	**62,993**	**17,363**	**17,953**
Financial income / (expense), net				
Share of gain / (loss) in associate / joint venture	162	(373)		
Income before taxes				
Taxes				
Income after taxes				
Total assets [1]	**820,209**	**704,494**	**432,504**	**375,245**
Total liabilities [1]	**364,663**	**323,543**	**232,366**	**210,127**
Capital expenditure in tangible and intangible assets	11,267	7,551	2,960	1,861
Depreciation and amortization on tangible and intangible assets	8,796	8,765	3,642	2,421
Third party sales based on location of customers	**181,733**	**148,498**	**175,624**	**137,837**
Growth in local currencies	22.0%		28.5%	

1) "Others" include only unallocated corporate assets and liabilities

Asia / Pacific		Others		Eliminations		Total	
2005	2004	2005	2004	2005	2004	2005	2004
24,886	18,501					399,233	325,032
32,893	10,823			(256,497)	(137,813)	0	0
57,779	**29,324**			**(256,497)**	**(137,813)**	**399,233**	**325,032**
2,218	**(1,845)**			**(49,666)**	**(24,029)**	**95,417**	**55,072**
						2,856	(771)
						162	(373)
						98,435	**53,928**
						(22,049)	(13,247)
						76,386	**40,681**
56,794	**36,089**	**122,912**	**120,936**	**(650,119)**	**(537,740)**	**782,300**	**699,024**
51,022	**32,769**	**41,169**	**110,520**	**(429,537)**	**(367,679)**	**259,683**	**309,280**
1,776	950					16,003	10,362
601	430					13,039	11,616
34,792	**29,210**	**7,084**	**9,487**			**399,233**	**325,032**
15.4%		(26.8%)				22.8%	

Notes to the Interim Consolidated Financial Statements

1. Basis of preparation of the consolidated financial statements

These unaudited financial statements are the interim consolidated financial statements of Phonak Holding Ltd. and its subsidiaries for the six-month period ended September 30, 2005. These financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) on Interim Financial Reporting, IAS 34 and should be read in conjunction with the consolidated financial statements for the year ended March 31, 2005.

With the exception of the changes listed below, the accounting principles applied to and the presentation of these interim consolidated financial statements are unchanged from those of the consolidated financial statements for the year ended March 31, 2005.

The International Accounting Standard Board (IASB) issued a revised version of IAS 32 "Financial Instruments: Disclosure and Presentation", a revised version of IAS 39 "Financial Instruments: Recognition and Measurement" and a general revision of its International Accounting Standards (IAS) which included revisions of 14 existing standards in 2003. In 2004 the IASB published the standards IFRS 2 "Share based payment", IFRS 3 "Business Combinations", IFRS 4 "Insurance Contracts", IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", revised versions of IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets" and further additions to IAS 39.

The Phonak Group has applied these standards from April 1, 2005, with the exception of IFRS 3, IAS 36 (revised) and IAS 38 (revised) which had already been applied in financial year 2004/05.

The effects of these changes on the interim consolidated financial statements of the Phonak Group are presented below:

IFRS 2: Share based payment
The adoption of this new standard resulted in a change in the accounting policy for share and option plans to employees. Until March 31, 2005, no cost related to the fair value of the options of the employee option plans was expensed. In addition to other requirements, the new standard requires that the fair value of the options issued be calculated on the issuance date and be charged over the vesting period to the respective income statement position. The effects of the introduction of IFRS 2 for the six-month reporting period 2005/06 can be summarised as follows: cost of sales CHF 0.1 million (half-year 2004/05 CHF 0.1 million), research and development CHF 0.2 million (half-year 2004/05 CHF 0.1 million), marketing and sales CHF 0.3 million (half-year 2004/05 CHF 0.2 million), administration and general overheads CHF 1.7 million (half-year 2004/05 CHF 0.5 million). Net income, earnings per share and equity have been restated accordingly.

The Phonak Group has assessed the impact of the other revised and newly applicable standards, and has concluded that they have no significant effect on the consolidated 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.

The Phonak Group is involved in the development, manufacture, distribution and service 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 no material seasonal or cyclical variations in total sales are experienced during the financial year. The ultimate parent company is Phonak Holding Ltd., a limited liability company incorporated in Switzerland. Phonak Holding Ltd.'s registered office is located at Laubisrütistrasse 28, CH-8712 Stäfa, Switzerland.

2. Changes in the Group structure

There have been no major changes in the Group structure except for a few smaller acquisitions and the repurchase of the minorities of a subsidiary.

3. Segment information

The Group is active in one business segment: the development, manufacture, distribution and service of hearing instruments and related products. The primary segment information is presented according to geographical regions based on location of assets. This corresponds to the organizational structure. Transactions between segments are generally conducted at market rates (refer to pages 14/15, table).

4. Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing the income after taxes attributable to the ordinary equity holders of the parent company by the weighted average number of shares outstanding during the year.

	2005	2004
Income after taxes[1)] (in 1,000 CHF)	75,984	40,282
Weighted average number of outstanding shares	66,065,154	65,414,067
Basic earnings per share (in CHF)	1.150	0.616

1) Attributable to equity holders of the parent

Diluted earnings per share

In the case of diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming all outstanding dilutive options will be exercised. The weighted average number of shares is adjusted for all dilutive options issued under the stock option plans which have been granted in 2003, 2004 and 2005 and which have not yet been exercised. Antidilutive options have not been considered. The calculation of diluted earnings per share is based on the same income after taxes for the period as is used in calculating basic earnings per share.

	2005	2004
Income after taxes[1)] (in 1,000 CHF)	75,984	40,282
Adjusted weighted average number of outstanding shares	66,681,449	66,181,626
Diluted earnings per share (in CHF)	1.140	0.609

1) Attributable to equity holders of the parent

5. Contingencies

There have been no material changes in contingent liabilities since March 31, 2005.

6. Changes in shareholders' equity

The annual general shareholders' meeting resolved a distribution of a gross dividend of CHF 0.30 per registered share for the financial year 2004/05. The dividend was paid in July 2005 to all shares outstanding, excluding treasury shares (refer to page 13, table).

7. Subsequent events

In October 2005, the Group has acquired a controlling interest in CAS Produtos Médicos Ltda., the current market leader for distribution of hearing instruments in Brazil. CAS has been operating in the Brazilian market for over 30 years and has a market share of approximately 15%.

The initial price is CHF 13 million and, over a five year period, may increase by roughly the same amount, if the company performs according to business targets. This investment will add around CHF 20 million annually to the Group's consolidated revenues, while profitability is comparable to the other operations within Phonak.

Investor Relations Calendar

June 2006
Annual Report per March 31, 2006
Presentation to Media and Financial Analysts

July 6, 2006
Annual General Shareholders' Meeting of Phonak Holding AG

November 2006
Interim Report per September 30, 2006

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The Interim Report is also available in German.
The English version is the governing text.

PHONAK
hearing systems