PHONAK GROUP

Interim Report per September 30, 2006

THE WORLD OF SOUND

HIGHLIGHTS

Sales increase by 29.0% to CHF 504.2 million (whereof 15.6% organic, 12.7% from acquisitions, 0.7% from currencies)

EBITA margin improves to 25.1% (prior year 24.8%)

Income after taxes grows by 32.0% to CHF 102.2 million

Phonak organic sales growth of 15.6% clearly exceeds hearing instrument market growth

EUHA – Savia Art of Phonak again sets the benchmark in the hearing instrument industry

Hear the World – Plácido Domingo and the Vienna Philharmonic Orchestra support Phonak in raising the awareness of people around the world about the importance of hearing

Announcement of agreement with GN Store Nord A/S to acquire ReSound Group

In 2006/07 several new, highly competitive hearing systems have been launched: Savia Art, microPower, Verve Steinway Edition, Indigo, and Element

Outlook for financial year 2006/07:
Continuous strong organic sales growth and further improvement of the EBITA margin. Due to the strong comparison base of the second half of 2005/06, sales growth will be lower in the second half of 2006/07

DEAR PHONAK SHAREHOLDER

The Phonak Group got off to a strong start to the financial year 2006/07, posting a half-year result that exceeded our expectations. Both sales and profit rose to record highs. For the first time in the company's history, our six-month sales figures broke through the CHF 500 million mark. Revenues rose 29% year-on-year to reach CHF 504 million. Organic growth in local currencies was 16%. Apart from Savia, the main contributors to this dynamic performance were the new hearing systems Eleva, microPower, and eXtra. Our wireless communication systems also posted strong sales growth. Operating profit before acquisition-related amortization (EBITA) rose 31% to CHF 127 million, which corresponds to an EBITA margin of 25%. Phonak's income after taxes rose 32% to CHF 102 million, which is more than we earned in the entire 2004/05 financial year.

The highlight of the current financial year has undoubtedly been the announcement of an agreement to purchase Denmark's ReSound Group, one of the world's leading producers of hearing instruments. We strongly believe that this acquisition is an important milestone in securing the long-term success of the Phonak Group and creates significant added value for all stakeholders. The combined Group will be able to call on unprecedented research and development capabilities and marketing resources. This acquisition will take us one step closer to realizing our vision of actively exploiting the untapped potential of the hearing instruments market in favor of hearing impaired people. Until the deal closes, which we expect to happen in the first half of 2007, Phonak will use the remaining time to make suitable preparations so that the new combined Group has a good headstart.

The Phonak Group is in excellent shape and our decision to optimize our organizational and management structures has certainly paid off. Our unique "people value" culture has been an important prerequisite for the rapid expansion of the Phonak Group and lies at the heart of our innovation drive. We demonstrated our innovation power with a series of new products presented at the recent International Congress of Hearing Aid Acousticians (EUHA) in October 2006. Savia Art is another masterpiece of hearing performance that sets the benchmark in the industry. An unrivalled palette of world-first features such as SoundRelax, Self Learning and NoWhistle Technology provide Savia Art hearing systems with a level of natural intelligence that allows the hearing device to be fully personalized to the user's hearing and lifestyle preferences.

Phonak wants to raise public awareness about the importance of hearing and the solutions available for those with hearing impairment. In October, Phonak successfully launched the global initiative "Hear the World". World-famous musicians such as Plácido Domingo and the Vienna Philharmonic Orchestra are supporting this initiative, which is designed to draw attention to the importance of hearing and the emotional effects and social consequences of hearing loss. The new product line Verve Steinway Edition, developed under a co-branding agreement with the world-famous concert piano maker Steinway & Sons, is a unique product and service concept to draw people's attention to the theme of "better hearing" and to overcome traditional prejudices against hearing instruments.

In recent years the Phonak Group has continued to strengthen 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 loyal employees, customers, suppliers, partners, and shareholders for playing their part in our success story.

Andy Rihs
Chairman of the
Board of Directors

Dr. Valentin Chapero Rueda
CEO

Savia Art™ – the masterpiece of hearing performance

Savia Art is the hearing system with the most innovative solutions designed to improve your quality of life.

- More hearing in more environments, automatically – the equivalent of 6 hearing instruments in one.
- Added intelligence, unprecedented convenience – Savia Art learns and integrates your volume preferences.

Savia Art is your personalized masterpiece and meets the highest expectations for authentic sound quality and versatile functionality.

www.phonak.com
More about hearing: www.hear-it.org

PHONAK
hearing systems

FINANCIAL RESULTS

Adjustments to prior-year financial figures
In the current financial year the Phonak Group has applied for the first time the option of IAS 19 § 93 A ss. whereby actuarial gains and losses from defined benefit plans are recognized directly in equity. The revised standard requires retrospective application. For further details, refer to Note 2 on page 16 of this report. In addition, as described in the Annual Report 2005/06, the Group made certain presentational changes regarding the disclosure of sales-related costs and the reclassification of vacation pay as well as bonus and incentive compensation from provisions to accrued expenses. These changes have been included in the Interim Report 2006/07 and the comparatives have been restated accordingly.

Sales

In the first half of 2006/07, the Phonak Group generated sales of CHF 504.2 million. Compared to the first half of the last financial year, this corresponds to a growth of 29.0%, including a contribution of 12.7% from acquisitions. The sales growth in local currencies and excluding the effects of acquisitions was 15.6%. During the reporting period there was only a marginal currency effect of 0.7%.

Sales growth was driven mainly by the dynamic performance of our new product lines Eleva, microPower, and eXtra. But our Savia product family also continued to grow, and even two years after its launch retains its status as the benchmark product in the hearing instrument industry. Other important contributions to sales growth came from our wireless communication systems and the Unitron Hearing brand, although the latter grew less rapidly than the Group as a whole. The external growth was driven in part by the baseline effects of business interests taken over during the second half of the last financial year, including CAS Produtos Médicos Ltda., as well as acquisitions made at the start of this financial year such as Island Hearing in Canada.

In the first half of 2006/07, our product mix (the share of first, business, and economy class hearing systems sales of total sales) was much more balanced than in the comparable period last year. The strategic measures to expand our market share in the economy segment are definitely starting to make an impact. The accelerated growth in the economy and business class segment meant that the proportion of total sales contributed by the first class segment decreased to 31% (previous year 36%). The business segment maintained its share of total sales of 20%, thanks to the strong performance of Eleva and microPower. The economy segment expanded its share to 29% of total sales (previous year 24%), mainly thanks to its successful product line eXtra and consistently strong sales of MAXX and Unison. Wireless communication systems are important additions to Phonak Group's hearing instrument product lines and accounted for a nearly unchanged share of total sales of 7% (previous year 8%).

Gross profit

The measures taken to further increase margins were very successful. In the first half of 2006/07, gross profit rose 32.8% to CHF 342.8 million (previous year CHF 258.2 million). In percentage of sales, this corresponds to an increase from 66.0% to 68.0%. The improvement in gross profit was due to efficiency gains from higher production volumes, cost savings on materials purchasing, and a higher proportion of value added from our Chinese production facilities.

Operating profit before acquisition-related amortization (EBITA)

The Phonak Group managed to increase its operating profit before acquisition-related amortization (EBITA) by 30.7% to CHF 126.6 million (previous year CHF 96.9 million). The EBITA margin rose to 25.1% (previous year 24.8%). Spending on research and development (R&D) increased during the reporting period to CHF 33.4 million. Because of the strong revenue growth and the scalability of our modular hardware and software development platform PALIO, R&D expenses as a percentage of sales only came to 6.6%, well below last year's figure of 7.8%. As planned, we significantly increased spending on sales and marketing to CHF 137.8 million. These costs equate to 27.3% of sales (previous year 21.9%) and are attributable to the ongoing expansion of our global distribution structures. General and administration expenses rose 7.4% to CHF 46.8 million as a result of the Group's growth (organic and acquisition-related) and the further expansion of our IT infrastructure and systems. As a percentage of sales, general and administration expenses decreased from 11.2% in the prior year to 9.3%.

Income after taxes

In the first half of 2006/07, financial expenses grew to CHF 2.3 million (previous year CHF 0.9 million). This increase is substantially driven by the effect of discounting the expected, future, acquisition-related earn-out payments to their present value. Tax expenses as a percentage of income before taxes decreased from 22.4% in the prior year to 17.7% due to a change in the country mix of the taxable profits. Consolidated income after taxes rose 32.0% to CHF 102.2 million (previous year CHF 77.4 million). On a diluted basis, earnings per share therefore increased 30.8% over the previous year, to CHF 1.51. Excluding the acquisition-related amortization of intangibles, cash-based earnings per share on a diluted basis rose 32.3% to CHF 1.53.

Balance sheet structure

Capital employed has increased by 23.2% to CHF 501.0 million. This increase was mainly in working capital due to the growth of our business activities. Capital employed also increased due to the expansion of our global distribution network and the slight weakening of the Swiss franc against the major currencies. The average payment period for clients to settle their invoices ("days sales outstanding") remained stable compared with last year, while trade receivables and inventories rose in line with sales. Net cash as of September 30, 2006 reached CHF 179.6 million, compared with CHF 114.5 million as of September 30, 2005. The equity financing ratio (equity in % of total assets) rose slightly from 66.8% last year to 66.9% this year.

Cash flow

In the first half of 2006/07, cash flow before changes in net working capital rose to CHF 136.5 million, 19.1% up on the prior-year period. This rise was attributable to the higher income before taxes adding back non-cash items, such as amortization. The free cash flow, which also takes into consideration the changes in net working capital and investing activities, rose 39.8% to CHF 62.8 million (previous year CHF 44.9 million). This increase can be explained on the one hand by the higher income before taxes (CHF 124.1 million, compared to CHF 99.7 million last year), and on the other hand by the lower cash outflow from net working capital (CHF 16.6 million, compared to CHF 48.9 million last year). The higher cash outflow from investing activities is primarily driven by the acquisitions (CHF 36.9 million), which were substantially higher than in the prior-year period (CHF 5.0 million). The free cash flow was mainly used for repayments of borrowings and mortgages (CHF 26.0 million) and dividend payments to shareholders (CHF 33.2 million). Taking all items on the consolidated cash flow statement into consideration, cash and cash equivalents decreased by CHF 4.5 million to CHF 175.1 million since April 1, 2006.

Agreement to purchase the ReSound Group

On October 2, 2006 the Phonak Group announced its agreement with GN Store Nord A/S of Denmark to acquire ReSound Group, one of the world's leading producers of hearing instruments. We are confident that this transaction creates value for all stakeholders and will make a significant contribution to Phonak's long-term success. Subject to the approval of the competition authorities, the deal should be closed in the first half of 2007. The total consideration for the acquisition is DKK 15.5 billion in cash (approximately CHF 3.3 billion), subject to an adjustment based on net debt and working capital on the closing date. The transaction is to be financed through an underwritten senior credit facility of CHF 1.5 billion and an equity offering with pre-emption rights for existing shareholders of approximately CHF 1.8 billion. A syndicate of banks has committed to provide a customary underwriting of the rights issue and is underwriting the syndicated credit facility. The founders of the Phonak Group have already committed to vote in favor of the share capital increase at a specially convened EGM. The full details and the potential financial consequences of this transaction will be set out in an issue prospectus available prior to the EGM.

Changes to the Management Board

At Group level, the Board of Directors has decided to simplify the company's management structure as of November 2006 and to abolish the distinction between the Management Board and the more extended Group Executive Team (GET). As of November 2006 the Management Board was expanded to include:

Hans Leysieffer VP Research & Development, GET member since October 2003
Sarah Kreienbühl VP Corporate Human Resources, GET member since August 2004
Cameron Hay President and CEO of Unitron Hearing, GET member since January 2005
Ignacio Martinez VP International Sales, GET member since January 2005
Alexander Zschokke VP Marketing, GET member since July 2006

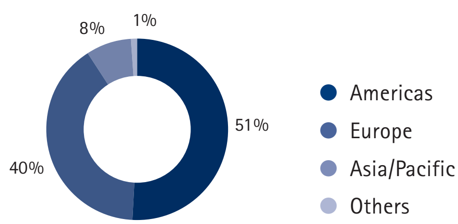
Full details of the members of Phonak's Management Board can be found on the Phonak website under www.phonak.com/company/profile/organisation.htm. The new members named above retain their current functions and have been given additional coordination functions at Group level by the Board of Directors. They have also been given an advisory role in defining the Group's business strategy.

Outlook for the financial year 2006/07

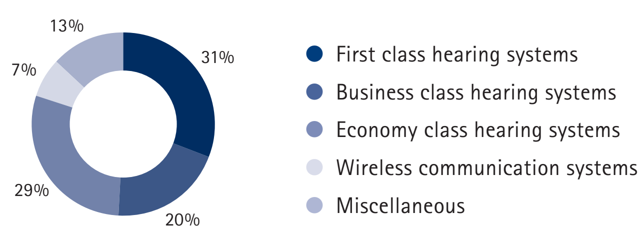
Phonak has one of the most competitive product portfolios in the hearing instrument industry and can rely on a full product pipeline. Based on current market conditions, without taking into account the effects of the planned integration of the ReSound Group, and barring unforeseen events, we forecast a continuous strong organic sales growth and a further improvement of the EBITA margin for the financial year 2006/07. Due to the strong comparison base of the second half of 2005/06, year-on-year sales growth will be lower in the second half of 2006/07. However, we expect to be able to continue to grow faster than the market during the second half of 2006/07.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Share of sales by main markets first half of 2006/07



Share of sales by product groups first half of 2006/07



Key Figures

April to September, 1,000 CHF unless otherwise specified	2006	2005[1]
Sales	**504,211**	**390,935**
change compared to previous year (%)	29.0	23.5
Gross profit	**342,816**	**258,150**
change compared to previous year (%)	32.8	31.5
in % of sales	68.0	66.0
Research & development costs	**33,391**	**30,335**
in % of sales	6.6	7.8
Sales & marketing costs	**137,786**	**85,796**
in % of sales	27.3	21.9
Operating profit before acquisition-related amortization (EBITA)	**126,621**	**96,863**
change compared to previous year (%)	30.7	75.9
in % of sales	25.1	24.8
Operating profit (EBIT)	**124,491**	**96,668**
change compared to previous year (%)	28.8	75.5
in % of sales	24.7	24.7
Income after taxes	**102,159**	**77,388**
change compared to previous year (%)	32.0	90.2
in % of sales	20.3	19.8
Number of employees (average)	**3,708**	**2,984**
change compared to previous year (%)	24.3	9.2
Number of employees (end of period)	**3,758**	**3,057**
change compared to previous year (%)	22.9	11.4
Net cash [2]	**179,603**	**114,533**
Net working capital [3]	**116,956**	**113,689**
in % of sales	23.2	29.1
Capital expenditure (tangible and intangible assets) [4]	**14,364**	**16,003**
Capital employed [5]	**501,003**	**406,575**
in % of sales	99.4	104.0
Total assets	**1,016,607**	**780,416**
Equity	**680,606**	**521,108**
Equity financing ratio (%) [6]	**66.9**	**66.8**
Free cash flow [7]	**62,765**	**44,911**
in % of sales	12.4	11.5
Return on capital employed (%) [8]	**26.3**	**25.4**
Return on equity (%) [9]	**15.7**	**16.0**
Basic earnings per share (CHF)	1.533	1.165
Diluted earnings per share (CHF)	1.510	1.154
Cash-based diluted earnings per share (CHF) [10]	1.531	1.157

[1] Including adjustments in accordance with revised IFRS accounting standards and improvements of the presentation of financial statements (see Notes)
[2] Cash and cash equivalents + financial assets at fair value through profit or loss – short-term debts
– financial liabilities at fair value through profit or loss and other financial liabilities – mortgages – other long-term debts
[3] Receivables + inventories – trade payables – other short-term liabilities – taxes payable – short-term provisions
[4] Without goodwill and acquisition-related intangibles
[5] Total assets – cash and cash equivalents – financial assets at fair value through profit or loss – trade payables – other liabilities – provisions – deferred tax liabilities
[6] Equity in % of total assets
[7] Cash flow from operating activities + cash flow from investing activities
[8] EBIT in % of capital employed (average)
[9] Income after taxes in % of equity (average)
[10] Excludes the amortization of acquisition-related intangibles, net of tax

Consolidated Income Statement

April to September, 1,000 CHF unless otherwise specified	2006	2005[1]
Sales	**504,211**	**390,935**
Cost of sales	(161,395)	(132,785)
Gross profit	**342,816**	**258,150**
Research and development	(33,391)	(30,335)
Sales and marketing	(137,786)	(85,796)
General and administration	(46,818)	(43,592)
Other income/(expense), net	1,800	(1,564)
Operating profit before acquisition-related amortization (EBITA) [2]	**126,621**	**96,863**
Acquisition-related amortization	(2,130)	(195)
Operating profit (EBIT) [3]	**124,491**	**96,668**
Financial income	2,579	3,709
Financial expenses	(2,256)	(853)
Share of (loss)/gain in associates/joint ventures	(693)	162
Income before taxes	**124,121**	**99,686**
Income taxes	(21,962)	(22,298)
Income after taxes	**102,159**	**77,388**
Attributable to		
Equity holders of the parent	101,617	76,979
Minority interests	542	409
Basic earnings per share (CHF)	1.533	1.165
Diluted earnings per share (CHF)	1.510	1.154

[1] Including adjustments in accordance with revised IFRS accounting standards and improvements of the presentation of financial statements (see Notes)
[2] Earnings before acquisition-related amortization, interest, share of gain/(loss) in associates/joint ventures and taxes
[3] Earnings before interest, share of gain/(loss) in associates/joint ventures and taxes
The Notes are an integral part of the interim consolidated financial statements

Consolidated Balance Sheet

Assets			
1,000 CHF	**30.9.2006**	**31.3.2006**[1]	**30.9.2005**[1]
Cash and cash equivalents	175,079	179,549	152,956
Financial assets at fair value through profit or loss	12,243	12,762	14,713
Trade receivables	198,196	194,330	155,592
Other receivables and prepaid expenses	49,026	45,542	27,316
Inventories	92,622	94,244	99,599
Total current assets	**527,166**	**526,427**	**450,176**
Tangible assets	119,083	117,255	116,533
Intangible assets	273,595	208,379	152,775
Investments in associates/joint ventures	6,035	4,064	4,169
Other investments and long-term loans	20,168	12,854	8,568
Deferred tax assets	70,560	59,146	48,195
Total non-current assets	**489,441**	**401,698**	**330,240**
Total assets	**1,016,607**	**928,125**	**780,416**

Liabilities and equity			
1,000 CHF	**30.9.2006**	**31.3.2006**[1]	**30.9.2005**[1]
Short-term debts	207	12,253	24,957
Trade payables	33,002	37,562	23,229
Taxes payable	39,327	40,945	26,568
Financial liabilities at fair value through profit or loss and other financial liabilities	7,109	1,649	5,354
Other short-term liabilities	100,695	91,948	85,144
Short-term provisions	49,864	37,795	33,877
Total current liabilities	**230,204**	**222,152**	**199,129**
Mortgages	368	377	11,392
Other long-term debts	35	98	11,433
Long-term provisions	49,943	40,841	15,635
Other long-term liabilities	6,612	8,710	5,037
Deferred tax liabilities	48,839	31,425	16,682
Total non-current liabilities	**105,797**	**81,451**	**60,179**
Total liabilities	**336,001**	**303,603**	**259,308**
Share capital	3,319	3,318	3,310
Share premium	152,921	154,042	148,015
Treasury shares	(2,836)	(2,183)	(127)
Retained earnings	524,597	467,131	368,503
Equity attributable to equity holders of the parent	**678,001**	**622,308**	**519,701**
Minority interests	2,605	2,214	1,407
Equity	**680,606**	**624,522**	**521,108**
Total liabilities and equity	**1,016,607**	**928,125**	**780,416**

[1] Including adjustments in accordance with revised IFRS accounting standards and improvements of the presentation of financial statements (see Notes)
The Notes are an integral part of the interim consolidated financial statements

Consolidated Statement of Cash Flows

April to September, 1,000 CHF		2006		2005[1]
Income before taxes		**124,121**		**99,686**
Depreciation of tangible assets	10,397		11,489	
Amortization of intangible assets	4,001		1,550	
Gain on sale of tangible and intangible assets, net	(108)		(1,297)	
Share of loss/(gain) in associates/joint ventures	693		(162)	
(Decrease)/increase in other long-term provisions	(7,516)		1,961	
Financial expenses, net	(323)		(1,636)	
Unrealized exchange differences	827		734	
Other non-cash items	4,418	12,389	2,281	14,920
Cash flow before changes in net working capital		**136,510**		**114,606**
Increase in trade receivables	(3,102)		(12,057)	
Increase in other receivables and prepaid expenses	(2,930)		(6,679)	
Decrease/(increase) in inventories	1,682		(8,583)	
Decrease in trade payables	(5,557)		(7,776)	
Increase in other short-term payables, accruals and short-term provisions	18,990		6,043	
Income taxes paid	(25,650)	(16,567)	(19,825)	(48,877)
Cash flow from operating activities		**119,943**		**65,729**
Purchase of tangible and intangible assets	(14,364)		(16,003)	
Proceeds from sale of tangible assets	569		1,565	
Cash consideration for acquisitions, net of cash acquired	(36,934)		(5,002)	
Purchase of financial assets at fair value through profit or loss			(1,024)	
Sale of financial assets at fair value through profit or loss	434		319	
Increase in other investments and long-term loans	(8,516)		(1,831)	
Interest received and realized gain from financial assets at fair value through profit or loss	1,633		1,158	
Cash flow from investing activities		**(57,178)**		**(20,818)**
Free cash flow[2]		**62,765**		**44,911**
Repayments of borrowings and mortgages	(25,973)		(42,660)	
Proceeds from capital increases	566		2,630	
Sale of treasury shares	3,292		1,070	
Purchase of treasury shares	(10,028)		(5,903)	
Dividend paid by Phonak Holding AG	(33,165)		(19,841)	
Dividend paid to minorities	(134)		(136)	
Interest paid	(344)		(610)	
(Payments for)/proceeds from foreign exchange contracts			(1,985)	
Cash flow from financing activities		**(65,786)**		**(67,435)**
Currency translation differences		(1,449)		2,237
Decrease in cash and cash equivalents		**(4,470)**		**(20,287)**
Cash and cash equivalents at April 1		179,549		173,243
Cash and cash equivalents at September 30		**175,079**		**152,956**

[1] Including adjustments in accordance with revised IFRS accounting standards and improvements of the presentation of financial statements (see Notes)
[2] Cash flow from operating activities + cash flow from investing activities
The Notes are an integral part of the interim consolidated financial statements

Statement of Recognized Income and Expenses

April to September, 1,000 CHF	2006	2005[1]
Consolidated income after taxes (as reported)	**102,159**	**76,386**
Effect of adopting IAS 19 (revised)[1]		1,002
Consolidated income after taxes (restated)	**102,159**	**77,388**
Fair value adjustments on cash flow hedges	(4,236)	
Currency translation differences	(6,767)	15,626
Income and expenses directly recognized in equity	**(11,003)**	**15,626**
Total income and expenses recognized in equity	**91,156**	**93,014**
Attributable to		
Equity holders of the parent	90,631	92,607
Minority interests	525	407

[1] Adjustments following the first application of the option of IAS 19 § 93 A ss.
The Notes are an integral part of the interim consolidated financial statements

Notes to the Interim Consolidated Financial Statements per September 30, 2006

1. Corporate information

The Phonak Group (the "Group") specializes in the development, manufacture, and distribution of technologically advanced hearing systems for adults and children with hearing impairment. The Group operates worldwide and distributes its products in over 70 countries through its own distribution network and through independent distributors. 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 AG, a limited liability company incorporated in Switzerland. Phonak Holding AG's registered office is located at Laubisrütistrasse 28, CH-8712 Stäfa, Switzerland.

2. Basis of preparation of the consolidated financial statements

These unaudited financial statements are the interim consolidated financial statements of Phonak Holding AG and its subsidiaries for the six-month period ended September 30, 2006. These financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the consolidated financial statements for the year ended March 31, 2006.

With the exception of the change 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, 2006.

Amendment to IAS 19: "Employee benefits"
In the current financial year the Phonak Group has applied for the first time the option of IAS 19 § 93A ss. whereby actuarial gains and losses from defined benefit plans are recognized directly in equity. Until March 31, 2006, actuarial gains and losses were recognized over the average remaining service periods of employees participating in these plans as income or expense when the cumulative unrecognized gains or losses for each individual plan exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets.

The revised standard requires retrospective application. The effects of the application can be summarized as follows:

As of April 1, 2005 retirement benefit assets decreased by CHF 3.1 million, whereas the related deferred tax liability decreased by CHF 0.6 million. Accordingly, these adjustments reduced equity attributable to equity holders of the parent by CHF 2.5 million and minority interests by CHF 0.02 million.

The impact on the half-year results for the period April 1, 2005 to September 30, 2005 has been a CHF 1.3 million increase in EBIT and a CHF 0.3 million increase in taxes. Earnings per share and equity as of September 30, 2005 have been restated accordingly.

The amendment will also lead to expanded disclosures in the consolidated financial statements 2006/07.

As described in the Annual Report 2005/06, the Group made certain presentational changes regarding the disclosure of sales-related costs. In the first half of 2005/06 sales-related costs in the total amount of CHF 12.1 million have been netted with sales in the amount of CHF 8.3 million, and reclassified to cost of sales CHF 1.8 million, sales and marketing CHF 1.1 million, and to general and administration CHF 0.9 million. Furthermore accrued liabilities for vacation pay and for bonus and incentive compensation in the amount of CHF 16.5 million, which were previously disclosed under provisions, have been reclassified to accrued expenses.

The Group is currently assessing the effect of the changes of the new and revised standards that will be effective from January 1, 2007. The Group does not expect that the new and revised standards and interpretations will have a significant effect on the Group's result and financial position, except on disclosure requirements.

The preparation of these interim consolidated financial statements requires management to make assumptions and estimates that affect the amounts reported for assets and liabilities at the date of the financial statements as well as revenue and expenses for the reported interim period. Actual results could differ from these estimates. Income tax expense is recognized based upon the best estimate of the average annual income tax rate expected for the full year.

3. Changes in Group structure

On April 1, 2006 the Group acquired 100% of National Hearing Services Inc., Canada (operating under the name of "Island Hearing"). The company acquired is engaged in the business of providing hearing care solutions to retail customers. In addition, in the first half of 2006/07 the Group acquired 100% of a few smaller companies in North America and Australia engaged in the business of selling hearing instruments.

The assets and liabilities arising from these acquisitions are as follows:

	National Hearing Services Inc.		Others	
	Fair Value	Carrying amount before acquisition	Fair Value	Carrying amount before acquisition
1,000 CHF				
Assets				
Current assets	7,371	7,371	1,786	1,786
Tangible assets	1,478	1,478	386	386
Intangible assets	11,479	11,990	8,126	165
Other non-current assets	1,896	1,659	70	70
Total assets	**22,224**	**22,498**	**10,368**	**2,407**
Liabilities				
Current liabilities	4,246	4,246	2,587	2,587
Other long-term liabilities	17,739	13,977	3,204	135
Total liabilities	**21,985**	**18,223**	**5,791**	**2,722**
Net assets	**239**	**4,275**	**4,577**	**(315)**
Goodwill	28,884		21,013	
Purchase price incl. acquisition-related costs	**29,123**		**25,590**	
For which Phonak recorded a long-term provision for the earn-out or holdback	(3,110)		(10,731)	
Cash consideration	**26,013**		**14,859**	
Cash and cash equivalents acquired	(3,036)		(902)	
Cash consideration, net of cash acquired	**22,977**		**13,957**	

The initial accounting for the acquisitions above was determined provisionally. The results of the final valuation and purchase price allocation are yet outstanding. The fair values assigned to the identifiable assets acquired and liabilities assumed are therefore still subject to changes. The goodwill is attributed mainly to expected synergies from the acquisition, the labor force, and the favorable growth potential.

	National Hearing Services Inc.	Others
1,000 CHF		
Contribution of acquired companies since acquisition		
Sales	14,596	9,001
Net income	527	377
Contribution, if the acquisitions would have occured on April 1, 2006		
Sales	14,596	10,556
Net income	527	89

4. Segment information

Profit or loss based on location of assets	Europe		Americas[3]	
1,000 CHF	**2006**	**2005[1]**	**2006**	**2005[1]**
Sales				
Third parties	217,355	190,625	257,542	175,941
Intersegment sales	189,202	206,487	6,001	17,117
Total sales	**406,557**	**397,112**	**263,543**	**193,058**
Operating profit/(loss) (EBIT)	**152,531**	**126,753**	**(4,164)**	**17,363**
Financial expense, net				
Share of (loss)/gain in associates/joint ventures	(801)	162	108	
Income before taxes				
Taxes				
Income after taxes				
Total assets[2]	**1,093,648**	**818,325**	**602,945**	**432,504**
Total liabilities[2]	**375,960**	**364,288**	**395,166**	**232,366**
Capital expenditure in tangible and intangible assets	7,731	11,267	4,043	2,960
Depreciation and amortization on tangible and intangible assets	7,897	8,796	5,143	3,642
Third party sales based on location of customers	**204,173**	**177,934**	**258,048**	**175,771**
Growth in local currencies	13.4%	22.0%	46.0%	28.5%

[1] Including adjustments in accordance with revised IFRS accounting standards and improvements of the presentation of financial statements (see Notes)
[2] "Others" include only unallocated corporate assets and liabilities
[3] The segment Americas includes North, Central and South America (previous year North America only)
Prior-year figures have been adjusted accordingly

The Group is active in one business segment; the development, manufacture, distribution, and service of hearing systems and related products. The primary segment information is presented according to geographical regions based on location of assets. This corresponds to the organizational structure.

Asia/Pacific		Others		Eliminations		Total	
2006	2005[1]	2006	2005[1]	2006	2005[1]	2006	2005[1]
29,314	24,369					504,211	390,935
36,906	32,893			(232,109)	(256,497)		
66,220	**57,262**			**(232,109)**	**(256,497)**	**504,211**	**390,935**
(1,770)	**2,218**			**(22,106)**	**(49,666)**	**124,491**	**96,668**
						323	2,856
						(693)	162
						124,121	**99,686**
						(21,962)	(22,298)
						102,159	**77,388**
63,592	**56,794**	**65,032**	**122,912**	**(808,610)**	**(650,119)**	**1,016,607**	**780,416**
56,357	**51,022**	**31,413**	**41,169**	**(522,895)**	**(429,537)**	**336,001**	**259,308**
2,590	1,776					14,364	16,003
1,358	601					14,398	13,039
38,712	**33,362**	**3,278**	**3,868**			**504,211**	**390,935**
19.4%	15.4%	(15.4%)	(26.8%)			28.3%	22.8%

5. Earnings per share

Basic earnings per share

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

	2006	2005[2]
Income after taxes (1,000 CHF)[1]	101,617	76,979
Weighted average number of outstanding shares	66,303,688	66,065,154
Basic earnings per share (CHF)	1.533	1.165

[1] Attributable to equity holders of the parent
[2] Adjusted by the effect of first time application of IAS 19 § 93 A ss.

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, 2005, and 2006 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.

	2006	2005[4]
Income after taxes (1,000 CHF)[3]	101,617	76,979
Adjusted weighted average number of outstanding shares	67,308,507	66,708,790
Diluted earnings per share (CHF)	1.510	1.154

[3] Attributable to equity holders of the parent
[4] Adjusted by the effect of first time application of IAS 19 § 93 A ss.

6. Contingencies

There have been no material changes in contingent liabilities since March 31, 2006.

7. Events after the balance sheet date

As of October 2, 2006 the Phonak Group has entered into a share purchase agreement with GN Store Nord A/S of Denmark to buy its subsidiary the ReSound Group for an aggregate consideration of DKK 15.5 billion in cash (CHF 3.3 billion at current exchange rates), subject to an adjustment based on net debt and working capital on the closing date. Phonak has fully hedged the foreign exchange risk of the purchase price consideration.

ReSound Group is a global manufacturer of technologically advanced digital hearing instruments and audiological diagnostics equipment. The Group is based in Copenhagen with an extensive network of subsidiaries and dealers in 60 countries worldwide. ReSound Group's global organization comprised approximately 3,500 employees as per end of 2005 and had annual sales of approximately CHF 650 million and EBITA of approximately CHF 110 million for the year ended December 31, 2005. Further disclosures are currently not available.

The transaction will be financed through an underwritten senior credit facility of CHF 1.5 billion and an equity offering with pre-emption rights for existing shareholders of approximately CHF 1.8 billion. A syndicate of banks has committed to provide a customary underwriting of the rights issue and is underwriting the syndicated credit facility. If for whatever reason the rights issue is not executed by mid-August 2007, GN Store Nord A/S has the right (but not the obligation) to request delivery of newly issued shares in consideration for the ReSound Group at the market price prevailing at the time the capital increase was approved, subject to a maximum number of new shares and certain sales and distribution restrictions.

The acquisition is subject to regulatory clearances. Upon receipt, Phonak will convene an EGM to approve the ordinary share capital increase and the creation of authorized share capital for the event that GN Store Nord A/S requests delivery of new shares.

8. Movements in share capital

The Annual General Shareholders' Meeting of July 6, 2006 resolved a distribution of a gross dividend of CHF 0.50 per registered share for the financial year 2005/06. The dividend was paid in July 2006 to all shares outstanding, excluding treasury shares.

	Issued shares	Treasury shares [2]	Outstanding shares
(each share has a nominal value of CHF 0.05)			
Balance April 1, 2005	**66,022,400**	**(7,700)**	**66,014,700**
Issue of new shares from conditional capital [1]	179,800		179,800
Purchase of treasury shares		(125,170)	(125,170)
Sale of treasury shares		130,224	130,224
Balance September 30, 2005	**66,202,200**	**(2,646)**	**66,199,554**
Balance April 1, 2006	**66,360,925**	**(34,633)**	**66,326,292**
Issue of new shares from conditional capital [1]	14,400		14,400
Purchase of treasury shares		(138,898)	(138,898)
Sale of treasury shares		133,045	133,045
Balance September 30, 2006	**66,375,325**	**(40,486)**	**66,334,839**

[1] Created for purpose of the employee share option plan

[2] Treasury shares are purchased on the open market and are not entitled to dividends. As per September 30, 2006, all treasury shares were at the company's disposal

9. Consolidated changes in equity

	Attributable to equity holders of Phonak Holding AG						
	Share capital	Share premium	Retained earnings	Cumulative translation adjustment	Treasury shares	Minority interests	Total equity
1,000 CHF							
Balance April 1, 2005 (as reported)	**3,301**	**146,578**	**319,925**	**(21,694)**	**(319)**	**1,913**	**449,704**
Effect of adopting IAS 19 (revised) [1)]			(2,494)			(17)	(2,511)
Balance April 1, 2005 (restated)	**3,301**	**146,578**	**317,431**	**(21,694)**	**(319)**	**1,896**	**447,193**
Total income and expenses recognized in equity			**76,979**	**15,628**		**407**	**93,014**
Changes in minorities						(760)	(760)
Capital increase of Phonak Holding AG from conditional capital	9	2,621					2,630
Share based payments		(218)					(218)
Sale of treasury shares		(966)			6,095		5,129
Purchase of treasury shares					(5,903)		(5,903)
Dividend paid by Phonak Holding AG			(19,841)			(136)	(19,977)
Balance September 30, 2005	**3,310**	**148,015**	**374,569**	**(6,066)**	**(127)**	**1,407**	**521,108**
Balance April 1, 2006 (as reported)	**3,318**	**154,042**	**471,532**	**(1,907)**	**(2,183)**	**2,231**	**627,033**
Effect of adopting IAS 19 (revised) [1)]			(2,494)			(17)	(2,511)
Balance April 1, 2006 (restated)	**3,318**	**154,042**	**469,038**	**(1,907)**	**(2,183)**	**2,214**	**624,522**
Total income and expenses recognized in equity			**97,381**	**(6,750)**		**525**	**91,156**
Capital increase of Phonak Holding AG from conditional capital	1	565					566
Share based payments		(892)					(892)
Sale of treasury shares		(794)			9,375		8,581
Purchase of treasury shares					(10,028)		(10,028)
Dividend paid by Phonak Holding AG			(33,165)			(134)	(33,299)
Balance September 30, 2006	**3,319**	**152,921**	**533,254**	**(8,657)**	**(2,836)**	**2,605**	**680,606**

[1)] Adjustments following the first application of the option of IAS 19 § 93 A ss.

Investor Relations Calendar

June 2007
Annual Report per March 31, 2007
Presentation to Media and Financial Analysts

July 2007
Annual General Shareholders' Meeting of Phonak Holding AG

November 2007
Interim Report per September 30, 2007
Presentation to Media and Financial Analysts

PHONAK GROUP

Phonak Holding AG
Laubisrütistrasse 28
CH-8712 Stäfa
Phone: +41 44 928 01 01
Fax: +41 44 928 03 90
Internet: www.phonak.com
E-Mail: ir@phonak.com

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

028-0917-02/A&W Printed in Switzerland