


The Art and Science of Better Hearing

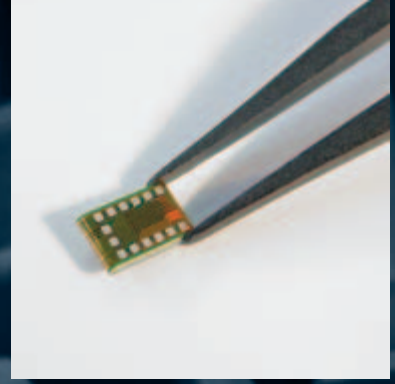
PHONAK
hearing systems

unitronTM
hearing 

A person wearing a white lab coat is shown from the side, standing in a room filled with dark, pyramid-shaped acoustic foam. The person's lab coat has the letters "PH" and "un" visible on it. The scene is lit with a cool blue light, and a bright light source is visible in the upper right corner, creating a lens flare effect.

Art and science:
psychoacoustic research,
the key to leading micro-
technology.

Most advanced digital
signal processor platform
built in 0.13 μ m technology:
the heart piece of
future hearing systems.



HONAK

nitron 
hearing



Shareholder value
builds on people value.



A science company that
builds on the intellectual
capital of its 2,700 staff
members world-wide.

Chairman's Foreword



The 2003/04 financial year was a terrific year that brought Phonak back on the track of success. In addition to the tremendous contribution of our people, under the direction of Valentin Chapero Rueda in his first full financial year as CEO, we have once again seen the importance of new products and the innovation power of the Phonak Group. The strong sales result, primarily of the new products, significantly strengthened the Group's position in the market and confirmed we are a leader in product innovation and in the continuous development and launch of new product offerings.

In this year's annual report, we focus on the Art and Science of Better Hearing. Better hearing – and the improvement it brings to quality of life – is only made possible by the unique combination of high technology and research (the "science") and the craftsmanship, dedication, and development of customer relationships by the employees of the Phonak Group (the "art"). The Group is successful because of this combination – the art and the science – that results in the development of sophisticated and innovative products, a professional and creative marketing approach, a strong and customer-oriented sales network and a team of dedicated, enthusiastic employees.

The financial results for 2003/04 presented in this report are an indication of what is possible when we focus on the art and science of better hearing. Sales reached CHF 637.6 million, which represents organic growth of 18%, excluding the currency impact. Operating profit (EBITA) amounted to a record CHF 103.3 million, which is more than double the prior year! Net profit was CHF 68.9 million, which yields an earnings per share of CHF 1.05. All of this confirms my opening statement: 2003/04 was a terrific year, on which we will build, in order to achieve the number one position in this great industry.

Finally, I would like to thank all of you who contributed to Phonak's success in the last year and will continue to give us their support and confidence.

A handwritten signature in blue ink, which appears to read 'Andy Rihs'. The signature is fluid and cursive, written in a professional style.

Andy Rihs, Chairman of the Board

CEO's Comments



I am very pleased with the 2003/04 financial results. We have achieved a record level of sales, operating profit (EBITA) and net income, and are well on track to reaching our mid-term objectives.

I would also like to comment on the significant improvement we have realized in the gross margin. Last fiscal year, we had a gross margin of 50.7% of sales. This year, our gross margin increased to 57.7% of sales – an improvement of 700 basis points. No doubt, this increase is due to launch of many new products – resulting in a very broad and complete product portfolio under our Phonak and Unitron Hearing brands – and, specifically the success of Phonak's Perseo, a product that the market has confirmed as the leading high-end product.

Looking forward, new products will now be launched on a regular basis and will continue to provide sales growth. Of course, we will also continue to focus on improving the gross margin and will see improvements as we reduce product costs through manufacturing a greater share of the Group's products in China and developing new products on our latest technology platform.

In addition, we will expand our efforts – as we have begun in the past year – in further developing the Group's distribution network. We will invest a portion of the Group's financial resources in developing new sales channels and in expanding our existing sales channels. We believe these investments will lead to sales growth, increased market share and an attractive return in profits.

These financial results were achieved through the focus, hard work and dedication of our employees. I would like to thank each one for their contribution to the Group's success. By way of example, I would like to highlight the hard work and dedication of our employees in the setting up of the Chinese manufacturing operation. At the beginning of the fiscal year, we began the project to open a manufacturing facility in China and, in mid-August, we received our business license to begin operations. Within only seven weeks, we shipped our first products out of the new Chinese facility! Many employees, from different companies within the Group and from different cultures, worked diligently to accomplish this objective with high quality results.

Finally, thank you to our suppliers, our partners, our customers and to our shareholders for their support as we continue to build the Phonak Group.

A handwritten signature in blue ink, appearing to read "Dr. Valentin Chapero Rueda". The signature is stylized and fluid.

Dr. Valentin Chapero Rueda, CEO

Financial Review

By many measures, the 2003/04 financial results of the Phonak Group are very satisfying. The Group has achieved a record level of sales, operating profit (EBITA) and net income. Earnings per share reached CHF 1.05, more than double from the previous year (excluding last year's one-time charge).

On the one hand, these results may be partly attributed to a slight economic recovery in 2003/04 (compared to the prior year) as well as positive growth in the hearing instrument industry, particularly in key markets such as the United States, Germany and France.

On the other hand, these results are more reflective of the internal improvements within the company that has led to a significant number of successful product launches. The Group now benefits from having a complete digital product portfolio – from the high-end to the low-end – under both the Phonak and the Unitron Hearing brands.

Consolidated sales

Consolidated sales for the year reached a new record level of CHF 637.6 million. Compared to the prior year, this represents an increase of 15.8% in reported currency. In local currency, the growth over last year was 18.8%. Therefore, a 3% negative currency effect was realized, mainly due to the weakening of the U.S. dollar, but offset by the stronger Euro.

The growth in sales was primarily a result of the new products launched during the year – Perseo, Conversa, MAXX, Amio and Liaison. In addition, Phonak launched some renewed versions or extensions of existing lines: Supero + and MAXX directional. Sales of new products launched during 2003/04 accounted for 12% of total sales. Sales of new products launched during 2003/04 and 2002/03 accounted for 58% of total sales.

Sales of premium hearing instruments, including Perseo, Claro and Liaison, grew significantly over the

prior year and accounted for 31% (previous year 25%) of total sales in 2003/04. The success of Perseo explains the majority of the increase in sales above the original guidance for the year of CHF 600 million.

Mid-level hearing instruments, including Phonak's Supero and Aero as well as Unitron Hearing's Conversa, accounted for 24% of total sales (previous year 28%). In addition, sales of Supero +, the world's first digital line specifically designed to meet the needs of severe to profound hearing impaired people, developed well.

Sales of hearing instruments in the economy segment also grew significantly over the prior year due to the success of MAXX, Phonak's first digital offering in this class, as well as Unison, Unitron Hearing's entry level digital product line, which was launched two years ago and continues to sell well. These sales accounted for 25% of total sales (previous year 25%).

Sales of wireless FM systems grew over the previous year due mainly to the success of the new MLx synthesized receiver. Sales of all FM systems and remote controls accounted for 7% of total sales (previous year 7%).

Gross profit

Gross profit reached CHF 367.7 million, or 57.7% of sales, compared to 279.1 million, or 50.7% of sales, in the prior year. As announced at the beginning of last fiscal year, gross margin was expected to improve as a result of an improved product mix, coming from an expanded product portfolio, the launch of several premium and mid-level digital products (Perseo, Conversa and Liaison), and the transition from analog product sales to digital product sales in the low-end product segment. The strong sales of Perseo throughout the entire fiscal year have led to an increase in gross margin greater than expected, and management expects this effect to lessen in 2004/05.

Choice of new Phonak product lines.



Perseo™



Supero™+



MAXX™

There was also a slight improvement in gross margin driven by product cost reduction. Specifically, product cost reductions are targeted in two areas. First, manufacturing cost reductions from the Chinese production facility, and second, material cost reductions through supplier negotiations and component rationalization in lower end products. However, the gross margin impact of these initiatives will be more measurable in the mid-term.

Operating profit

Operating profit before goodwill amortization (EBITA) increased to CHF 103.3 million, which is a record level, and 114.5% above last year's result. EBITA is now 16.2% of sales, compared to only 8.7% of sales in the prior year. The increase is due to the higher reported sales and the gross profit improvements mentioned above.

Research and development spending increased, as expected, in 2003/04 to CHF 58.2 million. The increase was due to the timing of major development projects, especially of Palio, the development of a new product hardware platform, which was nearing completion by the end of the fiscal period. The total research and development spending was 9% of sales (also 9% in the previous year), which represents a peak level. In the future, we expect research and development spending in the range of 7 to 8% of sales.

Sales and marketing costs were CHF 126.1 million, up CHF 10 million from the previous year. As a percentage of sales, however, sales and marketing spending has fallen to 19.8% (previous year 21.1%) given that a certain portion of these costs are fixed and do not vary with the sales result.

Administration and general overhead costs, combined with other expenses (net), were CHF 78.2 million and up from the previous year, due to the strengthening of the Group's management team, the investment in IT infrastructure and systems, as well as the investments in creating the Chinese manufacturing facility and the Japanese sales company.

Exchange differences were minimal as the Group's currency exposure to the weak U.S. dollar during 2003/04 was offset partly by the stronger Euro and Canadian dollar.

EBIT is net of depreciation and amortization expense of CHF 32.3 million. Therefore, EBITDA for the period is CHF 127.0 million, compared to CHF 69.3 million in the prior year.

Amortization of goodwill was CHF 8.5 million, or CHF 2 million less than the amount recorded last year due to the effect of the one-time impairment charge taken in 2002/03.

The operating profit after goodwill amortization (EBIT) was CHF 94.7 million, compared to CHF 37.6 million in the prior year (before the one-time impairment charge).

Consolidated net income

Consolidated net income was a CHF 68.9 million, compared to a net loss of CHF 46.9 million in the prior year. Before the one-time impairment charge, the prior year result was a net income of CHF 28.1 million, less than half of this year's result.

Income tax expense increased due to the higher taxable profit and represents approximately 25% of income before taxes (and before amortization of goodwill). Income taxes payable will be substantially less as a portion of the previously reported tax loss carryforwards are utilized.

Choice of new Unitron Hearing product lines.



Cash flows

Net cash flow from operating activities increased to CHF 145.8 million given the net income result, adding back the non-cash items such as depreciation and amortization, as well as the positive changes in working capital items. Cash applied to investing activities totaled CHF 30.5 million during the past year. Of significance is the acquisition of Viennatone, a retail chain in Austria for a purchase price of CHF 5.5 million.

Capital expenditures (investment in property, plant and equipment) were CHF 21.3 million consistent with the prior year, and consumed 14.6% of the cash flow from operating activities. Approximately one-half of capital spending was maintenance in nature, with the balance relating to establishing the new Group companies in Japan and China, investment in IT equipment as well as several key product development projects, including Palio, Chinook and NemoTech.

Free cash flow

Free cash flow (defined as cash flow from operating activities minus investments) increased CHF 86.6 million over last year to CHF 115.3 million. Free cash flow was applied to debt reduction (CHF 28 million according to planned repayment terms) and the payment of a dividend to shareholders (CHF 7.8 million).

Balance sheet

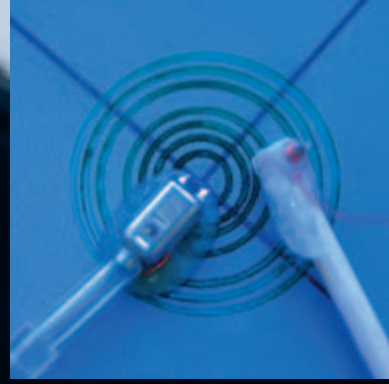
Total assets have increased to CHF 684 million, up from CHF 607 million in the prior year. The major increase comes from cash and short-term investments which have increased by CHF 73 million, due to the strong profit result. Accounts receivable have increased in proportion to the increase in sales reported over the prior year. Inventories have also been reduced by another CHF 6 million over the prior year, despite the sales increase, as we continue to streamline logistics and utilize common components. Deferred tax assets have decreased due to the utilization of tax loss carryforwards and intangible assets have decreased due to the regular amortization of goodwill.

Taxes payable have increased corresponding to the increased profit result over the prior year. Trade payables and other liabilities and provisions have increased by CHF 39 million due to the increased business volume as well as additional provisions for warranty costs, consistent with the sales increase, personnel compensation payable and customer sales rebates. Mortgages and long-term debt were reduced by CHF 28 million due to the regular payments made on the mortgages and the acquisition financing raised in 2000/01.

The net debt (debt less cash and marketable securities of CHF 157.3 million) of the Group has also improved over the prior year. Now the net debt position has become a net cash position of CHF 13.2 million (previous year net debt of CHF 87 million).

The equity financing ratio (equity in % of total assets) has increased to 51% (previous year 48%), reflecting the continued solid financial position of the Phonak Group.

Development of electro-acoustic systems: superb sound quality is the decisive factor for spontaneous acceptance.



New Technologies and Products

The success of the Phonak Group in the past, and during this financial year, confirms the importance of innovation and focus to provide new products that offer end-user benefits and provide sales and profit opportunities. Furthermore, these financial results confirm the benefits to a manufacturer of having a complete range of digital products, as well as a continuous development cycle of new products.

In recent years, the Phonak Group began the task of launching a wide range of new products, particularly to cover the mid-level and entry-level segments. During 2003/04, the Group completed this initiative. Now, the Group offers a wide selection of digital products and can position and price these products to gain market share in segments not possible before. At the same time, the Group continued to develop innovative products in segments in which it has an extraordinary competence: premium high-end digital products, high-power hearing instruments, pediatric instruments and wireless FM systems and remote controls.

Many new products launched in 2003/04

Many new products were again launched in 2003/04. Combined with the new products launched in 2002/03, there have been eight entire new product families launched and several extensions to existing product families. Sales of products launched in the past 24 months account for 58% of the Group's total sales in 2003/04.

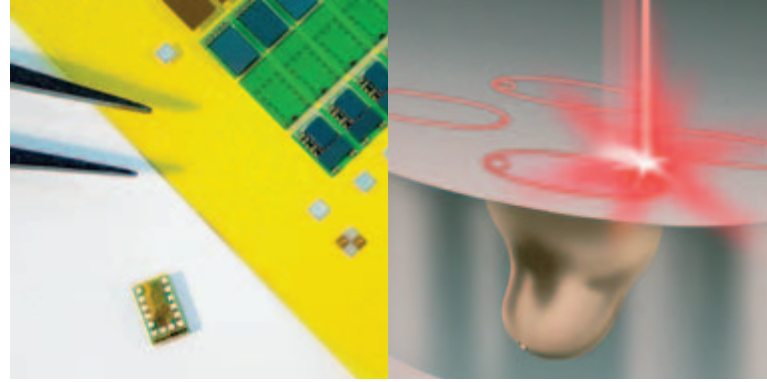
In addition to the very successful launch of Phonak's new premium product line Perseo in March 2003, the following is a summary of the key product launches during the past fiscal year:

- MAXX and Amio, Phonak's new entry level digital products, launched in June 2003;
- Conversa, Unitron Hearing's mid-level digital product line launched in June 2003;
- Supero +, an enhanced version of Phonak's digital high power line, launched in October 2003;
- MAXX directional, which adds directional signal processing to the entry-level product family, launched in October 2003; and
- Liaison, Unitron Hearing's new high-end product line, launched in October 2003.

Within the FM business segment, the Group continued to leverage existing key technology into new applications. With SmartLink, Phonak has achieved another industry first by allowing hearing instrument users to access other communications systems. SmartLink combines a remote control, a transmitter, a directional microphone system and a Bluetooth link to mobile phone all in one single device. Phonak also presented EduLink, an innovative FM device to assist the learning development of children with Auditory Processing Disorder (APD). EduLink was perceived very positively within the medical community and recent classroom tests show favourable results.

Left:
Folded and unfolded Palio hybrid.

Right:
NemoTech allows automating the process
of building shells for ITE products.



Also, during 2003/04, Phonak entered into a cooperation with Cochlear Ltd. to develop implantable hearing technology. Phonak acquired a 25% interest in the newly formed company, Cochlear Acoustics Ltd., in return for granting the company a license to use certain Phonak-owned patents. Although this project is still in the early development stage, the products developed may offer new market opportunities.

Key projects on track

Several key research and development projects, reported on earlier, continue and are on schedule. Palio is the development of the Group's new, state-of-the-art, open and fully programmable hardware platform for hearing instruments. The development is nearing completion and the first products built on this new platform will be introduced in the 2004/05 financial year. The common hardware platform will support a simplified and consistent product design, an accelerated new product development process as well as a streamlined manufacturing process.

Chinook is the project name for the new common fitting software architecture for the Phonak Group. It will be used by Phonak, Unitron Hearing, and may support other brands, each with a unique graphical user interface (GUI). The first version of the Chinook-based fitting software platforms will be launched in the 2004/05 financial year.

NemoTech is the name of the new manufacturing process to design and automatically build custom ITE hearing instruments. This project has been underway for several years, starting in the US. In the past year, the technology was introduced to the European markets. Besides greater efficiency, the new technology also offers additional user benefits by modeling, on the computer screen, the shape of the shell based on aesthetic, acoustic and comfort criteria.

In addition to these projects, the Group has completed a re-engineering of its Research and Development processes in order to meet the business requirement for increased innovation speed, simplified product design and reduced product cost.

More new products launched in 2004/05

As a stated objective, the Group will continue to set the pace for innovative product development in the industry. Already in the first quarter of 2004/05, the Phonak Group has launched the following new products:

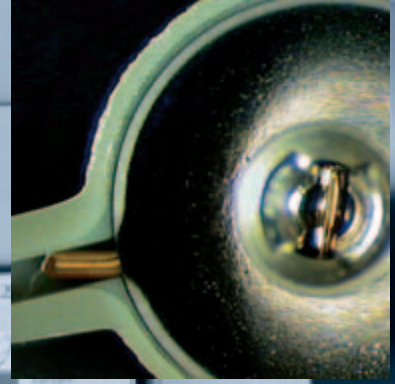
- Valeo, Phonak's new digital product line in the mid-level segment;
- PowerMAXX, an extension to the popular MAXX entry-level product line by Phonak, which is the world's most powerful miniature digital hearing instrument; and
- Unison Plus, Unitron Hearing's new entry level digital line, expanding on the success of Unison.

Finally, throughout 2004/05, more new products will be launched, including another premium high-end digital product which will be based on the new Palio hardware platform.



• Zu 100% fertiggestellt
• Teil 01/0002 wird eingearbeitet

Small, smaller: 10 times
enlarged electro-mechanical
toggle switch.



Another key discipline:
high precision micro-
mechanics mastered
by Phonak's engineers
and designers.

Markets

General market development

Overall, unit sales in the global market recovered to a moderate growth level in 2003. In the first half of 2003, the overall market remained flat, yet several key markets, such as the United States and France, showed positive growth. Germany had significant year over year market growth, where planned changes in the reimbursement system in 2004 led to increased purchases in 2003.

In 2004/05, we expect a market growth rate of 2-3% in units, plus an additional 1-2% coming from increased average selling prices. Increased average selling prices can be achieved as digital products replace analog products and from new technology improvements in premium products.

Above whatever market growth rates are seen in the short-term, the Phonak Group will experience above market growth due to:

- having a complete product range under multiple brands;
- increasing its market share in In-the-Ear (ITE) products;
- increasing its share of business with key accounts; and
- expanding its distribution channels in developed and developing countries.

Group sales by product type

Traditionally, Phonak and Unitron Hearing have occupied strong positions in Behind-the-Ear (BTE) instruments; however, the Group's ITE volume is also increasing as a result of its broadened product portfolio and its strong position in the North American markets. The company targets to further leverage its ITE expertise also in the European markets, where today the company's market share is clearly underdeveloped compared to the Group's overall worldwide market share. For 2003/04, 38% of the Group's unit sales were ITE and 62% were BTE.

Newest Phonak hearing and wireless communication systems.



Valeo™



Campus S



MLxS



SmartLink

FM-Technology

Group sales by geography

The new products sold well throughout the Group, contributing to strong year over year growth in almost every geographic market. Significant growth came from the key markets of the United States, Germany, France, the United Kingdom, Belgium and Switzerland. Other markets, including Australia and New Zealand, Scandinavia, the Netherlands and the Middle East, also performed extraordinarily well.

The Unitron Hearing brand performed very well and delivered year over year growth above the Group's growth rate. In particular, Unitron Hearing has made good progress in expanding its share of the United States and German markets. In addition, by leveraging the existing Phonak sales network, sales of Unitron Hearing products have increased significantly in Australia, Austria and the Netherlands.

Phonak's retail organizations continued to perform well. Lapperre further increased its market share and is clearly the market leader in Belgium. Hansaton, following the acquisition of Viennatone, is also the market leader in Austria.

New market development

During 2003/04, management has worked closely with the major key accounts and retail chains to secure an increasing share of their business with Phonak and Unitron Hearing products.

In addition, work is underway to expand the Group's distribution network. During 2003/04, the Group opened its own distribution company in Japan, entered into a distribution agreement with Japan's market leader, Rion, strengthened its retail position in Austria, through the acquisition of Viennatone, opened a sales office in India to begin to develop this market over the long-term, and opened Unitron Hearing sales offices in the United Kingdom and France.

Also, as announced in February 2004, the Group acquired the former Phonak and Unitron Hearing agents in China and will use these organizations as a basis for establishing both a wholesale and a retail sales organization in China.

In 2004/05, the Group will work on developing its sales network in Eastern Europe and in South America.

Operations and Staff

Operations

From an operations perspective, 2003/04 was also a very busy and productive year. The most significant development was the establishment of the production facility in Suzhou, China. However, the operations teams were also successful in handling the ramp-up and launch – and continued supply – of many new products among the existing manufacturing sites.

Record-time ramp up of Chinese production site

With the objective of reducing the manufacturing cost of the product, management made the decision, at the beginning of 2003/04, to open an additional, low-cost manufacturing facility. By mid-August 2003, the site had been selected and the company received the business license to begin operations. Within seven weeks, the first staff were hired and trained and the first products were shipped out of the new facility. The establishment of the Chinese manufacturing facility is a good example of the blending of cultures, ideas, and best practices among teams from Phonak and from Unitron Hearing to create a world-class operating center that serves the product requirements of both brands.

The Chinese facility began manufacturing Phonak's entry-level digital ITE product line, MAXX. Over the course of the fiscal year, additional product mandates have been transferred. Today, all digital product lines of Unitron Hearing as well as the MAXX, Amio and Aero product lines of Phonak are assembled in China. It is expected that 40-45% of the Group's total output will be produced in China during 2004/05, with a further increase in the following fiscal year.

The strategy is to have two major production centers, one in Stäfa, Switzerland focused on high-end devices and highly automated processes, and one in Suzhou, China, focused on more labour-intensive processes. The Group's production facility in Kitchener, Canada will be scaled down as products are transferred to China.

Focus on product costs

As stated several times over the past 18 months, a clear objective within the Group is to reduce the cost of products. This objective considers the cost of the product arising from the design, manufacturing and distribution processes.

Reducing product costs includes a number of initiatives. First, the cost of manufacturing can be reduced by simplifying the design of new products and utilizing a lower cost manufacturing site for labour-intensive processes. Second, the cost of material can be reduced by migrating new products to a common hardware platform, thereby reducing the number of components and achieving purchasing economies by larger volumes and fewer components. The effect of initiatives will be an improved gross profit and will be realized over the mid-term as these key projects are completed and implemented throughout the Group.

New production facility
in China.



Having established the manufacturing facility, we have accomplished one step in reducing product cost, by reducing the labour and overhead component. In 2004/05, these reduced costs will positively impact the gross profit reported.

As stated earlier, in 2004/05 the development of the Group's new, state-of-the-art product hardware platform will be completed and the first products built on this new platform will be introduced late in the fiscal year. This hardware platform is also a key step in reducing product cost, by reducing the material cost of the hardware platform.

Business information system – SAP project

Management remains committed to a global roll-out of its SAP business system as a key requirement to support the growth and efficiency of the Group. During the past financial year, the implementation teams successfully implemented SAP in three additional sites: Japan, China and Germany. In 2004/05, implementations are planned for the Kitchener, Canada operating center and in the North American distribution companies.

Staff

The number of people employed by the Phonak Group as of March 31, 2004 was 2,689 (prior year 2,385). This total was allocated among R&D 178 (prior year 172), production 967 (908) and sales/marketing and administration 1,544 (1,305). Staff increases were made in the areas of sales and marketing to expand the Group's sales opportunities and support the many product launches.

Outlook

Sales Target

The management of the Phonak Group is confident that sales will continue to develop positively based on products launched in 2003/04 as well as the new sales opportunities that will arise from products launched in 2004/05 and the recent expansions made in the distribution network. Based on today's perspective and on achieving product launch deadlines, the sales target for 2004/05 is CHF 700 million, which represents a 10% growth in reported currency.

Further gross profit improvement

We expect a further net improvement in the gross profit percentage in 2004/05 compared to the result in 2003/04. On the one hand, gross profit percentage improvement will come from the impact of Chinese manufacturing and the launch at the end of 2004 of the first Palio-based product. On the other hand, and as stated earlier, the strong sales of Perseo throughout 2003/04 have led to an increase in gross margin percentage greater than expected, and management expects this effect to lessen in 2004/05.

Spending on research and development

Following the peak of spending in research and development in 2003/04, spending in 2004/05 will be around 7% of sales. In absolute terms, of course, we retain a high level of spending in research and development. Major projects include hardware and software platforms development, new product development, automated shell manufacturing and new technology research.

Further EBITA improvement

Management also expects further improvements in the EBITA margin as a result of the expected gross profit improvements as well as the reduction in research and development spending, both in absolute amount and as a percentage of sales. If the expected gross profit improvements are achieved, the Group will reach the upper range of its previously stated mid-term EBITA target of 15-20%.

Capital expenditures


Capital expenditures will increase slightly over the level in 2003/04. Major projects include tooling for new products (housings of new products introduced on Palio platform), IT infrastructure and SAP project implementation and production equipment.

Use of financial resources

In addition to financing the capital expenditures noted above, as well as the repayment of debt according to existing terms, the Phonak Group will invest a portion of its financial resources in developing new sales channels and in expanding our existing sales channels. Management believes these investments will lead to sales growth, increased market share and an attractive return in profits.

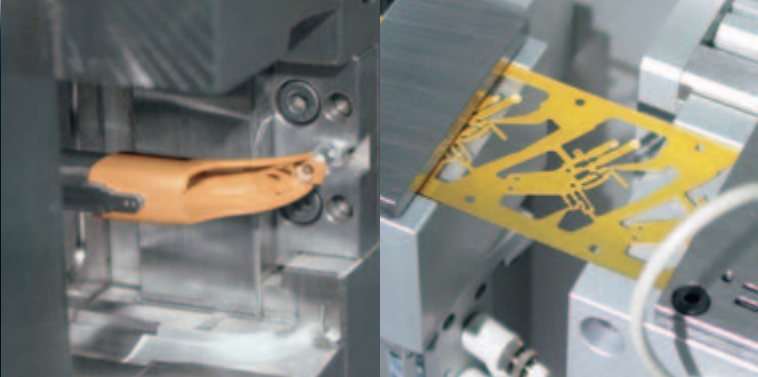
Audiological testing and verification of advanced fitting software offering optimal adjustment to individual needs.





In-house tool making
know-how is key for
high precision
micro-mechanic parts.

High-tech production
technique for plastic and
metal components.



Corporate Governance

This Corporate Governance section presents the principles of management and control within the Phonak Group as well as background information on the Group's governing bodies and management. The general rules on Corporate Governance are part of the Company's Articles of Incorporation and the Organizational Regulations. These documents serve as the basis for the following information. The disclosure complies with the Directive on Information relating to Corporate Governance published by the SWX Swiss Exchange.

Group Structure and Shareholders

Group Structure

Phonak Holding AG is the parent company of the Phonak Group, headquartered in Stäfa, Switzerland, and is listed on the SWX Swiss Exchange. The Group is active in over 70 countries, through a combination of 30 subsidiaries in 20 countries and a network of distributors.

As of March 31, the following key data for the stock of Phonak Holding AG were noted:

	2004	2003	2002
Market capitalization in CHF m	1,997	788	1,842
in % of shareholders' equity	572%	272%	509%
Share price in CHF	30.50	12.05	28.25
P/E ratio (ordinary)	29.0x	27.9x	42.9x

Security No.	1'254'978
ISIN	CH0012549785

Legal Structure of the Phonak Group

Concerning the legal structure of the Phonak Group as of March 31, we refer to note 38 of the Notes to the Consolidated Financial Statements within this report on page 71. Other than Phonak Holding AG, there are no other companies belonging to the consolidated Phonak Group whose equity securities are listed on a stock exchange

Significant Shareholders

As of March 31, the shareholders of Phonak Holding AG were the following:

Outstanding shares	2004 amount	2004 in %	2003 in %
Pioneers			
- Andy Rihs	8,747,100	13.36	14.35
- Beda Diethelm	8,910,204	13.61	12.87
- Hans-Ueli Rihs	5,541,400	8.47	10.05
Public shareholders	42,263,496	64.56	62.73
Total share capital	65,462,200	100	100

- The pioneers are those who were already shareholders before the Initial Public Offering of November 1994. There are no shareholders' agreements between these persons.
- No public shareholder owns more than 2.7% (previous year 1.3%) of the outstanding shares.
- As of March 31, 2004, a total of 18,011 (previous year 18,080) shareholders were entered in the share register of Phonak Holding AG, of these 1,077 (previous year 1,333) were non-Swiss nationals who held a total of 12.5% (previous year 6.1%) of the outstanding shares.

Phonak Holding AG
Board of Directors

Phonak Group
Group Executive Management

Phonak Hearing Systems

Unitron Hearing

Wireless Communication
Systems

Phonak AG
Stäfa, Switzerland

Phonak AB
Stockholm, Sweden

Unitron Hearing Ltd.
Kitchener, Canada

Phonak Communications AG
Murten, Switzerland

Phonak GmbH
Stuttgart, Germany

Phonak AS
Oslo, Norway

Unitron Hearing Ltd. - Canada
Cambridge, Canada

Hansaton Akustische Geräte GmbH
Wals-Himmelreich, Austria

Phonak LLC
Warrenville, USA

Unitron Hearing, Inc.
Plymouth (Minnesota), USA

Viennatone Hörgeräte GmbH,
Vienna, Austria

Phonak Canada Ltd.
Mississauga, Canada

Unitron Hearing (Suzhou) Co., Ltd.
Suzhou, China

Phonak France SA
Bron (Lyon), France

Phonak Pty. Ltd.
Baulkham Hills, Australia

Unitron Hearing GmbH
Bremen, Germany

Phonak Italia Srl
Milan, Italy

Phonak New Zealand Ltd.
Auckland, New Zealand

Unitron Hearing B.V.
Nieuwegein, The Netherlands

Lapperre BHAC NV
Groot-Bijgaarden, Belgium

Phonak Japan Co. Ltd.
Tokyo, Japan

Phonak B.V.
Nieuwegein, The Netherlands

Jordan Hearing Aids
Manufacturing Co. Ltd.
Amman, Jordanien

Phonak Group Limited
Warrington, United Kingdom

RAV Finance Limited, Bermuda

Phonak Iberica SA
Alicante, Spain

THC Finance Inc., USA

Phonak Danmark A/S
Frederiksberg, Denmark
Middelfahrt, Denmark

HIMSA, Hearing Instrument
Software Association,
Copenhagen, Denmark

Cochlear Acoustics Ltd.
London, United Kingdom

Capital Structure

Changes in capital structure within the last three financial years

As of March 31, the capital of Phonak Holding AG comprised the following:

	2004	2003	2002
Share capital	CHF 3,273,110	CHF 3,268,610	CHF 3,260,210
Total shares	65,462,200	65,372,200	65,204,200
Conditional capital	CHF 292,280	CHF 296,780	CHF 305,180
Conditional shares	5,845,600	5,935,600	6,103,600
Authorized capital	CHF 0	CHF 0	CHF 34,610
Authorized shares	0	0	692,200

Phonak Holding AG registered shares have been quoted on the Swiss stock exchange since December 1, 1994. The par value of one standard registered share amounts to CHF 0.05. The share capital is fully paid up. With the exception of the shares held by the Company itself, each ordinary share bears one voting right at the Shareholders' Meeting and is entitled to dividend payments. As of March 31, 2004, the company held 141,712 (previous year 330,610) own shares.

Ordinary share capital

The Shareholders' Meeting of July 5, 2001 approved a capital reduction and repayment of CHF 15 on the par value per share. At the same time, shareholders approved 1:100 share split. This reduced the par value of Phonak registered shares from CHF 20 to CHF 0.05.

In financial year 2003/04, a total of 90,000, in financial year 2002/03, a total of 168,000, and in financial year 2001/02, a total of 517,800 employee options were exercised. As a result, as of March 31, the total number of issued shares as well as the share capital increased correspondingly. This resulted, on the other hand, in a corresponding decrease in the conditional capital each year. Each option provides the right to purchase one registered share out of the conditional capital (see table above).

Conditional capital

The conditional capital was created with the purpose of offering Phonak shares, through an option program, to key employees of the Phonak Group. From a maximum of 8,000,000 approved shares with a par value of CHF 0.05, 2,154,400 shares, have been issued until March 31, 2004, reducing the maximum conditional capital to 5,845,600 (previous year 5,935,600).

In financial year 2003/04, a total of 780,450 options, in financial year 2002/03, a total of 875,250, and in financial year 2001/02, a total of 519,050 options were granted as part of the Phonak Key People Program.

At March 31, 2004 a total of 2,060,950 (prior year 2,018,500) options were outstanding. Each of these options entitles the holder to purchase one registered share, with a par value of CHF 0.05, generally after a period of two or three years. The exercise price generally equals the average share price within the three previous months prior to the issuing date.

Authorized capital

As of March 31, 2004, the company does not have any authorized capital.

At the extraordinary Shareholders' Meeting held on December 7, 2000, shareholders approved the creation of authorized capital of 2,000,000 shares with a par value of CHF 0.05. 1,307,800 of these shares were used in the years 2000 and 2001 for the acquisitions of Unitron Hearing and Hansaton. The remaining 692,200 shares of authorized capital expired on December 7, 2002.

Equity capital, reserves, and retained earnings

Regarding changes in equity capital, reserves and retained earnings see point 3.6 of the notes to the Financial Statements of Phonak Holding AG (respectively for the third financial year prior to the given period under review point 3.6 of the mentioned notes in the previous Annual Report 2002/03).

Restrictions on transferability

See the chapter below entitled "Voting-rights restriction and representation".

Board of Directors

The primary duty of the Board of Directors of Phonak Holding AG is the strategic direction and management of the Company. Where indicated, the Board takes care of these tasks in close collaboration with the Group Executive Management. The Articles of Incorporation of Phonak Holding AG state that the Board of Directors must consist of at least three and a maximum of nine members.

During the reporting period, the Board of Directors held five meetings, one of which was a two-day strategy workshop. Telephone conferences were organized in response to time-sensitive business issues. The Board receives consolidated financial statements (balance sheet, profit and loss as well as cash flow statements) on a monthly, semi-annual and annual basis. In addition, the Board receives monthly consolidated sales reports, providing turnover, units and average selling prices for each business segment, major products, subsidiary and market. The Board of Directors approves resolutions and holds elections with the majority of its members present at the meeting. In the event of an equal number of votes, the Chairman has the casting vote.

Audit Committee

Current members of the Audit Committee are Dr. Alexander Krebs (Chairman), Heliane Canepa and Dr. Michael Jacobi.

Within the context of the external audit, the primary task of the Audit Committee is to review and approve the audit plan and the subsequent audit report prepared by the statutory auditors prior to the approval of the accounts by the Board of Directors.

The Audit Committee meets at least twice annually, but as often as required. In the reporting period, the Committee met three times.

Corporate Governance

Board of Directors with CEO Dr. Valentin Chapero Rueda:
(from left to right) Robert F. Spoerry, William D. Dearstyne,
Heliane Canepa, Dr. Valentin Chapero Rueda, Andy Rihs,
Dr. Alexander Krebs, Dr. Daniel Borel, Dr. Michael Jacobi.

Compensation Committee

Within the reporting period, the Board of Directors established a Compensation Committee. Current members are Andy Rihs (Chairman), Dr. Daniel Borel and Robert F. Spoerry.

The primary task of this Committee is to review and propose to the Board of Directors compensation structure and amount for the Board of Directors and the members of the Group Executive Management.

Nomination Committee

Within the reporting period, the Board of Directors also established a Nomination Committee. Current members are Andy Rihs (Chairman), William D. Dearstyne and Heliane Canepa.

The primary task of this Committee is to select and propose to the Board of Directors suitable candidates for election to the Board of Directors and the appointment of Group Executive Management members.

Overview of Board Members

Name	Position	Other activities	Nationality	Born	First election to the Board	Current Board term ends
Andy Rihs	Chairman, non-executive	Chairman of the Board of ARfinanz Holding AG	Swiss	1942	1985; Chairman since 1992	AGM 2006
Dr. Alexander Krebs	Vice-Chairman, non-executive	Chairman and Partner Capvis Equity Partners AG Member of the Board of Polytec Holding Ltd., Linz Member of the Board of Swiss Private Equity & Venture Capital Association SECA	Swiss	1957	1993, Vice-Chairman since 1999	AGM 2006
Dr. h.c. Daniel Borel	Non-executive	Chairman of the Board of Logitech International Ltd. Member of the Board of Julius Baer Holding AG Member of the Board of Nestlé SA	Swiss	1950	1999	AGM 2005
Heliane Canepa	Non-executive	CEO Nobel Biocare Holding AG Member of the Board of Entific Medical Systems AB	Austrian-Swiss	1948	1999	AGM 2005
William D. Dearstyne	Non-executive	Membre du Conseil d'Administration of Flamel Technologies Member of the Advisory Board of Earlybird Venture Capital GmbH & Co. Member of the Board of Trustees of Bucknell University, Lewisburg Member of the Board of East-West Institute, New York	American	1940	2003	AGM 2006
Dr. Michael Jacobi	Non-executive	CFO Ciba Specialty Chemicals AG Chairman of the Board of Industry-Holding Member of the commission of Swiss GAAP, FER	German	1953	2003	AGM 2006
Robert F. Spoerry	Non-executive	Chairman, President and CEO of Mettler-Toledo International Inc. Member of the Board Conzetta Holding AG Member of the Board Schaffner Holding AG	Swiss	1955	2003	AGM 2006



Board Member biographies

Andy Rihs is one of the founders of the Phonak Group, together with his partner, Beda Diethelm, and his brother Hans-Ueli Rihs. Andy Rihs led the Phonak Group as CEO until April 2000 and, as interim CEO, from April to September 2002. He has been Chairman of Phonak Holding AG since 1992, a function which he continues to hold today.

In 1966, Andy Rihs joined Beda Diethelm who came to Phonak a year earlier as technical manager. Andy Rihs began to build up the marketing and commercial aspect of the Company. He first established a sales organisation for Switzerland, followed by the international export sales activity. Under his leadership, the Company grew continuously and succeeded in establishing an outstanding brand image for Phonak - known for products of the highest technological standard and reliability.

Andy Rihs completed his education and business training primarily in Switzerland and France.

Dr. Alexander Krebs is co-founder and partner of CapVis Equity Partners AG, a company active in the private equity business and the successor organisation to SBC Equity Partners AG.

Alexander Krebs has led various clients through Management-Buy-Out and Initial Public Offering (IPO) transactions. In fact, Alexander Krebs assisted Phonak in the process leading up to the completion of its IPO in 1994. He began his career working in the auditing division of Ernst & Young.

Alexander Krebs studied Economics at the University of St. Gallen and holds a doctorate in Political Science from the University of Basel.

Dr. h.c. Daniel Borel co-founded Logitech in 1981 and served on the company's Executive Management Team until 1998, when he assumed his current position as Chairman of the Board.

From 1982 to 1988, Daniel Borel served as CEO & President of Logitech S.A. in Romanel-sur-Morges, Switzerland. During this time, Daniel Borel was instrumental in growing Logitech around the world and establishing the company's high-volume manufacturing capability in Asia. In 1988 he took the Logitech Group public on the SWX Swiss Exchange and became Chairman. As of 1992, he moved to the USA and assumed the position of Chairman and CEO of the Logitech group. He took Logitech public on Nasdaq in 1997.

Daniel Borel holds an engineering degree from the Swiss Federal Institute of Technology Lausanne (Switzerland) and a master's degree in Computer Science from Stanford University. He was awarded an h.c. doctorate from Lausanne's Federal Institute of Technology in 1992.

Heliane Canepa is President and CEO of Nobel Biocare AB, Sweden, a company primarily engaged in dental implants. In 2002, she also became CEO of the newly established group parent company, Nobel Biocare Holding AG.

Before joining Nobel Biocare, Heliane Canepa acted as CEO of the medical technology company Schneider Worldwide. In 1984, Schneider was sold to Pfizer Inc., which resold the entity to Boston Scientific in 1998. Because Boston Scientific already had a European production site in Ireland, the location in Bülach, Switzerland, was closed. Heliane Canepa earned special merit for her work in assisting employees to find new employment opportunities. Heliane Canepa became Entrepreneur of the year in Switzerland in 1999.

Heliane Canepa completed Business school in Dornbirn, Austria, West London College in London, Sorbonne, Université de Paris, and the Foreign Executive Development Program at Princeton University.

Corporate Governance

William D. Dearstyne retired in April 2003 from his position as Company Group Chairman and member of the Medical Devices and Diagnostics Group Operating Committee of Johnson & Johnson.

During the 34 years of his career, managing diversified healthcare companies, he earned business experience in Asia, Central and Eastern Europe as well as Latin America. He served in many different functions during his 26 years at Johnson & Johnson. Within this period, he also led two major acquisitions for the company – Cordis and DePuy – both of which today occupy leadership positions in interventional cardiology and orthopedics respectively.

William D. Dearstyn studied at Bucknell University (Lewisburg, PA) and at Syracuse University (Syracuse, New York) where he earned a MBA degree in International Business.

Dr. Michael Jacobi is the CFO, and a member of the Executive Committee, of Ciba Specialty Chemicals – a position he has held since 1997 and in which he is responsible for Treasury, M&A, Investor Relations, Controlling and Information Management.

Michael Jacobi joined Ciba-Geigy's finance area in 1978 when he held positions in finance, accounting and planning in Brazil and the US. In 1987, he returned as Head of Management Accounting at the Finance Department in Basel where he later became responsible for Ciba-Geigy's overall corporate financial accounting and reporting. He also serves on the Council of the Foundation for Accounting and Reporting Recommendations and plays a significant role in setting Swiss guidelines for accounting and disclosure.

Michael Jacobi studied at the Universities of St. Gallen, Washington (Seattle) and Harvard Business School. In St. Gallen, he earned a doctorate degree with a thesis on the International Accounting Standards.

Robert F. Spoerry is Chairman, President and CEO of Mettler-Toledo International Inc., a leading global manufacturer of precision instruments for use in laboratory, manufacturing and food retailing applications, quoted on the New York Stock Exchange (NYSE) since 1997.

Robert F. Spoerry joined Mettler-Toledo in 1983, served as Head of the Industrial and Retail Division in Europe from 1987 until 1993, and had the lead in the acquisition and integration of Toledo Scale Corporation (USA). In 1989, he was appointed to the company's Executive Board, was nominated President and CEO in 1993 and holds the additional office of Chairman since 1998.

Robert F. Spoerry graduated in mechanical engineering at the Federal Institute of Technology in Zurich (Switzerland) and received a MBA degree of the University of Chicago.

Elections and term of office

At the Shareholders' Meeting, the shareholders elect the Board of Directors of Phonak Holding AG. Each member is normally elected for a period of three business years. The term ends on the day of the ordinary Shareholders' Meeting for the last business year of the term. If, during a term, a substitute is elected to the Board of Directors, the newly elected member finishes the term of his predecessor. Re-elections for successive terms are possible. A Board member who reaches the age of 65 during his or her term must resign at the next ordinary Shareholders' Meeting.

Group Executive Management:
(from left to right) Michael Jones,
Toni Schrofner, Paul Thompson,
Dr. Valentin Chapero Rueda,
Dr. Herbert Baechler.



Group Executive Management

Name	Position	Other activities	Nationality	Born	Appointment
Dr. Valentin Chapero Rueda	CEO	Member of the Board of Xemics SA	Spanish	1956	October 2002
Paul Thompson	CFO		Canadian	1967	January 2002
Michael Jones	CEO Unitron Hearing; North American Markets		American	1949	April 1998
Dr. Herbert Baechler	CTO		Swiss	1950	June 2002
Toni Schrofner	EVP Operations & Supply Chain		Austrian	1963	December 2003

The Group Executive Management is responsible for the operational management of the Company. Furthermore, it prepares for, and later executes, the decisions made by the Board of Directors.

According to the Organisational Regulations of Phonak, the Group Executive Management consists of at least four, and at the most seven, members. Currently, the Group Executive Management consists of five people, all appointed by the Board of Directors, as recommended by the Chief Executive Officer (CEO).

Group Executive Member biographies

Dr. Valentin Chapero Rueda joined the Company as the new CEO as of October 2002.

Before joining Phonak, Valentin Chapero Rueda was CEO of Siemens' Mobile Networks Division. Prior to this, between mid-1996 and the end of 1999, he was CEO of the Siemens Audiology Group, the industry's largest hearing instrument manufacturer. He led Siemens into the digital age, tripling sales and, at the same time, improving profitability. Valentin Chapero Rueda began his career within the R&D department of Nixdorf Computer. After the take-over of Nixdorf Computer by Siemens, he rose to the top management.

Valentin Chapero Rueda, whose parents are Spanish, grew up and completed his education in Germany. He graduated in Physics at the University of Heidelberg and was awarded his doctorate with a thesis in the medicine/physics field.

Paul Thompson was appointed CFO of the Phonak Group at the beginning of 2002. Paul Thompson is the second North American representative within Phonak's top management, a move that further strengthens Phonak's truly global organizational structure.

Since 1998, Paul Thompson acted as CFO, and later also as COO, of the Unitron Group. Prior to joining Unitron, between 1987 and 1998, he worked for Ernst & Young in Canada, first in the auditing division and then in the management consulting division.

Paul Thompson studied Finance and Economics at University of Waterloo, Canada. In 1992, Paul was granted his Chartered Accountant designation and in 1998, he achieved the designation of Certified Management Consultant.

Michael Jones was appointed CEO of Unitron Hearing, effective January 2002, and, within the overall Phonak Group, has responsibility for North American markets, that now account for almost 50% of total sales.

Michael Jones has over 25 years experience in the hearing instrument industry, working for a leading US hearing instrument manufacturer until 1995, where he was instrumental in developing the company into a successful, international player in the industry.

Michael Jones completed his education with an MBA certificate from University of Southern California.

Dr. Herbert Baechler has been a key member of

Phonak's management team for the past 23 years. In June 2002, he was appointed to the position of Chief Technology Officer (CTO) and member of the Group Executive Management.

Herbert Baechler is responsible, on a group-wide basis, for directing the various research projects including the pursuit of new technologies and the application to hearing instrument and related business opportunities. He directed the concept of Phonak's first digital hearing system Claro and is currently preparing the successor generation of technologies.

Herbert Baechler received his diploma in Electronic Engineering in 1973 and his doctoral degree in 1978 from the Swiss Federal Institute of Technology Zurich.

Toni Schrofner joined the Phonak Group as Executive Vice President Operations & Supply Chain and Member of the Group Executive Management effective December 1, 2003.

Before joining Phonak, Toni Schrofner was acting as President Tecan Instruments and Member of Tecan Group's Executive Management Team. The position included the function of General Manager Tecan Schweiz AG. Prior to the appointment at Tecan headquarters, he was Managing Director of Tecan Austria GmbH between 1996 and 2001.

Toni Schrofner earned a diploma in mechanical engineering (focus on mechanical engineering and operation technology) at HTL in Salzburg and completed his MCI Studies of Economics/International Management at the University of Innsbruck, Austria.

Compensation, Shareholdings and Loans

The Phonak Group's compensation plan contains fixed payments and an option plan for the Board of Directors. Members of the Group Executive Management receive a performance-related compensation package, including basic salary, bonus payments and option plan. The remuneration of the members of the Board as well as of the Group Executive Management are determined, and periodically reviewed, by the Board of Directors as proposed by the Compensation Committee.

During the reporting period, there were no honorariums paid for additional services above the ordinary remuneration nor were there any loans made, or guarantees given, to Board members, members of the Group Executive Management or to any closely linked parties to these governing bodies.

Compensation to members of the Board of Directors and the Group Executive Management

Total remuneration of the Board of Directors of Phonak Holding AG in the financial year 2003/04 amounted to CHF 0.7 million (previous year CHF 0.4 million). Of this total, CHF 0.1 million was paid to two people who left their function within the Board of Directors within the reporting period.

Total remuneration of the members of the Group Executive Management in the financial year 2003/04 amounted to CHF 3.4 million (previous year CHF 4.4 million). Of this total, CHF 0.09 million was paid to one person who left his function within the Group Executive Management at the end of the previous year.

Share allotment

The Phonak compensation plan does not provide for the distribution of shares.

Share ownership

As of March 31, 2004 the members of the Board of Directors and the Group Executive Management held directly and indirectly 8,797,680 shares (13.4% of total share capital). 8,764,480 of these shares were held by the members of the Board (all non-executive) and 33,200 were held by the Group Executive Management.

The total options granted in 2003/04 (780,450 options) had a value of CHF approximately 5.5 million over the term of the options, as calculated using the Black & Scholes method. The value of options granted is not recognized in the income statement.

Options

As of March 31, 2004 the members of the Board of Directors (all non-executive) and the Group Executive Management held 549,000 options on Phonak stock. Each option has a share subscription ratio of 1:1. They were allocated as follows:

Year	Amount granted to the Board of Directors (all non-executives)	Amount outstanding to the Board of Directors (all non-executives)	Blocking period	Exercise period	Exercise price CHF
01/02	72,000	72,000	01.11.01 - 31.10.03	01.11.03 - 31.10.04	56.00
02/03	72,000	72,000	01.02.03 - 31.01.05	01.02.05 - 31.01.06	13.00
03/04	84,000	84,000	01.02.04 - 31.01.07	01.02.07 - 31.01.09	28.00
	Total 228,000	Total 228,000			
Year	Amount granted to Group Executive Management	Amount outstanding to Group Executive Management	Blocking period	Exercise period	Exercise price
01/02	12,000	12,000	01.09.01 - 31.08.03	01.09.03 - 31.08.04	56.00
	6,000	6,000	01.11.01 - 31.10.03	01.11.03 - 31.10.04	56.00
02/03	36,000	36,000	01.02.03 - 31.01.05	01.02.05 - 31.01.06	13.00
	70,000	40,000	01.10.02 - 30.09.03	01.10.03 - 30.09.05	14.00
	70,000	70,000	01.10.02 - 30.09.04	01.10.04 - 30.09.06	14.00
	70,000	70,000	01.10.02 - 30.09.05	01.10.05 - 30.09.07	14.00
03/04	87,000	87,000	01.02.04 - 31.01.07	01.02.07 - 31.01.09	28.00
	Total 351,000	Total 321,000			

Highest total compensation

The highest total compensation paid to a member of the Board of Directors in the year under review amounted to CHF 197,000 (previous year CHF 238,000). In addition, Phonak Holding AG has granted 12,000 options to this person in financial year 2003/04. Each of these options provides the right to purchase one Phonak share at a strike price of CHF 28 between February 1, 2007 and January 31, 2009.

The highest total compensation paid to a member of the Group Executive Management consisted of a base salary of CHF 900,000 as well as a bonus of CHF 870,000 (previous year CHF 450,000 and CHF 300,000 respectively, for one-half of the year). No additional options have been granted to this person in the financial year 2003/04 (previous year 210,000 options).

Shareholder's Participation Rights

Voting-rights restriction and representation

To be recognized as a shareholder with comprehensive rights, the acquirer of shares must place an application for entry in the share register.

The registration in the share register as a shareholder with voting rights is limited to 5% of the share capital (Art. 6 par. 2 of the Articles of Incorporation). Linked parties are considered as one person. To abolish this regulation, the absolute majority of the votes represented at the Shareholders' Meeting is sufficient.

In exercising their voting rights, no shareholder may unite, by a combination of own and represented shares together, more than 10% of the shares of the company (Art. 12 par. 2 of the Articles of Incorporation).

The restrictions on the voting and representation rights do not apply to the pioneer shareholders. The Board of Directors may approve further exceptions with good reason and no special quorum is required for such decisions. During the reporting period, no exceptions to the above listed rules were granted.

Right to request items on the Shareholders' Meeting agenda

Shareholders, with the right to vote and representing shares with a par value of CHF one million, may request items to be included in the agenda by indicating the motions. The respective requests must be addressed in writing to the President of the Board of Directors no later than 30 days before the meeting.

Registering deadlines

In general, the share register will be closed for about 10 days before the Shareholders' Meeting for administrative reasons. During this period, an admission card, with corresponding voting papers, will be sent to shareholders. In case of a partial sale, or additional purchase within this time, the confirming documents must be exchanged on the day of the Shareholders' Meeting at the information desk.

Changes of Control and Defense Measures

Public purchase offer

A purchaser of shares is obliged to make a public purchase offer, when he has more than 49% of the voting rights at his disposal ("opting up", as per Art. 8 of the Articles of Incorporation).

Clauses on changes of control

There are no agreements in place that, in the event of a change of control, provide Phonak management or Board members with abnormally high severance costs or other lucrative benefits.

Auditors

Duration and term of mandate

During the ordinary Shareholders' Meeting of July 5, 2001 PricewaterhouseCoopers was elected as auditors of Phonak Holding AG and the consolidated Phonak Group. The head auditor responsible for the existing auditing mandate, Mr. Stephen W. Williams, took office as of July 5, 2001. At the Shareholders' Meetings on July 11, 2002, respectively on July 11, 2003, PricewaterhouseCoopers was re-elected for another term of one year.

Fees

PricewaterhouseCoopers charged CHF 468,000 for their auditing services and CHF 183,000 for non-audit services during the year under review.

Supervisory and control instruments

The Audit Committee of the Board of Directors regularly reviews the performance, compensation and independence of the auditors. The Audit Committee reports its findings to the Board of Directors.

Information Policy

Today, as in the past, one of management's highest priorities is to inform business partners and existing and potential investors as directly, openly and transparently as possible about the company's organization and world-wide operations. The focus of these efforts is to keep all interested parties informed at the same time about the Group's performance and its short and medium-term plans.

Investor Relations Calendar

July 8, 2004	Shareholders' Meeting of Phonak Holding AG at the Kongresshaus Zurich
November 2004	Semi-annual Report per September 30, 2004
June 7, 2005	Media Conference; Presentation to Financial Analysts
June 7, 2005	Mailing of Annual Report
July 7, 2005	Shareholders' Meeting of Phonak Holding AG

Names and addresses

Phonak Holding AG
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Dr. Michael Düringer (until June 30, 2004)
Stefan Blum (effective July 1, 2004)

Delivery of documents, mailing list, etc.:

Karin Haggemüller
Financial reports in electronic format can be ordered over the newsletter service on the Company's website. Please subscribe to www.phonak.com/Company/Investors/IR News Letter

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Sustainability

The Phonak Group specializes in the design, development, production and worldwide distribution of technologically advanced hearing and wireless communication systems. The combination of expertise in hearing technology and a strong cooperation with the hearing healthcare professionals allows Phonak to make a substantial improvement in the quality of life, especially of individuals with hearing impairment.

The sustainability of the Phonak Group is built on three important elements: social responsibility, environmental protection and economic prosperity. Therefore, the Group's structure and activities respond to the market and the customer needs, while delivering a balanced financial, social and environmental performance.

Inherent in the Group's business activities is a fundamental commitment to improving people's hearing abilities and speech understanding, thus facilitating interactive communication among people. Specific business processes support this commitment and also integrate social, health, safety and environmental factors.

Raising Awareness of “Better Hearing”

The Phonak Group takes advantage of many opportunities to build awareness of “Better Hearing”. Approximately 10% of the population world-wide are affected by a hearing loss. Although people of all ages can be affected, those over 60 years of age may have a significant hearing loss, making it one of the most common chronic disorders. Nevertheless, research shows that, on average, a person with a known hearing loss may wait 7-9 years before consulting a physician. This statistic underlines the fact that - despite the significantly improved quality of life that a hearing device can provide - the acceptance of these systems is rather low in many societies. This represents a challenge to the organization which it address in many different ways, some examples of which are provided in the following paragraphs.

High investments in R&D

Every year, the Phonak Group invests between 7 and 9% of its sales in research and development. Recognizing that today's hearing instruments may still be improved to rival the hearing abilities of the human ear in all hearing situations, the organization continuously pursues the development of new, innovative technologies that further improve the benefits for the end-users. The goal of these efforts is to support people with impaired hearing to participate actively in everyday life.

Sustainability

Scientific contributions and professional education

Researchers and audiologists from Phonak and Unitron Hearing work together in close collaboration with leading research institutes and universities world-wide, and often present at scientific and industry conferences. Our professionals also take advantage of popular media events, used to teach primarily elderly people about hearing related topics, such as health care broadcasts on television.

Within the reporting period, Phonak sponsored the 1st International "Access" Conference focusing on FM technology. The conference focused on the needs of adults and children beyond hearing aids and promoted the advantages of wireless communication devices. Additionally, Phonak sponsored the European Conference on Pediatric Amplification Solutions "The Sound for a Young Generation". This conference presented knowledge and information about how to provide optimal benefit to the maximum number of children with hearing and communications difficulties. Looking forward, Phonak will organize the Satellite Event at the NHS 2004 Conference in May 2004 and, in November, Phonak will hold the 3rd International Pediatric Conference "A Sound Foundation Through Early Amplification". This conference will focus on maximizing the use of residual hearing in infants through the provision of early amplification.

Race for "Better Hearing"

Also in 2003/04, the Phonak Cycling Team acted as a public ambassador of the importance of good hearing in order to participate actively in everyday life. Through its sponsorship of the team, Phonak can reach a large number of "fans and friends" of the sport of cycling and direct their attention to the improvement in the quality of life that hearing systems can provide. With this year's admission to the Tour de France, the third largest sporting event in the world, behind football's World Cup and the Olympic Games, a much greater audience can be addressed. This will further raise awareness of "Better Hearing" as well as increase the level of brand awareness of Phonak.

Many Social Contributions

The Phonak Group, through its Phonak and Unitron Hearing group companies, participates in various projects and initiatives to develop awareness and provide training regarding hearing health, hearing loss and the benefits of hearing instruments, and to provide donations of time, financial resources and products that make a difference in the quality of life for those who are less fortunate. Below is a sample of recent initiatives and donations within the reporting period.

Sponsorship for audiology students

Unitron Hearing assisted post-graduate audiology students through sponsorship of their membership to the Dome Information Service. Dome is an information service developed for clinicians, educators, researchers and students in the field of audiology and communication sciences and disorders. It offers students multiple resources from one accessible, online location keeping them connected to current trends and initiatives in audiology.

Donation of digital hearing instruments

Unitron Hearing donated digital hearing instruments to aid less fortunate children in Western China. The donation was handed over at the annual National Care-for-Ear day, held in Xian, and will help to improve the lives of many children in China, especially during the important time of their physical and emotional development.

Launch of kidsclub.unitron.com

Unitron Hearing developed and launched its Kids Club web site providing support to children with hearing loss and their parents. The site helps children learn more about hearing loss and how to live with and care for their hearing aids.

Phonak staff volunteer for special Fiji school

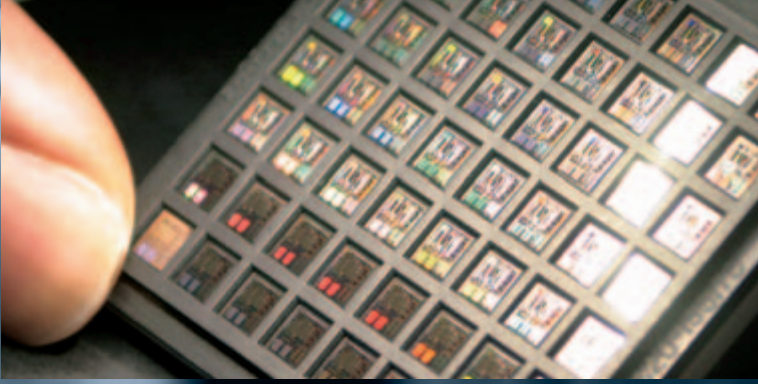
In a five-year program, Phonak New Zealand is contributing NZD 100,000, 100 person days and 100 hearing instrument fittings for hearing impaired children in Fiji. Staff regularly visit the Lautoka School to test children's hearing, fit hearing aids and provide other services and equipment.

"Hear the Cheer"

"Hear the Cheer" is an innovative program developed by Phonak UK to involve deaf and hearing impaired children in football. On April 8, 2003, the campaign won "Best Sport in the Community Program" at the Sports Industry Awards 2003. They were up against some strong competition, including Manchester United. "Hear the Cheer" has so far provided football coaching to more than 1,500 hearing impaired children in specialist deaf schools. 2004 will see "Hear the Cheer" on the road with twenty coaching days for hearing impaired children in mainstream schools.

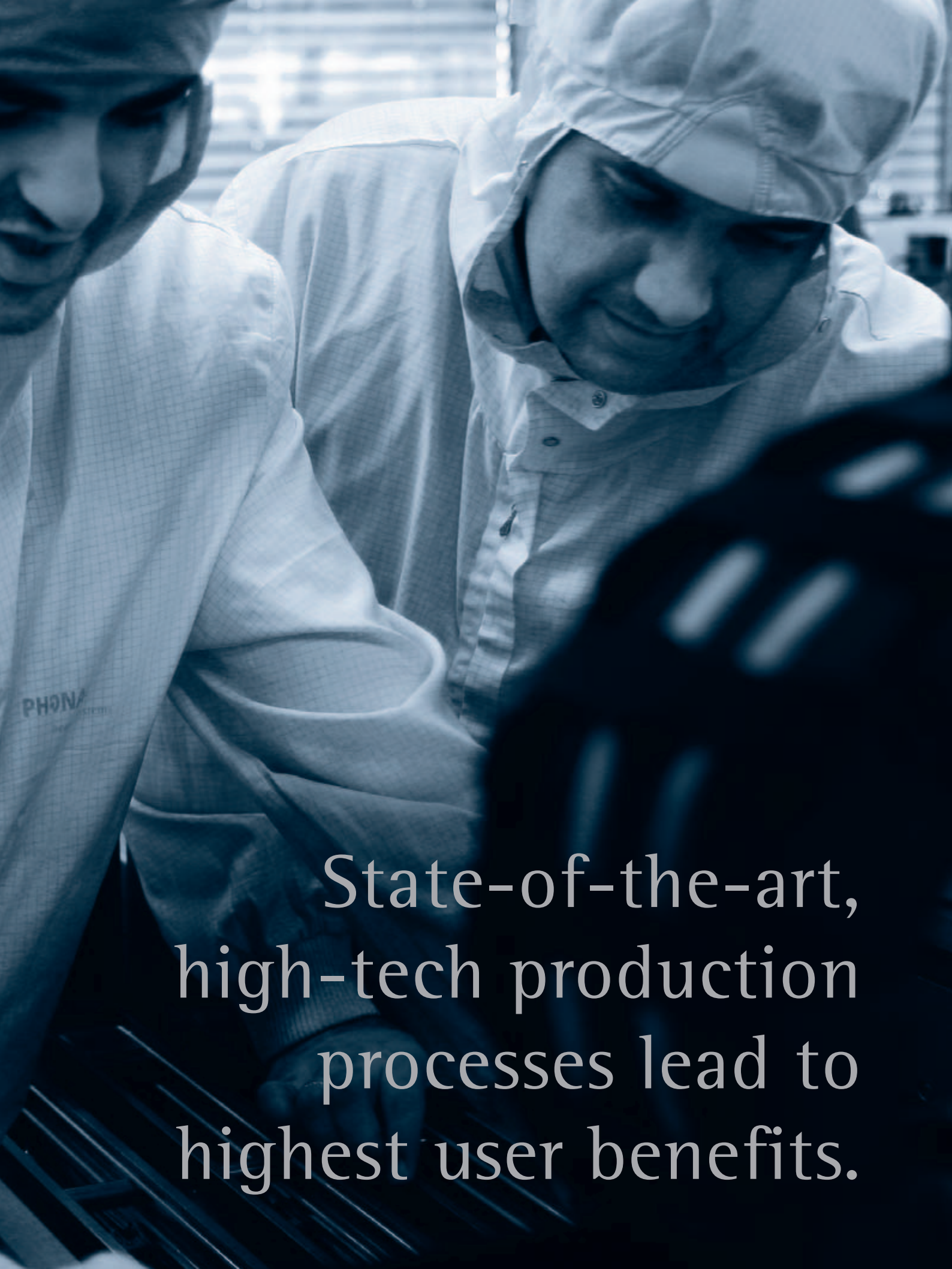
Launch of new Phonak Corporate Website

On February 1, 2004, Phonak Group launched its new corporate website www.phonak.com, providing tailor-made communication channels for consumers, hearing care professionals, the media and financial analysts around the world. The consumer site offers a hearing test which helps to determine whether a specific person is experiencing hearing problems and the consultation of a hearing care professional is indicated. Another interesting feature is the simulation of different types of sensorineural hearing losses which are by far the most frequent dysfunction of the inner ear.



Powerful computers allow today's hearing systems to adapt intelligently to their acoustic surroundings.





State-of-the-art,
high-tech production
processes lead to
highest user benefits.

Accurate quality control in a highly automated production environment: each device is tested before leaving the factory.

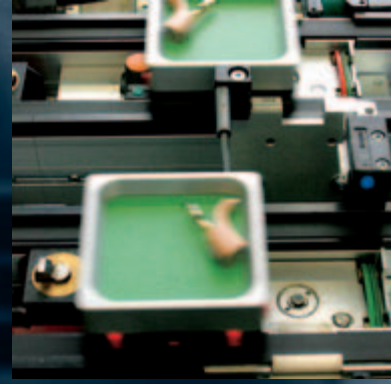


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Consolidated Income Statement 2003/04

	Notes	2003/04 1,000 CHF	2002/03 1,000 CHF
Consolidated sales	4	637,602	550,543
Sales related costs	5	(23,700)	(33,683)
Cost of sales		(246,237)	(237,754)
Gross profit		367,665	279,106
Research and development		(58,203)	(48,879)
Marketing and sales		(126,139)	(116,243)
Administration and general overheads		(78,222)	(60,873)
Exchange differences		(1,294)	(2,797)
Other expenses, net	9	(539)	(2,175)
Earnings before interest, tax and amortization (EBITA)		103,268	48,139
Amortization of goodwill	8	(8,554)	(10,498)
One-time charge for goodwill impairment		0	(75,000)
Operating profit / (loss) (EBIT)		94,714	(37,359)
Financial expense, net	10	(695)	(4,480)
Share of loss in associated company	20	(280)	0
Income / (loss) before deduction of taxes and minority interest		93,739	(41,839)
Income taxes	11	(24,380)	(4,953)
Minority interest in net income		(484)	(85)
Income / (loss) after taxes		68,875	(46,877)
Basic earnings / (loss) per share (CHF/share)			
before one-time charge	12	1.056	0.432
after one-time charge			(0.721)
Diluted earnings / (loss) per share (CHF/share)			
before one-time charge	12	1.050	0.431
after one-time charge			(0.721)

Consolidated Balance Sheet as at March 31, 2004

Assets

		31.3.2004	31.3.2003
	Notes	1,000 CHF	1,000 CHF
Cash and cash equivalents	14	145,882	75,028
Short-term investments	15	11,417	9,344
Trade receivables	16	116,320	102,574
Other receivables and prepayments	17	16,285	16,095
Inventories	18	77,480	83,345
Total current assets		367,384	286,386
Land and buildings	19	66,475	67,069
Plant and equipment	19	58,926	58,642
Total tangible assets		125,401	125,711
Investments in associates	20	1,653	0
Other investments and long-term loans	21	10,127	6,102
Deferred tax assets	11	43,963	47,695
Intangible assets	22	131,562	137,298
Retirement benefit assets	30	4,115	3,669
Total non-current assets		316,821	320,475
Total assets		684,205	606,861

Liabilities and shareholders' equity

		31.3.2004	31.3.2003
	Notes	1,000 CHF	1,000 CHF
Short-term debts	23	29,325	29,277
Trade payables		34,505	32,009
Taxes payable		17,341	11,613
Other liabilities and provisions	24	108,739	71,758
Total current liabilities		189,910	144,657
Mortgages	25	34,561	37,091
Other long-term debts	26	80,238	105,266
Deferred tax liabilities	11	17,944	20,357
Other liabilities and provisions	27	11,214	9,031
Total long-term liabilities		143,957	171,745
Total liabilities		333,867	316,402
Minority interest		1,248	908
Share capital	28	3,273	3,269
Capital reserves		135,164	133,643
Treasury shares		(3,960)	(7,258)
Retained earnings		238,190	177,120
Cumulative translation adjustment		(23,577)	(17,223)
Total shareholders' equity		349,090	289,551
Total liabilities and shareholders' equity		684,205	606,861

Consolidated Statement of Cash Flows 2003/04

	Notes	2003/04 1,000 CHF	2002/03 1,000 CHF
Income / (loss) after taxes		68,875	(46,877)
Minority interest in net income		484	85
Income tax expenses		24,380	4,953
Financial expenses, net		695	4,480
Share of loss in associated company		280	0
EBIT		94,714	(37,359)
Non cash items			
Depreciation of tangible assets	19	22,549	20,189
Amortization of goodwill	22	8,554	10,498
Amortization of other intangible assets	22	1,171	844
Write-down of investments		13	112
One-time non cash charge for goodwill impairment	22	0	75,000
Loss on sale of tangible assets, net	9	430	1,851
Change in other long-term provisions, net		2,140	7,279
Unrealized exchange differences		3,776	330
Other non-cash items		(1,207)	37,426
		5,055	121,158
Cash flow before changes in working capital		132,140	83,799
Changes in net current assets and liabilities			
(Increase) in trade receivables excl. allowances		(11,663)	(6,248)
(Increase) in other receivables and prepayments		(1,062)	(3,847)
Decrease in inventories excl. allowances		12,237	7,205
Increase in trade payables		207	1,127
Increase / (decrease) in other payables and accruals		30,625	30,344
		(11,996)	(13,759)
Cash generated from operations		162,484	70,040
Interest received		1,329	1,960
Interest paid		(3,167)	(4,861)
Income taxes paid		(14,829)	(16,667)
		(17,965)	(20,866)
Net cash from operating activities		145,817	49,174
Purchase of tangible assets	19	(21,260)	(21,515)
Proceeds from sale of tangible assets		1,128	793
Acquisition of subsidiaries (net of cash acquired)	29	(3,935)	(1,036)
Purchase of other intangible assets	22	(91)	(6)
Payments to acquire short-term investments		(924)	0
(Increase) / decrease in other investments and loans		(5,456)	1,252
Net cash used in investing activities		(30,538)	(20,512)
Repayments of borrowings		(26,253)	(31,292)
Repayment of mortgages		(2,585)	(2,665)
Proceeds of capital increases		1,387	3,108
Sale / (acquisition) of treasury shares		3,436	(3,338)
Dividend paid by Phonak Holding Ltd.		(7,805)	(7,811)
(Prepayment made) / reduction of payment to pension fund		(446)	107
Dividends paid to minorities		(136)	(164)
(Payments for) / proceeds from foreign exchange contracts		(8,025)	11,622
Net cash from financing activities		(40,427)	(30,433)
Currency translation differences		(3,998)	3,753
Increase in cash and cash equivalents		70,854	1,982
Cash and cash equivalents beginning of period		75,028	73,046
Cash and cash equivalents end of period		145,882	75,028

Summary of Changes in Shareholders' Equity

1,000 CHF	Share capital	Capital reserves	Retained earnings	Cumulative translation adjustment	Treasury shares	Total shareholders' equity
Balance April 1, 2002	3,260	130,544	231,808	(871)	(3,920)	360,821
Capital increase of Phonak Holding Ltd.						
from conditional capital	9	3,099				3,108
Dividend paid by Phonak Holding Ltd.			(7,811)			(7,811)
Purchase of treasury shares, net					(3,338)	(3,338)
Consolidated net loss			(46,877)			(46,877)
Currency translation differences				(16,352)		(16,352)
Balance March 31, 2003	3,269	133,643	177,120	(17,223)	(7,258)	289,551
Capital increase of Phonak Holding Ltd.						
from conditional capital	4	1,383				1,387
Dividend paid by Phonak Holding Ltd.			(7,805)			(7,805)
Sale of treasury shares		138			3,298	3,436
Consolidated net income			68,875			68,875
Currency translation differences				(6,354)		(6,354)
Balance March 31, 2004	3,273	135,164	238,190	(23,577)	(3,960)	349,090

The aggregate gains and losses on the currency translation and sale of treasury shares recognized directly in equity amount to a loss of CHF 6,216,000 in the year ended March 31, 2004 (a loss of CHF 16,352,000 in 2003). In the year ended March 31, 2004, a loss of CHF 8,905,925 was recognized directly in equity in currency translation differences in connection with hedges of the net investment in foreign subsidiaries (previous year a gain of CHF 13,951,425).

Definition of the different categories of shareholders' equity recognized in the Phonak Group:

- **Share capital** is the share capital of the parent company Phonak Holding Ltd.
- **Capital reserves** represent the share premiums arising out of the capital increases of Phonak Holding Ltd.
- **Retained earnings** comprise the undistributed profits of group companies and all other reserves including adjustments arising on consolidation.
- **Treasury shares** comprise the repurchased shares of Phonak Holding Ltd. at their respective acquisition costs.

Notes to the Consolidated Financial Statements at March 31, 2004

1. Corporate information

The Phonak Group (the "Group") is involved in the development, manufacture and distribution of hearing systems and related products. The Group operates world-wide and distributes its products through its own distribution network in the major industrialized countries and through independent representatives in over 60 other countries. 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. Basis of the consolidated financial statements

The consolidated financial statements of the Phonak Group are based on the financial statements at March 31 of the individual Group companies prepared in accordance with uniform policies. The consolidated financial statements have been prepared under the historical cost convention except for the revaluation of certain financial assets at market values in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (IASB). The consolidated financial statements were approved by the Board of Directors of Phonak Holding Ltd. on May 27, 2004.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities and contingent assets and liabilities at the date of the financial statements as well as revenue and expenses reported for the period. Actual results could differ from these estimates.

2.1 Basis of consolidation

The consolidated financial statements include the financial statements of Phonak Holding Ltd. as well as the domestic and foreign subsidiaries in which Phonak Holding Ltd. holds directly or indirectly more than 50% of the voting rights or has the power to exercise control over the operations. These companies have been fully consolidated in the consolidated financial statements.

Minority investments in associated companies (investments between 20% and 50%) are consolidated using the equity method. A list of the significant consolidated companies is given in Note 38.

2.2 Principles of consolidation

Under the full consolidation method, 100% of assets, liabilities, income and expenses are included.

The interests of minority shareholders in equity and net income or loss are shown separately in the balance sheet and income statement. The Group's share of equity in those companies consolidated using the equity method is shown in the balance sheet as "Investments in associates," and its share in the net income for the year is shown in the income statement as "Share of profit/(loss) in associated companies".

Group companies acquired during the year are included in the consolidation from the date of acquisition, and companies disposed of are excluded as of the date of disposal.

Intercompany receivables, liabilities, expenses and income are eliminated. Unrealized profit on intercompany inventories is eliminated.

2.3 Goodwill

The assets and liabilities of newly acquired Group companies are revalued at the estimated fair values at the date of acquisition. The difference between the purchase price and the revalued net assets represents goodwill. Goodwill is capitalized and amortized on a straight line basis over its expected economic useful life, not exceeding a maximum of 20 years. Goodwill denominated in foreign currencies is translated into Swiss francs at the exchange rate applicable at year-end.

2.4 Currency translation

The consolidated financial statements are expressed in Swiss francs ("CHF"). The functional currency of each group company is the applicable local currency.

Monetary assets and liabilities of Group companies which are denominated in foreign currencies are translated using year-end exchange rates. Transactions in foreign currencies are accounted for at the rates prevailing at the dates of the transactions. The resulting exchange differences are recorded in the local income statements of the Group companies and included in net income.

Exchange differences arising on intercompany loans that are considered part of the net investment in a foreign entity are recorded in equity.

When translating foreign currency financial statements into Swiss francs, year-end exchange rates are applied to assets and liabilities, while average annual rates are applied to income statement accounts. Translation differences arising from this process are recorded in a separate component of shareholders' equity. On disposal of a subsidiary, the related cumulative translation adjustment is transferred from shareholder's equity and included in the gain or loss on disposal in the statement of income.

2.5 Accounting and valuation principles

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, postal checking and bank account balances and time deposits with an original maturity of three months or less.

Trade receivables

Trade receivables are recorded at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the invoice. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows.

Inventories

Purchased raw materials, components and finished goods are valued at the lower of cost (weighted average cost) or net realizable value. Manufactured finished goods and work-in-process are valued at the lower of production cost or net realizable value. The main elements of production cost are materials, direct labor and an allocation of production overhead expense.

Tangible assets

Tangible assets (land, buildings, plant and equipment) are valued at purchase or manufacturing cost less accumulated depreciation. Depreciation is calculated on a straight line basis over the expected useful lives of the individual assets or asset categories. The applicable useful lives are 25–40 years for buildings, and 3–10 years for production facilities, machinery, equipment and vehicles. Land is not depreciated.

Assets that are held under leases which effectively transfer to the Group the risk and rewards of ownership (finance leases) are capitalized and depreciated over their estimated useful life, as defined above. The corresponding liabilities are classified as "short-term debts" or "other long-term debts", depending on whether they are payable within or after 12 months.

Expenditures for repair and maintenance which do not increase the estimated useful lives of the related assets are recognized as an expense in the period in which they are incurred.

Intangible assets

Intangible assets are comprised of goodwill arising on acquisitions and patents. Intangible assets are amortized on a straight line basis over the expected useful life, not exceeding 20 years (see also Note 2.3).

Short-term debts

Short-term debts consist of short-term bank debts and all other interest bearing debts with a maturity of 12 months or less.

Income taxes

Full provision is made for taxes which are to be paid on taxable profits of the individual Group companies. Deferred taxes are provided on the valuation differences (temporary differences) between the tax base of assets and liabilities and their carrying values in the consolidated balance sheet. Deferred tax assets relating to tax loss carryforwards are recognized only to the extent that it is probable that taxable income will be available against which the tax losses can be offset.

Provision is made for non-recoverable withholding taxes only on anticipated dividend distributions from subsidiaries. No provision is made in respect of possible future dividend distributions from undistributed earnings, as these are generally reinvested.

Revenue recognition

Consolidated sales are recognized at the time when the significant risks and rewards of ownership of the products and services have been transferred, generally when the products are received by the customer. Provisions are recorded for expected returns where applicable, based on historical experience. Revenue from service contracts is recognized on a pro rata basis over the contract period.

Research and development costs

The majority of research and development costs are expensed as incurred. The R&D costs for 2003/2004 amounted to CHF 58.2 million (previous year CHF 48.9 million). In addition to the internal costs (direct personnel and other operating costs, depreciation on R&D equipment and allocated occupancy costs), total costs also include externally contracted R&D work amounting to CHF 21.2 million (previous year CHF 18.6 million). Costs incurred for the development of tooling and equipment are capitalized if the project is determined to be technically and commercially feasible, thereby yielding probable future economic benefit. In 2003/04, CHF 8.2 million (2002/03 CHF 3.0 million) was capitalized for such projects.

Impairment

If there are indications that the carrying values of tangible assets, the investments in associated companies, goodwill or other intangible assets have been impaired, an impairment loss is recorded in order to reduce the respective assets to their recoverable amounts. The recoverable amount is based upon the present value of the future cash flows which the asset is expected to generate.

Related parties

Related parties are defined to include the main shareholders and members of the Board of Directors of Phonak Holding Ltd. and Group management. All transactions with related parties are on an arm's-length basis. No related party exercises control over the Group.

Employee benefits (IAS 19)**Pension obligations**

Certain Group companies have pension plans in addition to the mandatory local statutory social security plans. Such plans are defined contribution plans (future benefits are determined by reference to the amount of contributions paid) and are generally administered by autonomous pension plans or independent insurance companies. The pension plans are financed through employer and employee contributions.

Phonak Holding Ltd.'s pension fund, in which Phonak Ltd. and Phonak Communications Ltd. also participate, is classified as a defined benefit plan. Pension costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees participating in these plans, in accordance with the advice of the actuaries who carried out a full valuation of the plans as at March 31, 2004. The pension obligation is measured as the present value of the estimated future outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses are recognized over the average remaining service periods of employees participating in these plans as income or expense when the cumulative unrecognized actuarial gains or losses for each individual plan exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets.

Other long-term benefits

Other long-term benefits comprise mainly length of service compensation which certain subsidiary companies are required to provide in accordance with legal requirements in the respective countries. These benefits are accrued, and the corresponding liabilities are included under "Other provisions".

Equity compensation benefits

A certain number of options on the shares of Phonak Holding Ltd. are granted annually to members of the Board of Directors of Phonak Holding Ltd., Group executive management as well as management and senior employees of other Group companies. The option grants are subject to the condition that the respective employees have been employed by the Phonak Group for a period of at least two years. The strike price normally equals the average market value during the one or three months prior to the date of grant and no costs are recognized in the consolidated financial statements for options granted to employees (see also Note 32).

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

The Group recognises provisions for product warranties which are based on turnover and past experience of warranty claims.

Provisions for severance allowances comprise employee termination payments, and are recognised in the period in which the Group becomes legally or constructively committed to payment. Costs related to the ongoing activities of the Group are not provided in advance.

Leases

Leases where a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of lease.

Financial Instruments

IAS 39 requires investment securities, other than fixed maturity investment securities that the Group has the intent and ability to hold to maturity, to be carried at fair value.

The Group is exposed to the following financial risk categories:

Interest rate risk

Interest rate risk relates primarily to long-term interest bearing liabilities. The Group's mortgages as well as a portion of the other long-term debts represent long-term fixed-rate contracts, which minimize the risk of changing interest rates. The remainder of the long-term debts are currently subject to money market rates. The interest situation and hedging possibilities are continuously monitored. Derivative instruments are not currently being used to hedge against changes in interest rates.

Exchange rate risk

The Group buys and sells products in foreign currencies and is therefore exposed to exchange rate risks. To minimize foreign currency exchange risks, in particular relating to intercompany sales and the settlement of intercompany loans, forward currency contracts are entered into. Generally, these contracts do not qualify for treatment as hedges under IAS 39, and accordingly exchange losses and gains on forward currency contracts are recognized in the determination of net income. However, if a forward contract qualifies for treatment as a hedge, under IAS 39, such exchange gains and losses on the contract are recorded in equity. There are certain foreign currency contracts against a foreign currency denominated intercompany loan (net investment in foreign subsidiaries), which qualify as hedges under IAS 39.

Concentration risk

Financial instruments which could expose the Group to a potential concentration risk are principally cash and bank balances and trade receivables. Banking relations are maintained only with first-class financial institutions. The Group performs continuous credit checks on its customers and is not exposed to any significant concentration risks.

Financial assets and liabilities

Financial assets and liabilities, principally cash and bank balances, securities, trade receivables, trade payables, mortgage liabilities and other long-term debts, are classified as either "Held-for-trading", "Available-for-sale", "Held-to-maturity" or "Originated by the Group". Held-for-trading investments (mainly marketable securities) are acquired principally to generate profit from short-term fluctuations in price. Held-to-maturity investments are securities with a fixed maturity that the Group has the intent and ability to hold until maturity. Investments originated by the Group are loans and other long-term financial assets created by the Group. All other investments are considered as available-for-sale.

All investments are initially recorded at cost, including transaction costs. All purchases and sales are recognized on the settlement date. Held-for-trading and Available-for-sale investments are subsequently carried at fair value, with all changes in fair value recorded as financial income (expense) in the period in which they arise. Held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Derivatives

All derivative financial instruments are initially recorded at cost, including transaction costs. All purchases and sales are recognized on the settlement date. Derivatives are subsequently carried at fair value. All changes in fair value are recorded as financial income (expense) in the period in which they arise. Gains or losses from derivative financial instruments used for trading purposes are taken to income as they arise.

Derivative financial instruments and hedging

The Group enters into derivative contracts in order to hedge net investments (intercompany loans that are an extension of the net investment) in foreign entities. Such derivative contracts are designated as hedges on the date of inception. Changes in the fair value of such derivatives are recognized in equity. All foreign exchange gains or losses arising on remeasurement of the derivative contracts are recognized in equity and included in cumulative translation differences. When a hedge no longer meets the criteria for hedge accounting, any gain or loss existing in equity at that time is recognized in the income statement.

3. Changes in Group Structure

During 2003/04, the following companies were included in the consolidation for the first time:

- Phonak Japan Co. Ltd., Tokyo, Japan (founded in June 2003)
- Unitron Hearing (Suzhou) Co. Ltd., Suzhou, P.R.China (founded in August 2003)
- Cochlear Acoustics Ltd., London, United Kingdom (25% interest established as of August 1, 2003)
- Viennatone Hörgeräte GmbH, Vienna, Austria (100% interest purchased as of March 1, 2004 by Hansaton Akustische Geräte GmbH, Wals-Himmelreich, Austria)

As of April 1, 2003, Phonak Middle East FZE, Dubai, was closed and its operations transferred to Jordan Hearing Manufacturing Aids Et Co. Ltd., Amman, Jordan.

During 2002/03, the following companies were included in the consolidation for the first time:

- Van Opstal Compro B.V., Netherlands (100% interest purchased as of April 1, 2002 and held by Phonak Netherlands B.V., Nieuwegein)
- Jordan Hearing Manufacturing Aids Et Co. Ltd., Amman, Jordan (100% interest purchased as of April 1, 2002)

As of April 1, 2002, Phonak Switzerland Ltd., Bubikon, Switzerland was merged with Phonak Ltd., Stäfa, Switzerland.

4. Segment information

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

1,000 CHF	Europe		North America	
	2003/04	2002/03	2003/04	2002/03
Sales				
Third parties	307,956	240,517	304,052	289,681
Sales within the same segment	37,440	24,553	19,292	1,364
Intersegment sales	238,802	195,265	6,722	25,257
Total sales	584,198	460,335	330,066	316,302
Earnings before interest, tax and amortization (EBITA)	116,010	70,702	27,121	9,260
Segment result (EBIT)	111,263	69,891	23,310	(72,629)
Financial expense, net				
Share of loss in associated company	(280)	0	0	0
Income / (loss) before taxes and minority interest				
Taxes				
Minority interest				
Consolidated net Income / (loss)				
Total assets	1,084,773	986,730	400,649	387,555
Total liabilities	649,175	626,732	222,978	221,841
Investments in tangible and intangible assets	16,379	16,491	5,078	4,871
Depreciation on tangible assets	17,159	15,111	4,898	4,585
Amortization on intangible assets	4,963	4,944	4,762	6,503
One-time charge for goodwill impairment	0	0	0	75,000

Australasia		Eliminations / Other		Total	
2003/04	2002/03	2003/04	2002/03	2003/04	2002/03
29,319	20,345	(3,725)	0	637,602	550,543
38	1,048	(56,770)	(26,965)	0	0
5,088	10,492	(250,612)	(231,014)	0	0
34,445	31,885	(311,107)	(257,979)	637,602	550,543
(2,959)	1,191	(36,904)	(33,014)	103,268	48,139
(2,955)	1,184	(36,904)	(35,805)	94,714	(37,359)
				(695)	(4,480)
0	0	0	0	(280)	0
				93,739	(41,839)
				(24,380)	(4,953)
				(484)	(85)
				68,875	(46,877)
24,171	13,233	(825,388)	(780,657)	684,205	606,861
17,532	5,332	(555,818)	(537,503)	333,867	316,402
2,391	1,770	(837)	0	23,011	23,132
492	493	0	0	22,549	20,189
0	7	0	0	9,725	11,454
0	0	0	0	0	75,000

5. Sales related costs

These consist of expenditures which relate directly to sales revenue, such as cash discounts, year-end rebates, third-party sales commissions, outward freight costs and bad debts.

6. Consolidated Income Statement 2003/04 by type of expenditure

The income statement has been prepared using the operational format rather than the type of expenditure format. In order to provide additional information, the income statement by type of expenditure is presented below.

	Notes	2003/04 1,000 CHF	2002/03 1,000 CH
Consolidated sales	4	637,602	550,543
Sales related costs	5	(23,700)	(33,683)
Changes in finished goods and work in progress		950	(2,976)
Own work capitalized		2,698	3,749
Other operating income		59	18
Operating income		617,609	517,651
Direct material costs		(145,275)	(138,294)
Personnel expenses		(207,111)	(189,237)
Other operating expenses		(136,321)	(115,864)
Depreciation and amortization	8	(32,287)	(31,643)
One-time charge for goodwill impairment	8	0	(75,000)
Exchange differences		(1,294)	(2,797)
Other operating expense, net		(607)	(2,175)
Operating income / (loss) (EBIT)		94,714	(37,359)
Financial expense, net	10	(695)	(4,480)
Share of loss in associated company	20	(280)	0
Income / (loss) before deduction of taxes and minority interest		93,739	(41,839)
Income taxes	11	(24,380)	(4,953)
Minority interest		(484)	(85)
Income / (loss) after taxes		68,875	(46,877)
Basic earnings / (loss) per share (CHF/share)			
before one-time charge	12	1.056	0.432
after one-time charge			(0.721)
Diluted earnings / (loss) per share (CHF/share)			
before one-time charge	12	1.050	0.431
after one-time charge			(0.721)

7. Financial instruments

The net fair values of derivative financial instruments at the balance sheet date were:

Forward foreign exchange rate contracts

	2003/04	2002/03
	1,000 CHF	1,000 CHF
Contracts with positive fair values	582	2,389
Contracts with negative fair values	(4,256)	(36)
Total	(3,674)	2,353

The forward foreign exchange contracts mainly include Canadian - Swiss Franc agreements with net volumes of CAD 90 million, with positive fair values of CHF 0.2 million and with negative fair values of CHF 3.3 million as of March 31, 2004. In the previous year, there were forward exchange contracts of CAD 120 million with positive fair values of CHF 2.33 million, which have been treated as a hedge, attributable to a loan to a Canadian subsidiary.

8. Depreciation and amortization

	2003/04	2002/03
	1,000 CHF	1,000 CHF
Depreciation on tangible assets		
Land and buildings	2,406	2,125
Plant and equipment	20,143	18,064
Total	22,549	20,189
Amortization of goodwill	8,554	10,498
One-time charge for goodwill impairment	0	75,000
Amortization of other intangible assets	1,171	844
Write-down of other investments	13	112
Total	32,287	106,643

9. Other expenses, net

	2003/04	2002/03
	1,000 CHF	1,000 CHF
Loss on disposal of tangible assets, net	(430)	(1,851)
Other expenses	(269)	(432)
Non-recurring expenses	(272)	(110)
Non-recurring income	373	200
Other operating income	59	18
Total	(539)	(2,175)

Other expenses, net comprise non-recurring items which are incurred in the ordinary course of business.

10. Financial expense, net

	2003/04	2002/03
	1,000 CHF	1,000 CHF
Interest income	1,318	1,525
Securities profit/(loss), net	1,157	(1,150)
Total financial income	2,475	375
Mortgage interest	(1,313)	(1,527)
Leasing interest (finance leases)	(3)	(9)
Other interest expense, net	(1,854)	(3,319)
Total interest expense	(3,170)	(4,855)
Total	(695)	(4,480)

11. Taxes

	2003/04	2002/03
	1,000 CHF	1,000 CHF
Income taxes	21,504	8,547
Change in deferred taxes	2,876	(3,594)
Total	24,380	4,953
Reconciliation of tax expense		
Income / (loss) before taxes and minority interests	93,739	(41,839)
Weighted average expected tax rate ¹⁾	24.8%	15.8%
Tax at weighted average rate	23,280	(6,614)
+/- effects of		
non tax deductible expenses	3,164	6,589
deferred tax assets not capitalized	0	5,925
utilization of previously unrecognized loss carryforwards	(2,396)	0
change in tax rates on deferred tax balances ²⁾	(968)	(4)
prior year expense and other items ³⁾	1,300	(943)
Total tax expense	24,380	4,953
as a % of consolidated income / (loss) before taxes and minority interest	26.0%	(11.8%)

¹⁾ The expected Group tax rate is the aggregate obtained by applying the currently effective rate for each individual jurisdiction to its respective result before taxes.

²⁾ The change in tax rates is mainly attributable to lower tax rates in Canada and USA.

³⁾ "Prior year expense and other items" includes non-refundable foreign withholding taxes of CHF 0 (prior year CHF 239,000).

Composition of deferred tax assets and liabilities

	31.3.2004		31.3.2003	
	1,000 CHF		1,000 CHF	
	Assets	Liabilities	Assets	Liabilities
Tax loss carry forwards	15,371	0	19,936	0
Trade receivables	1,232	533	1,224	126
Prepayments	0	0	0	3
Inventories incl. allowances	11,509	2,699	9,344	3,129
Tangible fixed assets	297	10,188	844	10,058
Intangible assets	859	2,422	3,312	3,284
Other liabilities and short-term provisions	13,567	0	11,705	494
Long-term provisions	1,133	2,121	1,330	3,263
Other items	(5)	(19)	0	0
Deferred taxes	43,963	17,944	47,695	20,357

Deferred tax assets have been capitalized based on the projected future performance of the group companies, supplemented with tax planning opportunities. The tax loss carryforwards expire between 2007 and 2023.

12. Earnings per share

The basic earnings per share are calculated by dividing the consolidated net income of CHF 68.9 million for 2003/04 by the weighted average number of shares outstanding (net of treasury shares) during the period. For the current business year, the weighted average number of shares outstanding amounted to 65,198,175 shares (previous year 65,063,049 shares). The diluted earnings per share considers the dilutive effect which could arise upon the possible exercise of all outstanding options. The weighted average number of shares used to determine the diluted earnings per share was 65,605,749 shares (previous year 65,284,907 shares).

13. Dividends per share

The Board of Directors of Phonak Holding Ltd. proposes to the General Meeting to be held on July 8, 2004 that a dividend of CHF 0.20 per share be distributed.

14. Cash and cash equivalents

	31.3.2004	31.3.2003
	1,000 CHF	1,000 CHF
Cash on hand	3,145	5,190
Postal checking and current bank accounts	137,759	53,853
Time deposits	4,958	16,206
Payments in transit	20	(221)
Total	145,882	75,028

15. Short-term investments

	31.3.2004	31.3.2003
	1,000 CHF	1,000 CHF
Short-term investments	11,417	9,344

All short-term investments are held for trading.

16. Trade receivables

	31.3.2004	31.3.2003
	1,000 CHF	1,000 CHF
Accounts receivable	123,389	108,838
Provision for doubtful accounts	(7,069)	(6,264)
Total	116,320	102,574

17. Other receivables and prepayments

	31.3.2004	31.3.2003
	1,000 CHF	1,000 CHF
Other receivables	11,826	10,136
Prepayments	4,459	5,959
Total	16,285	16,095

The largest individual items included in other receivables are recoverable value added taxes and advances to suppliers. Prepayments comprise mainly prepaid operating expenses.

18. Inventories

	31.3.2004	31.3.2003
	1,000 CHF	1,000 CHF
Raw materials and components	43,316	54,778
Work-in-process	18,551	15,877
Finished products (incl. purchased goods)	36,279	35,266
Allowances	(20,666)	(22,576)
Total	77,480	83,345

19. Tangible assets

1,000 CHF	Land	Buildings	Total land & buildings	Plant & equipment	Total fixed assets	31.3.2004	31.3.2003
Cost							
Balance April 1	10,006	77,611	87,617	135,380		222,997	222,639
Change in Group companies	22	1,364	1,386	2,159		3,545	196
Additions	0	746	746	20,514		21,260	21,515
Disposals	(108)	(427)	(535)	(4,439)		(4,974)	(15,039)
Exchange differences	246	906	1,152	1,781		2,933	(6,314)
Balance March 31	10,166	80,200	90,366	155,395		245,761	222,997
Accumulated Depreciation							
Balance April 1	0	20,548	20,548	76,738		97,286	92,725
Change in Group companies	0	857	857	1,561		2,418	40
Additions	193	2,213	2,406	20,143		22,549	20,189
Disposals	0	(178)	(178)	(3,238)		(3,416)	(12,395)
Exchange differences	2	256	258	1,265		1,523	(3,273)
Balance March 31	195	23,696	23,891	96,469		120,360	97,286
Net book value							
Balance April 1	10,006	57,063	67,069	58,642		125,711	129,914
Balance March 31	9,971	56,504	66,475	58,926		125,401	125,711

The tangible assets (buildings, plant and equipment) are insured against fire at a value of CHF 223.5 million (previous year CHF 200.2 million). Plant and equipment includes assets held under financial leases with the following values:

- cost CHF 0.01 million (previous year CHF 0.4 million)
- net book value CHF 0.01 million (previous year CHF 0.1 million)

The corresponding leasing liabilities amount to CHF 0.03 million (previous year CHF 0.1 million).

20. Investments in associates

Investments in associates include a 25% investment in the software development company HIMSA A/S (a co-operation with three Danish hearing instrument manufacturers). The company closed its fiscal year 2003 with a profit of CHF 0.4 million. The Group's pro-rata share in that profit is CHF 0.1 million; however, this amount has not been recognized in the income statement, because it does not exceed the company's share of losses not recognized.

Investments in associates also include a 25% investment in Cochlear Acoustics Ltd., London, UK, a company established during 2003. In return for its 25% equity share, Phonak Ltd. granted a license to use certain of its patents and the fair value of assets transferred was CHF 1.8 million. As a result of the transfer of licence rights, a profit of CHF 0.1 million was recognized. There was no cash transferred or paid for the 25% equity share. Phonak Ltd's share of the company's loss for the nine month period ended March 31, 2004 is CHF 280,000, which is recognized in the income statement as "share of loss in associated company".

21. Other investments and long-term loans

	31. 3. 2004	31. 3. 2003
	1,000 CHF	1,000 CHF
Other investments	5,305	2,809
Other long-term loans	4,822	3,293
Total	10,127	6,102

The other investments consist mainly of minority interests in the following Danish patent holding companies: K/S HIMPP (Hearing Instrument Manufacturers Patent Partnership) and HIMPP A/S; and the following Danish software development companies: HIMSA II A/S (Hearing Instruments Manufacturers Software Association II A/S) and HIMSA II K/S, in which Phonak and Unitron have invested together with other leading hearing instrument manufacturers and which are classified as available for sale under IAS 39. Other long-term loans comprise a loan arising from the sale of an investment of the Unitron Group in 1999 and other loans to third parties.

22. Intangible assets

	Goodwill	Other intangibles	31. 3. 2004	31. 3. 2003
			1,000 CHF	1,000 CHF
Cost				
Balance April 1	242,123	4,010	246,133	265,876
Additions	1,660	91	1,751	1,617
Disposals	0	(1,819)	(1,819)	0
Reclassifications	0	154	154	0
Exchange differences	4,943	(76)	4,867	(21,360)
Balance March 31	248,726	2,360	251,086	246,133
Accumulated amortization				
Balance April 1	107,748	1,087	108,835	24,215
Amortization for the year	8,554	1,171	9,725	11,342
One-time charge for goodwill impairment	0	0	0	75,000
Disposals	0	34	34	0
Exchange differences	994	(64)	930	(1,722)
Balance March 31	117,296	2,228	119,524	108,835
Net book value				
Balance April 1	134,375	2,923	137,298	241,661
Balance March 31	131,430	132	131,562	137,298

Goodwill is generally being amortized over 20 years. In the prior year, a one-time, non-cash impairment charge of CHF 75 million was recorded to restate the goodwill asset related to the Unitron acquisition based on a revised projection of the future cash flows, using a discount rate of 8%.

23. Short-term debts

	31. 3. 2004	31. 3. 2003
	1,000 CHF	1,000 CHF
Bank debts	3,142	3,026
Current maturities of long-term debts	26,183	26,251
Total	29,325	29,277

The current maturities of long-term debts consist of amounts due in the next 12 months in respect of mortgage repayments of CHF 2.6 million (previous year CHF 2.6 million) and other long-term debts of CHF 23.6 million (previous year CHF 23.6 million).

24. Other liabilities and provisions (short-term)

	31. 3. 2004	31. 3. 2003
	1,000 CHF	1,000 CHF
Other payables	9,162	4,805
Accruals and short-term provisions	91,261	57,966
Deferred income	8,316	8,987
Total	108,739	71,758

Other payables include amounts to be remitted in respect of sales taxes, value added taxes, social security payments, employees' income taxes deducted at source and customer prepayments. Accruals and short-term provisions include, among other items, short-term portion of warranty accrual, accrued vacation, compensation payable, bonuses based on earnings and customer sales rebates.

25. Mortgages

	31. 3. 2004	31. 3. 2003
	1,000 CHF	1,000 CHF
Analysis by currency		
Swiss Francs	33,800	36,100
Euro	352	568
Danish Crowns	409	423
Total	34,561	37,091
Of which maturing beyond 5 years	320	356

The above-mentioned mortgages are all secured by liens on the related real estate. Principal amounts bear interest at the following rates per annum: CHF 13.2 million at 3.0%, CHF 10.4 million at 3.29%, CHF 10.2 million at 3.58% and the remainder at 4.25% to 7.35%. The major portion of the Swiss franc mortgages are repaid in annual instalments representing 6.8% of the principal amount.

26. Other long-term debts

	31. 3. 2004	31. 3. 2003
	1,000 CHF	1,000 CHF
Bank loans	80,210	105,224
Other	28	42
Total	80,238	105,266
Analysis by currency		
Swiss Francs	70,600	94,200
Euro	9,610	11,059
American Dollars	23	0
New Zealand Dollars	5	7
Total	80,238	105,266
Of which maturing beyond 5 years	1,400	2,118

Long-term debts denominated in Swiss francs relate to bank loans obtained to finance the purchase of the Unitron and Hansaton subsidiaries. These loans bear interest at LIBOR + 0.5% (0.84833% at March 31, 2004) and are scheduled for repayment semi-annually over seven years (until December 31, 2007). The debt in Euro relates to two long-term bank credits which are repayable in annual instalments with a final maturity date of 2008 (for the purchase of Lapperre BHAC NV during the 1996/97 business year) and in monthly instalments through the year 2018 (for the purchase of the hearing instrument sales facilities during the 1997/98 business year). Of these loans, the equivalent of CHF 3.4 million bear interest at the short-term money market rate (currently 3.65%) and CHF 6.2 million at the long-term capital market rates (fixed rates for 5 years and 10 years of 5.96% and 5.56% respectively).

27. Other liabilities and provisions (long-term)

	Provisions for product warranties ¹⁾	Provisions for employee benefits	Provisions for severance allowances	Deferred income	Others	31.3.2004	31.3.2003
Balance April 1, 2003	4,624	820	1,017	1,740	830	9,031	7,742
add: short-term portion of warranties	6,181	0	0	0	0	6,181	7,429
Subtotal	10,805	820	1,017	1,740	830	15,212	15,171
Changes in Group companies	0	26	295	0	69	390	0
Amounts used	(1,332)	(36)	(19)	(694)	(210)	(2,291)	(6,304)
Reversals	(138)	(15)	0	(602)	(15)	(770)	(5,987)
Increases	4,476	72	61	1,328	323	6,260	14,145
Exchange differences	(66)	18	56	(115)	24	(83)	(1,813)
less: short-term portion of warranties	(7,504)	0	0	0	0	(7,504)	(6,181)
Balance March 31, 2004	6,241	885	1,410	1,657	1,021	11,214	9,031

¹⁾ Includes movements in short- and long-term warranty

On average, Phonak grants a 15-month warranty period for its products. During this period, products will be repaired or replaced free of charge. The provision is based on sales and past experience of warranty claims.

28. Movements in share capital

Issued shares

(each share has a nominal value of CHF 0.05)

	Issued shares	Treasury shares ²⁾	Outstanding shares
Balance April 1, 2002	65,204,200	(137,700)	65,066,500
Issue of new shares from conditional capital ¹⁾	168,000	0	168,000
Purchase of treasury shares	0	(192,910)	(192,910)
Balance March 31, 2003	65,372,200	(330,610)	65,041,590
Issue of new shares from conditional capital ¹⁾	90,000	0	90,000
Disposal of treasury shares	0	188'898	188,898
Balance March 31, 2004	65,462,200	(141,712)	65,320,488

Nominal value of share capital

	Share capital	Treasury shares ²⁾	Outstanding share capital
1,000 CHF			
Balance April 1, 2002	3,260	(7)	3,253
Issue of new shares from conditional capital ¹⁾	9	0	9
Purchase of treasury shares	0	(10)	(10)
Balance March 31, 2003	3,269	(17)	3,252
Issue of new shares from conditional capital ¹⁾	4	0	4
Disposal of treasury shares	0	10	10
Balance March 31, 2004	3,273	(7)	3,266

¹⁾ Created for purpose of the employee share option plan.

²⁾ The treasury shares, which are not entitled to dividends, were purchased on the open market. Other than 11,500 shares which are reserved for the Phonak Cycling Team, treasury shares are at the company's disposal.

The authorized share capital expired on December 7, 2002. During the annual shareholders' meetings on July 13, 2000 and July 5, 2001, the conditional share capital was increased from a maximum of 5,000,000 shares to a maximum of 6,912,500 shares. As of March 31, 2004, 5,845,600 (previous year 5,935,600) shares thereof had not yet been issued. These shares are reserved for use in the Key People Program (employee share option plan for key employees of the Phonak Group).

29. Acquisition of subsidiaries

Effective March 1, 2004, the company acquired a 100% interest in Viennatone Hörgeräte GmbH (Vienna, Austria). This acquisition was accounted for using the purchase method of accounting. The cost to acquire this company was CHF 5.5 million (CHF 4.0 million paid in cash and the remainder will be paid in cash in the future based on the achievement of certain performance targets) and the goodwill recorded was CHF 1.6 million. The operating result of this company from the purchase date to March 31, 2004 amounted to CHF 0.07 million.

In 2002/2003, the company acquired a 100% interest in Van Opstal Compro B.V. and a 100% interest in Jordan Hearing Manufacturing Aids & Co. The cost to acquire these companies, paid in cash, was CHF 1.8 million.

	2003/04	2002/03
	1,000 CHF	1,000 CHF
Cash and cash equivalents	244	136
Trade receivables	881	202
Other receivables and prepayments	737	12
Inventories	2,811	209
Tangible fixed assets	774	130
Intangible assets	11	0
Investments and loans	282	0
Deferred tax assets	2,770	0
Short-term loans	0	(48)
Trade payables	(1,754)	(111)
Other payables and accruals	(1,996)	(209)
Tax payable	0	(29)
Other long-term debts	(468)	(21)
Deferred tax liabilities	(396)	0
Other long-term provisions	0	(47)
Total net assets	3,896	224
Of which acquired	3,896	224
Goodwill	1,632	1,578
Purchase price	5,528	1,802
For which Phonak set up a long-term payable for the earn-out or holdback	(1,559)	(630)
Cash consideration	3,969	1,172
Less cash and cash equivalents acquired	(244)	(136)
Cash flow for acquisitions, net of cash acquired	3,725	1,036
Earnout payment in respect of prior year acquisition	210	0
Cash flow for acquisitions	3,935	1,036

30. Employee benefits

Defined benefit plans

The pension funds of Phonak Holding Ltd., in which Phonak Ltd. and Phonak Communications Ltd. also participate, are defined benefit plans under IFRS definitions (see also Note 2.5 Accounting and valuation principles). The pension plans of Phonak Holding Ltd. are accounted for as defined benefit plans according to IAS 19. The results are summarized below:

	31.3.2004	31.3.2003
	1,000 CHF	1,000 CHF
Amounts recognized in the balance sheet		
Present value of funded obligations	(70,798)	(58,248)
Fair value of plan assets	72,226	58,673
	1,428	425
Unrecognised actuarial losses	2,687	3,244
Asset in the balance sheet	4,115	3,669
Amounts recognized in the income statement		
Current service cost	3,871	4,401
Interest cost	2,330	2,330
Expected return on plan assets	(2,934)	(2,938)
Total employee benefit expenses	3,267	3,793
Movements in the asset		
At beginning of the year	3,669	3,776
Total employee benefit expenses	(3,267)	(3,793)
Contributions paid	3,713	3,686
At end of year	4,115	3,669
Principal actuarial assumptions		
Discount rate	3.75%	4%
Future salary increases	2.50%	3%
Future pension increases	0%	2%
Expected return on plan assets	5%	5%
Fluctuation rate	10%	10%

The actual return on plan assets was a gain of CHF 4.9 million (previous year loss of CHF 0.8 million).

Defined contribution plans

The employer's contributions are directly recognized in the income statement, amounting to CHF 1.6 million in the year ended March 31, 2004 (previous year CHF 0.7 million).

31. Related party transactions

The total remuneration of the Board of Directors and Group executive management of Phonak Holding Ltd. for the current business year amounted to CHF 4.1 million (previous year CHF 4.8 million). Phonak Ltd. entered into a sponsorship agreement, with an annual commitment of CHF 5.0 million, with ARcycling Ltd. effective until December 31, 2004. The actual expense in 2003/04 was CHF 3.8 million.

32. Employee share option plan

In accordance with the "Key People Program" established in 1997, members of the Board of Directors of Phonak Holding Ltd., Group executive management as well as management and senior employees of other Group companies receive annually a certain number of options on the shares of Phonak Holding Ltd.; this is basically on the condition that the respective employees have been employed by the Phonak Group for a period of generally two years. The options are granted for no consideration and each option entitles the holder to one Phonak Holding Ltd. share after a lock-up period of generally two or three years at a pre-defined exercise price. The exercise price corresponds to the average market price over the last one or three months immediately prior to the month of the grant. Also, in accordance with special agreements, key people of the Phonak Group are granted options, partially with and partially without consideration. The shares required for the share option plan are issued from the conditional share capital, which was created by resolutions of the 2000 and 2001 general meetings in accordance with Article 3a of Phonak Holding Ltd. articles of incorporation.

Changes in outstanding options:

	2003/04		2002/03	
	Number of options	Weighted average exercise price CHF	Number of options	Weighted average exercise price CHF
Outstanding options at April 1	2,018,500	30.83	1,696,250	42.75
Granted	780,450	28.00	875,250	13.24
Exercised ¹⁾	(90,000)	15.42	(168,000)	18.50
Expired	(648,000)	42.80	(385,000)	48.76
Outstanding options at March 31	2,060,950	26.15	2,018,500	30.83
Exercisable at March 31	409,750	46.69	712,000	41.39

¹⁾ Total consideration from exercise of options amounted to CHF 1.4 million (previous year CHF 3.1 million)

Summary of outstanding and exercisable options at March 31, 2004:

Exercise price range CHF	Number	Outstanding options		Exercisable options	
		Average remaining life (years)	Weighted average exercise price CHF	Number	Weighted average exercise price CHF
13.00	668,250	2.0	13.00	0	0.00
13.50	20,000	0.3	13.50	20,000	13.50
14.00	180,000	2.7	14.00	40,000	14.00
18.50	47,500	1.1	18.50	25,000	18.50
28.00	780,450	4.9	28.00	0	0.00
40.50	47,500	1.6	40.50	22,500	40.50
56.00	317,250	0.7	56.00	302,250	56.00
13.00 - 56.00	2,060,950	1.9	26.15	409,750	46.69

33. Contingent liabilities

At March 31, 2004 and 2003, there were no pledges given to third parties other than in relation to mortgages of CHF 34.6 million (2002/03 CHF 37.1 million) secured by properties (note 25). The net book value of these properties amounts to CHF 54.2 million at March 31, 2004 (CHF 55.6 million at March 31, 2003). Guarantees given to third parties amounted to CHF 0.5 million (previous year CHF 0.9 million). There were no recourse liabilities in respect of discounted bills of exchange at March 31, 2004 and 2003.

34. Leasing liabilities

At March 31, 2004 the following minimum leasing liabilities existed:

Business Year	Operating	Finance
	leases	leases
	1,000 CHF	1,000 CHF
2004/05	7,650	14
2005/06	6,652	12
2006/07	5,402	7
2007/08	5,192	0
2008/09	5,235	0
thereafter	15,408	0
Total	45,539	33
Less interest component		(3)
Total (excl. interest)		30
Previous year	48,568	133
Less interest component		(8)
Previous year (excl. interest)		125

The operating lease commitments relate primarily to long-term rental agreements for office premises which are, in general, renewable.

35. Number of employees

At March 31, 2004, the Phonak Group employed 2,689 people (previous year 2,385). They were engaged in the following regions and activities:

By region	31.3.2004	31.3.2003
Switzerland	707	650
Europe (excl. Switzerland)	786	690
North America	977	950
Australasia	219	95
Total	2,689	2,385
By activity	31.3.2004	31.3.2003
Research & development	178	172
Production	967	908
Marketing/sales and administration	1,544	1,305
Total	2,689	2,385

The average number of employees of the Phonak Group for the year was 2,523 (previous year 2,397).

36. Events after balance sheet date

The company has signed a letter of intent to acquire a 100% interest in Unitron (Sichuan) Hearing Technology Co. Ltd. (Chengdu, People's Republic of China) and KAM Hearing Technology (Guangzhou) Ltd.

(Guangzhou, People's Republic of China), effective April 1, 2004. The transactions are subject to completion of due diligence and preparation of definitive agreements. Upon completion, the acquisitions will be accounted for using the purchase method in the 2004/05 consolidated financial statements. The maximum purchase price, to be paid in cash, is approximately CHF 2.25 million, which includes a variable component based on future performance of the acquired company. The revaluation of net assets to be acquired is currently in progress; therefore, the amount of related goodwill cannot be specified at this time.

The company has also signed a letter of intent to acquire certain assets of Scancare OY (Tampere, Finland), effective April 1, 2004. The transaction is subject to completion of due diligence and preparation of definitive agreements. Upon completion, the acquisition will be accounted for using the purchase method in the 2004/05 consolidated financial statements. The maximum purchase price, to be paid in cash, is approximately CHF 0.12 million. The revaluation of net assets to be acquired is currently in progress; therefore, the amount of related goodwill cannot be specified at this time.

37. Exchange rates

The following exchange rates were used for currency translation:

	Year-end rates		Average rates for year	
	Balance sheet		Income statement	
	31.3.2004	31.3.2003	2003/04	2002/03
AED 100	35.03	36.85	35.89	40.29
AUD 1	0.96	0.82	0.91	0.83
CAD 1	0.97	0.92	0.97	0.96
CNY 1	0.16	-	0.16	-
DKK 100	20.93	19.85	20.74	19.73
EUR 1	1.56	1.48	1.54	1.47
GBP 1	2.33	2.14	2.23	2.28
JPY 100	1.22	-	1.17	-
JOD 1	1.74	1.91	1.86	2.09
NOK 100	18.45	18.60	18.70	19.58
NZD 1	0.84	0.75	0.80	0.73
SEK 100	16.80	15.95	16.87	16.02
USD 1	1.29	1.35	1.32	1.48

38. List of significant consolidated companies

Company name	Description	Domicile	Share capital Local curr. 1,000	Share held by Phonak Holding
Switzerland				
Phonak Holding Ltd.	1	Stäfa	CHF 3,273	0
Phonak Ltd.	2,3,4	Stäfa	CHF 2,500	99.3%
Phonak Communications Ltd.	2,3,4	Murten	CHF 500	100 %
Europe (excluding Switzerland)				
Phonak GmbH	2	Stuttgart (D)	EUR 153	100 %
Unitron Hearing GmbH	2	Bremen (D)	EUR 41	100 %
Phonak France SA	2	Bron-Lyon (F)	EUR 305	100 %
Phonak Italia Srl	2	Milan (I)	EUR 1,040	100 %
Phonak Iberica SA	2	Alicante (E)	EUR 7,000	100 %
Phonak Belgium SA	2	Brussels (B)	EUR 0	100 %
Lapperre BHAC NV	2	Groot-Bijgaarden (B)	EUR 918	100 %
Phonak B.V.	2	Nieuwegein (NL)	EUR 227	100 %
Unitron Hearing B.V.	2	Nieuwegein (NL)	EUR 18	100 %
Phonak Danmark A/S	2	Frederiksberg (DK)	DKK 9,000	100 %
Phonak AB	2	Stockholm (S)	SEK 200	100 %
Phonak AS	2	Oslo (N)	NOK 900	100 %
Phonak Group Limited	2	Warrington (GB)	GBP 150	100 %
Hansaton Akustische Geräte GmbH	2	Wals-Himmelreich (AUT)	EUR 72	100 %
Viennatone Hörgeräte GmbH	2	Vienna (AUT)	EUR 436	100 %
HIMSA – Hearing Instruments Manufacturers Software Ass.	1,5	Copenhagen (DK)	DKK 1,000	25 %
Cochlear Acoustics Ltd.	4,5,6	London (GB)	GBP 0	25 %
North America				
Phonak LLC	2	Warrenville (USA)	USD 1,250	100 %
Phonak Canada Ltd.	2	Mississauga (CDN)	CAD 88,694	100 %
Unitron Hearing Ltd.	1,2,3,4	Kitchener (CDN)	CAD 17,436	100 %
Unitron Hearing, Inc.	2	Plymouth (USA)	USD 46,608	100 %
THC Finance Ltd.	1	Bermuda	CHF 165,021	100 %
RAV Finance Inc.	1,7	USA	USD 0	100 %
Australasia				
Phonak Pty. Ltd.	2	Baulkham Hills (AUS)	AUD 750	100 %
Phonak New Zealand Ltd.	2	Auckland (NZ)	NZD 250	100 %
Jordan Hearing Aids Manufacturing Co. Ltd.	2	Amman (JOR)	JOD 80	100 %
Phonak Japan Co. Ltd.	2	Tokyo (JPN)	JPY 10,000	100 %
Unitron Hearing (Suzhou) Co. Ltd.	3	Suzhou (CHN)	CNY 7,946	100 %

Description:

- | | |
|--|--|
| 1 Holding/Finance: The entity is a holding or finance company | 5 Consolidated using the equity method |
| 2 Sales: The entity performs sales and marketing activities for the group | 6 GBP 100 |
| 3 Production: This entity performs manufacturing for the group | 7 USD 1 |
| 4 Research: This entity performs research and development activities for the group | |



Report of the group auditors
to the general meeting of
Phonak Holding Ltd., Stäfa

As auditors of the group, we have audited the consolidated financial statements (consolidated income statement, consolidated balance sheet, consolidated statement of cash flows, summary of changes in shareholder's equity and notes – pages 44 to 71) of Phonak Holding Ltd. for the year ended March 31, 2004.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

Zurich, May 27, 2004

PricewaterhouseCoopers AG

Stephen W. Williams

Patrick Balkanyi

Financial Statements of Phonak Holding Ltd.

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Balance Sheet as at March 31, 2004

Assets

	Notes	31.3.2004 1,000 CHF	31.3.2003 1,000 CHF
Current assets			
Cash and cash equivalents		8,303	785
Marketable securities	3.1	14,453	13,328
Amounts due from Group companies		1,376	3,150
Other receivables	3.2	1,204	775
Prepayments		158	463
Total current assets		25,494	18,501
Non-current assets			
Investments and loans			
Loans to Group companies	3.3	299,122	279,039
Loan to associated company		139	799
Allowance on loan to associated company		(139)	(409)
Investments	3.4	110,734	104,377
Total non-current assets		409,856	383,806
Total assets		435,350	402,307

Liabilities and shareholders' equity

	Notes	31.3.2004 1,000 CHF	31.3.2003 1,000 CHF
Liabilities			
Trade payables			
To third parties		118	57
Other payables			
Third parties		597	709
Group companies		1,742	56
Loans from Group companies		174,261	174,691
Accruals		806	572
Provision for taxes		0	550
Total liabilities		177,524	176,635
Shareholders' equity			
Share capital		3,273	3,269
Legal reserves			
General legal reserve		135,286	133,903
Reserve for treasury shares	3.5	3,960	7,258
Free reserves		73,000	98,000
Retained earnings / (accumulated deficit)		42,307	(16,758)
Total shareholders' equity	3.6	257,826	225,672
Total liabilities and shareholders' equity		435,350	402,307

Income Statement 2003/04

	Notes	2003/04 1,000 CHF	2002/03 1,000 CHF
Income			
Management and license fees		7,678	6,696
Investment income	4.1	21,539	26,780
Gains on marketable securities		4,652	0
Interest income		11,710	18,452
Exchange gains, net		1,124	0
Total income		46,703	51,928
Expenses			
Office and professional expenses		3,299	1,408
Advertising and PR expenses		395	400
Interest expense		3,753	10,626
Losses on marketable securities		0	4,422
Other operating expenses		875	1,294
One-time write-down of investment		56	75,000
Exchange losses, net		0	5,197
Taxes	4.2	(247)	0
Total expenses		8,131	98,347
Net profit / (loss) for the year		38,572	(46,419)

Notes to the Financial Statements at March 31, 2004

1. General

The financial statements of Phonak Holding Ltd. are prepared in accordance with the principles of Swiss corporate law.

2. Disclosure required by Swiss corporate law

2.1 Sureties, guarantees and pledges given on behalf of third parties

	31.3.2004	31.3.2003
	1,000 CHF	1,000 CHF
Guarantees given to banks in respect of credit arrangements of foreign subsidiary companies	23,567	25,012
Guarantees given in respect of rental obligations and bank debts of Group companies	120,291	146,802

2.2 Conditional capital

	31.3.2004	31.3.2003
	1,000 CHF	1,000 CHF
Conditional capital at year-end	292	297

(Increase by a maximum of CHF 331,070 representing a maximum of 6,621,400 shares at CHF 0.05 nominal value each, as approved by the shareholders during their annual meeting on July 5, 2001)

2.3 Significant shareholders

At year-end, the following significant shareholders were listed in the share register (with shareholdings in excess of 5% of the issued share capital):

	31.3.2004	31.3.2003
- Andreas Rihs	13.4%	14.4%
- Beda Diethelm	13.6%	12.9%
- Hans-Ueli Rihs	8.5%	10.1%

3. Notes to the balance sheet

3.1 Marketable securities

Marketable securities include, among other items, 141,712 treasury shares (previous year 330,610) purchased for a total consideration of CHF 3,959,909 (previous year CHF 7,257,788). At March 31, 2004, these shares had a market value of CHF 4,322,216 (previous year CHF 3,983,850).

3.2 Other receivables

Included are, in particular, amounts due from the Swiss Federal Tax Authority in respect of recoverable withholding taxes on dividend and interest income, as well as tax assets.

3.3 Loans to Group companies

Of total loans, 44% are denominated in Canadian dollars, 46% in Swiss francs, 2% in US Dollars, 6% in Euros, and 1% each in Japanese Yen and Danish crowns.

3.4 List of significant investments

Company name	Description	Domicile	Share capital Local curr. 1,000	Share held by Phonak Holding
Switzerland				
Phonak Ltd.	2,3,4	Stäfa	CHF 2,500	99.3%
Phonak Communications Ltd.	2,3,4	Murten	CHF 500	100 %
Europe (excluding Switzerland)				
Phonak GmbH	2	Stuttgart (D)	EUR 153	100 %
Phonak France SA	2	Bron-Lyon (F)	EUR 305	100 %
Phonak Italia Srl	2	Milan (I)	EUR 1,040	100 %
Phonak Iberica SA	2	Alicante (E)	EUR 7,000	100 %
Phonak Belgium SA	2	Brussels (B)	EUR 0	100 %
Phonak B.V.	2	Nieuwegein (NL)	EUR 227	100 %
Phonak Danmark A/S	2	Frederiksberg (DK)	DKK 9,000	100 %
Phonak AB	2	Stockholm (S)	SEK 200	100 %
Phonak AS	2	Oslo (N)	NOK 900	100 %
Phonak Group Limited	2	Warrington (GB)	GBP 150	100 %
Hansaton Akustische Geräte GmbH	2	Wals-Himmelreich (AUT)	EUR 72	100 %
North America				
Phonak Canada Ltd.	2	Mississauga (CDN)	CAD 88,694	100 %
RAV Finance Inc.	1,5	USA	USD 0	100 %
Australasia				
Phonak Pty. Ltd.	2	Baulkham Hills (AUS)	AUD 750	100 %
Phonak New Zealand Ltd.	2	Auckland (NZ)	NZD 250	100 %
Jordan Hearing Aids Manufacturing Co. Ltd.	2	Amman (JOR)	JOD 80	100 %
Phonak Japan Co. Ltd.	2	Tokyo (JPN)	JPY 10,000	100 %
Unitron Hearing (Suzhou) Co. Ltd.	3	Suzhou (CHN)	CNY 7,946	100 %

Description:

- 1 Holding/Finance: The entity is a holding or finance company
- 2 Sales: The entity performs sales and marketing activities for the group
- 3 Production: This entity performs manufacturing for the group
- 4 Research: This entity performs research and development activities for the group
- 5 USD 1

3.5 Reserve for treasury shares

A reserve for treasury shares in the amount of CHF 3,959,908 (previous year CHF 7,257,788) was established equal to the cost price (see note 3.1). The decrease in the amount of CHF 3,297,880 was credited to retained earnings.

3.6 Summary of changes in shareholders' equity

1,000 CHF	Share capital	General legal reserve	Free reserve	Treasury share reserve	Retained earnings	Total shareholders equity
Balance April 1, 2003	3,269	133,903	98,000	7,258	(16,758)	225,672
Dividend paid					(7,805)	(7,805)
Capital increases (incl. share premium)						
from conditional capital	4	1,383				1,387
Allocation from free reserve			(25,000)		25,000	0
Release from reserve						
for treasury shares				(3,298)	3,298	0
Net gain for the year					38,572	38,572
Balance March 31, 2004	3,273	135,286	73,000	3,960	42,307	257,826

During the financial year 2003/04, an additional 90,000 registered shares with a par value of CHF 0.05 each, or a total par value of CHF 4,500, were issued from the conditional capital (which was created for the purpose of an equity participation for key employees of the Phonak Group) for a total net consideration of CHF 1,387,500. The conditional share capital with a par value of CHF 331,070 (6,621,400 shares) as authorized by the shareholders on July 5, 2001 decreased by CHF 4,500 (90,000 shares) (previous year CHF 8,400 / 168,000 shares), thereby leaving CHF 292,280 (5,845,600 shares) for disposition. Based on the remaining conditional capital, a total of 2,060,950 (previous year 2,018,500) employee stock options were outstanding as of March 31, 2004, which can be exercised through January 2009.

4. Notes to the income statement

4.1 Investment income

This comprises dividends received from Group companies and other investments.

4.2 Taxes

The tax expense consists of Swiss federal taxes on non-investment income (the company is exempt from income taxes in the canton of Zurich).

Appropriation of Available Earnings

As proposed by the Board of Directors to the General Meeting of July 8, 2004

	31.3.2004	31.3.2003 ²⁾
	1,000 CHF	1,000 CHF
Carry forward from previous year	437	32,999
Release from / (allocation to) reserve for treasury shares	3,298	(3,338)
Net profit / (loss) for the year	38,572	(46,419)
Available earnings / (accumulated deficit)	42,307	(16,758)
Allocation (to) / from free reserves	(25,000)	25,000
Dividend distribution	(13,064) ¹⁾	(7,805)
Balance to be carried forward	4,243	437

1) If the shareholders' meeting authorizes the proposed appropriation of available earnings, a gross dividend of CHF 0.20 per registered share of CHF 0.05 will be paid out.

2) Approved by the General meeting of July 11, 2003.



**Report of the Statutory Auditors
to the General Meeting of
Phonak Holding Ltd., Stäfa**

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes pages 74 to 79) of Phonak Holding Ltd. for the year ended March 31, 2004.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records, the financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Zurich, May 27, 2004

PricewaterhouseCoopers AG

Stephen W. Williams

Patrick Balkanyi

What to Do in Case of a Hearing Problem?

"When you lose your eyesight, you lose contact with things. When you lose your hearing, you lose contact with people." (Helen Keller)

The ear is a very complex organ comprising three parts: the outer ear, the middle ear and the inner ear. From the inner ear the auditory nerve transmits information to the brain for processing. Hearing loss can result from an obstruction or damage in any of these three parts. Hearing loss resulting from a problem located in the outer or middle ear is called a conductive hearing loss. A hearing loss caused by a damaged inner ear is called sensorineural.

Degree of hearing loss varies from person to person

Between the two extremes of hearing well and hearing nothing, there are many degrees of impairment. Hearing loss in the inner ear (sensorineural hearing loss) mainly affects high frequency sounds. These high-pitched sounds such as "s", "f", "sh", "t" play a key role in our ability to understand speech clearly. This is why a person with this type of hearing loss will often say, "I can hear but I don't understand what you are saying."

How do you rate your hearing capacity?

If you answer "yes" to more than one question listed below, you may have impaired hearing:

- Do you have to ask your conversation partners to repeat what they just said?
- Do you have trouble understanding speech when there is background noise?
- Have your family members ever asked you whether you have a hearing problem?
- Do you avoid social events because you cannot understand what other people are saying?
- Do you often have problems understanding a speaker with whom you have no eye contact?
- Do you often find it difficult to locate the source of sounds?

If you wish to have your hearing tested, you should see a local hearing care professional or an ear, nose, and throat specialist. For further information on purchasing hearing instruments, you also can contact your national Phonak representative. See the addresses and contact details at the end of this report or visit www.phonak.com.

Team Phonak Hearing Systems

The Phonak Cycling Team communicates the importance of better hearing and the top quality of the Phonak products in the international arena. The racing cyclists are ambassadors for the cause of an active everyday life. Through the sport of cycling, Phonak can reach a large audience and help a great number of people take the step toward top-quality hearing care. Better Hearing improves quality of life.

Phonak supports the athletes so that its philosophy is communicated as effectively as possible:

- Today, excellent high-tech solutions are available for the treatment of hearing loss
- People should overcome their natural reluctance to take a hearing test
- Hearing instruments offer practical advantages and improve quality of life
- Hearing-impaired people are not alone. They can count on professional support.

50% of the population is affected directly or indirectly by hearing loss. Partners, relatives and friends notice it first: daily communication has become difficult, sometimes even exhausting. Perhaps you belong to the 10% of the population which has to cope with a hearing impairment. If you have any questions about hearing, do not hesitate to ask Phonak's knowledgeable partners, the hearing care professionals.

Key facts of the 2004 team

Team	24 racing cyclists 3 doctors 8 masseurs 6 mechanics 5 administrative staff
Team leaders	Tyler Hamilton Oscar Sevilla Oscar Camenzind
General Team Manager	Urs Freuler
Sports Directors	Alvaro Pino Jacques Michaud René Savary
Race calendar	www.phonak-cycling.ch/ Facts & Figures
Racing cycles	BMC

Phonak Cycling Team wear

For those who are interested in the original Phonak Cycling Team Wear, please visit www.phonak.com and click on the team dress icon to get to the Phonak Hearing Systems Cycling Team website.

World-wide known team leader
Tyler Hamilton, the captain of the
Phonak Cycling Team:
Winner of Tour de Romandie
2003 and 2004.





Phonak races
for better hearing.

Complete team
of the 2004 riders.



From left to right: Phonak AG (Stäfa), Phonak Communications AG (Murten), Phonak LLC (Warrenville), Unitron Hearing Inc. (Plymouth), Unitron Hearing Ltd. (Kitchener).



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Unitron Hearing (Suzhou).

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