PHONAK GROUP

Annual Report 2006/07
HEAR THE WORLD

Sales increase by 23.8% to CHF 1,072.8 million (whereof 16.1% organic, 8.0% from acquisitions and -0.3% from currencies)

EBITA margin improves to 26.4% (prior year 24.7%)

Income after taxes grows by 40.0% to CHF 242.9 million

Phonak organic sales growth of 16.1% clearly exceeds hearing instrument market growth

AAA – Audéo, the Personal Communication Assistant of Phonak, sets again a milestone in the hearing instrument industry. Una in the entry-level segment and Moxi from Unitron Hearing complete Phonak Group's impressive AAA appearance

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

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

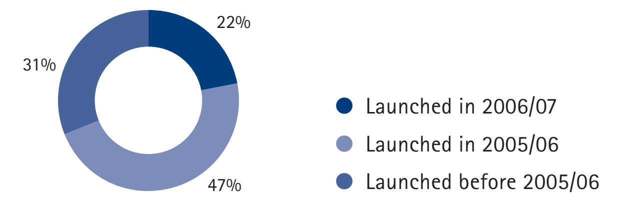
Outlook for financial year 2007/08 – The Phonak Group expects once again to exceed the hearing instrument industry growth and to further increase its profitability in 2007/08

Five-Year Key Figures
(Consolidated)

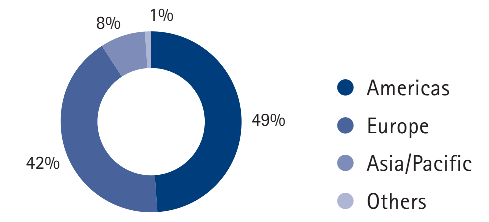
in 1,000 CHF unless otherwise specified	2006/07	2005/06[1]	2004/05	2003/04	2002/03
Sales	**1,072,796**	**866,682**	**660,375**	**620,538**	**526,362**
change compared to previous year (%)	23.8	31.2	6.4	17.9	(6.6)
Gross profit	**732,075**	**577,587**	**417,814**	**372,642**	**286,159**
change compared to previous year (%)	26.7	38.2	12.1	30.2	(4.4)
in % of sales	68.2	66.6	63.3	60.1	54.4
Research & development costs	**67,590**	**62,780**	**48,932**	**58,203**	**48,879**
in % of sales	6.3	7.2	7.4	9.4	9.3
Sales & marketing costs	**278,978**	**205,731**	**159,117**	**129,457**	**120,945**
in % of sales	26.0	23.7	24.1	20.9	23.0
Operating profit before acquisition-related amortization (EBITA)	**283,643**	**213,862**	**125,830**	**103,515**	**48,139**
change compared to previous year (%)	32.6	70.0	21.6	115.0	(34.1)
in % of sales	26.4	24.7	19.1	16.7	9.1
Operating profit/(loss) (EBIT)	**279,765**	**212,696**	**125,797**	**94,961**	**(37,359)**
change compared to previous year (%)	31.5	69.1	32.5	354.2	(162.5)
in % of sales	26.1	24.5	19.0	15.3	(7.1)
Income/(loss) after taxes	**242,875**	**173,499**	**95,856**	**69,359**	**(46,792)**
change compared to previous year (%)	40.0	81.0	38.2	248.2	(209.5)
in % of sales	22.6	20.0	14.5	11.2	(8.9)
Number of employees (average)	**3,813**	**3,166**	**2,719**	**2,523**	**2,397**
change compared to previous year (%)	20.4	16.4	7.8	5.3	0.8
Number of employees (end of period)	**4,023**	**3,428**	**2,926**	**2,689**	**2,385**
change compared to previous year (%)	17.3	17.2	8.8	12.7	(1.3)
Net cash/(net debt)[2]	**296,480**	**177,934**	**93,785**	**9,501**	**(87,262)**
Net working capital[3]	**96,313**	**125,866**	**79,496**	**58,358**	**86,634**
in % of sales	9.0	14.5	12.0	9.4	16.5
Capital expenditure (tangible and intangible assets)[4]	**31,242**	**26,995**	**23,083**	**21,351**	**21,515**
Capital employed[5]	**547,215**	**446,588**	**355,919**	**340,837**	**377,721**
in % of sales	51.0	51.5	53.9	54.9	71.8
Total assets	**1,263,392**	**928,125**	**743,360**	**683,684**	**606,861**
Equity	**894,687**	**624,522**	**449,704**	**349,090**	**289,551**
Equity financing ratio (%)[6]	**70.8**	**67.3**	**60.5**	**51.1**	**47.7**
Free cash flow[7]	**144,542**	**101,834**	**83,781**	**118,349**	**28,662**
in % of sales	13.5	11.7	12.7	19.1	5.4
Return on capital employed (%)[8]	**56.3**	**53.0**	**36.1**	**26.4**	**(8.7)**
Return on equity (%)[9]	**32.0**	**32.3**	**24.0**	**21.6**	**(14.4)**
Basic earnings per share (CHF)	3.637	2.607	1.450	1.056	(0.721)
Diluted earnings per share (CHF)	**3.590**	**2.584**	**1.434**	**1.050**	**(0.721)**
Cash-based diluted earnings per share (CHF)[10]	3.628	2.596	1.434	N/A	N/A
Dividend per share (CHF)	0.75[11]	0.50	0.30	0.20	0.12

[1] Including adjustments in accordance with revised IFRS accounting standards and improvements of the presentation of financial statements (see Notes)
[2] Cash and cash equivalents + other current financial assets - short-term debts - other current financial liabilities - mortgages - other long-term debts
[3] Receivables + inventories - trade payables - other short-term liabilities - taxes payable - short-term provisions
[4] Without goodwill and intangibles relating to acquisitions
[5] Total assets - cash and cash equivalents - other current financial assets - trade payables - other liabilities - provisions - deferred tax liabilities
[6] Equity in % of total assets
[7] Cash flow from operating activities + cash flow from investing activities
[8] EBIT in % of capital employed (average)
[9] Income/(loss) after taxes in % of equity (average)
[10] Excludes the amortization of acquisition-related intangibles, net of tax
[11] Proposal to the Annual General Shareholders' Meeting of June 12, 2007

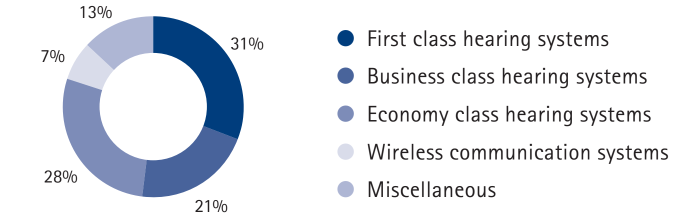
Share of sales 2006/07 – new products



Share of sales by main markets 2006/07



Share of sales by product groups 2006/07



Key Data

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Surge in sales and profits

I am delighted that the Phonak Group is able to present another excellent set of financial results that builds seamlessly on last year. Once again, we achieved an increase in sales that clearly exceeded the market, and a disproportionately strong rise in profits at all levels. In 2006/07, the Phonak Group reached another major milestone as sales topped the billion mark.

The figures we posted for the past financial year are more impressive than ever. Sales increased by 24% or roughly CHF 200 million to CHF 1.1 billion, with around 16% of this attributable to organic growth. Our profit margins also reached new highs: EBITA margin rose to 26%, while the income after taxes margin climbed to 23%. These gratifying figures are due, in particular, to the continued vigour of our development activities, which allowed us to launch a series of new products with improved customer benefits. The continuing expansion of our global distribution network also had a positive impact.

Over the last few years, Phonak has managed to gradually build market share through its own efforts, by consistently pursuing its strategy based on innovation, customer focus and cost control. We are therefore very confident that Phonak will continue to clearly outpace market growth and head towards market leadership.

The planned acquisition of the ReSound Group presented a particular challenge in 2006/07. We have received all but one of the necessary regulatory approvals. The global closing of the acquisition has been prohibited by the German Federal Cartel Office. We consider the German competition authority's decision to be completely out of proportion and totally incomprehensible. We will fight to close the transaction, and have therefore filed an appeal against the decision to the competent court, the "Oberlandesgericht Düsseldorf". We will keep you informed of further developments.

As already announced, we will also be asking shareholders to approve a change of name of Phonak Holding AG. The new name of the holding company, Sonova, is intended to highlight the autonomy and equality of our two hearing system brands, Phonak hearing systems and Unitron Hearing. Nothing will change for our customers: our hearing systems will still be branded as Phonak. The name Phonak will continue to stand for top-class hearing systems. We recommend shareholders to approve the Board's proposal. If approved, the name of the share will change to Sonova as of August 1, 2007. As company founder, I fully support this change of name, because it will also facilitate the company's continuing expansion.

We are convinced that the hearing instrument market has enormous potential. Still only 20% of people with hearing loss actually wear a hearing device. These 20% are certainly satisfied with their new hearing instruments. One of the major challenges we still face in the years to come is to convince at least some of the other 80% of the undeniable benefits of hearing systems.

The continued success of the Phonak Group is mainly the result of the motivation, commitment and great team spirit of our employees. We have a unique corporate culture which has allowed us to cope with the rapid process of change the company has gone through in recent years. Our sustainable strategy is supported by highly skilled and motivated staff and creates the foundation for a very promising future. I would like to thank each one of them for their hard work, commitment and loyalty to the company. Without them, such excellent results would have been impossible.

We have an exciting year ahead of us, one which I firmly believe will be marked by further positive news and results.

Andy Rihs
Chairman of the Board of Directors

An impressive business year

Phonak has produced an outstanding performance in 2006/07. Not only have we achieved excellent sales growth and improved our market share and profitability yet again, but we also successfully launched the global *Hear the World* initiative to raise public awareness about the importance of hearing. At product level we are also undertaking major efforts to overcome deeply ingrained prejudices towards hearing systems, in an attempt to accelerate the growth of the hearing instrument market. We will be stepping up our activities in this area, following the campaign's positive reception in the media and very encouraging feedback from our business partners.

Our excellent business performance is to a large extent due to the consistent execution of our strategy to promote product innovation and to expand our global sales force. In addition, we have delivered much stronger financial results, so that our EBITA margin already lies within our mid-term target range of 26-28% we set out in June 2006.

Starting from the record level of last year, we again increased sales by another 23.8% to CHF 1,072.8 million. Internal growth – measured in local currencies and without taking into account acquisitions – came to 16.1%. As a result of operational efficiencies, our gross profit margin improved another 160 basis points to reach 68.2% while achieving a more balanced product mix. Our efforts to expand our market share in the low and mid price segments are now starting to bear fruit. At the same time our EBITA rose 32.6%. The improvement in the EBITA margin from 24.7% last year to 26.4% this year underlines the overproportional profit growth. Assisted by a positive financial result and a lower tax rate, earnings per share (on a diluted basis) climbed 38.9% to a new record of CHF 3.59.

We are very optimistic about the outlook for 2007/08, given the market success of our new hearing systems launched in 2006/07, and of Audéo, the Personal Communication Assistant unveiled at the AAA in April 2007, as well as Una in the entry-level class and Moxi from Unitron Hearing. The Phonak Group is in excellent shape: apart from having the strongest product portfolio of the hearing industry and a very promising product pipeline, our sales organization has also been significantly strengthened.

We have therefore laid the foundation for the Phonak Group to consistently outperform market growth. In the future, we expect further sales growth, increased market share, improved financial strength and attractive returns on investments.

I wish to thank our hard-working staff for their impressive performance over the course of the year. They have shown a readiness to take on responsibility and a strong commitment to the company. I also want to express my special thanks to all our customers, suppliers, partners and shareholders for their continuing support.

Dr. Valentin Chapero Rueda
CEO

Phonak's *Hear the World* initiative aims to raise public awareness of the importance of the sense of hearing, to draw attention to the

social and emotional consequences of hearing loss, and to provide information on the available solutions.

Boosting a strong performance

During the year under review the Phonak Group made progress on all levels and posted a solid operating and financial performance – in particular in view of the outstanding result recorded in the previous year.

Operating performance

Phonak delivered another very solid operating performance in 2006/07, particularly when compared with the strong results of the previous year.

Sales increased by 23.8% to CHF 1,072.8 million, including a contribution of 8.0% from acquisitions. Excluding the effects of acquisitions, sales growth in local currencies came to 16.1%. During the reporting period there was only a marginal negative currency effect of 0.3%. Sales growth was driven by the dynamic performance of a broad range of product lines, most notably Savia Art, Eleva, eXtra, microPower and Unitron Hearing's Element 16, Element 8 and Element 4.

Gross profit margin further improved to 68.2%, compared with 66.6% for the previous year. In nominal value gross profit rose 26.7% to CHF 732.1 million. This improvement was possible due to efficiency gains from higher production volumes, optimization of manufacturing processes, cost savings on materials purchasing, and a higher proportion of value added from our Chinese production facility.

Operating profit before acquisition-related amortization (EBITA) increased by 32.6% to CHF 283.6 million, significantly faster than sales, and the EBITA margin improved from 24.7% to 26.4%. Spending on research and development was raised by 7.7% which highlights the scalability of our modular hard- and software platform PALIO. Sales and marketing expenses grew by 35.6%, reflecting our initiative to strengthen our global distribution capabilities. General and administration expenses rose by 16.2% as a result of the Group's organic and acquisition-related growth. These results confirm Phonak's commitment to constantly improve operating profitability by maintaining effective and cost-efficient back-office operations.

Financial performance

The global economic environment presented significant challenges and opportunities during the business year. The US dollar weakened and the euro strengthened, while interest rates remained at a very low level during the business year. The net financial result reached CHF 5.6 million, which includes a negative non-cash effect of discounting the expected future acquisition-related earn-out payments to their present value of CHF 2.8 million.

Income taxes as a percentage of income before taxes decreased from 20.0% in the prior year to 14.5% due to a change in the geographic allocation of the taxable profits.

Income after taxes increased by 40.0% to CHF 242.9 million, representing 22.6% of sales. On a diluted basis, earnings per share were therefore 38.9% up on the previous year, at CHF 3.59. Excluding the acquisition-related amortization of intangibles, cash-based earnings per share on a diluted basis rose 39.8% to CHF 3.63.

Cash flow

The Phonak Group continued to deliver a healthy cash flow. Cash flow from operating activities rose to CHF 279.6 million, 67.9% up on the previous year. This rise was mainly attributable to the higher income before taxes and an underproportional increase in net working capital of CHF 26.8 million (previous year CHF 94.2 million). Cash consideration for acquisitions increased to CHF 87.0 million and other investments and long-term loans rose to CHF 22.6 million, while capital expenditures in tangible and intangible assets remained stable as a percentage of sales. The free cash flow, which also takes into consideration the changes in investing activities, rose 41.9% to CHF 144.5 million.

The free cash flow was mainly used for repayments of borrowings and mortgages as well as dividend payments to shareholders. Taking all items on the consolidated cash flow statements into consideration, cash and cash equivalents increased by CHF 104.8 million to CHF 284.3 million since March 31, 2006.

Balance sheet

The balance sheet of the Phonak Group has further strengthened. The equity financing ratio (equity in % of total assets) improved from 67.3% last year to 70.8% this year. Net cash reached CHF 296.5 million over CHF 177.9 million in the previous year, in spite of further investments in sales companies. The increase in net working capital was mainly due to the expansion of our business activities. The average payment period for clients to settle their invoices ("days sales outstanding") remained stable compared with last year, and inventories even shrank due to optimized supply processes and improved inventory management. As a consequence, capital employed showed an underproportional increase of 22.5% to CHF 547.2 million.

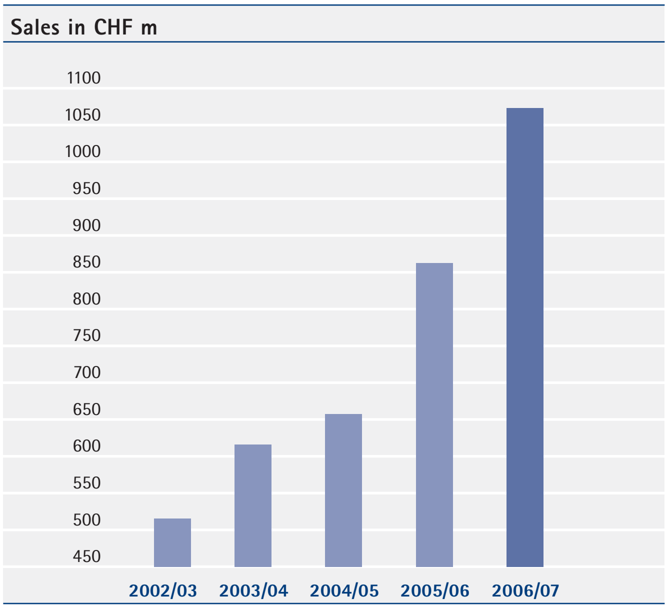
This section contains condensed financial information only. For additional information, please refer to the section "Operating & Financial Review" of this Annual Report and the subsequent Consolidated Financial Statements.

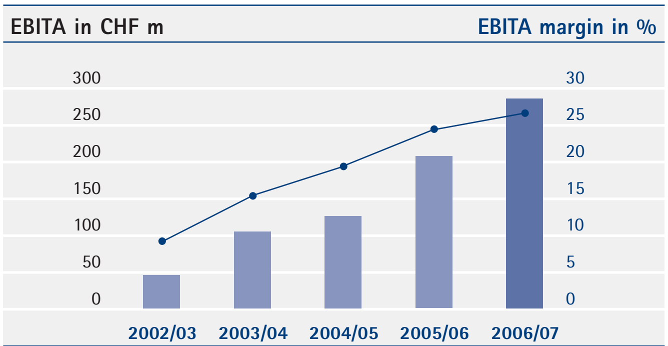
Information regarding the planned ReSound acquisition

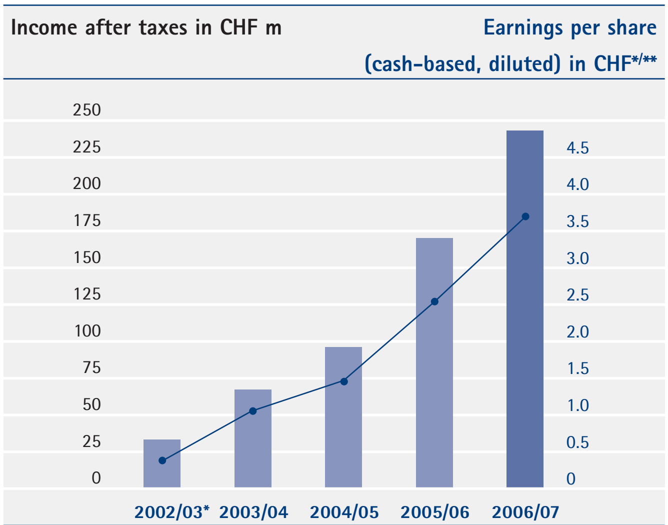
As of October 2, 2006, the Phonak Group entered into a share purchase agreement with GN Store Nord A/S of Denmark to acquire its division ReSound Group. Activities concerning this acquisition will influence the comparability of the Group's results of operations for the periods discussed above with those in future periods.

The German Federal Cartel Office (FCO) has prohibited the acquisition. The Phonak Group appealed against the prohibition of the FCO to the competent court, the "Oberlandesgericht Düsseldorf". At the time of printing of this Annual Report, the Oberlandesgericht Düsseldorf has not yet come to a decision. The payment obligation for the acquisition price will only become effective if all regulatory clearances have been given.

In connection with the planned acquisition of the ReSound Group, transaction costs in the amount of CHF 19.1 million have been incurred and were recorded in the balance sheet as of March 31, 2007. In case the transaction will not take place, Phonak expects total one-off costs relating to the planned transaction of approximately CHF 35 million (including the capitalized costs of CHF 19.1 million mentioned above) to be charged to the income statement in the financial year 2007/08.







* Adjusted for extraordinary goodwill impairment

** As IFRS 3 has only been adopted in financial year 2004/05, chart includes diluted earnings per share for financial years 2002/03 and 2003/04

No switch-off possible

Our ears never sleep. Street noise, loud music and other forms of noise pollution put enormous stress on our sense of hearing

and gradually wear it down. We therefore need to look after our hearing by ensuring that we are adequately protected.

Key markets show dynamic growth

Both the Phonak hearing systems and Unitron Hearing brands contributed to significant overall sales growth. Wireless communication systems consolidated their strong market position.

General market development

Given the dynamic pace of market growth achieved in 2006/07, we are confident that annual growth for the hearing instrument market will continue to be in the region of 6-9%. Key markets like the US, Germany and France reported solid growth. UK private market and Spain were less dynamic, while the Japanese market slightly contracted. Although emerging markets including China performed very well, they still only represent a small share of the global market measured by value.

The product mix – in other words the proportion of first class, business class and economy class hearing systems – has remained fairly constant. While the business class segment grew less than average in 2005/06, its quota stabilized again in 2006/07 due to new product launches.

Sales of behind-the-ear (BTE) devices once again increased as a percentage of total market volume. In markets such as France and Germany, BTE devices currently account for well over 80% of all hearing systems sold. In-the-ear (ITE) hearing devices are more popular in the US. Even so, the proportion of BTE devices sold in the US grew significantly and already stands at 45%, compared with just 33% last year. The most important driver of this positive BTE trend is the introduction of innovative micro systems, which offer a full range of performance features in significantly smaller devices. We estimate that micro hearing systems already account for a global market share of 15%, and expect this share to expand further.

Sales by product type

Both the Phonak hearing systems and Unitron Hearing brands contributed to overall sales growth. Although Unitron Hearing did not grow as rapidly as the rest of the Group, sales picked up significantly in the second half of the year, following the launch of the important product line Element at the EUHA in October 2006. Wireless communication systems also made a positive contribution to the good business performance, consolidating their strong market position.

Sales by region

The positive sales performance in all key markets enabled the Phonak Group to continue to expand its global market share. The US and the major European markets were the biggest contributors to the company's sales growth. Australia, New Zealand, China and Japan also posted high rates of growth. Phonak's performance in Japan was particularly pleasing given the difficult market environment.

Initiatives 2006/07

The market penetration of hearing systems has only slightly increased in recent years. In industrialized countries, only around 20% of people with hearing impairment actually wear a hearing system. This disturbing statistic prompted Phonak to launch its *Hear the World* initiative, which aims to raise global awareness of the importance of the sense of hearing and the consequences of hearing loss.

At product level, Phonak has also taken measures to actively challenge the deeply ingrained prejudices that people seem to have towards hearing systems. The Verve Steinway Edition, the world's first co-branding in the hearing instrument industry, is a prime example of this. With its Personal Communication Assistant, Audéo, Phonak plans to take this one step further and make significant investments, together with its business partners, to address its end users directly.

Hear the World: **The world's first lifestyle magazine on the topic of hearing.**

Renowned ambassador: Plácido Domingo supports the *Hear the World* initiative.

Hear the World – Initiative for better hearing

Hearing loss is one of the most common disabilities, but at the same time it is also the most preventable. One in ten people in the world is hearing-impaired. The consequences of hearing loss can be severe, and greatly affect an individual's quality of life. This is what prompted Phonak to launch the *Hear the World* initiative. "Hearing loss is still not perceived to be an important social issue", says CEO Valentin Chapero, explaining the company's motives for launching the initiative. "With *Hear the World*, we want to put hearing on the public agenda and initiate a social dialogue. We want to show the public what can be done to prevent hearing loss, as well as ways of minimizing its social and personal impact."

Educating the public about hearing loss is very important, as clearly illustrated by the results of a survey, commissioned by Phonak, detailing more than 3,000 American, French and German respondents' views about hearing and hearing loss. Although most respondents said they would miss music and familiar voices if their hearing were to deteriorate, many people still shy away from wearing a hearing instrument. The majority (31%) of respondents said that aesthetics put them off wearing the instruments. Another 13% of respondents cited the negative impressions conveyed to others by the use of hearing instruments, such as "advanced age" and the fear that they would "appear handicapped". About half the respondents therefore would refuse to wear a hearing device because of the stigma attached, despite overwhelming evidence that the use of a hearing instrument brings major improvement to the quality of life of its user. These individuals enjoy overall health, better than non-users with hearing impairment, gain self-confidence, play a more active role in family, social and business activities, and even have greater earning power.

Hear the World links up with leading international musicians to help the public understand hearing loss and appreciate their sense of hearing. Phonak's mission is supported by renowned musicians acting as ambassadors for this important and emotionally charged topic: Plácido Domingo, the Vienna Philharmonic Orchestra, and Bryan Adams all support the initiative. Plácido Domingo on his role as an ambassador: "As a singer and conductor, hearing is the most important thing in my life. You cannot sing or conduct if your ears are not in shape, so you have to keep them in shape. I am very enthusiastic about *Hear the World*, because people need to understand the true value of good hearing."

Fascination of hearing for a broader public

To raise public awareness about the numerous facets and fascination of hearing, Phonak's *Hear the World* initiative has launched the world's first global hearing awareness magazine. The new magazine is dedicated to all aspects of hearing and hearing problems. The magazine is published in English and German and is available at selected news stands, in business hotels, airports as well as at www.hear-the-world.com. Net proceeds go to the *Hear the World* foundation, set up in January 2007 to support charitable organizations and projects focused on helping hearing-impaired people.

«Hearing makes the world go round»

The Vienna Philharmonic Orchestra has been entertaining global audiences for over 160 years now. As ambassadors of our

Photo: Lois Lammerhuber/photo agency Lammerhuber

Hear the World **initiative, this renowned symphony orchestra helps to spread our message worldwide through its music.**

New ways to reach more customers

With its latest product lines, the Phonak Group is responding even more effectively to customer requirements. New innovative hearing solutions are designed to address the needs of the younger generation in particular.

At Phonak, innovation means developing solutions for the everyday problems experienced by people with hearing impairment, identifying and satisfying customers' needs, and in doing so creating added value for the user. In addition to maximum hearing performance and reliability, comfort and cosmetic aspects are the key drivers of customer satisfaction. After-sales support, service as well as the fitting are becoming increasingly important. The two latest product lines, Savia Art and Audéo, are a clear confirmation of our strong focus on satisfying the needs of both the end user and the hearing care professionals.

Innovation, however, is also about gaining new customers and changing perceptions, a fact best highlighted by Audéo and the Verve Steinway Edition. Both products attract a younger generation of active people who are extremely sensitive to the stigma surrounding hearing instruments and are not attracted by traditional solutions or hearing instrument marketing.

And last but not least, innovation implies raising awareness of the importance of hearing, which is precisely what Phonak's *Hear the World* initiative aims to do.

New products launched in 2006/07

In 2006/07, the Phonak Group successfully introduced five new product lines on a worldwide basis:

Savia Art – the masterpiece of hearing performance

Savia Art is a masterpiece of hearing performance that sets the benchmark in the industry. This exceptional high-end product brings unrivalled performance by effectively applying technology to maximize wearer satisfaction. Savia Art is founded on the advanced and still unique ten world-first features introduced in Savia. In addition, it features breakthrough innovations such as: SoundRelax, Self Learning and NoWhistle technology. This range of world-first features provides Savia Art with a level of natural intelligence that allows the hearing device to be fully personalized to the user's hearing and lifestyle preferences. In addition, Savia Art is the most complete high-end line with 12 models, from the tiniest CICs (Completely In the Canal) and two micro styles through to a choice of high-power solutions.

Verve Steinway Edition – hearing excellence created by Phonak

The Verve Steinway Edition is a special edition of the most exclusive hearing system, designed for the most discerning customers. Available in high shine piano black or white and elegantly adorned with the golden Steinway & Sons logo, the new edition not only provides ultimate hearing comfort in any situation; it also has a timeless aesthetic appeal. The Verve Steinway Edition is a celebration of the shared commitment of Steinway & Sons and Phonak to products that deliver the ultimate listening experience.

microPower IX and V – a powerful and cosmetically attractive hearing solution

Phonak's innovative Canal Receiver Technology (CRT) enables even those with severe hearing impairment to enjoy the advantages of a micro hearing system. With microPower, the loudspeaker is positioned in the ear canal and provides a clear sound that is just as good as with an ITE hearing device. Although its performance is comparable to that of a powerful behind-the-ear (BTE) hearing system, its miniature size means it is almost invisible. The majority of people using a hearing system today suffer from a moderate to severe hearing impairment and could benefit from the unique advantages of microPower.

Indigo – breaking new ground for Unitron Hearing in the premium segment

Indigo of Unitron Hearing brings uncomplicated sophistication to the premium segment, driven by autoPro4, an automatic program that analyzes and adapts to the needs of the four most widely experienced listening environments. Indigo's sophisticated set of adaptive features includes a multi-band adaptive directional system, a phase canceller and noise reduction. Indigo also offers additional features to make everyday use easier and is available in a full range of styles, from the tiniest ITEs through to a choice of open BTEs including the new ultra-small Moxi CRT.

Element – premium innovations for everyone

Unitron Hearing Element series, comprising Element 16, 8 and 4, provides three feature-rich models with varying degrees of automatic performance and comfort features to meet clients' specific lifestyles, listening preferences and budgetary needs. The Element series redefines comfort and makes premium features accessible to an even greater number of clients. Offering innovations usually available only on higher-priced hearing systems, the Element series incorporates antiShock, speech enhancement technologies and autoPro2. Element's brilliant sound comes in a full range of styles, including open fittings and the new Moxi CRT.

Savia Art

Verve Steinway Edition

microPower IX / V

Indigo

Element

Initiatives launched in 2006/07

microStyle generation – 90% of customer needs covered

Micro-sized hearing systems continue to gain momentum in the hearing instrument industry thanks to their unique value proposition. All of Phonak's main product lines are available in attractive microBTE styles. In addition, Savia Art and microPower feature the innovative Canal Receiver Technology (CRT), which positions the loudspeaker in the ear canal.

The user-friendly fitting software supports our professional partners with a comprehensive set of pre-calculated fitting parameters, no matter which acoustic coupling they choose for our CRT and conventional slim tube fittings.

Thanks to the microPower family, Phonak is the only manufacturer to offer a micro solution for 9 out of 10 user requirements.

Junior and Power & More

For decades, Phonak has been committed to translating the latest breakthroughs in technology and design into optimum hearing support for infants and children as well as users with significant hearing loss. Enabling these two very special target groups to discover the wonderful world of sound is both rewarding and challenging. Phonak has therefore introduced two new programs: Junior, which addresses the specific needs of neonates and young children, and Power & More, which offers special solutions for users with a severe to profound hearing loss.

The Junior package is a comprehensive portfolio of paediatric tools ranging from high-tech hearing solutions through to unique online training – all wrapped up in an attractive new design and bearing the headline "Great solutions for little ears".

Power & More marks the continuation of Phonak's dedication in providing powerful and technologically sophisticated solutions for those that depend on amplification the most. The new and unique Phonak BassBoost feature enables even more amplification and audibility than before. Phonak's power hearing systems are the strongest in the industry and available in all price segments, from Savia Art, Eleva and eXtra through to the new Una.

More new products already launched in 2007/08

The Phonak Group recently launched a number of new products that will further boost sales in 2007/08:

Audéo - Personal Communication Assistant

Phonak's new Audéo Personal Communication Assistant is set to change the perception of hearing systems forever. Developed to address the enormous potential of a virtually untapped market of first-time users, it comes with all the appeal of a must-have accessory. Audéo is a cool new product, designed for a younger generation of active people. The baby-boomers may be healthier, fitter and younger-looking than any generation before them, but they still experience the mild to moderate hearing loss that goes with middle age. Most of them, however, are reluctant to seek help. Extremely sensitive to the stigma surrounding hearing systems, they reject traditional models as an obvious sign of age and infirmity. Audéo is set to dispel those prejudices with an innovative blend of cutting-edge engineering and award-winning design that will give them effortless listening, even in the most difficult environments.

In the case of Audéo, less is definitely more. Very tiny, light and discreet, the device boasts the industry-leading features that set Phonak apart: CrystalSound, which digitally amplifies the subtle, high-pitched sounds essential to understanding speech and ensures that nothing gets lost, and digital SurroundZoom, the industry's best directional microphone system. At the premium level, Audéo IX offers the most sophisticated features available. In the mid-price range, Audéo V offers more features than most other premium-level products. With its avant-garde design, Audéo is the tech accessory this generation wants, not the hearing device it needs.

Moxi – the no-compromise, ultra-small BTE device

Unitron Hearing's Moxi is the first no-compromise Canal Receiver Technology (CRT) device offering cosmetic appeal, performance and the most comprehensive range of fittings available within one CRT product line. Moxi enables hearing healthcare professionals to fit more clients with both standard and power external receivers, providing instant and custom fittings for mild to severe hearing loss. Moxi is the smallest hearing device with a multifunctional onBoard control. An industry first on such a small BTE, onBoard control can be either a volume control or a program selection button. Moxi offers premium technologies at four price points with Indigo and the Element series.

microPower III – completes the microPower family

microPower III provides the smallest power hearing instrument with best-in-class technology. The value-minded end user can now benefit from unrivalled cosmetic appeal due to the Power Canal Receiver Technology. The innovative SoundManager ensures hearing enjoyment no matter what the communication situation is – automatically.

Una – a unique entry-level instrument

Based on Phonak's advanced technology, Una is an entry-level hearing instrument that is unique in its segment. It addresses the price-sensitive consumer who wishes to have a reliable, quality product. Una's fast and precise pre-calculation and excellent sound quality ensure immediate user acceptance.

Audéo IX / V

Moxi

microPower III

Una

Do you remember?

Classic sounds such as the roar of the surf leave their acoustic imprint on the brain and evoke strong memories at the same time.

The ability to distinguish between different sounds is vital for leading a fulfilling life.

Employees are our capital

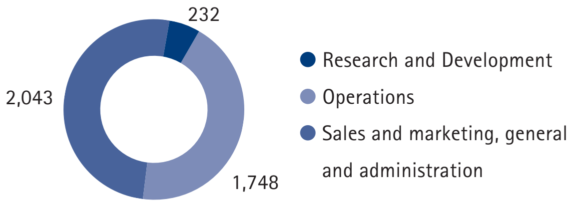
"Learn and share what you have learnt": at Phonak we operate in accordance with this maxim, creating the foundations for long-term decisions and leading to quick results. Its unique corporate culture makes the Phonak Group an extremely attractive employer.

The hearing instrument industry is not a capital-intensive business, but is driven by constant product and service innovation. The highest quality standards apply in the manufacturing of hearing systems. Thus, motivated, dedicated and creative employees have a major role to play in our success story. Knowledge management is a core element of Phonak's management philosophy: there are no barriers, no closed doors; employees can contact anybody at any time. Therefore, a strong corporate culture has evolved at Phonak which is best characterized by flat hierarchical structures, equal treatment of employees, responsibility for one's own actions, and open communication.

To sustain and further develop this strong corporate culture is one of management's top priorities and a driver for sustainable economic success. Dedicated and carefully planned professional development is also an important success driver. The central goal is to promote specialist expertise, to develop personal, social and management skills and encourage entrepreneurial thinking beyond the individual's own area of responsibility.

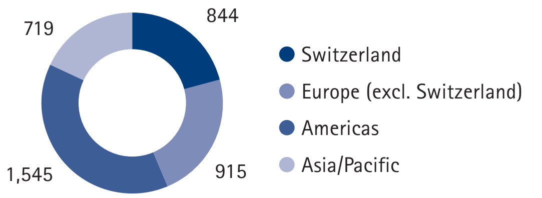
The Phonak Group's "High Performance Program", first launched in 2005/06, has once again been successfully undertaken in 2006/07. This groupwide education and training program is designed to strengthen and develop talents in middle management, to enable us to fill key positions internally in the future. In 2006/07 the Global Management Team, comprising members of the Management Board and Country Managers, participated in the tailor-made training program "Perform to win", which aims to refine core management skills. In addition to bringing managers up to speed with current management theory and methods, the program provides a useful platform to exchange views on future leadership challenges. The management level below the Global Management Team will participate in the new program "Leadership Excellence" in 2007/08, rounding off the Phonak Group's global management development offering.

Employees by activity 2006/07



The Phonak Group has significantly grown and employed 4,023 people as of March 31, 2007 (prior year 3,428). The additional 595 employees were mainly the result of the expansion of the sales and marketing organization in order to increase market coverage through direct sales representatives and to support the many strategically important product launches. New posts were also created in operations to keep up with the expansion of the Group's sales volume. The headcount in research and development was increased by 8%.

Employees by region 2006/07



The rise in the number of people employed in Switzerland is part of our drive to strengthen our groupwide functions (including R&D) and the expansion of our production capacities. The headcount in Europe (excl. Switzerland) increased due to the expansion of our sales and marketing teams. The same was true in the Americas, where the headcount received an additional boost from the acquisition of Island Hearing, Canada. In the Asia/Pacific region, we expanded our Chinese production capacities, but also our wholesale and retail sales operations. In Vietnam, Ho Chi Minh City, we have opened a new production site for wireless communication systems and in-the-ear (ITE) hearing devices.

The workbenches installed in China are identical to those in Switzerland.

Lunch is taken communally and is paid for by the company.

A shuttle service brings staff to work and takes them back home.

Globally shared values

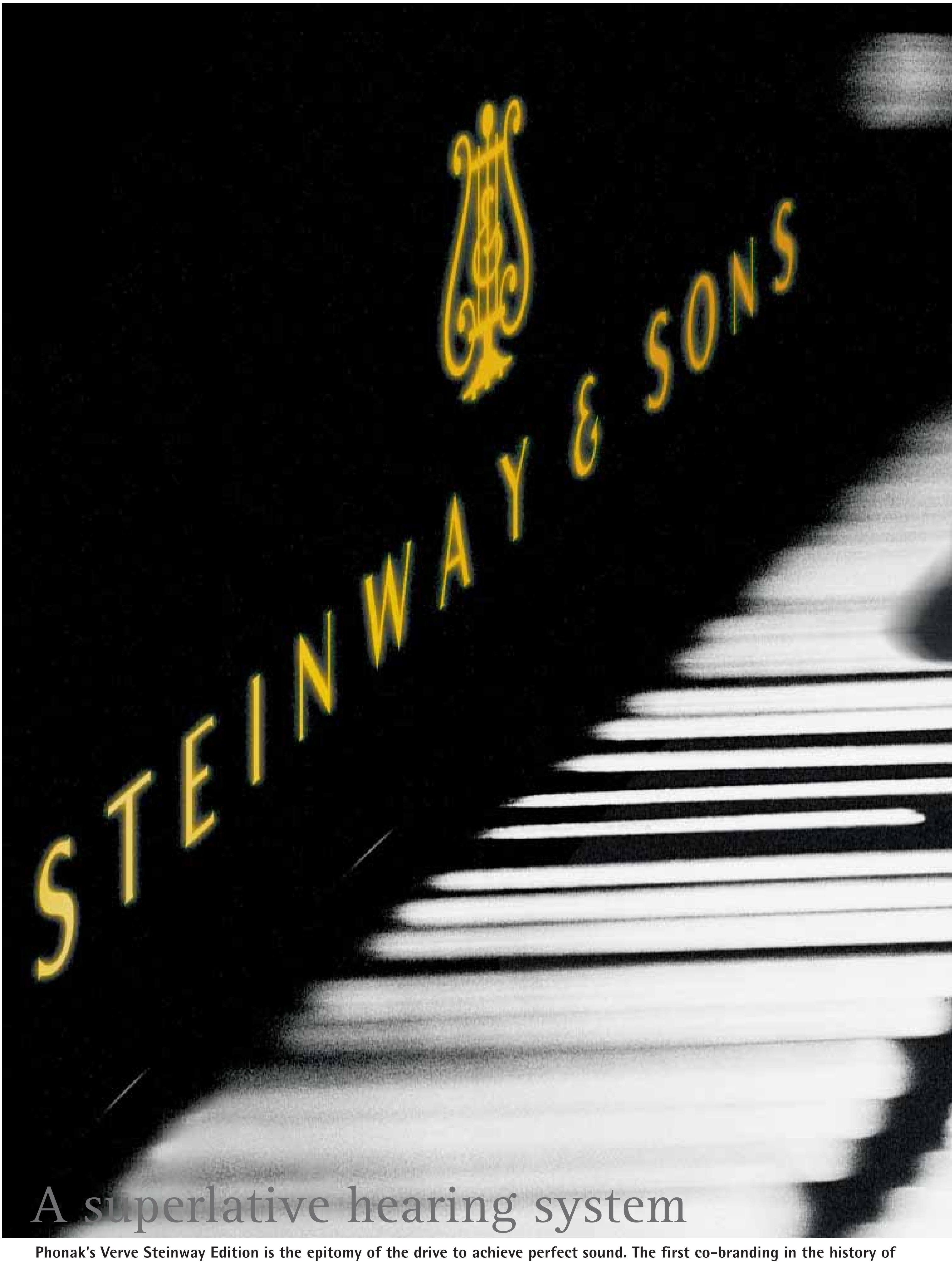
The establishment of the Chinese production facility in 2003 was an important step in Phonak's international expansion: it not only gave us the capacity required to maintain our dynamic pace of growth, but also achieved a sustainable reduction in product costs. Tasks are clearly allocated between our two production sites at Stäfa in Switzerland and Suzhou in China. Automated production processes are handled in Switzerland, while the labour-intensive final assembly, i.e. manually assembling the various components, is increasingly being performed in China.

The production setup for manufacturing a hearing instrument is similar to the watch industry. Very small components have to be manually positioned and soldered with the aid of microscopes. It is very difficult to find workers with the fine motor skills required for such a specialized job, and Phonak provides its own in-house training for staff not only in China, but also in Switzerland. Employees at the different production sites share the same quality standards, identical production processes and standard work procedures. Our Chinese production plant has very clean, light, and climate controlled rooms and houses around 220 individual workbenches, each equipped with a soldering station, a microscope and an earth cable. They are identical to those installed in our Swiss production facility.

Buidling up a sustainable organization

Today, the Chinese labour market is driven by free market forces. While a minimum wage still plays a role in the primary sector, pay in the electronics industry has been at the going market rate for some time now and is much higher than China's official minimum wage. Our production site in China shares Phonak's global values. A working shift lasts 8 hours, including two fully paid 15-minute breaks. As in Switzerland, lunch is taken communally on the premises and in China everything is paid for by the company. To make it easier for workers to commute, Phonak lays on a shuttle service to bus staff to work and take them back home again at the end of the shift.

At present our activities in China not only include production, but also wholesale distribution and retailing of hearing systems. Our challenge here is also to build up a sustainable sales organization that provides a high-quality service on a par with current international standards.



A superlative hearing system

Phonak's Verve Steinway Edition is the epitomy of the drive to achieve perfect sound. The first co-branding in the history of

the hearing industry, it combines leading-edge technology with superb design and service.

"Hearing systems will have new functions"

CEO Valentin Chapero Rueda on Phonak's commitment to innovation and raising public awareness of the importance of good hearing.

Mr. Chapero, what is the current state of health of the hearing instrument market?

Environmental and demographic factors are becoming increasingly important drivers of demand for hearing systems. Like the apparatus we depend on for mobility, our hearing also shows wear and tear after years of use, and eventually this can result in significant hearing impairment. Due to increasing noise pollution and the lack of preventive measures, people now suffer hearing impairment at a relatively early age. Demand for hearing systems is also accelerating as baby-boomers reach retirement age and average life expectancy increases.

How are manufacturers responding to this trend?

The pressure on hearing systems manufacturers to innovate in order to remain competitive is resulting in ever more powerful and attractive hearing solutions. Continuous miniaturization and innovative product designs have brought to market new cosmetically appealing hearing systems that provide greater comfort for the user.

How does your strategic focus enhance Phonak's long-term performance?

Our strategy is focused on improving our innovativeness, on customer orientation, and on a strong awareness of costs. We must respond to the needs of our customers quickly and systematically. Our hearing systems only perform to the fullest if they are fitted by professionals. That means we serve two important customer segments: end users and hearing care specialists. Our activities therefore span not just the actual hearing systems, but also the sales process, the fitting process, the service concept and associated after-sales support.

How well is Phonak positioned in the global market at present?

The Phonak Group is not only growing faster than its competitors, but is steadily gaining market share and continuously improving its profitability. Our products' hearing performance and cosmetic appeal set the standard in the hearing instrument industry. The fact that we generate close to 70% of sales from products launched over the last two years is further proof of our innovativeness. The Verve Steinway Edition, the first co-branding model in the hearing instrument industry, shows that we are also a leader in market communications. The Phonak Group has spent several decades building an excellent reputation and our customers value reliability and the way we tackle market challenges as a partner.

What does the future hold for the hearing instrument industry?

I believe the market will experience growth in the region of 6-9% p.a. but expect this rate to accelerate in the long term due to demographic trends in industrialized nations and the increase in purchasing power and life expectancy in emerging markets. Furthermore, I am confident that in a few years' time hearing system providers will experience even stronger growth. For the first time, we are in a position not only to exceed customers' expectations, but to dispel long-held prejudices towards hearing systems. At present, only around 20% of people with impaired hearing actually use a hearing system. By changing end user perceptions, new designs such as Audéo have the potential to radically transform this market situation.

Are you prepared for the challenges posed by such a dynamic market environment?

Phonak will continue to set the pace and consistently pursue its strategy. We will also increase investment in prevention and education. It is of no benefit to us if we produce technical masterpieces and nobody knows about them, which is why we are making significant investments, together with our business partners, to address end users directly. This is a strategy we are already implementing with Audéo, the Personal Communication Assistant. The *Hear the World* initiative, an education campaign that aims to raise public awareness worldwide of the importance of hearing, will also help us to improve our market position over the long term.

“Phonak will continue to set the pace and consistently pursue its strategy.”

“It is of no benefit to us if we produce technical masterpieces and nobody knows about them.”

“We want to make buying a hearing system the most normal thing in the world.”

The closing of the ReSound Group acquisition has been delayed. Could that have a negative impact on the further development of the Phonak Group?

The delay is annoying, but the acquisition will not impact our strategy in any way. The Phonak Group is strong enough to become market leader through its own efforts and has already made a lot of progress this year towards achieving this goal. We already have the necessary resources in terms of financing and suitably qualified personnel. The main advantage of a merger with ReSound is that it enables us to achieve our goals faster.

What is Phonak doing to maintain its lead position going forward?

Prejudices towards hearing systems are deeply ingrained and awareness of the importance of hearing and the effects of hearing impairment is low, which is why Phonak launched the *Hear the World* initiative. We want to make buying a hearing system the most normal thing in the world. To achieve this goal, we will continue to drive innovation in the hearing industry. In future, we will make our products even more powerful and attractive and add functions not yet associated with a hearing system. Our business activity improves the quality of life of our customers, creates attractive employment for our staff and generates value added for our shareholders. Our products are designed to please everyone: that is the key strength and motivation of the Phonak Group.

Teach for Better Hearing

Through its *Hear the World* foundation, Phonak supports Eduplex, a unique education project for children based in Pretoria, South

Africa, which aims to improve education opportunities for hearing-impaired children.

Fit for the future in every respect

To sustain and further develop a strong corporate culture has always been one of our top priorities. New initiatives show how rigorously Phonak promotes sustained developments throughout all of its business activities.

Phonak's management strongly believes that achieving true economic success requires taking into account the needs and expectations of all relevant stakeholders. Phonak's enduring success story is based on particular respect for employees, a close relationship with customers, and a very constructive partnership with suppliers. Phonak's unique, innovative and powerful hearing instruments are the result of this teamwork.

This well-balanced approach, which considers all stakeholders, is observable throughout the company and is reflected in Phonak's core values. Working at Phonak is best characterized by flat hierarchical structures, equal treatment of employees, responsibility for one's own actions, transparent Corporate Governance, and open communication with all stakeholders. To sustain and further develop this strong corporate culture is one of management's top priorities and a driver for sustainable economic success.

The Phonak Group is involved in numerous projects to raise general awareness about the importance of the sense of hearing and the benefits of hearing instruments, the most prominent being our *Hear the World* initiative. The Phonak Group also supports a number of social projects to improve the quality of life for people with hearing impairment, especially children.

Sustainability initiatives 2006/07

In launching our *Hear the World* initiative, our goal is to reach the 80% of people with hearing impairment who still do not wear a hearing instrument and whose quality of life is therefore negatively affected, whether or not they realize it. *Hear the World* is a non-profit initiative launched by Phonak to educate the public about the importance of good hearing, the social and emotional implications of hearing loss, and the available solutions for those with hearing impairment.

During the course of 2006/07, we switched completely to lead-free soldering in the manufacture of our hearing systems. Despite the exemption rule that applies to medical applications, the Phonak Group has voluntarily begun to implement the EU directive RoHS 2002/95/EC, which bans the use of environmentally harmful substances in electrical and electronic equipment. Next year we expect to be able to source exclusively lead-free components, thereby ensuring full compliance with the EU directive.

Having introduced a groupwide employee Code of Conduct last year, we also passed similar guidelines for our suppliers towards the end of the financial year 2006/07. We issued the Phonak Group Supplier Principles (PGSP) with the objective of defining standards of governance and practice that must be adhered to by all suppliers conducting business with Phonak. We acknowledge that legislation and cultural patterns vary across the world. However, the PGSP set out basic requirements every supplier must comply with. While the PGSP apply immediately to new suppliers, we will reassess our existing suppliers over the coming business year.

Key information

For detailed information, please refer to our corporate website (www.phonak.com/corporate/investors/sustainability.htm), which contains an extensive sustainability section.

Employees

- 1,584 employees, 42% of the average headcount, took part in training and professional development courses
- Our second groupwide accident survey recorded 31 accidents that resulted in employees being unable to continue working
- Over 1,100 employees own shares of the Phonak Group through share participation schemes (2005/06: 750)

Customers

- Global launch of the *Hear the World* initiative
- 400 professional hearing care specialists from 28 countries attended the international conference "Hearing Care for Adults" in Chicago

Suppliers

- Introduction of the Phonak Group Supplier Principles

Eduplex: Daily training brings a marked improvement in hearing.

Products
- Five new product lines smoothly launched in 2006/07
- MDD 93/42/EEC compliant
- ISO 9001:2000 and 13485:2003 certified

Environment
- The quantity of raw materials going into the annual production of hearing instruments is roughly equivalent to four mid-class passenger cars
- EU Directive WEEE implemented worldwide
- First groupwide CO_2 survey showed CO_2 emissions close to 1200t (Scope 1: Combustion and processes) whereof 655t from heating oil, 538t from gas and 4t from electricity (11MWh annual consumption)

Social
- *Hear the World* foundation launched "Teach for Better Hearing" aimed to achieve sustainable improvements in education for hearing-impaired children

Promoting the inclusion of hearing-impaired children worldwide

In most cases, children born hearing-impaired or almost deaf are still able to read, write, speak and sing. To acquire these skills, however, they need to receive the right technological and pedagogical support from an early stage in their development. For some years now, a school in Pretoria, South Africa, has been using an integrative and, by European and American standards, exemplary method aimed at enabling hearing-impaired children to participate successfully in the regular school program.

The development of hearing systems and fitting strategies tailored specifically to the needs of children has always been a focus of attention at Phonak. For several years, Phonak has therefore been supporting the inclusive nursery and primary school program run by the Eduplex School in Pretoria.

Learning alongside children with normal hearing

This exceptional school's success is based on advanced teaching methods in combination with our hearing systems, cochlear implants and wireless communication systems. Most importantly, children on the Eduplex program are immersed in an environment where they are reliant on hearing and speech as well as required to make constant use of their residual hearing, which is enhanced with the help of hearing implants and systems. The results are truly amazing, as this training brings continuous improvements in the children's hearing.

One of the many tasks that Phonak's *Hear the World* foundation has undertaken is to improve education for hearing-impaired children worldwide. Together with Eduplex, we have therefore launched the teacher training program "Teach for Better Hearing". Our two main aims in doing so are to ensure that hearing-impaired children are fully included in the regular teaching program at mainstream schools around the world and to establish internationally the Natural Oral Approach as practiced at Eduplex.

Nature, technology, human activity: each generates its own unique sound. They all contribute to the soundtrack of life.

Further progress at a high level

The top management of the Phonak Group is dedicated to open communication: today, the duties, authorities and working methods of the Board of Directors and the Management Board are even more comprehensible for outsiders.

The Board of Directors has committed itself to maintaining the highest standards of integrity and transparency in its governance of the company. In this, it is guided by the Swiss Code of Best Practice and the most recent principles of Corporate Governance. Corporate Governance describes how our management is organized and how this is put into practice. It ultimately aims to lead us to success by protecting the interests of our shareholders while at the same time creating value for all stakeholders.

Good Corporate Governance seeks to balance entrepreneurship, control and transparency, while supporting the company with efficient decision-making processes. The Board of Directors and the Management Board constantly work on improving the quality of Corporate Governance.

In the course of the previous financial year 2005/06, the Board of Directors focused on ensuring transparent disclosure of compensation and shareholdings. The Corporate Governance report provides details of the remuneration paid to individual members of the Board of Directors, together with the names of the members of the Board of Directors and the Management Board who receive the highest compensation. In addition, it discloses the individual Board members' attendance at Board of Directors and committee meetings.

In 2006/07, the Board of Directors continued to increase transparency by further developing the standards introduced during the previous financial year. Disclosure of the "Committee Charters" and the "Rules on Board Operations and Procedures" has made internal organization, duties, authorities and working methods of the Board of Directors clearer to those outside the company. The Corporate Governance report now shows the average length of meetings, making it easier to assess whether an appropriate balance was struck between the task in hand and the amount of time spent on it.

A more detailed description is also provided of the content and method of determining the compensation and the shareholding programs of the Phonak Group. The relevant factors for determining the salary of the Management Board are individual targets and the company's targets for operating profit (EBITA) and sales growth, reflecting the Phonak Group's commitment to achieving consistently profitable growth.

The report also shows a breakdown of auditor's fees by audit, audit-related, tax and non-audit services.

All relevant Corporate Governance documents can be accessed in the Investors section of the Phonak website: www.phonak.com/company/investors/governance.htm

Additions to the Corporate Governance Reporting
- Improved visibility of working methods of the Board of Directors
- Disclosure of the average length of Board meetings
- Details of the content and method of determining the compensation and shareholding programs
- Lead auditor's fees structured by nature of services

Key information

For detailed information, please refer to the full Corporate Governance report.

Changes in share capital					
As of March 31	**2007**	2006	2005	2004	2003
Ordinary capital (in CHF)	3,356,257	3,318,046	3,301,120	3,273,110	3,268,610
Total shares	67,125,144	66,360,925	66,022,400	65,462,200	65,372,200
Authorized capital (in CHF)	165,056	165,056			
Authorized shares	3,301,120	3,301,120			
Conditional capital (in CHF)	374,189	412,400	264,270	292,280	296,780
Conditional shares*	7,483,776	8,247,995	5,285,400	5,845,600	5,935,600

* Of the 7,483,776 conditional shares at March 31, 2007, 4,182,656 are reserved for employee share option programs.

Options	
Total number of options exercised in financial year 2006/07:	764,219
Total number of options outstanding at March 31, 2007:	1,907,539
Total number of options available for exercise in financial year 2007/08:	671,044

Significant shareholders as of March 31	**2007** Number of shares	**2007** in %	2006 in %
Beda Diethelm	7,362,500	10.97	11.24
Andy Rihs	7,239,100	10.78	10.91
Hans-Ueli Rihs	5,990,813	8.93	9.13
Chase Nominees Ltd.	6,134,748	9.14	
Barclays Plc & its subsid.	4,117,201	6.13	

Auditors

PWC, elected for the first time at the AGM on July 5, 2001. Lead auditor is Patrick Balkanyi (since November 6, 2006).

Compensation

Total compensation to the Board of Directors: CHF 1.9 million
Total compensation to the Management Board: CHF 18.0 million

Highest total compensation:

- Board of Directors: William D. Dearstyne, cash payment of CHF 199,293 and 12,000 share appreciation rights on Phonak shares with a value of CHF 212,640.
- Management Board: Valentin Chapero, cash payment of CHF 2,392,445 and 500,000 options on Phonak shares with a value of CHF 9,445,610. This is the second and last ordinary allocation of options, in conjunction with his long-term employment contract running until 2010, signed in 2005.

Shareholders' participation rights

- **Voting rights restrictions:** Registration in the share register as a shareholder with voting rights is limited to 5% of the share capital (this rule does not apply to the founding shareholders).
- **Voting rights representation:** In exercising their voting rights, no shareholder may unite, by a combination of own and represented shares, more than 10% of the shares of the company.
- **Obligation to make a 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 ("opting up").

Corporate Governance

This report describes the principles of Corporate Governance for the Phonak Group and provides background information on the Group's executive officers and bodies, effective March 31, 2007. The report complies with the general principles on Corporate Governance set down in the Articles of Association and Organizational Regulations, which in turn comply with the Directive on Information relating to Corporate Governance published by the SWX Swiss Exchange.

Group structure and shareholders

Group structure

Operational Group structure

The Phonak Group is headquartered in Stäfa, Switzerland, and is active in over 90 countries through a combination of 40 subsidiaries in 26 countries and a network of independent distributors. The Phonak Holding AG is the parent company and is listed on the SWX Swiss Exchange.

The following organizational chart shows the structure of the Management Board as of March 31, 2007:

Dr. Valentin Chapero Rueda	CEO
Oliver Walker	CFO
Dr. Herbert Bächler	CTO
Paul Thompson	EVP Corporate Development
Toni Schrofner*	EVP Operations & Supply Chain
Hans Leysieffer	VP Research & Development
Sarah Kreienbühl	VP Corporate Human Resources
Cameron Hay	President and CEO Unitron Hearing
Ignacio Martinez	VP International Sales
Alexander Zschokke	VP Marketing

* Until March 31, 2007 / From April 1, 2007 Hans Mehl, VP Global Operations
From April 1, 2007 Elmar Götz, VP Business Services

Listed companies

Apart from Phonak Holding AG there are no other companies belonging to the consolidated Phonak Group whose equity securities are listed on a stock exchange.

Key data for the shares of Phonak Holding AG as of March 31:

	2007	2006	2005
Market capitalization in CHF m	6,243	4,924	2,720
in % of equity	698%	785%	605%
Share price in CHF	93.00	74.20	41.20
P/E ratio	25.9x	28.7x	28.7x

Registered office	8712 Stäfa, Switzerland
Listing	SWX Swiss Exchange
Security No	1,254,978
ISIN	CH0012549785
Par value	CHF 0.05

Legal structure

The following organizational chart shows the legal structure (registered office, share capital in local currency, share held in %) of the Phonak Group as of March 31, 2007:

Phonak Holding AG CHF 3,356
Stäfa (CH)

Switzerland

Phonak AG Stäfa (CH)	CHF 2,500 99.3%
Phonak Hearing Systems AG Stäfa (CH)	CHF 100 100%
Phonak Communications AG Murten (CH)	CHF 500 100%
Indomed AG Zug (CH)	CHF 1,000 100%

Europe (excluding Switzerland)

Phonak GmbH Stuttgart (DE)	EUR 153 100%
Unitron Hearing GmbH Stuttgart (DE)	EUR 41 100%
Phonak France SA Bron-Lyon (FR)	EUR 305 100%
Phonak Italia Srl Milan (IT)	EUR 1,040 100%
Phonak Ibérica SA Alicante (ES)	EUR 7,000 100%
Ets. Lapperre BHAC NV Groot-Bijgaarden (BE)	EUR 124 100%
Phonak Belgium NV Brussels (BE)	EUR 15,311 100%
Phonak B.V. Nieuwegein (NL)	EUR 227 100%
Unitron Hearing B.V. Nieuwegein (NL)	EUR 18 100%
Hansaton Akustische Geräte Gesellschaft m.b.H. Wals-Himmelreich (AT)	EUR 450 100%
Phonak Danmark A/S Frederiksberg (DK)	DKK 9,000 100%
HIMSA A/S Copenhagen (DK	DKK 1,000 25%
Phonak AB Stockholm (SE)	SEK 200 100%
Phonak AS Oslo (NO)	NOK 900 100%
Unitron Hearing AS Oslo (NO)	NOK 100 100%
Phonak Group Ltd. Warrington (UK)	GBP 150 100%
Cochlear Acoustics Ltd. London (UK)	GBP 0.1 25%
Phonak Polska Sp. Z o.o. Warsaw (PL)	PLN 100 100%
Phonarium Kft. Budapest (HU)	HUF 3,000 49%
Phonak CIS Ltd. Moscow (RU)	RUB 4,000 100%

Americas

Phonak LLC Warrenville (US)	USD 1,250 100%
Unitron Hearing, Inc. Plymouth (US)	USD 46,608 100%
Phonak Canada Ltd. Mississauga (CA)	CAD 88,694 100%
Unitron Hearing Ltd. Kitchener (CA)	CAD 17,436 100%
National Hearing Services Inc. Victoria BC (CA)	CAD 1,069 100%
THC Finance Ltd. Bermuda (BM)	CHF 165,021 100%
CAS Produtos Médicos Ltda. Sao Paulo (BR)	BRL 570 100%

Asia/Pacific

Phonak Pty. Ltd. Baulkham Hills (AU)	AUD 750 100%
Phonak New Zealand Ltd. Auckland (NZ)	NZD 250 100%
Jordan Hearing Aids Manufacturing Co., Ltd. Amman (JO)	JOD 80 100%
Phonak Japan Co., Ltd. Tokyo (JP)	JPY 10,000 100%
Unitron Hearing (Suzhou) Co., Ltd. Suzhou (CN)	CNY 32,594 100%
Phonak (Sichuan) Co., Ltd. Sichuan (CN)	CNY 19,119 100%
Phonak (Shanghai) Co., Ltd. Shanghai (CN)	CNY 20,041 100%
Phonak Operation Center Vietnam Co., Ltd. Binh Duong (VN)	VND 8,796,000 100%
Unitron Hearing Korea Co., Ltd. Seoul (KR)	KRW 200,000 37.5%

Share capital in local currency 1,000

Shareholders

As of March 31, 2007, a total of 14,525 (previous year 16,232) shareholders were entered in the share register of Phonak Holding AG. The shareholdings are distributed as follows:

Number of shares	Registered shareholders 31.3.2007	Registered shareholders 31.3.2006
1-100	4,083	3,486
101-1,000	8,691	10,346
1,001-10,000	1,567	2,172
10,001-100,000	149	193
100,001-1,000,000	30	29
> 1,000,000	5	6
Total registered shareholders	**14,525**	**16,232**

The following overview shows the shareholder structure by origin:

Origin	31.3.2007	31.3.2006
Switzerland	39%	46%
Europe (ex Switzerland)	28%	23%
Americas	5%	5%
Rest of the world	2%	1%
Not registered	26%	25%
Total	**100%**	**100%**

Significant shareholders as of March 31:

	2007 Number	2007 in %	2006 in %
Beda Diethelm	7,362,500	10.97	11.24
Andy Rihs	7,239,100	10.78	10.91
Hans-Ueli Rihs	5,990,813	8.93	9.13
Chase Nominees Ltd.	6,134,748	9.14	
Barclays Plc & its subsidiaries	4,117,201	6.13	
Shareholders with interests below 5%	36,280,782	54.05	68.72
Total share capital	**67,125,144**	**100.00**	**100.00**

The founding shareholders are those who were already shareholders before the Initial Public Offering in November 1994. There are no shareholders' agreements between these persons.

Cross-shareholdings

Phonak Holding AG has no cross-shareholdings with other companies, neither in capital nor in voting rights.

Capital structure

Capital

As of March 31, 2007, the capital of Phonak Holding AG comprised the following:

Ordinary capital (in CHF)	3,356,257
Total shares	67,125,144
Authorized capital (in CHF)	165,056
Authorized shares	3,301,120
Conditional capital (in CHF)	374,189
Conditional shares	7,483,776

Authorized and conditional capital

Authorized capital

The Annual General Shareholders' Meeting held on July 7, 2005, approved the creation of authorized share capital of 3,301,120 registered shares with a par value of CHF 0.05 per share. The Board of Directors is authorized to exclude subscription rights of shareholders and to allocate them to third parties if the new shares are to be used for the acquisition of companies, parts of companies, equity stakes or the financing of such transactions. The authorization granted to the Board of Directors to augment the company's share capital with the authorized share capital created expires on July 6, 2007.

Conditional capital

The Annual General Shareholders' Meeting held on July 7, 2005, approved the creation of conditional share capital of 3,301,120 registered shares with a par value of CHF 0.05 per share. The purpose of the extra conditional share capital created is to improve the company's financial flexibility. This capital may be used for exercising option and conversion rights granted in connection with bonds or similar debt instruments issued by the company for the purpose of financing the acquisition of or investment in companies.

At the Annual General Shareholders' Meetings in 1994 and 2000, conditional share capital of 8,000,000 registered shares with a par value of CHF 0.05 per share was created with the purpose of offering Phonak shares, through an option program, to key employees of the Phonak Group.

Changes in capital

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

	2007	2006	2005
Ordinary capital (in CHF)	3,356,257	3,318,046	3,301,120
Total shares	67,125,144	66,360,925	66,022,400
Authorized capital (in CHF)	165,056	165,056	
Authorized shares	3,301,120	3,301,120	
Conditional capital (in CHF)	374,189	412,400	264,270
Conditional shares	7,483,776	8,247,995	5,285,400

The authorized share capital of 3,301,120 registered shares created on July 7, 2005, has not yet been used.

From a maximum of 8,000,000 approved shares with a par value of CHF 0.05, 3,817,344 shares have been issued up to March 31, 2007, reducing the maximum conditional share capital reserved for key employees' share option plans to 4,182,656 (previous year 4,946,875) shares. In 2006/07, a total of 829,315 options were granted as part of the Phonak Executive Equity Award Plan (EEAP). In 2005/06, a total of 420,818 options, and in 2004/05, a total of 742,400 options were granted. At March 31, 2007, a total of 1,907,539 (prior year 1,842,693) options were outstanding. Each of these options entitles the holder to purchase one registered share in Phonak Holding AG with a par value of CHF 0.05.

The conditional share capital of 3,301,120 registered shares created on July 7, 2005, to improve the company's financial flexibility, has not yet been used.

Shares and participation certificates

Phonak Holding AG registered shares have been quoted on the SWX Swiss Exchange since November 1994. The Annual General 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 a 1:100 share split. This reduced the par value of Phonak registered shares from CHF 20 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 General Shareholders' Meeting and is entitled to dividend payments. As of March 31, 2007, the company held 44,344 (previous year 34,633) own shares.

Phonak Holding AG has not issued any participation certificates.

Profit sharing certificates

Phonak Holding AG has not issued any profit sharing certificates.

Limitations on transferability and nominee registrations

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 Association). Linked parties are considered as one person. To abolish this regulation, the absolute majority of the votes represented at the General Shareholders' Meeting is sufficient.

The restrictions on the voting and representation rights do not apply to the founding 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.

Nominees can not apply for entry in the share register.

Convertible bonds and warrants/options

Phonak Holding AG has not issued any convertible bonds.

The following overview shows the options granted as part of the employee option programs (Key People Program and Executive Equity Award Plan) by March 31, 2007:

Options granted/outstanding				Blocking and exercise periods			Exercised in 2006/07
Year	Total granted	of which outstanding	Strike price in CHF	Blocking period	Exercise period	Number of options	Number of options
2000/01	5,000		40.50	01.09.2000-31.08.2006	01.09.2006-31.08.2007		2,500
2001/02	13,500	1,500	56.00	01.09.2001-31.08.2006	01.09.2006-31.08.2007	1,500	6,000
2002/03	28,500	11,250	13.00	01.02.2003-31.01.2007	01.02.2007-31.12.2007	11,250	17,250
	27,000	3,000	13.00	01.02.2003-31.01.2007	01.02.2007-31.01.2008	3,000	12,000
2003/04	758,450	183,234	28.00	01.02.2004-31.01.2007	01.02.2007-31.01.2009	183,234	482,216
	22,000	10,000	28.00	01.02.2004-31.01.2008	01.02.2008-31.01.2010	10,000	
2004/05	342,400	204,700	39.00	01.02.2005-31.01.2006	01.02.2006-31.01.2010	12,875	30,375
			39.00	01.02.2005-31.01.2007	01.02.2007-31.01.2010	33,875	45,100
			39.00	01.02.2005-31.01.2008	01.02.2008-31.01.2010	78,975	
			39.00	01.02.2005-31.01.2009	01.02.2009-31.01.2010	78,975	
	400,000	300,000	39.00	01.10.2005-30.09.2006	01.10.2006-30.09.2010		100,000
			39.00	01.10.2005-30.09.2007	01.10.2007-30.09.2010	100,000	
			39.00	01.10.2005-30.09.2008	01.10.2008-30.09.2010	100,000	
			39.00	01.10.2005-30.09.2009	01.10.2009-30.09.2010	100,000	
2005/06	420,818	364,540	63.25	01.02.2006-31.01.2007	01.02.2007-31.01.2011	48,737	68,778
			63.25	01.02.2006-31.01.2008	01.02.2008-31.01.2011	105,269	
			63.25	01.02.2006-31.01.2009	01.02.2009-31.01.2011	105,265	
			63.25	01.02.2006-31.01.2010	01.02.2010-31.01.2011	105,269	
2006/07 [1]	829,315	829,315	95.05	01.02.2007-31.01.2008	01.02.2008-31.01.2012	25,209	
			95.05	01.02.2007-31.01.2009	01.02.2009-31.01.2012	25,208	
			95.05	01.02.2007-31.01.2010	01.02.2010-31.01.2012	25,209	
			95.05	01.02.2007-31.01.2011	01.02.2011-31.01.2012	25,209	
			95.05	01.03.2007-28.02.2008	01.03.2008-28.02.2012	57,120	
			95.05	01.03.2007-28.02.2009	01.03.2009-28.02.2012	57,120	
			95.05	01.03.2007-28.02.2010	01.03.2010-28.02.2012	57,120	
			95.05	01.03.2007-28.02.2011	01.03.2011-28.02.2012	57,120	
			95.05	01.10.2007-30.09.2008	01.10.2008-30.09.2012	133,000	
			95.05	01.10.2007-30.09.2009	01.10.2009-30.09.2012	133,000	
			95.05	01.10.2007-30.09.2010	01.10.2010-30.09.2012	134,000	
			95.05	01.10.2007-30.09.2011	01.10.2011-30.09.2012	100,000	
Total	**2,846,983**	**1,907,539**				**1,907,539**	**764,219**

[1] EEAP in 2006/07 includes the second and last ordinary allocation of options to Valentin Chapero Rueda in conjunction with the long-term employment contract running until 2010, signed in 2005. These options are split into four tranches. One tranche vests each year over four years, starting one year after the grant date.

As per both, the Executive Equity Award Plan and the Key People Program, each option provides the right to purchase one registered share of Phonak Holding AG. (See also Note 31 of the Consolidated Financial Statements).

Members of the Board of Directors

Andy Rihs	1942; Swiss
Position:	Chairman since 1992, non-executive
Other activities:	Chairman of the Board of ARfinanz Holding AG Chairman of the Board of ISH International Sport Holding AG Chairman of the Board of R-Estate AG Chairman of the Board of ARim SA Chairman of the Board of AR Gastronomia AG Member of the Board of Ticketcorner Holding AG Member of the Board of Sport und Event Holding AG

William D. Dearstyne	1940; American
Position:	Vice-Chairman since 2004, non-executive
Other activities:	Member of the Advisory Council of Earlybird Venture Capital GmbH & Co. Member of the Board of Trustees of Bucknell University Member of the Board of Bioness, Inc.

Heliane Canepa	1948; Swiss
Position:	Non-executive
Other activities:	CEO Nobel Biocare Holding AG

Dr. Michael Jacobi	1953; German
Position:	Non-executive
Other activities:	Member of the Board of Hilti AG

Robert F. Spoerry	1955; Swiss
Position:	Non-executive
Other activities:	Chairman, President and CEO of Mettler-Toledo International Inc. Member of the Board of Conzzeta Holding AG Member of the Board of Schaffner Holding AG

Andy Rihs (born in 1942) is Chairman of the Board of Directors of Phonak Holding AG since 1992. He is one of the founders of the Phonak Group, together with his partner, Beda Diethelm, and his brother Hans-Ueli Rihs.

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 organization for Switzerland, then gradually built up a global distribution network. Andy Rihs led the Phonak Group as CEO until April 2000, and as interim CEO from April to September 2002. 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.

William D. Dearstyne (born in 1940) 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 gained valuable 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. Dearstyne studied at Bucknell University in Lewisburg, Pennsylvania, and at Syracuse University in New York where he earned an MBA in International Business.

Heliane Canepa (born in 1948) is President and CEO of Nobel Biocare AB, Sweden, since August 2001. In 2002, she also became CEO of the new Group parent company Nobel Biocare Holding AG.

Before joining Nobel Biocare, Heliane Canepa was for 20 years CEO of the Switzerland- and US-based company Schneider Worldwide, a medtech company in the cardiology, balloon dilatation field. In 1995, Heliane Canepa was named "Female Entrepreneur of the year" and in 2000 and in 2006 "Entrepreneur of the year" in Switzerland. In 2005, she was ranked No. 6 in the Financial Times, Women in Business Europe's Top 25.

Heliane Canepa completed business school in Dornbirn, Austria, West London College in London, Sorbonne University in Paris, and the Foreign Executive Development Program at Princeton University, New Jersey.

Dr. Michael Jacobi (born in 1953) is working as an independent consultant since 2007.

From 1996 to 2007, he was CFO and member of the Executive Committee of Ciba Specialty Chemicals Inc. Prior to this, since 1978, Michael Jacobi held various management positions in the area of finance at Ciba Geigy Group and Ciba Specialty Chemicals Inc., in Brazil, the US and Switzerland.

Michael Jacobi studied economics and business administration at the University of St. Gallen, Switzerland, at the University of Washington in Seattle and at the Harvard Business School in Boston. He graduated with a doctoral degree from the University of St. Gallen in 1979 with a thesis on International Accounting.

Robert F. Spoerry (born in 1955) is Chairman, President and CEO of Mettler-Toledo International Inc., a leading global manufacturer and marketer of precision instruments and related services for use in laboratory, manufacturing and food retailing applications.

Robert Spoerry joined Mettler-Toledo in 1983. He was in charge of the acquisition and integration of Toledo Scale Corporation, USA. In 1989, he was appointed to the company's Executive Board and was nominated CEO in 1993. In 1996, Robert Spoerry led the buyout of Mettler-Toledo from Ciba Geigy and the company's subsequent Initial Public Offering on the New York Stock Exchange (NYSE) in 1997. In 1998, he was assigned Chairman.

Robert Spoerry graduated in Mechanical Engineering at the Federal Institute of Technology in Zurich, Switzerland, and received an MBA from the University of Chicago.

Members of the Management Board

Dr. Valentin Chapero Rueda 1956; Spanish
Position: CEO
Appointment: October 2002

Oliver Walker 1969; Swiss
Position: CFO
Appointment: October 2004

Dr. Herbert Bächler 1950; Swiss
Position: CTO
Appointment: June 2002

Paul Thompson 1967; Canadian
Position: EVP Corporate Development
Appointment: January 2002

Toni Schrofner* 1963; Austrian
Position: EVP Operations & Supply Chain
Appointment: December 2003

* Until March 31, 2007 / from April 1, 2007 Hans Mehl, VP Global Operations

Dr. Valentin Chapero Rueda (born in 1956) joined the Phonak Group as CEO in October 2002.

Before joining Phonak, Valentin Chapero Rueda was CEO of the Mobile Networks Division of Siemens. Prior to this, between mid-1996 and the end of 1999, he was CEO of the Siemens Audiology Group, the world's largest hearing instrument manufacturer. He took the company into the digital era, tripling sales and significantly improving profitability. Valentin Chapero Rueda began his career within the R&D department of Nixdorf Computer.

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

Oliver Walker (born in 1969) was appointed CFO of the Phonak Group in October 2004.

Before joining Phonak, he held the position of CFO of Stratec Medical Group Oberdorf, Switzerland, since 2000. Stratec is a leading international medical devices company, specializing in the development, manufacture, and marketing of instruments and implants for the surgical treatment of bones. Prior to Stratec, Oliver Walker worked for seven years with the Von Roll Group, a diversified industrial company. His most recent position there was as Vice President Finance and Controlling for the division Von Roll Infratec.

Oliver Walker studied economics at the University of Berne, Switzerland; he holds a Masters Degree in Business Economics.

Dr. Herbert Bächler (born in 1950) is a key member of Phonak's management team since 1981. In June 2002, he was appointed to the position of Chief Technology Officer (CTO) and became a member of the Management Board.

Herbert Bächler is responsible, on a groupwide basis, for directing the various research projects. His duties include the pursuit of new technologies and their application to hearing instruments and related business opportunities.

Herbert Bächler received his diploma in Electronic Engineering in 1973 and his doctorate in 1978 from the Swiss Federal Institute of Technology Zurich, Switzerland.

Paul Thompson (born in 1967) was appointed to the position of Executive Vice President Corporate Development in October 2004. In this position, he is responsible for the development of the Group Strategy and the implementation of various business development activities.

Prior to this appointment, he was CFO of the Phonak Group since the beginning of 2002. Between 1998 and 2001, Paul Thompson acted as CFO and later also as COO of the Unitron Hearing Group. Before joining Unitron Hearing, 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 the University of Waterloo, Canada. In 1992, Paul Thompson was granted his Chartered Accountant designation and in 1998, he achieved the designation of Certified Management Consultant.

Toni Schrofner (born in 1963) joined the Phonak Group as Executive Vice President Operations & Supply Chain and became a member of the Management Board in December 2003.

Before joining Phonak, Toni Schrofner was acting as President of 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 the HTL in Salzburg, Austria, and completed his MCI Studies of Economics/International Management at the University of Innsbruck, Austria.

Members of the Management Board

Hans Leysieffer 1957; German
Position: VP Research & Development
Appointment: October 2003

Sarah Kreienbühl 1970; Swiss
Position: VP Corporate Human Resources
Appointment: August 2004

Cameron Hay 1967; Canadian
Position: President and CEO Unitron Hearing
Appointment: January 2005

Ignacio Martinez 1965; Spanish
Position: VP International Sales
Appointment: January 2005

Alexander Zschokke 1965; Swiss
Position: VP Marketing
Appointment: July 2006

Hans Leysieffer (born in 1957) was appointed to the post of Vice President R&D for Phonak Hearing Systems in October 2003.

Prior to that he was CTO of IIP-Technologies, a start-up firm for retina implants. In this capacity he was also responsible for research & development, quality control and intellectual property management. In 1989 he founded Implex AG Hearing Technology in Munich, Germany, a company specializing in the basic research, development, manufacture and marketing of the world's first fully implantable hearing device for sensorineural hearing loss. Hans Leysieffer acquired his first experience in the area of development and approval of medical technology products through clinical trials on cochlea implants in Europe and India.

Hans Leysieffer studied electrical engineering at the Technical University of Munich, Germany, gaining a PhD for his dissertation on sensory transmission of speech for patients suffering from total hearing loss.

Sarah Kreienbühl (born in 1970) is Vice President Corporate HR since August 2004.

Before that, Sarah Kreienbühl was Head of Global Human Resources and member of the Executive Board of the Tecan Group in Männedorf, Switzerland. Prior to that she was a consultant with Amrop International, Zurich, Switzerland. As well as her executive search projects, she also introduced new assessment and management audit services. She started her career as a psychologist with Swissair, where she was involved in the selection of pilots and air traffic managers.

Sarah Kreienbühl studied Applied Psychology at the University of Zurich, Switzerland.

Cameron Hay (born in 1967) is president and CEO of Unitron Hearing since January 2005.

Before that, he was COO and CEO of the Kitchener Operations Center. His tasks there included setting up the Phonak Operations Center in Suzhou, China. Cameron Hay started his career with IBM and then went on to perform various management functions as a business consultant with Ernst & Young, where his activity focused on the development of global growth strategies for numerous well-known international companies in the high-tech sector.

Cameron Hay gained a Diploma in Business Economics and a Master of Business Administration from the Ivey School of Business at Western Ontario University in Canada.

Ignacio Martinez (born in 1965) was appointed VP International Sales effective January 2005.

Prior to this position he was Managing Director of Phonak Spain since 2001. He has over 20 years of experience in the hearing instrument industry. Before joining Phonak he was working for Widex Audifonos S.A. in Spain, holding positions as Assistant Technical Director, and most recently, as Director of Sales and Marketing.

Ignacio Martinez has studied electronic engineering at the Universitat Politécnica de Catalunya in Barcelona. He also completed training as hearing care professional.

Alexander Zschokke (born in 1965) joined the Phonak Group as Vice President Marketing in July 2006.

Before joining Phonak, since 2002, he was managing director of Brand View, a marketing and brand management agency working among others for Woolworth, Bulgari, Giorgio Armani, as well as on several private equity projects in the fashion industry. Prior to that, he spent over 10 years in the fashion and retail industry gaining extensive experience in product management and marketing and communication. As Vice President Marketing for Bally and later for Salvatore Ferragamo, he managed the worldwide development of global brands. Prior to his experience in the fashion industry, Alexander Zschokke worked as project manager first with Contraves and later with the Oerlikon Bührle Holding.

Alexander Zschokke earned a Master's Degree in Mechanical Engineering and Business Administration at the Swiss Federal Institute of Technology (ETH) in Zurich, Switzerland.

Board of Directors

The primary duty of the Board of Directors of Phonak Holding AG is the overall direction of the company and the supervision and control of the management.

None of the Board members has or has had any operational positions within the Phonak Holding AG or any of its subsidiaries during the last three years. Nor are there any business relations between individual Board members, including companies or organizations represented by any individual member, and the Group.

Other activities and vested interests

None of the Board members has any position in governing or supervisory bodies of any important organization, institution or foundation under private or public law, any permanent management or consultancy function for important interest groups, or any official function or political post.

Elections and terms of office

Election procedure and limits on the terms of office

The Articles of Association of Phonak Holding AG state that the Board of Directors must consist of a minimum of three and a maximum of nine members. The members of the Board of Directors are elected individually by the Annual General Shareholders' Meeting. In general, each member is elected for a period of three business years. The term ends on the day of the Annual General 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 member of the Board of Directors who reaches the age of 70 during his or her term must resign at the next Annual General Shareholders' Meeting.

First election and remaining term of office

The following overview shows the date of the first election and the remaining term of office for each member of the Board of Directors:

Name	Position	First election	Term expires
Andy Rihs	Chairman	1985	AGM 2009
William D. Dearstyne	Vice-Chairman	2003	AGM 2009
Heliane Canepa	Member	1999	AGM 2008
Dr. Michael Jacobi	Member	2003	AGM 2009
Robert F. Spoerry	Member	2003	AGM 2009

Internal organizational structure

Allocation of tasks within the Board of Directors

The Board constitutes itself. It appoints its Chairman, its Vice-Chairman as well as a Secretary who is not necessarily a member of the Board. During 2006/07, Pascal Brandenberger has been secretary of the Board of Directors.

The allocation of assignments between the Board of Directors and the CEO is defined in the Phonak Group Organizational Regulations. In accordance with the Organizational Regulations, the Board has appointed an Audit Committee and a Nomination and Compensation Committee.

Member list, tasks and area of responsibility for each committee of the Board of Directors

The duties and authorities of the committees are defined in the Commitee Charters of the Board of Directors of Phonak Holding AG. The committees report to the Board on their activities and findings. The overall responsibility for duties delegated to the committees remains with the Board.

Audit Committee

Members of the Audit Committee are Dr. Michael Jacobi (Chairman), Heliane Canepa and William D. Dearstyne.

Within the context of its overall remit, the Audit Committee reviews on behalf of the Board of Directors the work and effectiveness of the external and internal audit, evaluates the financial control, the financial structure and risk management mechanisms of the company, and reviews the interim and annual financial accounts of the Group. The Audit Committee also supervises audits to be completed by the internal audit department and reviews the results of these audits (see Committee Charters).

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

Nomination and Compensation Committee

After the resignation of Dr. h.c. Daniel Borel, the members of the Nomination and Compensation Committee are Andy Rihs (Chairman), Robert F. Spoerry and William D. Dearstyne.

The primary task of this Committee is to review and propose to the Board of Directors the compensation structure and amount for the Board of Directors and the members of the Management Board, and to select and propose to the Board of Directors suitable candidates for election to the Board of Directors and for appointment to the Management Board. The Committee submits the relevant proposals and nominations to the Board of Directors (see Committee Charters).

The Nomination and Compensation Committee meets as often as required. In the reporting period, the Committee met three times.

Work methods of the Board of Directors and its committees

During the reporting period, the Board of Directors held eight meetings. Telephone conferences were organized to discuss time-sensitive business issues. Furthermore, six ad-hoc meetings were held between individual members of the Board of Directors and the Management Board, in conjunction with the planned acquisition of the ReSound Group. The following overview shows the individual Board members' attendance at Board of Directors and committee meetings as well as the average length of the meetings:

	A	B	C	D
Number of meetings 2006/07	8	3	3	6
Andy Rihs	7	–	3	4
William D. Dearstyne	8	3	2	5
Heliane Canepa	8	3	–	2
Dr. Michael Jacobi	8	3	–	6
Robert F. Spoerry	8	–	3	3
Dr. h.c. Daniel Borel*	2	–	1	–
Average length of meetings	6-8h	4h	2h	2-5h

* Dr. h.c. Daniel Borel resigned from his position as member of the Board of Directors at the AGM 2006

A Board of Directors
B Audit Committee
C Nomination and Compensation Committee
D Ad-hoc meetings in conjunction with the planned acquisition of the ReSound Group

The agendas of Board meetings are set by the Chairman, those of committee meetings by the respective committee Chairman. Any Board or committee member may request a meeting or that an item be included in the agenda. Board and committee members are provided, in advance of meetings, with adequate materials to prepare for the items on the agenda. The Board and its committees are a quorum if a majority of its members is present. The Board and its committees approve resolutions 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 (see Rules on Board Operations and Procedures).

The Board of Directors works closely with the Management Board. In general, CEO and CFO and according to the agenda other members of the Management Board attend Board and committee meetings. The Board of Directors consults external experts where necessary when discussing specific topics.

Definition of areas of responsibility

The Board of Directors of Phonak Holding AG has the primary duty of the overall direction of the company except for those decisions reserved by law for the General Shareholders' Meeting. The Board of Directors is responsible to shareholders for the performance of the company. The Board shall decide on all matters which have not been reserved for or conferred upon another governing body of the company by law, by the Articles of Association, or by the company's Organizational Regulations.

Information and control instruments vis-à-vis the Management Board

During the Board and committee meetings, the Management Board reports regularly to the Board of Directors. At each Board meeting, the CEO informs the Board of Directors on the status of current business operations as well as major business transactions (see Rules on Board Operations and Procedures). Further, the Board of Directors receives consolidated financial statements (balance sheet, income statement and cash flow statement) on a monthly, semi-annually and yearly basis. In addition, the Board of Directors receives monthly consolidated sales reports, providing data on turnover, average selling prices and units for each major product, subsidiary and market. Informal telephone conferences are held as required between Board Members and the CEO or CFO. Further, each member of the Board of Directors may request information on all matters concerning the company.

Furthermore, the Board of Directors disposes of an independent control authority, the internal audit. The internal audit carries out operational and system audits, assists the organizational units in the accomplishment of objectives by providing an independent approach to the evaluation, improvement and effectiveness of their internal control framework, prepares reports regarding the audits it has performed, and reports any actual or suspected irregularities to the Audit Committee.

In addition, the Management Board reports on an annual basis to the Board of Directors about current risks and measures for risk mitigation.

Management Board

The Management Board is responsible for the operational management of the company. Furthermore, it prepares for and later executes decisions made by the Board of Directors. According to the Organizational Regulations of Phonak, the Management Board consists of at least four members, with other members added to suit strategic requirements. The Management Board is appointed by the Board of Directors, as recommended by the Chief Executive Officer (CEO).

Other activities and vested interests

None of the members of the Management Board has any position in governing or supervisory bodies of any important organization, institution or foundation under private or public law, any permanent management or consultancy function for important interest groups, or any official function or political post.

Management contracts

The Board of Directors conducts business directly and has not delegated any management tasks to companies outside the company.

Compensations, shareholdings and loans

Content and method of determining the compensation and the shareholding programs

The compensation principles of the Phonak Group are based on performance considerations. The compensation packages of Phonak Group employees consist of a fixed and a variable performance-related salary as well as further incentive plans which are regularly reviewed by the Nomination and Compensation Committee.

Fixed salary

The fixed salary is intended to give each employee a regular and predictable salary that does not depend on the annual performance of the employee or of the Phonak Group's business. Salary levels depend on job characteristics, market competitiveness as well as on the skills of each employee. The salary evolution depends on the individual performance of the employee.

Variable salary

The variable salary is an integrated element of the basic salary. The split between fixed salary and variable salary is typically defined in the employment contract and depends on the job characteristics and management level. The targets to achieve the variable salary are typically defined for each employee at the beginning of the financial year. In general, these targets are multiplied at the end of the performance period with individual payout multipliers for each employee. The size of the multiplier depends on the actual performance achieved by the employee compared with individual objectives as agreed upon at the beginning of the performance period and the overall performance of the Phonak Group respectively the relevant subsidiary. Incentive payout multipliers can range from 0 to 2. If the employee's achievement of objectives falls below a certain level, no variable salary will be paid. For exceptional performance, higher payout multipliers may apply. Such cases require the approval of the CEO and/or the Nomination and Compensation Committee.

Executive Equity Award Plan

The Executive Equity Award Plan (EEAP) serves as a long-term incentive and is offered annually to the Board of Directors, the Management Board as well as selected employees of the Phonak Group and entitles them to receive options and/or shares. The amount of options and/or shares granted varies depending on the management level. Both options and shares granted as part of the EEAP are split into four equal tranches. For the options, one tranche vests each year over four years, starting one year after the grant date. The shares are blocked over four years, one tranche being released each year, starting one year after the grant date.

Share Purchase Plan

The Share Purchase Plan is offered annually to all permanent employees of the Group who have completed their probationary period. A participant may purchase up to a maximum number of shares. For every two shares purchased, the participant receives one additional share. The purchase price of the shares will generally be equal to the market price on the SWX Swiss Exchange on the date the shares are purchased. The shares under this plan are subject to a blocking period commencing on the expiry date of the offer. The duration of the blocking period may be up to 24 months.

The compensation policies, the performance management process and the incentive plans described above apply equally to the Management Board, including the CEO. The compensation of the Board of Directors differs from the one for the employees of the Phonak Group. Thereby, instead of a variable salary, the Board of Directors receives attendance fees.

The compensation of the members of the Board of Directors as well as the CEO is determined and periodically reviewed by the Board of Directors as proposed by the Nomination and Compensation Committee. The compensation of the other members of the Management Board is determined and periodically reviewed by the Nomination and Compensation Committee as proposed by the CEO.

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

Compensation to the Board of Directors

Total compensation to the Board of Directors of Phonak Holding AG in the financial year 2006/07 amounted to CHF 1.9 million (previous year CHF 1.0 million). Total compensation consists of a fixed fee, attendance fees, expenses, social benefits (employer's contribution) and participation in the Executive Equity Award Plan (entitles only to receive options or share appreciation rights).

The table on page 51 shows the compensation to the individual members of the Board of Directors in the financial year 2006/07.

During the reporting period, there were no honorariums paid for additional services on top of the ordinary compensation nor were any loans awarded or guarantees given to members of the Board of Directors or to any parties closely linked to this governing body.

Compensation to the Management Board

Total compensation to the Management Board of Phonak Holding AG in the financial year 2006/07 amounted to CHF 18.0 million (previous year CHF 6.5 million*). Total compensation consists of a fixed and a variable salary, fringe benefits, social benefits (employer's contribution) and participation in the Executive Equity Award Plan (entitles only to receive options).

The table on page 51 shows the compensation to the CEO and the other members of the Management Board in the financial year 2006/07.

During the reporting period, there were no honorariums paid for additional services on top of the ordinary compensation nor were any loans awarded or guarantees given to members of the Management Board or to any parties closely linked to this governing body.

* Per November 2006, the number of members of the Management Board increased due to the abolishment of the distinction between the Management Board and the more extended Group Executive Team.

Additional severance payments to former members of the Board of Directors and the Management Board

In the financial year 2006/07, no additional severance payment was made to a former member of the Board of Directors or to a former member of the Management Board who gave up his function during the period under review.

Severance payments to former members of the Board of Directors and the Management Board

In the financial year 2006/07, no additional severance payment was made to a former member of the Board of Directors or to a former member of the Management Board.

Share allotment to members of the Board of Directors and the Management Board

In the financial year 2006/07, no shares were allotted to the Board of Directors and the Management Board.

Share and option ownership of members of the Board of Directors and the Management Board

Share and option ownership of the Board of Directors

As of March 31, 2007, the members of the Board of Directors held directly and indirectly 7,272,595 shares (10.8% of total share capital) and 210,000 options.

The following table shows the share and option ownership of the individual members of the Board of Directors as of March 31, 2007:

Member of the Board of Directors	Number of shares	Number of options
Andy Rihs	7,239,100	48,000
William D. Dearstyne	8,310	24,000*
Heliane Canepa	15,010	45,000
Dr. Michael Jacobi	175	45,000
Robert F. Spoerry	10,000	48,000
Total	**7,272,595**	**210,000***

* William D. Dearstyne additionally holds 12,000 share appreciation rights

Compensation to the Board of Directors

in CHF	Fixed fee	Attendance fee	Expenses	Social benefits (employer's contribution)***	Total cash compensation	EEAP Value of options	EEAP Options granted	**Total compensation**
Andy Rihs	120,000	23,000	6,500	21,058	170,558	212,640	12,000	383,198
William D. Dearstyne	60,000	24,000	7,000	108,293	199,293	212,640	12,000*	411,933
Heliane Canepa	60,000	18,000	4,000	10,223	92,223	212,640	12,000	304,863
Dr. Michael Jacobi	60,000	23,000	6,500	22,347	111,847	212,640	12,000	324,487
Robert F. Spoerry	60,000	20,000	4,000	10,466	94,466	212,640	12,000	307,106
Total (active Board members)	**360,000**	**108,000**	**28,000**	**172,387**	**668,387**	**1,063,200**	**60,000****	**1,731,587**
Dr. h.c. Daniel Borel	20,000	4,000	500	173,137	197,637	0	0	197,637
Total (incl. resigned Board members)	**380,000**	**112,000**	**28,500**	**345,523**	**866,023**	**1,063,200**	**60,000****	**1,929,223**

* Share appreciation rights. Share appreciation rights grant the right to participate in the accretion of the Phonak shares without issuing shares.
** Thereof 12,000 share appreciation rights.
*** Including social deduction on the tax value of options exercised during the reporting period.

Compensation to the Management Board

in CHF	Basic salary Fixed salary	Basic salary Variable salary [1]	Fringe benefits	Social benefits (employer's contribution)	Total cash compensation	EEAP Value of options	EEAP Options granted	**Total compensation**
Dr. Valentin Chapero Rueda	1,018,250	1,132,182	16,000	226,013	2,392,445	9,445,610	500,000 [2]	11,838,055
Other members of the Management Board	2,229,329	987,606	178,770	510,192	3,905,897	2,232,730	126,000	6,138,627
Total	**3,247,579**	**2,119,788**	**194,770**	**736,205**	**6,298,342**	**11,678,340**	**626,000**	**17,976,682**

[1] According to the compensation policies of the Phonak Group, the variable salary results from the split of the basic salary defined in the employment contract and the multiplier, which reflects individual as well as Group targets (sales growth and EBITA). The stated variable salaries were paid out in financial year 2006/07 but refer to the previous financial year 2005/06. The data of 2006/07 were not established at the time of the preparation of this Annual Report. The accurate figures will be available on the website of the Phonak Group www.phonak.com/company/investors/governance.htm as of June 1, 2007.

[2] In conjunction with the long-term employment contract running until 2010, signed in 2005, Valentin Chapero Rueda received the second and last ordinary allocation of options in the reporting period. These options are split into four tranches. One tranche vests each year over four years, starting one year after the grant date. (See page 53).

Share and option ownership of the Management Board

As of March 31, 2007, the members of the Management Board held directly and indirectly 2,239 shares and 1,099,688 options.

Options

As of March 31, 2007, the members of the Board of Directors (all non-executive) and the Management Board held 1,309,688 options on shares of Phonak Holding AG. Each option has a share subscription ratio of 1:1. All options granted to employees of the Group (incl. Board of Directors) in 2006/07 had a value of approximately CHF 15.3 million over the term of the options, as calculated using a binomial option pricing model. The value of options granted is booked to the income statement. For further details, we refer to Note 31 of the Consolidated Financial Statements of this Annual Report.

Options granted to the Board of Directors

Options granted/outstanding				Blocking and exercise periods			Exercised in 2006/07
Year	Total granted	of which outstanding	Strike price in CHF	Blocking period	Exercise period	Number of options	Number of options
2003/04	84,000	60,000	28.00	01.02.2004-31.01.2007	01.02.2007-31.01.2009	60,000	24,000
2004/05	72,000	54,000	39.00	01.02.2005-31.01.2006	01.02.2006-31.01.2010	9,000	3,000
			39.00	01.02.2005-31.01.2007	01.02.2007-31.01.2010	15,000	3,000
			39.00	01.02.2005-31.01.2008	01.02.2008-31.01.2010	15,000	3,000
			39.00	01.02.2005-31.01.2009	01.02.2009-31.10.2010	15,000	3,000
2005/06	72,000	60,000	63.25	01.02.2006-31.01.2007	01.02.2007-31.01.2011	15,000	3,000
			63.25	01.02.2006-31.01.2008	01.02.2008-31.01.2011	15,000	3,000
			63.25	01.02.2006-31.01.2009	01.02.2009-31.01.2011	15,000	3,000
			63.25	01.02.2006-31.01.2010	01.02.2010-31.01.2011	15,000	3,000
2006/07	60,000**	12,000*	95.05	01.02.2007-31.01.2008	01.02.2008-31.01.2012	3,000*	
			95.05	01.02.2007-31.01.2009	01.02.2009-31.01.2012	3,000*	
			95.05	01.02.2007-31.01.2010	01.02.2010-31.01.2012	3,000*	
			95.05	01.02.2007-31.01.2011	01.02.2011-31.01.2012	3,000*	
		48,000	95.05	01.03.2007-28.02.2008	01.03.2008-28.02.2012	12,000	
			95.05	01.03.2007-28.02.2009	01.03.2009-28.02.2012	12,000	
			95.05	01.03.2007-28.02.2010	01.03.2010-28.02.2012	12,000	
			95.05	01.03.2007-28.02.2011	01.03.2011-28.02.2012	12,000	
Total	**288,000****	**234,000****				**234,000****	**48,000**

* Share appreciation rights
** Thereof 12,000 share appreciation rights

Options granted to the Management Board

Options granted/outstanding				Blocking and exercise periods			Exercised in 2006/07
Year	Total granted	of which outstanding	Strike price in CHF	Blocking period	Exercise period	Number of options	Number of options
2003/04	93,000		28.00	01.02.2004-31.01.2007	01.02.2007-31.01.2009		93,000
2004/05	118,000	64,000	39.00	01.02.2005-31.01.2006	01.02.2006-31.01.2010		
			39.00	01.02.2005-31.01.2007	01.02.2007-31.01.2010	5,000	5,000
			39.00	01.02.2005-31.01.2008	01.02.2008-31.01.2010	29,500	
			39,00	01.02.2005-31.01.2009	01.02.2009-31.01.2010	29,500	
	400,000	300,000	39.00	01.10.2005-30.09.2006	01.10.2006-30.09.2010		100,000
			39.00	01.10.2005-30.09.2007	01.10.2007-30.09.2010	100,000	
			39.00	01.10.2005-30.09.2008	01.10.2008-30.09.2010	100,000	
			39.00	01.10.2005-30.09.2009	01.10.2009-30.09.2010	100,000	
2005/06	161,250	134,688	63.25	01.02.2006-31.01.2007	01.02.2007-31.01.2011	13,750	26,562
			63.25	01.02.2006-31.01.2008	01.02.2008-31.01.2011	40,313	
			63.25	01.02.2006-31.01.2009	01.02.2009-31.01.2011	40,312	
			63.25	01.02.2006-31.01.2010	01.02.2010-31.01.2011	40,313	
2006/07[1]	626,000	126,000	95.05	01.03.2007-28.02.2008	01.03.2008-28.02.2012	31,500	
			95.05	01.03.2007-28.02.2009	01.03.2009-28.02.2012	31,500	
			95.05	01.03.2007-28.02.2010	01.03.2010-28.02.2012	31,500	
			95.05	01.03.2007-28.02.2011	01.03.2011-28.02.2012	31,500	
		500,000	95.05	01.10.2007-30.09.2008	01.10.2008-30.09.2012	133,000	
			95.05	01.10.2007-30.09.2009	01.10.2009-30.09.2012	133,000	
			95.05	01.10.2007-30.09.2010	01.10.2010-30.09.2012	134,000	
			95.05	01.10.2007-30.09.2011	01.10.2011-30.09.2012	100,000	
Total	**1,398,250**	**1,124,688**				**1,124,688**	**224,562**

[1] EEAP in 2006/07 includes the second and last ordinary allocation of options to Valentin Chapero Rueda in conjunction with the long-term employment contract running until 2010, signed in 2005. These options are split into four tranches. One tranche vests each year over four years, starting one year after the grant date.

Addtional fees and compensations

In 2006/07, no member of the Board of Directors or the Management Board received additional fees or compensations for additional services performed on behalf of Phonak Holding AG or its subsidiaries in excess of the amounts disclosed.

Loans granted by governing bodies

Neither a member of the Board of Directors nor a member of the Management Board possesses a loan from the Phonak Holding AG or one of its subsidiaries.

Highest total compensation

The highest total compensation paid to a member of the Board of Directors in the financial year 2006/07 was to William D. Dearstyne, Vice-Chairman. This compensation consisted of a cash payment of CHF 199,293 (previous year Andy Rihs CHF 152,451) and 12,000 share appreciation rights (previous year Andy Rihs 12,000 options). These share appreciation rights provide the right to participate in the accretion of the Phonak shares exceeding the value of CHF 95.05 between March 1, 2008, and February 28, 2012, without issuing shares.

The highest total compensation paid to a member of the Management Board in the financial year 2006/07 was to Valentin Chapero Rueda, CEO. This compensation consisted of a cash payment of CHF 2,392,445 (previous year CHF 1,923,494) and 500,000 options (in the previous year no options were granted). This is the second and last ordinary allocation of options, which were granted to Valentin Chapero Rueda in the course of his long-term employment contract running until 2010, signed in 2005. These options are split into four tranches. One tranche vests each year over four years, starting one year after the grant date. These options serve as a long-term incentive and provide the right to purchase Phonak shares at a strike price of CHF 95.05 between October 1, 2008, and September 30, 2012.

Shareholders' participation rights

Voting rights and representation restrictions

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 Association). Linked parties are considered as one person. The restrictions do not apply to the founding shareholders. To abolish this regulation, the absolute majority of the votes represented at the General 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 total number of shares of the company as shown in the share register (Art. 12 par. 2 of the Articles of Association). The restrictions on the voting rights do not apply to the founding 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.

Statutory quorums

The General Shareholders' Meeting passes its resolutions and carries out its elections with an absolute majority of the share votes represented, to the extent that neither the law nor the Articles of Association provide otherwise.

Convocation of the General Shareholders' Meeting

The Annual General Shareholders' Meeting is held within six months after the close of the financial year.

Extraordinary General Shareholders' Meetings can be called as often as necessary, in particular, in all cases required by law.

General Shareholders' Meetings are convened by the Board of Directors and, if necessary, by the auditors. Extraordinary General Shareholders' Meetings are convened by the Board of Directors if shareholders representing at least 10% of the share capital request such meeting in writing, setting forth the items to be discussed and the proposals to be decided upon.

Agenda

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

Inscription into the share register

The share register will be closed for about five days before the General 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 within this time, the confirming documents must be exchanged on the day of the General Shareholders' Meeting at the information desk. The shares can be traded at any time and are not blocked.

Changes of control and defense measures

Duty to make an 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 Association).

Clauses on changes of control

There are no agreements in place that, in the event of a change of control, provide members of the Board of Directors or the Management Board with abnormally high severance payments or other lucrative benefits. In 2005, a member of the Management Board, CEO Valentin Chapero Rueda, signed a long-term employment contract running until 2010. Under a change of control provision, he is entitled to his full salary and part of the bonus payments in case the employment is terminated due to a change of control.

Auditors

Duration of the mandate and term of office of the lead auditor

During the Annual General Shareholders' Meeting of July 5, 2001, PricewaterhouseCoopers AG was elected to be auditors of Phonak Holding AG and the Phonak Group. At the Annual General Shareholders' Meeting on July 6, 2006, PricewaterhouseCoopers AG was re-elected for another term of one year. The lead auditor responsible for the existing auditing mandate, Patrick Balkanyi, assumed the office from Stephen W. Williams on November 6, 2006.

Fees

The following overview shows all costs which PricewaterhouseCoopers charged to the Phonak Group during the financial years 2006/07 and 2005/06:

1,000 CHF	2006/07	2005/06
Audit services	836	624
Audit-related services	875	15
Tax services	400	177
Non-audit services	187	73
Total	**2,298**	**889**

Audit services are defined as the standard audit work that needs to be performed each year in order to issue opinions on the consolidated financial statements of the Group as well as opinions on the local statutory accounts.

Audit-related services consist of services which can be performed by the Group auditor but which are not directly in connection with the annual standard audit work, such as audits of newly implemented system controls, consent and comfort letters in relation to regulatory filings or acquisition due diligence services.

Tax services consist of tax compliance and other services.

Supervisory and control instruments pertaining to the audit

The external auditors report their findings semi-annually directly to the Audit Committee of the Board of Directors. In 2006/07, the external auditors attended two out of three Audit Committee meetings.

The Audit Committee of the Board of Directors reviews the performance, compensation, and independence of the external auditors on a regular basis. The Audit Committee reports quarterly its findings to the Board of Directors.

Information policy

As a publicly listed company, the Phonak Group pursues an open and active information policy. A governing principle of this policy is to treat all stakeholders alike and to inform them at the same time. It is one of our top priorities to inform our shareholders, employees, and business partners in the most direct, open, and transparent way about our strategy, our global activities, and the current state of the company.

Insider trading policy

In order to prevent insiders from benefiting from confidential information, the Board of Directors issued guidelines on how to deter both corporate insiders and external consultants from making use of confidential information. The Board of Directors has established so-called black-out periods to prevent insiders from trading in shares or options of Phonak Holding AG during sensitive periods.

In May 2006, the Board of Directors approved an amended version of the insider trading policy, which applies to an increased number of persons and defines extended blocking periods.

Important information available on Phonak's investors website

Capital structure and shareholder rights:
Capital structure
Restrictions on shareholder rights
Shareholder structure
www.phonak.com/company/investors/governance.htm

Regulations and principles:
Articles of Association of Phonak Holding AG
Organizational Regulations
Rules on Board Operations and Procedures
Committee Charters
Code of conduct
Supplier Principles
www.phonak.com/company/investors/governance.htm

Financial information:
Corporate & ad hoc news
Annual reports
Semi-annual reports
IR presentations
www.phonak.com/company/investors/financial.htm

Information on the AGM:
Request to put an item on the AGM agenda
Invitation/agenda
AGM presentations
AGM minutes
www.phonak.com/company/investors/governance/agm.htm

IR online news service:
IR News Service
www.phonak.com/de/company/investors/ir_news.htm

Contact and order form:
IR Contact Form
Order form for annual reports
www.phonak.com/company/investors/ir_contact.htm

Investor Relations Calendar

June 12, 2007	
Annual General Shareholders' Meeting of Phonak Holding AG at Diners Club Arena in Rapperswil-Jona	
November 2007	
Publication of Interim Report as of September 30, 2007	
May 2008	
Publication of Annual Report as of March 31, 2008	
Media and Analysts Conference	
June 2008	
Annual General Shareholders' Meeting of Phonak Holding AG	

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Educating children with hearing loss

The Eduplex schooling project in Pretoria, South Africa, is founded on a unique concept: children with hearing impairment and those

more effectively

with normal hearing are taught together. Phonak's *Hear the World* foundation brings hearing to children who need our help.

Sales and margins at record levels

An attractive product portfolio, customer relationship management and proactive cost management have enabled the Phonak Group to reach a leading global position within the hearing industry.

Overview

The Phonak Group specializes in the development, manufacture and distribution of technologically advanced hearing systems for adults and children with hearing impairment, as well as wireless communication systems. The Group operates worldwide and distributes its products in over 90 countries through its own distribution network and through independent distributors.

Today, with multiple brands and distribution channels, the Phonak Group offers a complete range of hearing systems, along with high-tech specialty products and wireless communication systems. With over 4,000 employees worldwide, the Phonak Group is one of the technology leaders in the hearing instrument industry.

In recent years, the Phonak Group has been implementing a strategy of innovation, improving its sales and distribution capabilities, and proactively managing costs. The importance of product innovation is reflected in the contribution made by new products: in the financial year 2006/07, 69% of sales were attributable to products launched in the last two years. Improvements in the Group's sales and distribution capabilities have been achieved primarily through better training and support, more extensive pre-sales and after-sales service and wider geographic coverage. Last but not least, process re-engineering, improved supply-chain management, the modular hard- and software development platform PALIO as well as the Group's focus on process cost management have produced cost reductions and other operational efficiencies. The Phonak Group is committed to pursuing this strategy going forward.

Value drivers

The following table shows an overview of performance indicators relevant for value creation:

in million CHF	2006/07	2005/06	Change in %
Sales	1,072.8	866.7	23.8
EBITA	283.6	213.9	32.6
EBITA margin	26.4%	24.7%	
ROCE	56.3%	53.0%	
ROE	32.0%	32.3%	
Diluted EPS (in CHF)	3.590	2.584	38.9

Again the Phonak Group was able to significantly improve its key value drivers, sales and operating profit (EBITA). The capital employed in proportion to the company's size was also further optimized. The superior performance is also illustrated by the diluted earnings per share of CHF 3.59, equivalent to an increase of 38.9%.

Geographic coverage

The following table shows the Phonak Group sales broken down by the main geographic markets, based on the location of customers:

	2006/07		2005/06	
in million CHF		as % of sales		as % of sales
Americas	525.9	49	400.4	46
Europe	454.3	42	391.1	45
Asia/Pacific	87.4	8	69.7	8
Others	5.2	1	5.5	1
Total	**1,072.8**	**100**	**866.7**	**100**

In 2006/07, sales in Americas rose by CHF 125.5 million, an increase of 31.4% on last year. This marked improvement resulted from internal and external growth, including the acquisition of Island Hearing, Canada, and some other smaller acquisitions. Sales in Europe increased by CHF 63.1 million, or 16.1%, while sales in Asia/Pacific increased by CHF 17.7 million, or 25.4%. The two main markets, Americas and Europe, which combined account for 91.4% of total sales, grew at similar organic rates over the reporting period.

Explanation of certain key income statement items

Revenue recognition

Sales are recognized net of sales taxes and discounts upon delivery of products and reasonably assured collectibility of the related receivables. Probable product returns are estimated and the related revenue is deferred. Intercompany sales are eliminated.

Sales of services are recognized in the accounting period in which the services are rendered.

Cost of sales

Cost of sales includes material costs for raw materials and components, direct labour costs for manufacturing, manufacturing overhead costs such as purchasing and logistics, depreciation on manufacturing equipment, as well as allocated occupancy costs.

Research and development

Research and development costs include mainly personnel and other operating costs for research and development departments, depreciation on research and development equipment and allocated occupancy costs, as well as externally contracted research and development work.

Sales and marketing

Sales and marketing costs mostly include personnel and other operating expenses for sales and marketing departments, advertising and public relations expenses and allocated occupancy costs.

General and administration

General and administration costs mainly cover personnel and other operating expenses for general and administration departments including finance, human resources, information systems and general management, depreciation and amortization on general and administration equipment, and allocated occupancy costs, as well as outside professional services such as consulting and auditing.

Other income/expenses, net

"Other income/expenses, net" mainly include realized and unrealized exchange differences as well as the financial impact of forward currency contracts.

Acquisition-related amortization

Acquisition-related amortization includes the amortization of identified intangibles such as customer relationships and client lists in relation to acquired businesses. Such intangibles are identified and evaluated at the time of the acquisition and are amortized over the expected useful life.

Operating performance

The following table sets forth the Group's Consolidated Income Statements for the financial years 2006/07 and 2005/06:

in million CHF	2006/07	as % of sales	2005/06	as % of sales	Change in %
Sales	**1,072.8**	**100.0**	**866.7**	**100.0**	**23.8**
Cost of sales	(340.7)	(31.8)	(289.1)	(33.4)	17.9
Gross profit	**732.1**	**68.2**	**577.6**	**66.6**	**26.7**
Research and development	(67.6)	(6.3)	(62.8)	(7.2)	7.7
Sales and marketing	(279.0)	(26.0)	(205.7)	(23.7)	35.6
General and administration	(108.1)	(10.1)	(93.0)	(10.7)	16.2
Other income/(expenses), net	6.2	0.6	(2.2)	(0.3)	N/A
Operating profit before acquisition-related amortization (EBITA)	**283.6**	**26.4**	**213.9**	**24.7**	**32.6**
Acquisition-related amortization	(3.9)	(0.3)	(1.2)	(0.2)	232.6
Operating profit (EBIT)	**279.8**	**26.1**	**212.7**	**24.5**	**31.5**
Financial income	9.0	0.8	5.6	0.6	62.8
Financial expenses	(3.5)	(0.3)	(1.3)	(0.1)	169.3
Share of loss in associates/joint ventures	(1.1)	(0.1)	(0.1)		750.7
Income before taxes	**284.2**	**26.5**	**216.8**	**25.0**	**31.1**
Income taxes	(41.3)	(3.9)	(43.3)	(5.0)	(4.6)
Income after taxes	**242.9**	**22.6**	**173.5**	**20.0**	**40.0**

Sales

Sales increased by 23.8% to CHF 1,072.8 million in 2006/07 from CHF 866.7 million in 2005/06. Organic sales contributed CHF 138.6 million (equals organic sales growth of 16.1%) to this increase, driven mainly by a solid performance across all of Phonak's product groups, particularly the performance of business class and economy class hearing systems. Acquisitions contributed CHF 69.5 million to the sales growth during the reporting period, principally reflecting the acquisition of Island Hearing, Canada, as well as other smaller acquisitions. Currency movements had a slightly negative impact of 0.3% or minus CHF 2.0 million on reported sales. This is primarily the result of the weakening of the US dollar which was partly offset by the strengthening of the euro against the Swiss franc.

The following table sets forth the Phonak Group's sales by product groups for the financial years 2006/07 and 2005/06:

in million CHF	2006/07	as % of sales	2005/06	as % of sales
First class hearing systems	334	31	303	35
Business class hearing systems	222	21	156	18
Economy class hearing systems	301	28	234	27
Wireless communication systems	71	7	61	7
Miscellaneous	145	13	113	13
Total	**1,073**	**100**	**867**	**100**

Sales of first class hearing systems increased by 10% during the period, primarily driven by the introduction of Savia Art, microPower IX, and Unitron Hearing's Indigo. Business class hearing systems grew by 42%, driven by the solid performance of Eleva, microPower V, as well as Unitron Hearing's Element 16. Sales of economy class hearing systems grew by 29% during the period as a result of the extension of the Phonak brand through the PALIO-based eXtra, introduced in the fall of 2005, as well as Unitron Hearing's Element 8 and Element 4. Wireless communication systems (FM systems) were supported by the healthy growth of hearing instrument sales, generating CHF 71 million or 7% of total sales in 2006/07 (CHF 61 million or 7% in 2005/06). Sales of miscellaneous third-party products, spare parts, batteries and services increased by 28% to CHF 145 million and accounted for 13% of total sales in 2006/07 (CHF 113 million or 13% in 2005/06).

Cost of sales

Cost of sales increased by 17.9% to CHF 340.7 million in 2006/07 from CHF 289.1 million in 2005/06. Cost of sales grew slower than sales during the period and the increase was mainly driven by higher sales volumes and employee headcount, primarily in manufacturing and logistics. During the period, Phonak was able to achieve greater economies of scale in both manufacturing and materials procurement and implemented process optimization measures. In addition, Phonak's Chinese manufacturing site's share of total production volumes is continuously growing, which helps to improve the overall marginal production costs. As a result of this and the strong sales growth during the period, Phonak's cost of sales as a percentage of sales decreased from 33.4% in 2005/06 to 31.8% in 2006/07.

Gross profit

As a result of the foregoing, gross profit margin surged to 68.2% from 66.6% on the previous year. In nominal value gross profit increased by 26.7% to CHF 732.1 million compared to CHF 577.6 million in 2005/06.

Research and development

Research and development costs increased by 7.7% to CHF 67.6 million in 2006/07 from CHF 62.8 million in 2005/06, which highlights the scalability of our modular hard- and software development platform PALIO. Costs rose primarily due to additional employee costs following a 8.4% rise in the number of full-time staff employed, the development of new products and the further development of PALIO.

Sales and marketing

Sales and marketing costs increased by 35.6% to CHF 279.0 million in 2006/07 from CHF 205.7 million in 2005/06 mostly due to further investments in Phonak's sales and marketing organizations, newly acquired companies (mainly Island Hearing, Canada), as well as the development of new markets, such as China. In addition, the related advertising and marketing expenses increased as a result of more product launches.

General and administration

General and administration expenses increased by 16.2% to CHF 108.1 million in 2006/07 from CHF 93.0 million in 2005/06. This rise was a result of Phonak's organic and acquisition-related growth, the former mainly attributable to an increase in personnel costs and the further strengthening of the IT infrastructure and systems, including costs arising from the global roll-out of SAP and other CRM systems.

Other income/expenses, net

Phonak incurred other income of CHF 6.2 million in 2006/07 compared with other expenses of CHF 2.2 million in 2005/06, chiefly because of the foreign exchange gain arising from forward currency contracts in the amount of CHF 6.3 million, compared with a foreign exchange loss of CHF 2.9 million in the financial year 2005/06. In the reporting period, effectiveness of the Group's currency exposure management has further improved.

Acquisition-related amortization

Acquisition-related amortization increased to CHF 3.9 million in the financial year 2006/07 as a result of the acquisition of Island Hearing, Canada, and some smaller acquisitions in 2006/07, as well as CAS Produtos Médicos Ltda., Brazil, which was acquired only in the second half of 2005/06.

Financial income/expenses, net

Financial income increased by 62.8% to CHF 9.0 million in 2006/07 from CHF 5.6 million in 2005/06. Financial expenses rose from CHF 1.3 million in 2005/06 to CHF 3.5 million in 2006/07, mainly due to the negative non-cash effect of discounting the expected future acquisition-related earn-out payments to their present value of CHF 2.8 million.

Income taxes

Income taxes slightly decreased by 4.6% to CHF 41.3 million in 2006/07 from CHF 43.3 million in 2005/06. However, income taxes as a percentage of income before taxes decreased to 14.5% from 20.0% in the financial year 2005/06 as a result of a change in the geographic allocation of taxable profit. Income taxes included income tax in the amount of CHF 42.1 million and deferred tax expenses in the amount of CHF 0.8 million compared with income tax of CHF 43.1 million and deferred tax expenses of CHF 0.3 million in 2005/06.

Cash flow

The following table sets forth the Consolidated Cash Flow Statements of the Phonak Group for the financial years 2006/07 and 2005/06:

	2006/07	2005/06
in million CHF		
Cash flow from operating activities	279.6	166.6
Cash flow from investing activities	(135.1)	(64.7)
Cash flow from financing activities	(41.3)	(99.3)
Increase in cash and cash equivalents	104.8	6.3
Cash and cash equivalents at the end of the financial year	**284.3**	**179.5**

Cash flow from operating activities

Cash flow from operating activities increased by 67.9%, much faster than EBITA, to CHF 279.6 million in 2006/07 from CHF 166.6 million in 2005/06, mainly as a result of higher income before taxes in the amount of CHF 67.4 million and an underproportional increase in net working capital of CHF 26.8 million compared to CHF 94.2 million in 2005/06.

Free cash flow

The free cash flow, which also takes into consideration the changes in investing activities, rose 41.9% or CHF 42.7 million. This increase is lower compared to the cash flow from operating activities, mainly as a result of an increased cash flow from investing activities of CHF -135.1 million in 2006/07 (previous year CHF -64.7 million). In the reporting period, cash consideration for acquisitions increased to CHF 87.0 million (previous year CHF 40.8 million) and other investments and long-term loans rose to CHF 22.6 million (previous year CHF 5.2 million). Capital expenditures in tangible and intangible assets increased in the normal course of business from CHF 27.0 million in 2005/06 to CHF 32.0 million in 2006/07. As a percentage of sales capital expenditures remained stable.

Cash flow from financing activities

The Group reported a cash flow from financing activities of CHF -41.3 million in 2006/07, compared to CHF -99.3 million in 2005/06. In the reporting period, the free cash flow of CHF 144.5 million was mainly used for repayments of borrowings and mortgages and dividend payments to shareholders. The Group repaid CHF 26.4 million of debt from April 1, 2006, to March 31, 2007, (previous year CHF 82.4 million) and increased distributions of dividend payments to shareholders from CHF 20.0 million in 2005/06 to CHF 33.3 million in 2006/07. As a result of debt repayments, the Group reported financial debts in the amount of CHF 0.5 million as of March 31, 2007. The lower cash outflow from financing activities in 2006/07 is mainly attributable to the lower debt repayment compared to 2005/06.

Off-balance-sheet arrangements

Phonak did not enter into other commitments which cause significant capital expenditures. However, there can be no assurance that the Group's actual capital expenditures for the coming years will not deviate from the amounts set forth herein.

Information regarding the planned ReSound acquisition

As of October 2, 2006, the Phonak Group entered into a share purchase agreement with GN Store Nord A/S of Denmark to acquire its division ReSound Group. The German Federal Cartel Office (FCO) has prohibited the acquisition. The Phonak Group appealed against the prohibition of the FCO to the competent court, the "Oberlandesgericht Düsseldorf". At the time of printing of this Annual Report, the Oberlandesgericht Düsseldorf has not yet come to a decision. The payment obligation for the acquisition price will only become effective when all clearances have been given.

Consolidated Financial Statements

Consolidated Income Statements

1,000 CHF	Notes	2006/07	2005/06[1]
Sales	5	**1,072,796**	**866,682**
Cost of sales		(340,721)	(289,095)
Gross profit		**732,075**	**577,587**
Research and development		(67,590)	(62,780)
Sales and marketing		(278,978)	(205,731)
General and administration		(108,098)	(92,990)
Other income/(expenses), net	8	6,234	(2,224)
Operating profit before acquisition-related amortization (EBITA) [2]		**283,643**	**213,862**
Acquisition-related amortization	21	(3,878)	(1,166)
Operating profit (EBIT) [3]		**279,765**	**212,696**
Financial income	9	9,041	5,553
Financial expenses	9	(3,461)	(1,285)
Share of loss in associates/joint ventures	19	(1,140)	(134)
Income before taxes		**284,205**	**216,830**
Income taxes	10	(41,330)	(43,331)
Income after taxes		**242,875**	**173,499**
Attributable to:			
Equity holders of the parent		241,629	172,474
Minority interests		1,246	1,025
Basic earnings per share (CHF)	11	3.637	2.607
Diluted earnings per share (CHF)	11	3.590	2.584

[1] Including adjustments in accordance with revised IFRS accounting standards and improvements of the presentation of financial statements (see Notes)

[2] Earnings before financial result, share of loss in associates/joint ventures, taxes and acquisition-related amortization (EBITA)

[3] Earnings before financial result, share of loss in associates/joint ventures and taxes (EBIT)

The Notes are an integral part of the consolidated financial statements

Consolidated Balance Sheets

Assets			
1,000 CHF	Notes	31.3.2007	31.3.2006[1)]
Cash and cash equivalents	13	284,341	179,549
Other current financial assets	7,14	64,003	12,762
Trade receivables	15	222,432	194,330
Other receivables and prepaid expenses	16	50,192	45,542
Inventories	17	94,151	94,244
Total current assets		**715,119**	**526,427**
Tangible assets	18	120,663	117,255
Intangible assets	21	285,759	208,379
Investments in associates/joint ventures	19	37,982	4,064
Other non-current financial assets	20	35,980	12,854
Deferred tax assets	10	67,889	59,146
Total non-current assets		**548,273**	**401,698**
Total assets		**1,263,392**	**928,125**

Liabilities and equity			
1,000 CHF	Notes	31.3.2007	31.3.2006[1)]
Short-term debts	23	64	12,253
Trade payables		41,755	37,562
Taxes payable		59,542	40,945
Other current financial liabilities	7	348	1,649
Other short-term liabilities	24	105,690	91,948
Short-term provisions	22	63,475	37,795
Total current liabilities		**270,874**	**222,152**
Mortgages	25	366	377
Other long-term debts		94	98
Long-term provisions	22	47,204	40,841
Other long-term liabilities	26	10,759	8,710
Deferred tax liabilities	10	39,408	31,425
Total non-current liabilities		**97,831**	**81,451**
Total liabilities		**368,705**	**303,603**
Share capital		3,356	3,318
Share premium		175,802	154,042
Treasury shares		(3,038)	(2,183)
Retained earnings		715,042	467,124
Equity attributable to equity holders of the parent		**891,162**	**622,301**
Minority interests		3,525	2,221
Equity		**894,687**	**624,522**
Total liabilities and equity		**1,263,392**	**928,125**

[1)] Including adjustments in accordance with revised IFRS accounting standards (see Notes)

The Notes are an integral part of the consolidated financial statements

Consolidated Cash Flow Statements

1,000 CHF	Notes	2006/07		2005/06[1]	
Income before taxes			**284,205**		**216,830**
Depreciation of tangible assets	18	24,225		22,353	
Amortization of intangible assets	21	7,929		4,649	
Loss on sale of tangible and intangible assets, net		397		843	
Share of loss in associates/joint venture	19	1,140		134	
(Decrease)/increase in long-term provisions		(11,089)		16,864	
Financial income, net	9	(5,580)		(4,268)	
Unrealized exchange differences		(5,217)		(2,078)	
Changes in pension liabilities		468			
Other non-cash items		9,937	22,210	5,378	43,875
Cash flow before changes in net working capital			**306,415**		**260,705**
Increase in trade receivables		(25,012)		(40,277)	
Increase in other receivables and prepaid expenses		(13,143)		(24,347)	
Decrease in inventories		1,827		1,829	
Increase in trade payables		265		267	
Increase in other payables, accruals and short-term provisions		39,630		6,537	
Income taxes paid		(30,371)	(26,804)	(38,164)	(94,155)
Cash flow from operating activities			**279,611**		**166,550**
Purchase of tangible assets	18	(27,060)		(22,491)	
Proceeds from sale of tangible assets		1,287		2,899	
Cash consideration for acquisitions, net of cash acquired	28	(86,991)		(40,773)	
Purchase of intangible assets	21	(4,983)		(4,504)	
Proceeds from sale of intangible assets		57			
Purchase of financial assets				(133)	
Increase in other non-current financial assets		(22,633)		(5,247)	
Interest received and realized gain from financial assets		5,254		5,533	
Cash flow from investing activities			**(135,069)**		**(64,716)**
Free cash flow			**144,542**		**101,834**
Repayments of borrowings and mortgages		(26,380)		(82,391)	
Proceeds from capital increases		25,513		6,447	
Sale of treasury shares		3,469		5,770	
Purchase of treasury shares		(10,230)		(8,176)	
Dividend paid by Phonak Holding AG		(33,165)		(19,840)	
Dividend paid to minorities		(136)		(133)	
Interest paid		(388)		(1,011)	
Cash flow from financing activities			**(41,317)**		**(99,334)**
Currency translation differences			1,567		3,806
Increase in cash and cash equivalents			**104,792**		**6,306**
Cash and cash equivalents at April 1			179,549		173,243
Cash and cash equivalents at the end of the financial year			**284,341**		**179,549**

[1] Including adjustments in accordance with revised IFRS accounting standards (see Notes)

The Notes are an integral part of the consolidated financial statements

Consolidated Statements of Recognized Income and Expense

1,000 CHF	2006/07	2005/06[1]
Income after taxes	**242,875**	**173,499**
Effect of adopting IAS 19 (amendment) [1]	(747)	(1,034)
Fair value adjustments on cash flow hedges	49,099	
Currency translation differences	(8,898)	19,787
Income and expenses directly recognized in equity	**39,454**	**18,753**
Total recognized income and expense	**282,329**	**192,252**
Attributable to equity holders of Phonak Holding AG	281,083	191,227
Attributable to minority interests	1,246	1,025

[1] Including adjustments in accordance with revised IFRS accounting standards (see Notes)

The Notes are an integral part of the consolidated financial statements

Consolidated Changes in Equity

	Attributable to equity holders of Phonak Holding AG							
	Share capital	Share premium	Retained earnings	Cumulative translation adjustment	Treasury shares	Hedge reserve	Minority interest	Total equity
1,000 CHF								
Balance April 1, 2005 (as reported)	**3,301**	**146,578**	**319,925**	**(21,694)**	**(319)**		**1,913**	**449,704**
Effect of adopting IAS 19 (amendment) [1]			(2,494)				(17)	(2,511)
Balance April 1, 2005 (restated) [1]	**3,301**	**146,578**	**317,431**	**(21,694)**	**(319)**		**1,896**	**447,193**
Total recognized income and expense			**171,440**	**19,787**			**1,025**	**192,252**
Changes in minorities							(567)	(567)
Capital increase of Phonak Holding AG								
from conditional capital	17	6,430						6,447
Share based payments		1,275						1,275
Sale of treasury shares		(241)			6,312			6,071
Purchase of treasury shares					(8,176)			(8,176)
Dividend paid by Phonak Holding AG			(19,840)				(133)	(19,973)
Balance March 31, 2006	**3,318**	**154,042**	**469,031**	**(1,907)**	**(2,183)**		**2,221**	**624,522**
Total recognized income and expense			**240,882**	**(8,898)**		**49,099**	**1,246**	**282,329**
Changes in minorities							194	194
Capital increase of Phonak Holding AG								
from conditional capital	38	25,475						25,513
Share based payments		5,544						5,544
Sale of treasury shares		(794)			9,375			8,581
Purchase of treasury shares					(10,230)			(10,230)
Capitalized financing costs [2]		(8,465)						(8,465)
Dividend paid by Phonak Holding AG			(33,165)				(136)	(33,301)
Balance March 31, 2007	**3,356**	**175,802**	**676,748**	**(10,805)**	**(3,038)**	**49,099**	**3,525**	**894,687**

[1] Including adjustments in accordance with revised IFRS accounting standards (see Notes)

[2] Capitalized costs in relation to the expected capital increase in connection with the planned acquisition of the ReSound Group

Notes to the Consolidated Financial Statements

1. Corporate information

The Phonak Group (the "Group") specializes in the design, development, manufacture, and worldwide distribution of technologically advanced hearing systems for adults and children with hearing impairment. The Group operates worldwide and distributes its products in over 90 countries through its own distribution network and through independent distributors. The ultimate parent company is Phonak Holding AG, a limited liability company incorporated in Switzerland. Phonak Holding AG, registered office is located at Laubisrütistrasse 28, CH-8712 Stäfa, Switzerland.

2. Changes in accounting policies

For the financial year 2006/07 the following standards, amendments and interpretations have become effective for the Group:

- IAS 39 (Amendment), Cash flow hedge of forecast intragroup transactions
- IAS 39 (Amendment), Fair value option
- IAS 39 and IFRS 4 (Amendment), Financial guarantee contracts
- IFRIC 7, Applying a restatement approach under IAS 29
- IFRS 6, Exploration for and evaluation of mineral resources
- IAS 19 (Amendment), Employee benefits

The changes resulting from the implementation of these standards, amendments and interpretations that are material to the Group and their effect on the consolidated financial statement are further explained below.

Amendment to IAS 19: "Employee benefits"

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

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

Effects on the balance sheets and income statement

As of April 1, 2005 "Retirement benefit assets" decreased in the amount of CHF 3.1 million, whereas the related "Deferred tax liability" lowered by CHF 0.6 million. Accordingly, these adjustments reduced equity attributable to equity holders of Phonak Holding AG by CHF 2.5 million and minority interests by CHF 0.02 million.

All of the implications from the first time application of the amendment of IAS 19 (revised) are further explained in the following tables (see page 73).

Additionally, the application led to expanded disclosures in the consolidated financial statements 2006/07 (refer Note 30), and a statement of recognized income and expense as required by IAS 19 (revised) has been introduced.

Furthermore, the Group made certain presentational changes in the income statement to allocate the amortization costs to the appropriate functional line (see table).

The following new or revised IFRS Standards and Interpretations will become effective for financial periods beginning on or after January 1, 2007:

- Amendment to IAS 1, Presentation of Financial Statements: Capital Disclosures (effective January 1, 2007)
- IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements: Capital Disclosures (effective January 1, 2007)
- IFRS 8, Operating Segments (effective January 1, 2009)
- IFRIC 8, Scope of IFRS 2 (effective May 1, 2006)
- IFRIC 9, Reassessment of embedded Derivatives (effective June 1, 2006)
- IFRIC 10, Interim Financial Reporting and Impairment (effective November 1, 2006)
- IFRIC 11, Group and Treasury Share Transactions (effective March 1, 2007)
- IFRIC 12, Service Concession Arrangements (effective January 1, 2008)

The Group has assessed the effect of the changes of these Standards and Interpretations and has concluded that there will be no significant effect on the Group's result and financial position, although the disclosure requirements will be expanded in certain areas, notably IFRS 7 "Financial Instruments: Disclosures" which will be effective from January 1, 2007 and IFRS 8 "Operating Segments" which will be effective from January 1, 2009. IFRS 8 which will replace IAS 14, will require entities to define operating segments and segment performance in the financial statements based on information used by the chief operating decision-maker.

Effects on the balance sheets 1,000 CHF	As published 1.4.2005	Effect of IAS 19 (revised)	Restated 1.4.2005	As published 31.3.2006	Effect of IAS 19 (revised)	Restated 31.3.2006
Current assets	431,363		431,363	526,427		526,427
Non-current assets	311,997	(3,135)	308,862	404,833	(3,135)	401,698
Total assets	**743,360**	**(3,135)**	**740,225**	**931,260**	**(3,135)**	**928,125**
Current liabilities	198,433		198,433	222,152		222,152
Non-current liabilities	95,223	(624)	94,599	82,075	(624)	81,451
Total liabilities	**293,656**	**(624)**	**293,032**	**304,227**	**(624)**	**303,603**
Minorities	1,913	(17)	1,896	2,231	(10)	2,221
Equity attributable to equity holders of the parent	447,791	(2,494)	445,297	624,802	(2,501)	622,301
Total liabilities and equity	**743,360**	**(3,135)**	**740,225**	**931,260**	**(3,135)**	**928,125**

The adjustment of CHF 3.1 million relates to accumulated actuarial losses which have not been increased in the financial year 2005/06 (IAS 19.58A).

Effects on the income statement 1,000 CHF	As published 2005/06	Effect of IAS 19 (revised)	Presentational changes	Restated 2005/06
Sales	**866,682**			**866,682**
Cost of sales	(289,478)	383		(289,095)
Gross profit	**577,204**	**383**		**577,587**
Research and development	(63,039)	259		(62,780)
Sales and marketing	(206,846)	133	982	(205,731)
General and administration	(93,433)	259	184	(92,990)
Other income/(expenses), net	(2,224)			(2,224)
Operating profit before acquisition-related amortization (EBITA)	**211,662**	**1,034**	**1,166**	**213,862**
Acquisition-related amortization			(1,166)	(1,166)
Operating profit (EBIT)	**211,662**	**1,034**		**212,696**
Income after taxes	**172,465**	**1,034**		**173,499**
Minority interests	1,018	7		1,025
Basic earnings per share (CHF)	2.591	0.016		2.607
Diluted earnings per share (CHF)	2.568	0.016		2.584

3. Basis of the consolidated financial statements

The consolidated financial statements of the Group are based on the financial statements of the individual Group companies at March 31 prepared in accordance with uniform accounting policies. The consolidated financial statements have been prepared under the historical cost convention except for the revaluation of certain financial assets at market value, in accordance with International Financial Reporting Standards (IFRS), 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 AG on May 3, 2007.

The consolidated financial statements include Phonak Holding AG as well as the domestic and foreign subsidiaries over which Phonak Holding AG exercises control. A list of the significant companies which are consolidated is given in Note 37.

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 financial year. Actual results could differ from these estimates.

3.1 Principles of consolidation

Investments in subsidiaries

Investments in subsidiaries are fully consolidated. These are entities over which Phonak Holding AG directly or indirectly exercises control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. For the consolidated entities, 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. Changes in minority interests are accounted for using the "modified parent company model", with any excess of purchase consideration over the carrying values of the attributable net assets acquired being recorded as goodwill.

Group companies acquired during the year are included in the consolidation from the date on which control over the company is transferred to the Group, and are excluded from the consolidation as of the date the Group ceases to have control over the company. Intercompany balances and transactions (incl. unrealized profit on inter-company inventories) are eliminated in full.

Investments in associates

Investments in associates are accounted for using the equity method of accounting. These are entities in which Phonak has significant influence and which are neither subsidiaries nor joint ventures of Phonak. Significant influence is the power to participate in the financial and operating policy decisions of the acquired company but is not control or joint control over those policies (usually 20-50% of voting rights). Under the equity method, the investment in an associate is initially recognized at cost (including goodwill on acquisition) and the carrying amount is increased or decreased to recognize Phonak's share of profit or loss of the acquired company after the acquisition date. In order to apply the equity method the most recent available financial statements of an associate are used, however due to practicability reasons the reporting dates might vary up to 3 months from the Group's reporting date. The net assets and results from associates are adjusted, if necessary, to comply with the Group's accounting policies.

The Group's share of equity in associated companies, consolidated using the equity method, is shown in the balance sheet as "Investments in associates/joint ventures", and its share of the results of operations for the year is shown in the income statement as "Share of gain/(loss) in associates/joint ventures".

Associates acquired during the year are accounted for as "Investments in associates/joint ventures" from the date on which significant influence over the acquired company is transferred to the Group, and derecognized from that position as of the date Phonak ceases to have significant influence over an associate.

Investments in joint ventures

Investments in joint ventures are accounted for using the equity method of accounting. These are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. Under the equity method, the investment in a joint venture is initially recognized at cost and the carrying amount is increased or decreased to recognize Phonak's share of profit or loss of the jointly controlled entity after the acquisition date. For applying the equity method the most recent available financial statements of a joint venture are used, however due to practicability reasons the reporting dates might vary up to 3 months from the Group's reporting date. The net assets and results from joint ventures are adjusted, if necessary, to comply with the Group's accounting policies.

The Group's share of equity in joint ventures consolidated using the equity method is shown in the balance sheet as "Investments in associates/joint ventures", and its share of the results of operations for the year is shown in the income statement as "Share of gain/(loss) in associates/joint ventures".

Joint ventures established during the year are accounted for as "Investment in associates/joint ventures" from the date on which joint control of the joint venture is transferred to the Group and derecognized from that position as of the date Phonak ceases to have joint control.

3.2 Currency translation

The consolidated financial statements are expressed in Swiss francs ("CHF"), which is the Group's presentation currency. The functional currency of each Group company is based on the local economic environment to which an entity is exposed, which is normally the local currency.

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.

Monetary assets and liabilities of Group companies which are denominated in foreign currencies are translated using year-end exchange rates. Exchange differences are recorded as an income or expense. Non-monetary assets and liabilities are translated at historical exchange rate. 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 as a separate component of equity. On disposal of a subsidiary, the related cumulative translation adjustment is transferred from equity and included in the profit or loss on disposal in the income statement.

3.3 Accounting and valuation principles

Cash and cash equivalents

This item includes cash in hand and cash at banks, time deposits and other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. The cash flow statement summarizes the movements on cash and cash equivalents. The free cash flow is the net amount of the cash flow from operating and from investing activities.

Other current financial assets

Other current financial assets consist of financial assets held for trading. Marketable securities within this category are classified as financial assets at fair value through profit or loss (see Note 3.6). Derivatives are classified as held for trading unless they are designated as hedges (see Note 3.7)

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 or net realizable value. To evaluate cost, the standard cost method is applied, which approximates historical cost determined on a first-in first-out basis. Standard costs take into account normal levels of materials, supplies, labour, efficiency and capacity utilization. Standard costs are regularly reviewed and, if necessary, revised in the light of current conditions. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

Manufactured finished goods and work-in-process are valued at the lower of production cost or net realizable value. Provisions are established for slow-moving, obsolete and phase-out inventory.

Tangible assets

Tangible assets (land, buildings, plant and equipment) are valued at purchase or manufacturing cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the expected useful lives of the individual assets or asset categories. Where an asset comprises several parts with different useful lives, each part of the asset is depreciated separately over its applicable useful life. 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. Leasehold improvements are depreciated over the shorter of useful life or lease term.

Borrowing costs incurred for the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Subsequent expenditure on an item of tangible assets is capitalized at cost only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. 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.

Research and development

All research and the majority of development costs are expensed as incurred. In addition to the internal costs (direct personnel and other operating costs, depreciation on research and development equipment and allocated occupancy costs), total costs also include externally contracted research and development work. Development of tooling and equipment is recognized as an asset to the extent that it is expected that the corresponding project is determined to be technically and commercially feasible, thereby yielding probable future economic benefits.

Leasing

Assets that are held under leases which effectively transfer to the Group the risk and rewards of ownership (finance leases) are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Minimum lease payments are the payments over the lease term that Phonak is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by Phonak and reimbursed from the lessor, together with any amounts guaranteed by Phonak or by a party related to Phonak. Assets under financial leasing are depreciated over the shorter of their estimated useful life or the lease term. The corresponding financial obligations are classified as "short-term debts" or "other long-term debts", depending on whether they are payable within or after 12 months.

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases, and payments are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's benefit.

Intangible assets

Purchased intangible assets such as software, licences and patents, are measured at cost less accumulated amortization and any impairment in value. Software is amortized over a useful life of 3-5 years. Other intangible assets are generally amortized over a period of 3–10 years applying the straight-line method. Except for goodwill Phonak has no intangible asset with an indefinite useful life.

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. The cost of a business combination is equal to the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by Phonak, in exchange for control of the acquired company plus any costs directly attributable to the business combination. Any difference between the cost of the business combination and Phonak's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognized is treated as goodwill. Goodwill is not amortized, but is assessed for impairment annually in the first half of each financial year, or more frequently if events or changes in circumstances indicate that its value might be impaired.

Other non-current financial assets

Other non-current financial assets consist of investments in third parties, long-term receivables from associates and long-term receivables from third parties. Investments in third parties are classified as financial assets at fair value through profit or loss and long-term receivables from associates and third parties are classified as loans and receivables (see Note 3.6).

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. Given the short term nature of these debts they are carried at nominal value.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. The Group recognizes provisions for warranty costs to cover any costs arising from the warranty given on the sale of its products. The provision is calculated using historical and projected data on warranty rates, service costs, remaining warranty period and number of hearing aids on which the warranty is still active. Short-term portions of warranty provisions are reclassified to short term provisions at each reporting date.

Income taxes

Income taxes include current and deferred income taxes. Phonak is subject to income taxes in numerous jurisdictions and significant judgement is required in determining the worldwide provision for income taxes. The multitude of transactions and calculations imply estimates and assumptions. The Group recognizes liabilities based on estimates of whether additional taxes will be due.

Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax is recorded on the valuation differences (temporary differences) between the tax bases of assets and liabilities and their carrying values in the consolidated balance sheet. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences and 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 the parent is able to control the timing of the reversal of the temporary difference and such amounts are considered to be permanently reinvested.

Revenue recognition

Sales are recognized net of sales taxes and discounts upon delivery of products and reasonably assured collectibility of the related receivables. Probable returns of products are estimated and the related revenue is deferred. Intercompany sales are eliminated.

Sales of services (such as long-term service contracts) are recognized in the accounting period in which the services are rendered.

Interest income is recognized on a time proportion basis using the effective interest method.

Dividend income is recognized when the right to receive payment is established.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Impairment of non-financial assets

Phonak assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of an asset or, where it is not possible to estimate the recoverable amount of an individual asset, a cash-generating unit is the higher of its fair value less selling costs and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. If the recoverable amount is lower than the carrying amount, an impairment loss is recognized. Impairment of financial assets is described under the section on financial instruments.

For the purpose of impairment testing goodwill as well as corporate assets are allocated to cash generating units. An annual impairment test is performed in the first half of each financial year, even if there is no indication of impairment (see "Business combinations and goodwill").

Related parties

A party is related to an entity if the party directly or indirectly controls, is controlled by, or is under common control with the entity, has an interest in the entity that gives it significant influence over the entity, has joint control over the entity or is an associate or a joint venture of the entity. In addition, members of the key management personnel of the entity or close members of their family are also considered related parties as are post-employment benefit plans for the benefit of employees of the entity. No related party exercises control over the Group.

Employee benefits (IAS 19)

Pension obligations

Most employees are covered by post-employment plans sponsored by Group companies. Such plans in Phonak Group are mainly defined contribution plans (future benefits are determined by reference to the amount of contributions paid) and are generally administered by autonomous pension funds or independent insurance companies. These pension plans are financed through employer and employee contributions. The Group's contributions to defined contribution plans are charged to the income statement in the year to which they relate.

Phonak Group also has a number of defined benefit pension plans, both funded and unfunded. Accounting and reporting of these plans are based on annual actuarial valuations. Defined benefit obligations and service 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. 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. Expenses from defined benefit plans are charged to the appropriate income statement heading within the operating results.

Actuarial gains and losses, resulting from changes in actuarial assumptions and differences between assumptions and actual experiences are recognized in the period in which they occur outside the income statement directly in the statement of recognized income and expense.

Other long-term benefits

Other long-term benefits mainly comprise length of service compensation benefits 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

The Board of Directors of Phonak Holding AG, the Management Board and certain management and senior employees of other Group companies participate in equity compensation plans. In addition, a share purchase plan offering three shares for every two purchased is offered to all Phonak employees. The fair value of all equity compensation awards granted to employees is estimated, using a binomial option pricing model, at the grant date and recorded as an expense over the vesting period. The expense is charged to the appropriate income statement heading within the operating results and an equivalent increase in equity is recorded.

3.4 Significant accounting judgements and estimates

Key management judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management may be required to make judgements, apart from those involving estimates, which have an effect on the amounts recognized in the financial statements.

Key accounting estimates and assumptions

Preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. The estimates and assumptions are continously evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable. Actual results may differ from these estimates and assumptions.

The main estimates and assumptions, with the potential of causing an adjustment, are discussed below.

Cost of business combinations

A business combination agreement may provide for an adjustment to the cost of the combination contingent on future events. If the future events do not occur or the estimate needs to be revised, the cost of a business combination is revised accordingly, with a resultant change in the carrying value of goodwill. As at the end of the financial year 2006/07 such costs contingent on future events (earn-out and holdback of purchase prices) of CHF 34.7 million have been included in the cost of business combinations.

Property, plant and equipment and intangible assets, including goodwill

The Group has property, plant and equipment with a carrying value of CHF 120.7 million as disclosed in Note 18 and intangible assets, including goodwill with a carrying value of CHF 285.8 million as disclosed in Note 21.

The Group determines annually, in accordance with the accounting policy stated in Note 3.3, whether any of the assets are impaired. For the impairment tests, estimates are made of the expected future cash flows from the use of the asset or cash-generating unit. The actual cash flows could vary significantly from these estimates.

Deferred tax assets

The consolidated balance sheet includes deferred tax assets of CHF 67.9 million related to deductible differences and, in certain cases, tax loss carryforwards provided that their utilization appears probable. The recoverable value is based on forecasts of the corresponding taxable group company over a period of several years. As actual results may differ from these forecasts, the deferred tax assets need to be adjusted accordingly.

Employee benefit plans

Phonak has various employee benefit plans. Most of its salaried employees are covered by these plans, some of which are defined benefit plans. The present value of the defined benefit obligations at the end of the financial period 2006/07 amounts to CHF 112.6 million as disclosed in Note 30. With such plans, actuarial assumptions are made for the purpose of estimating future developments, including estimates and assumptions relating to discount rates, the expected return on plan assets in individual countries and future wage trends. Actuaries also use statistical data such as mortality tables and staff turnover rates with a view to determining employee benefit obligations. If these factors change due to a change in economic or market conditions, the subsequent results could deviate considerably from the actuarial reports and calculations. Over the medium term such deviations could have an impact on the equity. The carrying amounts of the plan assets and liabilities in the balance sheet are set out in Note 30.

Provision for warranty and returns

The Group recorded provisions for warranty and returns of CHF 41.7 million as of March 31, 2007 as disclosed in Note 22. The calculation of these provisions is based on turnover and past experience of warranty claims and returns. The actual costs for warranty and returns may differ from the estimates.

Other current financial assets

The consolidated balance sheet includes the positive replacement value of the contingent forward foreign exchange contract which was entered into in connection with the planned acquisition of the ReSound Group of CHF 50.7 million in September 2006.

Up to mid of January the contingent forward contract fulfilled the requirements of IAS 39 relating hedge accounting. From mid January 2007 up to end of March the hedge did not qualify for hedge accounting under IAS 39. Should the transaction not take place a net amount of CHF 1.6 million (difference between fair value at March 31, 2007 and hedge reserve) will be expensed to the income statement in the financial year 2007/08.

Transaction costs

Costs in the amount of CHF 19.1 million have been incurred in the current financial year in connection with the planned acquisition of the ReSound Group and were recorded in the balance sheet as of March 31, 2007. The Group assesses that the acquisition is still probable and will take place in the financial year 2007/08 and has therefore not expensed these costs. Should the transaction not take place the Group expects total costs relating to the planned transaction of approximately CHF 35 million (including capitalized costs of CHF 19.1 million as of March 31, 2007) to be expensed in the financial year 2007/08.

3.5 Financial risk management

The Group is exposed to the following financial risks:

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 currently not being used to hedge against changes in interest rates.

Exchange rate risk

The Group buys and sells products and services in foreign currencies and is therefore exposed to exchange rate risks. To minimize foreign currency exchange risks, relating in particular to inter-company sales and the settlement of inter-company loans, forward currency contracts are entered into. Generally, these contracts do not qualify for hedge accounting treatment under IAS 39, and accordingly exchange losses and gains on forward currency contracts are recognized in the income statement. However, if a forward contract qualifies as a hedge, under IAS 39, such exchange gains and losses on the contract are recorded in equity and are reclassified to the income statement when the gains or losses on the underlying transaction are recorded.

Credit risk

Financial assets 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.

3.6 Financial assets

Phonak classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and reclassifies them whenever their intention or ability changes. All purchases and sales are recognized on the settlement date.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are assets held for trading, acquired for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Derivative financial assets and derivative financial liabilities are always deemed as held for trading unless they are designated and effective hedging instruments. Financial assets held for trading are measured at their fair value plus initial transaction costs. Fair value changes on a financial asset held for trading are included in net profit or loss for the period in which they arise. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities more than 12 months after the balance-sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet. Loans are measured at amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, minus any reduction for impairment or uncollectibility. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's Management has the intention and ability to hold to maturity. Assets under this category that have a fixed maturity are valued at amortized cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or not classified in any of the other categories. They are included in non-current assets unless Management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are initially measured at their fair value. After initial recognition available-for-sale financial assets are measured at fair value with gains and losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair values of investments that are actively traded are based on current bid prices. If the market for a financial asset is not active, fair value is determined using valuation techniques.

Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The Group assesses, at each balance sheet date, whether there is any objective evidence that a financial asset may be impaired. If any such evidence exists, the Group estimates the recoverable amount of that asset and recognizes any impairment loss in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the write-down, the write-down of the financial asset is reversed. The reversal generally will not result in a carrying amount of the financial asset that exceeds what amortized cost would have been, had the impairment not been recognized, at the date the write-down of the financial asset is reversed. The amount of the reversal is included in profit or loss for the financial year.

3.7 Derivative financial instruments and hedging

The Group regularly hedges its net exposure from expected future cash in- and outflows in foreign currencies with forward contracts. Such contracts are not qualified as cash flow hedges and are therefore not accounted for using hedge accounting. Gains and losses on these transactions are taken directly to the income statement; the corresponding positive and negative replacement values are recognized on the balance sheet as other current financial assets/liabilities.

In connection with the planned acquisition of ReSound, the Group has entered into contingent cash flow hedges. For the contracts qualifying for hedge accounting the effective portion of the gain or loss on the hedging instrument is recognized directly in the statement of recognized income and expense in equity, while any ineffective portion is recognized immediately in the income statement.

Where a forecasted transaction results in the recognition of a non-financial asset/liability, the gains or losses previously deferred in equity (hedge accounting) are transferred from equity and included in the initial measurement of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the same period in which the forecasted transaction affects the income statement.

4. Changes in Group structure

The following changes in the group structure (fully consolidated companies) have occurred in the last two financial years:

Financial year 2006/07:
Acquisition of National Hearing Services Inc., Canada as of April 1, 2006

In addition to the main acquisition mentioned above, several smaller entities have been acquired during the financial year 2006/07.

Financial year 2005/06:
Acquisition of CAS Produtos Médicos Ltda., Brazil as of October 4, 2005
Acquisition of Metro Hearing Inc., USA as of November 1, 2005

In addition to the two main acquisitions mentioned above, four smaller entities have been acquired during the financial year 2005/06.

For more detailed information regarding the acquisitions please refer to Note 28.

5. Segment information

	Europe		Americas[3]		
1,000 CHF	2006/07	2005/06[1]	2006/07	2005/06[1]	
Sales					
Third parties	483,293	416,812	525,285	399,697	
Intersegment sales	384,177	275,930	7,919	33,321	
Total sales	**867,470**	**692,742**	**533,204**	**433,018**	
Operating profit (EBIT)	**310,956**	**208,662**	**23,100**	**24,334**	
Financial income, net					
Share of (loss)/gain in associates/joint ventures	(1,391)	(134)	251		
Income before taxes					
Income taxes					
Income after taxes					
Total assets[2]	**1,341,061**	**976,827**	**601,680**	**533,958**	
thereof: Investments in associates/joint ventures	36,466	4,064	1,516		
Total liabilities[2]	**418,987**	**390,421**	**391,259**	**331,361**	
Capital expenditure in tangible and intangible assets	18,229	17,999	9,649	10,066	
Depreciation and amortization on tangible and intangible assets	19,862	18,827	10,156	6,578	
Share based payments	8,112	4,341	2,161	1,152	
Third party sales based on location of customers	**454,296**	**391,156**	**525,900**	**400,360**	
Growth in local currencies	13.5%	20.4%	34.3%	34.7%	

[1] Including adjustments in accordance with revised IFRS accounting standards

[2] "Others" include only unallocated corporate assets and liabilities

[3] The segment Americas includes North, Central and South America

The Group is active in one business segment; the development, manufacture, distribution and service of hearing systems and related products.

The primary segment information is presented according to geographical regions based on location of assets. This corresponds to the organizational structure.

Asia/Pacific		Others		Eliminations		Total	
2006/07	**2005/06[1]**	**2006/07**	**2005/06[1]**	**2006/07**	**2005/06[1]**	**2006/07**	**2005/06[1]**
64,218	50,173					1,072,796	866,682
77,882	69,475			(469,978)	(378,726)		
142,100	**119,648**			**(469,978)**	**(378,726)**	**1,072,796**	**866,682**
(6,296)	**5,326**			**(47,995)**	**(25,626)**	**279,765**	**212,696**
						5,580	4,268
						(1,140)	(134)
						284,205	**216,830**
						(41,330)	(43,331)
						242,875	**173,499**
78,633	**62,695**	**60,481**	**102,229**	**(818,463)**	**(747,584)**	**1,263,392**	**928,125**
						37,982	4,064
75,344	**55,441**	**41,195**	**30,049**	**(558,080)**	**(503,669)**	**368,705**	**303,603**
5,332	3,757					33,210	31,822
2,136	1,597					32,154	27,002
463	232					10,736	5,725
87,398	**69,680**	**5,202**	**5,486**			**1,072,796**	**866,682**
29.6%	37.9%	(3.4%)	2.6%			24.1%	27.8%

6. Consolidated income statements by type of expenditure

The income statement has been prepared using the presentation by function. In order to provide additional information, the income statement by nature of expenditure is presented below.

1,000 CHF	Notes	2006/07	2005/06[1]
Sales	5	**1,072,796**	**866,682**
Changes in finished goods and work-in-process		2,858	(1,009)
Other operating income		1,730	1,641
Operating income		**1,077,384**	**867,314**
Direct material costs		(259,860)	(195,202)
Own work capitalized		2,468	2,554
Personnel expenses		(316,000)	(262,387)
Other operating expenses		(198,386)	(169,674)
Depreciation and amortization	18,21	(32,154)	(27,002)
Exchange differences		6,313	(2,907)
Operating profit (EBIT)		**279,765**	**212,696**
Financial income, net	9	5,580	4,268
Share of loss in associates/joint ventures	19	(1,140)	(134)
Income before taxes		**284,205**	**216,830**
Income taxes	10	(41,330)	(43,331)
Income after taxes		**242,875**	**173,499**
Attributable to:			
Equity holders of the parent		241,629	172,474
Minority interests		1,246	1,025

[1] Including adjustments in accordance with revised IFRS accounting standards (see Note 2)

7. Financial instruments

Options/Forward foreign exchange contracts		
1,000 CHF	31.3.2007	31.3.2006
Underlying principal amount	3,413,551	163,133
Positive replacement value	51,370	707
Negative replacement value	(348)	(1,649)
Total	**51,022**	**(942)**

Positive replacement values from hedges which do not qualify for hedge accounting are recorded as financial assets at fair value through profit or loss (Note 14) whereas negative replacement values are recorded as financial liabilities at fair value through profit or loss.

The Group hedges its net foreign currency exposure based on future expected cash inflows and outflows. The hedges have a duration of between 1 and 12 months. No hedge accounting has been applied to these hedges, since they do not qualify for such treatment under IAS 39.

In connection with the planned acquisition of ReSound, the Group has entered into contingent cash flow hedges:

Interest rate hedge

For a total amount of CHF 500 million the Group has entered into contracts to hedge part of the fluctuation risk of interest rates in connection with the planned financing of the ReSound transaction (total purchase price to be financed by debt equals CHF 1,500 million). The hedge contracts have a duration of two to three years.

Should the acquisition not be accomplished, the contract will lapse without costs for the Group. As the hedge does not qualify for hedge accounting, the positive replacement value has been booked in the income statement as financial income.

Currency rate hedge

The foreign exchange rate contract is denominated in DKK and the underlying principal amount is DKK 15,500 million. The contract will mature at the day of the closing of the acquisition of ReSound. Should the acquisition not be accomplished, the contract will lapse without costs for the Group. Up to mid of January 2007, the hedge contract fulfilled the criteria for hedge accounting under IAS 39. Given the ongoing discussion with the German Federal Cartel Office, from mid January 2007, the hedge did not qualify for hedge accounting under IAS 39. The change in the positive replacement value has been booked to other financial income (see Note 9).

The ineffective portion relating to this contingent cash flow hedge up to mid January 2007 amounts to CHF 1.9 million and is included in financial expenses.

8. Other income / (expenses), net

1,000 CHF	2006/07	2005/06
Other operating expenses	(119)	(243)
Other operating income	40	927
Exchange differences	6,313	(2,908)
Total	**6,234**	**(2,224)**

The positive exchange result is primarily driven by the strong increase of the Euro against Swiss Franc.

9. Financial income/(expenses), net

1,000 CHF	2006/07	2005/06
Gain on financial assets	203	1,166
Interest income	5,815	4,368
Other financial income	3,023	19
Total financial income	**9,041**	**5,553**
Mortgage interest	(163)	(409)
Other interest expenses	(302)	(604)
Other financial expenses	(2,996)	(272)
Total financial expenses	**(3,461)**	**(1,285)**
Total	**5,580**	**4,268**

Other financial income mainly consists of the change in replacement value of the hedges in connection with the planned acquisition of the ReSound Group (see Note 7).
Other financial expenses mainly include the difference between the originally recorded discounted acquisition-related earn-out payments and their current present value (see Note 28).

10. Taxes

1,000 CHF	2006/07	2005/06[1)]
Income taxes	42,090	43,061
Change in deferred taxes	(760)	270
Total tax expense	**41,330**	**43,331**
Reconciliation of tax expense		
Income before taxes and minority interests	284,205	216,830
Weighted average expected tax rate	15.2%	20.0%
Tax at weighted average rate	**43,204**	**43,456**
+/– effects of		
(income)/expenses not subject to tax	(443)	1,103
changes of unrecognized loss carryforwards	1,574	228
change in tax rates on deferred tax balances	(3,408)	(920)
prior year expense and other items	403	(536)
Total tax expense	**41,330**	**43,331**
as a % of consolidated income before taxes and minority interest	14.5%	20.0%

1) Including adjustments in accordance with revised IFRS accounting standards (see Note 2)

The expected Group tax rate is the aggregate obtained by applying the rate currently effective for each individual jurisdiction to its respective result before taxes.
Mainly due to a change in the country mix of the taxable profit, the weighted average expected tax rate was reduced to 15.2%.

Composition of deferred tax assets and liabilities		31.3.2007		31.3.2006[1]
1,000 CHF	Assets	Liabilities	Assets	Liabilities
Tax loss carryforward	13,438		18,244	
Financial assets		320		
Receivables	1,592	1,988	997	1,926
Inventories incl. allowances	32,009	1,480	22,071	2,160
Tangible fixed assets	457	6,242	136	7,646
Intangible assets	1,780	11,853	1,601	7,011
Provisions	15,920	2,865	12,927	3,217
Other liabilities	2,693	14,660	3,170	9,465
Deferred taxes	**67,889**	**39,408**	**59,146**	**31,425**

[1] Including adjustments in accordance with revised IFRS accounting standards (see Note 2)

Deferred tax assets have been capitalized based on the projected future performance of the group companies, supplemented with tax planning opportunities.

The gross values of unused tax loss carryforwards, which have not been capitalized as deferred tax assets, with their expiry dates are as follows:

1,000 CHF	2006/07	2005/06
Within 1-3 years		
Within 4 years	2,588	
Within 5 years	3,091	2,564
More than 5 years	13,844	13,207
Total	**19,523**	**15,771**

11. Earnings per share

Basic earnings per share

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

	2006/07	2005/06[1]
Income after taxes (1,000 CHF)	241,629	172,474
Weighted average number of outstanding shares	66,427,741	66,162,237
Basic earnings per share (CHF)	**3.637**	**2.607**

[1] Including adjustments in accordance with revised IFRS accounting standards

Diluted earnings per share

In the case of diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming all outstanding dilutive options will be exercised. The weighted average number of shares is adjusted for all dilutive options issued under the stock option plans which have been granted in 2003 through 2007 and which have not yet been exercised. Anti-dilutive options have not been considered. The calculation of diluted earnings per share is based on the same income after taxes for the period as is used in calculating basic earnings per share.

	2006/07	2005/06[1]
Income after taxes (1,000 CHF)	241,629	172,474
Weighted average number of outstanding shares	66,427,741	66,162,237
Adjustment for dilutive share options	881,195	593,722
Adjusted weighted average number of outstanding shares	67,308,936	66,755,959
Diluted earnings per share (CHF)	**3.590**	**2.584**

[1] Including adjustments in accordance with revised IFRS accounting standards

12. Dividend per share

The Board of Directors of Phonak Holding AG proposes to the Annual General Shareholders' Meeting, to be held on June 12, 2007, that a dividend of CHF 0.75 (previous year CHF 0.50) per share shall be distributed.

13. Cash and cash equivalents

1,000 CHF	31.3.2007	31.3.2006
Cash on hand	404	384
Postal checking and current bank accounts	279,325	132,818
Time deposits	4,612	46,347
Total	**284,341**	**179,549**

The time deposits and bank accounts are mainly denominated in CHF, EUR and USD.
For details of the movements in cash and cash equivalents refer to the consolidated statement of cash flows.

14. Other current financial assets

1,000 CHF	31.3.2007	31.3.2006
Marketable securities	12,633	12,055
Positive replacement value of forward foreign exchange contracts	51,370	707
Total	**64,003**	**12,762**

For details of forward foreign exchange contracts refer to Note 7.
Marketable securities mainly consist of bonds and equity funds.

15. Trade receivables

1,000 CHF	31.3.2007	31.3.2006
Accounts receivable	233,287	202,959
Provision for doubtful accounts	(10,855)	(8,629)
Total	**222,432**	**194,330**

As usual in this industry, the Phonak Group has a large number of customers and there is no significant concentration of credit risk. During the financial year 2006/07, the Group has recognized a provision of CHF 2.7 million (previous year CHF 1.1 million) for the impairment of accounts receivable. During 2006/07, the Group has utilized CHF 0.6 million (previous year CHF 0.8 million) of this provision to impair receivables.

16. Other receivables and prepaid expenses

1,000 CHF	31.3.2007	31.3.2006
Other receivables	18,821	26,226
Prepaid expenses	31,371	19,316
Total	**50,192**	**45,542**

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

17. Inventories

1,000 CHF	31.3.2007	31.3.2006
Raw materials and components	16,017	16,576
Work-in-process	38,225	38,607
Finished products (incl. purchased goods)	73,459	65,780
Allowances	(33,550)	(26,719)
Total	**94,151**	**94,244**

Allowances include value adjustments for slow moving, phase out and obsolete stock.
In 2006/07, CHF 278.1 million (previous year CHF 228.2 million) were recognized as an expense and included in 'cost of sales'.

18. Tangible assets

	Land	Buildings	Total Land & Buildings	Plant & Equipment	Total
1,000 CHF					31.3.2007
Cost					
Balance April 1	9,260	78,755	88,015	166,569	254,584
Changes through business combinations	104	281	385	2,276	2,661
Additions	32	1,036	1,068	25,992	27,060
Disposals	(20)	(116)	(136)	(17,725)	(17,861)
Exchange differences	89	167	256	(1,391)	(1,135)
Balance March 31	**9,465**	**80,123**	**89,588**	**175,721**	**265,309**
Accumulated depreciation					
Balance April 1	197	26,791	26,988	110,341	137,329
Additions		2,269	2,269	21,956	24,225
Disposals		(43)	(43)	(16,134)	(16,177)
Exchange differences	6	13	19	(750)	(731)
Balance March 31	**203**	**29,030**	**29,233**	**115,413**	**144,646**
Net book value					
Balance April 1	9,063	51,964	61,027	56,228	117,255
Balance March 31	**9,262**	**51,093**	**60,355**	**60,308**	**120,663**

1,000 CHF	Land	Buildings	Total Land & Buildings	Plant & Equipment	Total
					31.3.2006
Cost					
Balance April 1	10,166	80,461	90,627	153,370	243,997
Changes through business combinations		312	312	2,368	2,680
Additions		419	419	22,072	22,491
Disposals	(1,033)	(1,847)	(2,880)	(15,689)	(18,569)
Exchange differences	127	(590)	(463)	4,448	3,985
Balance March 31	**9,260**	**78,755**	**88,015**	**166,569**	**254,584**
Accumulated depreciation					
Balance April 1	194	25,873	26,067	102,539	128,606
Additions		2,850	2,850	19,503	22,353
Disposals		(1,440)	(1,440)	(13,558)	(14,998)
Exchange differences	3	(492)	(489)	1,857	1,368
Balance March 31	**197**	**26,791**	**26,988**	**110,341**	**137,329**
Net book value					
Balance April 1	9,972	54,588	64,560	50,831	115,391
Balance March 31	**9,063**	**51,964**	**61,027**	**56,228**	**117,255**

Tangible assets (buildings, plant and equipment) are insured against fire for a value of CHF 256.3 million (previous year CHF 232.9 million).

Pledged assets amounted to CHF 1.2 million (previous year CHF 42.3 million, relating to mortgages).

There are no assets held under finance leases.

Capital expenditures for plant and equipment under construction in the current financial year amounted to CHF 3.5 million (previous year CHF 5.5 million).

19. Investments in associates/joint ventures

The Group's share in the results of associates/joint ventures, all unlisted enterprises, and its share in their assets (including goodwill and liabilities) are as follows:

Investments in associates/joint ventures		
1,000 CHF	**2006/07**	**2005/06**
Current assets	17,809	1,573
Non-current assets	25,287	1,548
Total assets	**43,096**	**3,121**
Current liabilities	(17,111)	(914)
Long-term liabilities	(18,681)	(74)
Total liabilities	**(35,792)**	**(988)**
Net assets	**7,304**	**2,133**
Income for the year	30,631	3,332
Expenses for the year	(33,837)	(5,757)
Loss for the year	**(3,206)**	**(2,425)**
Net book value as at year end	37,982	4,064
Share of loss recognized by Phonak	(1,140)	(134)

In the financial year 2006/07, several acquisitions of investments in associates have been undertaken for a total purchase consideration of CHF 33.9 million (previous year CHF 2.6 million).
Sales to associates and joint ventures in the financial year 2006/07 amounted to CHF 6.2 million (previous year nil).
At March 31, 2007, accounts receivable from associates and joint ventures amounted to CHF 2.9 million (previous year nil).
Investments with a net book value of CHF 37 million have a year-end date which is different from the reporting date used by the Phonak Group. These reporting dates vary between December 2006 and February 2007 and represent the latest available information for the respective companies.

20. Other non-current financial assets

1,000 CHF	31.3.2007	31.3.2006
Other investments	4,771	6,005
Long-term loans to associates	21,929	
Long-term loans to third parties	9,280	6,849
Total	**35,980**	**12,854**

The other investments consist of minority interests in the Danish patent holding company HIMPP A/S and in the Danish software development companies HIMSA II A/S (Hearing Instruments Manufacturers Software Association II A/S) and HIMSA II K/S, in which Phonak has invested, together with other leading hearing instrument manufacturers, as well as 3 further minority interests in third party companies.
Long-term loans are primarily denominated in CHF, EUR and GBP. The respective repayment periods vary between three and six years and the respective interest rates vary between 4% to 7.5%.

21. Intangible assets

	Goodwill	Software	Intangibles relating to acquisitions	Other intangibles	Total
1,000 CHF					31.3.2007
Cost					
Balance April 1	183,281	18,990	18,948	663	221,882
Changes through business combinations	63,305	609	22,635	17	86,566
Additions	1,167	3,631	801	551	6,150
Disposals		(2,042)			(2,042)
Exchange differences	(6,235)	93	(1,472)	105	(7,509)
Balance March 31	**241,518**	**21,281**	**40,912**	**1,336**	**305,047**
Accumulated amortization					
Balance April 1		12,139	1,183	181	13,503
Additions		3,926	3,878	125	7,929
Disposals		(1,994)			(1,994)
Exchange differences		(120)	(53)	23	(150)
Balance March 31		**13,951**	**5,008**	**329**	**19,288**
Net book value					
Balance April 1	183,281	6,851	17,765	482	208,379
Balance March 31	**241,518**	**7,330**	**35,904**	**1,007**	**285,759**

	Goodwill	Software	Intangibles relating to acquisitions	Other intangibles	Total
1,000 CHF					**31.3.2006**
Cost					
Balance April 1	131,175	17,253	1,224	2,410	152,062
Changes through business combinations	38,190		17,471		55,661
Additions	4,827	4,114		390	9,331
Disposals		(1,747)		(1,776)	(3,523)
Exchange differences	9,089	(630)	253	(361)	8,351
Balance March 31	**183,281**	**18,990**	**18,948**	**663**	**221,882**
Accumulated amortization					
Balance April 1		10,630	33	2,258	12,921
Additions		3,513	1,166	(30)	4,649
Disposals		(1,664)		(1,688)	(3,352)
Exchange differences		(340)	(16)	(359)	(715)
Balance March 31		**12,139**	**1,183**	**181**	**13,503**
Net book value					
Balance April 1	131,175	6,623	1,191	152	139,141
Balance March 31	**183,281**	**6,851**	**17,765**	**482**	**208,379**

No internally generated intangible assets have been capitalized during financial years 2006/07 and 2005/06. Goodwill has an indefinite life. Other intangibles and software have finite lives.

Intangibles relating to acquisitions consist primarily of client relationships, customer lists and brand names.

The Group has performed an impairment test on goodwill in the first half of the financial year 2006/07. For the purpose of impairment testing, goodwill is allocated to a cash-generating unit or to a group of cash-generating units, which are expected to benefit from the synergies of the corresponding business combination. The recoverable amount of a cash-generating unit (higher of the cash-generating unit's fair value less selling costs and the cash-generating units value in use) is compared to the carrying amount of the corresponding cash-generating unit. Future cash flows are discounted with the Weighted Average Cost of Capital (WACC) including the application of the Capital Asset Pricing Model (CAPM). Value in use is normally assumed to be higher than the fair value less cost to sell; therefore, fair value less selling costs is only investigated when value in use is lower than the carrying amount of the cash generating unit.

The cash flow projections are based on a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated long-term growth rates stated below. The growth rates do not exceed the long-term average growth rate for the hearing instruments industry in which the cash-generating units operate. Gross margin is projected to remain constant.

Key assumptions used for value-in-use calculations of material goodwill amounts:

Cash-generating unit	Carrying amount of goodwill	Currency	Basis for recoverable amount	Discount rate	Projection period	Long-term growth rate
1,000 CHF						
Unitron Group	64,114	Multiple	Value in use	9%	5 years	1.00%
Hansaton Akustische Hörgeräte GmbH	34,297	EUR	Value in use	8%	5 years	1.00%
Lapperre BHAC NV	16,208	EUR	Value in use	8%	5 years	0.50%
Phonak Ibérica SA	8,286	EUR	Value in use	8%	5 years	1.00%
CAS Produtos Médicos Ltda.	15,044	BRL	Value in use	18%	5 years	1.00%
Metro Hearing Inc.	18,075	USD	Value in use	9%	5 years	1.00%
National Hearing Services Inc.	34,362	CAD	Value in use	9%	5 years	1.00%

Pre-tax discount rates are applied.
Based on the impairment tests performed in the first half of the last two financial years, there was no need for the recognition of any impairment.

22. Provisions

	Provision for warranty and returns	Other provisions	Earn-out provisions	Total	Provision for warranty and returns	Other provisions	Earn-out provisions	Total
1,000 CHF				**31.3.2007**				**31.3.2006**
Balance April 1	33,229	28,816	16,591	78,636	30,224	8,996		39,220
Changes through business combinations	621	1,323		1,944	364	1,810		2,174
Amounts used	(24,933)	(17,063)	(1,249)	(43,245)	(13,698)	(2,225)		(15,923)
Reversals	(2,233)	(3,237)		(5,470)	(1,220)	(3,665)		(4,885)
Increases	35,876	25,226	19,558	80,660	15,696	23,387	16,427	55,510
Exchange differences	(874)	(729)	(243)	(1,846)	1,863	513	164	2,540
Balance March 31	**41,686**	**34,336**	**34,657**	**110,679**	**33,229**	**28,816**	**16,591**	**78,636**
thereof short-term	33,305	22,656	7,514	63,475	25,434	9,043	3,318	37,795
thereof long-term	8,381	11,680	27,143	47,204	7,795	19,773	13,273	40,841

On average, Phonak grants a 15-months warranty period for its products. During this period, products will be repaired or replaced free of charge. The provision is based on turnover and past experience with actual warranty claims. In some countries, extended warranty is sold against a corresponding fee. Cash outflows are expected to take place within the next one to three years.
Other provisions include reimbursement to customers in the amount of CHF 18.9 million (previous year CHF 14.3 million). Cash outflows are expected to take place within the next one to two years. In addition, other provisions include provisions for specific business risks such as litigation and restructuring costs which arise during the normal course of business. Provisions for litigations mainly relate to patent disputes as well as tax claims. The timing of cash outflows is uncertain since it will largely depend upon the outcome of administrative and legal proceedings.
Earn-out provisions include liabilities for the present value of estimated earn-out payments resulting from the variable purchase price from companies bought in the amount of CHF 34.7 million (previous year CHF 16.6 million). Cash outflows are expected to take place within the next one to five years (Note 28).

23. Short-term debts

1,000 CHF	Note	31.3.2007	31.3.2006
Current maturities of mortgages	25	25	12,253
Current maturities of other long-term debts		39	
Total		**64**	**12,253**
Unused borrowing facilities		63,271	69,118

The book value of short-term debts approximates fair value.

24. Other short-term liabilities

1,000 CHF	31.3.2007	31.3.2006
Other payables	15,601	17,976
Accrued expenses	83,835	67,824
Deferred income	6,254	6,148
Total	**105,690**	**91,948**

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. Accrued expenses include, among other items, salaries, social expenses, vacation pay, bonus and incentive compensation and accruals for outstanding invoices.
Accrued expenses for vacation pay relates to both unutilized holiday days as well as to payments for holidays required by law in certain countries.

25. Mortgages

1,000 CHF	Short-term	Long-term	Total Mortgages 31.3.2007	Short-term	Long-term	Total Mortgages 31.3.2006
Analysis by currency						
Swiss Francs				12,100		12,100
Euro	2		2	131		131
Danish Crowns	23	366	389	22	377	399
Total	**25**	**366**	**391**	**12,253**	**377**	**12,630**
Of which maturing beyond 5 years			245			262

In August 2006, the CHF mortgage has been repaid in full. The remaining mortgages are all secured by liens on the related real estate. Principal amounts bear interest at the following rates per annum: 2.8% to 5.3%.
The fair value of the mortgages approximates book value.

26. Other long-term liabilities

1,000 CHF	Note	31.3.2007	31.3.2006
Long-term deferred income		9,018	7,465
Retirement benefit obligations	30	1,741	1,245
Total		**10,759**	**8,710**

Long-term deferred income relates to long term service contracts with customers. Deferred income is recognized as a sale over the period of the service contract.

The retirement benefit obligation relates to defined benefit plans. For details refer to Note 30.

27. Movements in share capital

Issued registered shares	Issued registered shares	Treasury shares [2]	Outstanding shares
(each share has a nominal value of CHF 0.05)			
Balance March 31, 2005	**66,022,400**	**(7,700)**	**66,014,700**
Issue of new shares from conditional capital [1]	338,525		338,525
Purchase of treasury shares		(282,813)	(282,813)
Sale of treasury shares		255,880	255,880
Balance March 31, 2006	**66,360,925**	**(34,633)**	**66,326,292**
Issue of new shares from conditional capital [1]	764,219		764,219
Purchase of treasury shares		(142,916)	(142,916)
Sale of treasury shares		133,205	133,205
Balance March 31, 2007	**67,125,144**	**(44,344)**	**67,080,800**

Nominal value of share capital 1,000 CHF	Share Capital	Treasury shares [2]	Outstanding share capital
Balance March 31, 2005	**3,301**	**(0)**	**3,301**
Issue of new shares from conditional capital [1]	17		17
Purchase of treasury shares		(14)	(14)
Sale of treasury shares		12	12
Balance March 31, 2006	**3,318**	**(2)**	**3,316**
Issue of new shares from conditional capital [1]	38		38
Purchase of treasury shares		(7)	(7)
Sale of treasury shares		7	7
Balance March 31, 2007	**3,356**	**(2)**	**3,354**

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

[2] Treasury shares are purchased on the open market and are not entitled to dividends. As per March 31, 2007, all treasury shares were at the company's disposal.

At the Annual General Shareholders' Meetings on November 18, 1994, July 13, 2000 and July 7, 2005, a conditional share capital of a maximum of 11,301,120 shares had been approved. As of March 31, 2007, 7,483,776 (previous year 8,247,995) shares thereof have not yet been issued.

The Annual General Shareholders' Meeting held on July 7, 2005, approved the creation of authorized share capital of 3,301,120 registered shares with a par value of CHF 0.05 per share. The Board of Directors is authorized to exclude subscription rights of shareholders and to allocate them to third parties if the new shares are to be used for the acquisition of companies, parts of companies, equity stakes or the financing of such transactions. The authorized share capital of 3,301,120 registered shares created on July 7, 2005, has not yet been used. The authorization granted to the Board of Directors to increase the company's share capital with authorized share capital expires on July 6, 2007.

28. Acquisitions of subsidiaries

During financial year 2006/07, the Group entered into the following significant business combination:

Name	Place	Date	Structure	Purpose	Business acquired
National Hearing Services Inc.	Canada	1.4.2006	Share deal (100%)	Sale of hearing instruments	Hearing instruments business

In addition to the above, several smaller companies were acquired during the financial year in Europe, North America and Australia. The purpose of these companies is the sale of hearing instruments.

During financial year 2005/06, the Group entered into the following business combinations:

Name	Place	Date	Structure	Purpose	Business acquired
CAS Produtos Médicos Ltda.	Brazil	4.10.2005	Share deal (100%)	Sale of hearing instruments	Hearing instruments business
Metro Hearing Inc.	USA	1.11.2005	Share deal (100%)	Sale of hearing instruments	Hearing instruments business

In addition to the above, further four smaller companies were acquired during the financial year 2005/06 in Europe and North America. All acquisitions have been accounted for applying the purchase method of accounting.

The acquired companies contributed sales and income after taxes as follows:

1,000 CHF	National Hearing Services	Others	Total	Total
Contribution of acquired companies from acquisition to			**31.3.2007**	**31.3.2006**
Sales	22,723	25,030	47,753	27,114
Net income	354	1,968	2,322	735
Contribution, if the acquisitions would have occurred on April 1				
Sales	22,723	32,897	55,620	54,206
Net income	354	2,822	3,176	2,291

Assets and liabilities resulting from the above mentioned acquisitions are as follows:

							2006/07		2005/06
1,000 CHF		National Hearing Services Inc.		Others		Total		Total	
	Note	Fair value	Carrying amount before acquisition	Fair value	Carrying amount before acquisition	Fair value	Carrying amount before acquisition	Fair value	Carrying amount before acquisition
Assets									
Current assets		7,371	7,371	4,313	4,278	11,684	11,649	17,755	21,078
Tangible assets	18	1,478	1,478	1,183	1,122	2,661	2,600	2,680	2,826
Intangible assets	21	11,479	11,990	11,782	179	23,261	12,169	17,471	2,129
Other non-current assets		1,896	1,659	17	17	1,913	1,676	1,698	67
Total Assets		**22,224**	**22,498**	**17,295**	**5,596**	**39,519**	**28,094**	**39,604**	**26,100**
Liabilities									
Current liabilities		(4,246)	(4,246)	(3,837)	(3,837)	(8,083)	(8,083)	(11,778)	(9,399)
Other long-term liabilities		(17,739)	(13,977)	(3,095)	(115)	(20,834)	(14,092)	(11,934)	(4,672)
Total Liabilities		**(21,985)**	**(18,223)**	**(6,932)**	**(3,952)**	**(28,917)**	**(22,175)**	**(23,712)**	**(14,071)**
Net Assets		**239**	**4,275**	**10,363**	**1,644**	**10,602**	**5,919**	**15,892**	**12,029**
Minority interest								(380)	
Net Assets net of minority interest		**239**	**4,275**	**10,363**	**1,644**	**10,602**	**5,919**	**15,512**	**12,029**
Goodwill	21	28,884		34,421		63,305		38,190	
Purchase price incl. acquisition-related costs		**29,123**		**44,784**		**73,907**		**53,702**	
For which Phonak recorded a long-term provision for the earn-out or holdback		(3,110)		(12,544)		(15,654)		(16,427)	
Cash consideration		**26,013**		**32,240**		**58,253**		**37,275**	
Cash and cash equivalents acquired		(3,036)		(1,690)		(4,726)		(4,415)	
Cash consideration, net of cash acquired		**22,977**		**30,550**		**53,527**		**32,860**	
Cash outflow for investments in associates, minority shareholdings and earn-out payments						**33,464**		**7,913**	
Total Cash outflow from acquisitions						**86,991**		**40,773**	

The initial accounting for several small acquisitions in the current financial year is provisional. The results of the final valuation and purchase price allocation are still outstanding. The fair values assigned to the identifiable assets acquired and liabilities assumed are therefore still subject to changes. The goodwill is attributed mainly to expected synergies, the labor force and the favourable growth potential.

29. Related party transactions

	Management Board		Board of Directors		Total	
1,000 CHF	**2006/07**	**2005/06**	**2006/07**	**2005/06**	**2006/07**	**2005/06**
Short-term employee benefits	6,298	3,933	866	572	7,164	4,505
Termination benefits		989				989
Share based payments	11,678	1,537	1,063	461	12,741	1,998
Total	**17,976**	**6,459**	**1,929**	**1,033**	**19,905**	**7,492**

Total compensation to the Management Board, as shown above, relates to ten members (previous year six members, including one member, who terminated his employment during financial year 2005/06).

Phonak AG had a sponsorship agreement with ARcycling AG effective until December 31, 2006. The corresponding expenses included in the consolidated income statement amount to CHF 1.9 million (previous year CHF 3.8 million).

For information regarding transactions with associates refer to Note 19 and Note 20.

30. Employee benefits

Phonak Group's retirement plans include defined-benefit pension plans in Switzerland, Austria, Canada, Germany and Norway. These plans are both funded and unfunded and are accounted for as defined benefit plans according to IAS 19, with recent actuarial valuations. The results of the plans are summarized below:

1,000 CHF	31.3.2007	31.3.2006[1]
Amounts recognized in the balance sheet		
Present value of funded obligations	(111,261)	(97,621)
Fair value of plan assets	115,488	103,366
Net present value of funded plan	**4,227**	**5,745**
Present value of unfunded obligations	(1,334)	(1,157)
Total assets, net	**2,893**	**4,588**
Amount unrecognized in line with IAS 19.58b(ii)	(4,634)	(5,833)
Assets/(liabilities) in the balance sheet, net	**(1,741)**	**(1,245)**
Amounts in the balance sheet:		
Liabilities	(1,741)	(1,245)
Assets		
Assets/(liabilities) in the balance sheet, net	**(1,741)**	**(1,245)**

[1] restated following the first time application of the option of IAS 19 Employee benefits § 93A ss. (see Note 2)

1,000 CHF	2006/07	2005/06[1]
Statement of recognized income and expense (SORIE)		
Asset limitation of change in funded plans	(1,200)	3,109
Actuarial loss on obligations	424	2,823
Actuarial loss/(gain) on plan assets	1,523	(4,898)
Net effect in statement of recognized income and expense	**747**	**1,034**

1,000 CHF	2006/07	2005/06[1]
Cumulative actuarial (gain)/loss recognized in SORIE		
Recognized actuarial loss at beginning of period	1,060	3,135
Actuarial loss/(gain) charged for the year	1,946	(2,075)
Cumulative actuarial loss recognized in SORIE	**3,006**	**1,060**

1,000 CHF	2006/07	2005/06[1]
Amounts recognized in the income statement		
Service cost	12,014	9,683
Participants' contributions	(4,720)	(4,181)
Interest cost	3,242	3,158
Expected return on plan assets	(4,133)	(4,264)
Total employee benefit expenses	**6,403**	**4,396**

1,000 CHF	2006/07	2005/06[1]
Movement in the defined benefit obligation		
Beginning of the year	98,778	83,823
Interest cost	3,242	3,158
Current service cost	12,014	9,683
Benefits paid	(1,937)	(721)
Actuarial loss on obligation	424	2,823
Exchange differences	74	12
Present value of obligation at end of period	**112,595**	**98,778**

1,000 CHF	2006/07	2005/06[1]
Movement in the fair value of the plan assets		
Beginning of the year	103,366	85,257
Expected return on plan assets	4,133	4,264
Employer's contributions paid	6,618	5,383
Participants' contributions	4,720	4,181
Benefits paid	(1,833)	(618)
Actuarial (loss)/gain on plan assets	(1,523)	4,898
Exchange differences	7	1
Fair value of plan assets at end of period	**115,488**	**103,366**

[1] restated following the first time application of the option of IAS 19 Employee benefits § 93A ss.

Principal actuarial assumptions (weighted average)		
Discount rate	3.25%	3.25%
Future salary increases	1.75%	1.75%
Future pension increases	0%	0%
Expected return on plan assets	4%	4%
Fluctuation rate	10%	10%

The amount recognized in the consolidated income statement 2006/07 has been charged to cost of sales (CHF 2.1 million), research and development (CHF 1.7 million), sales and marketing (CHF 1.1 million) as well as general and administration (CHF 1.5 million) in the income statement by type of function and to the position personnel expenses in the income statement by type of expenditure (CHF 6.4 million).

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:	31.3.2007	31.3.2006
Cash	6.0%	4.4%
Domestic bonds	28.7%	30.8%
Foreign bonds	8.3%	7.5%
Domestic equities	15.4%	16.0%
Foreign equities	16.7%	16.5%
Real estates	12.0%	12.3%
Alternative investments	12.9%	12.5%

The expected return on plan assets is based on long-term expectations. Historical performances per asset category are taken into consideration for determining the expected returns.
The actual return on plan assets was a gain of CHF 2.8 million (previous year gain of CHF 8.7 million).
The expected employer's contributions to be paid in the financial year 2007/08 amount to CHF 7.8 million.

Key figures for the current and previous four periods are as follows:

1,000 CHF	31.3.2007	31.3.2006	31.3.2005	31.3.2004	31.3.2003
Present value of defined benefit obligation	(112,595)	(98,778)	(83,823)	(72,590)	(60,040)
Fair value of plan assets	115,488	103,366	85,257	72,728	59,175
Surplus/(Deficit)	**2,893**	**4,588**	**1,434**	**138**	**(865)**
Experience adjustments on plan liabilities	(424)	(2,823)	(739)	(2,257)	3,722
Experience adjustments on plan assets	(1,523)	4,898	(1,203)	1,963	(3,525)

Defined contribution plans
Several of the Group's entities have a defined contribution plan. The employer's contributions, amounting to CHF 5.0 million in the year ended March 31, 2007 (previous year CHF 3.1 million), are recognized directly in the income statement.

Termination benefits
During financial year 2006/07, no termination benefits have been expensed (previous year CHF 1.1 million).

31. Employee share option and share purchase plan

Up to financial year 2003/04, members of the Board of Directors of Phonak Holding AG, the Management Board as well as management and senior employees of other Group companies annually received a certain number of options on the shares of Phonak Holding AG. in accordance with the "Key People Program" established in 1997. In February 2005, 2006 and again in February 2007, the Group launched an Executive Equity Award Program (EEAP) for the Board of Directors of Phonak Holding AG, for the Management Board as well as for the management and senior employees of other Group companies, and a Share Purchase Plan (SPP) for all employees of the Group.

The following share-based payment costs have been recognized in the financial year:

1,000 CHF	2006/07	2005/06
Equity-settled share-based payment costs	10,666	5,725
Cash-settled share-based payment costs	70	
Total share-based payment costs	**10,736**	**5,725**

Key people Program (granted between 2000 and 2004)

Members of the Board of Directors of Phonak Holding AG, the Management Board as well as management and senior employees of other Group companies annually received a certain number of options on the shares of Phonak Holding AG in accordance with the "Key People Program" established in 1997. This was basically on the condition that the respective employees had been employed by the Phonak Group for a period of generally at least two years. The options were granted for no consideration and each option entitled the holder to one Phonak Holding AG share after a lock-up period of generally two or three years at a predefined 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 within the Phonak Group were granted options, partially with and partially without consideration. The shares required for the share option plan were issued from the conditional share capital which was created by resolutions of the 2000 Annual General Shareholders', meeting in accordance with Article 3a of Phonak Holding AG's articles of incorporation.

Executive Equity Award Plan (EEAP) (granted 2005, 2006 and 2007)

The Executive Award Plan is offered annually to the Board of Directors, to the Management Board as well as to management and senior employees of other Group companies, which entitles them to receive options and/or shares. Compared to the two previous years, the EEAP plan 2007 was amended in the way that plan legitimated U.S. Persons may receive Stock Appreciation Rights (SAR) instead of options. The amount of options, SAR and/or shares granted varies depending on the degree of management responsibility held. Options, SARs and shares granted as part of the EEAP are split into four equal tranches. For the options and SARs, one tranche vests each year over four years, starting in year one. The shares are blocked over four years, one tranche being released each year, starting in year one.

Options – Executive Equity Award Plan (granted 2005, 2006 and 2007)

The exercise price of the options is generally equal to the market price of the Phonak share at the SWX Swiss Stock Exchange (closing price) on the date the options are granted. The fair value of the options granted is estimated at the grant date and recorded as an expense over the vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period to ensure that in the end only a charge for vested amounts occurred. The options may be exercised after expiration of the vesting period during the term of the options, which is five years from the date the options are granted. When the options are exercised, shares are issued from the conditional share capital.

The following table shows the assumptions on which the valuation of share options granted during the period was based:

	Executive Equity Award Plan 2007	Executive Equity Award Plan 2006
Valuation date	1.2.2007	1.2.2006
Expiration date	31.1.2012 / 28.2.2012	31.1.2011
Share price on grant date	CHF 95.05	CHF 63.25
Exercise price	CHF 95.05	CHF 63.25
Volatility	22.7%	20.6%
Expected dividend yield	0.75%	0.75%
Weighted risk free interest rate	2.5%	1.9%
Fluctuation rate	0.5%	4.3%
Weighted average fair value of options issued	**CHF 18.43**	**CHF 10.22**

Outstanding Options – Key People Program and Executive Equity Award plan

	2006/07		2005/06	
Changes in outstanding options	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		CHF		CHF
Outstanding options at April 1	1,842,693	39.20	1,852,250	29.94
Granted	829,315	95.05	420,818	63.25
Exercised [1]	(764,219)	33.29	(338,525)	19.04
Forfeited	(250)	39.00	(91,850)	31.53
Outstanding options at March 31	**1,907,539**	**66.71**	**1,842,693**	**39.90**
Exercisable at March 31	**294,471**	**66.71**	**37,000**	**39.20**

[1] Total consideration from exercise of options in 2006/07, amounted to CHF 25.5 million (previous year CHF 6.4 million)
The weighted average share price of the options exercised during the year 2006/07 was CHF 93.52.

Summary of outstanding and exercisable options at March 31, 2007

	Outstanding options			Exercisable options	
Exercise price range	Number	Average remaining life (years)	Weighted average exercise price	Number	Weighted average exercise price
CHF			CHF		CHF
13.00	14,250	0.8	13.00	14,250	13.00
28.00	193,234	1.9	28.00	183,234	28.00
39.00	504,700	3.2	39.00	46,750	39.00
56.00	1,500	0.4	56.00	1,500	56.00
63.25	364,540	3.8	63.25	48,737	63.25
95.05	829,315	5.3	95.05		95.05
13.00 – 95.05	**1,907,539**	**4.1**	**39.90**	**294,471**	**39.20**

SAR – Executive Equity Award Plan (granted 2007)

The exercise price of the SARs is generally equal to the market price of the Phonak Holding AG share at the SWX Swiss Stock Exchange (closing price) on the date the SARs are granted. Upon exercise of a SAR, a participant shall be paid, in cash, an amount equal to the products of the number of shares for which the participant exercised SARs, multiplied by the excess, if any, of the per-share market price at the date of exercise over the per-share exercise price (date of grant of SARs). The fair value of the SARs is estimated at the grant date using a binomial option pricing model and recorded as an expense over the vesting period. Until the liability is settled, it is revalued at each reporting date recognizing changes in fair value in the income statement. The SARs may be exercised after expiration of the vesting period during the term of the options which is 5 years from the date the SARs are granted.

The carrying amount of the liability relating to the SARs at March 31, 2007 is CHF 0.07 million. No SARs had vested at March 31,2007.

Shares – Executive Equity Award Plan (granted 2005, 2006 and 2007)

The shares are subject to a blocking period, which starts on the date the shares are granted. The shares delivered under this plan are shares repurchased by Phonak on the open stock market. The cost of the shares granted as part of the EEAP program is expensed pro rata temporis over the expected vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period to ensure that in the end only a charge for vested amounts occurred.

Changes in outstanding shares	2006/07 Number of shares	2005/06 Number of shares
Restricted shares at April 1	**144,908**	**96,150**
Granted	60,051	78,128
Released	(43,257)	(22,960)
Forfeited	(5,325)	(6,410)
Restricted shares at March 31	**156,377**	**144,908**

Share Purchase Plan (granted 2005, 2006 and 2007)

The Share Purchase Plan is offered annually to all permanent employees of the Group, having completed their probationary period. A participant may purchase up to a maximum number of shares. For every two shares purchased, the participant receives one additional share. The purchase price of the shares will generally be equal to the market price on the SWX Swiss Stock Exchange on the date the shares are purchased and the additonal shares are accepted. The shares under this plan are subject to a blocking period which is in line with the vesting period commencing on the expiry date of the offer. The duration of the blocking period may be up to 24 months. All shares under this plan (the shares purchased by the participant and the shares offered) are repurchased by Phonak on the open stock market. The cost of the shares offered as part of the SPP program is charged pro rata temporis over the blocking period to the income statement. Assumptions are made regarding the forfeiture rate which is adjusted during the blocking period to ensure that in the end only a charge for vested amounts occurred.

32. Contingent liabilities

At March 31, 2007 and 2006, there were no pledges given to third parties other than in relation to mortgages secured by properties (see Note 25) in an amount of CHF 0.4 million (previous year CHF 12.6 million). The net book value of these properties amounts to CHF 0.8 million at March 31, 2007 (previous year CHF 42.3 million).
Guarantees issued to third parties amounted to CHF 10.6 million (previous year CHF 10.4 million). There were no recourse liabilities in respect of discounted bills of exchange at March 31, 2007 and 2006. Open purchase orders as of March 31, 2007 and 2006 were related to recurring business activities.

33. Leasing liabilities

At March 31, the following non-cancellable minimum operating lease obligations existed:

1,000 CHF	2007	2006
Business Year		
2006/07		10,323
2007/08	13,653	7,760
2008/09	10,192	6,794
2009/10	7,376	5,454
2010/11	6,450	5,261
2011/12	5,142	2,635
thereafter	4,336	878
Total	**47,149**	**39,105**

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

In financial year 2006/07, CHF 14.2 million have been recognized as expenses for leases in the consolidated income statement (previous year CHF 12.8 million).
As of March 31, 2007 and 2006 the company had no financial lease obligations.

34. Number of employees

At March 31, 2007, the Phonak Group employed 4,023 people (previous year 3,428). They were engaged in the following regions and activities:

By region	31.3.2007	31.3.2006
Switzerland	844	818
Europe (excl. Switzerland)	915	857
Americas	1,545	1,201
Asia / Pacific	719	552
Total	**4,023**	**3,428**
By activity		
Research and development	232	214
Operations	1,748	1,624
Sales and marketing, general and administration	2,043	1,590
Total	**4,023**	**3,428**

The average number of employees of the Phonak Group for the year was 3,813 (previous year 3,166).

35. Events after balance sheet date

As of October 2, 2006, the Phonak Group entered into a share purchase agreement with GN Store Nord A/S of Denmark to acquire its division the ReSound Group for an aggregate consideration of DKK 15.5 billion in cash, subject to an adjustment based on net debt and working capital on the closing date.

The German Federal Cartel Office (FCO) has prohibited the acquisition. The Phonak Group appealed against the prohibition of the FCO to the competent court, the "Oberlandesgericht Düsseldorf". At the time of the approval of the financial statements and annual report through the Board of Directors, the "Oberlandesgericht Düsseldorf" has not yet come to a decision. The payment obligation for the acquisition price will only become effective when all regulatory clearances have been given.

36. Exchange rates

The following are the exchange rates used for currency translation:

	Year-end rates Balance sheet		Average rates for the year Income statement	
	31.3.2007	31.3.2006	2006/07	2005/06
AUD 1	0.99	0.93	0.95	0.96
BRL 1	0.59	0.59	0.58	0.59
CAD 1	1.06	1.12	1.09	1.07
CNY 1	0.16	0.16	0.16	0.16
DKK 100	21.80	21.12	21.28	20.79
EUR 1	1.62	1.58	1.59	1.55
GBP 1	2.39	2.27	2.34	2.27
JOD 1	1.72	1.85	1.75	1.80
JPY 100	1.03	1.11	1.06	1.13
NOK 100	20.01	19.69	19.64	19.48
NZD 1	0.87	0.80	0.81	0.88
PLN 1	0.42	0.40	0.41	0.40
RUB 100	4.68		4.63	
SEK 100	17.39	16.72	17.23	16.58
USD 1	1.22	1.31	1.24	1.27
VND million	76.20		77.00	

37. List of significant consolidated companies

Company name	Activity	Domicile	Share capital Local currency 1,000		Shares held
Switzerland					
Phonak Holding AG	A	Stäfa (CH)	CHF	3,356	
Phonak AG	B,C,D	Stäfa (CH)	CHF	2,500	99.3%
Phonak Hearing Systems AG	B	Stäfa (CH)	CHF	100	100%
Phonak Communications AG	B,C,D	Murten (CH)	CHF	500	100%
Indomed AG	A	Zug (CH)	CHF	1,000	100%
Europe (excluding Switzerland)					
Phonak GmbH	B	Stuttgart (DE)	EUR	153	100%
Unitron Hearing GmbH	B	Stuttgart (DE)	EUR	41	100%
Phonak France SA	B	Bron-Lyon (FR)	EUR	305	100%
Phonak Italia Srl	B	Milan (IT)	EUR	1,040	100%
Phonak Ibérica SA	B	Alicante (ES)	EUR	7,000	100%
Ets. Lapperre BHAC NV	B	Groot-Bijgaarden (BE)	EUR	124	100%
Phonak Belgium NV	A,B	Brussels (BE)	EUR	15,311	100%
Phonak B.V.	B	Nieuwegein (NL)	EUR	227	100%
Unitron Hearing B.V.	B	Nieuwegein (NL)	EUR	18	100%
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450	100%
Phonak Danmark A/S	B	Frederiksberg (DK)	DKK	9,000	100%
HIMSA A/S	D	Copenhagen (DK)	DKK	1,000	25%[1]

Company name	Activity	Domicile	Share capital Local currency 1,000		Shares held
Europe (excluding Switzerland)					
Phonak AB	B	Stockholm (SE)	SEK	200	100%
Phonak AS	B	Oslo (NO)	NOK	900	100%
Unitron Hearing AS	B	Oslo (NO)	NOK	100	100%
Phonak Group Ltd.	B	Warrington (UK)	GBP	150	100%
Cochlear Acoustics Ltd.	D	London (UK)	GBP	0[2]	25%[1]
Phonak Polska Sp. Z o.o.	B	Warsaw (PL)	PLN	100	100%
Phonarium Kft	B	Budapest (HU)	HUF	3,000	49%[1]
Phonak CIS Ltd.	B	Moscow (RU)	RUB	4,000	100%
Americas					
Phonak LLC	B	Warrenville (US)	USD	1,250	100%
Unitron Hearing, Inc.	B	Plymouth (US)	USD	46,608	100%
Phonak Canada Ltd.	A,B	Mississauga (CA)	CAD	88,694	100%
Unitron Hearing Ltd.	B,C,D	Kitchener (CA)	CAD	17,436	100%
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	1,069	100%
THC Finance Ltd.	A	Bermuda (BM)	CHF	165,021	100%
CAS Produtos Médicos Ltda.	B	Sao Paulo (BR)	BRL	570	100%
Asia / Pacific					
Phonak Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750	100%
Phonak New Zealand Ltd.	B	Auckland (NZ)	NZD	250	100%
Jordan Hearing Aids Manufacturing Co. Ltd.	B	Amman (JO)	JOD	80	100%
Phonak Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100%
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	32,594	100%
Phonak (Sichuan) Co., Ltd.	B	Sichuan (CN)	CNY	19,119	100%
Phonak (Shanghai) Co., Ltd.	B	Shanghai (CN)	CNY	20,041	100%
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	8,796,000	100%
Unitron Hearing Korea Co., Ltd.	B	Seoul (KR)	KRW	200,000	37.5%[1]

Activities:
A Holding/Finance: The entity is a holding or finance company
B Sales: The entity performs sales and marketing activities
C Production: This entity performs manufacturing for the group
D Research: This entity performs research and development activities for the group
[1] Accounted for using the equity method
[2] GBP 100

Report of the Group Auditors

PricewaterhouseCoopers

Report of the Group Auditors
to the Annual General Shareholders' Meeting of
Phonak Holding AG
Stäfa

As auditors of the Group, we have audited the consolidated financial statements (consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of recognized income and expense, consolidated changes in equity and notes – pages 68 to 111) of Phonak Holding AG for the year ended March 31, 2007.

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 Swiss Auditing Standards 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 the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

PricewaterhouseCoopers AG

Patrick Balkanyi   Stephen W. Williams
Auditor in charge

Zurich, May 3, 2007

Financial Statements of Phonak Holding AG

Income Statements

1,000 CHF	Notes	2006/07	2005/06
Income			
Management and license fees		18,257	13,818
Investment income	4.1	55,610	30,261
Gains on marketable securities			994
Other income			492
Interest income		8,752	11,462
Exchange gains, net			179
Total income		**82,619**	**57,206**
Expenses			
Office and professional expenses		6,186	5,492
Advertising and PR expenses		514	447
Depreciation		43	43
Interest expenses		4,410	3,569
Losses on marketable securities		167	
Other operating expenses		1,299	759
Other expenses		327	200
Write-down of investment		608	
Exchange losses, net		3,093	
Taxes	4.2	857	1,422
Total expenses		**17,504**	**11,932**
Net profit for the year		**65,115**	**45,274**

Balance Sheets

Assets			
1,000 CHF	Notes	31.3.2007	31.3.2006
Current assets			
Cash and cash equivalents		34,403	25,907
Marketable securities	3.1	15,671	14,238
Amounts due from Group companies		1,775	1,620
Other receivables	3.2	9,567	219
Prepayments		75	155
Total current assets		**61,491**	**42,139**
Non-current assets			
Investments and loans			
Loans to Group companies	3.3	335,358	388,100
Loan to third party		4,776	
Investments	3.4	212,361	131,729
Tangible assets			43
Total non-current assets		**552,495**	**519,872**
Total assets		**613,986**	**562,011**

Liabilities and shareholders' equity			
1,000 CHF	Notes	31.3.2007	31.3.2006
Liabilities			
Trade payables			
Third parties		558	119
Other payables			
Third parties		6,066	1,825
Group companies		24,484	28,708
Loans from Group companies		199,737	204,146
Accruals		1,801	3,336
Total liabilities		**232,646**	**238,134**
Shareholders' equity			
Share capital		3,356	3,318
Legal reserves			
General legal reserve		174,723	149,248
Reserve for treasury shares	3.5	3,038	2,183
Free reserves		98,000	98,000
Retained earnings		102,223	71,128
Total shareholders' equity		**381,340**	323,877
Total liabilities and shareholders' equity		**613,986**	562,011

Notes to the Financial Statements

1. General

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

2. Disclosures required by Swiss corporate law

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

1,000 CHF	31.3.2007	31.3.2006
Guarantees given to banks in respect of credit arrangements of foreign subsidiary companies	2,243	2,134
Guarantees given in respect of rental obligations and bank debts of Group companies	22,356	21,540

2.2 Conditional and authorized capital

1,000 CHF	31.3.2007	31.3.2006
Conditional capital at year-end	374	412
Authorized capital at year-end	165	165

During the Annual General Shareholders' Meeting on July 7, 2005 the conditional share capital of CHF 264,270 (5,285,400 shares) has been increased by CHF 165,056 (3,301,120 shares) to CHF 429,326 (8,586,520 shares). As of March 31, 2007, 7,483,776 (previous year 8,247,995) shares thereof have not yet been issued. These shares are reserved for use in the key employees share option plans (Key People Program and Executive Equity Award Plan).

The Annual General Shareholders' Meeting held on July 7, 2005, approved the creation of authorized share capital of 3,301,120 registered shares with a par value of CHF 0.05 per share. The Board of Directors is authorized to exclude subscription rights of shareholders and to allocate them to third parties if the new shares are to be used for the acquisition of companies, part of companies, equity stakes or the financing of such transactions. The authorized share capital of 3,301,120 registered shares created on July 7, 2005, has not yet been used. The authorization granted to the Board of Directors to augment the company's share capital with the authorized share capital created expires on July 6, 2007.

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):

	31.3.2007	31.3.2006
Beda Diethelm	11.0%	11.2%
Andy Rihs	10.8%	10.9%
Chase Nominees Ltd.	9.1%	
Hans-Ueli Rihs	8.9%	9.1%
Barclays Plc & its subsidiaries	6.1%	

3. Notes to the balance sheet

3.1 Marketable securities

Marketable securities include, among other items, 44,344 treasury shares (previous year 34,633) purchased for a total consideration of CHF 3,037,786 (previous year CHF 2,182,937). At March 31, 2007, these shares had a market value of CHF 4,123,992 (previous year CHF 2,569,769).

During the financial year 2006/07, 142,916 treasury shares at an average price of CHF 71.58 have been purchased, while 133,205 treasury shares at an average price of CHF 64.42 have been disposed of.

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 capitalized costs in relation with the planned acquisition of the ReSound Group.

3.3 Loans to Group companies

Of total loans, 46% are denominated in Canadian Dollars, 24% in Swiss Francs, 20% in US Dollars, 4% in Australian Dollars, 3% in Euros and 3% in Japanese Yen.

3.4 List of significant investments

Company name	Activity	Domicile	Share capital Local currency 1,000		Shares held by Phonak Holding
Switzerland					
Phonak AG	B,C,D	Stäfa (CH)	CHF	2,500	99.3%
Phonak Hearing Systems AG	B	Stäfa (CH)	CHF	100	100%
Phonak Communications AG	B,C,D	Murten (CH)	CHF	500	100%
Indomed AG	A	Zug (CH)	CHF	1,000	100%
Europe (excluding Switzerland)					
Phonak GmbH	B	Stuttgart (DE)	EUR	153	100%
Phonak France SA	B	Bron-Lyon (FR)	EUR	305	100%
Phonak Italia Srl	B	Milan (IT)	EUR	1,040	100%
Phonak Ibérica SA	B	Alicante (ES)	EUR	7,000	100%
Phonak Belgium NV	A,B	Brussels (BE)	EUR	15,311	100%
Phonak B.V.	B	Nieuwegein (NL)	EUR	227	100%
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450	100%
Phonak Danmark A/S	B	Frederiksberg (DK)	DKK	9,000	100%
Phonak AB	B	Stockholm (SE)	SEK	200	100%
Phonak AS	B	Oslo (NO)	NOK	900	100%
Phonak Group Ltd.	B	Warrington (UK)	GBP	150	100%
Phonak Polska Sp. Z o.o.	B	Warsaw (PL)	PLN	100	100%
Phonarium Kft	B	Budapest (HU)	HUF	3,000	49%
Phonak CIS Ltd.	B	Moscow (RU)	RUB	4,000	100%
Americas					
Phonak Canada Ltd.	A,B	Mississauga (CA)	CAD	88,694	100%
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	1,069	100%
Asia/Pacific					
Phonak Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750	100%
Phonak New Zealand Ltd.	B	Auckland (NZ)	NZD	250	100%
Jordan Hearing Aids Manufacturing Co., Ltd.	B	Amman (JO)	JOD	80	100%
Phonak Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100%

Company name	Activity	Domicile	Share capital Local currency 1,000		Shares held by Phonak Holding
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	32,594	100%
Phonak (Sichuan) Co., Ltd.	B	Sichuan (CN)	CNY	19,119	100%
Phonak (Shanghai) Co., Ltd.	B	Shanghai (CN)	CNY	20,041	100%
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	8,796,000	100%
Unitron Hearing Korea Co., Ltd.	B	Seoul (KR)	KRW	200,000	37.5%

Description:
A Holding/Finance: The entity is a holding or finance company
B Sales: The entity performs sales and marketing activities for the Group
C Production: This entity performs manufacturing for the Group
D Research: This entity performs research and development activities for the Group

3.5 Reserve for treasury shares

A reserve for treasury shares in the amount of CHF 3,037,786 (previous year CHF 2,182,937) was established which is equal to the cost price (see Note 3.1). The increase in the amount of CHF 854,849 was debited to retained earnings.

3.6 Summary of changes in shareholders' equity

	Share capital	General legal reserve	Free reserve	Treasury share reserve	Retained earnings	Total shareholders' equity
1,000 CHF						
Balance April 1, 2006	**3,318**	**149,248**	**98,000**	**2,183**	**71,128**	**323,877**
Dividend paid					(33,165)	(33,165)
Capital increases (incl. share premium) from conditional capital	38	25,475				25,513
Increase in reserve for treasury shares				855	(855)	
Net profit for the year					65,115	65,115
Balance March 31, 2007	**3,356**	**174,723**	**98,000**	**3,038**	**102,223**	**381,340**

During the financial year 2006/07, an additional 764,219 registered shares with a par value of CHF 0.05 each, or a total par value of CHF 38,211 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 25,513,282. In the financial year 2006/07, the conditional share capital with a par value of CHF 412,400 (8,247,995 shares) decreased by CHF 38,211 or 764,219 shares (previous year CHF 16,926 or 338,525 shares), thereby leaving CHF 374,189 (7,483,776 shares) for distribution. Based on the remaining conditional capital, a total of 1,907,539 (previous year 1,842,693) employee stock options were outstanding as of March 31, 2007, which can be exercised until September 2012.

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 Annual General Shareholders' Meeting of June 12, 2007		
1,000 CHF	31.3.2007	31.3.2006[2]
Carried forward from previous year	**37,963**	**27,718**
Release from/(allocation to) reserve for treasury shares	(855)	(1,864)
Net profit for the year	65,115	45,274
Available earnings	**102,223**	**71,128**
Dividend distribution	(50,344) [1]	(33,165)
Balance to be carried forward	**51,879**	**37,963**

[1] If the Annual General Shareholders' Meeting approves the proposed appropriation of available earnings, a gross dividend of CHF 0.75 per registered share of CHF 0.05 will be paid out
[2] Approved by the Annual General Shareholders' Meeting of July 6, 2006

Report of the Statutory Auditors

PRICEWATERHOUSECOOPERS

Report of the Statutory Auditors
to the Annual General Shareholders' Meeting of
Phonak Holding AG
Stäfa

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes – pages 116 to 121) of Phonak Holding AG for the year ended March 31, 2007.

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 Swiss Auditing Standards, 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.

PricewaterhouseCoopers AG

Patrick Balkanyi   Stephen W. Williams
Auditor in charge

Zurich, May 3, 2007

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