

Media Release

Place, date Stäfa (Switzerland), November 16, 2010
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Sonova posts strong growth in sales and increase in operating profit for the first half of 2010/11

Sonova generated a new sales record of CHF 832 million in the first half of 2010/11, an increase of 17.2% in Swiss francs compared to the previous year. The Group consolidated its leading position due to organic sales growth of 8.2% in local currencies and 11.8% growth through acquisitions. EBITA rose to CHF 204.0 million. Income after taxes, taking acquisition-related expenses into account, increased to CHF 170.5 million.

- The Sonova Group increased sales in the first six months of financial year 2010/11 by 17.2% in Swiss francs to CHF 832 million, with a negative currency effect of 2.8%. Sales growth in local currencies was 20.0%.
- Organic sales growth of 8.2% in local currencies exceeded the market growth of the hearing instrument industry, estimated at 4-5%.
- Sonova generated an additional 11.8% sales growth from acquisitions. The integration of the newly acquired companies Advanced Bionics and InSound Medical is on track.
- Group EBITA increased by 5.3% to CHF 204 million, corresponding to an EBITA margin of 24.5%. This includes the planned investments for the strategic acquisitions and projects and a negative currency effect of around 70 basis points.
- Cash-based basic earnings per share increased to CHF 2.676.
- 81% of total sales were achieved with products which were launched within the past two years. This highlights the success of the entire Phonak portfolio based on the CORE platform.
- EUHA October 2010: Sonova expands its technology leadership by launching a host of new, innovative products based on the new Spice platform.
- The Sonova Group expects organic sales growth of 8-10% in local currencies and an EBITA margin of around 26% for financial year 2010/11.

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Strong sales growth

The Sonova Group generated sales of CHF 831.5 million in the first half of 2010/11, corresponding to 17.2% growth in Swiss francs compared to the previous year. Sales growth in local currencies was 20.0%. Organic sales growth of 8.2% in local currencies exceeded market growth in units, which is estimated at 4-5%. Acquisitions contributed a total of 11.8% to sales growth. This includes an annualization effect of 10.2%, which is mainly attributable to the strategic acquisitions of Advanced Bionics and InSound Medical in the previous financial year. The Swiss franc's appreciation during the reporting period, especially against the euro, led to a negative currency effect of 2.8% on Group sales.

Significant growth in all regions

Sonova recorded broad-based growth in the first half of 2010/11, characterized by market share gains, further expansion in growth markets, and the acquisitions mentioned. Europe showed a positive development overall with varying rates of growth in the individual countries. In the EMEA region (including Switzerland), Sonova achieved growth of 23.4% in local currencies, which is attributable to market share gains in key markets such as France, the UK, and Germany. Demand for hearing instruments in Switzerland showed an overall decline. During the reporting period, demand rose in the US, where both the private market as well as business with the "Department of Veterans Affairs" (VA) showed a sustained improvement. The Group generated 16.7% growth in local currencies in the USA. In the Americas region (including USA), sales growth in local currencies was slightly higher at 17.2%. In the Asia/Pacific region, growth of 21.8% was achieved in local currencies, mainly as a result of market share gains in Japan and a continued high market growth in China.

Increase in gross profit margin

Thanks to the solid sales growth in particular, Sonova was able to considerably increase its gross profit by 18.4% from CHF 492.4 million to CHF 583.0 million. Economies of scale and increased efficiency in manufacturing, as well as savings in procurement more than compensated for the negative currency effect. Gross profit margin increased from 69.4% in the previous year to 70.1%.

Spending on research and development (R&D) in the first half of 2010/11 amounted to CHF 59.6 million, or 7.2% of sales. In the hearing instruments segment, R&D expenditure was mainly driven by the successful completion and launch of the new Spice platform and the corresponding product families. Investments into the development of new products at Advanced Bionics were also stepped up.

Sales and marketing costs amounted to CHF 234.7 million, or 28.2% of sales. The Group strengthened its established distribution organizations and founded new distribution companies in both the hearing instruments and hearing implants segments during the reporting period. The Group also invested in strategic projects, such as the international launch of the new Lyric brand, the roll-out of the new Sona brand, and the expansion of activities at Advanced Bionics.

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Operating profit before acquisition-related amortization (EBITA) improved from CHF 193.7 million in the previous year to CHF 204.0 million. The EBITA margin of 24.5% includes a negative currency effect of around 70 basis points.

Innovation drives further growth

The great importance of research and development was evidenced in the first half of 2010/11 by the high contribution of new products to sales in the hearing instruments segment. The Sonova Group generated 81% of total sales from products that had been on the market for less than two years, which allowed it to further expand its technological lead over its competitors. This is attributable to the success of the entire Phonak product portfolio based on the CORE platform, and in particular, also to the expansion of the CRT product family Audéo.

In the hearing instruments segment, the Group generated growth of 10.4% in local currencies compared to the previous year, primarily thanks to robust growth of 14.9% in business class products. First class hearing instruments grew by 5.2% in local currencies and economy class products posted 12.2% sales growth. Overall, the Phonak brand made an above-average contribution to sales growth in the first half of 2010/11.

The hearing instruments segment generated an EBITA of CHF 209.2 million, corresponding to an EBITA margin of 27.3%.

Integration of Advanced Bionics on track

With the integration of Advanced Bionics, which began in January 2010, the Sonova Group is taking the strategic step of expanding into the market segment of cochlear implants, thus exploiting its leading position as a global provider of hearing systems. Advanced Bionics achieved sales of CHF 65.5 million in the hearing implants segment in the first half of 2010/11, a growth of around 5% in local currencies on a comparable basis. The business showed continuous growth in sales, partly due to increasing sales with processor upgrades on the new Harmony system.

The hearing implants segment posted an EBITA of CHF -5.2 million. This includes investments in ongoing integration, such as the expansion of Advanced Bionics' sales and distribution activities. The result also includes expenditure on the development of Phonak Acoustic Implants' new middle ear implant, Ingenia.

Higher earnings per share

Income after taxes totaled CHF 170.5 million compared to CHF 164.2 million in the previous year, due to a higher operating profit, higher financial expenses and lower tax expenses. The increase in financial expenses was primarily attributable to financing costs associated with the strategic acquisitions. Basic earnings per share amounted to CHF 2.583 compared to CHF 2.520 in the previous year. Excluding acquisition-related, non-cash items, cash-based basic earnings per share increased to CHF 2.676 from the previous year figure of CHF 2.568.

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Investments for future growth

Cash flow from operating activities was CHF 151.4 million, down from the CHF 189.7 million achieved in the previous year. This is primarily due to the increase in inventories ahead of the launch of the next generation of products on the new Spice platform. Cash outflow from investing activities rose during the reporting period from CHF 77.2 million in the previous year to a total of CHF 89.2 million. Cash funds of CHF 19.8 million were invested in acquisitions.

Sonova's free cash flow in the first half of 2010/11 was thus CHF 62.2 million. Operating free cash flow (excluding acquisitions) amounted to CHF 82.0 million, compared to CHF 131.1 million in the previous year.

Cash outflow from financing activities increased to CHF 152.9 million from CHF 62.7 million in the previous year. This is attributable in particular to the expenditure of CHF 80.0 million, which represents the partial repayment of the bank loan to finance the acquisition of Advanced Bionics. The Sonova Group's cash funds totaled CHF 241.8 million as of September 30, 2010, compared to CHF 335.9 million as of April 1, 2010.

Solid balance sheet

Capital employed grew from CHF 877.2 million in the previous year to CHF 1,526.3 million in the first half of 2010/11, mainly as a consequence of higher intangible assets from acquisitions. Preparations for the launch of the new Spice platform meant that net working capital increased to 27.9% relative to sales. As of September 30, 2010, the Group reported net debt of CHF 143.2 million, compared to net cash of CHF 273.2 million in the previous year. This is a result of the two aforementioned acquisitions. The Group's equity amounted to CHF 1,383.1 million. The equity financing ratio (equity in % of total assets) remained high at 60.2%.

Positive outlook

With the leading Phonak and Unitron hearing instrument brands, the new Lyric and Sona brands, and the newly acquired Advanced Bionics business, the Sonova Group has the most innovative and comprehensive product portfolio in the hearing system industry. A number of new, innovative products were launched at the EUHA hearing aid congress in October 2010, which will contribute to sales growth in the second half of 2010/11. Based on current market conditions, Sonova expects organic sales growth of 8-10% in local currencies and an EBITA margin of around 26% for the financial year 2010/11.

The Sonova Semi-Annual Report 2010/11 can be downloaded from:
www.sonova.com/en/investors/SemiAnnualReports

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Key Figures Sonova Group

April 1 to September 30, in 1,000 CHF unless otherwise specified	2010	2009
Sales	831,524	709,219
change compared to previous year (%)	17.2	18.2
Gross profit	583,017	492,398
change compared to previous year (%)	18.4	18.8
in % of sales	70.1	69.4
Research & development costs	59,571	42,593
in % of sales	7.2	6.0
Sales & marketing costs	234,681	185,571
in % of sales	28.2	26.2
Operating profit before acquisition-related amortization (EBITA)	204,011	193,717
change compared to previous year (%)	5.3	21.9
in % of sales	24.5	27.3
Operating profit (EBIT)	191,770	189,123
change compared to previous year (%)	1.4	21.1
in % of sales	23.1	26.7
Income after taxes	170,455	164,205
change compared to previous year (%)	3.8	21.6
in % of sales	20.5	23.2
Number of employees (end of period)	7,210	5,627
change compared to previous year (%)	28.1	13.2
Net cash¹⁾	(143,241)	273,240
Net working capital²⁾	232,347	144,697
in % of sales	27.9	20.4
Capital expenditure (tangible and intangible assets)³⁾	56,128	46,183
Capital employed⁴⁾	1,526,312	877,194
Total assets	2,295,830	1,554,439
Equity	1,383,071	1,150,434
Equity financing ratio (%)⁵⁾	60.2	74.0
Free cash flow⁶⁾	62,247	112,505
Operating free cash flow⁷⁾	82,046	131,096
in % of sales	9.9	18.5
Return on capital employed (%)⁸⁾	12.5	22.6
Return on equity (%)⁹⁾	12.2	15.1
Basic earnings per share (CHF)	2.583	2.520
Diluted earnings per share (CHF)	2.558	2.501
Cash-based basic earnings per share (CHF)¹⁰⁾	2.676	2.568

¹⁾ Cash and cash equivalents + other current financial assets (excl. loans) – short-term debts – other current financial liabilities – non-current financial liabilities.

²⁾ Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.

³⁾ Excluding goodwill and intangibles relating to acquisitions.

⁴⁾ Total assets – cash and cash equivalents – other current financial assets (excl. loans) – trade payables – other liabilities – provisions – tax liabilities.

⁵⁾ Equity in % of total assets.

⁶⁾ Cash flow from operating activities + cash flow from investing activities.

⁷⁾ Free cash flow excluding cash consideration for acquisitions, net of cash acquired.

⁸⁾ EBIT in % of capital employed (average).

⁹⁾ Income after taxes in % of equity (average).

¹⁰⁾ Excluding the amortization of acquisition-related intangibles, unwinding effect of the discount on acquisition-related earn-out payments and fair value adjustments of equity investments, net of tax.

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About Sonova

Sonova is the leading provider of innovative hearing healthcare solutions. The globally active Group is the world's top manufacturer of hearing instruments, the market leader in wireless communication systems for audiology applications, develops and manufactures advanced cochlear implant systems and provides professional solutions for hearing protection. Sonova is pursuing a clear growth strategy and is intent to grow faster than the market. To this end, it is constantly expanding its business segments and branching out into other areas of the hearing healthcare industry.

Present in over 90 countries, and with a workforce of over 6,800 employees, Sonova generated sales of CHF 1.5 billion in the financial year 2009/10 and a net profit of CHF 355 million. This financially strong group of companies bases its success on innovation, customer focus and proactive cost management.

The company has been successfully promoting understanding and communication for over 60 years, and is ideally positioned to benefit from the trends in this growth industry.

For more information please visit www.sonova.com.

Sonova shares (ticker symbol: SOON) have been listed on the SIX Swiss Exchange since 1994.