

Media Release

Sonova on course – Further growth in sales and earnings

Staeфа (Switzerland), 21.05.2013 – Sonova Holding AG, the world's leading provider of hearing solutions, announces today another sales record for the financial year 2012/13. The company generated sales of CHF 1,795.3 million, an increase of 10.8% in Swiss francs or 7.4% in local currencies. Normalized for one-off costs*, EBITA was CHF 386.4 million or 21.5% of sales, up 22.6% in Swiss francs or 15.4% in local currencies. The Board of Directors proposes a dividend of CHF 1.60 per share, an increase of 33% over the previous year.

Highlights 2012/13

- Group sales of CHF 1,795.3 million were up 10.8% in Swiss francs and 7.4% in local currencies
- Reported EBITA of CHF 182.8 million fully accounts for one-off costs, mainly related to a provision increase to cover potential liabilities in the wake of a 2006 product recall by Advanced Bionics, more than three years prior to its acquisition by Sonova in 2009
- Normalized for one-off costs*, EBITA was CHF 386.4 million or 21.5% of sales, up 22.6% in Swiss francs and 15.4% in local currencies
- The hearing instruments segment reported sales of CHF 1,648.5 million, up 4.9% in local currencies
- The cochlear implants segment reached its break-even target on a normalized basis*, supported by sales of CHF 146.7 million, up 47.1% in local currencies
- The operating free cash flow rose by 33.0% to CHF 318.6 million
- The Board of Directors proposes a dividend increase of 33% to CHF 1.60 per share
- Outlook: for FY 2013/14, sales are anticipated to grow by 6% to 8% and EBITA to rise by 9% to 13%, both measured in local currencies and on a normalized basis*

Commenting on the results, Lukas Braunschweiler, CEO of Sonova said: "The very solid accomplishments of this financial year demonstrate once again the benefit of our broad hearing solutions portfolio. In a challenging market environment, both segments significantly contributed to the top-line growth. The sound performance in the Asia/Pacific region in part reflects the considerable potential of the fast-growing emerging markets, which we continue to explore through targeted strategic initiatives. With a record number of new products announced and our continued commitment to innovation, Sonova is well on track to further achieve consistent growth in sales and earnings."

New sales record achieved

The Sonova Group achieved another sales record in the year under review. Group sales rose 10.8% in Swiss francs and 7.4% in local currencies to CHF 1,795.3 million. The majority of the increase came from organic growth, which reached 5.2% in local currencies. External growth for 2012/13 represented around CHF 35.3 million or 2.2% of Group sales. Favorable currency development contributed CHF 56.0 million to reported sales, adding 3.4% to the growth rate in Swiss francs.

Growth reflects broad global footprint

All major regions achieved a solid sales increase. Sales in the EMEA region (Europe, Middle-East and Africa), which accounted for 40% of Group sales, rose by 5.3% in local currencies. US sales rose by 6.8% in local currencies and accounted for 37% of Group sales for the year. A strong performance in Canada and Brazil lifted growth in the rest of the Americas (excluding the USA) to 7.8% in local currencies. In the Asia/Pacific region, which contributed 11% to Group sales in the year under review, sales rose by 17.7% in local currencies.

Reported results impacted by one-off costs

The reported results were impacted by one-off costs of CHF 203.6 million included under other operating expenses. The main item is a cochlear implant product liability provision increase of CHF 197.8 million in the context of a first-instance verdict rendered in April 2013 by a US District Court in Kentucky, in a case related to Advanced Bionics' Vendor B product recall in 2006. Further one-off charges include a restructuring provision for the reorganization of Advanced Bionics' international distribution center in Rixheim, France, and the amount paid last October in connection with the out-of-court settlement with a group of investors related to the delayed profit warning in March 2011. All three cost items represent one-off costs that are excluded from discussion of normalized values referred to in this media release.

Solid margin improvement

Gross profit reached CHF 1,240.1 million, corresponding to a gross margin of 69.1%, an 80 basis points increase over the prior year, including 30 basis points from positive currency effects. Sales and marketing costs rose by 11.0% in Swiss francs or 8.0% in local currencies, representing 31.1% of sales, unchanged from the prior year. R&D costs as charged to the income statement for 2012/13 amounted to CHF 113.5 million, or 6.3% of sales. Despite our further global expansion, general and administrative expenses rose less than sales, by 7.5% in Swiss francs or 5.4% in local currencies, dropping to 10.1% of sales and reflecting controlled cost management during the financial year.

The reported operating profit before acquisition-related amortization and impairments (EBITA), which includes the one-off charges represented in other expenses, was CHF 182.8 million. Normalized EBITA* was CHF 386.4 million, strongly increasing by 22.6% in Swiss francs or 15.4% in local currencies. Favorable currency development contributed CHF 22.7 million to the rise in normalized EBITA* in Swiss francs. The normalized EBITA* margin expanded significantly by 200 basis points to 21.5% of sales. Normalized income after taxes* was CHF 308.9 million, up 25.4% from the previous year. Normalized basic earnings per share* (EPS) therefore reached CHF 4.62, a strong rise of 24.5% over the previous year.

Hearing instruments segment: consolidating our market leading position

The hearing instruments segment achieved sales of CHF 1,648.5 million in financial year 2012/13, which represents a growth rate of 8.2% in Swiss francs and 4.9% in local currencies. Organic growth accounted for 2.6% of the increase, a figure above the growth rate of the overall global market. Acquisitions added 2.3% to the reported growth rate. Supported by the successful launch of the well-received Phonak Quest platform in October 2012 and by the sustained strong performance of our Unitron brand, growth accelerated over the course of the year, despite an increasingly challenging market environment in Continental Europe. Innovation continued to be an important driver of growth: Sonova generated 70% of its hearing instrument revenue from products that have been on the market for less than two years. EBITA for the hearing instruments segment reached CHF 384.7 million, equivalent to an EBITA margin of 23.3%. EBITA rose by 13.4% in Swiss francs and by 6.7% in local currencies. At constant currency, the EBITA margin would have reached 22.6%, a 30 basis points improvement over the previous year.

Cochlear implants segment: break-even target reached

Normalized for one-off costs*, the performance of the cochlear implants segment was another highlight in the year under review. Sales rose to CHF 146.7 million, an increase of 52.3% in Swiss francs or 47.1% in local currencies. The business benefited from a full year of sales of its HiRes 90K implant following approval from the US Food and Drug Administration (FDA) in September 2011. The cochlear implants segment returned a normalized EBITA* of CHF 1.8 million, breaking even for the first time. The company also presented significant innovations during the year, including a new processor and a new electrode design that will generate profitable growth beyond 2012/13.

Strong free cash flow growth

Cash flow from operating activities rose by 27.0% to CHF 387.1 million in the year under review. The increase reflects the rise in normalized EBITA* of 22.6% and a favorable impact from working capital changes compared with the previous year. Investments in tangible and intangible assets reached CHF 82.3 million, up CHF 1.7 million, mainly as a result of higher capitalized development costs in the cochlear implants business. Operating free cash flow increased strongly by 33.0% to CHF 318.6 million. The cash consideration for acquisitions was CHF 56.2 million, including earn-out payments for prior period acquisitions, down from CHF 83.1 million in the prior year. This resulted in a free cash flow of CHF 262.4 million, up 67.7% from last year.

Increase in dividend proposed

Helped by strong cash flow development, the Sonova Group ended the year with a net cash position of CHF 185.8 million. The Board of Directors will propose to the 2013 AGM a substantially increased distribution of CHF 1.60 per share, payable without withholding taxes from the capital contribution reserves. This represents a significant increase of 33% compared to the prior financial year.

Outlook 2013/14

With our clear focus on driving profitable growth and our continued commitment to innovation, we aim to further expand and build on the strong market positions of Sonova. Despite a somewhat higher level of uncertainty regarding short-term market developments, we expect continued solid growth in sales and earnings in 2013/14, both in the hearing instruments and cochlear implants segment. Overall sales are anticipated to grow by 6% to 8% and EBITA to rise by 9% to 13% (both measured in local currencies and on a normalized basis*).

While actual reported results may vary based on currency fluctuations, Sonova continues to mitigate the impact of the strong Swiss franc on earnings growth through its long-term global resource allocation strategy. A strengthening of the US dollar by 5% would affect sales in the financial year by approximately CHF +38 million and EBITA by approximately CHF +11 million. The corresponding effect of a 5% stronger euro would be CHF +24 million on sales and CHF +12 million on EBITA.

The Annual Report 2012/13 is available on our website:

<http://www.sonova.com/en/investors/AnnualReports/Pages/default.aspx>

The CSR report can be downloaded at:

<http://www.sonova.com/en/csrreport/>

* Adjusted for one-off charges of CHF 203.6 million which consist of a product liability provision increase related to Advanced Bionics' Vendor B product recall in 2006, a restructuring provision for the reorganization of the Advanced Bionics in France and the amount paid last October in connection with the out-of-court settlement with a group of investors related to the delayed profit warning in March 2011.

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KEY FIGURES SONOVA GROUP (CONSOLIDATED)

in 1,000 CHF unless otherwise specified	Reported performance 2012/13	Normalized performance 2012/13 ¹⁾	2011/12
Sales	1,795,262	1,795,262	1,619,848
change compared to previous year (%)	10.8	10.8	0.2
Gross profit	1,240,106	1,240,106	1,105,924
change compared to previous year (%)	12.1	12.1	(1.1)
in % of sales	69.1	69.1	68.3
Research & development costs	113,529	113,529	116,178
in % of sales	6.3	6.3	7.2
Sales & marketing costs	558,865	558,865	503,354
in % of sales	31.1	31.1	31.1
Operating profit before acquisition-related amortization and impairment (EBITA)	182,805	386,421	315,199
change compared to previous year (%)	(42.0)	22.6	(3.5)
in % of sales	10.2	21.5	19.5
Operating profit (EBIT)	156,676	360,292	287,699
change compared to previous year (%)	(45.5)	25.2	6.2
in % of sales	8.7	20.1	17.8
Income after taxes	112,037	308,913	246,410
change compared to previous year (%)	(54.5)	25.4	6.6
in % of sales	6.2	17.2	15.2
Number of employees (average)	8,709	8,709	7,970
change compared to previous year (%)	9.3	9.3	9.3
Number of employees (end of period)	8,952	8,952	8,223
change compared to previous year (%)	8.9	8.9	4.9
Net cash²⁾	185,800	185,800	(64,448)
Net working capital³⁾	187,148	187,148	163,434
in % of sales	10.4	10.4	10.1
Capital expenditure (tangible and intangible assets)⁴⁾	82,354	82,354	80,073
Capital employed⁵⁾	1,449,538	1,449,538	1,540,326
in % of sales	80.7	80.7	95.1
Total assets	2,680,934	2,680,934	2,287,202
Equity	1,635,338	1,635,338	1,475,878
Equity financing ratio (%)⁶⁾	61.0	61.0	64.5
Free cash flow⁷⁾	262,370	262,370	156,406
Operating free cash flow⁸⁾	318,553	318,553	239,535
in % of sales	17.7	17.7	14.8
Return on capital employed (%)⁹⁾	10.5	10.5	19.2
Return on equity (%)¹⁰⁾	7.2	7.2	17.5
Basic earnings per share (CHF)	1.66	4.62	3.71
Diluted earnings per share (CHF)	1.66	4.61	3.71
Dividend/distribution per share (CHF)	1.60 ¹¹⁾	1.60 ¹¹⁾	1.20

¹⁾ Excluding one-off cost, mainly related to the increase of the product liability provision within the cochlear implants business. Balance sheet related key figures (including respective ratios) as reported.

²⁾ Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.

³⁾ Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.

⁴⁾ Excluding goodwill and intangibles relating to acquisitions.

⁵⁾ Total assets – cash and cash equivalents – other current financial assets (without loans) – trade payables – other liabilities – provisions – tax liabilities.

⁶⁾ Equity in % of total assets.

⁷⁾ Cash flow from operating activities + cash flow from investing activities.

⁸⁾ Free cash flow – cash consideration for acquisitions, net of cash acquired.

⁹⁾ EBIT in % of capital employed (average).

¹⁰⁾ Income after taxes in % of equity (average).

¹¹⁾ Proposal to the Annual General Shareholders' Meeting of June 18, 2013.

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About Sonova

Sonova Holding AG, headquartered in Staefa, Switzerland, is the leading manufacturer of innovative hearing care solutions. The group operates through its core business brands Phonak, Unitron, Advanced Bionics and Connect Hearing. Sonova offers its customers one of the most comprehensive product portfolios in the industry – from hearing instruments to cochlear implants to wireless communication solutions. Founded in 1947, the group is currently present in over 90 countries across the globe and has a workforce of almost 9,000 dedicated employees. Sonova generated sales of CHF 1.8 billion in the financial year 2012/13 and a normalized net profit of CHF 309 million. By supporting the Hear the World Foundation, Sonova pursues its vision of a world where everyone enjoys the delight of hearing and therefore lives a life without limitations.

For more information please visit www.sonova.com and www.hear-the-world.com.

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