Media Release – Full Year 2010/11

Sonova consolidates position as world market leader in hearing instruments

Sonova consolidated its leading position in the hearing instrument industry in financial year 2010/11. Despite negative currency effects, a new sales record of CHF 1,617 million was achieved. This translated to a growth rate of 13.3% in local currencies and 7.8% in Swiss francs compared to the previous year. All geographic regions contributed to the sales growth. 96% of sales were recorded in Sonova's core business, hearing instruments, in which further market share gains and a growth of 10.1% in local currencies were achieved. The hearing instrument segment reported an EBITA of CHF 372 million or 24.0% of sales. At 61.9%, the equity financing ratio was at a high level and Sonova remained in a solid financial position.

- Record sales of CHF 1,617 million in financial year 2010/11, up by 13.3% in local currencies
- Negative currency impact on reported sales of CHF 84 million or 5.6%
- All geographic regions contributed to growth
- CHF 1,546 million or 96% of sales recorded in hearing instruments
- Core business achieved organic growth of 5.8% in local currencies exceeding market growth
- R&D investments of CHF 108 million, the highest amount in the industry
- Group EBITA down to 20.2% or CHF 327 million
- EBITA in hearing instrument segment of CHF 372 million or 24.0%
- Distribution of CHF 1.20 per share proposed
- Substantial market potential still to be exploited
- Outlook 2011/12: solid sales and profitability in hearing instruments expected to continue, while currency impacts will negatively affect the overall results significantly

Record sales despite negative currency impact of CHF 84 million
Sonova achieved sales in financial year 2010/11 of CHF 1,617 million, a new record for the company, up from CHF 1,500 million in the previous year. Net sales increased by 13.3% in local currencies. However, a major negative currency impact of CHF 84 million or 5.6% reduced the sales growth rate to 7.8% in Swiss francs. Thereof, CHF 64 million was recorded in the second half of 2010/11 alone. Operating profit (EBITA) was at CHF 327 billion, 22% below the previous year level. The EBITA margin fell to 20.2% (including the effect of one-time costs related to the profit warning in March 2011 and the subsequent events), mainly a result of the strong Swiss franc, the recall and temporary selling freeze of Advanced Bionics' implants and higher operating expenses.

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Expansion in all regions
All geographic regions, in local currencies, contributed to the record sales figures in the financial year 2010/11. Group-wide, the EMEA (Europe including Switzerland, Middle East, Africa) region accounted for 39.5% of total sales and reached growth of 11.3%. The USA remained the strongest single sales market for Sonova accounting for 36.8% of total Group sales while achieving a growth rate of 14.3%. The Rest of the Americas region generated 15.3% of sales and grew by 24.3% while Asia/Pacific accounted for 8.4% of total sales and reached a 2.7% growth rate.

Sonova continues to outgrow the global hearing instrument market
Sonova remains the market leader in the hearing instrument industry. Sonova's core business achieved a record sales level and accounted for 95.6% of total turnover. Despite a negative currency effect of 5.3% or CHF 78 million, segment sales surged from CHF 1,475 million in 2009/10 to CHF 1,546 million in 2010/11 thanks to an innovative and comprehensive product portfolio. The segment achieved growth of 10.1% on a currency adjusted basis, whereby organic growth was at 5.8% and growth from acquisitions amounted to 4.3%. The results in local currency exceeded market growth of the hearing instrument industry, estimated at 4–5%. The hearing instrument segment reported a solid EBITA of CHF 372 million or 24.0% of sales.

All product classes contributing to growth in hearing instruments segment
Within the hearing instruments segment, sales in local currencies increased by 11% in first class, by 12% in business class and by 7% in economy class hearing instruments. In particular, first class products increased growth rates in the second half substantially as a result of the successful launch of Phonak Ambra on the Spice platform. Overall, first class products accounted for 25%, business class for 23% and economy class for 30% of Sonova's total hearing segment sales in financial year 2010/11.

Temporary product recall leads to operating loss in hearing implants segment
Performance in Sonova's new segment, hearing implants, was below expectations due to the temporary voluntary recall of the Advanced Bionics cochlear implant in the latter half of the reporting period. As a result, sales in the hearing implant division reached only CHF 71 million, approximately CHF 60 million below prior estimates, and accounted for 4.4% of Group turnover. This temporary product recall of Advanced Bionics significantly affected both the segment and the overall results of the Group as sales and margins were impacted negatively. Furthermore, management updated the business plan of Advanced Bionics which caused a goodwill impairment of CHF 157 million that was reported in the restated financial results for 2009/10. EBITA for the hearing implant segment in 2010/11 amounted to a loss of CHF 45 million.

Hearing implant business combined in new division
The market for hearing implants offers considerable potential with anticipated annual growth of 10–15% and will become more important for Sonova over time. To reflect the growing importance of this business, Advanced Bionics and Phonak Acoustic Implants have been consolidated into a single division effective March 2011. In order to identify joint opportunities and combine the product roadmap, the business plan of the hearing implant division has been reviewed. As a result, as communicated on May 6, 2011, some past development projects no longer fit into the combined development plan and CHF 36 million of previously capitalized development costs of Phonak Acoustic Implants were impaired in the reporting period and reflected as one-time impairment costs on the 2010/11 income statement.

The planned expansion of the hearing implant segment has been delayed due to the voluntary recall. However, in April 2011 the Group received approval from the European notified body TÜV to resume distribution of the cochlear implant in European markets and other selected countries. In the United States, the implant may only be re-introduced following pending approval from the United States Food and Drug Administration FDA.

Innovation and new products contributed markedly to sales record
Investment in research and development totaled CHF 108 million, the highest nominal amount in the industry, and substantially above last year's level of CHF 87 million. At the same time, the number of employees in R&D increased by 9% to 525. 74% of total hearing instrument sales come from products launched within the past two years, emphasizing once again the technological lead over competitors. The launch of the Spice platform technology was a key milestone in the year under review. This latest chip generation sets new standards in terms of processing power and performance. Phonak, the strongest brand in the industry, launched a comprehensive product portfolio based on the new platform, enabling improved understanding in all sound environments across all segments and degrees of hearing loss. With the introduction of the revolutionary Lyric product concept – the only invisible hearing instrument that can be worn for up to four months at a time – the company has taken a major step forward to better tap new potential in the hearing instrument market. Unitron introduced a new platform called Era, based on Sonova's latest chipset adapted for Unitron's market focus.

Record gross profit
While Sonova increased its gross profit to CHF 1,119 million (2009/10: CHF 1,059 million), the gross profit margin reduced slightly to 69.2 % (2009/10: 70.5%; restated: 70.6%). Economies of scale and increased efficiency in manufacturing and procurement were not able to entirely offset the negative effect of the strong Swiss franc and the temporary shortfall of Advanced Bionics sales, which impacted the gross profit margin by approx. 2%. Spending on sales and marketing and general and administration has increased from CHF 545 million to CHF 684 million or from 36.3% of total sales in the previous year to 42.3% in 2010/11 respectively. This increase in costs is a result of acquisitions, mainly of Advanced Bionics and InSound Medical, as both

these companies had only been consolidated into the figures for financial year 2009/10 for three months. In addition, investments for the roll-out of Lyric in key markets outside the USA, including Germany, France, UK, Canada and Austria were made. Sonova also invested in the sales and distribution structures of subsidiaries around the world, especially in emerging markets. The general and administration expenses have increased partly due to the one-time costs related to the profit warning in March 2011 and the subsequent events. The higher costs for sales and marketing and general and administration are also reflected in the increased number of employees which rose by 997 to 7,840.

Substantial investments for the future
Operating free cash flow excluding acquisitions amounted to CHF 222 million compared to CHF 325 million in the previous year. Sonova continued to invest heavily in the future of the business, including the development of leading-edge technologies, the introduction of new products and the global expansion of sales channels and distribution capacities. The Group invested cash funds of CHF 273 million, primarily for the completion of several smaller acquisitions and earn-out payments related to previous acquisitions as well as the construction of the new high-tech production facility in Stäfa. Free cash flow reached CHF 72 million compared to CHF –301 million in the previous year. The cash outflow from financing activities of CHF 236 million was recorded in the reporting period mainly due to the repayment of CHF 200 million in loans.

Sound financial position
As of March 31, 2011, net debt was at CHF 111 million compared to CHF 126 million in the previous year. This is a result of the repayment of bank loans for the acquisition of Advanced Bionics. The Group’s equity increased to CHF 1,344 million and at 61.9%, the equity financing ratio remained at a high level. This solid position builds the basis for future growth.

Net profit compared to restated 2009/10 results
Net profit in the reporting period amounted to CHF 231 million compared to CHF 217 million in the previous year (restated figures). This corresponds to basic earnings per share of CHF 3.50 (2009/10: CHF 5.41 – restated to CHF 3.32) or, excluding acquisition-related non-cash items, cash-based earnings per share of CHF 4.27 (2009/10: CHF 5.60 – restated to CHF 5.61).

Unchanged distribution of CHF 1.20 per share
In recognition of the solid performance as well as the strong cash flow generation of the core business during the 2010/11 year, the Board of Directors will propose to the Annual General Shareholders’ Meeting on June 21, 2011 a distribution of CHF 1.20 per share, without withholding taxes, from the capital contribution reserve. This equals a dividend payout ratio of 25%, excluding one-off effects.

Creating a global hearing care company
Sonova will pursue its proven strategy in order to build a global hearing care company, with the aim of helping as many people as possible, to hear better and thus improve their quality of life. There remains significant potential in the market, as market growth is expected to continue due to demographics and rising disposable income. In addition, penetration rates can be enhanced and markets expanded to developing regions such as India, China and other areas with high population density. Sonova is well prepared to exploit these growth opportunities as the Group has a unique position in two complementary business segments, a truly global footprint, a high rate of innovation and sophisticated marketing initiatives.

Outlook 2011/12
Sonova expects to achieve solid growth in the hearing instruments segment in the coming year, driven by attractive market fundamentals, the launch of new products and the ongoing expansion of sales channels. Even though the Advanced Bionics' implants will gradually return to the market following the recent TÜV certification, the forecast for the hearing implants segment is dependent upon the timing of re-entry into the U.S. market. We expect overall sales in 2011/12 to be slower in the first half of the financial year because of reduced sales by Advanced Bionics. Furthermore, the strong Swiss franc will continue to adversely impact the sales and earnings growth of the full year significantly.

The Sonova Annual Report 2010/11 can be downloaded from:
http://www.sonova.com/en/investors/AnnualReports/Pages/default.aspx

Key Figures Sonova Group (Consolidated)

in 1,000 CHF unless otherwise specified	2010/11	Restated 2009/10[1]	Reported 2009/10
Sales	**1,616,700**	**1,500,306**	**1,500,306**
change compared to previous year (%)	7.8	20.1	20.1
Gross profit	**1,118,681**	**1,058,597**	**1,058,427**
change compared to previous year (%)	5.7	22.1	22.0
in % of sales	69.2	70.6	70.5
Research & development costs	**107,760**	**87,034**	**87,034**
in % of sales	6.7	5.8	5.8
Sales & marketing costs	**498,589**	**402,626**	**402,626**
in % of sales	30.8	26.8	26.8
Operating profit before acquisition-related amortization and impairment (EBITA)	**326,622**	**420,276**	**420,106**
change compared to previous year (%)	(22.3)	26.7	26.6
in % of sales	20.2	28.0	28.0
Operating profit (EBIT)	**270,810**	**251,419**	**406,753**
change compared to previous year (%)	7.7	(22.6)	25.1
in % of sales	16.8	16.8	27.1
Income after taxes	**231,080**	**216,632**	**354,813**
change compared to previous year (%)	6.7	(23.8)	24.9
in % of sales	14.3	14.4	23.6
Number of employees (average)	**7,291**	**5,933**	**5,933**
change compared to previous year (%)	22.9	16.1	16.1
Number of employees (end of period)	**7,840**	**6,843**	**6,843**
change compared to previous year (%)	14.6	28.2	28.2
Net cash[2]	**(111,287)**	**(126,029)**	**(126,029)**
Net working capital[3]	**158,190**	**144,363**	**177,011**
in % of sales	9.8	9.6	11.8
Capital expenditure (tangible and intangible assets)[4]	**111,457**	**89,272**	**89,272**
Capital employed[5]	**1,455,999**	**1,388,537**	**1,534,387**
in % of sales	90.1	92.6	102.3
Total assets	**2,171,644**	**2,324,026**	**2,409,257**
Equity	**1,344,712**	**1,262,508**	**1,408,358**
Equity financing ratio (%)[6]	**61.9**	**54.3**	**58.5**
Free cash flow[7]	**71,593**	**(301,388)**	**(301,388)**
Operating free cash flow[8]	**221,541**	**324,754**	**324,754**
in % of sales	13.7	21.6	21.6
Return on capital employed (%)[9]	**19.0**	**23.0**	**34.9**
Return on equity (%)[10]	**17.7**	**18.9**	**29.1**
Basic earnings per share (CHF)	3.50	3.32	5.41
Diluted earnings per share (CHF)	3.47	3.28	5.36
Cash-based basic earnings per share (CHF)[11]	**4.27**	**5.61**	**5.60**
Dividend per share (CHF)	1.20[12]	1.20	1.20

[1] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).
[2] Cash and cash equivalents + other current financial assets (without loans) – short-term debts – other 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] Excluding the amortization of acquisition-related intangibles, impairment and unwinding effect of the discount on acquisition-related earn-out payments, net of tax.
[12] Proposal to the Annual General Shareholders' Meeting of June 21, 2011.

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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 systems, 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 growth strategy and is intent to grow faster than the market. To this end it is constantly expanding its existing business segments and branching out into other areas of the hearing care industry. Present in over 90 countries, and with a workforce of over 7,800 employees, Sonova generated sales of CHF 1.6 billion in the financial year 2010/11 and an EBITA of CHF 327 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 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.

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