Media Release

Sonova grew sales by 8.3% in local currencies and achieved an EBITA of CHF 138.4 million in H1 2011/12

***Staefa (Switzerland), 15.11.2011* – Sonova Holding AG, the world's leading provider of hearing systems, announced half-year results for the period ending September 30, 2011. The Group generated sales of CHF 763.0 million in the first half of fiscal 2011/12, a decrease of 8.2% in reported Swiss francs compared to the previous year's period due to a negative currency impact of 16.5%. In local currencies, sales increased by 8.3% whereof organic growth contributed 4.2% and acquisition growth 4.1%. The hearing instruments segment, accounting for 95% of Group turnover, recorded a strong growth rate of 11.4% in local currencies. Consolidated operating profit (EBITA) was CHF 138.4 million or 18.1% of sales. Considering the negative currency impact on EBITA of CHF 53.2 million, EBITA at constant currencies would have been CHF 191.6 million, or 21.3% of sales.**

On a Group basis, Sonova generated sales of CHF 763.0 million in the first half of 2011/12, a decrease of 8.2% in the reporting currency, which corresponds to a sales growth in local currencies of 8.3% (+4.2% organic growth rate; +4.1% growth from acquisitions). This was offset by a negative currency impact of 16.5% due to the unprecedented strength of the Swiss franc against major currencies such as the Euro and the US dollar.

The reported gross margin stands at 68.4%. However, excluding a negative currency effect of 90 basis points, gross margin would have been at 69.3%, slightly lower compared to the first half of the prior fiscal year period (70.2%). This is due to a change in the geographic revenue mix in the hearing implants segment (i.e. only two weeks of sales in the USA during the reporting period due to the recall) as well as a change in customer mix in the hearing instruments segment.

Hearing instruments segment: strong organic growth

The hearing instruments segment generated sales of CHF 723.8 million in the first half of 2011/12, which represents a local currency growth rate of 11.4%, of which 7.0% was contributed by organic growth and 4.4% from acquisitions made in the previous year and in the reporting period. This positive development was offset by a negative currency impact of 16.9% during the reporting period. The strong organic sales increase, above the sales record set in the first half of 2010/11 and above the market growth estimate of 3 to 4%, is mainly the result of the success of the Phonak Spice platform products and Unitron ERA platform products. Sonova generated 80% of total sales in the hearing instruments segment from products that have been on the market for less than two years.

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Overall, the success of Spice and ERA-based products was seen in all regions. In the EMEA region, Sonova achieved growth of 11.3% in local currencies, driven by strong performances in France, Switzerland, the United Kingdom, and Italy.

The hearing instruments segment generated 11.9% growth in local currencies in the Americas region (including USA). Sales of hearing instruments were strong in the USA, where Phonak maintained its market share with the "Department of Veterans Affairs" (VA) while growing its share in the private market. In addition, Unitron performed very well in the private market given the success of its new ERA platform of products that were launched in June and July 2011 in this region. In the Asia/Pacific region, the segment grew 8.7% in local currencies, primarily as a result of further market share gains in Japan and a continued high market growth in China.

Once again, Sonova was able to strengthen its leading market position in the hearing instruments' market. Innovation continues to be a key objective and several new products have been introduced during the period under review. In October 2011, the Phonak Spice+ platform has been launched together with the introduction of three water resistant hearing devices under the Phonak brand (Phonak M H2O, Phonak Naida S CRT und Phonak Nios S H2O) as well as the smallest ever custom-device, Phonak nano. In addition, Sonova introduced Phonak ComPilot, the first accessory to offer the benefit of verbal alerts. Combined with the launch of the latest version of the Phonak fitting software, Target 2.0, these innovations are expected to further strengthen the competitive position of Phonak.

On the Era platform, Unitron introduced new products last April including Quantum and Moxi, which have been well received since then by customers. More recently, Unitron introduced new feature enhancements to its Quantum and Moxi product portfolio. In addition, a new 312 micro BTE is now available for Quantum, as well as a new remote control. All the Sona brand activities have been transferred into Unitron in order to make this innovative product and service concept available to more people worldwide.

The share of sales among instrument product groups remained more or less consistent year over year. Sales growth in local currency of first class and economy class hearing instruments was particularly strong, while sales in wireless communication systems remained flat compared to the prior year.

The hearing instruments segment achieved an EBITA of CHF 158.9 million, corresponding to an EBITA margin of 22.0%. Excluding the negative currency impact, EBITA was CHF 214.9 million, or 25.2%.

Hearing implants segment : successful market re-entry worldwide

The hearing implants segment recorded sales of CHF 39.2 million from cochlear implants and related accessories. The segment's results were impacted by a voluntary recall of its HiRes 90K cochlear implant in November 2010. Compared to the first half of 2010/11, during which the company was selling in all markets prior to the recall, revenues decreased by CHF 26.3 million, or –40.1%, of which –11.3% was due to currency impact.

In mid-April 2011, Advanced Bionics received CE mark approval from the European Notified Body (TÜV) to return to markets outside the USA and, in mid-September 2011, the company received approval from the US Food and Drug Administration (FDA) to resume selling the implant in the USA. Sales results, therefore, reflect the ramp-up in sales in countries outside the USA since mid-April 2011 and only two weeks of sales from the United States market.

Revenues in all regions outside of the USA, in local currencies, were roughly 10% below the prior year period due to the ramp-up in shipments since the mid-April 2011 approval. The main decrease in sales, compared to the first half of 2010/11, is due to the USA region which, as mentioned, only had two weeks of sales prior to end of the reporting period. Furthermore, Advanced Bionics has introduced an innovative new product, Neptune, the world's first sound processor suitable for swimming. This unique product is already approved in Canada and is awaiting approval from other regulatory bodies.

The hearing implants segment posted an EBITA of CHF –20.6 million due to the lower sales level as a result of the voluntary temporary product recall. The EBITA also reflects the continued high level of investment in R&D and distribution for Advanced Bionics as well as the one-time restructuring charges of CHF 3.9 million related to the closing of the Phonak Acoustic Implants' facility in Lonay, Switzerland. This decision was taken because the cochlear implant market is expected to provide significantly better mid-term opportunities for growth and profitability than the market for middle ear implant products.

Effective cost management

Spending on research and development (R&D) in the first half of 2011/12 amounted to CHF 58.6 million, or 7.7% of sales. Major R&D expenditures in the hearing instruments segment include the development of Spice+ and various new products introduced at the EUHA congress in October 2011, the next generation Lyric product and the next generation platform developments. In the hearing implants segment, R&D expenditures were focused on the new Neptune processor and the various new products under development.

Sales and marketing costs were CHF 237.1 million, or 31.1% of sales. In local currencies, these costs have increased by 17.0% over the first half of 2010/11, mainly due to acquisitions and the further expansion of the distribution network in both segments. As measured in constant currencies however, sales and marketing costs have decreased from the second half of 2010/11 levels, while sales have increased.

General and administrative expenses were consistent with the prior year level at CHF 83.9 million, or 11.0% of sales. A similar analysis on general and administration expenses (in constant currencies and excluding acquisitions) shows that these expenses have decreased substantially from the second half of 2010/11 levels. Other expenses include CHF 3.9 million of one-time restructuring charges following the decision to close the Phonak Acoustic Implants' facility in Lonay, Switzerland.

Operating profit before acquisition-related amortization and impairments (EBITA) was CHF 138.4 million, or 18.1% (previous year CHF 204.4 million or 24.6%), which includes a negative currency impact of CHF 53.2 million accounting for approximately 320 basis points on the EBITA margin.

Income after taxes, taking a one-time, non-cash impairment charge of CHF 4.9 million into account, was CHF 103.7 million compared to CHF 171.8 million in the previous year. The impairment charge relates to the write-off of remaining capitalized R&D costs incurred at the Phonak Acoustic Implants' facility. While operating profit was lower, financial expenses were also lower than in the previous period due to lower debt levels. Income taxes, as a percentage of income before taxes, increased slightly compared to 2010/11. Basic earnings per share amounted to CHF 1.56 compared to CHF 2.60 in the previous year. Cash-based basic earnings per share were CHF 1.73 (previous year CHF 2.71).

Investments in future growth
Cash flow from operating activities was CHF 112.3 million, lower than the CHF 151.4 million achieved in the previous year, primarily due to the lower operating income but offset by the improved net working capital. Cash outflow from investing activities declined during the reporting period from CHF 89.2 million in the previous year to CHF 64.9 million due primarily to lower capital expenditures. Capital expenditures in the reporting period were primarily related to the renovations at headquarters and machinery and equipment, whereas the higher level of capital expenditures last year related to the new high tech manufacturing facility. Cash funds of CHF 36.5 million were used for smaller acquisitions. Sonova's free cash flow in the first half of 2011/12 was CHF 47.3 million. Operating free cash flow (excluding acquisitions) amounted to CHF 83.8 million, compared to CHF 82.0 million in the previous year. Cash outflow from financing activities decreased to CHF 105.8 million from CHF 152.9 million in the previous year, primarily due to the timing of repayments of the bank loan to finance the acquisition of Advanced Bionics. Cash and cash equivalents as of September 30, 2011 were CHF 103.7 million, compared to CHF 165.1 million as of April 1, 2011.

High equity ratio
Capital employed remained stable at CHF 1,457.2 million in the first half of 2011/12 while net working capital was reduced to CHF 172.8 million as of September 30, 2011. Net debt was CHF 172.2 million, compared to CHF 111.3 million as of March 31, 2011 mainly due to the dividend distribution of CHF

79.9 million. The Group's equity amounted to CHF 1,285.0 million and the equity ratio (equity in % of total assets) remains solid at 61.7%.

Outlook for Full Year 2011/12

Sonova confirms its full year consolidated sales growth guidance of 8-10% in local currencies, which includes approximately 3% growth from acquisitions. Based on the current foreign exchange rates (most notably the EUR at 1.22 and the USD at 0.89), Sonova expects a negative currency impact on 2011/12 sales of approximately 13%. Sonova also confirms its original EBITA guidance of 20-21% which, when updated at current foreign exchange rates, is expected in the range of 19-20%. A five percent change in the USD/CHF exchange rate impacts sales and EBITA, on an annualized basis, by approximately CHF 30 million and CHF 10 million respectively. Similarly, a five percent change in the EUR/CHF exchange rate impacts sales and EBITA, on an annualized basis, by approximately CHF 25 million and CHF 15 million respectively.

Based on Sonova's strong market position, the comprehensive product portfolio and the global distribution footprint, the Group is confident to deliver solid results for 2011/12 and the future.

The Sonova Semi-Annual Report 2011/12 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	2011	2010[1]
Sales	763,001	831,524
change compared to previous year (%)	(8.2)	17.2
Gross profit	522,093	583,360
change compared to previous year (%)	(10.5)	18.5
in % of sales	68.4	70.2
Research and development costs	58,621	59,571
in % of sales	7.7	7.2
Sales and marketing costs	237,100	234,681
in % of sales	31.1	28.2
Operating profit before acquisition-related amortization and impairment (EBITA)	138,393	204,354
change compared to previous year (%)	(32.3)	5.5
in % of sales	18.1	24.6
Operating profit (EBIT)	123,113	194,230
change compared to previous year (%)	(36.6)	2.7
in % of sales	16.1	23.4
Income after taxes	103,740	171,802
change compared to previous year (%)	(39.6)	4.6
in % of sales	13.6	20.7
Number of employees (average)	7,856	7,094
change compared to previous year (%)	10.7	27.9
Number of employees (end of period)	8,000	7,210
change compared to previous year (%)	11.0	28.1
Net cash[2]	(172,193)	(143,241)
Net working capital[3]	172,830	202,445
in % of sales	22.7	24.3
Capital expenditure (tangible and intangible assets)[4]	36,595	56,128
Capital employed[5]	1,457,185	1,395,452
Total assets	2,081,015	2,220,752
Equity	1,284,992	1,252,211
Equity financing ratio (%)[6]	61.7	56.4
Free cash flow[7]	47,325	62,247
Operating free cash flow[8]	83,829	82,046
in % of sales	11.0	9.9
Return on capital employed (%)[9]	8.5	14.0
Return on equity (%)[10]	7.9	13.7
Basic earnings per share (CHF)	1.56	2.60
Diluted earnings per share (CHF)	1.55	2.58
Cash-based basic earnings per share (CHF)[11]	1.73	2.71

[1] Restated based on the finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 4).
[2] Cash and cash equivalents + other current financial assets (excl. 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 (excl. 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.

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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 clear 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 healthcare 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 a net profit of CHF 231 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.

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