sonova

SEMI-ANNUAL REPORT 2012/13

CUSTOMER DRIVEN INNOVATION

HIGHLIGHTS & KEY FIGURES

SONOVA GROUP KEY FIGURES

in CHF m unless otherwise specified	1H 2012/13	1H 2011/12	Change in %
Sales	872.4	763.0	14.3 %
EBITA	187.0	138.4	35.1 %
EBITA margin	21.4 %	18.1 %	
Basic earnings per share (CHF)[1]	2.24	1.56	43.6 %
Operating free cash flow[1]	127.1	83.8	51.6 %
ROCE last 12 months[1]	21.8 %	14.0 %	
Equity financing ratio[1]	67.1 %	61.7 %	

[1] For detailed definitions, please refer to "Key Figures".

Sales increase of 14.3 % to CHF 872.4 million during the reporting period

+5.9 % organic growth rate

+2.0 % growth from acquisitions

+6.4 % from positive currency impact

EBITA of CHF 187.0 million or 21.4 % of sales

+35.1 % in Swiss francs or +19.3 % in local currencies

Basic earning per share of CHF 2.24

HEARING INSTRUMENTS SEGMENT

+4.5 % growth in local currencies

+2.4 % organic growth:

Successful new products from Phonak and Unitron

Consolidating our market-leading position

+2.1 % growth from acquisitions

On-going product innovation:

80 % of hearing instruments sales with products launched in the last two years

COCHLEAR IMPLANTS SEGMENT

Strong rebound continues

+70.5 % growth in local currencies:

Strong interest in Neptune, the first sound processor suitable for swimming

EBITA break-even reached

LETTER TO SHAREHOLDERS

SEMI-ANNUAL REPORT 2012/13

WELL ON TRACK

– Sonova achieved a solid growth in both sales and earnings during the first half of the current business year with both segments meeting our expectations.

DEAR SHAREHOLDERS

We are pleased to report that the Sonova Group has been able to achieve strong financial results in the first half of fiscal 2012/13, both as reported in Swiss francs as well as in local currencies. Sales and EBITA in both segments – hearing instruments and cochlear implants – were in line with our expectations.

On a consolidated basis the Sonova Group generated revenues of CHF 872.4 million, an increase of 14.3 % in reported Swiss francs or 7.9 % in local currencies. Sonova achieved a gross profit margin of 68.9 %, an increase of 50 basis points. Reported operating profit (EBITA) rose by 35.1 % to CHF 187.0 million. Excluding the positive impact from the currency development, the EBITA rose by 19.3 %.

We continued to pursue our mission to be the recognized innovation leader in the global hearing care market. One key element of this was the introduction of the Phonak Quest hearing instrument platform. Coupled with the launch of other promising products in all of our businesses as well as the completion of some smaller acquisitions within our distribution activities, the Group further consolidated its leading position on the global hearing care market overall and is well positioned for future growth.

HEARING INSTRUMENTS SEGEMENT

The solid performance of our hearing instrument business in the period under review was driven by both our wholesale and retail businesses as well as by the launch of new products. In April 2012, we introduced a new performance level under the Phonak brand. Called the Essential line, the products offer state-of-the-art features at a very competitive price. The products were well received by the market and were an important contributor to the growth in the hearing instrument segment. At the same time, Unitron introduced its new premium products Quantum Pro and Moxi Pro, which supported the growth in our premium hearing instruments during the first half of fiscal 2012/13. We were also very encouraged in the uptake of the new generation Lyric, which increased the anatomical fit rate by 50 % due to its substantially reduced size.

Our focus continues to be on innovation. Launched at the International Congress of Hearing Aid Acousticians (EUHA) in October 2012, both the broad range of Phonak hearing instrument products based on our new Phonak Quest platform and the Unitron Flex product and service concept are a clear reflection of Sonova's fast pace of innovation. With the Phonak Quest platform we further leverage our unique Binaural VoiceStream Technology, presenting two new Phonak features Speech in Wind and auto StereoZoom. This brings Phonak's unmatched customer benefits of superb audiological performance to the next level by offering significantly improved speech understanding in life's most challenging listening situations. The Quest platform was introduced together with two new product families readily available at the Premium, Advanced and Standard performance levels: Phonak Bolero Q, our new complete Behind-The-Ear product line, and Phonak Virto Q, which includes all of our custom products. With the launch of the Unitron Flex product and service offering we combined the benefits of the original Sona concept with the best of Unitron. It allows hearing healthcare professionals to provide immediate amplification to clients at their first appointment. This is another decisive step towards positioning our Unitron brand as the recognized leader in customer service experience.

COCHLEAR IMPLANTS SEGMENT

The cochlear implants segment seamlessly continued on the strong growth path it had already embarked on in the second half of fiscal year 2011/12. Neptune, the world's first sound processor suitable for swimming was a strong contributor to the performance of the business. Benefitting from the partnership with Phonak, the business has an attractive pipeline full of innovative products. Pending regulatory approvals, a smaller sound processor and a new electrode design are scheduled for launch during calendar year 2013. In the first half of 2012/13, the hearing implants segment already achieved the break-even EBITA result projected for the current financial year – for the first time in its history.

GROUP MANAGEMENT

At the beginning of fiscal 2012/13 the Sonova Group further strengthened its management: Hartwig Grevener joined the Group as the new CFO effective August 1, 2012. Paul Thompson, who had held this position on an interim basis for more than a year, is now heading the sales and distribution organizations of the Phonak brand in North America. Claude Diversi, previously head of Phonak France, has been promoted to lead the Phonak sales and distribution organizations in Europe and South America. Franz Petermann took over as VP Channel Solutions replacing Alexander Zschokke, who had decided to leave the company. Our new management structure is committed and focused on executing the well-defined strategy of the Group.

CORPORATE GOVERNANCE

During the first half of fiscal 2012/13 the Group was able to close the two items still pending from the delayed profit warning in March 2011. The SIX Swiss Exchange ruled on July 10, 2012 that Sonova breached the provisions on ad hoc publicity of the Listing Rules. It found that the profit warning issued on March 16, 2011 should have been published already on March 4, 2011. Sonova was levied a fine in the amount of CHF 2.0 million. The Group accepted the decision even though Sonova does not agree with every aspect of the assessment and reasoning of the Sanction Commission. On October 5, 2012 Sonova also announced an out-of-court settlement with a defined set of investors represented by Deminor. This settlement related to purported claims raised by these investors in connection with the delayed profit warning. Sonova agreed to pay CHF 2.6 million in full settlement of all alleged claims without having acknowledged any legal obligation.

STRONG INVESTOR INTEREST

On September 27, 2012 we held our first Analyst and Investor Day which drew great interest from investors and analysts. More than 90 people attended the event at our headquarters in Staefa, Switzerland, and were presented with a comprehensive update of our strategy and our key initiatives, covering: our businesses, our areas of emphasis for R&D, new product pipelines and roll-out plans, go-to-market and retail strategies. In this context, we would also like to thank our shareholders for their trust, loyalty and great interest in Sonova.

We are convinced that Sonova is very well positioned to successfully implement the long-term strategy as communicated.

Robert Spoerry
Chairman of the Board
of Directors

Lukas Braunschweiler
CEO

FINANCIAL REVIEW

In the first half of the fiscal year 2012/13, Sonova generated sales of CHF 872.4 million, an increase of 14.3 % in reported Swiss francs or 7.9 % in local currencies. All businesses contributed to the top-line growth. Group EBITA rose by 35.1 % to CHF 187.0 million. Income after taxes rose by 43.8 % to CHF 149.2 million.

SOLID GROWTH IN SALES

Sales for the Sonova Group reached CHF 872.4 million during the first six months of fiscal year 2012/13, representing an increase of 14.3 % compared to the same period last year. For the first time in four years, currencies contributed positively adding CHF 49.0 million or 6.4 % to the reported sales growth. In local currencies, sales thus increased by 7.9 %. Organic growth contributed strongly by 5.9 % and growth from acquisitions accounted for 2.0 %. The cochlear implants segment performed very well and accounted for almost half of the growth in local currencies on a group level.

ALL MAJOR REGIONS CONTRIBUTING

The growth reported during the first half was broadly based across the globe. All major regions achieved strong increases in local currencies. In Europe, the hearing instruments segment achieved particularly solid growth in the UK and Spain. In both countries the increases are related to the successful execution of sales initiatives in all channels. On the other hand, the business in Switzerland was still affected by the reimbursement change in July 2011, which had led to a strong demand in the first half of 2011/12. We expect the market in Switzerland to normalize during the second half of this fiscal year. In addition, the hearing instrument markets in Italy and France were challenging, negatively affecting the growth and product mix in those two countries. Encouraging was the performance in Germany where we saw a stabilization in recent months, albeit driven predominantly by our advanced and standard hearing instruments.

Sales in the US were driven by the return of Advanced Bionics to the market in September 2011 as well as by a strong performance of the Unitron business. They were further helped by an encouraging uptake of the new generation Lyric following the launch in spring. Monthly trials of the new Lyric now exceed the levels achieved previously by the first generation product. Sonova also managed to successfully defend its high market share within the “Department of Veterans Affairs” (VA) during the period. In the Americas (excl. USA), we saw a strong performance in all key markets. In the Asia/Pacific region, sales rose by 9.7 % in local currencies, driven by solid growth in Australia, New Zealand and Japan.

STRONG MARGIN IMPROVEMENT

The reported gross profit margin for the period under review reached 68.9 %, 50 basis points over prior year, driven by positive currency effects. The solid gross profit margin improvement in the cochlear implants segment was offset by gradual adverse effects of mix changes in the hearing instruments segment relating to country, product and channel.

Research and development (R&D) expenses in the first half of 2012/13 amounted to CHF 56.5 million, or 6.5 % of sales. While it was slightly below last year’s level as well as the medium-term target range of 7 % – 8 %, this was mainly the result of the timing of certain external costs.

SALES BY REGIONS

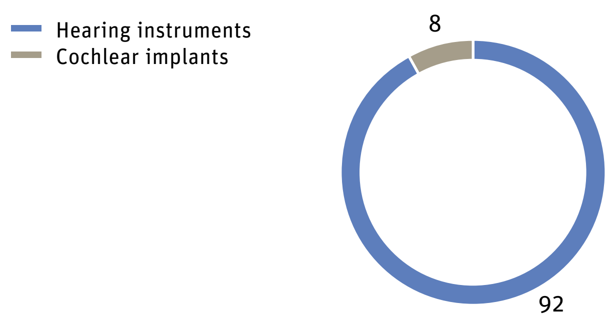
in CHF m	1H 2012/13			1H 2011/12	
	Sales	Share	Growth in local currencies	Sales	Share
EMEA (excl. Switzerland)	317	36 %	8.6 %	289	38 %
Switzerland	14	2 %	(32.9 %)	21	3 %
USA	339	39 %	9.2 %	277	36 %
Americas (excl. USA)	114	13 %	9.7 %	102	13 %
Asia/Pacific	88	10 %	9.7 %	74	10 %
Total sales	**872**	**100 %**	**7.9 %**	**763**	**100 %**

Sales and marketing costs reached CHF 266.5 million for the period. Though rising by 12.4 % in Swiss francs or 7.1 % in local currencies, they increased slower than sales. More than half of the rise in local currencies was attributable to acquisitions. As a percentage of sales, the reported costs dropped from 31.1 % to 30.5 %, contributing to the operating margin improvements in the first half of 2012/13. Despite the strong sales growth, general and administrative expenses rose by only 1.5 % in local currencies or 5.1 % in Swiss francs. Other expenses of CHF 2.6 million reflect the amount paid in connection with the announced out-of-court settlement with a group of investors represented by Deminor related to the delayed profit warning in March 2011. Last year, other expenses included one-time restructuring charges of CHF 3.9 million in connection with the closure of Phonak Acoustic Implants.

Total operating expenses rose by 3.4 % in local currencies or 7.8 % in Swiss francs, clearly below the sales growth. In summary, this resulted in an operating profit before acquisition-related amortization and impairments (EBITA) of CHF 187.0 million, or a margin of 21.4 %. This represents an increase of 35.1 % in Swiss francs or 19.3 % in local currencies. The favorable currency development thus contributed CHF 21.9 million to the reported EBITA or 130 basis points of the reported operating margin improvement of 330 basis points.

The operating profit (EBIT) rose by 41.6 % to CHF 174.4 million, reflecting the growth in EBITA but also an increase in acquisition-related amortization of CHF 2.2 million and considering that in the previous year, the company had taken a one-time impairment charge of CHF 4.9 million for previously capitalized development costs of Phonak Acoustic Implants. Net financial expenses dropped slightly, mostly due to the lower net debt level. For the Sonova Group, this resulted in income after taxes of CHF 149.2 million, up 43.8 % compared to the previous year. In the reporting period, basic earnings per share were CHF 2.24 compared to CHF 1.56 last year.

SALES BY SEGMENTS 1H 2012/13
in %



HEARING INSTRUMENTS SEGMENT: CONSOLIDATING OUR MARKET-LEADING POSITION

Sales in the hearing instruments segment reached CHF 801.2 million in the first half of 2012/13, which represents a growth rate of 4.5 % in local currencies. With an organic growth rate of 2.4 % the Group consolidated its market-leading position. On top of this, acquisitions made during the previous year as well as in the reporting period contributed 2.1 % to sales. The positive currency development added 6.2 % to the reported growth rate.

Growth within the hearing instruments segment was driven by both our wholesale and our retail businesses. Strong contributors to the positive development in the first half were the Phonak Essential range of products as well as the Unitron Quantum Pro and Moxi Pro products launched at the AudiologyNOW! congress in April 2012. Sonova generated 80 % of hearing instruments revenues with products that have been on the market for less than two years. Launched in October 2012, the broad range of products based on our new

SALES BY PRODUCT GROUPS

in CHF m			1H 2012/13		1H 2011/12
	Sales	Share	Growth in local currencies	Sales	Share
Premium hearing instruments	192	22 %	2.2 %	173	23 %
Advanced hearing instruments	212	24 %	9.8 %	174	23 %
Standard hearing instruments	240	28 %	0.9 %	233	31 %
Wireless communication systems	31	4 %	(14.4 %)	34	4 %
Miscellaneous	126	14 %	12.9 %	110	14 %
Total hearing instruments	**801**	**92 %**	**4.5 %**	**724**	**95 %**
Cochlear implants and accessories	71	8 %	70.5 %	39	5 %
Total sales	**872**	**100 %**	**7.9 %**	**763**	**100 %**

Phonak Quest platform as well as the Unitron Flex product and service concept will continue to fuel Sonova's fast pace of innovation.

While all three performance categories contributed to the growth within the hearing instruments segment, the advanced product category showed the strongest growth rate in the period under review. Sales of wireless communication systems continued to be under pressure as government austerity measures continue to affect school budgets. Sales of the miscellaneous product category grew by 12.9 % in local currencies, driven by higher service revenues.

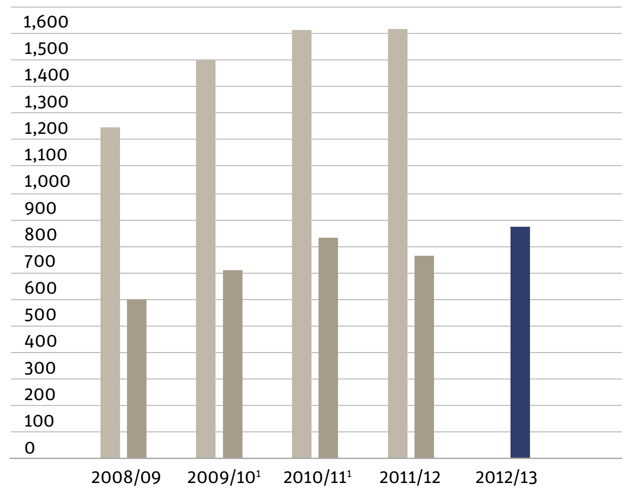
The hearing instruments segment achieved an EBITA of CHF 187.6 million equivalent to an EBITA margin of 23.4 %. EBITA was up 18.0 % in Swiss francs strongly helped by the favorable currency development. At constant currency the EBITA margin would have reached 22.0 %. A positive operating leverage from strict control of the operating costs was partly offset by the effects of the aforementioned effect of the change in the country, product and channel mix on the gross profit margin.

COCHLEAR IMPLANTS SEGMENT: STRONG REBOUND

Benefitting from a full six months of sales of its HiRes 90K implant following the approval from the US Food and Drug Administration (FDA) in September 2011, the cochlear implants segment showed strong growth in the period under review. Neptune, the world's first sound processor suitable for swimming, also contributed to the performance of the business. Sales rose by 81.8 % or 70.5 % in local currencies to CHF 71.3 million. Sales in both the United States and the EMEA region showed strong growth thus achieving a sequential increase in the absolute sales level compared to the second half of financial year 2011/12.

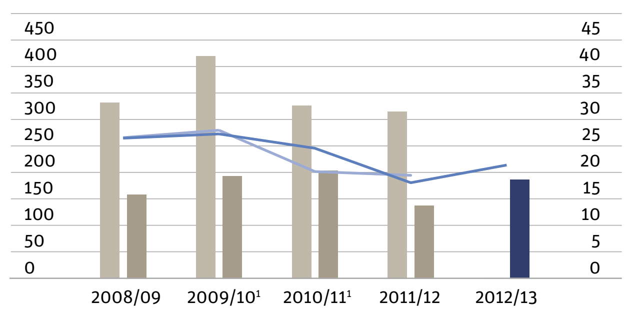
Helped by the higher sales level and despite the sustained high level of investment, the cochlear implants segment achieved break-even in the first half of 2012/13, posting an EBITA of CHF 2.0 million versus an EBITA loss CHF 20.6 million in the same period a year ago, which had also included one-time restructuring charges of CHF 3.9 million related to the closing of the Phonak Acoustic Implants activities.

SALES
in CHF m



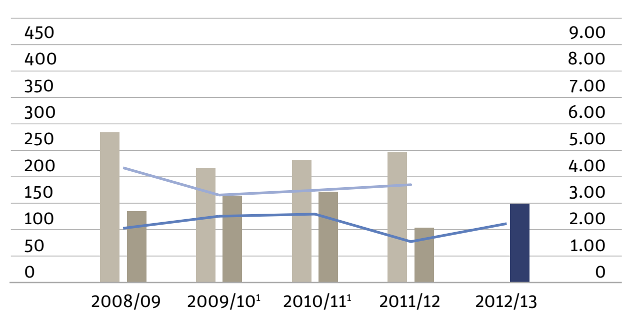
EBITA
in CHF m

EBITA
margin in %



INCOME AFTER TAXES
in CHF m

EPS in CHF



Financial year figures

Half-year figures

[1] Restated based on finalization of the acquisition accounting of Advanced Bionics.

SIGNIFICANT INCREASE IN CASH FLOW DESPITE HIGH INVESTMENTS FOR GROWTH

Helped by the strong growth in the income before taxes, the cash flow from operating activities rose by 48.9 % to CHF 167.1 million in the period under review. Net working capital increased from CHF 163.4 million in March 2012 to CHF 207.4 million in September 2012 due to higher inventory, partly related to the cochlear implants business preparing for delivery on a large government contract but also due to lower payables and an adverse currency impact. Investments in tangible and intangible assets reached CHF 43.3 million and rose by CHF 6.5 million, caused by higher capitalized development costs in the cochlear implants business. Thus the operating free cash flow increased by solid 51.6 % to CHF 127.1 million. The cash consideration for acquisitions was CHF 40.8 million, including earn-out payments for prior period acquisitions, and was up CHF 4.3 million over prior year. In summary, this resulted in a free cash flow of CHF 86.3 million up 82.4 % from last year.

Capital employed reached CHF 1,647 million after CHF 1,540 million in March 2012. The increase was due to the higher net working capital as well as currency impacts. The net debt position was at CHF 51.4 million, slightly down sequentially from the CHF 64.4 million in March 2012, despite the fact that Sonova paid out CHF 79.9 million to its shareholders, in the form of a distribution from the capital contribution reserve. The Group's equity amounted to CHF 1,596 million with the equity ratio rising from 64.5 % in March 2012 to 67.1 % in September 2012.

OUTLOOK 2012/13

Sonova continues to expect solid growth in sales and earnings in FY 2012/13, both in the hearing instruments and cochlear implants segment, reflecting the success of its current product and solution portfolio as well as its continued commitment to innovation. Sonova still sees overall full-year sales to grow in the range of 7 % – 9 % and EBITA in the range of 15 % – 20 % both measured at constant currencies.

Based on the current exchange rate environment the beneficial currency effects observed in the first half year can be expected to continue in the second half year, however likely on a more moderate level. A strengthening of the US dollar by 5% impacts sales of the fiscal year by approximately CHF +34 million and EBITA by approximately CHF +11 million. The corresponding effect of a stronger euro is CHF +25 million on sales and CHF +15 million on EBITA.

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.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2012

KEY FIGURES

April 1 to September 30, in 1,000 CHF unless otherwise specified	2012	2011
Sales	**872,434**	**763,001**
change compared to previous year (%)	14.3	(8.2)
Gross profit	**600,707**	**522,093**
change compared to previous year (%)	15.1	(10.5)
in % of sales	68.9	68.4
Research & development costs	**56,494**	**58,621**
in % of sales	6.5	7.7
Sales & marketing costs	**266,474**	**237,100**
in % of sales	30.5	31.1
Operating profit before acquisition-related amortization and impairment (EBITA)	**186,983**	**138,393**
change compared to previous year (%)	35.1	(32.3)
in % of sales	21.4	18.1
Operating profit (EBIT)	**174,377**	**123,113**
change compared to previous year (%)	41.6	(36.6)
in % of sales	20.0	16.1
Income after taxes	**149,186**	**103,740**
change compared to previous year (%)	43.8	(39.6)
in % of sales	17.1	13.6
Number of employees (average)	**8,494**	**7,856**
change compared to previous year (%)	8.1	10.7
Number of employees (end of period)	**8,741**	**8,000**
change compared to previous year (%)	9.3	11.0
Net cash[1]	**(51,353)**	**(172,193)**
Net working capital[2]	**207,411**	**172,830**
in % of sales	23.8	22.7
Capital expenditure (tangible and intangible assets)[3]	**43,241**	**36,595**
Capital employed[4]	**1,646,992**	**1,457,185**
Total assets	**2,377,239**	**2,081,015**
Equity	**1,595,639**	**1,284,992**
Equity financing ratio (%)[5]	**67.1**	**61.7**
Free cash flow[6]	**86,341**	**47,325**
Operating free cash flow[7]	**127,114**	**83,829**
in % of sales	14.6	11.0
Return on capital employed (%)[8]	**21.8**	**14.0**
Return on equity (%)[9]	**20.3**	**12.9**
Basic earnings per share (CHF)	**2.24**	**1.56**
Diluted earnings per share (CHF)	2.24	1.55
Cash-based basic earnings per share (CHF)[10]	2.37	1.73

1) Cash and cash equivalents + other current financial assets (without 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 (without 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 – cash consideration for acquisitions, net of cash acquired.
8) EBIT (last 12 months) in % of capital employed (average).
9) Income after taxes (last 12 months) in % of equity (average).
10) Excluding the amortization of acquisition-related intangibles, impairment and unwinding effect of the discount on acquisition-related earn-out payments, net of tax.

CONSOLIDATED INCOME STATEMENTS

April 1 to September 30, 1,000 CHF	2012	2011
Sales	**872,434**	**763,001**
Cost of sales	(271,727)	(240,908)
Gross profit	**600,707**	**522,093**
Research and development	(56,494)	(58,621)
Sales and marketing	(266,474)	(237,100)
General and administration	(88,159)	(83,883)
Other expenses, net	(2,597)	(4,096)
Operating profit before acquisition-related amortization and impairment (EBITA)[1]	**186,983**	**138,393**
Acquisition-related amortization	(12,606)	(10,402)
Impairment		(4,878)
Operating profit (EBIT)[2]	**174,377**	**123,113**
Financial income	1,134	1,458
Financial expenses	(4,263)	(5,175)
Share of profit in associates/joint ventures	1,022	220
Income before taxes	**172,270**	**119,616**
Income taxes	(23,084)	(15,876)
Income after taxes	**149,186**	**103,740**
Attributable to:		
Equity holders of the parent	149,275	103,413
Non-controlling interests	(89)	327
Basic earnings per share (CHF)	2.24	1.56
Diluted earnings per share (CHF)	2.24	1.55

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

The Notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

April 1 to September 30, 1,000 CHF	2012	2011
Income after taxes	**149,186**	**103,740**
Actuarial loss from defined benefit plans, net	(5,420)	(21,360)
Tax effect on actuarial loss from defined benefit plans	731	2,972
Fair value adjustment on cash flow hedges	300	(8,487)
Currency translation differences	44,139	(62,992)
Tax effect on currency translation items	(1,708)	3,029
Other comprehensive income	**38,042**	**(86,838)**
Total comprehensive income	**187,228**	**16,902**
Attributable to:		
Equity holders of the parent	187,240	16,483
Non-controlling interests	(12)	419

The Notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Assets 1,000 CHF	30.9.2012	31.3.2012	30.9.2011
Cash and cash equivalents	200,434	191,938	103,736
Other current financial assets	5,367	6,801	7,384
Trade receivables	336,413	339,419	312,088
Current income tax receivables	7,493	13,658	8,591
Other receivables and prepaid expenses	61,690	52,003	54,980
Inventories	175,942	164,303	157,641
Total current assets	**787,339**	**768,122**	**644,420**
Property, plant & equipment	247,723	242,490	233,147
Intangible assets	1,182,495	1,120,590	1,044,905
Investments in associates/joint ventures	16,919	15,668	19,032
Other non-current financial assets	41,110	42,312	49,939
Deferred tax assets	101,653	98,020	89,572
Total non-current assets	**1,589,900**	**1,519,080**	**1,436,595**
Total assets	**2,377,239**	**2,287,202**	**2,081,015**

Liabilities and equity 1,000 CHF	30.9.2012	31.3.2012	30.9.2011
Short-term debts	66	176	20,638
Trade payables	52,560	69,533	56,264
Current income tax liabilities	55,648	72,934	44,376
Other current financial liabilities	8,328	16,070	17,671
Other short-term liabilities	190,230	177,303	162,903
Short-term provisions	80,895	91,561	102,858
Total current liabilities	**387,727**	**427,577**	**404,710**
Non-current financial liabilities	243,554	241,559	239,073
Long-term provisions	81,113	79,051	78,284
Other long-term liabilities	39,780	33,694	41,706
Deferred tax liabilities	29,426	29,443	32,250
Total non-current liabilities	**393,873**	**383,747**	**391,313**
Total liabilities	**781,600**	**811,324**	**796,023**
Share capital	3,334	3,329	3,326
Treasury shares	7,568	2,733	2,813
Retained earnings and other reserves	1,583,198	1,468,063	1,275,828
Equity attributable to equity holders of the parent	**1,594,100**	**1,474,125**	**1,281,967**
Non-controlling interests	1,539	1,753	3,025
Equity	**1,595,639**	**1,475,878**	**1,284,992**
Total liabilities and equity	**2,377,239**	**2,287,202**	**2,081,015**

The Notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

April 1 to September 30, 1,000 CHF		2012		2011
Income before taxes		**172,270**		**119,616**
Depreciation, amortization and impairment of tangible and intangible assets	39,351		39,835	
Loss/(gain) on sale of tangible and intangible assets, net	121		(62)	
Share of gain in associates/joint ventures	(1,022)		(220)	
Decrease in long-term provisions	(243)		(4,357)	
Financial expenses, net	3,129		3,717	
Unrealized exchange differences	(3,152)		1,660	
Share based payments	8,411		9,640	
Other non-cash items	(373)	46,222	(164)	50,049
Cash flow before changes in net working capital		**218,492**		**169,665**
Decrease/(increase) in trade receivables	8,979		(7,699)	
Increase in other receivables and prepaid expenses	(6,721)		(3,412)	
(Increase)/decrease in inventories	(8,873)		5,624	
Decrease in trade payables	(18,557)		(8,367)	
Increase/(decrease) in other payables, accruals and short-term provisions	9,270		(6,417)	
Income taxes paid	(35,478)	(51,380)	(37,133)	(57,404)
Cash flow from operating activities		**167,112**		**112,261**
Investments in tangible and intangible assets	(43,290)		(36,808)	
Proceeds from sale of tangible and intangible assets	284		398	
Cash consideration for acquisitions, net of cash acquired	(40,773)		(36,504)	
Decrease in other financial assets	2,164		6,844	
Interest received and realized gain from financial assets	844		1,134	
Cash flow from investing activities		**(80,771)**		**(64,936)**
Free cash flow		**86,341**		**47,325**
Increase/(decrease) in borrowings	494		(20,577)	
Proceeds from capital increases	9,226			
(Purchase)/sale of treasury shares, net	(1,095)		(445)	
Dividends paid	(79,888)		(79,891)	
Changes in non-controlling interests	(4,680)		(1,368)	
Interest paid and other financial expenses	(3,306)		(3,497)	
Cash flow from financing activities		**(79,249)**		**(105,778)**
Exchange gains/(losses) on cash and cash equivalents		1,404		(2,944)
Increase/(decrease) in cash and cash equivalents		**8,496**		**(61,397)**
Cash and cash equivalents at April 1		191,938		165,133
Cash and cash equivalents at September 30		**200,434**		**103,736**

The Notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED CHANGES IN EQUITY

1,000 CHF

	Attributable to equity holders of Sonova Holding AG						
	Share capital	Retained earnings and reserves	Translation adjustment	Treasury shares	Hedge reserve	Non-controlling interests	Total equity
Balance April 1, 2011	**3,326**	**1,529,557**	**(193,177)**	**1,653[1)]**	**(1,861)**	**5,214**	**1,344,712**
Income for the period		103,413				327	103,740
Actuarial loss from defined benefit plans, net		(21,360)					(21,360)
Tax effect on actuarial loss		2,972					2,972
Fair value adjustment on cash flow hedges					(8,487)		(8,487)
Currency translation differences			(63,084)			92	(62,992)
Tax effect on currency translation			3,029				3,029
Total comprehensive income		**85,025**	**(60,055)**		**(8,487)**	**419**	**16,902**
Changes in non-controlling interests		(3,893)				(2,487)	(6,380)
Share-based payments		9,015				15	9,030
Sale/transfer of treasury shares		(541)		1,605			1,064
Purchase of treasury shares				(445)			(445)
Dividend paid		(79,755)				(136)	(79,891)
Balance September 30, 2011	**3,326**	**1,539,408**	**(253,232)**	**2,813[1)]**	**(10,348)**	**3,025**	**1,284,992**
Balance April 1, 2012	**3,329**	**1,710,080**	**(233,551)**	**2,733[1)]**	**(8,466)**	**1,753**	**1,475,878**
Income for the period		149,275				(89)	149,186
Actuarial loss from defined benefit plans, net		(5,420)					(5,420)
Tax effect on actuarial loss		731					731
Fair value adjustment on cash flow hedges					300		300
Currency translation differences			44,062			77	44,139
Tax effect on currency translation			(1,708)				(1,708)
Total comprehensive income		**144,586**	**42,354**		**300**	**(12)**	**187,228**
Changes in non-controlling interests		(4,185)				(202)	(4,387)
Capital increase from conditional capital	5	9,221					9,226
Share-based payments		2,907					2,907
Sale/transfer of treasury shares		(160)		5,930			5,770
Purchase of treasury shares				(1,095)			(1,095)
Dividend paid		(79,888)					(79,888)
Balance September 30, 2012	**3,334**	**1,782,561**	**(191,197)**	**7,568[1)]**	**(8,166)**	**1,539**	**1,595,639**

1) Includes derivative financial instruments on treasury shares.

The Notes are an integral part of the interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2012

1. CORPORATE INFORMATION

The Sonova Group (the "Group") specializes in the design, development, manufacture, worldwide distribution and service 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 Group operates in industries where no material seasonal or cyclical variations in sales have been experienced. The ultimate parent company is Sonova Holding AG, a limited liability company incorporated in Switzerland. Sonova Holding AG's registered office is located at Laubisrütistrasse 28, 8712 Stäfa, Switzerland.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These unaudited financial statements are the interim consolidated financial statements of Sonova Holding AG and its subsidiaries for the six month period ended September 30, 2012. These financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the consolidated financial statements for the year ended March 31, 2012. The interim consolidated financial statements were approved by the Board of Directors on November 7, 2012.

The following new standards, interpretations, and amendments have been adopted as of April 1, 2012 without having a significant impact on the Group's result and financial position:

– IAS 12 (Amendments) "Deferred Tax: Recovery of Underlying Assets"
– IFRS 1 (Amendments) "Severe hyperinflation and removal of fixed dates for first-time adopters"
– IFRS 7 (Amendments) "Disclosures – Transfers of Financial Assets"

Although the Group is still assessing the potential impacts of the various new and revised standards and interpretations that will be effective for the financial years starting April 1, 2013 and beyond, except for the changes in relation to IAS 19 (refer below) the Group does not expect a significant impact on the Group's result and financial position.

– IAS 19 (Revised) "Employee benefits" (effective for the Group as of April 1, 2013)

Among other items the revised standard requires that the previously separately calculated interest costs and the expected return on plan assets will be replaced by a single net interest component calculated by applying the discount rate to the net defined benefit asset or liability. This change of policy will lead to higher employee benefit costs of the Group (if this concept had been adopted by the Group in the financial year 2012/13 it is estimated that the employee benefit costs for the first six months would have been CHF 1.2 million higher).

The preparation of financial statements requires management to make assumptions and estimates that affect the amounts reported for assets and liabilities at the date of the financial statements as well as revenue and expenses reported. Actual results could differ from these estimates.

Income tax expense is recognized based upon the best estimate of the average annual income tax rate expected for the full year.

From the total of CHF 12.6 million acquisition-related amortization costs (prior year CHF 10.4 million), CHF 2.0 million (prior year CHF 1.9 million) relate to research and development and CHF 10.6 million (prior year CHF 8.5 million) relate to sales and marketing.

As of September 30, 2012 the actuarial valuations for the main pension plans were updated. While most parameters for the calculation remained unchanged, the discount rate for Swiss pension plans was decreased from 2.75% to 2.4% compared to March 31, 2012.

3. SIGNIFICANT EVENTS AND TRANSACTIONS

The SIX Swiss Exchange ruled on July 10, 2012 that Sonova breached the provisions on ad hoc publicity of the Listing Rules. It found that the profit warning issued in March 2011 should have been published earlier. Sonova was levied a fine in the amount of CHF 2.0 million. The Group accepted the decision even though Sonova did not agree with every aspect of the assessment and reasoning of the Sanction Commission. The relevant provisions were booked in the financial year 2010/11. These provisions were used in the current reporting period.

As of October 5, 2012 the Group announced an out-of-court settlement with investors represented by Deminor. The settlement related to purported claims raised by these investors in connection with the profit warning on March 16, 2011. Under the terms of the agreement, Sonova agreed to pay CHF 2.6 million in full settlement of all alleged claims without acknowledging any legal obligation. In the interim financial statements for the six month period ended September 30, 2012, this settlement has been considered and the related costs are included in the income statement 2012 in the line "Other expenses, net".

As of September 13, 2011 the Group announced the immediate market re-entry of the Advanced Bionics HiRes 90K cochlear implant in the United States after a voluntary recall of the product in November 2010. In preceding months, Advanced Bionics received approval from several other regulatory bodies, including Health Canada and the European Notified Body (TÜV), to resume distribution of the HiRes 90K cochlear implant to Canada and countries accepting the CE Mark. With the approval of the Food and Drug Administration (FDA) as of September 13, 2011, Advanced Bionics could resume distribution in the United States and re-enter all markets worldwide.

As part of the further consolidation of the Medical Division of Sonova, as of September 30, 2011 the Group announced the closure of the Phonak Acoustic Implants site in Lonay, Switzerland, which employed 26 people working on the middle ear implant Ingenia. The Ingenia device was still in the development stage, did not have the CE certification or FDA approval, and was not yet commercially available. As a result of the communicated restructuring a provision in the amount of CHF 2.6 million was set up and fixed assets in the amount of CHF 1.3 million were written off. These costs are included in the income statement 2011 in the line "Other expenses, net". In addition a write-off of CHF 4.9 million of previously capitalized development costs was recorded and is included in the income statement 2011 in the line "Impairment".

4. CHANGES IN GROUP STRUCTURE

During the first six months of the financial year 2012/13, as well as in the prior period 2011/12, several small companies were acquired in Europe, Asia/Pacific and North America.

All of the acquired companies are engaged in the business of selling hearing instruments and have been accounted for applying the purchase method of accounting. Incremental assets and liabilities resulting from the acquisitions look as follows:

1,000 CHF	2012	2011
Trade receivables	244	795
Other current assets	639	2,805
Property, plant & equipment	999	947
Intangible assets	8,530	15,700
Other non-current assets	1,285	688
Current liabilities	(735)	(6,375)
Non-current liabilities	(1,877)	(4,584)
Net assets	**9,085**	**9,976**
Goodwill	19,686	28,959
Purchase consideration	**28,771**	**38,935**
Liabilities for earn-outs or holdbacks[1]	(4,371)	(1,252)
Cash consideration	**24,400**	**37,683**
Cash and cash equivalents acquired	(356)	(1,179)
Cash consideration, net of cash acquired	**24,044**	**36,504**
Cash outflow for investments in associates, non-controlling interests and earn-out payments	16,729	
Total cash outflow from acquisitions	**40,773**	**36,504**

[1] Earn-out payments are dependent on the future performance of the acquired companies and the liability for earn-outs is based on the latest estimate of the future performance.

The above reflects the initial accounting for the acquisitions in the current financial year, and is provisional. The results of the final valuation and purchase price allocation is still outstanding and is therefore still subject to changes. The goodwill is attributed mainly to expected synergies, the labor force and the favorable growth potential. Generally, the goodwill is not amortizable for tax purposes. Acquisition-related costs in the amount of CHF 0.2 million (prior year period CHF 0.2 million) have been expensed and are included in the line "General and administration".

April 1 to September 30, 1,000 CHF	2012	2011
Contribution of acquired companies from date of acquisition		
Sales	3,338	4,977
Net income	71	243
Contribution, if the acquisitions occurred on April 1		
Sales	5,732	6,438
Net income	11	584

5. SEGMENT INFORMATION

The Group is active in two business segments, hearing instruments and cochlear implants. The segment information for the first six months of the financial years 2012/13 and 2011/12 is as follows:

1,000 CHF	2012	2011	2012	2011	2012	2011	2012	2011
	Hearing instruments		Cochlear implants		Corporate/ Eliminations		Total	
Segment sales	801,194	723,830	71,324	39,265			872,518	763,095
Intersegment sales	(41)	(35)	(43)	(59)			(84)	(94)
Sales	**801,153**	**723,795**	**71,281**	**39,206**			**872,434**	**763,001**
Operating profit before acquisition-related amortization and impairment (EBITA)	**187,556**	**158,946**	**2,027**	**(20,553)**	**(2,600)**[2]		**186,983**	**138,393**
Segment assets	**2,063,510**	**1,889,909**	**494,212**	**430,047**	**(499,650)**	**(452,734)**	**2,058,072**	**1,867,222**
Unallocated assets[1]							319,167	213,793
Total assets							**2,377,239**	**2,081,015**

[1] Unallocated assets include cash and cash equivalents, other current financial assets (excluding loans), investments in associates/joint ventures, employee benefit assets and deferred tax assets.
[2] Relates to the out-of-court settlement with investors represented by Deminor (refer Note 3).

Reconciliation of reportable segment profit 1,000 CHF	2012	2011
EBITA (as per segment reporting)	186,983	138,393
Acquisition-related amortization	(12,606)	(10,402)
Impairment[1]		(4,878)
Financial costs, net	(3,129)	(3,717)
Share of gain in associates/joint ventures	1,022	220
Income before taxes	**172,270**	**119,616**

[1] Impairment in the financial year 2011 relates to the segment "Cochlear implants".

6. 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.

Basic earnings per share	2012	2011
Income after taxes (1,000 CHF)	149,275	103,413
Weighted average number of outstanding shares	66,571,033	66,467,943
Basic earnings per share (CHF)	**2.24**	**1.56**

In the case of diluted earnings per share, the weighted average number of shares outstanding is adjusted for all outstanding dilutive options. The weighted average number of shares is adjusted for all dilutive options issued under the stock option plans which have been granted in 2007 through 2012 and which have not yet been exercised. Non-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 used in calculating basic earnings per share.

Diluted earnings per share	2012	2011
Income after taxes (1,000 CHF)	149,275	103,413
Weighted average number of outstanding shares	66,571,033	66,467,943
Adjustment for dilutive share options	108,269	103,365
Adjusted weighted average number of outstanding shares	66,679,302	66,571,308
Diluted earnings per share (CHF)	**2.24**	**1.55**

7. CONTINGENCIES AND BANK DEBTS

There have been no material changes in contingent liabilities since March 31, 2012.

As of September 30, 2012, out of the total bank debts of CHF 470 million granted in connection with the acquisition of Advanced Bionics in December 2009, CHF 230 million were still outstanding. In the six month period ending September 30, 2012 there have been no repayments (repayments in the six month period ending September 30, 2011 amounted to CHF 20 million).

8. MOVEMENTS IN SHARE CAPITAL

The Annual General Shareholders' Meeting of June 19, 2012 resolved a distribution of CHF 1.20 per registered share for the financial year 2011/12. The distribution was paid in June 2012 to all shares outstanding, excluding treasury shares.

Issued registered shares	Issued registered shares	Treasury shares[1]	Outstanding shares
Balance April 1, 2011	**66,514,393**	**(47,060)**	**66,467,333**
Purchase of treasury shares		(5,503)	(5,503)
Sale/transfer of treasury shares[2]		13,975	13,975
Balance September 30, 2011	**66,514,393**	**(38,588)**	**66,475,805**
Balance April 1, 2012	**66,574,333**	**(39,782)**	**66,534,551**
Issue of new shares from conditional capital[3]	97,648		97,648
Purchase of treasury shares		(11,352)	(11,352)
Sale/transfer of treasury shares[2]		49,789	49,789
Balance September 30, 2012	**66,671,981**	**(1,345)**	**66,670,636**

Each share has a nominal value of CHF 0.05.

[1] Treasury shares are purchased on the open market and are not entitled to dividends.

[2] Mainly in connection with the employee share option plan.

[3] Created for the purpose of the employee share option plan.

9. SUBSEQUENT EVENTS

As of October 5, 2012 the Group announced an out-of-court settlement with investors represented by Deminor. For more information refer to Note 3, "Significant Events and Transactions".

As of October 10, 2012 the Group announced that it is exploring a potential reorganization of Advanced Bionics Sàrl in Rixheim France, which at that time employed 47 staff. The potential reorganization of the implant business in France aims to ensure competitiveness and further improve the service for its European customers by expanding its presence locally. In this context Sonova has initiated a consultation process with the works council. At this stage it is not possible to assess the financial impact in relation to the reorganization.

Disclaimer
This semi-annual report may contain forward-looking statements which offer no guarantee with regard to future performance. These statements are made on the basis of management's views and assumptions regarding future events and business performance at the time the statements are made. They are subject to risks and uncertainties including, but not confined to, future global economic conditions, exchange rates, legal provisions, market conditions, activities by competitors and other factors outside the company's control.

About Sonova
Sonova Holding AG, headquartered in Staefa, Switzerland, is the leading manufacturer of innovative hearing care solutions. The group operates through its three core business brands Phonak, Unitron, Advanced Bionics. Sonova develops and distributes advanced hearing care solutions such as hearing instruments, cochlear implants, wireless communication systems for audiological applications as well as professional solutions for hearing protection. With the most extensive product portfolio and the highest R&D investment in the industry, Sonova aims to be the recognized innovation leader in the global hearing care market.

Present across the globe in over 90 countries, and with a workforce of over 8,000 dedicated employees, Sonova generated sales of CHF 1,62 billion in the financial year 2011/12 and a net profit of CHF 246 million. A focused corporate strategy drives Sonova sustainably further in a growing and still significantly under-penetrated market. Founded in 1947, the company has been devoted to promoting better understanding and communication for over 65 years, thus considerably improving people's hearing ability and speech intelligibility and thereby their quality of life.

For more information please visit www.sonova.com.

Sonova shares (ticker symbol:SOON) have been listed on the SIX Swiss Exchange since 1994. The securities of Sonova have not been and will not be registered under the U.S. Securities Act and may not be offered or sold in the United States of America except pursuant to an exemption from the registration requirements under the U.S. Securities Act, or outside the United States of America in reliance on Regulation S under the U.S. Securities Act.

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Sonova Holding AG
Laubisrütistrasse 28
8712 Stäfa
Switzerland
Phone + 41 58 928 33 33
Fax + 41 58 928 33 99
E-mail ir@sonova.com
Internet www.sonova.com

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