



Shareholder Letter

*To all shareholders
of Sonova Holding AG*

21 May 2013

Dear Shareholders,

We are happy to report that Sonova's strategy, focused on profitable growth businesses and market-leading innovation, delivered strong progress in 2012/13. The company demonstrated that it is on track to meet its mid-term goals. Both the hearing instruments and the cochlear implants segments contributed to yet another sales record. As a result, Sonova achieved strong growth in earnings and cash flows, and a substantial expansion of margins on a normalized basis.

Our hearing instruments business once again proved its innovation strength in the high share of sales generated by products introduced within the previous two years. This applied across our whole product portfolio and to both our Phonak and Unitron hearing instrument brands.

Our cochlear implants business benefited from the complementary strengths of the Advanced Bionics and Phonak R&D teams. Their shared efforts were amply demonstrated in the development of a number of new products. The business delivered strong growth both in sales and profitability and for the first time surpassed break-even for normalized EBITA. Unfortunately, the reported result was burdened by a one-time product liability provision increase related to a voluntary recall by Advanced Bionics in 2006, well before Sonova acquired the company.

During the financial year, we have further strengthened and expanded Sonova's management team, dividing our international sales organization into three regions to improve our focus on local markets. In addition, several new members were nominated to the Management Board to reflect the significance of Sonova's growth strategy across all businesses.

Furthermore, we lived up to our commitment to corporate social responsibility (CSR), by appointing a dedicated senior CSR manager and for the first time publishing a separate report describing our CSR activities.

For further details on the financial year 2012/13, please refer to the media release and the detailed Sonova Annual Report. You can access the Annual Report on our website, www.sonova.com, or request a printed copy using the reply form enclosed.

We would like to take this opportunity to express a sincere thanks to you, our shareholders, for the continued support that lets us plan for the long term.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'R. Spoerry', with a stylized flourish at the end.

Robert Spoerry

Chairman of the Board of Directors

MEDIA RELEASE

SONOVA ON COURSE – FURTHER GROWTH IN SALES AND EARNINGS

- 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*

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.

* 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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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.

Sonova shares (ticker symbol: SOON, Security no: 1254978, ISIN: CH1012549785) 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 of 1933, as amended \(the „U.S. Securities Act“\), or under the applicable securities laws of any state of the United States of America, 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 and in compliance with applicable state securities laws, or outside the United States of America to non-U.S. Persons in reliance on Regulation S under the U.S. Securities Act.](#)

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
Distribution per share (CHF)	1.60¹¹⁾	1.60¹¹⁾	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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