sonova

ANNUAL REPORT 2009/10

Guess what brings us together

THE HEARING HEALTHCARE COMPANY

THE HEARING HEALTHCARE COMPANY

Sonova stands for innovative hearing healthcare solutions. As the world's leading provider of hearing systems, the market leader in wireless communication systems for audiology applications and as a developer and manufacturer of state-of-the-art cochlear implants and professional solutions for hearing protection, Sonova offers a comprehensive range of products for better hearing. Sonova provides technologically advanced hearing systems under different brands for almost all types and degrees of hearing loss – from mild to deafness.

The testimonials in this annual report bear witness to the effectiveness of these individual products: Sonova customers explain which hearing solution from the comprehensive Sonova portfolio they use, and what personal benefits it gives them in their day-to-day lives.

Hearing instruments

PHONAK life is on   unitron   Lyric   sona:

Hearing implants

AB   Acoustic IMPLANTS

Highlights & Key Figures >

HIGHLIGHTS & KEY FIGURES

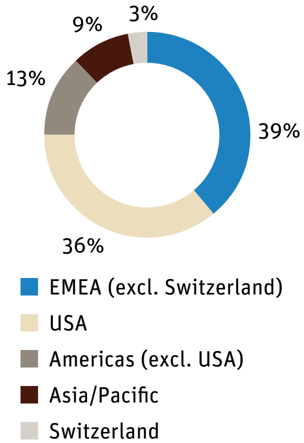
- New sales record of CHF 1,500 million – the Sonova Group increased its sales by 20.1% in Swiss francs
- Organic sales growth of 18.4% significantly exceeded hearing instrument market growth
- Increase of EBITA margin to 28.0% from 26.6%
- Higher income after taxes of CHF 355 million – an increase of 24.9%
- Strategic expansion into the cochlear implant business – the Sonova Group acquired Advanced Bionics
- Acquisition of Lyric, the first 100% invisible extended-wear hearing system
- Sonova launched the new hearing instrument brand Sona featuring a novel service concept
- Sonova is innovation leader: newest and most comprehensive product portfolio in the hearing instrument industry with Exélia Art, Audéo MINI & SMART and Fuse setting new technology benchmarks
- Sonova is the first global hearing healthcare company with a strong worldwide presence in hearing instruments and hearing implants

Sonova Group key figures:

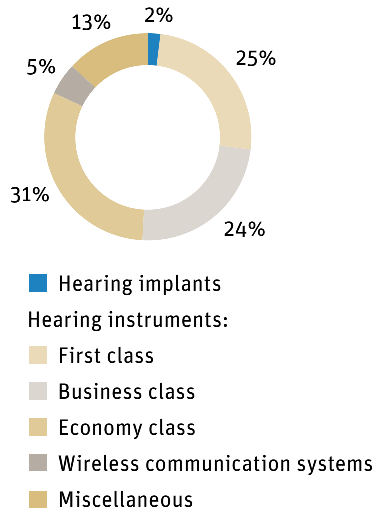
in CHF m unless otherwise specified	2009/10	2008/09	Change in %
Sales	1,500.3	1,249.2	20.1 %
EBITA	420.1	331.8	26.6 %
EBITA margin	28.0 %	26.6 %	
Cash-based basic earnings per share (CHF) [1]	5.602	4.433	26.4 %
Operating free cash flow [1]	324.8	176.3	84.2 %
ROCE [1]	34.9 %	46.2 %	
ROE [1]	29.1 %	29.2 %	

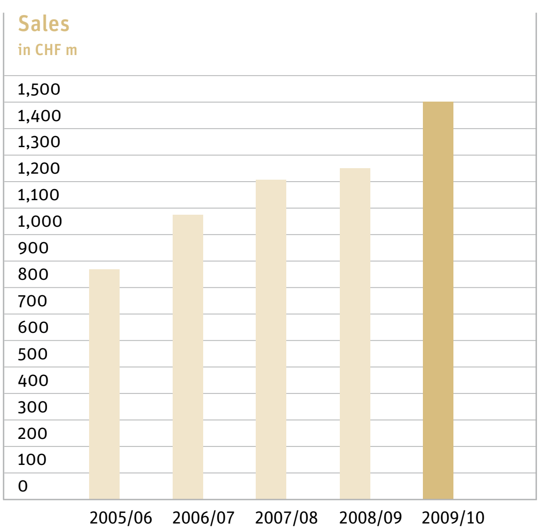
[1] For detailed definitions, please refer to "5 Year Key Figures".

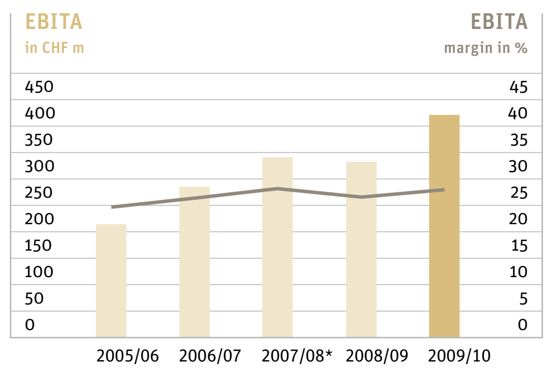
Sales by regions 2009/10

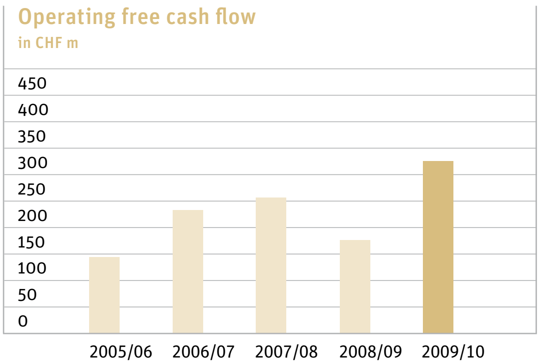


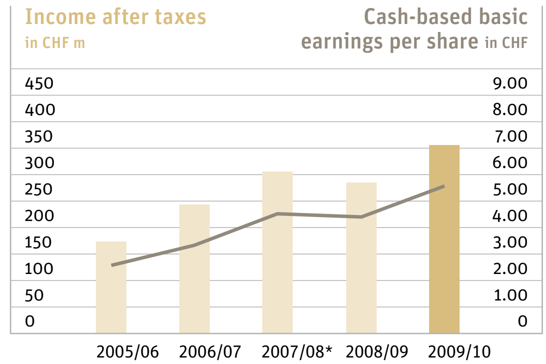
Sales by product groups 2009/10











* Excluding one-off costs for the prohibited acquisition of the GN ReSound Group.

CONTENT

ANOTHER RECORD YEAR

"As the innovation and technology leader, we are continuously improving the performance of our hearing systems, making it possible for more and more people with hearing loss to regain substantial quality of life."

Andy Rihs

We are very pleased to report that the Sonova Group had an outstanding performance in the past financial year with organic growth of 18.4% in local currencies, significantly outpacing market growth. Initially, the financial year 2009/10 was affected by the repercussions from the global financial and economic crisis. Despite this weaker economic environment, Sonova achieved above-average growth. The Group's excellent performance in the past year and the outstanding future prospects for our business are also reflected in its positive share price development. Sonova's current positioning forms an excellent basis for guaranteeing above-average growth in the future, and for further expanding its technology leadership.

As the economic environment began to recover, the entire industry experienced increased demand for hearing instruments. We estimate unit sales growth for 2009 to have been approximately 4%. This is in line with our long-term forecast, which assumes worldwide growth of around 4 – 7% per year. We achieved sales revenue of CHF 1.5 billion and are reporting an increase of 20.1% in Swiss francs for financial year 2009/10. This achievement was supported not only by the strong organic growth cited above but also by two major acquisitions – Advanced Bionics and InSound Medical. Adding also other smaller acquisitions of hearing system distributors, the Group attained an acquisition growth of 5.4%.

With this result we have again demonstrated our competitive strength and attained our goal of providing hearing solutions to an increasing number of people, thereby improving their quality of life.

We also achieved an encouraging rise in profitability over the previous year, with an EBITA margin of 28.0%. In spite of negative currency effects and additional investments in new business areas, which impacted this reported result, the Sonova Group is one of the most successful companies in the industry and is in excellent shape for the future. We also concentrated on optimizing our cost base in financial year 2009/10 in order to create a sustainable foundation for continuously increasing efficiency and profitability.

Andy Rihs, Chairman of the Board of Directors
Dr. Valentin Chapero Rueda, CEO

Our newly launched products, which have been received very well by hearing specialists and end customers, have played a big role in these positive results. Last financial year, we generated 77% of sales with products that are younger than two years. Phonak's hearing solutions based on the CORE platform have been a remarkable success and are setting new performance standards in the industry. Unitron also sustained its market position with Fuse, the standardized in-the-ear device, and with its markedly updated product portfolio. First class products were again in demand, and sales in local currencies grew 21% compared with the previous year. The strong sales growth in the business class (27% in local currencies) and the economy class (25% in local currencies) also contributed to surpassing market growth. This performance, in a largely unchanged competitive environment, is a sign that innovation is the key to our growth, that we are very well positioned with our product portfolio, and that both hearing specialists and end customers appreciate the added value that we create with our products.

The success of the entire range of Phonak and Unitron hearing instruments is the result of our research and development efforts, which are unrivalled in the industry. We invested CHF 87 million in research and development in financial year 2009/10, a 12% increase over the previous year. As the innovation and technology leader, we are continuously improving the performance of our hearing systems. Innovation will also be the most important success factor for Sonova in the future. However, new developments are not limited just to products. Innovative ideas in the service area are also becoming more important and help us to set ourselves apart from our competitors.

In financial year 2009/10, we launched the new Sona hearing instrument brand, after successful initial tests involving selected customers. With its innovative product and service concept, Sona offers hearing specialists more opportunities and different ways to get even closer to the end customer.

Lyric, a revolutionary new hearing system, is a promising addition to our portfolio. By acquiring InSound Medical, we can now offer the first and only extended-wear hearing system that is placed deep inside the ear canal and is no longer visible from the outside. So, for the first time, we are offering people who have decided against a hearing solution to date for esthetic reasons a real alternative to existing hearing instruments.

By acquiring Advanced Bionics in financial year 2009/10, we have taken a decisive step towards realizing our vision of becoming the leading provider of hearing healthcare solutions. We can now offer cochlear implants in addition to hearing instruments. This will also give us access to the most important customers for Ingenia, our DACS middle ear implant, which is still in the clinical investigation phase.

Today, Sonova offers the most comprehensive product portfolio in the industry. This enables us to provide an optimum solution to every end customer – regardless of degree of hearing loss, lifestyle, personal preferences, age or budget.

In the past financial year, we made the capital expenditures that are necessary for continued sustainable growth. In March 2010, we started up our new manufacturing and technology center at our headquarters in Stäfa, Switzerland. The facility accomodates the most sensitive production processes for the entire Sonova Group, the manufacturing operations for all high-tech assemblies and com- ponents, and creates additional jobs. This capital investment project demonstrates Sonova's strong commitment to Switzerland as a business location.

The hearing system market still holds enormous potential. Sonova is convinced that more and more people will be using hearing systems in the medium and long term. Demographic trends such as population growth, gradual population ageing, and continually rising life expectancy are among the most important growth factors. Other factors include rising noise pollution and strong growth in emerging markets. The biggest potential for future growth, however, lies in the low penetration rate. In industrialized countries, only one in five individuals with hearing loss actually uses a hearing system. Our stated goal is to make more people aware of the importance

“We have focused on innovation, increased our sales and distribution capacities, and expanded into the medical area. By implementing its strategy consistently, Sonova has grown at a much faster rate during the reporting year than the market as a whole.”
Dr. Valentin Chapero Rueda

of good hearing and to explain the advantages of hearing systems. The fact that we have received positive response from the media and from internationally prominent personalities with our Phonak *Hear the World* initiative shows that we are on the right track.

Our strategy of consistently focusing on innovation, expanding our sales and distribution capacities, and carrying out proactive cost management paid off again during the past financial year. The results of the financial year 2009/10 motivate us to continue pursuing our chosen strategy over the next few years and to consistently build on our strengths. This will put us in an excellent position to meet future challenges.

We would like to take this opportunity to express our gratitude to you, our shareholders, for your trust, your loyalty and your interest in Sonova. We would also like to thank our customers, business partners and particularly our more than 6,800 employees throughout the world for their hard work. The success of the Sonova Group would not be possible without their huge commitment.

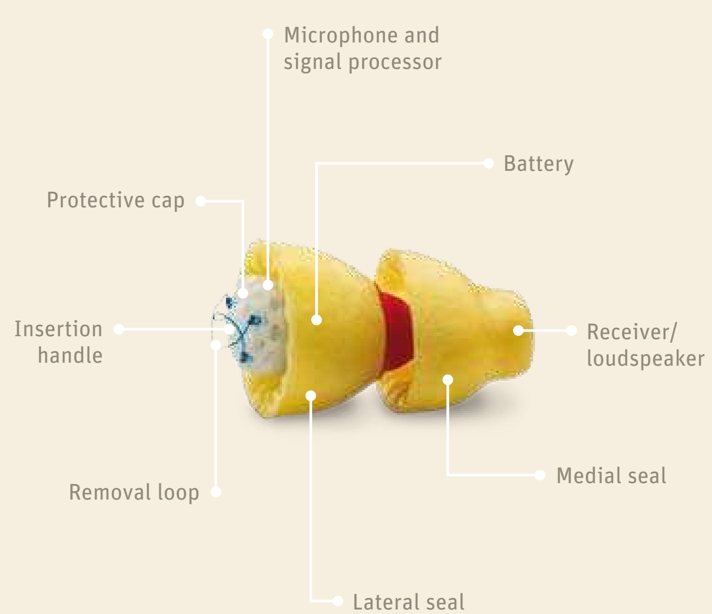
Andy Rihs
Chairman of the
Board of Directors

Dr. Valentin Chapero Rueda
CEO

That's how I win.

Lyric®

Lyric is the first extended-wear hearing device that is 100% invisible. It is comfortably placed deep inside the ear canal and can be worn 24 hours a day, seven days a week, for up to four months at a time. Lyric uses the ear's natural anatomy to provide exceptional sound quality.



"When we play a game, I need to respond to commands instantaneously. With my Lyric, I am finally completely involved again. It is so comfortable to wear – I hardly feel it at all. The thing that pleases me the most is that I can again hear the spectators' reactions."

SONOVA – THE WORLD'S LEADING PROVIDER OF HEARING HEALTHCARE SOLUTIONS

Sonova's core business involves continuous development and distribution of the world's leading hearing healthcare solutions. The Group's innovative portfolio comprises products for a broad range of hearing losses – right through to cochlear implants that enable deaf people to hear again.

The hearing healthcare company

Sonova stands for innovative hearing healthcare solutions. The globally active Group is the world's top manufacturer of hearing systems and the market leader in wireless communication systems for audiology applications. Sonova also develops and manufactures advanced cochlear implant systems and provides professional solutions for hearing protection. For over 60 years, the Group has been successfully promoting better hearing, and it is ideally positioned to benefit from the trends in this growth industry.

Sonova is committed to improving individual hearing ability and speech intelligibility, thereby enhancing the quality of life of countless people worldwide with hearing impairment. The financially strong, globally active group of companies pursues a sustainable growth strategy in which innovation, customer focus, and proactive cost management play a key role. Sonova's clear and consistent strategy makes it a driving force in the market for hearing healthcare solutions.

Since the founding of "AG für Elektroakustik" in 1947, the Sonova Group has been able to sustainably gain market share and create added value for all its stakeholders. This is the result of constant development of the innovative product and brand portfolio and continuous professionalization of the distribution network.

Development of Sonova

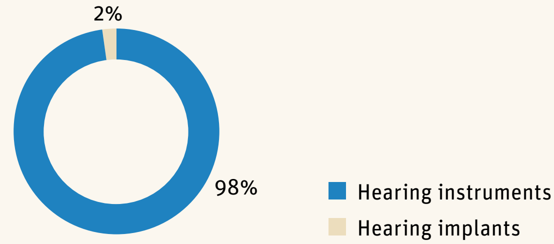
In the area of hearing instruments, the Sonova Group has relied successfully for years on a market-oriented, diversified brand and product portfolio. In addition to the main Phonak brand, Sonova now offers its customers the most comprehensive and highest-quality range of hearing instruments in the industry through the Unitron brand, as well as the Sona and Lyric brands, which were added during financial year 2009/10. The Group intends to continually expand its leading market position in this business area.

In the hearing implant sector, the Group was able to expand its product offering to include cochlear implants through the acquisition of Advanced Bionics. In the same segment, Sonova has also been working for several years to develop its own middle ear implant under the brand name Phonak Acoustic Implants. These business areas, which are still relatively young, will benefit significantly in the future from the current state of technological development and from the sales expertise acquired in the established hearing instrument business.

Sonova Holding AG was formed on August 1, 2007, from Phonak Holding AG. It is now the only corporate group to combine such comprehensive technological expertise in the area of hearing instruments and hearing implants under one roof.

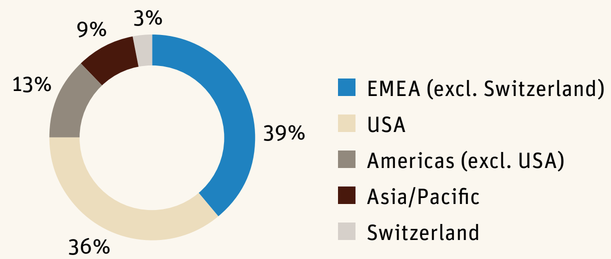
The Group now has over 6,800 employees, and in financial year 2009/10, it generated CHF 1.5 billion in sales and net profit totaling CHF 355 million. With investments in research and development reaching CHF 87 million Sonova is also continuing to focus on innovation in the future. In financial year 2009/10, the Group generated 77% of sales with products that have been on the market for less than two years, and thus has the most up-to-date and technologically advanced product portfolio in the industry.

Sales by segments



Sonova has been active in two segments since financial year 2009/10: hearing instruments and hearing implants. The company's hearing instrument business accounts for 98% and its hearing implant business for 2% of total sales.

Sales by regions



The Sonova Group is present in over 90 countries. The Americas is Sonova's biggest market, accounting for about 49% of sales. Approximately 42% of sales are generated in the Europe, Middle East and Africa (EMEA) region.

Sonova expects sustainable long-term global market growth of 4 – 7% in units per year. By systematically implementing its successful strategy, Sonova intends to sustainably increase its sales and EBITA margin in the coming years, thereby further consolidating its leading position in the market.

SONOVA'S PRINCIPLES

Sonova's vision
Sonova aims to improve the quality of life for those with hearing loss – whether infants, children or adults – and enable them to hear, understand and learn better.

Sonova's mission
Sonova realizes its vision through continuous development of new hearing healthcare solutions. The Group offers state-of-the-art products and services for virtually every type and degree of hearing loss and brings together the most innovative brands in the field of hearing systems.

Sonova's values
People – both customers and employees – are the focus of all of Sonova's activities. The Sonova Group is involved in numerous projects and initiatives aimed at raising general awareness of good hearing and the benefits of hearing systems. Sonova aims to be the employer of choice and focuses on flat hierarchical structures and open communication – as a basis for long-term decisions and rapid results. Through efficient and responsible use of resources, Sonova creates a solid basis for sustainable and environmentally-friendly business practices.

Better hearing is a mega trend
Sonova is active in a growth market in which personal communication and the speech intelligibility associated with it are becoming more and more important for people with hearing loss.

Untreated hearing loss often has a significant adverse effect on the quality of life of affected individuals, especially socially and psychologically. Studies have shown that people with hearing loss who do not use hearing instruments suffer from conditions such as sadness, anxiety and unease to a greater degree than people who wear hearing instruments. They are less socially active, tend to suffer from emotional instability, and often have concentration problems. In contrast, studies have shown that the quality of life of hearing-impaired individuals improves substantially when they wear hearing instruments. They maintain better family relationships, develop a higher sense of self-worth, and feel more independent and safer.

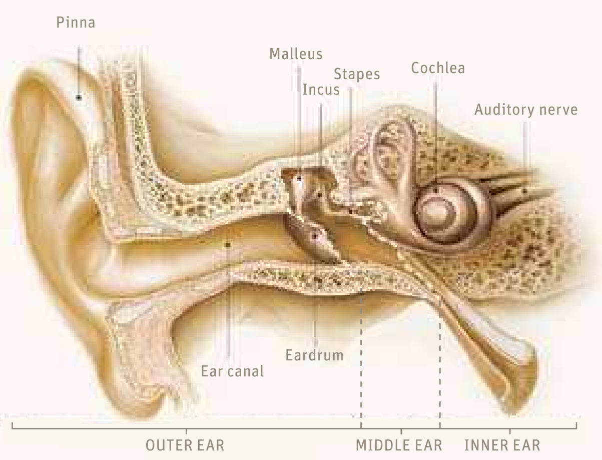
Current market research in Europe and in the USA has shown that some 16% of the population suffer from varying degrees of hearing impairment and would benefit notably from a hearing system. The number of users is steadily increasing. The causes of this long-term stable trend include the increasing percentage of older individuals in the growing overall population and the increase in average life expectancy. Environmental factors and greater noise pollution result in earlier onset of hearing loss.

Even though a comprehensive selection of hearing systems sold by various companies is commercially available today, penetration is still relatively limited: in the industrialized countries alone, less than 20% of potential users have now decided to use a hearing system. Sonova is working to ensure that more people benefit from an individual hearing solution. It plans to reach this goal by continuously improving product performance, expanding services, training hearing specialists, and professionalizing marketing activities. Awareness is also being raised among those affected through the *Hear the World* initiative that there are appropriate solutions available for hearing loss. Sonova is focusing in particular on making hearing systems more easily accessible in emerging markets in order to increase market penetration, which is still low in these areas.

Types of hearing loss

In a healthy ear, sound is received in the outer ear by the pinna and conducted into the ear canal. The sound waves cause the eardrum to vibrate. These vibrations are amplified twenty times by three tiny bones in the middle ear – the malleus, incus and stapes – and transmitted to the opening of the cochlea (inner ear). This sets the liquid in the cochlea in motion. The waves produced stimulate the approximately 3,500 inner and 10,000 outer hair cells in the cochlea and are transformed by these into electric signals. These signals are sent by the auditory nerve to the brain's hearing center, where they are decoded and interpreted as sound.

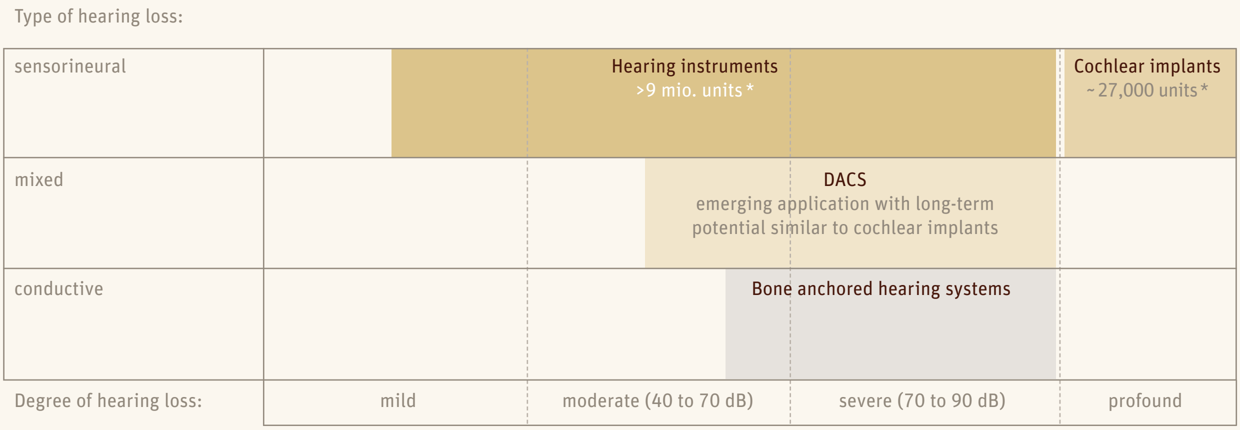
The ear



Various adverse effects on the process described above can cause hearing impairment. Hearing loss can be triggered by various factors such as exposure of the ear to very loud sounds (e.g. acoustic trauma or noise), poisoning, infectious diseases, injuries to the ear, or hereditary diseases. The cause of hearing loss may lie in the outer, middle or inner ear; in the auditory nerve; or even in the brain itself.

The most frequent cause of hearing loss, however, is presbycusis or age-related hearing loss. Hearing in humans begins to decrease gradually from the third decade of life. It is primarily the hair cells, which are important for high-frequency sounds and thus for speech intelligibility, that degenerate with increasing age. More than half of all individuals over the age of 70 are hard of hearing – or significantly hearing-impaired.

The hearing healthcare market



* Source: Sonova estimates for number of units sold globally in 2009.

In order to define the various kinds of hearing loss it can be differentiated basically between degree and type.

There is a huge range of degrees of hearing loss between healthy hearing and deafness distinguishing between mild, moderate, severe and profound hearing loss. Most hearing losses range from mild to moderate in degree.

There are basically two types of hearing loss: sensorineural hearing loss and conductive hearing loss.

Sensorineural hearing loss is caused by a malfunction of the cochlea or inner ear. The tiny hair cells that receive the sound are damaged and do not function properly. As a result, they cannot transmit the signals to the auditory nerve, and these signals are not heard. Approximately 90% of people with hearing loss have sensorineural hearing loss.

With conductive hearing loss, the inner ear functions normally, but sound transmission to the cochlea is adversely affected in the outer or middle ear.

A combination of different factors that affect the function of both the middle ear and the inner ear leads to mixed hearing loss.

A broad range of hearing systems

A number of different hearing solutions can improve the limited ability to hear, depending on the type and degree of hearing loss.

Hearing instruments

Conventional hearing instruments have become established for mild to profound sensorineural hearing loss. They modify and amplify the incoming sound signal and transmit it into the ear canal. There are primarily two kinds of hearing instruments: behind-the-ear models are available for every degree of hearing loss and, as their name implies, can be comfortably worn behind the ear. The incoming sound is conducted into the ear through a transparent, barely visible tube. Most in-the-ear models are custom-made to fit the particular shape of the wearer's ear canal. However, there are also a few standardized in-the-ear hearing solutions. In-the-ear models are very discreet. The smallest of them are concealed in the ear canal and are completely invisible from the outside. In-the-ear instruments can be used for mild to severe hearing loss. Sonova develops and distributes state-of-the-art hearing instruments of both kinds under different brands.

Cochlear implants

For sensorineural hearing loss ranging from profound hearing loss to deafness, cochlear implants are an excellent solution. Cochlear implants stimulate the auditory nerve electrically by means of an electrode array implanted in the cochlea. Sonova develops and distributes cochlear implants under the brand name Advanced Bionics.

Direct acoustic cochlear stimulation (DACS)

The DACS middle ear implant is used for moderate to severe mixed hearing loss. The cochlea, which is still partially intact, is directly stimulated by mechanical means. These devices are developed by Phonak Acoustic Implants. The first devices have already been successfully implanted in clinical trials.

A large number of other middle ear implants are available on the market, and these are used primarily for moderate sensorineural hearing loss. Some of them are partially and others fully implanted.

Bone-anchored hearing systems

These systems are suitable for moderate to severe conductive hearing loss. The sound is amplified and transmitted by a vibrator via a titanium screw anchored in the cranium or via an implanted magnet into the skull. The inner ear is stimulated by the vibrations. Sonova does not offer these types of hearing systems.

Strategy

Sonova stands for innovative hearing healthcare solutions. The financially strong, globally active group of companies pursues a clear growth strategy in which innovation, customer focus and proactive cost management play a key role.

Sonova: leader in technology

At Sonova, the main focus of innovation is technological and product development. In research, Sonova is active in all areas of technology relevant to both hearing systems and communication technologies. In many research projects also with leading international universities, innovative advances are being made in the principles of audiological research, signal processing and communications technology, as well as in the field of acoustics and in materials science. While the focus in research is mainly on medium- and long-term projects, the development department concentrates on bringing new functions and improved systems to market maturity as quickly as possible. A central task in development is to implement technologies in a way that allows them to be used efficiently in different product families.

Sonova is close to its customers

With its different brands such as Phonak and Unitron, Sonova's main activity is the wholesale business. Here, the country-specific Group Companies supply the products indirectly to end customers through independent retailers, chains or state institutions. The Group owns some retail outlets in selected countries. This enables the company to gain direct access to the end customer in addition to indirect access via distribution partners. This is important, as Sonova is able to get a better idea of customer requirements, so that it can incorporate these ideas when it comes to the development of the next product generation. The experience and knowledge gained from its own retail activities also put Sonova in a better position to support its wholesale customers more effectively.

Sonova follows a sustainable cost-conscious approach

Continuous improvement measures, training-based cost-consciousness and ongoing process adjustment within the Sonova Group guarantee a high degree of efficiency and added value for all of its stakeholders. Synergies in all key functions are not limited to a single brand or market but are effectively leveraged for all business areas through the Sonova Group's holding structure. The unique platform concept, on which the technology of most hearing solutions is based, is one of the most efficient in the entire industry.

Sonova brands and hearing healthcare solutions

Sonova develops and markets hearing healthcare solutions in two segments – hearing instruments and hearing implants – under different, clearly positioned brands.

The core of the Sonova brand portfolio comprises the internationally renowned Phonak brand. Hearing healthcare solutions that meet the highest technological standards are sold under this brand. However, Phonak covers more than just hearing instruments: wireless communication systems for audiological applications and for use in the areas of tourism, studio recording and security are also available under this brand, as are hearing protection systems. In financial year 2009/10, the product range was expanded to include the Lyric brand. Lyric is the world's first and only extended-wear hearing instrument, which is placed deep in the ear canal and is totally invisible.

Unitron also offers a complete range of hearing instruments for cost-conscious customers.

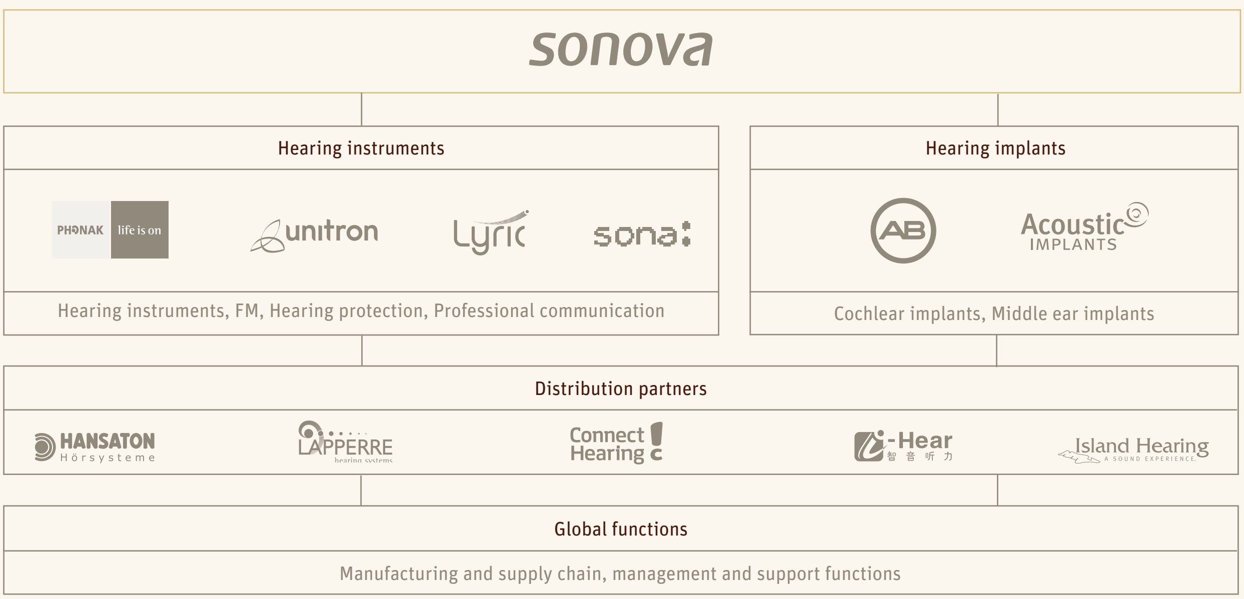
With Sona, the Sonova Group is launching a business concept that is unique in the industry. It combines a specialized product portfolio with a simplified fitting and logistics concept.

The Advanced Bionics brand stands for the newly acquired business area of cochlear implants and offers innovative products for profound hearing loss to deafness.

The task of Phonak Acoustic Implants is to develop the DACS (direct acoustic cochlear stimulation) middle ear implant to the point of market maturity and to launch the product in the market.

The products are available at all key sales points through a worldwide distribution network. The wholesale business is handled by Sonova's own Group Companies and by independent distributors.

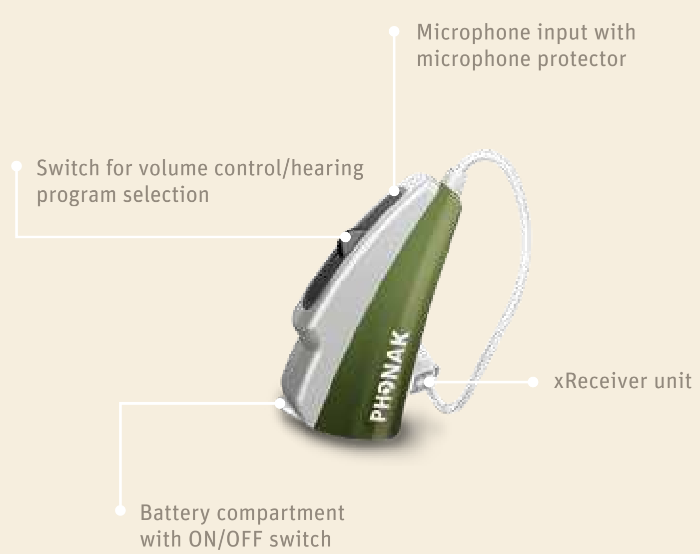
The new Sonova Group



Audéo SMART

That's how we discuss.

Audéo SMART is Phonak's smallest hearing instrument with full wireless functionality. It provides maximum performance, expanded audibility as well as versatile control and offers unlimited connectivity to a wide range of communication and entertainment devices.



"In the old days we used to argue a lot. But now that we wear hearing instruments, we rather discuss instead – politics, the environment, the future. Because now, we just understand each other a lot better."

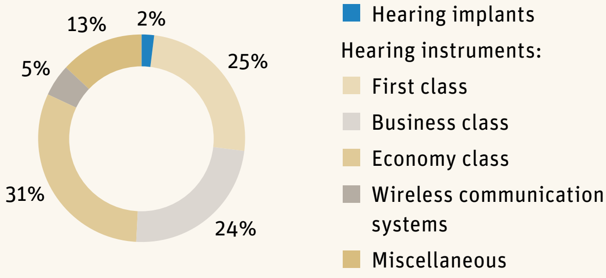
TECHNOLOGICAL LEADERSHIP THROUGH CONTINUOUS INNOVATION

The most advanced technologies, new service concepts and the strongest innovative hearing instrument brands in the industry: Sonova offers the most comprehensive product portfolio in the industry and enables people with virtually every type and degree of hearing loss to enjoy life to the full again.

The hearing instruments segment

In financial year 2009/10, the hearing instruments segment generated 98% of the overall sales of the Sonova Group, with sales of CHF 1,475 million. This main segment of the Group is divided into five different product groups: first (CHF 378 million sales), business (CHF 353 million), and economy class hearing instruments (CHF 460 million), wireless communication systems (CHF 75 million) and miscellaneous (CHF 209 million).

Sales by product groups



Hearing instruments are available in different price-performance classes: first, business, economy and basic class. Basic class hearing instruments are reported as part of economy class. Wireless communication systems are Frequency Modulation (FM) systems for audiology applications. The elements of the miscellaneous product group are: repair services, spare parts, batteries, remote controls, digital wireless accessories, professional communication systems and hearing protection.

Phonak, Sonova's main brand, features a comprehensive range of state-of-the-art digital hearing instruments for all degrees of hearing loss, across all price-performance classes and form factors. In addition, Phonak provides wireless communication systems for audiology applications (FM systems) and for professionals working in the areas of tourism, television or security, as well as custom-made hearing protection solutions, some of them including microphones for radio communication.

Unitron is geared towards purpose-driven innovation and provides hearing instruments at different price levels with a wide range of features and form factors to satisfy the requirements of clients who are more inclined to seek value for money.

Sona, the newly launched hearing instrument brand, features a novel product and service concept. The products that come in two different form factors and three different price-performance classes - business, economy and basic class - are aimed at the segment for mild to moderate hearing loss. The service concept features optimized and simplified ordering and storage processes and a state-of-the-art fitting process that are unique in the industry. The products are distributed through hearing professionals.

Lyric is the first extended-wear hearing instrument which is placed deep in the ear canal and totally invisible from the outside. Lyric sales are reported in the first class hearing instrument product group.

Market for hearing instruments

Global market sales are estimated to be around 9.4 million hearing instruments per year. Europe, Middle East and Africa (EMEA) account for roughly 45% of the global market, while around 35% of products are sold in the Americas and 20% in the Asia/Pacific region. Sonova has a strong presence in North America as well as in Europe and significant growth potential in the emerging countries.

Recent market studies in Europe and the US have shown that around 16% of the population suffers from varying degrees of hearing loss and would noticeably benefit from a hearing system. Furthermore, the number of people using hearing instruments is constantly rising. One reason for this long-term trend is the growth of the overall population. Statistics from the World Health Organization (WHO) estimate the average population growth at 1 – 2% over the mid-term. Another reason for the increase in hearing instrument users is the gradual aging of the population, as hearing loss increases with age. Life expectancy is also steadily increasing, which means more replacement sales of hearing instruments. And last but not least, hearing loss is a growing problem due to a generally higher exposure to increasing noise pollution and cases of hearing damage arising at an ever younger age.

Given these unchanged mega trends, Sonova continues to expect an average long-term global market growth rate of around 4 – 7% in units per year.

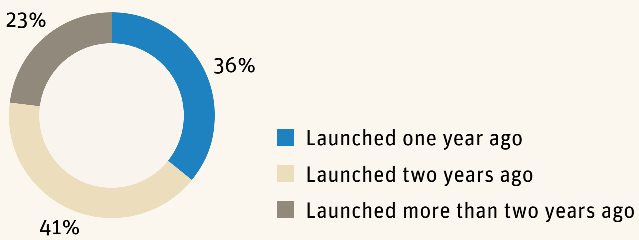
However, by far the greatest potential for future growth lies in the low penetration rate of hearing instruments. In industrialized countries, only around 20% of people with hearing loss currently wear a hearing instrument. The penetration rate depends on the degree of hearing loss; it is around 70% for people with severe to profound hearing loss, as they struggle to live without a hearing instrument; it is estimated to be around 50% for people with moderate hearing loss, and is around 10% for people with mild hearing loss.

Sonova is striving to increase the low hearing instrument penetration rate and to reach more customers with its products. One way to achieve this aim is to facilitate end customers' access to the hearing instrument shops by increasing the number of points of sale, and by helping hearing professionals make their shops more modern, attractive and accessible. Another way in which to increase penetration rate is to better cover the individual requirements of end customers and hearing professionals with the products and services offered. In particular, continuous improvements in technology and performance, resulting in greater customer satisfaction, will encourage wider acceptance of hearing instruments. Therefore, innovation in all aspects of the business is, and will remain, the number one success factor in the hearing instrument industry: innovation in products, in the quality and the range of the service offering, in the training of the hearing professionals, and in sales and marketing.

Innovation leader in hearing instruments

In financial year 2009/10, the Sonova Group generated 77% of sales with hearing instruments that were launched less than two years ago. This is one of the highest innovation rates in the industry and demonstrates how novel and modern Sonova's product portfolio is.

Innovation rate



The main reason for this competitive advantage is Sonova's unique platform concept. It ensures the fast introduction of new products as well as efficiency in research and development (R&D). All business activities, not only R&D efforts, are focused on the whole platform and not just on single products. Sonova's hard- and software platform is the industry's fastest, most powerful and cost-efficient development model, which is being continuously refined. The CORE (Communication Optimized Real-audio Engine) platform is recognized as the industry's most sophisticated audio-processing platform. Six high-performance processors and over eight million transistors ensure that the hearing instrument can execute around 120 million operations per second. With real-time audio streaming, StereoSound transmission and CableFree Fitting, CORE provides unique benefits and allows for benchmark features such as ZoomControl, which provides directional focus to the front, back, right or left, DuoPhone, which transmits the caller's voice on both ears in real-time, and SoundFlow, an automatic adaptation to the sound environment.

HIGHLIGHTS

- Hearing instruments sales reached CHF 1,475 million; an increase of 18.1% in Swiss francs and of 21.8% in local currencies
- EBITA margin for hearing instruments increased from 26.7% to 29.0%
- Top-selling new products: 77% of total sales were generated with products younger than two years
- Phonak extended its CRT portfolio with Audéo MINI and Audéo SMART now offering real choice of CRT instruments with unmatched CORE technology
- Thanks to Milo, Milo Plus and OK!, OK! Plus Phonak strengthened its position in the basic class
- Unitron introduced Fuse, a new standardized CIC form factor
- Sonova launched the new hearing instrument brand Sona featuring a novel service concept
- Acquisition of Lyric, the first 100% invisible extended-wear hearing system
- Sonova is innovation leader: newest and most comprehensive product portfolio in the industry

Despite enormous progress in hearing instrument technology during the last few years, there is still enormous scope for innovation and optimization, such as improving speech intelligibility, especially in noisy environments, or improving subjective hearing performance to come as close as possible to "natural hearing". Cosmetic aspects, user comfort, design, ease of use and connectivity to modern communication devices are also becoming more and more important for wearers of hearing instruments. Sonova will continue to come up with innovations in all these areas.

Product innovation

Increasing performance of hearing instruments

A hearing instrument is a battery-powered, electronic device that enables people with mild to profound sensorineural hearing loss to hear well again. It basically consists of one or more microphones, a digital signal processor (DSP) and a loudspeaker contained in a plastic housing. The microphone picks up acoustic sound signals from the environment, converts them into digital signals and sends them to the DSP. The DSP processes these signals according to the individual hearing loss and sound environment using advanced audiological models and transmits them to the loudspeaker, reconverting the digital signals to acoustic signals and delivering them to the ear.

Today's hearing instruments automatically recognize whether they are currently in a quiet or noisy sound environment or one with speech in noise, music, etc., and activate the corresponding features and parameter settings accordingly. Most of the features are used for improving speech intelligibility by optimizing the sound signal and suppressing the noise. Phonak and Unitron set industry benchmarks with several of their features. By April 2010, Phonak had incorporated SoundRecover in all its current products. The highlight CORE feature is now available for all degrees of hearing loss, across all price-performance classes and form factors. The unique feature compresses high-frequency signals, which were not audible for people with hearing loss, into a lower frequency range which is still audible to them.

The newest generation of hearing instruments also offers wireless connectivity enabling comfortable interaction with communication systems such as telephones, television, MP3 players, computers or other audio sources. Phonak and Unitron offer hearing instruments with wireless functionalities and interface options, regardless of budget and degree of hearing loss. In financial year 2009/10, Phonak launched Click'n Talk, a unique mobile phone link, and the iCom TV package, a direct connection from the TV via Bluetooth to the hearing instrument user.

Every hearing instrument needs to be fitted by the hearing professional in order to maximize its performance for individual listening needs. The fitting of the hearing instrument involves adjusting the system's operating parameters to individual preferences and the hearing loss of the end customer by means of a manufacturer-specific fitting software. Unitron's fitting software U:fit and Phonak's fitting software iPFG are among the most intuitive fitting software in the industry.

Hearing instrument fitting requires a lot of consumer care as well as education and training in hearing loss and hearing instrument usage. A hearing professional needs more than state-of-the-art hearing instruments and excellent fitting software to be able to sell hearing instruments more effectively and attract new customers. Training and services become ever more important. In March 2010, Sonova launched the new hearing instrument brand "Sona" featuring a novel service concept. It combines a specialized product portfolio including two different form factors for mild to moderate hearing loss with easy and fast fitting and automated logistic processes which are unique in the industry. The optimized and simplified online ordering and storage processes reduce the hearing specialist's workload and ensure continuous availability of Sona hearing instruments in the shop. In financial year 2009/10, Phonak also introduced two new services for hearing professionals: the physician referral kit, to support the hearing professional in generating leads through physicians, and the Phonak Insurance, which covers loss, theft and damage of Phonak hearing instruments.

Wide choice of hearing instruments

The choice of hearing instrument depends on a number of factors: the degree of hearing loss, the size and shape of the outer ear and ear canal, the electronic features needed to compensate for the hearing loss, the budget and the cosmetic considerations of the end customer.

Standard Behind-The-Ear (BTE)

These instruments consist of a standard casing which is worn behind the ear and is connected to the ear canal via a sound-conducting tube and one of various forms of ear mould. Standard BTEs are suitable for mild to profound hearing loss. Today's BTE devices come in attractive designs, are ergonomic and comfortable to wear and resilient to moisture and dirt.

Micro BTE/CRT

A micro BTE is significantly smaller than a standard BTE; it is suitable for mild to moderate hearing loss. An alternative sound delivery system is based on Canal Receiver Technology (CRT), where the receiver (loudspeaker) is placed outside the BTE housing in the ear canal close to the eardrum. CRT hearing instruments have steadily gained in importance over the last few years. In financial year 2009/10, Phonak introduced two additional CRT hearing instruments to meet the increasing demand for this form factor: Audéo MINI and Audéo SMART. Unitron introduced a new CRT form factor for its Passport and Latitude product families called Shift.

Custom In-The-Ear (ITE)

A custom ITE instrument is completely contained in an individualized acrylic shell that fits into the ear canal. ITEs are suitable for mild to moderate hearing loss. Compared to BTEs, ITEs can take advantage of the natural function of the pinna. An In-The-Canal (ITC) instrument is even smaller than an ITE, yet still visible within the outer ear. The tiny Completely-In-The-Canal (CIC) instrument fits so deep into the ear canal that it is barely noticeable from the outside.

Standardized In-The-Ear (ITE)

This type of ITE instrument is contained in a standard housing rather than in an individualized shell. The advantage to the customer is that he or she can leave the shop with the new hearing instrument on their first visit and does not have to wait until an individual shell has been made. Since April 2010, Sonova has offered a standardized CIC instrument for each of its three hearing instrument brands: Audéo ZIP by Phonak, Fuse by Unitron and sona:vogue intro by Sona. The new form factor has 45% less volume than a typical CIC and features an articulating joint that eliminates pressure points by adapting to the ear canal as it moves during speech and while chewing or swallowing. Two wide-open vents ensure a free flow of air while delivering natural sound and comfort. An Extended-Wear Deep-In-The-Canal instrument is placed even deeper in the ear canal than a CIC and resides there for several months at a time. In January 2010, Sonova acquired InSound Medical which developed Lyric, the first extended-wear hearing system which is placed deep in the ear canal and is totally invisible from the outside.

As well as having various form factors, hearing instruments are available in many different price-performance classes. Each manufacturer uses its own categorization. The performance is mainly defined by the different features of the hearing instrument. In financial year 2009/10, Phonak launched Exélia Art, a new product family in the first class, offering various form factors. Unitron launched Passport and Latitude, two new product families covering all price-performance classes and form factors, and can now offer a full product portfolio based on CORE. Phonak considerably extended its product range in the basic class by launching Milo, Milo Plus, OK! and OK! Plus. Milo and Milo Plus are based on CORE and are the industry's most technologically advanced products in the basic class. OK! and OK! Plus are for hearing professionals without a computer as they are fitted manually. They are therefore mainly intended for sale in developing countries.

Enhanced speech intelligibility with FM systems

The purpose of a frequency modulation (FM) system is to enhance speech intelligibility in noisy environments or over long distances. An FM system consists of a microphone, an FM transmitter and an FM receiver. The speaker has an FM transmitter and the hearing-impaired listener has an FM receiver that is connected to the audio input of his hearing instrument or his cochlear implant. The sound signals are sent via radio waves from the FM transmitter to the FM receiver. The listener can thus hear the speaker directly through his hearing system and is not distracted by background noise and reverberation. The vast majority of FM systems are used by hearing-impaired children at school.

Phonak's Dynamic FM platform is the most technologically advanced FM solution in the hearing industry. Compared with conventional FM systems, Dynamic FM provides much better speech intelligibility in noisy environments. It was shown that Dynamic FM improves speech intelligibility for users of hearing instruments or those with cochlear implants by more than 50%. In financial year 2009/10, Phonak introduced four new FM transmitters for every kind of customer needs, including a version with the latest Bluetooth technology for mobile phone and multimedia connectivity.

Distribution of hearing instruments

Hearing instruments are distributed through two main channels: private distribution, consisting of retailers usually specializing in hearing instrument dispensing, and public distribution, consisting of hospitals, hearing clinics and other primary care facilities.

The private distribution channel includes players that range in size from small shops, with one or two locations, to international chains with more than 100 locations. The private market, which accounts for somewhat above 80% of all hearing instruments sold worldwide, is highly fragmented with a lot of local privately owned stores. Private distribution is mainly undertaken by hearing professionals who have completed a dedicated education in hearing instrument fitting. Alternative private distribution methods have evolved in recent years. However, such distribution models are only possible for hearing instruments for mild hearing loss, as the fitting of hearing instruments for more severe hearing loss is highly complex and has to be performed by a specialist.

Phonak booth at EUHA 2009

PRODUCTS LAUNCHED IN 2009/10

Phonak Exélia Art

Phonak Naída IX

Phonak Audéo MINI

Phonak Audéo SMART

Unitron Fuse

Unitron Shift

Some of the hearing instrument manufacturers own retail stores. Wholesale of hearing instruments is Sonova's core business. The Group owns retail chains in selected countries. For Sonova, owning retail stores is important for gaining direct access to consumers and learning more about their preferences.

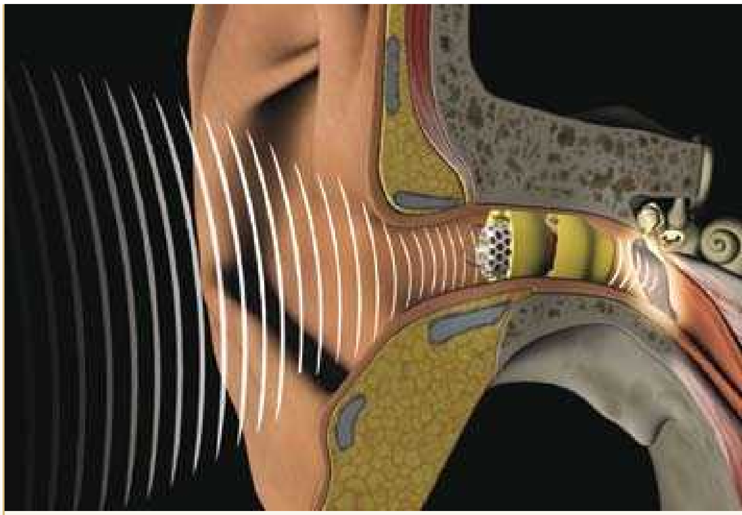
Public distribution is subsidized distribution through hospitals, public institutions or other publicly controlled channels. The key public contracts on a global scale are the National Health Service (NHS) in the UK, the Australian Health Services (AHS) and the Department of Veterans Affairs (VA) contract in the US. Public distribution represents somewhat below 20% of the total hearing instrument market on a global scale, but the public share differs considerably between countries; for example, in the US, the VA contract constitutes approximately 20% of the market in units, whereas in the UK, the NHS contract constitutes around 80% of the market in units. Sonova is one of the main suppliers to the VA. The supply to the AHS and NHS is very limited and includes pediatric solutions and niche products for both contracts.

Sonova acquires Lyric – a revolutionary new hearing instrument

On January 6, 2010, Sonova acquired InSound Medical Inc., a medical device company based in Newark, California with around 100 employees which develops and manufactures next-generation hearing solutions. The company's introductory product Lyric is the world's first and only extended-wear hearing solution which is placed deep in the ear canal, is totally invisible from the outside and can be worn for up to four months at a time. The total transaction price is made up of an up-front cash payment of USD 75 million which mainly covers past R&D expenses from InSound Medical, and earn-out payments which depend on the future development of InSound Medical's financial performance and the respective products.

Capture untapped market potential

The mild to moderate hearing loss segment is the biggest market segment, with around 95% of all people with hearing loss forming part of this segment, and the one with the lowest penetration rate. One of the major reasons for this low penetration rate is that people with hearing loss simply don't want others to know about their impairment. With the totally invisible Lyric, Sonova can now reach people with mild to moderate hearing loss who have decided not to use a conventional hearing instrument to date, mainly for esthetic reasons. Lyric is thus a complementary offering to Sonova's existing portfolio of conventional hearing instruments. The market potential is immense. For example, in the US alone, there are around 36 million people with mild to moderate hearing loss who do not yet wear a hearing system. Around 14 million of them are potential Lyric users.



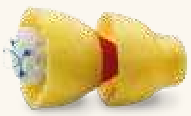
Lyric placement

LYRIC – 100% INVISIBLE

Lyric is comfortably placed deep in the ear canal by a Lyric-trained hearing professional, making it totally invisible from the outside. No surgery or anesthesia is required. Once placed, the device can be used 24 hours a day, for a period of up to 120 days, after which it is removed and replaced by the hearing professional with a new system. Lyric can be worn during daily activities such as exercising, showering and sleeping. Lyric's placement deep in the canal allows it to use the ear's natural anatomy to minimize feedback and background noise and provide clear sound quality and a natural hearing experience.

Fitting Lyric

The Lyric-trained hearing professional measures the degree of hearing loss and assesses the ear size and shape, the medical conditions and the lifestyle to determine if Lyric is appropriate for an individual customer. By using the Lyric Sizing & Fitting system, the hearing professional quickly and accurately measures the ear canal and places a Lyric device deep inside, just four millimeters from the eardrum. Next, the hearing professional adjusts Lyric to the individual hearing needs of the customer. With a small magnetic tool, the Lyric wearer can adjust the device volume, turn the device on and off and remove it if necessary. Customers need to visit a hearing professional around four to five times per year to replace the device. These visits will not take longer than 15 minutes each.



Lyric

Create sustainable value

InSound Medical has long-standing experience, know-how and intellectual property in different areas that are required for "extended-wear" technology: biocompatible soft foam seals to contour to the ear canal, coating and mechanical technology to protect the device from moisture and cerumen as well as a proprietary battery shape and technology. With the acquisition of InSound Medical, Sonova has not only acquired these competences but also a new hearing instrument form factor.

Lyric has been sold through select audiologists in the US since 2008 and the product is now used by more than 3,500 customers. Over 1,500 points of sale in the US have expressed a desire to sell Lyric. Sonova's distribution network and marketing and sales expertise will help to meet the increasing demand for Lyric in the US and allow for rapid expansion into international markets. Not all interested customers will be suitable candidates for Lyric, due to the anatomy of their ear canal, for example. However, such people are potential customers for Sonova's conventional hearing instruments, which means that, over time, Lyric will provide an additional boost for this business too.

Sonova also sees considerable opportunities for further developing the Lyric product concept. A number of development projects to further improve the product are underway now. They will mainly focus on extending the device longevity and on minimizing the size of the device so that it fits to even more people in the future. InSound Medical will also leverage Sonova's manufacturing processes and capabilities and its world-class supply chain to improve the operational cost structure.

HEARING IMPLANTS

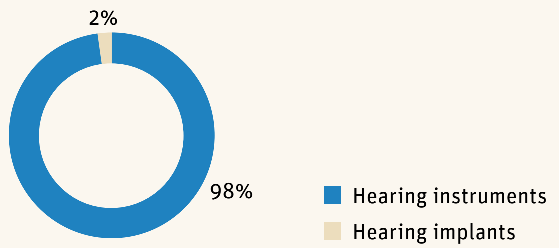
HIGH GROWTH AND INNOVATION POTENTIAL

Hearing implants help people with profound hearing loss to deafness to communicate with their environment. Having acquired the US-based company Advanced Bionics in financial year 2009/10, Sonova now offers cochlear implants, which restore the functional capability of the inner ear. Sonova is also developing its own DACS middle ear implant “Ingenia”.

The hearing implants segment

In financial year 2009/10, the hearing implants segment generated 2% of the overall sales of the Sonova Group, with sales of CHF 25 million. This segment comprises two different kinds of hearing implants: cochlear implants and middle ear implants.

Sales by segments



At the end of December 2009, Sonova acquired the US-based company Advanced Bionics thereby entering the cochlear implants market. Advanced Bionics is a global leader in developing and manufacturing cochlear implant systems for children and adults with sensorineural hearing loss, ranging from profound hearing loss to deafness, with sales of USD 123 million for calendar year 2009. Sales of cochlear implants are only consolidated for the first three months of 2010. The results in financial year 2009/10 therefore do not reflect the overall annual contribution of this segment to the Group.

Furthermore, Sonova is developing a DACS (Direct Acoustical Cochlear Stimulation) middle ear implant under the Phonak Acoustic Implants brand. It is intended for people with moderate to severe mixed hearing loss. The DACS middle ear implant is in the clinical investigation phase and not yet sold on the market. Therefore, no sales were generated in financial year 2009/10.

Market for cochlear implants

Today, the market for hearing implants is mainly composed of cochlear implants. DACS may have a similar market potential, but this market first needs to be established and developed. Other hearing implants such as bone anchored hearing aids or other middle ear implants are not considered in this segment reporting, as the Sonova Group is not active in these business areas.

The market for cochlear implants is still comparatively young. The first cochlear implant only gained FDA approval in 1984. Since then, around 210,000 cochlear implants have been sold worldwide. This figure is very low considering there are more than 200,000 potential new cochlear implant patients each year. Around 50% of them are children, either newborns born deaf or children with hearing loss acquired between the ages of one and six. The remainder of the patients are adults with hearing loss due to aging, accidents, illnesses or ototoxicity.

Global market volume is estimated to be around 25,000 – 30,000 cochlear implants sold annually. North America accounts for roughly 40% of the global market, while around 35% of implants are sold in Europe, 15% in the Asia/Pacific region and 10% in the Latin America region. Advanced Bionics has an estimated global market share of around 18%.

Despite the huge growth potential for cochlear implants, Sonova expects the global cochlear implant market to grow at a comparatively moderate average rate of around 10 – 15% p.a. in units over the coming years. Today, both the number of cochlear implant centers and capacities to perform the post-surgery fitting process are limited. In many emerging markets, reimbursement of cochlear implants is not yet established, and quite often, patients are not identified and therefore not referred to receive a cochlear implant system. Tests, such as newborn screenings, are increasingly conducted in developed countries, but the awareness and the lack of information on cochlear implant solutions, especially in emerging countries, offers a big potential.

The cost of a cochlear implant system with an expected product life of 30 years is around USD 100,000 – 125,000. This includes the device itself, with global average costs of around USD 20,000 – 25,000, and the surgery and follow-up treatment.

Cochlear implants

A cochlear implant (CI) is an implanted electronic device that produces useful hearing sensation for people with sensorineural hearing loss ranging from profound hearing loss to deafness. These hearing sensations are achieved by bypassing the outer, middle and inner ear completely and directly stimulating the auditory nerve in the inner ear (cochlea).

HIGHLIGHTS

- With the acquisition of Advanced Bionics, Sonova entered the highly attractive market for cochlear implants
- Hearing implants sales amounted to CHF 25 million (only three months of consolidated Advanced Bionics sales)
- Integration of Advanced Bionics into the Sonova Group is well on track
- Ingenia, Sonova's DACS middle ear implant, entered the clinical investigation phase and was successfully implanted
- Sonova is the first global hearing healthcare company with a strong worldwide presence in hearing instruments and hearing implants

Cochlear implants consist of an external and an internal component. The external sound processor can either be worn behind the ear (BTE) or on the body, which is the best solution for very young children with small ears. It consists of a battery, a microphone, a digital signal processor (DSP) and a transmitter system. The transmitter system is enclosed in a separate external headpiece, connected to the external processor by a cable and held in place by a magnet connecting it to the internal receiver. With state-of-the-art technology, the internal, implanted component consists of a receiver and an electrode array containing 16 to 22 electrodes. A surgical procedure is needed to implant the internal component and insert the electrode array into the cochlea.

The microphone picks up the sound signals from the environment and converts them into digital signals, which the DSP processes for maximum sound and speech intelligibility, converts into electrical pulses and sends wirelessly through the skin to the implant. The implant electronics deliver electrical signals to the electrodes, which stimulate the auditory nerve in the cochlea. The CI is thus able to restore auditory sensation, especially speech intelligibility, to a high degree. This is very important for deaf children as they have the opportunity to acquire normal speech and regain a normal quality of life. They are able to enter mainstream kindergarten and school and to maintain relationships with both hearing-impaired and normal hearing people.

Sonova acquires Advanced Bionics – entering the cochlear implant market

On November 9, 2009, Sonova announced the acquisition of Advanced Bionics (AB) based in Los Angeles, USA, for a total purchase price of USD 496 million. The acquisition was successfully completed on December 30, 2009. Advanced Bionics is a global leader in developing, manufacturing and distributing cochlear implant systems and has over 600 employees.

With the acquisition of Advanced Bionics, Sonova has entered the cochlear implant market, which is characterized by high growth and attractive margins. The Group aims to double Advanced Bionics' sales and to increase its EBITA margin to 20% or beyond within the next three to five years.

AB was founded in 1993 and their first cochlear implant system, Clarion®, gained FDA approval as early as 1996. AB introduced its most recent cochlear implant system, the Harmony® HiResolution® Bionic Ear System, in 2006. Sales are generated in approximately 30 countries worldwide.

The acquisition of Advanced Bionics was an important step to strengthen Sonova's position as the leading provider of hearing healthcare solutions. By including cochlear implants in its product portfolio, Sonova is now able to deliver a hearing solution for virtually every degree of hearing loss.

Harmony BTE sound processor and HiRes 90K implant

Significant product innovation

For cochlear implant systems, innovation is especially important in the area of speech intelligibility. With its latest cochlear implant system, the Harmony HiResolution Bionic Ear System (Harmony System), Advanced Bionics has developed an outstanding innovation to improve speech intelligibility, mainly in noisy environments. The system is composed of: the external sound processor – either the Harmony BTE or the Platinum Series® body-worn sound processor – the HiRes 90K® implant, the HiRes Fidelity 120® sound-processing technology and the SoundWave™ programming software. The Harmony System offers HiResolution Sound, delivering five times more sound resolution than other cochlear implant systems. This way, Harmony provides a more accurate representation of sound, which translates into better speech intelligibility and more natural music perception. Speech intelligibility is also enhanced by the T-Mic®, a microphone that is placed at the opening of the ear and thus captures sound like a normal-hearing ear. It has the largest dynamic input range available in cochlear implant technology, enabling it to capture and process naturally occurring sound levels ranging from soft to very loud.

Significant value creation

By using Sonova's existing global sales and distribution infrastructure, Advanced Bionics will be able to enhance its international distribution and service capabilities.

CI PATIENT JOURNEY

Identification and referral

For adults, it is usually a general practitioner, an ear, nose and throat doctor or an audiologist who identifies the need for a cochlear implant (CI). In most developed countries, newborns have a hearing screening at the hospital. Potential CI candidates are then referred to special CI centers.

Counseling

At the CI center, a team of experienced multi-disciplinary members undertakes a detailed assessment to determine whether someone really is a candidate for a CI. Candidates are then given detailed information about the surgery, the programming and rehabilitation and, more generally, about life with a CI.

Surgery

At the CI center, a surgeon implants the internal component and inserts the electrode array into the patient's cochlea during a two to four hour operation. The surgery can be performed on babies as early as the age of twelve months.

Fitting

The first fitting is performed by the CI audiologist only two to four weeks after the surgery, when the system is activated. Afterwards, the postoperative rehabilitation process starts with the fitting of the different parameters of the sound processor as well as several sessions of auditory and speech training.

Service and maintenance

Continual mappings are performed by the CI audiologist at the CI center to improve the patient's hearing experience as the brain adapts to hearing sound again, or for the first time. Roughly every five years, the CI user receives a new, improved external processor.

AB will benefit from Sonova's high-performance hard- and software platform and the Group's existing technologies, which complement cochlear implant technology. The acquisition will enable significant innovation by applying state-of-the-art acoustics and mechanical engineering know-how, implementing advanced audiological algorithms and simplifying the fitting process. Advanced Bionics' superior nerve stimulation approach allied with Sonova's thorough understanding of the acoustical challenges of profound hearing loss will result in highly innovative products that deliver optimum hearing for cochlear implant patients.

A long-term development and product road map has been established. AB and Phonak are already working on joint development projects for improved performance of future cochlear implant systems. The main focus is on leveraging Phonak's expertise in the mechanical and acoustical design of hearing devices and signal processing to improve the external processor by minimizing the size, enhancing the esthetics, making it more comfortable to wear and easier to use, and also to increase its performance and thereby deliver better speech intelligibility, mainly in noisy environments. Other projects include applying Phonak's leading FM radio technology and remote controls as well as its digital body area network connectivity to AB's cochlear implant systems.

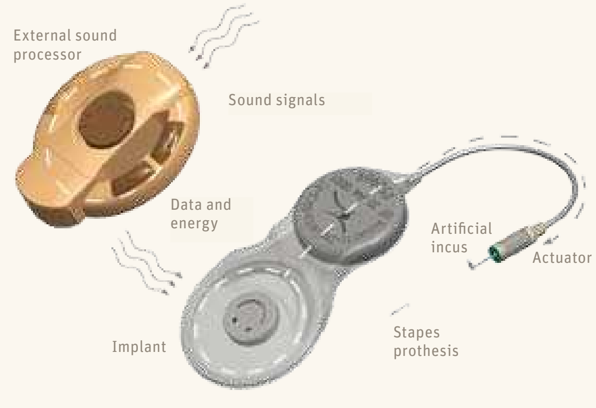
Patients, customers and partners of Advanced Bionics alike will benefit not only from the expanded global presence and the improved products but also from the stability that Advanced Bionics will enjoy as part of the Sonova family. Its integration into Sonova's global organization and supply chain will help AB to realize savings in general and administration as well as in procurement.

Ingenia – Sonova's DACS middle ear implant

Phonak Acoustic Implants is in the process of developing a DACS (direct acoustic cochlear stimulation) middle ear implant, called "Ingenia". This new product is currently under clinical investigation and is not yet CE marked, FDA approved or commercially available in any country.

Ingenia is a partially implanted electronic device for people with moderate to severe mixed hearing loss for whom conventional hearing instruments do not provide enough benefit and other middle ear implants do not provide enough amplification, especially in the low frequencies. It bypasses the outer and middle ear (thus not requiring a functional middle ear) and mechanically stimulates the cochlea at its entrance, without significantly entering it.

Ingenia



Ingenia consist of three main components: an external sound processor, an implant assembly and a fixation system. The external sound processor is a round plastic housing worn behind the ear containing a battery, microphones, a digital signal processor (DSP) and a transmitter and is held in place by a magnet connecting it to the implanted receiver. The implant assembly consists of a receiver, electronics and a lead terminating in an electromagnetic actuator and an artificial incus. The fixation system is used to hold the actuator firmly in place. Ingenia is surgically implanted in the middle ear using some of the standard surgical procedures commonly used by ear, nose and throat surgeons.

The microphone picks up the sound signals from the environment and converts them into digital signals. The DSP processes these signals according to the individual hearing loss and sound environment and sends them to the transmitting coil. From there, the signals are transmitted wirelessly through the skin to the implanted receiver coil, which conveys the signals to the implant electronics driving the actuator. The actuator converts the signals into mechanical vibrations of the artificial incus. These vibrations are transferred through a stapes prosthesis and applied to the oval window, an opening in the cochlea. The cochlea is thus mechanically stimulated and a hearing sensation created. Unlike a cochlear implant, Ingenia does not significantly enter the cochlea, so the inner-ear structure remains intact and the residual hearing is preserved.

Phonak Acoustic Implants will leverage both Phonak's and Advanced Bionics' know-how and network of relationships to advance the clinical and commercial success of Ingenia. Phonak Acoustic Implants will use Advanced Bionics' know-how concerning regulatory aspects as well as its established relationships with surgeons and clinics. Ingenia will rely on Phonak's proven signal processing technology and use fitting software built on Phonak's fitting software platform which has been successfully used on millions of hearing instruments.

Harmony® HiResolution® Bionic Ear System

That's how I join.

The Harmony HiResolution Bionic Ear System offers five times more sound resolution than any other cochlear implant system. It provides optimum sounds comfort and detail, robust listening even in noisy situations and access to the pleasures associated with music.

"Just a few weeks after I got my cochlear implant, I was able to understand nearly everything again. For a long time before that I was very isolated – and now I'm really blossoming. Today I enjoy being able to chat about everything with my colleagues."

SUSTAINED SUCCESS THROUGH RESPONSIBLE ACTION

High quality standards for Sonova Group products, employees with higher-than-average motivation and skills as well as long-term relationships with customers and suppliers are pre-requisite to the company's success. Responsible handling of raw materials and environmentally sound operations are also of central importance.

PRINCIPLES

Sustainable thinking and action are an integral part of the Sonova Group's daily operational business and a key factor in its long-term success. Improving the quality of life of people with hearing loss is at the heart of Sonova's activities. With this in mind, the Group is committed to continuously refining and optimizing its hearing healthcare solutions worldwide. Whether a person's hearing loss is mild or profound, Sonova provides hearing solutions to suit all needs and thus makes a valuable contribution to society.

Responsibility for sustainability issues and the further development thereof is vested at Group management level. The Group Vice President Corporate Human Resources is responsible for sustainability management in the areas of employee and social matters. The Group Vice President Operations looks after aspects concerning energy, the environment and suppliers. Sustainable customer relationships are the responsibility of the Group Vice President Marketing, and Compliance Management and Corporate Governance fall within the remit of the Chief Financial Officer.

In its dealings with employees, customers, suppliers, business partners and shareholders, the company follows generally recognized ethical principles.

EMPLOYEES

Focus on people

Within the hearing system industry, there is a need for continuous innovation, both in terms of products and service concepts. Whether the aim is to improve the performance of a particular hearing system or provide enhanced hearing advice for end customers, at every stage of the value chain, motivated, committed and creative employees constitute a key success factor for Sonova. The continued development of a strong corporate culture is thus a top priority for Sonova. Working at Sonova means flat hierarchies, respect for all employees, being performance and target oriented, responsibility for one's own actions, a high degree of transparency and open communication with all stakeholders.

Sonova has a Group-wide general employee mission statement. The most important points are: While people are of prime importance at Sonova, the company should also be the employer of choice for its employees. Personal success also means success for the company as a whole and the added value the company brings is based largely on team effort.

Personnel development is a top priority

Sonova aims to promote and develop employees professionally within the Group. The core areas of personnel development include technical training and the development of personal, social and leadership skills coupled with entrepreneurial thinking beyond one's own immediate field of operation.

There is a range of professional development programs in place across the corporation for the various levels of management, for example the "Leadership Excellence Program" and the "High Performance Program". Additional programs are offered on a local basis. All programs are held regularly. The composition of participant groups is international, ensuring that the professional development courses offer good opportunities for sharing experiences on an international and intercultural basis, in addition to their technical content. According to requirements, courses are also offered worldwide which specifically address current themes. In financial year 2009/10, for example, a retail "Business Academy" was established at all retail chains of the Group. The exchange of experiences as to how hearing solutions can be made more accessible to end users and more customers reached, played a significant role in this program. Another first was the "Financial Entrepreneurship" course, in which top management was trained in financial analysis and increasing added value. Both training programs will be continued in financial year 2010/11 in view of their great success.

In financial year 2009/10, some 3,000 employees attended training and professional development courses.

The focus is on value creation

The effectiveness of all personal processes in the Sonova Group is measured methodically and the performance and development of each individual employee is recorded and evaluated by means of a systematic assessment process. The performance and effectiveness of the employee is measured using the Human Capital Return on Investment (HCROI), which is calculated with reference to total sales generated and total costs, divided into HR-related and non-HR-related costs.

For financial year 2009/10, Sonova's HCROI was 1.86. This means that every CHF invested in an employee generates CHF 1.86 return. By way of comparison, the pharmaceuticals sector generates an average of 1.35 and general industry 1.20 per invested currency unit (European Human Capital Effectiveness Report, PriceWaterhouseCoopers). With above-average results, Sonova has also been significantly ahead of its peers for some years now.

Human Capital ROI of Sonova

in CHF m	FY 2009/10	FY 2008/09	FY 2007/08
Sales	1,500.3	1,249.2	1,204.8
Total costs	1,098.4	926.4	901.5
HR-related costs	467.4	396.6	364.0
Non-HR-related costs	631.0	529.8	537.5
HC ROI[1]	**1.86**	**1.81**	**1.83**

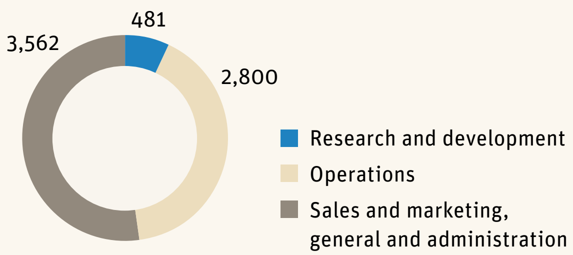
[1] Human Capital ROI = (Sales – non-HR-related costs)/HR-related costs.

Responsible behavior

The values and rules of behavior for Sonova Group employees are set down in an employee Code of Conduct applicable across the Group. Proper ethical conduct is very important to Sonova and is a part of its company culture as it strengthens the Group's reputation and establishes it as a reliable partner for the long term.

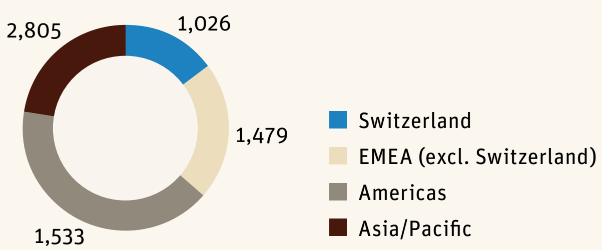
The employee Code of Conduct is binding for all employees working in the Sonova Group. Corresponding web-based training programs are continuously being implemented across the Group. Sonova also operates a Compliance Hotline, whereby all Sonova Group employees can voice their concerns anonymously. Calls are answered by independent specialists and forwarded to the relevant office within the corporation for further processing. The Code of Conduct is available on the Sonova website in 15 languages.

Employees by activity 2009/10



Following the expansion of corporate activities, as at March 31, 2010, the Sonova Group employed a total of 6,843 (prior year 5,339) staff, hence 28% more than the previous year. The emphasis placed on research and development is reflected by an increase of 169 employees to 481 in the headcount in this area. This includes additional 144 staff from acquisitions. The sales and marketing organization has been expanded further so as to improve market coverage with our own sales staff and meet the increased demand for hearing solutions. New posts were also created in operations to keep up with the expansion of the Group's sales volume. The headcount also increased following the acquisition of Advanced Bionics and InSound Medical in the USA and various smaller companies active in the distribution of hearing instruments.

Employees by region 2009/10



The rise in the number of people employed in the Americas by 46% is mainly attributable to the aforementioned acquisitions there, which are in the process of being integrated into the Sonova Group. The headcount in EMEA (excl. Switzerland) increased by 19% on the one hand due to the expansion of our sales and marketing teams and on the other hand due to the acquisition of Advanced Bionic's European distribution companies. Production capacities in China and Vietnam were expanded so as to fulfill increased demand for hearing systems.

CUSTOMERS AND SUPPLIERS

A further important aspect for successful business resides in the sustainability of relationships with customers and suppliers. Optimal reliability, consistently high quality and transparency in the business relationship form a solid basis for effective long-term collaboration.

For Sonova, creating sustainable added value for hearing specialists means more than just delivering top-quality, technologically advanced products. Service, training and the quality of advice offered to end users also play a key role in the hearing system business. For Sonova, suitable continuing professional development is vital, and the company organizes and supports various audiological conferences and conventions through its different brands.

In November 2009, for example, some 250 customers participated in the international Hearing Care for Adults conference "The challenge of aging" organized by Phonak in Chicago. Over 40 international participants per session registered for the third Phonak Virtual Audiology Conference, at which 18 internationally renowned speakers presented lectures and led discussion forums on a wide range of current audiological topics via the Internet.

This year around 300 people participated in the pediatric conference "Sound foundation through early amplification" in April 2010 in Stuttgart, and Sonova expects around 500 people to attend the international pediatric audiology conference in November 2010 in Chicago.

In its dealings with suppliers, too, the Group values high quality and long-term business relationships. Sonova has a Group-wide set of supplier guidelines, and their compliance is monitored on a regular basis. These set down the Corporate Governance and employment standards which all suppliers working with Sonova must observe. Sonova expects not only its own employees, but also suppliers to conduct themselves in a manner that is compatible with generally recognized ethical principles.

PRODUCTS

The production of hearing systems requires very high standards of quality at all levels. As an innovation and technology leader, Sonova strives to offer its customers the most technologically advanced products of unparalleled quality – not just with regard to their manufacture and safety, but also their user-friendliness and environmental footprint. To achieve these targets, Sonova has made a global commitment to uphold specific sustainability and quality principles.

The Sonova Group has a worldwide quality management system that concentrates on client focus, customer satisfaction, and also continuous improvement of products and processes. This is assured through certification in accordance with ISO 9001:2000 and 13485:2003. ISO 14001 certification is currently being prepared for the Sonova Group's main site in Stäfa, Switzerland.

In financial year 2009/10, nine product lines were launched without any problems, all of which meet high international quality standards.

All of Sonova's products are subject to the safety guidelines set down in the European Medical Devices Directive (MDD). Sonova's hearing systems are compliant with EU directive MDD 93/42/EEC and ISO standards 9001:2008 and 13485:2003. As a result, Sonova is not allowed to use any raw materials or substances in the production process that are classified as hazardous. This directive also places restrictions on the use of recycled or used components.

Supplementary technical certifications required by the EU Radio & Telecommunications Terminal Equipment Directive R&TTE 99/5/EU are applied – also to protect end customers – when using analogue or digital wireless technology. Sonova ensures biocompatibility in the use of the medical products it manufactures, in accordance with EN ISO 10993-1:2003. All products also have the relevant local homologation in each country where they are sold.

The product Lyric, by recently acquired InSound Medical, was cleared by the US Food and Drug Administration (FDA) in 2008 through the 510(k) process (K081136). As a medical device, Lyric is manufactured using processes and materials in compliance with the FDA Quality System Regulation 21 CFR § 820. InSound Medical has also been ISO 13485 certified since 2007 meaning it complies with international requirements for a medical device manufacturer as well.

The cochlear implant and its accessories, by recently acquired Advanced Bionics, are regulated medical devices which require approval in most global markets. In the United States, the HiRes 90K cochlear implant and its accessories were approved via a pre-market approval supplement which is filed with the FDA. Required approvals were also obtained from all other necessary markets. The HiRes 90K cochlear implant system also meets all other required performance standards.

ENVIRONMENT

Sustainable environmental management

Sonova is actively engaged in the protection of the environment and pursues the aim of preserving and promoting the safety and cleanliness of working and living areas throughout the Group. To this end, efficient use of natural resources, preventive measures to avoid products and processes having a damaging impact, minimization of waste and the safe and responsible disposal of residual waste constitute the basis of sustainable business practices.

Most of the materials that Sonova uses to manufacture its hearing systems are environmentally friendly. Use of materials and energy is modest compared with the manufacture of other medical devices. In view of continuous advances in the development of the manufacturing processes, consumption of raw materials, auxiliary materials and working materials is constantly being optimized. Sonova's products and processes therefore have a small environmental footprint. Nevertheless, Sonova endeavors constantly and in various ways to reduce the existing impact on the environment. Environmental standards that have been implemented Group-wide include:

Ban on CFCs

Since 1992, Phonak has avoided using chlorofluorocarbons, which damage the ozone layer, in its production processes across the Group.

RoHS compliance

The EU directive RoHS 2002/95/EC (Restriction of Hazardous Substances) was implemented Group-wide back in 2006 notwithstanding the currently applicable exemption for medical devices. This directive bans the use of substances that are damaging to the environment such as heavy metals or halogenated compounds in electrical and electronic equipment. Since financial year 2008/09, Sonova has only used lead-free components and therefore fully complies with the directive.

WEEE compliance

To optimize the use of raw materials and improve ecoefficiency, the Sonova Group extended its recycling measures across the entire product life cycle in 2006, thereby complying worldwide with the EU directive on Waste Electrical and Electronic Equipment (WEEE). This directive requires electrical and electronic consumer devices to be returned individually to the manufacturer for environmentally friendly disposal, rather than being dumped in the household rubbish. Sonova has signed up to a series of recognized disposal systems in different countries. If these systems do not exist, the company takes back the devices for correct disposal at the headquarters in Switzerland.

REACH-compliant suppliers

In financial year 2009/10, Sonova made sure that its suppliers could prove their compliance with the REACH ordinance (Registration, Evaluation, Authorisation and Restriction of Chemicals) for the safe manufacture and use of chemical substances within the European Union.

The key environmental data shown in the following table cover all Sonova production locations in Switzerland, the Operation Centers (OC) in China and Vietnam, and the most important Group Companies (GC) worldwide. Coverage is around 80% based on the number of employees. Country-specific emission factors from Ecoinvent and data from the Federal Office for the Environment (FOEN) were used to measure the carbon footprint.

Key environmental data

		Unit	2009/10 Switzerland	2008/09 Switzerland	2009/10 GC & OC (excl. Switzerland)	2008/09 GC & OC (excl. Switzerland)	2009/10 Sonova Group	2008/09 Sonova Group
Energy								
Total energy consumption		**MWh**	**6,687**	**7,208**	**14,633**	**12,927**	**21,320**	**20,135**
Mineral oil		MWh	1,842	2,098	13	1	1,856	2,098
Natural gas		MWh	69	57	2,410	2,183	2,479	2,240
Electricity		MWh	4,776	5,053	12,209	10,744	16,985	15,797
Greenhouse gases (CO_2 equivalents)								
Carbon Footprint	**(absolute)**	**t CO_2eq**	**1,137**	**1,239**	**9,792**	**7,684**	**10,929**	**8,923**
Carbon Footprint	(per employee)	t CO_2eq/ employee	0.92	1.03	2.92	2.57	2.38	2.13
Direct emissions	(fossil energy)	t CO_2eq	502	567	481	433	983	999
Indirect emissions	(electricity)	t CO_2eq	635	672	9,311	7,251	9,946	7,923
Air emissions								
Volatile organic compounds (VOC)		l	158	485	3,109	4,642	3,267	5,127
Water								
Water consumption		m^3	14,646	15,143	35,747	34,511	50,392	49,654
Waste								
Normal waste		t	164	162	404	467	568	629
Hazardous waste	Disposal	t	16	10	7	N/A	23	N/A

In financial year 2009/10, the total energy consumption of the Sonova Group increased by 6% to 21,320 MWh. This was driven primarily by growth and acquisitions, which led to a rise in the energy requirement of the Group Companies and Operation Centers. At the Swiss sites, on the other hand, a reduction in overall energy consumption of 7% to 6,687 MWh was achieved despite continuing growth.

The energy data for the Sonova Group are reflected in its carbon footprint, which shows a similar trend. Owing to a more precise method of calculation the emission values for 2009/10 increased compared to last year. However, with emissions currently totaling 10,929 tonnes of CO_2 equivalents (CO_2eq), the environmental impact remains minimal. This equates to an emission value of 2.38 tonnes of CO_2eq per employee. The current recording of greenhouse gas emissions is constantly being extended. The plan is to include air cargo and business trips by plane in the measurement of the footprint in the financial year 2010/11.

The Sonova Group's water consumption increased slightly in the reporting period, however waste volumes and, notably, emissions of volatile organic compounds (VOC) were reduced Group-wide.

State-of-the-art environmental management at the Stäfa site

Environmental protection is a long-standing tradition at the Stäfa site in Switzerland, which is home to both Sonova's headquarters and the Group's most important manufacturing center. Industrial ecology plays a crucial role in research and development. Local production guidelines and standards have been binding for all Group Companies since 1988 and are also applied at the Operation Centers in China and Vietnam in particular. However, Sonova's commitment to the environment goes beyond simply complying with legal requirements. This is reflected in the company's long-standing efforts to reduce the use of solvents and volatile organic compounds, for example.

With a view to eliminating CFCs, as far back as 1992, Sonova converted its basic purification steps in production to semi-aqueous and aqueous processes. As a result, 95% of cleaning solution used has been recycled and reused since then. With the leap in technology from electronic production to miniaturized hybrid procedures in 2008, multiple improvements have also been made in the cleaning system in terms of solvent, water and energy consumption. Together with putting a total stop to use of lead solder, this led to the cantonal environmental authorities granting an exemption from pre-treatment of rinsing water in 2009.

Cellulose thinner was completely replaced as a solvent in financial year 2009/10 by a new Cliché cleaning station, which is also based on an aqueous solution. This meant that in this financial year alone, a total reduction of 70% was achieved in the use of solvents and volatile organic compounds (VOC).

Improvements were also achieved in other areas: The switch-over from local production of printed marketing materials for all Phonak Group Companies to decentralized production in the respective countries that was implemented in 2009 resulted in a decline of around 50% in print volumes at headquarters and thus also transport volumes. The remaining local print jobs are being designed to be increasingly environmentally friendly. The share of FSC (Forest Stewardship Council)-certified paper used for printed materials produced at the Stäfa headquarters is currently around 75%.

Sonova also encourages its employees to make their own contribution to the environment. The proportion of commuters who travel to work using public transport was maintained at over 50%, despite the increase in the number of employees. The mobility program at the Stäfa headquarters which was launched in financial year 2008/09 will also be continued in future – accompanied by one-off awareness campaigns.

Sonova manufacturing and technology center in Stäfa

Introduction of a new environmental management system according to ISO 14001:2004

As part of its efforts for the pooling and targeted expansion of its environmental activities, Sonova decided that Phonak AG Stäfa would be the first and most important site to undergo ISO 14001 certification. This international standard stipulates guidelines and requirements with which professional environmental management should comply. Key elements include determining a corporate environmental policy, defining environmental objectives and programs and implementing a corresponding management system to manage processes. The standard focuses on continual improvement as a means to achieve individual targets.

Phonak's environmental management system is currently being developed and looks set to be certified in summer 2010. However, the key points have already been defined. The following selection of planned and already initiated measures gives an impression of what environmental protection will mean at Phonak/Sonova in the future.

Natural resources

Numerous measures are planned to increase the efficiency of infrastructure. Specific consumption of overall energy, mineral oil, natural gas, electricity, water and paper will be monitored and lowered over the long term. Use of renewable energies will be evaluated on an ongoing basis.

Carbon footprint

A strategy is currently being developed to reduce specific CO_2 emissions.

Environmentally friendly suppliers

Environmentally friendly business practices will be extended throughout the entire supply chain. For example, environmental criteria will play an even greater role when selecting suppliers in the future.

NEW MANUFACTURING AND TECHNOLOGY CENTER IN STÄFA, SWITZERLAND

After around two years of planning and construction, Sonova was able to bring the new manufacturing and technology center in Stäfa on stream in February 2010. The third extension to the Group headquarters is the most important center of overall global hearing instrument production, with state-of-the-art infrastructure for some 300 jobs. The increased capacity created by the new building not only represents a milestone in production, it also sets new standards in terms of sustainability. The construction of the building shell, the intelligent building equipment and targeted heat recovery systems guarantee minimal energy consumption. Thus, the heat energy produced from the generation of compressed air is used to heat the industrial water circuit, while gray water from the osmosis system for air humidification is used to flush toilets. Where other production processes generate excess heat, this is dissipated locally, conserving cooling energy and directly preventing inefficiencies in the air conditioning.

A sophisticated building automation system enables adaptive control and efficient management of the infrastructure and has an integrated measuring system for transparency in evaluating usage. The lighting control system alone has generated energy savings of 15% compared to the existing system. Heating has been switched from oil to natural gas, which has significantly lower CO_2 emissions. Finally, occupational safety has been further improved: Every potentially high-risk work station in the new building – for example, those for soldering or gluing – has its own contaminant extraction system to protect employees.

Sustainable procurement

Environmental friendliness, in particular energy efficiency, will be taken into account as an additional criterion when purchasing electronic equipment and investing in resources.

Environmentally friendly product packaging

A novel packaging concept for global delivery of hearing instruments that has been developed in line with environmental criteria is currently being tested. The potential savings on material consumption, transport and waste volumes have been estimated at some 25% for the next one to three years.

Marketing material

In the long term, all printed material will be produced under the FSC (Forest Stewardship Council) label.

Mobility

The employee mobility program with incentives for choosing public transport to commute is being continued. Business trips by plane will be reduced as far as possible through promotion of modern communication solutions.

SOCIAL RESPONSIBILITY

The Sonova Group is involved in a large number of projects aimed at raising public awareness of good hearing. The most important of these is Phonak's *Hear the World* initiative, launched in 2006. The initiative is active in three areas: prevention, support and solutions. *Hear the World* raises public awareness of the importance of hearing, explains the consequences of hearing loss, and demonstrates the benefits of available solutions.

Prevention is of critical importance. Research has shown that hearing is the sense that can be protected most effectively. *Hear the World* explains the risks to the public and conveys how hearing loss can be prevented – for example, by using hearing protection.

Despite all of the difficulties in overcoming the problem in day-to-day life, people with hearing loss wait on average 10 years before looking for a solution. This not only leads to a drastic deterioration in quality of life for those affected, but can also result in a loss of the ability to recognize everyday sounds. The psychological consequences, which are often caused by the isolation that accompanies hearing loss, should not be underestimated.

In order to support and enlighten those affected, *Hear the World* has positioned itself with a new website as the leading address on the internet for people looking for information about hearing and hearing loss. To this end, in addition to a hearing test, the website also offers a hearing community with interactive elements: an expert panel, and

Queen Rania of Jordan with children of the Al-Amal School in Zarqa, Jordan

a helper database enabling exchanges between those affected and the people close to them with one another, as well as dialog with specialists. The award-winning *Hear the World* magazine is now also available online, featuring unexpected topics around the subject of hearing. Each of these important means of communication are a significant contribution to enlightening the public about the importance of hearing health awareness.

Hear the World has received praise internationally, from media to renowned international personalities and end customers alike. The number of *Hear the World* ambassadors who have been photographed by Bryan Adams and draw attention to the subject of hearing, has now increased to almost 40.

The Sonova Group supports a variety of social projects aimed at improving the quality of life of people with hearing loss. This goal is also pursued by the independent, charitable *Hear the World* Foundation. The Foundation supports hearing-related projects financially as well as by providing technology and informational materials.
For example, in financial year 2009/10, the *Hear the World* Foundation supported a school in Mauritius for children with limited hearing and vision. In addition, with the support of the *Hear the World* Foundation, the Hearing Foundation of Canada started to develop a prevention program for noise-induced hearing damage for Canadian high school students. The program aims to explain the impact of hearing damage on quality of life to the students, demonstrate strategies to prevent hearing damage to them, and enlist them as active partners to share the information with others.

GIVING CHILDREN THE GIFT OF HEARING

Al-Amal in Zarqa, Jordan: Children with hearing loss go to school here. Until now, they have had no hearing aids, which is why the children could hardly communicate with one another and their speech development was slow. During a visit to the school in spring of 2009, the members of the Young Global Leaders Forum realized that hearing aids would be able to make a radical change in the children's lives and established contact with the *Hear the World* Foundation. In September 2009, Valentin Chapero Rueda, CEO of Sonova and President of the *Hear the World* Foundation, presented a hearing aid donation. The children then received powerful hearing aids and FM systems, as a result they are now able to fully realize their potential, communicate once again with other children and regain significant quality of life.

The Al-Amal School is part of the Madrasati initiative sponsored by Queen Rania Al Abdullah of Jordan. Madrasati means "my school" in Arabic and the initiative aims to improve the learning environment in public schools in Jordan to provide children with the prerequisites they need for a better future.

Queen Rania of Jordan expressed her sincere thanks to the *Hear the World* Foundation on behalf of the children. "I can only imagine what these hearing aids will mean to the children of the Al-Amal school – namely the chance to finally be part of the conversation and to enjoy the incidental nuances of life: birdsong, the call to prayer, the laughter of friends. Not to mention what it means for their future job security and personal happiness. For them, the gift of hearing means a fuller, more lyrical life; and for that, I know they're grateful."

That's how I save lives.

Serenity DPC

Serenity DPC combines electronic level-dependent protection with a communication headset. This makes it the product of choice for use in environments with fluctuating noise levels where clear communication is always required, such as rescue situations or firefighting.

"As a firefighter, I often have to make decisions in the midst of noise and confusion. I always wear my hearing protection device. This way, my hearing does not suffer and I can also communicate clearly by radio at all times. With this device I have everything under control."

RESPONSIBILITY AND TRANSPARENCY FOR ALL STAKEHOLDERS

For Sonova, commitment to responsible Corporate Governance means a balance between entrepreneurship and transparent reporting as well as the safeguarding of shareholder interests.

Creating transparency and maintaining an equilibrium between entrepreneurship, control and transparent reporting is the primary goal of good Corporate Governance. The Sonova Group is totally committed to both progressive and sustainable corporate management and takes its social responsibility very seriously. Within the Sonova Group, the Board of Directors works together with the Management Board to continually develop Corporate Governance. It bases its efforts on the Swiss Code of Best Practice and the latest Corporate Governance principles.

All the relevant documents can be accessed at the Corporate Governance section of the Sonova website (www.sonova.com/en/commitments/corporategovernance).

Changes in financial year 2009/10

At the Annual General Shareholders' Meeting on June 10, 2009, Anssi Vanjoki, Ronald van der Vis and Valentin Chapero Rueda were elected to the Board of Directors by a large majority. Valentin Chapero Rueda is also the CEO of Sonova Holding AG and the only executive member of the Board of Directors.

In order to meet the requirements for increased transparency, Sonova revised the section covering compensation and shareholding.

The newly acquired companies Advanced Bionics, InSound Medical and further smaller acquisitions were also included in the Group and taken into account in this Corporate Governance report.

The share buy-back program initiated on September 20, 2007, was officially terminated on November 9, 2009.

Following the introduction of the Swiss Federal Act on Intermediated Securities (FISA) on January 1, 2010, the company plans to revise the Articles of Association of Sonova Holding AG in line with the new act at the General Shareholders' Meeting on June 15, 2010. The postponed printing of share certificates that is so far provided for in the Articles of Association can therefore be replaced. Shareholders will continue to have the possibility of requesting written evidence of their shareholding – although a printed share certificate in the form of a security will no longer be available. This change will simplify administration and corresponds to current practice among Swiss public limited companies.

At this year's General Shareholders' Meeting on June 15, 2010, the Board of Directors will propose that shareholders elect a new member to that body who, through his knowledge and experience, will be able to make a significant contribution to the decisions made by the Board of Directors.

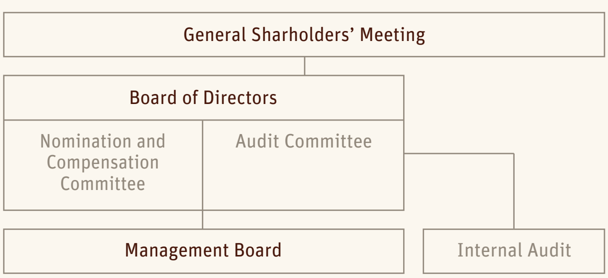
The present report describes the principles of Corporate Governance for the Sonova Group and provides background information on the Group's executive officers and bodies effective March 31, 2010. The report is based on the general principles of Corporate Governance set down in the Articles of Association and the Organizational Regulations, which in turn comply with the Directive on Information relating to Corporate Governance published by the SIX Swiss Exchange.

Group structure

Operational Group structure

The Sonova Group is headquartered in Stäfa, Switzerland, and is active in over 90 countries through its 65 subsidiaries in over 30 countries plus a network of independent distributors. Sonova Holding AG is the parent company of the Sonova Group and is listed on the SIX Swiss Exchange.

The following chart shows the operational Group structure as of March 31, 2010:



The following chart shows the structure of the Management Board as of March 31, 2010:

Listed companies

Apart from Sonova Holding AG, no other company belonging to the consolidated Sonova Group is listed on any stock exchange.

Key data for the share of Sonova Holding AG as of March 31:

	2010	2009	2008
Market capitalization in CHF m	8,658	4,557	6,145
in % of equity	615 %	444 %	669 %
Share price in CHF	131.00	68.80	91.10
P/E ratio	24.2x	16.0x	22.4x

Registered office	8712 Stäfa, Switzerland
Listed on	SIX Swiss Exchange
Security no.	1254978
ISIN	CH0012549785
Ticker symbol	SOON
Par value	CHF 0.05

Non-listed companies

The organizational chart on the following page shows the principal companies of the Sonova Group as of March 31, 2010 (registered office, share capital in local currency and significant shareholdings in %).

Sonova Holding AG	Stäfa (CH)	CHF	3,305	
Switzerland				
Phonak AG	Stäfa (CH)	CHF	2,500	99.3%
Phonak Acoustic Implants SA	Lonay (CH)	CHF	1,000	100%
Phonak Communications AG	Murten (CH)	CHF	500	100%
Phonak Hearing Systems AG	Stäfa (CH)	CHF	100	100%
Advanced Bionics AG	Zug (CH)	CHF	4,350	100%
Indomed AG	Zug (CH)	CHF	1,000	100%
Indomed Hearing Systems GmbH	Stäfa (CH)	CHF	20	100%
Verve Hearing Systems AG	Stäfa (CH)	CHF	100	100%
EMEA (excluding Switzerland)				
Hansaton Akustische Geräte-Gesellschaft m.b.H.	Wals-Himmelreich (AT)	EUR	450	100%
Advanced Bionics NV	Brussels (BE)	EUR	62	100%
Phonak Belgium NV	Dilbeek (BE)	EUR	15,311	100%
Ets. Lapperre BHAC NV	Groot-Bijgaarden (BE)	EUR	124	100%
HIMSA A/S	Copenhagen (DK)	DKK	1,000	25%
Phonak Danmark A/S	Frederiksberg (DK)	DKK	11,075	100%
Advanced Bionics Sarl	Mulhouse (FR)	EUR	12,000	100%
Phonak France SA	Bron-Lyon (FR)	EUR	305	100%
Advanced Bionics European Research Center GmbH	Hanover (DE)	EUR	25	100%
Advanced Bionics GmbH	Munich (DE)	EUR	26	100%
Phonak GmbH	Fellbach-Oeffingen (DE)	EUR	25	100%
Unitron Hearing GmbH	Fellbach-Oeffingen (DE)	EUR	41	100%
Phonarium Szolgáltató Kft.	Budapest (HU)	HUF	5,000	49%
Advanced Bionics Srl	Milan (IT)	EUR	10	100%
Phonak Italia Srl	Milan (IT)	EUR	1,040	100%
TRE S.A.	Luxembourg (LU)	EUR	31	100%
Phonak B.V.	Vianen (NL)	EUR	227	100%
Unitron Hearing B.V.	Vianen (NL)	EUR	18	100%
Phonak AS	Oslo (NO)	NOK	900	100%
Unitron Hearing AS	Oslo (NO)	NOK	6,100	100%
Phonak Polska Sp. Z o.o.	Warsaw (PL)	PLN	100	100%
Phonak CIS Ltd.	Moscow (RU)	RUB	4,000	100%
Advanced Bionics Spain, Srl	Alicante (ES)	EUR	3	100%
Phonak Ibérica S.A.U.	Alicante (ES)	EUR	7,000	100%
Phonak AB	Stockholm (SE)	SEK	200	100%
Unitron Hearing AB	Stockholm (SE)	SEK	100	100%
Phonak Duyu Sistemleri Ithalat Ihracat Ticaret Pazarlama Limited Sirketi	Istanbul (TR)	TRY	655	100%
Advanced Bionics UK Ltd.	Cambridge (UK)	GBP	0.1	100%
Phonak Group Ltd.	Warrington (UK)	GBP	2,500	100%
Lukatit Investments 14 (Pty) Ltd	Fourways North (ZA)	ZAR	0.4	100%
Americas				
Phonak do Brasil – Sistemas Audiológicos Ltda.	São Paulo (BR)	BRL	570	100%
National Hearing Services Inc.	Victoria BC (CA)	CAD	7,500	100%
Phonak Canada Ltd.	Mississauga (CA)	CAD	88,694	100%
Unitron Hearing Ltd.	Kitchener (CA)	CAD	17,436	100%
Unitron Hearing Colombia Ltd.	Bogotá (CO)	USD	100	100%
Advanced Bionics Mexico S.A. de C.V.	México D.F. (MX)	MXN	50	100%
Bionic Services Mexico S.A. de C.V.	México D.F. (MX)	MXN	50	100%
Phonak Mexicana S.A. de C.V.	México D.F. (MX)	MXN	50	100%
Advanced Bionics LLC	Valencia (US)	USD	143,937	100%
InSound Medical, Inc.	Newark (US)	USD	0.01	100%
Newport Health Network, Inc.	Greenwood Village (US)	USD	610	100%
Phonak LLC	Warrenville (US)	USD	1,250	100%
Unitron Hearing, Inc.	Plymouth (US)	USD	46,608	100%
Asia/Pacific				
Hearing Retail Group Pty. Ltd.	Sydney (AU)	AUD	0.1	100%
Phonak Pty. Ltd.	Baulkham Hills (AU)	AUD	750	100%
Phonak (Shanghai) Co., Ltd.	Shanghai (CN)	CNY	20,041	100%
Sichuan i-hear Co., Ltd.	Sichuan (CN)	CNY	19,119	100%
Unitron Hearing (Suzhou) Co., Ltd.	Suzhou (CN)	CNY	46,249	100%
Advanced Bionics Asia Pacific Ltd	Hong Kong (HK)	HKD	10	100%
Phonak India Pvt. Ltd.	Navi Mumbai (IN)	INR	100	100%
Nihon Bionics Co.., Ltd.	Tokyo (JP)	JPY	35,000	100%
Phonak Japan Co., Ltd.	Tokyo (JP)	JPY	10,000	100%
Phonak Korea Ltd.	Seoul (KR)	KRW	50,000	100%
Unitron Hearing Korea Co., Ltd.	Seoul (KR)	KRW	200,000	37.5%
Phonak New Zealand Ltd.	Auckland (NZ)	NZD	250	100%
Phonak Singapore Pte Ltd	Singapore (SGP)	SGD	250	100%
Phonak Operation Center Vietnam Co., Ltd.	Binh Duong (VN)	VND	36,156,000	100%

Share capital in local currency in 1,000

Shareholders

Registered shareholders

As of March 31, the shareholdings of registered shareholders were distributed as follows:

Number of shares	Registered shareholders 31.3.2010	Registered shareholders 31.3.2009
1 – 100	5,818	5,418
101 – 1,000	8,988	9,761
1,001 – 10,000	1,402	1,656
10,001 – 100,000	165	167
100,001 – 1,000,000	28	26
> 1,000,000	7	7
Total registered shareholders	**16,408**	**17,035**

Significant shareholders

The following overview shows the shareholdings of significant registered shareholders as of March 31:

	2010	2010	2009
	Number	in %	in %
Andy Rihs[1]	7,059,100	10.68	10.66
Chase Nominees Ltd.[2]	6,901,553	10.44	9.69
Beda Diethelm[1]	6,733,625	10.19	10.97
Hans-Ueli Rihs[1]	4,465,813	6.76	8.36
Registered shareholders with less than 3% of shares	23,594,743	35.70	36.36
Not registered	17,335,913	26.23	23.96
Total shares	**66,090,745**	**100.00**	**100.00**

[1] The founding shareholders Andy Rihs, Beda Diethelm and Hans-Ueli Rihs were already shareholders before the Initial Public Offering in November 1994. There are no shareholders' agreements between these individuals.
[2] Registered without voting rights.

In addition, the following shareholders of Sonova Holding AG have reported shareholdings of over 3%:

FMR LLC has informed the company that it held 5.12% of the share capital as of December 7, 2007.

FIL Limited has informed the company that it held 3.02% of the share capital as of September 3, 2009. Earlier they informed the company that they held less than 3%. The following overview shows the reported shareholdings of FIL Limited in the reporting period:

Date	Purchase positions in %	Sale positions in %
September 3, 2009	3.02	
June 11, 2009	below 3.00	

MFS Investment Management has informed the company that it held less than 3% of the share capital as of October 5, 2009.

BlackRock Inc. has informed the company that it held 3.05% of the share capital on February 4, 2010.

Shareholder structure

The following overview shows the shareholder structure by type of shareholder:

Type	31.3.2010	31.3.2009
Individuals	28 %	31 %
Legal entities	25 %	25 %
Nominees, fiduciaries	21 %	20 %
Not registered	26 %	24 %
Total	**100 %**	**100 %**

The following overview shows the shareholder structure by shareholder origin:

Origin	31.3.2010	31.3.2009
Switzerland	38 %	40 %
Europe (excl. Switzerland)	32 %	32 %
Americas	3 %	3 %
Rest of world	1 %	1 %
Not registered	26 %	24 %
Total	**100 %**	**100 %**

Cross-shareholdings

Sonova Holding AG has no cross-shareholdings with other companies.

Capital structure

Capital

As of March 31, 2010, the capital of Sonova Holding AG comprised the following:

Ordinary capital (in CHF)	3,304,537
Total shares	66,090,745
Authorized capital (in CHF)	165,576
Authorized shares	3,311,520
Conditional capital (in CHF)	320,234
Conditional shares	6,404,675

Authorized and conditional capital

Authorized capital

The General Shareholders' Meeting held on June 10, 2009, approved the creation of authorized share capital of 3,311,520 registered shares with a par value of CHF 0.05 per share. The Board of Directors is authorized to exclude subscription rights of shareholders and to allocate them to third parties if the new shares are to be used for the acquisition of companies, parts of companies, equity stakes or the financing of such transactions. The authorization granted to the Board of Directors to augment the company's share capital by the authorized share capital hereby created expires on June 9, 2011.

Conditional capital

The General Shareholders' Meeting held on July 7, 2005, approved the creation of conditional share capital of 3,301,120 registered shares with a par value of CHF 0.05 per share. The purpose of the additional conditional share capital created is to improve the company's financial flexibility. This capital may be used for exercising option and conversion rights granted in connection with bonds or similar debt instruments issued by the company for the purpose of financing the acquisition of companies, parts of companies or shareholdings.

At the General Shareholders' Meetings in 1994 and 2000, conditional share capital of 8,000,000 registered shares with a par value of CHF 0.05 per share was created for the purpose of offering Sonova shares, through an option program, to key employees of the Sonova Group.

Changes in capital

As of March 31, the capital of Sonova Holding AG comprised the following:

	2010	2009	2008
Ordinary capital (in CHF)	3,304,537	3,311,529	3,372,575
Total shares	66,090,745	66,230,584	67,451,506
Authorized capital (in CHF)	165,576	167,813	167,813
Authorized shares	3,311,520	3,356,260	3,356,260
Conditional capital (in CHF)	320,234	349,167	357,871
Conditional shares	6,404,675	6,983,336	7,157,414

The authorized share capital of 3,311,520 registered shares created on June 10, 2009, has not yet been used.

A total of 4,896,445 of a maximum of 8,000,000 approved conditional shares with a par value of CHF 0.05 each have been issued, so that the maximum conditional share capital reserved for key employees' share option plans was reduced by March 31, 2010, to 3,103,555 (previous year 3,682,216) shares. In the financial year 2009/10, a total of 517,532 options were granted as part of the Sonova Executive Equity Award Plan (EEAP). In the previous years 2008/09 and 2007/08, the number of options granted totaled 678,040 and 386,224, respectively. As of March 31, 2010, there were still 2,337,728 options outstanding (compared with 2,548,279 the previous year). Each of these options entitles the holder to purchase one registered share in Sonova Holding AG with a par value of CHF 0.05.

The conditional share capital of 3,301,120 registered shares, which was created on July 7, 2005, in order to increase the company's financial flexibility, has not yet been used.

Shares and participation certificates

Sonova Holding AG registered shares have been listed on the Swiss stock exchange (SIX Swiss Exchange) since November 1994. The Annual General Shareholders' Meeting of July 5, 2001, approved a capital reduction and a repayment of CHF 15 on the par value per share. At the same time, the shareholders approved a 1:100 stock split. This reduced the par value of Sonova registered shares from CHF 20 to their current value of CHF 0.05. The share capital is fully paid up. With the exception of the treasury shares held by the company itself, each share represents one vote at the General Shareholders' Meeting and is entitled to dividend payments.

On November 9, 2009, Sonova announced that it would terminate the share buy-back program launched on September 20, 2007, for up to 10% of the share capital. A total of 2,113,500 registered shares with a par value of CHF 0.05 each were repurchased at an average price of CHF 94.98, which represents 3.15% of the share capital as of the date the share buy-back program was initiated. The repurchase volume totaled CHF 200.7 million. Repurchase of shares was handled by means of a second trading line that was set up at SIX Swiss Exchange AG specifically for share buy-back. All repurchased shares were destroyed.

The following overview shows the treasury shares held by the company as of March 31:

	2010	2009
First trading line	204,088	162,809
Second trading line [1]	0	718,500
Total treasury shares	**204,088**	**881,309**

[1] The share buy-back program approved by the Board of Directors on August 15, 2007, was terminated on November 9, 2009.

Sonova Holding AG has not issued any participation certificates.

Profit sharing certificates

Sonova Holding AG has not issued any profit sharing certificates.

Limitations on transferability and nominee registrations

Limitations on transferability for each share category

To be recognized as a shareholder with full voting rights, the acquirer of shares must submit a written application for registration in the share register. The company may refuse registration in the share register if applicants do not explicitly declare that they have acquired and will hold the shares in their own name and for their own account. Registration in the share register as a shareholder with voting rights is limited to 5% of share capital (Art. 8 para. 6 of the Articles of Association). Linked parties are considered one person. This registration restriction does not apply to founding shareholders. The Board of Directors may approve other exceptions if it has good reason to do so, in which case no special quorum is required.

Exceptions granted in the year under review

No exceptions were granted by the Board of Directors during the reporting period.

Admissibility of nominee registrations

The Board of Directors can issue regulations specifying the conditions under which fiduciaries/nominees are recognized as shareholders with voting rights (Art. 8 para. 5 of the Articles of Association).

Procedure and conditions for canceling statutory privileges and limitations on transferability

A resolution of the General Shareholders' Meeting approved by an absolute majority of the votes represented is sufficient for cancellation.

Convertible bonds and options

Sonova Holding AG has not issued any convertible bonds.

The executive and employee share ownership program of Sonova Holding AG (Executive Equity Award Plan) and Advanced Bionics (EEAP Welcome AB 2010) are described in greater detail on page 122 ff. in Note 30 of the Consolidated Financial Statements.

Andy Rihs
Chairman since 1992, non-executive

William D. Dearstyne
Vice-Chairman since 2004, non-executive

Board of Directors

The primary duty of the Board of Directors of Sonova Holding AG is the overall direction of the company and the supervision and control of management.
Except for Valentin Chapero Rueda, who was elected to the Board of Directors at the General Shareholders' Meeting on June 10, 2009, and is also the CEO of Sonova Holding AG, no member of the Board of Directors holds an executive management position or has held such a position in the past three years within the Sonova Holding AG or any of its subsidiaries
The Sonova Group finished the construction of a new production plant on a site next to its headquarters in Stäfa, Switzerland. The factory was built by the general contractor R-Estate AG. The land belonged to ARim AG and was purchased by Sonova. The terms for purchasing the land and constructing the factory is identical to those that would be stipulated in an agreement with any independent third party.
Effective from October 23, 2007 the Group entered into a lease contract for the commercial building at Laubisrütistrasse 44, 8712 with ARim AG.
There is also a business agreement concerning leasing of space on the ground floor of ARim AG's planned commercial building at Laubisrütistrasse, 8712 Stäfa. This space is also intended to be used as a child care center for children of employees at the Stäfa headquarters.
Both R-Estate AG and ARim AG are wholly owned by Andy Rihs, Chairman of the Board of Directors of Sonova Holding AG.
Apart from the relationships mentioned above, there are no business connections between individual board members, including companies or organizations represented by them, and the Sonova Group.

Members of the Board of Directors

Andy Rihs (born in 1942, Swiss citizen) has been Chairman of the Board of Directors of Sonova Holding AG since 1992. He is one of the company's founders, together with his business partner Beda Diethelm and his brother Hans-Ueli Rihs. He also owns several companies, which are mainly active in the real estate and cycling business.
In 1966 Andy Rihs joined Beda Diethelm, who had come to Phonak a year earlier as technical manager, and concentrated on the company's marketing and commercial operations. He first established a sales organization for Switzerland and later gradually built up a global distribution network. Andy Rihs managed the Sonova Group as CEO until April 2000 and again as interim CEO from April to September 2002. Under his leadership, the company grew continuously and established an outstanding reputation as a provider of technologically advanced products. Andy Rihs completed his education and business training primarily in Switzerland and France.

Other activities:

Chairman of the Board of ARfinanz Holding AG
Chairman of the Board of ISH International Sport Holding AG
Chairman of the Board of R-Estate AG
Chairman of the Board of ARim AG
Chairman of the Board of AR Gastronomia AG
Member of the Board of Sport und Event Holding AG

William D. Dearstyne (born in 1940, US citizen) retired in April 2003 from his position as Company Group Chairman and member of the Medical Devices and Diagnostics Group Operating Committee of Johnson & Johnson. During his 34 year career, he managed various healthcare companies and gained valuable business experience in Asia, Central and Eastern Europe and in Latin America.
He served in many different management positions during his 26 years at Johnson & Johnson. During this period he played a key role in two major acquisitions – Cordis and DePuy. Today, both companies are leaders in their respec-

Heliane Canepa
Member, non-executive

Dr. Michael Jacobi
Member, non-executive

tive markets, interventional cardiology and orthopedics. William D. Dearstyne studied at Bucknell University in Lewisburg, Pennsylvania, and at Syracuse University in New York, where he earned an MBA in International Business.

Other activities:
Member of the Advisory Council of Earlybird Venture Capital GmbH & Co.
Member of the Board of Trustees of Bucknell University
Member of the Board of Bioness, Inc.

Heliane Canepa (born in 1948, Swiss citizen) was President and CEO of Nobel Biocare AB, Sweden, and CEO of the group's parent company, Nobel Biocare Holding AG, until September 1, 2007.
Before joining Nobel Biocare, Heliane Canepa was CEO for 20 years of Schneider Worldwide, a cardiology medtech company based in Switzerland and the United States that manufactures balloon catheters. In 1995 she was named Switzerland's "Female Entrepreneur of the Year" and in 2000 and 2006 "Entrepreneur of the Year". In 2005 she was ranked No. 6 in the Financial Times' list of the top 25 businesswomen in Europe.
Heliane Canepa completed business school in Dornbirn, Austria, and continued her studies at West London College in London, Sorbonne University in Paris, and the Foreign Executive Development Program at Princeton University in New Jersey (USA).

Other activities:
Member of the Board of Mayoris AG

Dr. Michael Jacobi (born in 1953, Swiss and German citizen) has worked as an independent consultant since 2007. From 1996 to 2007 he was CFO and member of the Executive Committee of Ciba Spezialitätenchemie AG. Prior to this (from 1978 on), he held various management positions in the area of finance at Ciba Geigy Group in Brazil, the United States and Switzerland.
Michael Jacobi studied economics and business administration at the University of St. Gallen in Switzerland, the University of Washington in Seattle and the Harvard Business School in Boston. He received a doctoral degree from the University of St. Gallen in 1979 with a dissertation on international accounting standards.

Other activities:
Member of the Board of Hilti AG
Member of the Board of Actelion Pharmaceuticals Ltd
Member of the Board of Trustees of Martin Hilti Family Trust

Robert F. Spoerry
Member, non-executive

Anssi Vanjoki
Member, non-executive

Robert F. Spoerry (born in 1955, Swiss citizen) is Chairman of the Board of Mettler-Toledo International Inc., a leading global manufacturer and marketer of precision instruments and related services for laboratories, industry and the food retail sector.
Robert F. Spoerry joined Mettler-Toledo in 1983 and was Chief Executive Officer from 1993 to 2007. He led the buyout of Mettler-Toledo from the Ciba-Geigy group in 1996 and the company's subsequent initial public offering on the New York Stock Exchange (NYSE) in 1997. He became Chairman of the Board in 1998.
Robert F. Spoerry has a degree in mechanical engineering from the Swiss Federal Institute of Technology in Zurich, Switzerland, and holds an MBA from the University of Chicago.

Other activities:
Chairman of the Board of Mettler-Toledo International Inc.
Member of the Board of Conzzeta Holding AG
Member of the Board of Schaffner Holding AG
Member of the Board of Holcim Ltd.
Member of the Board of Geberit AG

Anssi Vanjoki (born in 1956, Finnish citizen) has been Executive Vice President und General Manager of the Markets Division of Nokia since 2008 and member of the Nokia Group Executive Board since 1998. He is also Chairman of the Board of Amer Group Plc, one of the world's leading suppliers of athletic products, headquartered in Finland.
Before Anssi Vanjoki joined Nokia, he held various positions at the 3M Corporation.
Anssi Vanjoki has a Master's Degree in Business Administration from the Helsinki School of Economics and Business Administration.

Other activities:
Member of the Executive Board of the Nokia Group
Chairman of the Board of Amer Group Plc
Member of the Board of Koskisen Oy

Ronald van der Vis
Member, non-executive

Dr. Valentin Chapero Rueda
Member, executive

Ronald van der Vis (born in 1967, Dutch citizen) has been Group Chief Executive Officer of Esprit Holdings Limited since November 1, 2009, and Executive Director of the Board since June 22, 2009. Esprit Holdings is listed on the Hong Kong Stock Exchange and included in the Hang Seng Index. Previously he held various general management positions at Pearle Europe B.V., a leading optical chain. He was Chief Executive Officer of Pearle Europe from January 2004 to April 2009.
Ronald van der Vis studied at the Nyenrode Business University in the Netherlands and received his Master's Degree in Business Administration from the Manchester Business School in the UK.

Other activities:
Group Chief Executive Officer of Esprit Holdings Limited
Executive Director of the Board of Esprit Holdings Limited

Dr. Valentin Chapero Rueda (born in 1956, Spanish citizen) joined the Sonova Group as CEO in October 2002.
He was previously Head of the Mobile Networks Division of Siemens AG. From mid-1996 to the end of 1999, he was CEO of Siemens Audiologische Technik GmbH, which at that time was the world's largest hearing instrument manufacturer. He took the company into the digital era, tripling sales and significantly improving profitability. He began his career in the R&D department of Nixdorf Computer AG.
Valentin Chapero Rueda grew up in Germany as the son of Spanish parents. He studied physics at the University of Heidelberg in Germany and was awarded his doctorate with a dissertation in the field of medical physics.

Other activities:
Chairman of the European Hearing Instrument Manufacturers' Association (EHIMA), an industry organization

Other activities and vested interests

Apart from Valentin Chapero Rueda's position as Chairman of the EHIMA, none of the members of the Board of Directors has any position in a governing or supervisory body of any important public or private sector organization, institution or foundation; any permanent management or consultancy position with an important interest group; or any public or political office.

Elections and terms of office

Election procedure and limits on the terms of office

The Articles of Association of Sonova Holding AG state that the Board of Directors must consist of a minimum of three and a maximum of nine members. The members of the Board of Directors of Sonova Holding AG are elected individually by the General Shareholders' Meeting. In general, each member is elected for a term of three years. The term ends on the day of the Shareholders' Meeting for the last business year of the term. If a replacement is elected to the Board of Directors during a member's term, the newly elected member finishes the predecessor's term.

According to the Organizational Regulations, reelections for successive terms are possible. After reaching the age of 70, members of the Board of Directors automatically retire on the date of the next General Shareholders' meeting. In exceptional cases the Board of Directors can make an exemption.

First election and remaining term of office

The following overview shows the date of first election and the remaining term of office for each member of the Board of Directors. The new members of the Board of Directors who were elected at the last General Shareholders' Meeting – Anssi Vanjoki, Ronald van der Vis and Valentin Chapero Rueda – are included for the first time.

Name	Position	First elected	Term expires
Andy Rihs	Chairman	1985	AGM 2012
William D. Dearstyne[1]	Vice-Chairman	2003	AGM 2011
Heliane Canepa	Member	1999	AGM 2011
Dr. Michael Jacobi	Member	2003	AGM 2012
Robert F. Spoerry	Member	2003	AGM 2012
Anssi Vanjoki	Member	2009	AGM 2012
Ronald van der Vis	Member	2009	AGM 2012
Dr. Valentin Chapero Rueda	Member and CEO	2009	AGM 2012

[1] According to the Organizational Regulations of Sonova Holding AG, William D. Dearstyne will retire as member of the Board of Directors on the General Shareholders' Meeting in June 2011.

Internal organizational structure

Allocation of tasks within the Board of Directors

The Board of Directors constitutes itself. It appoints a Chairman, Vice-Chairman and a Secretary. The Secretary does not need to be a member of the Board. Olaf Trittel served as Secretary during the last financial year until March 19, 2010. Sandra Wiedmer was elected Interim Secretary of the Board of Directors by the Board on March 19, 2010.

The division of duties between the Board of Directors and the CEO is defined in the Organizational Regulations of the Sonova Group. In accordance with these regulations, the Board has appointed an Audit Committee and a Nomination and Compensation Committee.

Member list, tasks and area of responsibility for Board of Directors' committees

The duties and authorities of the committees are defined in the Committee Charters of the Board of Directors of Sonova Holding AG. The committees report to the Board on their activities and findings. The overall responsibility for duties delegated to the committees remains with the Board.

Audit Committee

The members of the Audit Committee are Michael Jacobi (Chairman), Heliane Canepa and William D. Dearstyne.

The duties of the Audit Committee include reviewing the performance and effectiveness of external and internal audits on behalf of the entire Board of Directors; evaluating the company's financial control system, financial structure and risk management control mechanisms; and reviewing the interim and annual accounts and financial statements of the Sonova Group. The Audit Committee also supervises Internal Audit and its performance of internal audits and reviews the results (see Committee Charters).

The Audit Committee meets as often as required but no less than four times per year. During the reporting period, the Audit Committee met four times.

Nomination and Compensation Committee

The members of the Nomination and Compensation Committee are Andy Rihs (Chairman), Robert F. Spoerry and William D. Dearstyne.

The primary task of the Nomination and Compensation Committee is to review the structure and amount of compensation for the Board of Directors and the Management Board, to select suitable candidates for election to the Board of Directors, to the position of the CEO, and, upon the recommendation of the CEO, to nominate candidates for appointment to the Management Board. The Nomination and Compensation Committee submits the relevant proposals and nominations to the Board of Directors (see Committee Charters).

The Nomination and Compensation Committee meets as often as required and no less than three times per year. During the reporting period, the Nomination and Compensation Committee met four times.

Work methods of the Board of Directors and its committees

During the reporting period, the Board of Directors held seven meetings. The following overview shows the individual board members' attendance at Board of Directors and committee meetings as well as the average length of the meetings:

	A	B	C
No. of meetings in 2009/10	7	4	4
Andy Rihs	7	–	4
William D. Dearstyne	7	4	4
Heliane Canepa	7	4	–
Dr. Michael Jacobi	7	4	–
Robert F. Spoerry	7	–	4
Anssi Vanjoki	5[1]	–	–
Ronald van der Vis	5[1]	–	–
Dr. Valentin Chapero Rueda	7[2]	–	–
Average meeting length	6 – 8 h	3 h	3 h

A Board of Directors.
B Audit Committee.
C Nomination and Compensation Committee.
[1] Since these members were elected to the Board of Directors at the General Shareholders' Meeting on June 10, 2009, they were not able to attend the first meeting in May 2009.
[2] Already attended the meetings as CEO.

Urgent business matters were discussed in telephone conferences. In addition to formal meetings at which minutes were taken, the members of the Board of Directors also met informally for other activities that required additional time. These included, for example, preparations for formal meetings, discussions with regard to acquisitions made and on the search for a new Board member.

The agendas for meetings of the Board of Directors are set by the Chairman of the Board, and those of committee meetings by the respective committee Chairman. Any member of the Board of Directors or a committee may request a meeting or ask that an item be put on the agenda. Members of the Board of Directors and the committees are provided in advance of meetings with documents that enable them to prepare to discuss the items on the agenda. The Board of Directors and its committees have a quorum if a majority of the members are present. The Board of Directors and its committees approve resolutions by a majority of members present at the meeting. In the event of an equal number of votes, the chairman has the casting vote (see Rules on Board Operations and Procedures).

The Board of Directors works closely with the Management Board. In general, the meetings of the Board of Directors and its committees are also attended by the CFO and, depending on the agenda, other members of the Management Board. The Board of Directors consults external experts when necessary in connection with specific topics. The CEO automatically attends the meetings of the Board of Directors based on its mandate.

Definition of areas of responsibility

The Board of Directors of Sonova Holding AG is responsible for overall direction of the company, except in matters reserved by law for the General Shareholders' Meeting. The Board of Directors is responsible to the shareholders for the company's performance. It decides on all matters which have not been reserved for or conferred upon another governing body of the company by law, by the Articles of Association, or by the company's Organizational Regulations.

Information and control instruments vis-à-vis the Management Board

The Management Board reports regularly to the Board of Directors during meetings of the Board and its committees. At each Board meeting, the CEO informs the Board of Directors regarding the status of current business operations as well as major business transactions (see Rules on Board Operations and Procedures). The Board of Directors also receives consolidated financial statements (balance sheet, income statement and cash flow statement) on a monthly, semi-annual and yearly basis. In addition, the Board of Directors receives monthly consolidated sales reports providing data on sales revenue, average selling prices and units sold for each major product, subsidiary and market. Informal telephone conferences are held as required between Board members and the CEO or CFO. Furthermore, each member of the Board of Directors may request information on all matters concerning the company.

The Board of Directors also has an independent control body in Internal Audit. Internal Audit carries out compliance and operational audits and assists the business units in attaining their goals by guaranteeing independent evaluation of the effectiveness of internal control processes. Internal Audit also prepares reports on completed audits and sends these reports to the Audit Committee.

In addition, the Management Board reports to the Board of Directors on an annual basis regarding current risks and measures for risk mitigation.

Dr. Valentin Chapero Rueda
CEO

Oliver Walker
CFO

Management Board

The Management Board is responsible for the operational management of the company. Furthermore, it prepares for and later executes decisions made by the Board of Directors. According to the Organizational Regulations of Sonova Holding AG, the Management Board consists of at least the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) as well as other members added to suit strategic requirements. The Management Board is appointed by the Board of Directors, as recommended by the CEO.

Members of the Management Board

Dr. Valentin Chapero Rueda (born in 1956, Spanish citizen) joined the Sonova Group as CEO in October 2002.
He was previously Head of the Mobile Networks Division of Siemens AG. From mid-1996 to the end of 1999, he was CEO of Siemens Audiologische Technik GmbH, which was at that time the world's largest hearing instrument manufacturer. He took the company into the digital era, tripling sales and significantly improving profitability. He began his career in the R&D department of Nixdorf Computer AG. Valentin Chapero Rueda grew up in Germany as the son of Spanish parents.
He studied physics at the University of Heidelberg in Germany and was awarded his doctorate with a dissertation in the field of medical physics.

Other activities:
Chairman of the European Hearing Instrument Manufacturers' Association (EHIMA), an industry organization

Oliver Walker (born in 1969, Swiss citizen) was appointed CFO of Sonova in October 2004.
From 2000 to 2004 he served as CFO of Stratec Medical Group in Oberdorf, Switzerland, a leading international medical devices company specializing in the development, manufacture, and marketing of instruments and implants for the surgical treatment of the human skeleton. Prior to Stratec, Oliver Walker worked for seven years for the Von Roll Group, a diversified industrial company. In his last position at Von Roll he served as Vice President Finance and Controlling for the Von Roll Infratec division.
He studied economics at the University of Berne, Switzerland, where he obtained a Master's Degree in Business Administration.

Paul Thompson
GVP Corporate Development

Dr. Hans Leysieffer
GVP Research & Development

Sarah Kreienbühl
GVP Corporate Human Resources

Paul Thompson (born in 1967, Canadian citizen) was appointed Group Vice President Corporate Development in October 2004. In this position he is responsible for the development of the group strategy and the implementation of various business development activities.
Prior to this appointment, he had been CFO of the Sonova Group since January 2002. From 1998 to 2001, Paul Thompson served as CFO and later also as COO of the Unitron Hearing Group. Before joining Unitron Hearing he worked from 1987 to 1998 for Ernst & Young in Canada, first in the auditing division and then in the management consulting division.
Paul Thompson studied finance and business administration at the University of Waterloo in Canada. In 1992 he became a Chartered Accountant.

Dr. Hans Leysieffer (born in 1957, German citizen) has been Group Vice President Research & Development since October 2003.
He was previously CTO of IIP-Technologies, a start-up company for retina implants. In 1989 he founded Implex AG Hearing Technology in Munich, Germany, a company which developed the world's first fully implantable hearing device for sensorineural hearing loss. Hans Leysieffer acquired his first experience in the area of development and approval of medical technology products through clinical trials on cochlear implants in Europe and India.
He studied electrical engineering at the Technical University of Munich, Germany, and was awarded a PhD for his dissertation on sensory transmission of speech for patients suffering from total hearing loss.

Sarah Kreienbühl (born in 1970, Swiss citizen) has been Group Vice President Corporate Human Resources for the Sonova Group since August 2004.
Sarah Kreienbühl was previously Head of Global Human Resources and member of the Executive Board of the Tecan Group in Männedorf, Switzerland. Prior to that she was a consultant with Amrop International, Zurich, Switzerland, where she did executive search projects and also introduced new assessment and management audit services. She began her career as a psychologist with Swissair, where she was involved in the selection of pilots and air traffic managers.
Sarah Kreienbühl studied applied psychology at the University of Zurich, Switzerland, and obtained a Master's Degree, followed by a number of additional qualifications in the field of human resources management.

Cameron Hay
President and CEO Unitron Hearing

Ignacio Martinez
GVP International Sales

Cameron Hay (born in 1967, Canadian citizen) has been President and CEO of Unitron Hearing since January 2005. He was previously COO and General Manager of the Kitchener Operations Center. His tasks there included setting up the Unitron Hearing Operations Center in Suzhou, China. Cameron Hay began his career with IBM and then went on to perform various management functions as a business consultant with Ernst & Young, focusing on the high-tech sector.
Cameron Hay received a degree in industrial engineering from the University of Manitoba and a Master of Business Administration from the Ivey School of Business at Western Ontario University in Canada.

Ignacio Martinez (born in 1965, Spanish citizen) was appointed Group Vice President International Sales in January 2005.
He had previously been Managing Director of Phonak Spain since 2001. He has over 20 years of experience in the hearing instrument industry. Before joining Phonak, Ignacio Martinez worked for Widex Audifonos S.A. in Spain, holding positions as Assistant Technical Director and, most recently, as Director of Sales and Marketing. He studied electronics engineering at the Universitat Politécnica de Catalunya in Barcelona and also completed training as a hearing care professional.

Alexander Zschokke
GVP Channel Solutions and GVP Marketing (ad interim)

Hans Mehl
GVP Operations

Alexander Zschokke (born in 1965, Swiss citizen) was appointed Group Vice President Marketing in July 2006. In February 2010 he was appointed Group Vice President Channel Solutions. He will continue to manage the marketing department on an interim basis until further notice.
Before joining Sonova, he was Managing Director from 2002 to 2006 of Brand View, a marketing agency whose clients include Woolworth, Bulgari and Giorgio Armani. Prior to that, he spent over ten years in the fashion and retail industry. As Vice President Marketing for Bally and later for Salvatore Ferragamo, he managed the development of global brands. Before his jobs in the fashion industry, Alexander Zschokke worked as project manager with Contraves.
Alexander Zschokke earned a Master's Degree in Mechanical Engineering and Business Administration at the Swiss Federal Institute of Technology (ETH) in Zurich, Switzerland.

Hans Mehl (born in 1959, German citizen) was appointed Group Vice President Operations of the Sonova Group in April 2007.
Before joining Sonova, he held various international management positions within the Siemens Group in the Netherlands, Singapore, the United States and Switzerland. In his last position, Hans Mehl was Co-Division Head of Fire and Security at Building Technologies in Zug, Switzerland. From 2000 to 2003 he was CFO of Global Health Services at the Medical Group in Philadelphia, Pennsylvania (USA). Before that he was a member of the executive management team of the Siemens Audiology Group.
Hans Mehl completed his education in business administration in Germany.

Other activities and vested interests

Apart from Valentin Chapero Rueda's position as Chairman of the EHIMA, none of the members of the Management Board has any position in a governing or supervisory body of any important public or private sector organization, institution or foundation; any permanent management or consultancy position with an important interest group; or any public or political office.

Management contracts

The Board of Directors and the Management Board conduct business directly and have not delegated any management tasks to companies outside the company.

Compensation and shareholdings

Content and method of determining compensation and shareholding programs

The compensation principles of the Sonova Group are based on the principle of performance-based compensation. The compensation packages of Sonova Group employees comprise a target income, consisting generally of a fixed base salary and a variable target-based salary component, as well as other additional benefits. The compensation principles are reviewed on a regular basis. Any changes must be approved by the CEO and/or the Nomination and Compensation Committee.

Fixed salary component

The fixed base salary gives each employee a regular and predictable salary that does not depend on the employee's annual performance or on the development of the Sonova Group's business. The salary level is based on the functional profile, the market situation and the employee's skills. In its turn, salary progression depends primarily on the employee's individual performance and the economic climate.

Variable salary component

The variable salary is an integral element of the target income. The split between the fixed and variable salary components is a function of the job profile and respective management level. The targets for achieving the variable salary component are mutually defined and agreed upon in consultation with the employees at the beginning of the financial year. The amount paid out depends on the employee's actual achievement of objectives by the end of the financial year and also on the overall performance of the Sonova Group or the respective unit. If the employee actually reaches less than 80% of the stipulated target, no variable salary component is paid out. If the objectives set are exceeded, according to defined criteria the payout may amount to as much as 200% of the variable salary component.

Executive Equity Award Plan

The Executive Equity Award Plan (EEAP) serves as a long-term incentive and is offered annually to the Board of Directors, the Management Board, as well as other management levels of the Sonova Group. The plan entitles them to receive shares, options, warrants, warrant appreciation rights (WARs), and/or restricted share units (RSUs). The number of shares, options, warrants, WARs and RSUs granted varies depending on the respective management level and on individual performance. The shares, options, warrants, WARs and RSUs granted as part of the EEAP are split into four equal tranches. The options, warrants, WARs and RSUs have terms of five years. Each tranche vests each year, starting one year after the grant date. The strike price on which the options, warrants and WARs are based corresponds to the closing price for the shares on the Swiss stock exchange (SIX Swiss Exchange) on the date on which the options, warrants and WARs were granted. The fair value of the options, warrants and WARs is calculated on the grant date using an option pricing model. The shares/RSUs have a blocking period up to four years. One of the four equal tranches vests each year, starting one year after the grant date. Additional information can be found in Note 30 to the Consolidated Financial Statements.

Welcome AB Executive Equity Award Plan 2010

The Welcome AB Executive Equity Award Plan (EEAP) 2010 has been issued in conjunction with the acquisition of Advanced Bionics to selected employees of Advanced Bionics. This plan was provided in relation to the Advanced Bionics integration and entitles participants to purchase warrant appreciation rights (WARs). The WARs granted in conjunction with this plan have a term of four years and are divided into two tranches. The blocking period for the first half of the WARs expires after two years, and the blocking period for the second half expires after three years.

Determining the compensation to members of the Board of Directors and the Management Board

In general, the compensation policies and the Executive Equity Award Plan (EEAP) described above apply to the Board of Directors as well as the CEO and the Management Board.

The compensation policies for the Board of Directors differ from those for Sonova Group employees. The members of the Board of Directors receive a retainer and participation in the EEAP but no variable cash compensation. Valentin Chapero Rueda receives no compensation for his mandate as a member of the Board of Directors due to his mandate as CEO.

In Management Board compensation, the variable salary component has a stronger weighting with respect to the target income than for other employees of the Sonova Group. The variable cash compensation is a function of company performance, based on sales, operating profit (EBITA) and individual achievement of objectives. The Board of Directors can grant other cash components for exceptional achievements which were not part of the yearly target setting. The Management Board members also participate in the EEAP and can profit from fringe benefits.

The CEO's incentive plan differs in that the EEAP options will not be granted to the CEO annually. The granting of options, including the period for exercising, is part of the employment contract.

The compensation of the members of the Board of Directors as well as, on the CEO's recommendation, the compensation of the other members of the Management Board is determined and periodically reviewed by the Nomination and Compensation Committee. The compensation of the CEO is periodically reviewed by the Nomination and Compensation Committee and approved by the Board of Directors.

The compensation and shareholdings of members of the Board of Directors and the Management Board are reported on page 136 ff. in the section entitled "Financial statements of Sonova Holding AG".

Shareholders' participation rights

Voting-rights and representation restrictions

Voting-rights restrictions

To be recognized as a shareholder with full voting rights, the acquirer of shares must submit a written application for registration in the share register. Registration in the share register as a shareholder with voting rights is limited to 5% of the share capital (Art. 8 para. 6 of the Articles of Association). Linked parties are considered one person. These restrictions do not apply to founding shareholders.

Exceptions granted in the year under review

No exceptions were granted in the reporting period.

Procedure and conditions for abolishing the regulation regarding voting-right restrictions

A resolution of the General Shareholders' Meeting that is approved by the absolute majority of votes represented is sufficient to abolish this regulation.

Statutory rules on participation in the General Shareholders' Meeting

When exercising voting rights, no shareholder can combine through their own and represented shares more than 10% of the total number amount of shares as shown in the share register (Art. 14 para. 2 of the Articles of Association). This voting-right restriction does not apply to founding shareholders. The Board of Directors may approve other exceptions if it has good reason to do so, in which case no special quorum is required. During the reporting period, no exceptions to the above listed rules were granted.

Statutory quorums

Resolutions and elections by the General Shareholders' Meeting require the approval of an absolute majority of the share votes represented, taking voting-right restrictions into account, except as otherwise provided by law or the Articles of Association.

Convocation of the General Shareholders' Meeting

The Annual General Shareholders' Meeting is held within six months following the close of the financial year.

Extraordinary General Shareholders' Meetings may be called as often as necessary, especially if required by law.

General Shareholders' Meetings are convened by the Board of Directors and, if necessary, by the auditors. Shareholders with voting rights, who together represent at least 10% of the share capital, may request that the Board of Directors convene an extraordinary General Shareholder's meeting, provided that they do so in writing and set forth the reason for the meeting.

Agenda

Shareholders with voting rights who represent at least 1% of the share capital may request that an item be put on the agenda for discussion by indicating the proposal or motion. Such requests must be addressed in writing to the Chairman of the Board of Directors no later than 60 days before the meeting.

Registration in the share register

For administrative reasons, the share register is closed for about five days before the General Shareholders' Meeting. Admission cards and voting forms are sent to shareholders during this period. In the event of a partial sale of shares during this period, the admission card already delivered must be exchanged on the day of the General Shareholders' Meeting at the information desk. The shares may be traded at any time and are not blocked.

Changes of control and defense measures

Duty to make an offer

The Articles of Association of Sonova Holding AG do not contain provisions for opting out or opting up.

Clauses on changes of control

There are no agreements in place that would lead to abnormally high severance payments or other compensation to members of the Board of Directors or the Management Board in the event of a change of control.

Auditors

Duration of the mandate and term of office of the lead auditor

At the Annual General Shareholders' Meeting on July 5, 2001, PricewaterhouseCoopers AG was elected auditor for Sonova Holding AG and the Sonova Group. At the Annual General Shareholders' Meeting on June 10, 2009, PricewaterhouseCoopers AG was re-elected for another one-year term. Patrick Balkanyi has served as lead auditor for the existing auditing mandate since November 6, 2006.

Fees

PricewaterhouseCoopers charged the following fees during the reporting years 2009/10 and 2008/09:

1,000 CHF	2009/10	2008/09
Audit services	1,192	1,034
Audit-related services	305	230
Tax services	205	261
Non-audit services	299	927
Total	**2,001**	**2,452**

Audit services are defined as the standard audit work that needs to be performed each year in order to issue an audit opinion regarding the Consolidated Financial Statements of the Sonova Group as well as reports on local statutory financial accounts or statements. The costs for audit services are higher compared to the previous year due to the audit of Advanced Bionics, which was acquired in the financial year 2009/10.

The division of duties between the Board of Directors and the CEO is defined in the Organizational Regulations of the Sonova Group. In accordance with these regulations, the Board has appointed an Audit Committee and a Nomination and Compensation Committee.

Tax services consist of services in connection with compliance with tax laws.

Non-audit related services in the financial year 2009/10 mainly consisted of consulting fees in connection with the setting up of the employee shareholding program and the support for internal audit projects.

Informational instruments pertaining to the external audit

The external auditors report their findings semi-annually directly to the Audit Committee of the Board of Directors. In 2009/10, the external auditors attended two out of four Audit Committee meetings. The Audit Committee of the Board of Directors reviews the performance, compensation, and independence of the external auditors on a regular basis. The Audit Committee reports its findings to the Board of Directors quarterly.

Information policy

As a publicly listed company, the Sonova Group pursues an open and active information policy. A governing principle of this policy is to treat all stakeholders alike and to inform them at the same time. It is one of our top priorities to inform our shareholders, employees, and business partners in the most direct, open, and transparent way about our strategy, our global activities, and the current state of the company.

Insider trading policy

In order to prevent insiders from benefiting from confidential information, the Board of Directors has issued guidelines on how to deter both corporate insiders and external consultants from making use of confidential information. The Board of Directors has established blocking periods to prevent insiders from trading in shares and options of Sonova Holding AG during sensitive phases.

Important information for investors at Sonova's website

Capital structure and shareholder rights:

Share data
www.sonova.com/en/investors/sharedata

Shareholder structure
www.sonova.com/en/commitments/corporatebodies/pages/shareholderstructure.aspx

Restrictions on shareholder rights
www.sonova.com/en/commitments/corporatebodies/pages/shareholderparticipationrights.aspx

Regulations and principles:

Articles of Association
Organizational Regulations
Rules on Board Operations and Procedures
Committee Charters
Code of Conduct
Supplier Principles
www.sonova.com/en/commitments/regulationsprinciples

Financial information:

Corporate & ad hoc news
Annual Reports
Semi-Annual Reports
IR presentations
www.sonova.com/en/investors

Information on the General Shareholders' Meeting:

Invitation and agenda
General Shareholders' Meeting presentations
General Shareholders' Meeting minutes
www.sonova.com/en/investors/generalshareholdersmeeting

IR online news service:

IR News Service
www.sonova.com/en/about/pages/newsletter.aspx

Contact and order form:

IR Contact Form
Order form for Annual Reports
www.sonova.com/en/about/pages/contactorder.aspx

Financial Calendar

June 15, 2010

Annual General Shareholders' Meeting of Sonova Holding AG at Zurich Hallenstadion in Zurich-Oerlikon

November 16, 2010

Publication of Semi-Annual Report as of September 30, 2010
Media and Analysts Conference

May 2011

Publication of Annual Report as of March 31, 2011
Media and Analysts Conference

June 2011

General Shareholders' Meeting of Sonova Holding AG at Zurich Hallenstadion in Zurich-Oerlikon

Contacts

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Dr. Holger Schimanke

Manager Investor & Corporate Relations

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Silvia Dobry

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Exélia micro with ML12i Dynamic FM receiver

That's how I learn.

ML12i is a miniature Dynamic FM receiver for use with all Phonak micro hearing instruments that are worn behind the ear. It is perfectly adapted to the design of the hearing instrument and offers unparalleled speech intelligibility in noisy environments or over distances.

"Today we had our first French class since vacation. Now I understand the teacher very clearly – even if my friend is always whispering something in my ear."

CONTENT FINANCIAL REPORTING

CFO'S COMMENTARY

STRONG UNDERLYING VALUE GENERATION

In financial year 2009/10 we again significantly improved the Sonova Group's financial performance. The key fundamental figures and value drivers include the 20% growth in sales, the 27% increase in operating income, and the 26% rise in cash-based basic earnings per share.

Significant increase of corporate value

The Sonova Group is financially committed to creating sustainable corporate value. The contribution of all corporate activities to corporate value is measured on an ongoing basis to this end; suitable key performance indicators are established for the respective business segments to control and measure their success. Sustainable organic growth, selective acquisitions and continuous improvement of our performance and cost base are an essential basis for a sustainable improvement of profitability and net income. Based on a sound balance sheet, a strong cash flow generation and sustained investments, Sonova strives to remain a good and profitable investment for its shareholders and to maintain a solid rise in earnings per share going forward.

Organic growth and proactive cost management

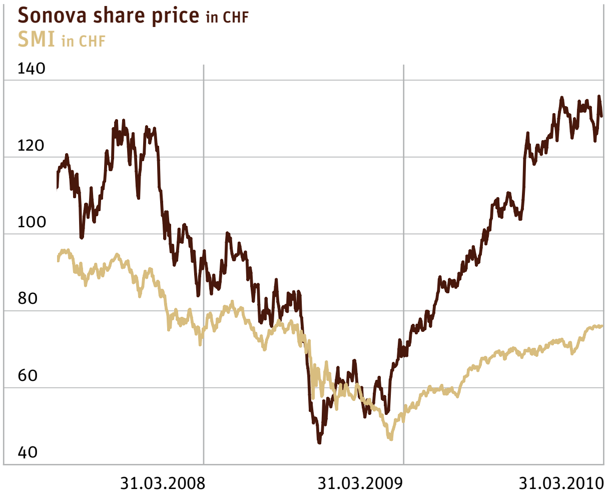
The key value drivers in 2009/10 were the 20% growth in sales and the benefit derived from the resulting economies of scale. The high innovation rate of 77%, which corresponds to the percentage of sales that was generated by products younger than two years, and the steady development of the distribution network made it possible to expand sales and gain market share. Continued improvements and increases in efficiency in such areas as manufacturing and back-office related functions or procurement have resulted in an optimized and relatively lower cost base over the past year. We were therefore able to increase profitability markedly with an EBITA-margin of 28.0% compared to previous year's 26.6%.

Our comparatively low tax rate of around 12% enables us to take a good portion of our profit and reinvest it in the company, distribute it to shareholders or even retain it to further strengthen the balance sheet. Continuous investments in research and development as well as in sales and marketing serve to permanently strengthen the competitiveness of the Group. Sonova invests part of its earnings every year not only into these areas; but also in the ongoing development of its business model. One result of these efforts is our new hearing instrument brand Sona which features a completely new product and service concept.

Acquisition growth as the source of additional value generation

One of our important principles is that acquisitions have to make sense strategically and financially. In addition, integrations of acquired companies must proceed quickly and be easily manageable. Important financial evaluation criteria for us include financial viability, return on invested capital and payback period.

The acquisition of Advanced Bionics represents an expansion of corporate activities into a related sector of the industry that has a high degree of synergy and significant growth potential. On the other hand, the acquisition of InSound Medical gives us a key tool for accessing the untapped market potential in the hearing instrument sector.



Oliver Walker, CFO

In order to improve access to consumers and to learn about their preferences, the Sonova Group invests a portion of its operating free cash flow into the acquisition of companies involved in hearing system sales and distribution each year. The sales revenue acquired in the past business year totaled CHF 19 million.

In the past year, the Sonova Group generated cash flow from operating activities totaling CHF 428 million. With net indebtedness of just CHF 126 million and equity of CHF 1.4 billion, the Sonova Group's balance sheet is in a very healthy state. This gives us the flexibility to continue to actively shape the hearing system market.

Active investor relations management

Value management in our company also involves active investor relations management. One of our major concerns is to inform the capital market about recent developments in the company – comprehensively, transparently and on a regular basis. This includes the outlook for the current financial year, in particular. An improvement in the Sonova Group's financial performance and an excellent outlook for the future were indispensable to the rise in the share price to CHF 131 as of the balance sheet date, an increase of over 90% over the last twelve months. The recovery in the global financial markets also favored this trend in the share price.

Corporate growth is based on a solid balance sheet and strong cash flow generation

Rapid corporate growth requires entrepreneurial freedom and depends on a healthy balance sheet.

We must keep the capital tied up in operations as low as possible. Capital employed increased to CHF 1.5 billion from CHF 799 million mainly by the acquisitions and the related increase in intangible assets. Nevertheless, the ratio of sales to capital employed (excl. acquisition-related intangibles) could be maintained on a high level with 1.9 compared to 2.0 in the previous year. To achieve this, we are continually improving processes for collecting receivables, for reducing global inventories – which is a great challenge considering our high innovation rate – and for optimum utilization of current production capacities.

The Sonova Group intends to keep at least an "investment grade level" rating in conjunction with capital risk management. The resulting borrowing capacity is currently around CHF 1.0 billion. The strength of the balance sheet is also indicated by the 59% equity ratio.

The strong growth in sales along with optimization of costs and commitment of capital result in strong cash flow generation. The cash generated by operations will be used over the next few years for repayment of outstanding bank debt, for further acquisitions, and for distribution of a dividend to our shareholders. The desired dividend payout ratio is around 20%. This year we will propose a dividend of CHF 1.20 per share to the General Shareholders' Meeting; ensuring shareholders participate in our corporate success.

Oliver Walker
CFO

REMARKABLE ORGANIC GROWTH

Sonova generated CHF 1,500.3 million in sales, a new record, and was able to consolidate its leading position as the result of an organic growth of 18.4% in local currencies and acquisition growth of 5.4%. Profitability rose significantly, as indicated by an EBITA margin of 28.0%. Income after taxes totaling CHF 354.8 million clearly surpassed the previous-year level. With an equity financing ratio of 58.5% and net debt of CHF 126.0 million, the Sonova Group has a very solid financial position.

This section contains a summary of financial information and describes the reported finanical results for 2009/10 as compared with the financial results for 2008/09 for both the Sonova Group and its two business segments – hearing instruments and hearing implants.

Strong organic sales growth

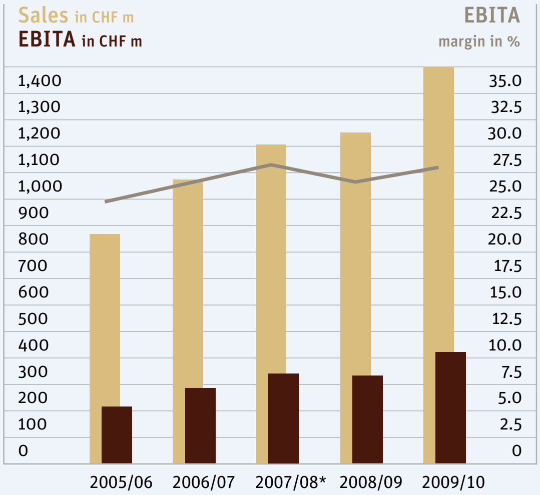
The Sonova Group increased its sales in financial year 2009/10 to CHF 1,500.3 million from CHF 1,249.2 million in 2008/09, posting an excellent overall growth rate of 20.1% in Swiss francs. Sonova achieved organic growth of 18.4% in local currencies, which significantly surpassed the market as a whole. Market growth in 2009/10 is estimated at around 4% in units sold. In addition, the Sonova Group completed two major acquisitions of US companies: Advanced Bionics, one of the leading manufacturers of cochlear implants, and InSound Medical, the producer of the world's first invisible extended-wear hearing instrument. By making these acquisitions, Sonova has taken two important steps towards realizing its vision of becoming the leading provider of hearing healthcare solutions. The Sonova Group also made a series of acquisitions in the sector of hearing system sales and distribution in selected countries. External growth during the past financial year was 5.4%, and the annualization effect in the current financial year will be around 7.5%.

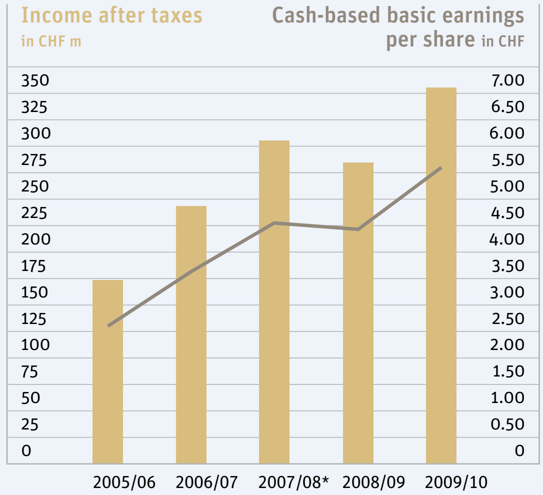
The strengthening of the Swiss franc, primarily against the euro but also the US dollar, resulted in a negative currency effect of 3.7% on overall sales. Further negative currency effects were primarily due to the exchange rate trends of the Canadian dollar, the British pound and the Brazilian real, which could not be offset by the appreciation of the yen and the Australian dollar.

Sonova Group key figures:

in CHF m unless otherwise specified	2009/10	2008/09	Change in %
Sales	1,500.3	1,249.2	20.1 %
EBITA	420.1	331.8	26.6 %
EBITA margin	28.0 %	26.6 %	
Cash-based basic earnings per share (CHF)[1]	5.602	4.433	26.4 %
Operating free cash flow[1]	324.8	176.3	84.2 %
ROCE[1]	34.9 %	46.2 %	
ROE[1]	29.1 %	29.2 %	

[1] For detailed definitions, please refer to "5 Year Key Figures".





* Excluding one-off costs for the prohibited acquisition of the GN ReSound Group.

Significant growth in all regions

Sonova's growth in the past financial year exceeded market growth significantly. The Group recorded broad-based growth, characterized by the launch of innovative products, further expansion in growth markets, and acquisitions. Above-average performance was achieved in the USA in particular, as a result of rising demand and significant gains of market share in the private market, and excellent performance in the "Department of Veterans Affairs" (VA). External growth including the acquisitions of Advanced Bionics and InSound Medical was comparable across all regions. Growth of 29.3% in local currencies was achieved in the USA, accounting for 36% of total Group sales in 2009/10. The EMEA region (Europe, Middle East and Africa), including Switzerland, which accounted for 42% of Group sales, reported strong results with a growth rate of 23.0% in local currencies. Germany made a significant contribution to this growth, but other key markets such as France and Italy also showed excellent performance with significant market share gains. The Group achieved very solid growth in the emerging markets as well. The Asia/Pacific region posted a 15.3% increase in sales in local currencies, mainly as a result of increased demand for Sonova's products in Japan and the further penetration of the Chinese market. This region accounted for 9% of Group sales in financial year 2009/10.

Marked increase in profitability

Sonova was able to increase its gross profit to CHF 1,058.4 million from CHF 867.2 million, primarily due to significant organic growth. The gross profit margin was 70.5%, a definite improvement over the previous-year figure of 69.4%, despite negative currency effects. Savings in purchasing, economies of scale and manufacturing efficiencies were mainly contributing to this improvement.

In spite of additional acquisition-related expenses and investments in new projects – the launch of the new Sona brand being one example – the Sonova Group posted an operating profit before acquisition-related amortization (EBITA) of CHF 420.1 million in financial year 2009/10, up from CHF 331.8 million a year earlier. The EBITA margin also increased to 28.0% from 26.6%, a result that includes a negative currency effect of around 90 bps. However,

Sales by regions:

in CHF m	2009/10			2008/09	
	Sales	Share	Growth in local currencies	Sales	Share
EMEA (excl. Switzerland)	583	39 %	22.5 %	498	40 %
USA	547	36 %	29.3 %	438	35 %
Americas (excl. USA)	196	13 %	17.6 %	168	13 %
Asia/Pacific	129	9 %	15.3 %	110	9 %
Switzerland	45	3 %	30.2 %	35	3 %
Total sales	**1,500**	**100 %**	**23.8 %**	**1,249**	**100 %**

the negative effects were more than compensated for by the growth, economies of scale in production and in back office functions, and the sustainability of the continued Group-wide cost-saving program.

During the reporting period, spending on sales, marketing and administration was slightly reduced to 36.3% of total sales, compared with 36.7% in the previous year. Economies of scale resulting from strong organic growth were the primary factor in this relative reduction. This expense category was further increased by the acquisitions of Advanced Bionics and InSound Medical in particular. Sonova also invested in the sales and distribution structures of subsidiaries around the world, especially in development and expansion of sales activities in emerging markets. Additional investments in new projects or initiatives such as Hear the World resulted in an increase in total expenditures to CHF 402.6 million compared with CHF 340.3 million in 2008/09. Cost-conscious, sustainable management stabilized administrative expenditures. Funds invested in this area totaled 9.2% of sales excluding acquisitions in 2009/10, somewhat lower than the previous-year level of 9.4%; total expenditures including acquisitions in 2009/10 were CHF 142.0 million, compared with CHF 117.7 million in the previous year. The higher costs for sales, marketing and administration are also reflected in the increase in the number of employees, which is for the big part acquisition-related. At the end of financial year 2009/10, the Group's headcount stood at 6,843 – 1,504 more than in the previous year, two third originating from acquisitions.

Sustained investments in innovation

The great importance of research and development was strikingly apparent in 2009/10 due to the contribution of new products to growth. The Sonova Group generated 77% of its total sales with hearing instruments that had been on the market for less than two years, which allowed it to expand and consolidate its technological lead over its competitors. This can be attributed primarily to the solid success of the entire Phonak product portfolio based on the CORE platform, the expansion of the miniaturized CRT product family, and further technological development and expansion of almost the entire Unitron product portfolio. At 5.8% of sales, investment in research and development was slightly below the previous year's level, but the Group intends to continue to invest 6 – 7% of sales in this area. In absolute terms, it spent CHF 87.0 million on innovation compared with CHF 77.4 million in the previous year. The number of employees in R&D increased by 8%, or 54% including acquisitions. Development expenditures for the new DACS middle ear implant totaled CHF 15.5 million and were fully capitalized (compared with CHF 8.9 million in the previous year). Thus Sonova proved in 2009/10 that its research and development operation is one of the most cost-effective and also one of the most efficient in the industry.

Sound profit

Income after taxes totaled CHF 354.8 million, up from CHF 284.1 million in the previous year. The increase was the result of the higher operating profit, a slightly lower financial result and somewhat higher tax expenses. Financial income was negatively affected, primarily by the generally lower interest rate level on the income side, while higher financing costs for the completed acquisitions had an adverse effect on financial expenses. Income taxes for the financial year totaled CHF 47.1 million and were as a result of the higher profit before taxes higher than in the previous year (CHF 38.6 million). The tax rate was 11.7% and remained at a low level. In the reporting period earnings per share rose to CHF 5.412 from CHF 4.348. Excluding acquisition-related non-cash items, the cash-based basic earnings per share amounted to CHF 5.602 versus CHF 4.433 previously.

The hearing healthcare company

The Sonova Group is reporting for the first time on two Group segments: hearing instruments and hearing implants. The former can be compared more or less with the results of earlier reporting. Sales of InSound Medical are consolidated with the figures for first class hearing instruments. The hearing implants segment primarily reports the results of the newly acquired Advanced Bionics business. Both acquisitions are consolidated in the overall performance of the Sonova Group as of the first three months of calendar year 2010. The DACS middle ear implant business, which is also included in the hearing implant segment, did not generate any sales in 2009/10.

Hearing instruments segment

The two core brands Phonak and Unitron continued to perform well. Phonak, in particular, achieved higher-than-average sales growth in 2009/10. This allowed Sonova to grow faster than the market thus gaining significant market shares and further expand its technology leadership. Sales of the Unitron brand also rose compared with the previous year. Overall, the hearing instruments segment achieved an increase in sales of 21.8% in local currencies compared with the previous year, primarily thanks to the above-average 26.5% growth in business class hearing instruments. Increased sales for first class hearing instruments were apparent after a decline in the previous year, and this area grew by 21.0%. Sales of economy class hearing instruments grew by 24.7%, a substantial increase. First class hearing instruments accounted for 25% of Sonova's total sales in financial year 2009/10. Business class hearing instruments accounted for 24%, and economy class hearing instruments generated 31% of total sales.

Sales of wireless communication systems declined in 2009/10, primarily due to reduced public financing, resulting in a sales decline of 5.4% in local currencies. The recently established Dynamic FM technology set new standards and confirmed Phonak's leading role within this field. This market segment accounted for 5% of Sonova's sales in financial year 2009/10.

The increase in sales of hearing instruments was also reflected in the result reported for the Group's miscellaneous products and services, which is mostly related to hearing instrument sales, where sales growth was 20.4% in local currencies in 2009/10. This area accounted for 13% of Group sales.

Profitability of the hearing instruments segment increased significantly in financial year 2009/10, which is mainly attributable to the positive organic growth. The Group generated an increased EBITA margin of 29.0%, compared to 26.7% in the previous year.

Hearing implants segment

With the acquisition of Advanced Bionics at the end of December 2009, the Sonova Group took the strategic step of expanding into the market segment of cochlear implants, thus leveraging its leading position as a global provider of hearing systems. Advanced Bionics is one of the world's leading companies in the development and manufacture of cochlear implants. The full purchase price of USD 496 million (incl. acquisition-related costs) was paid in cash.

Advanced Bionics, which was founded in 1993, is now present in over 30 countries and has a market share of 18%, making it the world's second-largest manufacturer of cochlear implants. The Sonova Group financed the transaction by means of a cash payment in the amount of approximately CHF 40 million with existing cash and an acquisition loan in the amount of CHF 470 million. This loan is divided into two tranches: a credit of CHF 240 million repayable within three years and a tranche of CHF 230 million with a five-year term.

Sales by product groups:

in CHF m	2009/10			2008/09	
	Sales	Share	Growth in local currencies	Sales	Share
First class hearing instruments	378	25%	21.0 %	321	26 %
Business class hearing instruments	353	24%	26.5 %	288	23 %
Economy class hearing instruments	460	31%	24.7 %	380	30 %
Wireless communication systems	75	5%	(5.4) %	82	7 %
Miscellaneous	209	13%	20.4 %	178	14 %
Total hearing instruments	1,475	98%	21.8 %	1,249	100 %
Hearing implants	25	2%			
Total sales	**1,500**	**100%**	**23.8 %**	**1,249**	**100 %**

The Group intends to accelerate the growth of Advanced Bionics in the medium term and significantly increase the company's market share in this high-growth market.

Advanced Bionics will benefit from gaining access to Sonova's high-performance hard- and software platforms, and the technologies developed by the Group will complement those of the cochlear implant industry. Sonova is concentrating its energies on developing a successor product which unites the technological competencies of Phonak and Advanced Bionics and will enable the Group to gain a significant competitive advantage over existing products on the market.

In addition to the product-related and technological advantages, Advanced Bionics will also benefit from access to Sonova's global sales organization and be in a position to expand its international sales and service capacity.

Advanced Bionics achieved sales of USD 123 million in 2009 and, following its successful consolidation, has reported sales of CHF 25.2 million for the first full quarter of 2010. A strong competitive environment and the focus on the accelerated integration of the company into the Sonova Group led to this result. Over these three months, a clear trend emerged towards steadily increasing sales growth. The lower sales and accelerated efforts to integrate the company led to the reporting of a negative operating result. Overall, the segment reported a negative EBITA of CHF –8.0 million including operational costs for the development of the new DACS middle ear implant. The medium-term financial objectives and sales expectations for the cochlear implants business remain unchanged. Accordingly, Sonova is planning to double the sales of Advanced Bionics within the coming three to five years and increase the EBITA margin to at least 20%. The unit sales growth for the overall market is estimated at around 10% for the reporting period and is thus in line with the medium- to long-term expectations of 10–15%.

As expected, Phonak Acoustic Implants which is currently developing the DACS middle ear implant and which likewise comes under this segment, did not generate any sales in the reporting period. The product is currently undergoing the clinical investigation phase and has been successfully implanted and activated for the first time.

Sustainable investment for the future

At CHF 324.8 million, operating free cash flow before acquisitions again clearly exceeded the previous-year level of CHF 176.3 million. Sonova invested cash funds of CHF 626.1 million in acquisitions, which is considerably more than in the previous year due to the acquisition of Advanced Bionics and InSound Medical. As a consequence, Sonova's free cash flow for financial year 2009/10 was CHF –301.4 million compared with CHF 79.0 million in the previous year.

Cash flow from operating activities increased by 51.8% in the year under review, from CHF 281.8 million to CHF 427.7 million. Higher pre-tax profits, better net working capital management and, to a lesser degree, income and expenses not affecting liquidity led to the higher cash flow from operating activities. The cash outflow from changes in net working capital was decreased from CHF 92.0 million to CHF 60.3 million.

During the reporting period, the Sonova Group invested heavily in the future of the business, including the new production facility in Stäfa, Switzerland, which was brought on-stream in early 2010. Overall the cash outflow from investing activities (including acquisitions) rose to CHF 729.1 million in the period under review compared to previous year's CHF 202.8 million.

Sonova Group consolidated cash flow statement – key data:

in CHF m	2009/10	2008/09
Cash flow from operating activities	**427.7**	**281.8**
Cash flow from investing activities	(729.1)	(202.8)
in % of sales	48.6%	16.2%
Free cash flow	**(301.4)**	**79.0**
Cash flow from financing activities	420.0	(160.7)
Change in cash and cash equivalents	119.2	(80.5)
Cash and cash equivalents at March 31	335.9	216.7

The cash flow from financing activities increased from a cash outflow of CHF 160.7 million in the previous year to a cash inflow of CHF 420.0 million in the reporting period. Main contributor to the increase was the bank loan of CHF 470 million used to finance the acquisition of Advanced Bionics. To a lesser degree this was also the result of the lower amount of treasury shares purchased (CHF 9.0 million compared to CHF 94.7 million in prior year). Dividend payments to shareholders remained at the previous-year level; in total, CHF 65.5 million was paid out to shareholders compared with CHF 66.5 million in 2008/09. The share buy-back program was discontinued owing to the acquisition of Advanced Bionics.

Taking into account the improved operating result and cash outflow in the context of acquisitions made, the Sonova Group's cash and cash equivalents increased nonetheless overall by CHF 119.2 million to CHF 335.9 million.

Strong balance sheet and solid return on equity

The capital employed by the Sonova Group increased to CHF 1,534.4 million from CHF 798.9 million in the previous year. This is primarily attributable to the increase in intangibles relating to acquisitions. Net working capital relative to sales decreased slightly mainly due to the stronger business activity. The average time taken for customers to settle their invoices remained stable compared with the previous year.

As of March 31, 2010, the Group reported net debt of CHF 126.0 million compared to net cash of CHF 227.7 million in the previous year. This is a result of investment activity in both of the aforementioned acquisitions. The Group's equity increased to CHF 1,408.4 million. At 58.5%, the equity financing ratio (equity as a percentage of total assets) remained at a high level. The return on capital employed (ROCE) decreased from 46.2% in the previous year to 34.9% in financial year 2009/10. The return on equity (ROE) eased from 29.2% in the previous year to 29.1% in 2009/10.

In view of the Group's positive result, the Board of Directors will be submitting a proposal to the Annual General Shareholders' Meeting on June 15, 2010 to pay out a 20% higher dividend of CHF 1.20 per share.

Positive outlook unchanged

The Sonova Group does not expect any change in the key growth drivers of the hearing instrument market. In the medium to long term, demographic trends and the Group's ongoing innovation activity will ensure that Sonova will grow faster than the long-term trend for the overall market of 4 – 7% p.a. measured by units sold. In the implant segment, the Group anticipates long-term market growth of 10 – 15% in units for cochlear implants.

Sonova will continue to rely on its successful strategy of innovation leadership, proactive cost management and the expansion of sales channels and distribution capacities.

5 Year Key Figures (Consolidated)

in 1,000 CHF unless otherwise specified	2009/10	2008/09[1]
Sales	**1,500,306**	**1,249,197**
change compared to previous year (%)	20.1	3.7
Gross profit	**1,058,427**	**867,218**
change compared to previous year (%)	22.0	3.0
in % of sales	70.5	69.4
Research & development costs	**87,034**	**77,377**
in % of sales	5.8	6.2
Sales & marketing costs	**402,626**	**340,312**
in % of sales	26.8	27.2
Operating profit before acquisition-related amortization (EBITA)	**420,106**	**331,778**
change compared to previous year (%)	26.6	(2.3)
in % of sales	28.0	26.6
Operating profit (EBIT)	**406,753**	**325,014**
change compared to previous year (%)	25.1	(2.9)
in % of sales	27.1	26.0
Income after taxes	**354,813**	**284,110**
change compared to previous year (%)	24.9	(6.9)
in % of sales	23.6	22.7
Number of employees (average)	**5,933**	**5,108**
change compared to previous year (%)	16.1	17.4
Number of employees (end of period)	**6,843**	**5,339**
change compared to previous year (%)	28.2	12.5
Net cash[4]	**(126,029)**	**227,689**
Net working capital[5]	**177,011**	**152,355**
in % of sales	11.8	12.2
Capital expenditure (tangible and intangible assets)[6]	**89,272**	**75,985**
Capital employed[7]	**1,534,387**	**798,934**
in % of sales	102.3	64.0
Total assets	**2,409,257**	**1,426,560**
Equity	**1,408,358**	**1,026,623**
Equity financing ratio (%)[8]	**58.5**	**72.0**
Free cash flow[9]	**(301,388)**	**79,003**
Operating free cash flow[10]	**324,754**	**176,285**
in % of sales	21.6	14.1
Return on capital employed (%)[11]	**34.9**	**46.2**
Return on equity (%)[12]	**29.1**	**29.2**
Basic earnings per share (CHF)	5.412	4.348
Diluted earnings per share (CHF)	5.356	4.330
Cash-based basic earnings per share (CHF)[13]	**5.602**	**4.433**
Dividend per share (CHF)	1.20[14]	1.00

[1] All changes compared to previous year are based on the underlying performance 2007/08.
[2] Restated as a result of initial application of IFRIC 14.
[3] Excluding one-off costs for the prohibited acquisition of the GN ReSound Group. Balance sheet and cash flow as reported.
[4] Cash and cash equivalents + other current financial assets (excl. loans) – short-term debts – other current financial liabilities – non-current financial liabilities.
[5] Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.
[6] Excluding goodwill and intangibles relating to acquisitions.
[7] Total assets – cash and cash equivalents – other current financial assets (excl. loans) – trade payables – other liabilities – provisions – tax liabilities.
[8] Equity in % of total assets.

Reported performance 2007/08[2)]	Underlying performance 2007/08[2)/3)]	2006/07	2005/06
1,204,779	**1,204,779**	**1,072,796**	**866,682**
12.3	12.3	23.8	31.2
841,584	**841,584**	**732,075**	**577,587**
15.0	15.0	26.7	38.2
69.9	69.9	68.2	66.6
76,454	**76,454**	**67,590**	**62,780**
6.3	6.3	6.3	7.2
309,200	**309,200**	**278,978**	**205,731**
25.7	25.7	26.0	23.7
331,737	**339,752**	**283,643**	**213,862**
17.0	19.8	32.6	70.0
27.5	28.2	26.4	24.7
326,743	**334,758**	**279,765**	**212,696**
16.8	19.7	31.5	69.1
27.1	27.8	26.1	24.5
274,140	**305,196**	**242,875**	**173,499**
12.9	25.7	40.0	81.0
22.8	25.3	22.6	20.0
4,351	**4,351**	**3,813**	**3,166**
14.1	14.1	20.4	16.4
4,746	**4,746**	**4,023**	**3,428**
18.0	18.0	17.3	17.2
311,647	**311,647**	**296,480**	**177,934**
107,890	**107,890**	**96,313**	**125,866**
9.0	9.0	9.0	14.5
55,892	**55,892**	**31,242**	**26,995**
608,207	**608,207**	**547,215**	**446,588**
50.5	50.5	51.0	51.5
1,273,928	**1,273,928**	**1,263,392**	**928,125**
919,854	**919,854**	**894,687**	**624,522**
72.2	**72.2**	**70.8**	**67.3**
219,392	**219,392**	**144,542**	**101,834**
255,835	**255,835**	**231,533**	**142,607**
21.2	21.2	21.6	16.5
56.6	**57.9**	**56.3**	**53.0**
30.2	**33.6**	**32.0**	**32.3**
4.087	4.551	3.637	2.607
4.044	4.503	3.590	2.584
4.093	**4.552**	**3.628**	**2.596**
1.00	1.00	0.75	0.50

[9)] Cash flow from operating activities + cash flow from investing activities.
[10)] Free cash flow – cash consideration for acquisitions, net of cash acquired.
[11)] EBIT in % of capital employed (average).
[12)] Income after taxes in % of equity (average).
[13)] Excluding the amortization of acquisition-related intangibles and unwinding effect of the discount on acquisition-related earn-out payments, net of tax.
[14)] Proposal to the Annual General Shareholders' Meeting of June 15, 2010.

Consolidated Income Statements

1,000 CHF	Notes	2009/10	2008/09
Sales	5	**1,500,306**	**1,249,197**
Cost of sales		(441,879)	(381,979)
Gross profit		**1,058,427**	**867,218**
Research and development		(87,034)	(77,377)
Sales and marketing		(402,626)	(340,312)
General and administration		(141,967)	(117,717)
Other expenses, net	6	(6,694)	(34)
Operating profit before acquisition-related amortization (EBITA)[1)]		**420,106**	**331,778**
Acquisition-related amortization	19	(13,353)	(6,764)
Operating profit (EBIT)[2)]		**406,753**	**325,014**
Financial income	7	5,049	8,170
Financial expenses	7	(9,103)	(8,354)
Share of loss in associates/joint ventures	17	(769)	(2,075)
Income before taxes		**401,930**	**322,755**
Income taxes	8	(47,117)	(38,645)
Income after taxes		**354,813**	**284,110**
Attributable to:			
Equity holders of the parent		354,457	284,816
Minority interests		356	(706)
Basic earnings per share (CHF)	9	5.412	4.348
Diluted earnings per share (CHF)	9	5.356	4.330

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

The Notes are an integral part of the consolidated financial statements

Consolidated Statements of Comprehensive Income

1,000 CHF	2009/10	2008/09
Income after taxes	**354,813**	**284,110**
Actuarial gain/(loss) from defined benefit plans, net	23,338	(22,808)
Tax effect on actuarial (gain)/loss from defined benefit plans	(3,238)	3,116
Fair value adjustment on cash flow hedges	(2,057)	
Currency translation differences	34,906	(22,711)
Tax effect on currency translation differences	(855)	
Other comprehensive income	**52,094**	**(42,403)**
Total comprehensive income	**406,907**	**241,707**
Attributable to:		
Equity holders of the parent	406,322	242,272
Minority interests	585	(565)

The Notes are an integral part of the consolidated financial statements

Consolidated Balance Sheets

Assets 1,000 CHF	Notes	31.3.2010	31.3.2009
Cash and cash equivalents	11	335,931	216,715
Other current financial assets	12	17,548	19,556
Trade receivables	13	324,455	262,022
Other receivables and prepaid expenses	14	70,711	52,628
Inventories	15	160,062	114,226
Total current assets		**908,707**	**665,147**
Property, plant & equipment	16	201,656	160,585
Intangible assets	19	1,100,918	418,446
Investments in associates/joint ventures	17	35,086	35,843
Other non-current financial assets	18	81,437	64,370
Employee benefit assets	29	1,759	
Deferred tax assets	8	79,694	82,169
Total non-current assets		**1,500,550**	**761,413**
Total assets		**2,409,257**	**1,426,560**

Liabilities and equity 1,000 CHF	Notes	31.3.2010	31.3.2009
Short-term debts	21, 24	80,876	1,057
Trade payables		65,489	53,531
Current income tax liabilities		55,123	38,432
Other current financial liabilities	24	2,789	35
Other short-term liabilities	22	165,467	125,929
Short-term provisions	20	97,901	63,520
Total current liabilities		**467,645**	**282,504**
Non-current financial liabilities	23, 24	390,080	2,599
Long-term provisions	20	82,751	39,259
Other long-term liabilities	25	15,347	35,006
Deferred tax liabilities	8	45,076	40,569
Total non-current liabilities		**533,254**	**117,433**
Total liabilities		**1,000,899**	**399,937**
Share capital	26	3,305	3,312
Share premium		60,649	72,703
Treasury shares		(20,812)	(72,397)
Retained earnings		1,359,184	1,018,250
Equity attributable to equity holders of the parent		**1,402,326**	**1,021,868**
Minority interests		6,032	4,755
Equity		**1,408,358**	**1,026,623**
Total liabilities and equity		**2,409,257**	**1,426,560**

The Notes are an integral part of the consolidated financial statements

Consolidated Cash Flow Statements

1,000 CHF	Notes	2009/10	2009/10	2008/09	2008/09
Income before taxes			**401,930**		**322,755**
Depreciation and amortization of tangible and intangible assets	16, 19	52,840		40,752	
Loss on sale of tangible and intangible assets, net		861		430	
Share of loss in associates/joint ventures	17	769		2,075	
Decrease/(increase) in long-term provisions		2,177		(23)	
Financial expenses, net	7	4,054		184	
Unrealized exchange differences		5,927		(7,717)	
Other non-cash items		19,473	86,101	15,340	51,041
Cash flow before changes in net working capital			**488,031**		**373,796**
Increase in trade receivables		(7,347)		(32,486)	
(Increase)/decrease in other receivables and prepaid expenses		(9,483)		223	
Increase in inventories		(24,813)		(11,250)	
Decrease in trade payables		(22,591)		(3,733)	
Increase in other payables, accruals and short-term provisions		37,464		1,266	
Income taxes paid		(33,536)	(60,306)	(46,049)	(92,029)
Cash flow from operating activities			**427,725**		**281,767**
Purchase of tangible and intangible assets		(89,876)		(76,388)	
Proceeds from sale of tangible and intangible assets		1,075		1,264	
Cash consideration for acquisitions, net of cash acquired	27	(626,142)		(97,282)	
Increase in other non-current financial assets		(16,340)		(35,325)	
Interest received and realized gain from financial assets		2,170		4,967	
Cash flow from investing activities			**(729,113)**		**(202,764)**
Free cash flow			**(301,388)**		**79,003**
Increase/(decrease) in borrowings		467,241		(3,076)	
Proceeds from capital increases		30,417		7,322	
Purchase of treasury shares, net		(8,972)		(94,656)	
Dividends paid		(65,524)		(66,492)	
Interest paid and other financial expenses		(3,131)		(3,831)	
Cash flow from financing activities			**420,031**		**(160,733)**
Currency translation differences			573		1,204
Increase/(decrease) in cash and cash equivalents			**119,216**		**(80,526)**
Cash and cash equivalents at the beginning of the financial year			216,715		297,241
Cash and cash equivalents at the end of the financial year			**335,931**		**216,715**

The Notes are an integral part of the consolidated financial statements

Consolidated Changes in Equity

1,000 CHF

	Attributable to equity holders of Sonova Holding AG							
	Share capital	Share premium	Retained earnings	Translation adjustment	Treasury shares	Hedge reserve	Minority interests	Total equity
Balance April 1, 2008	**3,373**	**199,809**	**900,623**	**(58,833)**	**(129,821)**	**0**	**4,703**	**919,854**
Income for the period			284,816				(706)	284,110
Other comprehensive income			(19,563)	(22,981)			141	(42,403)
Total comprehensive income			**265,253**	**(22,981)**			**(565)**	**241,707**
Changes in minorities							1,284	1,284
Capital increase from conditional capital	9	7,313						7,322
Capital decrease – share buy-back program	(70)	(142,787)			142,857			
Share-based payments		11,488					13	11,501
Sale of treasury shares		(3,120)			9,263			6,143
Purchase of treasury shares					(94,696)			(94,696)
Dividend paid			(65,812)				(680)	(66,492)
Balance March 31, 2009	**3,312**	**72,703**	**1,100,064**	**(81,814)**	**(72,397)**	**0**	**4,755**	**1,026,623**
Balance April 1, 2009	**3,312**	**72,703**	**1,100,064**	**(81,814)**	**(72,397)**	**0**	**4,755**	**1,026,623**
Income for the period			354,457				356	354,813
Other comprehensive income			19,966	33,956		(2,057)	229	52,094
Total comprehensive income			**374,423**	**33,956**		**(2,057)**	**585**	**406,907**
Changes in minorities							817	817
Capital increase from conditional capital	29	30,388						30,417
Capital decrease – share buy-back program	(36)	(57,841)			57,877			
Share-based payments		12,563					21	12,584
Sale of treasury shares		2,836			37,986			40,822
Purchase of treasury shares					(44,278)		(10)	(44,288)
Dividend paid			(65,388)				(136)	(65,524)
Balance March 31, 2010	**3,305**	**60,649**	**1,409,099**	**(47,858)**	**(20,812)**	**(2,057)**	**6,032**	**1,408,358**

The Notes are an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2010

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 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. Changes in accounting policies

The Group’s consolidated financial statements comply with the International Financial Reporting Standards (IFRS). For the financial year 2009/10 the following standards, amendments and interpretations have become effective for the Group:

IAS 1 (revised) “Presentation of Financial Statements”
The revised standard requires presenting “non-owner changes in equity” separately from “owner changes” in equity. Furthermore, the standard introduces a statement of comprehensive income, which presents all items of recognized income and expense, but allows presentation in a two statement approach. The Group has elected to present recognized income and expense in the income statement and in the statement of comprehensive income. The adoption of the revised standard did not have any impact on the Group’s result and financial position.

IFRS 7 (amendment) “Financial Instruments: Disclosures”
The amended standard expands the disclosure requirements for financial instruments, notably the classification of the fair value measurement of financial assets and liabilities in three levels. The adoption of the revised standard did not have any impact on the Group’s result and financial position.

IFRS 8 “Operating Segments”
The new standard requires segments to be defined on the same basis as information is provided to the chief operating decision maker. The adoption of the new standard did not have an impact on the reportable operating segment for hearing instruments. However, with the acquisition of Advanced Bionics the Group entered into a new business area which is disclosed separately for segment reporting purposes. Additional information regarding the factors used to identify the entity’s reportable segments are disclosed in Note 5. The adoption of this standard did not have any impact on the Group’s result and financial position.

IAS 23 (revised) “Borrowing Costs”, IFRS 2 (amended) “Share Based Payments”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” and Improvements to IFRSs, clarifications of existing IFRSs have also been adopted by the Group as of April 1, 2009 without having any significant impact on the consolidated financial statements 2009/10.

The Group is currently assessing the potential impacts of new and revised standards that will affect the Group after March 31, 2010. While most of the new or revised standards are not expected to have a significant impact on the Group’s result and financial position, the following revised standards may affect the Group after the financial year 2009/10:

IFRS 3 (revised) “Business combinations”
Amongst other matters, the revised standard requires that directly attributable transaction costs are expensed in the current period, whereas previously these costs have been included in the cost of acquisition. In addition, the revised standard requires that the contingent consideration of an acquisition shall be included in the initial acquisition accounting at fair value and any subsequent changes to the contingent consideration will be accounted for in the income statement. The Group will apply the revised standard prospectively from April 1, 2010 onwards.

IAS 27 (revised) “Consolidated and Separate Financial Statements”
Changes in the ownership interest of a subsidiary that do not result in a loss of control will be accounted for as an equity transaction. Neither goodwill nor any gains or losses will result. The Group will apply the revised standard prospectively from April 1, 2010 onwards.

IFRS 9 “Financial Instruments: Classification and Measurement”
The adoption of this new standard will change the classification and measurement of financial instruments. The Group is currently evaluating the potential impact that the new standard will have on the Group’s result and financial position. The standard will be effective for the Group as of April 1, 2013, however earlier adoption is permitted.

3. Basis of the consolidated financial statements

The consolidated financial statements of the Group are based on the financial statements of the individual Group Companies at March 31 prepared in accordance with uniform accounting policies. The consolidated financial statements have been prepared under the historical cost convention except for the revaluation of certain financial assets at market value, in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (IASB). The consolidated financial statements were approved by the Board of Directors of Sonova Holding AG on May 3, 2010.

The consolidated financial statements include Sonova Holding AG as well as the domestic and foreign subsidiaries over which Sonova Holding AG exercises control. A list of the significant companies which are consolidated is given in Note 36.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities and contingent assets and liabilities at the date of the financial statements as well as revenue and expenses reported for the financial year (refer also to Note 3.6, “Significant accounting judgements and estimates”). Actual results could differ from these estimates.

3.1 Principles of consolidation

Investments in subsidiaries
Investments in subsidiaries are fully consolidated. These are entities over which Sonova Holding AG directly or indirectly exercises control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. For the consolidated entities, 100% of assets, liabilities, income and expenses are included. The interests of minority shareholders in equity and net income or loss are shown separately in the balance sheet and income statement. Changes in minority interests are accounted for using the “modified parent company model”, with any excess of purchase consideration over the carrying values of the attributable net assets acquired being recorded as goodwill.

Group Companies acquired during the year are included in the consolidation from the date on which control over the company is transferred to the Group, and are excluded from the consolidation as of the date the Group ceases to have control over the company. Intercompany balances and transactions (incl. unrealized profit on intercompany inventories) are eliminated in full.

Investments in associates
Investments in associates are accounted for using the equity method of accounting. These are entities in which Sonova has significant influence and which are neither subsidiaries nor joint ventures of Sonova. Significant influence is the power to participate in the financial and operating policy decisions of the acquired company but is not control or joint control over those policies (usually 20 – 50% of voting rights). Under the equity method, the investment in an associate is initially recognized at cost (including goodwill on acquisition) and the carrying amount is increased or decreased to recognize Sonova’s share of profit or loss

of the acquired company after the acquisition date. In order to apply the equity method the most recent available financial statements of an associate are used, however due to practicability reasons the reporting dates might vary up to three months from the Group's reporting date. The net assets and results from associates are adjusted, if necessary, to comply with the Group's accounting policies.

The Group's share of equity in associated companies, consolidated using the equity method, is shown in the balance sheet as "Investments in associates/joint ventures", and its share of the results of operations for the year is shown in the income statement as "Share of gain/loss in associates/joint ventures".

Associates acquired during the year are accounted for as "Investments in associates/joint ventures" from the date on which significant influence over the acquired company is transferred to the Group, and derecognized from that position as of the date the Group ceases to have significant influence over an associate.

Investments in joint ventures

Investments in joint ventures are accounted for using the equity method of accounting. Joint ventures are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. Under the equity method, the investment in a joint venture is initially recognized at cost and the carrying amount is increased or decreased to recognize Sonova's share of profit or loss of the jointly controlled entity after the acquisition date. For applying the equity method the most recent available financial statements of a joint venture are used, however due to practicability reasons the reporting dates might vary up to three months from the Group's reporting date. The net assets and results from joint ventures are adjusted, if necessary, to comply with the Group's accounting policies.

The Group's share of equity in joint ventures consolidated using the equity method is shown in the balance sheet as "Investments in associates/joint ventures," and its share of the results of operations for the year is shown in the income statements as "Share of gain/loss in associates/joint ventures".

Joint ventures established during the year are accounted for as "Investment in associates/joint ventures" from the date on which joint control over the joint venture is transferred to the Group and derecognized from that position as of the date the Group ceases to have joint control.

3.2 Currency translation

The consolidated financial statements are expressed in Swiss francs ("CHF"), which is the Group's presentation currency. The functional currency of each Group Company is based on the local economic environment to which an entity is exposed, which is normally the local currency.

Transactions in foreign currencies are accounted for at the rates prevailing at the dates of the transactions. The resulting exchange differences are recorded in the local income statements of the Group Companies and included in net income.

Monetary assets and liabilities of Group Companies which are denominated in foreign currencies are translated using year-end exchange rates. Exchange differences are recorded as an income or expense. Non-monetary assets and liabilities are translated at historical exchange rates. Exchange differences arising on inter-company loans that are considered part of the net investment in a foreign entity are recorded in equity.

When translating foreign currency financial statements into Swiss francs, year-end exchange rates are applied to assets and liabilities, while average annual rates are applied to income statement accounts. Translation differences arising from this process are recorded as a separate component of equity. On disposal of a Group Company, the related cumulative translation adjustment is transferred from equity and included in the profit or loss from the disposal in the income statements.

3.3 Accounting and valuation principles

Cash and cash equivalents
This item includes cash on hand and cash at banks, time deposits and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. The cash flow statement summarizes the movements in cash and cash equivalents. The free cash flow is the net amount of the cash flow from operating and from investing activities.

Other current financial assets
Other current financial assets consist of financial assets held for trading. Marketable securities within this category are classified as financial assets at fair value through profit or loss (see Note 3.4). Derivatives are classified as held for trading unless they are designated as hedges (see Note 3.5).

Trade receivable
Trade receivables are recorded at original invoice amount less provision made for doubtful accounts. A provision for doubtful accounts is recorded when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the invoice. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows.

Inventories
Purchased raw materials, components and finished goods are valued at the lower of cost or net realizable value. To evaluate cost, the standard cost method is applied, which approximates historical cost determined on a first-in first-out basis. Standard costs take into account normal levels of materials, supplies, labor, efficiency and capacity utilization. Standard costs are regularly reviewed and, if necessary, revised in the light of current conditions. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion (where applicable) and selling expenses. Manufactured finished goods and work-in-process are valued at the lower of production cost or net realizable value. Provisions are established for slow-moving, obsolete and phase-out inventory.

Property, plant & equipment
Property, plant & equipment is valued at purchase or manufacturing cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the expected useful lives of the individual assets or asset categories. Where an asset comprises several parts with different useful lives, each part of the asset is depreciated separately over its applicable useful life. The applicable useful lives are 25 – 40 years for buildings and 3 – 10 years for production facilities, machinery, equipment and vehicles. Land is not depreciated. Leasehold improvements are depreciated over the shorter of useful life or lease term.

Borrowing costs incurred for the construction of any qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Subsequent expenditure on an item of tangible assets is capitalized at cost only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditures for repair and maintenance which do not increase the estimated useful lives of the related assets are recognized as an expense in the period in which they are incurred.

Research and development
Research costs are expensed as incurred. Development costs are capitalized only if the identifiable asset is commercially and technically feasible, can be completed, its costs can be measured reliably and will generate probable future economic benefits. Group expenditures which fulfill these criteria are limited to the development of tooling and equipment as well as costs relating to the development of hearing implants. All other development costs are expensed as incurred. In addition to the internal costs (direct personnel and other operating costs, depreciation on research and development equipment and allocated occupancy costs), total costs also include externally contracted development work. Such capitalized intangibles are recognized at cost less accumulated amortization and impairment losses. Amortization starts when the capitalized asset is ready for use. These assets are generally amortized over the estimated useful life applying the straight-line method. Capitalized development costs are tested for impairment annually.

Leasing

Assets that are held under leases which effectively transfer to the Group the risks and rewards of ownership (finance leases) are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Minimum lease payments are the payments over the lease term that the Group is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by the Sonova Group and reimbursed from the lessor, together with any amounts guaranteed by Sonova or by a party related to the Group. Assets under financial leasing are depreciated over the shorter of their estimated useful life or the lease term. The corresponding financial obligations are classified as "short-term debts" or "non-current financial liabilities", depending on whether they are payable within or after 12 months.

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases, and payments are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's benefit.

Intangible assets

Purchased intangible assets such as software, licences and patents, are measured at cost less accumulated amortization (applying the straight-line method) and any impairment in value. Software is amortized over a useful life of 3 – 5 years. Intangibles relating to acquisitions of subsidiaries (excluding goodwill) consist generally of technology, client relationships, customer lists and brand names and are amortized over a period of 3 – 15 years. Other intangible assets are generally amortized over a period of 3 – 10 years. Development costs capitalized for projects not yet completed are not amortized, but tested for impairment on an annual basis. Except for goodwill, the Sonova Group has no intangible assets with an indefinite useful life.

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. The cost of a business combination is equal to the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Sonova Group, in exchange for control over the acquired company plus any costs directly attributable to the business combination. Any difference between the cost of the business combination and the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognized is treated as goodwill. Goodwill is not amortized, but is assessed for impairment annually in the first half of the financial year, or more frequently if events or changes in circumstances indicate that its value might be impaired.

Other non-current financial assets

Other non-current financial assets consist of investments in third parties and long-term receivables from associates and third parties. Investments in third parties are classified as financial assets at fair value through profit or loss and long-term receivables from associates and third parties are classified as loans and receivables (see Note 3.4).

Short-term debts

Short-term debts consist of short-term bank debts and all other interest bearing debts with a maturity of 12 months or less. Given the short-term nature of these debts they are carried at nominal value.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows (e.g. earn-out provisions).

The Group recognizes provisions for warranty costs to cover any costs arising from the warranty given on its products sold. The provision is calculated using historical and projected data on warranty rates, service costs, remaining warranty period and number of hearing aids and implants on which the warranty is still active. Short-term portions of warranty provisions are reclassified to short-term provisions at each reporting date.

Non-current financial liabilities

Non-current financial liabilities primarily consist of long-term bank debts with a maturity of over 12 months. Such financial liabilities are recognized initially at fair value, including any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Share capital

Ordinary shares are classified as equity. Dividends on ordinary shares are recorded in equity in the period in which they are approved by the parent companies' shareholders.

In the case any of the Group Companies purchases shares of the parent company, the consideration paid is recognized as treasury shares and presented as a deduction from equity unless these shares are cancelled or sold. Any consideration received from the sale of these shares is recognized in equity.

Income taxes

Income taxes include current and deferred income taxes. The Sonova Group is subject to income taxes in numerous jurisdictions and significant judgement is required in determining the worldwide provision for income taxes. The multitude of transactions and calculations implies estimates and assumptions. The Group recognizes liabilities based on estimates of whether additional taxes will be due.

Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Deferred tax is recorded on the valuation differences (temporary differences) between the tax bases of assets and liabilities and their carrying values in the consolidated balance sheet. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences and tax losses can be offset.

A provision for non-recoverable withholding taxes is made only on anticipated dividend distributions from subsidiaries. No provision is made in respect of possible future dividend distributions from undistributed earnings, as the parent is able to control the timing of the reversal of the temporary difference and such amounts are considered to be permanently reinvested.

Revenue recognition

Sales are recognized net of sales taxes and discounts upon delivery of products and reasonably assured collectibility of the related receivables. Probable returns of products are estimated and a corresponding provision is recognized. Intercompany sales are eliminated.

Sales of services (such as long-term service contracts) are recognized in the accounting period in which the services are rendered.

Interest income is recognized on a time proportion basis using the effective interest method. Dividend income is recognized when the right to receive payment is established.

Segment reporting

Operating segments are defined on the same basis as information is provided to the chief operating decision maker. For the Sonova Group, the Chief Executive Officer (CEO) is the chief operating decision maker, who is responsible for allocating resources and assessing the performance of operating segments. Additional general information regarding the factors used to identify the entity's reportable segments are disclosed in Note 5.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of an asset or, where it is not possible to estimate the recoverable amount of an individual asset, a cash-generating unit is the higher of its fair value less selling costs and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. If the recoverable amount is lower than the carrying amount, an impairment loss is recognized. Impairment of financial assets is described in Note 3.4 Financial assets. For the purpose of impairment testing, goodwill as well as corporate assets are allocated to cash generating units. An annual impairment test is performed in the first half of each financial year, even if there is no indication of impairment (see section "business combinations and goodwill").

Related parties

A party is related to an entity if the party directly or indirectly controls, is controlled by, or is under common control with the entity, has an interest in the entity that gives it significant influence over the entity, has joint control over the entity or is an associate or a joint venture of the entity. In addition, members of the Board of Directors and the Management Board or close members of their families are also considered related parties as are post-employment benefit plans for the benefit of employees of the entity. No related party exercises control over the Group.

Employee benefits (IAS 19)

Pension obligations

Most employees are covered by post-employment plans sponsored by corresponding Group Companies in the Sonova Group. Such plans are mainly defined contribution plans (future benefits are determined by reference to the amount of contributions paid) and are generally administered by autonomous pension funds or independent insurance companies. These pension plans are financed through employer and employee contributions. The Group's contributions to defined contribution plans are charged to the income statement in the year to which they relate.

Sonova Group also has a number of defined benefit pension plans, both funded and unfunded. Accounting and reporting of these plans are based on annual actuarial valuations. Defined benefit obligations and service costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees participating in these plans. The pension obligation is measured as the present value of the estimated future outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Expenses from defined benefit plans are charged to the appropriate income statement heading within the operating results.

Actuarial gains and losses, resulting from changes in actuarial assumptions and differences between assumptions and actual experiences are recognized in the period in which they occur in the statement of recognized income and expense in equity.

Other long-term benefits

Other long-term benefits mainly comprise length of service compensation benefits which certain Group Companies are required to provide in accordance with legal requirements in the respective countries. These benefits are accrued, and the corresponding liabilities are included under "Other provisions".

Equity compensation benefits

The Board of Directors of Sonova Holding AG, the Management Board and certain management and senior employees of other Group Companies participate in equity compensation plans. The fair value of all equity compensation awards granted to employees is estimated, using an option pricing model, at the grant date and recorded as an expense over the vesting period. The expense is charged to the appropriate income statement heading within the operating result and an equivalent increase in equity is recorded.

3.4 Financial assets

Sonova classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity invest-ments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and reclassifies them whenever their intention or ability changes. All purchases and sales are recognized on the settlement date.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are assets held for trading, acquired for the purpose of generating a profit from short-term fluctuations in price. Derivative financial assets and derivative financial liabilities are always deemed as held for trading unless they are designated and effective hedging instruments. Financial assets held for trading are measured at their fair value plus initial transaction costs. Fair value changes on a financial asset held for trading are included in net profit or loss for the period in which they arise. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities of more than 12 months. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet. Loans are measured at amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, minus any reduction for impairment or uncollectibility. The effective interest method is a method calculating the amortized cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the intention and ability to hold to maturity. Assets under this category that have a fixed maturity are valued at amortized cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months. Available-for-sale financial assets are initially measured at their fair value. After initial recognition available-for-sale financial assets are measured at fair value with gains and losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is recognized in the income statement.

The fair values of investments that are actively traded are based on current bid prices. If the market for a financial asset is not active, fair value is determined using valuation techniques.

Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The Group assesses, at each balance sheet date, whether there is any objective evidence that a financial asset may be impaired. If any such evidence exists, the Group estimates the recoverable amount of that asset and recognizes any impairment loss in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the write-down, the write-down of the financial asset is reversed. The reversal generally will not result in a carrying amount of the financial asset that exceeds what amortized cost would have been, had the impairment not been recognized, at the date the write-down of the financial asset is reversed. The amount of the reversal is included in profit or loss for the financial year.

3.5 Derivative financial instruments and hedging

The Group regularly hedges its net exposure from expected future cash in- and outflows in foreign currencies with forward contracts and options. Such contracts are not qualified as cash flow hedges and are therefore not accounted for using hedge accounting. Gains and losses on these transactions are recognized directly in the income statement; the corresponding positive and negative replacement values are recognized on the balance sheet as “other current financial assets/ liabilities”.

In connection with the acquisition of Advanced Bionics, the Group has entered into a interest swap agreement to protect the company against raising interest rates. As the agreement qualifies for hedge accounting the effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in the income statement (refer Note 24).

3.6 Significant accounting judgements and estimates

Key management judgements made in applying accounting policies

In the process of applying the Group’s accounting policies, management may be required to make judgements, apart from those involving estimates, which have an effect on the amounts recognized in the financial statements.

Key accounting estimates and assumptions

Preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. The estimates and assumptions are continuously evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable. Actual results may differ from these estimates and assumptions.

The main estimates and assumptions, with the potential of causing an adjustment, are discussed below.

Cost of business combinations

A business combination agreement may provide for an adjustment to the cost of the combination contingent on future events. If the future events do not occur or the estimate needs to be revised, the cost of a business combination is revised accordingly, with a resultant change in the carrying value of goodwill. As at the end of the financial year 2009/10 such costs contingent on future events (earn-out and holdback of purchase prices) of CHF 84.3 million have been included in the cost of business combinations.

Property, plant and equipment and intangible assets, including goodwill

The Group has property, plant and equipment with a carrying value of CHF 201.7 million as disclosed in Note 16 and intangible assets, including goodwill with a carrying value of CHF 1,100.9 million as disclosed in Note 19.

Included in the intangible assets are capitalized costs relating to the activities of Advanced Bionics and Phonak Acoustic Implants SA, amounting to CHF 33.4 million.

The Group determines annually, in accordance with the accounting policy stated in Note 3.3, whether any of the assets are impaired. For the impairment tests, estimates are made of the expected future cash flows from the use of the asset or cash-generating unit. The actual cash flows could vary significantly from these estimates.

Deferred tax assets

The consolidated balance sheet includes deferred tax assets of CHF 79.7 million related to deductible differences and, in certain cases, tax loss carryforwards provided that their utilization appears probable. The recoverable value is based on forecasts of the corresponding taxable Group Company over a period of several years. As actual results may differ from these forecasts, the deferred tax assets may need to be adjusted accordingly.

Employee benefit plans

The Sonova Group has various employee benefit plans. Most of its salaried employees are covered by these plans, of which some are defined benefit plans. The present value of the defined benefit obligations at the end of the financial period 2009/10 amounts to CHF 167.3 million as disclosed in Note 29. With such plans, actuarial assumptions are made for the purpose of estimating future developments, including estimates and assumptions relating to discount rates, the expected return on plan assets in individual countries and future wage trends. Actuaries also use statistical data such as mortality tables and staff turnover rates with a view to determining employee benefit obligations. If these factors change due to a change in economic or market conditions, the subsequent results could deviate considerably from the actuarial reports and calculations. Over the medium term such deviations could have an impact on the equity. The carrying amounts of the plan assets and liabilities in the balance sheet are set out in Note 29.

Provision for warranty and returns

The Group recorded provisions for warranty and returns of CHF 71.5 million as of March 31, 2010 as disclosed in Note 20.

The calculation of these provisions is based on turnover and past experience of warranty claims and returns. The actual costs for warranty and returns may differ from these estimates.

4. Changes in Group Structure

In the financial year 2009/10 the Group entered into two main business combinations, acquiring in each case 100% of the share capital. As of December 30, 2009 the Group acquired Advanced Bionics Corporation, Los Angeles, USA. Advanced Bionics is a global leader in developing and manufacturing cochlear implant systems. As of January 6, 2010 the Group acquired InSound Medical Inc., Newark, USA. InSound Medical is the manufacturer of Lyric, an innovative, totally invisible, extended-wear hearing solution for those with mild to moderate hearing loss. InSound Medical has commercially marketed Lyric in the U.S. since 2008. In addition, the Group acquired several small entities which are in the business of distributing hearing instruments.

In the financial year 2008/09 the Group established a new company in Turkey. This company is in the business of distributing hearing instruments. In addition, besides the acquisition of several small entities, the Group acquired TRE S.A., Luxembourg. The company is engaged in the business of distributing hearing instruments in the European market.

The effect of the acquisitions for the financial year 2009/10 and 2008/09 is disclosed in Note 27.

5. Segment information

Segment information by business segments

Until the acquisition of Advanced Bionics in the current financial year the Group was active in one operating segment. With the acquisition of Advanced Bionics as of December 30, 2009, the Group entered into a new business area (hearing implants) which is reported separately to the Group's chief operating decision maker. The financial information that is provided to the Group's chief operating decision maker (Chief Executive Officer), which is used to allocate resources and to assess the performance, is primarily based on the sales analysis (by product groups and regions) as well as the consolidated income statements, balance sheets and cash flow statements for the individual segments.

Hearing instruments and related products: This operating segment includes the companies that are active in the design, development, manufacture, distribution and service of hearing instruments and related products. Research and development is predominantly centralized in Switzerland. Production of hearing instruments is concentrated in three production centers in Switzerland, China and Vietnam. Technologically advanced production processes are performed in Switzerland whereas standard assembly of products is conducted in Asia. Most of the marketing activities are steered by the brand marketing departments in Switzerland and Canada. The execution of marketing campaigns lies with the sales organizations in each market. The distribution of products is effected through sales organizations in the individual markets. The distribution channels of the Group in the individual markets vary depending on the sales strategy and the characteristics of the countries.

Hearing implants: This operating segment includes the companies that are active in the design, development, manufacture, distribution and service of hearing implants and related products. Besides the acquired company Advanced Bionics which provides cochlear implant systems, the segment also consists of Phonak Acoustic Implants. Phonak Acoustic Implants, located in Switzerland, is developing a middle ear implant. Research and development, production as well as marketing activities of Advanced Bionics are predominantely centralized in the United States. The distribution of products is effected through sales organizations in the individual markets.

1,000 CHF	2009/10	2008/09[1]	2009/10	2008/09[1]	2009/10	2008/09[1]	2009/10	2008/09[1]
	Hearing instruments		**Hearing implants**		**Eliminations**		**Total**	
Sales	1,475,058	1,249,197	25,248				1,500,306	1,249,197
Operating profit before acquisition-related amortization (EBITA)	428,100	333,932	(7,994)	(2,154)			420,106	331,778
Segment assets	1,891,070	1,073,690	609,743	23,576	(555,811)	(24,989)	1,945,002	1,072,277
Unallocated assets[2]							464,255	354,283
Total assets							2,409,257	1,426,560

1) Restated as a result of initial application of IFRS 8.
2) 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.

Reconciliation of reportable segment profit 1,000 CHF	2009/10	2008/09
EBITA (as per segment reporting)	420,106	331,778
Acquisition-related amortization	(13,353)	(6,764)
Financial costs, net	(4,054)	(184)
Share of loss in associates/joint ventures	(769)	(2,075)
Income before taxes	401,930	322,755

Entity-wide disclosures

Sales by product groups 1,000 CHF	2009/10	2008/09
First class hearing instruments	378,075	321,078
Business class hearing instruments	352,992	287,800
Economy class hearing instruments	460,504	380,462
Wireless communication systems	74,843	81,885
Miscellaneous	208,644	177,972
Total hearing instruments	**1,475,058**	**1,249,197**
Hearing implants	25,248	
Total sales	**1,500,306**	**1,249,197**

Sales and selected non-current assets by regions 1,000 CHF	2009/10	2008/09	2009/10	2008/09
	Sales[1]		Selected Non-current assets[2]	
Switzerland	45,426	34,895	205,497	150,058
EMEA (excl. Switzerland)	582,697	497,495	201,795	190,123
USA	546,583	438,277	714,605	91,206
Americas (excl. USA)	196,372	168,482	172,182	148,266
Asia/Pacific	129,228	110,048	43,581	35,221
Total Group	**1,500,306**	**1,249,197**	**1,337,660**	**614,874**

[1] Sales based on location of customers.
[2] Total of property, plant & equipment, intangible assets and investments in associates/joint ventures.

As common in this industry, the Sonova Group has a large number of customers. There is no single customer with a share of more than 10% of total sales.

6. Other expenses, net

1,000 CHF	2009/10	2008/09
Other operating (expenses)/income, net	(6,731)	159
Exchange differences	37	(193)
Total	**(6,694)**	**(34)**

Other operating expenses primarily consist of a fine in the amount of CHF 6.4 million issued by the German competition authority (BKartA) following inquiries undertaken by the latter as part of an investigation into the German hearing systems market. The Federal Cartel Office has accused Phonak GmbH of violating the German Act against Restraints and Competition. Despite the allegations, Sonova was able to reach an agreement with the German Federal Cartel Office and has not appealed against the decision.

7. Financial expenses, net

1,000 CHF	2009/10	2008/09
Interest income	2,986	6,874
Other financial income	2,063	1,296
Total financial income	**5,049**	**8,170**
Interest expenses	(2,069)	(948)
Other financial expenses	(7,034)	(7,406)
Total financial expenses	**(9,103)**	**(8,354)**
Total	**(4,054)**	**(184)**

Other financial expenses include, amongst others, the unwinding of the discount on acquisition-related earn-out payments.

8. Taxes

1,000 CHF	2009/10	2008/09
Income taxes	51,082	41,445
Change in deferred taxes	(3,965)	(2,800)
Total tax expense	**47,117**	**38,645**
Reconciliation of tax expense		
Income before taxes	401,930	322,755
Weighted average expected tax rate	10.7%	10.4%
Tax at weighted average rate	**42,928**	**33,599**
+/– Effects of		
Expenses not subject to tax, net	1,656	1,391
Changes of unrecognized loss carryforwards	2,399	5,050
Change in tax rates on deferred tax balances	698	389
Prior year income and other items, net	(564)	(1,784)
Total tax expense	**47,117**	**38,645**
Weighted average effective tax rate	11.7%	12.0%

The weighted average expected Group tax rate is the aggregate obtained by applying the rate currently effective for each individual jurisdiction to its respective result before taxes.

Deferred tax assets and liabilities 1,000 CHF					31.3.2010
	Property, plant & equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax loss carryforwards	Total
Balance April 1	(4,684)	(16,330)	42,944	19,670	41,600
Changes through business combinations		(12,177)		3,966	(8,211)
Deferred taxes recognized in the income statement	164	(2,794)	1,651	4,944	3,965
Deferred taxes recognized in equity			(4,093)		(4,093)
Exchange differences	(82)	(216)	301	1,354	1,357
Balance March 31	**(4,602)**	**(31,517)**	**40,803**	**29,934**	**34,618**
Amounts in the balance sheet					
Deferred tax assets					79,694
Deferred tax liabilities					(45,076)
Total deferred taxes, net					**34,618**

Deferred tax assets and liabilities 1,000 CHF					31.3.2009
	Property, plant & equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax loss carryforwards	Total
Balance April 1	(5,014)	(10,684)	36,499	20,305	41,106
Changes through business combinations	(317)	(7,378)	227	1,264	(6,204)
Deferred taxes recognized in the income statement	458	3,114	1,162	(1,934)	2,800
Deferred taxes recognized in equity			3,116		3,116
Exchange differences	189	(1,382)	1,940	35	782
Balance March 31	**(4,684)**	**(16,330)**	**42,944**	**19,670**	**41,600**
Amounts in the balance sheet					
Deferred tax assets					82,169
Deferred tax liabilities					(40,569)
Total deferred taxes, net					**41,600**

Deferred tax assets have been capitalized based on the projected future performance of the Group Companies, supplemented with tax planning opportunities.

The gross values of unused tax loss carryforwards, which have not been capitalized as deferred tax assets, with their expiry dates are as follows:

1,000 CHF	31.3.2010	31.3.2009
Within 1–3 years	20,983	14,759
Within 4 years	7,966	3,453
Within 5 years	7,074	3,957
More than 5 years	52,998	48,916
Total	**89,021**	**71,085**

9. 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	2009/10	2008/09
Income after taxes (1,000 CHF)	354,457	284,816
Weighted average number of outstanding shares	65,495,574	65,505,504
Basic earnings per share (CHF)	**5.412**	**4.348**

In the case of diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming all outstanding dilutive options will be exercised. The weighted average number of shares is adjusted for all dilutive options issued under the stock option plans which have been granted in 2003 through to 2010 and which have not yet been exercised. Anti-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 is used in calculating basic earnings per share.

Diluted earnings per share	2009/10	2008/09
Income after taxes (1,000 CHF)	354,457	284,816
Weighted average number of outstanding shares	65,495,574	65,505,504
Adjustment for dilutive share options	681,993	266,010
Adjusted weighted average number of outstanding shares	66,177,567	65,771,514
Diluted earnings per share (CHF)	**5.356**	**4.330**

10. Dividend per share

The Board of Directors of Sonova Holding AG proposes to the Annual General Shareholders' Meeting, to be held on June 15, 2010, that a dividend of CHF 1.20 (previous year CHF 1.00) per share shall be distributed.

11. Cash and cash equivalents

1,000 CHF	31.3.2010	31.3.2009
Cash on hand	452	493
Current bank accounts	334,296	214,135
Time deposits	1,183	2,087
Total	**335,931**	**216,715**

Time deposits and bank accounts are mainly denominated in CHF, EUR and USD.

For details of the movements in cash and cash equivalents refer to the consolidated cash flow statements.

12. Other current financial assets

1,000 CHF	31.3.2010	31.3.2009
Marketable securities	11,785	12,137
Positive replacement value of forward foreign exchange contracts		2,528
Loans to third parties	5,763	4,891
Total	**17,548**	**19,556**

For details on forward foreign exchange contracts refer to Note 24.

Marketable securities mainly consist of quoted bonds and equity funds. The carrying values of these financial assets equal market prices.

13. Trade receivables

1,000 CHF	31.3.2010	31.3.2009
Trade accounts receivable	342,325	273,495
Provision for doubtful accounts	(17,870)	(11,473)
Total	**324,455**	**262,022**

As common in this industry, the Sonova Group has a large number of customers. There is no significant concentration of the credit risk. The aging of trade accounts receivable and related provisions looks as follows:

1,000 CHF	31.3.2010	31.3.2009
Total trade accounts receivable, net	**324,455**	**262,022**
of which:		
Not overdue	217,868	190,420
Overdue 1 – 30 days	48,684	36,794
Overdue more than 30 days	57,903	34,808
Total	**324,455**	**262,022**

Provision for doubtful accounts is established based on individual adjustments and past experiences. The charges to the income statement are included in general and administration costs. The following table summarizes the movements in the provision for doubtful accounts:

1,000 CHF	31.3.2010	31.3.2009
Provision for doubtful accounts, April 1	**(11,473)**	**(10,901)**
Utilization or reversal	4,779	3,529
Set up of provision	(8,595)	(3,493)
Changes through business combinations	(2,594)	(799)
Exchange differences	13	191
Provision for doubtful accounts, March 31	**(17,870)**	**(11,473)**

During 2009/10 the Group has utilized CHF 2.3 million (previous year CHF 1.4 million) of this provision to impair receivables.

The carrying amounts of trade accounts receivable are denominated in the following currencies:

1,000 CHF	31.3.2010	31.3.2009
CAD	26,559	18,895
CHF	24,066	20,943
EUR	112,122	99,942
GBP	9,026	8,178
USD	97,695	73,361
Other	54,987	40,703
Total trade accounts receivable, net	**324,455**	**262,022**

14. Other receivables and prepaid expenses

1,000 CHF	31.3.2010	31.3.2009
Other receivables	42,156	33,998
Prepaid expenses	28,555	18,630
Total	**70,711**	**52,628**

The largest individual items included in other receivables are recoverable value added taxes. Prepaid expenses mainly consist of advances to suppliers.

15. Inventories

1,000 CHF	31.3.2010	31.3.2009
Raw materials and components	23,677	16,026
Work-in-process	67,529	53,409
Finished products (incl. purchased goods)	104,171	76,155
Allowances	(35,315)	(31,364)
Total	**160,062**	**114,226**

Allowances include value adjustments for slow moving, phase out and obsolete stock.

In 2009/10, CHF 350.6 million (previous year CHF 311.8 million) were recognized as an expense and included in “cost of sales”.

16. Property, plant & equipment

1,000 CHF					31.3.2010
	Land	Buildings	Total land & buildings	Plant & equipment	Total
Cost					
Balance April 1	11,841	99,110	110,951	224,656	335,607
Changes through business combinations	8	3,835	3,843	11,200	15,043
Additions	2,618	16,399	19,017	42,061	61,078
Disposals		(121)	(121)	(27,265)	(27,386)
Exchange differences	(164)	(508)	(672)	(47)	(719)
Balance March 31	**14,303**	**118,715**	**133,018**	**250,605**	**383,623**
Accumulated depreciation					
Balance April 1	(190)	(32,601)	(32,791)	(142,231)	(175,022)
Additions		(3,159)	(3,159)	(29,806)	(32,965)
Disposals		80	80	25,691	25,771
Exchange differences	11	27	38	211	249
Balance March 31	**(179)**	**(35,653)**	**(35,832)**	**(146,135)**	**(181,967)**
Net book value					
Balance April 1	11,651	66,509	78,160	82,425	160,585
Balance March 31	**14,124**	**83,062**	**97,186**	**104,470**	**201,656**

1,000 CHF					31.3.2009
	Land	Buildings	Total land & buildings	Plant & equipment	Total
Cost					
Balance April 1	9,312	80,943	90,255	194,311	284,566
Changes through business combinations	43	1,631	1,674	7,109	8,783
Additions	2,618	19,206	21,824	33,446	55,270
Disposals		(2,199)	(2,199)	(9,049)	(11,248)
Exchange differences	(132)	(471)	(603)	(1,161)	(1,764)
Balance March 31	**11,841**	**99,110**	**110,951**	**224,656**	**335,607**
Accumulated depreciation					
Balance April 1	(197)	(31,003)	(31,200)	(124,975)	(156,175)
Additions		(2,415)	(2,415)	(26,075)	(28,490)
Disposals		576	576	8,680	9,256
Exchange differences	7	241	248	139	387
Balance March 31	**(190)**	**(32,601)**	**(32,791)**	**(142,231)**	**(175,022)**
Net book value					
Balance April 1	9,115	49,940	59,055	69,336	128,391
Balance March 31	**11,651**	**66,509**	**78,160**	**82,425**	**160,585**

Tangible assets (buildings, plant and equipment) as of March 31, 2010 were insured against fire for a value of CHF 361.2 million (previous year CHF 315.5 million).

Pledged assets amounted to CHF 0.1 million (previous year CHF 0.5 million).

There are no assets held under finance leases.

Advance payments and capital expenditures for land and buildings as well as plant and equipment under construction in the current financial year amounted to CHF 8.3 million (previous year CHF 22.5 million).

17. Investments in associates/joint ventures

The Group's share in the results as well as in assets and liabilities of associates/joint ventures, all unlisted enterprises, is as follows:

1,000 CHF	2009/10	2008/09
Current assets	18,333	10,501
Non-current assets	10,467	10,007
Total assets	**28,800**	**20,508**
Current liabilities	(13,407)	(8,814)
Non-current liabilities	(11,273)	(4,940)
Total liabilities	**(24,680)**	**(13,754)**
Net assets	**4,120**	**6,754**
Income for the year	45,928	42,381
Expenses for the year	(47,411)	(43,292)
Loss for the year	**(1,483)**	**(911)**
Net book value as at year-end	35,086	35,843
Share of loss recognized by the Group	(769)	(2,075)

In the financial year 2009/10, no associates/joint ventures have been acquired. In the financial year 2008/09 several investment in associates have been undertaken for a total purchase consideration of CHF 4.7 million.

Sales to associates and joint ventures in the financial year 2009/10 amounted to CHF 13.1 million (previous year CHF 11.9 million).

At March 31, 2010 accounts receivable towards associates and joint ventures amounted to CHF 3.9 million (previous year CHF 3.1 million).

The amount of losses from investments in associates that have not been recognized, due to already being written down to a zero value, amounted to CHF 1.0 million for the period 2009/10 and to CHF 2.5 million on a cumulative basis.

Investments with a net book value of CHF 35.1 million (previous year CHF 35.8 million) have a business year different than the Sonova Group. The latest available information for the respective companies vary between December 2009 and February 2010.

18. Other non-current financial assets

1,000 CHF	31.3.2010	31.3.2009
Financial assets at fair value through profit or loss	15,577	9,244
Loans to associates	26,264	10,352
Loans to third parties	39,596	44,774
Total	**81,437**	**64,370**

Financial assets at fair value through profit or loss consist of minority interests in the Danish patent holding company HIMPP A/S and in the Danish software development companies HIMSA II A/S (Hearing Instruments Manufacturers Software Association II A/S) and HIMSA II K/S, in which the Group has invested, together with other leading hearing instrument manufacturers, as well as four other minority interests in third party companies. Besides these minority investments, financial assets at fair value through profit or loss also consists of cash settled warrants in connection with the employee share option program (refer to Note 30).

Long-term loans mainly include loans to customers and strategic business partners. The increase compared to previous year is driven by the funding of business expansions. The loans are primarily denominated in CHF, EUR, CAD and GBP. As of March 31, 2010, the respective repayment periods vary between 1 and 5.6 years and the interest rates vary between 1.5% and 5.9%. Generally, the valuation of the loans approximates to fair value.

19. Intangible assets

1,000 CHF					31.3.2010
	Goodwill	Software	Intangibles relating to acquisitions	Other intangibles	Total
Cost					
Balance April 1	321,129	27,102	76,395	32,116	456,742
Changes through business combinations	482,866	307	160,638	110	643,921
Additions	1,690	8,805	185	19,389	30,069
Disposals[1]	(9,306)	(2,078)	(58)	(9)	(11,451)
Exchange differences	32,214	(313)	6,324	26	38,251
Balance March 31	**828,593**	**33,823**	**243,484**	**51,632**	**1,157,532**
Accumulated amortization					
Balance April 1		(20,081)	(15,266)	(2,949)	(38,296)
Additions		(4,953)	(13,353)	(1,569)	(19,875)
Disposals		2,049	53	2	2,104
Exchange differences		331	(869)	(9)	(547)
Balance March 31		**(22,654)**	**(29,435)**	**(4,525)**	**(56,614)**
Net book value					
Balance April 1	321,129	7,021	61,129	29,167	418,446
Balance March 31	**828,593**	**11,169**	**214,049**	**47,107**	**1,100,918**

[1] Disposals of Goodwill include primarily earn-out adjustments.

1,000 CHF					31.3.2009
	Goodwill	Software	Intangibles relating to acquisitions	Other intangibles	Total
Cost					
Balance April 1	243,492	21,881	46,575	16,343	328,291
Changes through business combinations	90,319	22	32,315	2	122,658
Additions	2,075	4,919	403	15,796	23,193
Disposals[1]	(4,091)	(201)	(17)	(33)	(4,342)
Exchange differences	(10,666)	481	(2,881)	8	(13,058)
Balance March 31	**321,129**	**27,102**	**76,395**	**32,116**	**456,742**
Accumulated amortization					
Balance April 1		(15,910)	(8,983)	(1,438)	(26,331)
Additions		(3,975)	(6,764)	(1,523)	(12,262)
Disposals		197	4	1	202
Exchange differences		(393)	477	11	95
Balance March 31		**(20,081)**	**(15,266)**	**(2,949)**	**(38,296)**
Net book value					
Balance April 1	243,492	5,971	37,592	14,905	301,960
Balance March 31	**321,129**	**7,021**	**61,129**	**29,167**	**418,446**

[1] Disposals of Goodwill include primarily earn-out adjustments.

Other intangible assets include capitalized costs for the development of hearing implants in the amount of CHF 33.4 million (previous year CHF 15.4 million).

Intangibles relating to acquisitions consist primarily of technology, client relationships, customer lists and brand names.

For the purpose of impairment testing, goodwill is allocated to a cash-generating unit or to a group of cash-generating units, which are expected to benefit from the synergies of the corresponding business combination. The recoverable amount of a cash-generating unit (higher of the cash-generating unit's fair value less selling costs and the cash-generating units value in use) is compared to the carrying amount. Future cash flows are discounted with the Weighted Average Cost of Capital (WACC) including the application of the Capital Asset Pricing Model (CAPM). Value in use is normally assumed to be higher than the fair value less selling costs. Therefore, fair value less selling costs is only investigated when value in use is lower than the carrying amount of the cash-generating unit.

The cash flow projections are based on a 5 to 10 year period. Cash flows beyond the projection period are extrapolated using the estimated long-term growth rates (see following table). The long-term growth rates are below the expected long-term average growth rates for the hearing systems industry in which the cash-generating units operate. Gross margin is projected to remain constant.

Key assumptions used for value-in-use calculations:

1,000 CHF	Carrying amount of goodwill	Currency	Basis for recoverable amount	Discount rate	Projection period	Long-term growth rate
Unitron Group	63,598	Multiple	Value in use	9%	5 years	1.00%
Hansaton	30,223	EUR	Value in use	8%	5 years	1.00%
Lapperre	14,264	EUR	Value in use	8%	5 years	1.00%
Phonak Ibérica	7,302	EUR	Value in use	8%	5 years	1.00%
Phonak do Brasil	15,114	BRL	Value in use	18%	5 years	1.00%
Metro Hearing	16,490	USD	Value in use	9%	5 years	1.00%
National Hearing Services	51,461	CAD	Value in use	8%	5 years	1.00%
Hearing Retail Group	15,362	AUD	Value in use	9%	5 years	1.00%
TRE S.A.	65,437	EUR	Value in use	8%	5 years	1.00%
Advanced Bionics	367,254	USD	Value in use	11%	10 years	2.00%
InSound	118,978	USD	Value in use	13%	7 years	1.00%

The calculation for impairment tests applies pre-tax discount rates.

Based on the impairment tests performed, there was no need for the recognition of an impairment.

Regarding the sensitivity of changes in the assumptions, the Group believes that a possible change in the discount rate of 1% would not result in an impairment of goodwill in any of the cash-generating units.

20. Provisions

1,000 CHF				31.3.2010				31.3.2009
	Warranty and returns	Earn-out provisions	Other provisions	Total	Warranty and returns	Earn-out provisions	Other provisions	Total
Balance April 1	44,097	43,324	15,358	102,779	37,550	31,873	16,829	86,252
Changes through business combinations	15,300		5,960	21,260		983	1,326	2,309
Amounts used	(30,594)	(8,204)	(10,537)	(49,335)	(26,049)	(2,341)	(6,884)	(35,274)
Reversals	(1,294)	(9,278)	(1,471)	(12,043)	(1,176)	(4,100)	(1,455)	(6,731)
Increases	44,301	53,476	15,645	113,422	32,550	15,209	5,417	53,176
Present value adjustments		3,821		3,821		1,950		1,950
Exchange differences	(265)	1,150	(137)	748	1,222	(250)	125	1,097
Balance March 31	**71,545**	**84,289**	**24,818**	**180,652**	**44,097**	**43,324**	**15,358**	**102,779**
thereof short-term	63,610	18,775	15,516	97,901	37,009	15,876	10,635	63,520
thereof long-term	7,935	65,514	9,302	82,751	7,088	27,448	4,723	39,259

On average, the Group grants a 15 months warranty period for hearing instruments and related products and up to 10 years on hearing implants. During this period, products will be repaired or replaced free of charge. The provision is based on turnover and past experience with actual warranty claims. Cash outflows are expected to take place within the next one to ten years.

Earn-out provisions include the present value of estimated earn-out payments. This corresponds to the discounted variable purchase price of the acquired companies. Cash outflows are expected to take place within the next one to five years.

Other provisions predominantly include reimbursement to customers. Cash outflows are expected to take place within the next one to two years. In addition, other provisions include provisions for specific business risks such as litigation and restructuring costs which arise during the normal course of business. Provisions for litigations mainly relate to patent disputes. The timing of cash outflows is uncertain since it will largely depend upon the outcome of administrative and legal proceedings.

21. Short-term debts

1,000 CHF	31.3.2010	31.3.2009
Current maturities of long-term debts	79,322	372
Other short-term debts	1,554	685
Total	**80,876**	**1,057**
Unused borrowing facilities	66,826	61,105

Current maturities of long-term debts include the short-term portion of the bank loan of CHF 470 million granted in connection with the acquisition of Advanced Bionics (refer to Note 24). The book value of short-term debts approximates to fair value.

22. Other short-term liabilities

1,000 CHF	31.3.2010	31.3.2009
Other payables	36,605	30,618
Accrued expenses	120,054	87,131
Deferred income	8,808	8,180
Total	**165,467**	**125,929**

Other payables include among other items amounts to be remitted in respect of withholding taxes, value added taxes, social security payments, employees' income taxes deducted at source and customer prepayments. Accrued expenses relate among other items, to salaries, social expenses, vacation pay, bonus and incentive compensation as well as accruals for outstanding invoices from suppliers. The increase is mainly driven by business expansion and acquisitions.

23. Non-current financial liabilities

1,000 CHF	31.3.2010	31.3.2009
Bank debts	386,893	319
Interest swap – negative replacement value	2,057	
Other non-current financial liabilities	1,130	2,280
Total	**390,080**	**2,599**

Bank debts include the long-term portion of the bank loan of CHF 470 million granted in connecton with the acquisition of Advanced Bionics (refer to Note 24). The fair value of the bank debts as of March 31, 2010 amounts to CHF 389.0 million.

Other non-current financial liabilities mainly consist of amounts due in relation to the Share Appreciation Rights (SARs) and Warrant Appreciation Rights (WARs) (refer to Note 30).

Analysis by currency 1,000 CHF	31.3.2010				31.3.2009		
	Bank debts	Interest swap – negative replacement value	Other non-current financial liabilities	Total	Bank debts	Other non-current financial liabilities	Total
CHF	386,613	2,057	682	389,352		255	255
EUR			102	102		149	149
DKK	280			280	319		319
USD			223	223		39	39
CAD						1,472	1,472
Other			123	123		365	365
Total	**386,893**	**2,057**	**1,130**	**390,080**	**319**	**2,280**	**2,599**

24. Risk management and financial instruments

Group risk management

Risk management at Group level is an integral part of business practice and supports the strategic decision-making process. The assessment of risk is derived from both "top-down" and "bottom-up" and covers all consolidated Group Companies and their relevant business segments. This approach allows for the Group to examine all types of risk exposure, from financial, operational, legal and compliance, through to market and external environment. The impact of risk is minimized by consistent evaluation, communication, risk consolidation and prioritization.

The responsibility for risk assessment, management and controlling is allocated to departments with specialized Corporate Functions such as Group Finance, Internal Audit, Quality and Regulatory, Operations and Group HR. The Management Board, in addition to Group Companies and Functional Managers conducts an annual risk analysis. The Board of Directors discusses and analyzes the Groups risks at least once a year in the context of a strategy meeting. If a Group level intervention is required, responsibility for mitigating actions will be determined by the Management Board.

Financial risk management

Due to Sonova Group's worldwide activities, the Group is exposed to a variety of financial risks such as market risks, credit risks and liquidity risks. Financial risk management aims to limit these risks and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses selected financial instruments for this purpose. They are exclusively used as hedging instruments for cash in- and outflows and not for speculative positions.

The fundamentals of Sonova Group's financial risk policy are periodically reviewed by the Audit Committee and carried out by the Group Finance department. Group Finance is responsible for implementing the policy and for ongoing financial risk management.

Market risk

Exchange rate risk

The Group operates globally and is therefore exposed to foreign currency fluctuations, mainly with respect to the US dollar and the Euro. As the Group uses Swiss francs as presentation currency and holds investments in different functional currencies, net assets are exposed to foreign currency translation risk. Additionally, a foreign currency transaction risk exists in relation to future commercial transactions which are denominated in a currency other than the functional currency.

To minimize foreign currency exchange risks, which also include inter-company sales and the settlement of inter-company loans, forward currency contracts and options are entered into. The Group hedges its net foreign currency exposure based on future expected cash in- and outflows. The hedges have a duration of between 1 and 12 months. No hedge accounting has been applied to these hedges, since they do not qualify for such treatment under IAS 39.

Positive replacement values from hedges which do not qualify for hedge accounting are recorded as financial assets at fair value through profit or loss whereas negative replacement values are recorded as financial liabilities at fair value through profit or loss.

As of March 31, 2010, no forward currency contracts were open.
As of March 31, 2009, currency contracts with the following notional and fair values were open:

1,000 CHF	Notional amount of forward contracts/derivatives					
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total	Fair value
Positive replacement values	58,418	25,221			83,639	2,528
Negative replacement values	7,514				7,514	(35)
Total	**65,932**	**25,221**			**91,153**	**2,493**

Foreign currency sensitivity analysis

A 5% strengthening/weakening of the following currencies against the Swiss franc as of March 31, 2010 and 2009 would create an impact on income after taxes and equity as shown in the following table. The analysis assumes all other variables to remain constant.

1,000 CHF	2009/10	2008/09	2009/10	2008/09
	Impact on income after taxes		Impact on equity	
Change in USD/CHF +5%	2,006	(95)	16,402	7,465
Change in USD/CHF –5%	(2,006)	95	(16,402)	(7,465)
Change in EUR/CHF +5%	3,894	2,244	8,290	4,179
Change in EUR/CHF –5%	(3,894)	(2,244)	(8,290)	(4,179)

Interest rate risk

The Group has only limited exposure to interest rate changes. The one material interest bearing debt of CHF 470 million, entered into in connection with the acquisition of Advanced Bionics, is partially hedged against interest rate changes. The bank loan is split into two tranches, a CHF 240 million amortizing loan with a term of 3 years and a CHF 230 million facility with a term of 5 years. For the long-term portion of CHF 230 million, the Group entered into a swap agreement that protects the Group against raising interest rates, as the floating interest rates are swapped against fixed rates. As the conditions of the swap are in line with the underlying conditions of the financing agreement, the swap can be considered as 100% effective and hedge accounting has been applied. As of March 31, 2010, the negative fair value of the interest rate swap amounts to CHF 2.1 million and represents the theoretical replacement value. If interest rates had been 0.5% lower/higher, the valuation of the swap would have changed by approximatley CHF 5 million and the equity would have been CHF 5 million lower/higher. The CHF 240 million portion of the bank loan is affected by interest rate changes. If interest rates for the last quarter of the financial year 2009/10 had been 1% higher/lower, income after taxes would have been CHF 0.5 million lower/higher.

Besides this specific transaction mentioned above, no derivative instruments have been used to hedge against changes in interest rates. However, the interest situation and hedging possiblities are continuously monitored.

The most substantial interest exposure on assets relates to cash and cash equivalents with an average interest bearing amount for the financial year 2009/10 of CHF 252 million (previous year CHF 190 million). If interest rates during the financial year 2009/10 had been 1% higher/lower on these accounts, income after taxes would have been CHF 2.2 million higher/lower (previous year CHF 1.6 million).

Other market risks

Risk of price changes of raw materials or components used for production is limited. A change in those prices would not result in financial effects being above the Group's risk management tolerance level. Therefore, no sensitivity analysis has been conducted.

The Group holds certain marketable securities which are classified as "financial assets at fair value through profit or loss" and mainly consist of quoted bonds and equity funds. These investments (0.5% of total assets as of March 31, 2010) are below Group's risk management tolerance level, too. Therefore no sensitivity analysis has been conducted.

Credit risk

Financial assets which could expose the Group to a potential concentration in credit risk are principally cash and bank balances, receivables from customers and loans.

Core banking relations are maintained with four first-class financial institutions (as of March 31, 2010, 49% of total cash and cash equivalents related to one counterparty). It is the Group's policy to enter only into material transactions with financial institutions that are at least 'A' rated.

The Group performs continuous credit checks on its receivables and credit limits are assigned to all customers. Due to the customer diversity there is no single credit limit for all customers, however the Group assesses its customers taking into account its financial positions, past experience and other factors applying a standard methodology. Due to the fragmented customer base (no single debtor balance above 10% of total trade accounts receivable), the Group is not exposed to any significant concentration risk.

For loans to third and related parties, the Group assesses its counterparty taking into account its financial positions, past experience and other factors.

The Group does not expect any significant losses neither from its receivables, nor from its other financial assets.

The maximum exposure for credit risk relating to financial assets is the total of the carrying amounts recorded in the balance sheet.

Liquidity risk

Group Finance is responsible for a centralized management of the net cash/debt position and to ensure that the Group's obligations can be settled on time. The Group aims to grow further and wants to remain flexible in making time-sensitive investment decisions. This overall objective is included in the asset allocation strategy. A rolling forecast based on the expected cash flows is conducted and updated regularly to monitor and control liquidity and to ensure that the financial covenants are met and to ensure the contractual repayment of the bank debt. As of March 31, 2010, the covenants are met.

The following table summarizes the contractual maturities of financial liabilities as of March 31, 2010 and 2009:

1,000 CHF					31.3.2010
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Short-term debts	41,189	39,687			80,876
Other current financial liabilities		2,789			2,789
Trade and other short-term liabilities	147,434	33,973			181,407
Total current financial liabilities	**188,623**	**76,449**			**265,072**
Long-term bank debts			386,893		386,893
Interest rate swap – negative replacement value			2,057		2,057
Other non-current financial liabilities			1,035	95	1,130
Total non-current financial liabilities			**389,985**	**95**	**390,080**
Total financial liabilities	**188,623**	**76,449**	**389,985**	**95**	**655,152**

1,000 CHF					31.3.2009
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Short-term debts	295	762			1,057
Derivatives – negative replacement value	35				35
Trade and other short-term liabilities	107,549	30,228			137,777
Total current financial liabilities	**107,879**	**30,990**			**138,869**
Long-term bank debts			96	223	319
Other non-current financial liabilities			2,221	59	2,280
Total non-current financial liabilities			**2,317**	**282**	**2,599**
Total financial liabilities	**107,879**	**30,990**	**2,317**	**282**	**141,468**

Fair value hierarchy

The following table summarizes the financial instruments carried at fair value, by valuation method as of March 31, 2010. The different levels have been defined as follows:

Level 1: Prices quoted in active markets
Level 2: Valuation techniques based on observable market data
Level 3: Valuation techniques based on unobservable input

1,000 CHF				31.3.2010
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss	11,785		15,577	27,362
Total Assets	**11,785**		**15,577**	**27,362**
Liabilities				
Financial liabilities at fair value through profit or loss			3,919	3,919
Derivatives used for hedging		2,057		2,057
Total Liabilities		**2,057**	**3,919**	**5,976**

Capital risk management

It is the Group's policy to maintain a strong equity capital base to support the further development of its business. Sonova Group maintains an unleveraged balance sheet which provides the Group the opportunity for further internal and external expansion in this dynamic industry. Further it is the Group's policy to maintain a debt capacity which provides sufficient flexibility to realize strategic options. The Group aims to keep an "Investment Grade" level which results in an actual debt capacity of over CHF 1 billion. However, as global financial markets have not yet entirely eased around the balance sheet date, actual debt capacity was difficult to determine.

The company targets a dividend pay-out ratio of around 20%.

In 2007 the Group initiated a share buy-back program to maintain investor confidence. In the light of the acquisition of Advanced Bionics, the share buy-back program has been stopped as of November 2009.

25. Other long-term liabilities

1,000 CHF	31.3.2010	31.3.2009
Long-term deferred income	14,167	12,255
Retirement benefit obligations	1,180	22,751
Total	**15,347**	**35,006**

Long-term deferred income relates to long-term service contracts with customers. Deferred income is recognized as a sale over the period of the service contract.

The retirement benefit obligation relates to defined benefit plans. For details refer to Note 29.

26. Movements in share capital

Issued registered shares	Issued registered shares	Treasury shares[1]	Outstanding shares
Balance March 31, 2008	**67,451,506**	**(1,228,975)**	**66,222,531**
Issue of new shares from conditional capital[2]	174,078		174,078
Purchase of treasury shares		(33,945)	(33,945)
Sale of treasury shares		82,311	82,311
Cancelation of treasury shares	(1,395,000)	1,395,000	
Purchase of shares intended to be canceled[3]		(1,095,700)	(1,095,700)
Balance March 31, 2009	**66,230,584**	**(881,309)**	**65,349,275**
Issue of new shares from conditional capital[2]	578,661		578,661
Purchase of treasury shares		(344,416)	(344,416)
Sale of treasury shares		303,137	303,137
Cancelation of treasury shares	(718,500)	718,500	
Balance March 31, 2010	**66,090,745**	**(204,088)**	**65,886,657**

Nominal value of share capital 1,000 CHF	Share Capital	Treasury shares[1]	Outstanding share capital
Balance March 31, 2008	**3,373**	**(61)**	**3,312**
Issue of new shares from conditional capital[2]	9		9
Purchase of treasury shares		(2)	(2)
Sale of treasury shares		4	4
Cancelation of treasury shares	(70)	70	
Purchase of shares intended to be canceled[3]		(55)	(55)
Balance March 31, 2009	**3,312**	**(44)**	**3,268**
Issue of new shares from conditional capital[2]	29		29
Purchase of treasury shares		(17)	(17)
Sale of treasury shares		15	15
Cancelation of treasury shares	(36)	36	
Balance March 31, 2010	**3,305**	**(10)**	**3,295**

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) Created for purpose of the employee share option plan.

3) Shares purchased by the Group as part of the share buy-back program.

At the Annual General Shareholder's Meeting on July 7, 2005 the conditional share capital of CHF 264,270 (5,285,400 shares) has been increased by CHF 165,056 (3,301,120 shares) to CHF 429,326 (8,586,520 shares). As of March 31, 2010, 6,404,675 (previous year 6,983,336) shares thereof have not yet been issued. These shares are reserved for long-term incentive plans.

At the Annual General Shareholders' Meeting 2007 the Board of Directors was authorized, based on article 651 of the Swiss Corporate Law (OR), to increase the share capital within a maximum period of two years. This authorization expired on June 12, 2009. The Annual General Shareholders' Meeting held on June 10, 2009 approved the creation of authorized share capital of 3,311,520 registered shares with a par value of CHF 0.05 per share. The Board of Directors is authorized to exclude subscription rights of shareholders and to allocate them to third parties if the new shares are to be used for the acquisition of companies, part of companies, equity stakes or the financing of such transactions. The authorized share capital of 3,311,520 registered shares created on June 10, 2009, has not yet been used. The authorization granted to the Board of Directors to augment the company's share capital with the authorized share capital created expires on June 9, 2011.

27. Acquisitions of subsidiaries

Assets and liabilities resulting from the acquisitions look as follows:

1000 CHF	Notes								2009/10
		Advanced Bionics		InSound		Others		Total	
		Fair value	Carrying amount before acquisition	Fair value	Carrying amount before acquisition	Fair value	Carrying amount before acquisition	Fair value	Carrying amount before acquisition
Current assets		70,175	72,712	4,062	4,062	5,491	5,491	79,728	82,265
Property, plant & equipment	16	11,186	11,186	1,507	1,507	2,350	2,350	15,043	15,043
Intangible assets	19	123,965	101,178	15,493	105	21,597	7,501	161,055	108,784
Other non-current assets		1	1	3,966	3,966	2,357	15	6,324	3,982
Current liabilities		(38,309)	(37,167)	(7,428)	(7,428)	(2,335)	(2,253)	(48,072)	(46,848)
Non-current liabilities		(10,052)	(3,769)	(5,847)		(2,809)	(413)	(18,708)	(4,182)
Net assets		**156,966**	**144,141**	**11,753**	**2,212**	**26,651**	**12,691**	**195,370**	**159,044**
Goodwill	19	347,494		114,917		20,455		482,866	
Purchase price incl. acquisition-related costs		**504,460**		**126,670**		**47,106**		**678,236**	
For which the Group recorded a long-term provision for earn-out or holdback				(49,440)		(4,005)		(53,445)	
Cash consideration		**504,460**		**77,230**		**43,101**		**624,791**	
Cash and cash equivalents acquired		(3,589)		(171)		(3,093)		(6,853)	
Cash consideration, net of cash acquired		**500,871**		**77,059**		**40,008**		**617,938**	
Cash outflow for earn-out payments								**8,204**	
Total cash outflow from acquisitions								**626,142**	

Besides Advanced Bionics and InSound Medical, several small companies were acquired during the financial year 2009/10 in Asia, Australia, Europe and North America. The purpose of these companies is the sale of hearing instruments. All acquisitions have been accounted for applying the purchase method of accounting.

The initial accounting for the acquisitions in the current financial year is provisional. The results of the final valuation and purchase price allocation are still outstanding. The fair values assigned to the identifiable assets acquired and liabilities assumed are therefore still subject to changes. The goodwill is attributed mainly to expected synergies, the labor force and the favourable sales growth potential.

Contribution of acquired companies from acquisition to 1,000 CHF				31.3.2010
	Advanced Bionics	InSound	Others	Total
Sales	25,248	2,080	19,257	46,585
Net income	(6,198)	(4,110)	(706)	(11,014)

Contribution, if the acquisitions occured on April 1 1,000 CHF				2009
Sales	124,713	7,544	28,895	161,152
Net income	(30,358)	(21,471)	536	(51,293)

During financial year 2008/09, the Group acquired TRE S.A., Luxembourg. The company is engaged in the business of distributing hearing instruments in the European market. Besides this transaction the Group entered into several individually not material business combinations. The companies acquired are operating in Australia, Europe, North America and South Africa and are all in the business of selling hearing instruments.

Assets and liabilities resulting from the acquisitions in the financial year 2008/09 look as follows:

1,000 CHF	Notes	2008/09					
		TRE S.A.		Others		Total	
		Fair value	Carrying amount before acquisition	Fair value	Carrying amount before acquisition	Fair value	Carrying amount before acquisition
Current assets		7,339	7,546	12,803	12,838	20,142	20,384
Property, plant & equipment	16	5,397	4,446	3,386	3,387	8,783	7,833
Intangible assets	19	14,900	7,974	17,439	2,256	32,339	10,230
Other non-current assets		600	6,036	2,259	1,005	2,859	7,041
Current liabilities		(10,702)	(15,706)	(9,705)	(3,556)	(20,407)	(19,262)
Non-current liabilities		(5,973)	(1,448)	(4,183)	(496)	(10,156)	(1,944)
Net assets		**11,561**	**8,848**	**21,999**	**15,434**	**33,560**	**24,282**
Minority interests				(520)		(520)	
Net assets net of minority interests		**11,561**		**21,479**		**33,040**	
Goodwill	19	62,348		27,971		90,319	
Purchase price incl. acquisition-related costs		**73,909**		**49,450**		**123,359**	
Loan consideration				(10,507)		(10,507)	
For which the Group recorded a long-term provision for earn-out or holdback		(8,640)		(5,778)		(14,418)	
Cash consideration		**65,269**		**33,165**		**98,434**	
Cash and cash equivalents acquired		(3,027)		(3,318)		(6,345)	
Cash consideration, net of cash acquired		**62,242**		**29,847**		**92,089**	
Cash outflow for investments in associates, minority shareholdings and earn-out payments						**5,193**	
Total cash outflow from acquisitions						**97,282**	

The goodwill is attributed mainly to expected synergies, the labor force and the favourable sales growth potential.

Contribution of acquired companies from acquisition to 1,000 CHF			31.3.2009
	TRE S.A.	Others	Total
Sales	10,608	14,193	24,801
Net income	(506)	(952)	(1,458)

Contribution, if the acquisitions occured on April 1 1,000 CHF			2008
Sales	22,453	23,286	45,739
Net income	(183)	(2,491)	(2,674)

28. Related party transactions

1,000 CHF	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09
	Management Board		Board of Directors		Total	
Short-term employee benefits	8,518	6,713	1,342	688	9,860	7,401
Share based payments	4,889	4,742	1,930	998	6,819	5,740
Total	**13,407**	**11,455**	**3,272**	**1,686**	**16,679**	**13,141**

The total compensation to the Management Board, as shown above, relates to 9 active members and one member that retired from the Management Board during the reporting period (previous year 10 members).

The Group finished the construction of a new production plant on a site next to the Group's headquarters in Stäfa, Switzerland. The factory was built by the general contractor R-Estate AG. The land belonged to ARim AG and has been purchased by the Group. Both R-Estate AG and ARim AG are fully owned by the Chairman of the Board of Directors of Sonova Holding AG, Andy Rihs. The terms for purchasing the land and constructing the factory are identical to those that would have been stipulated in an agreement with an independent third party.

The purchase price for the land is CHF 5.2 million, of which CHF 2.6 million have been paid to ARim AG in the reporting period (CHF 2.6 million in the financial year 2008/09). The amount paid to R-Estate AG for the con-struction of the factory (excluding interior work) is CHF 20.1 million, of which CHF 7.4 million have been paid in the reporting period (CHF 12.1 million have been paid in the financial year 2008/09, and the remaining CHF 0.6 million will be paid in the next financial year 2010/11).

Effective October 23, 2007 the Group entered into a lease contract with ARim AG (annual lease payment of CHF 0.3 million).

For additional information regarding transactions with associates refer to Note 17 and Note 18.

Transactions between the Group and the various post-employment benefit plans for the employees of the Group are described in Note 29.

Further information in accordance with Swiss law relating to remuneration and ownership of shares and options of the Board of Directors and the Management Board can be found in Note 2.5 of the financial statements of Sonova Holding AG.

29. Employee benefits

Sonova Group's retirement plans include defined benefit pension plans, primarily in Switzerland and also in several other countries. These plans are both funded and unfunded and are accounted for as defined benefit plans according to IAS 19, based on recent actuarial valuations.

The results of the plans are summarized below:

Amounts recognized in the balance sheet CHF 1,000	31.3.2010	31.3.2009
Present value of funded obligations	(166,278)	(143,890)
Fair value of plan assets	167,890	122,205
Net present value of funded plans	**1,612**	**(21,685)**
Present value of unfunded obligations	(1,033)	(1,066)
Total assets/(liabilities), net	**579**	**(22,751)**
Amounts in the balance sheet:		
Liabilities	(1,180)	(22,751)
Assets	1,759	

Actuarial (gain)/loss recognized in other comprehensive income (OCI) CHF 1,000	2009/10	2008/09
Actuarial loss/(gain) on obligations	532	(7,526)
Actuarial (gain)/loss on plan assets	(23,870)	30,334
Actuarial (gain)/loss recognized in other comprehensive income	**(23,338)**	**22,808**

Cumulative actuarial loss recognized in OCI CHF 1,000	2009/10	2008/09
Recognized actuarial loss at beginning of period	29,494	6,686
Actuarial (gain)/loss charged for the year	(23,338)	22,808
Cumulative actuarial loss recognized in OCI	**6,156**	**29,494**

Amounts recognized in the income statement CHF 1,000	**2009/10**	2008/09
Current service cost	17,699	16,500
Participants' contributions	(7,373)	(6,726)
Interest cost	4,731	4,366
Expected return on plan assets	(4,890)	(5,319)
Total employee benefit expenses	**10,167**	**8,821**

The amount recognized in the consolidated income statement 2009/10 has been charged to cost of sales (CHF 3.0 million, previous year CHF 3.0 million), research and development (CHF 3.0 million, previous year CHF 2.4 million), sales and marketing (CHF 1.5 million, previous year CHF 1.5 million) as well as general and administration (CHF 2.7 million, previous year CHF 1.9 million) in the income statement.

Movement in the present value of the defined benefit obligation CHF 1,000	**2009/10**	2008/09
Beginning of the year	144,956	133,316
Interest cost	4,731	4,366
Current service cost	17,699	16,500
Benefits paid, net	(633)	(1,508)
Actuarial loss/(gain) on obligation	532	(7,526)
Exchange differences	26	(192)
Present value of obligation at end of period	**167,311**	**144,956**

Movement in the fair value of the plan assets CHF 1,000	**2009/10**	2008/09
Beginning of the year	122,205	132,815
Expected return on plan assets	4,890	5,319
Employer's contributions paid	10,056	9,227
Participants' contributions	7,373	6,726
Benefits paid, net	(544)	(1,466)
Actuarial gain/(loss) on plan assets	23,870	(30,334)
Exchange differences	40	(82)
Fair value of plan assets at end of period	**167,890**	**122,205**

Principal actuarial assumptions (weighted average)	**2009/10**	2008/09
Discount rate	3.25%	3.25%
Future salary increases	1.75%	1.75%
Future pension increases	0%	0%
Expected return on plan assets	4%	4%
Fluctuation rate	10%	10%

The plan assets consist of:	31.3.2010	31.3.2009
Cash	10.2%	8.1%
Domestic bonds	24.2%	31.9%
Foreign bonds	6.4%	9.3%
Domestic equities	22.7%	18.5%
Foreign equities	17.2%	13.7%
Real estates	5.9%	6.6%
Alternative investments	13.4%	11.9%

For determining the expected return on plan assets, historical performances per asset category are taken into consideration.

The actual return on plan assets amounted to CHF 27.9 million (previous year CHF –25.0 million).
The expected employer's contributions to be paid in the financial year 2010/11 amount to CHF 10.5 million.

Key figures for the current and previous four periods are as follows:

CHF 1,000	31.3.2010	31.3.2009	31.3.2008	31.3.2007	31.3.2006
Present value of defined benefit obligation	(167,311)	(144,956)	(133,316)	(112,595)	(98,778)
Fair value of plan assets	167,890	122,205	132,815	115,488	103,366
Surplus/(deficit)	**579**	**(22,751)**	**(501)**	**2,893**	**4,588**
Experience adjustments on plan liabilities	(532)	7,526	3,620	(424)	(2,823)
Experience adjustments on plan assets	23,870	(30,334)	(7,286)	(1,523)	4,898

Defined contribution plans

Several of the Group's entities have a defined contribution plan. The employer's contributions amounting to CHF 5.3 million in the year ended March 31, 2010 (previous year CHF 4.9 million) are recognized directly in the income statement.

Termination benefits

During financial years 2009/10 and 2008/09, no termination benefits have been expensed.

30. Employee share option and share purchase plans

Starting February 2005, the Group launched a yearly Executive Equity Award Program (EEAP). The Executive Equity Award Plan is offered annually to the Board of Directors (BoD), to the Management Board (MB) as well as to management and senior employees of other Group Companies, entitling them to receive options, warrants, share appreciation rights (SARs), warrant appreciation rights (WARs) and/or shares/retricted share units (RSUs) free of charge. The amount of options, warrants, SARs, WARs and/or shares/RSUs granted varies depending on the degree of management responsibility held.

The following share-based payment costs have been recognized in the financial years:

1,000 CHF	2009/10	2008/09
Equity-settled share-based payment costs	14,688	15,152
Cash-settled share-based payment costs	768	685
Total share-based payment costs	**15,456**	**15,837**

The following table shows an overview of the outstanding options/warrants/WARs/SARs, granted as part of the EEAP programs 2005 to 2010.

Summary of outstanding options/warrants/WARs/SARs granted until March 31, 2010

Financial year	Plan participants	Grant date / Expiry date	Granted	Exercise price	Vesting conditions	Outstanding	Average remaining life (years)	Exercisable
2005/06 Equity-settled	Options granted to BoD, MB and key employees	01.02.2006 31.01.2011	446,318	63.25	4 equal tranches, vest annually over 4 years	118,380	0.8	118,380
2006/07 Equity-settled	Options granted to BoD, MB and key employees outside CH	01.02.2007 31.01.2012	91,235	95.05	4 equal tranches, vest annually over 4 years	53,468	1.8	33,243
2006/07 Equity-settled	Options granted to BoD, MB and key employees in CH	01.03.2007 28.02.2012	228,480	95.05	4 equal tranches, vest annually over 4 years	165,906	1.9	110,986
2006/07 Equity-settled	Options granted to CEO	01.10.2007 30.09.2012	500,000	95.05	4 equal tranches, vest annually over 4 years	500,000	2.5	266,000
2006/07 Equity-settled	Options granted to MB member	01.02.2007 31.05.2012	50,000	95.05	1 tranche, vesting 01.06.2010	50,000	2.2	
2006/07 Cash-settled	SARs granted to key employees in the USA	01.02.2007 31.01.2012	31,600	95.05	4 equal tranches, vest annually over 4 years	23,200	1.9	16,500
2007/08 Equity-settled	Warrants granted to BoD, MB and key employees[1)]	01.03.2008 28.02.2013	341,824	96.00	4 equal tranches, vest annually over 4 years	259,084	2.9	97,172

Financial year	Plan participants	Grant date / Expiry date	Granted	Exercise price	Vesting conditions	Outstanding	Average remaining life (years)	Exercisable
2007/08 Cash-settled	WARs granted to key employees in the USA[1]	01.03.2008 28.02.2013	29,400	95.05	4 equal tranches, vest annually over 4 years	22,900	2.9	9,000
2007/08 Cash-settled	WARs granted to key employees in the USA[1]	01.03.2008 31.05.2013	15,000	96.00	1 tranche, vesting 01.06.2011	15,000	3.2	
2008/09 Equity-settled	Warrants granted to BoD, MB and key employees [1]	01.03.2009 28.02.2014	479,860	56.00	4 equal tranches, vest annually over 4 years	417,836	3.9	68,861
2008/09 Equity-settled	Options granted to CEO	01.03.2009 29.02.2020	160,000	56.00	4 equal tranches, vest annually over 4 years, 1. vesting date 01.03.2012	160,000	8.4	
2008/09 Cash-settled	WARs granted to key employees in the USA[1]	01.03.2009 28.02.2014	38,180	56.00	4 equal tranches, vest annually over 4 years	34,422	3.9	5,786
2009/10 Equity-settled	Warrants granted to BoD, MB and key employees	01.03.2010 28.02.2015	417,640	131.00	4 equal tranches, vest annually over 4 years	417,640	4.9	
2009/10 Cash-settled	WARs granted to key employees in the USA[1]	01.03.2010 28.02.2015	34,500	131.00	4 equal tranches, vest annually over 4 years	34,500	4.9	
2009/10 Cash-settled	WARs granted to key employees of Advanced Bionics[1]	01.01.2010 30.12.2013	65,392	125.80	2 equal tranches, vest annually after 2 years	65,392	2.8	
Total			**2,929,429**	**87.53**[2]		**2,337,728**	**3.6**	**725,928**[3]

[1] For better comparison with options issued, the number of warrants has been adjusted by factor 25, as 25 warrants qualify for one share. The warrants are tradable at the SIX Swiss Exchange. The ticker symbols are as follows: plan 2007/08: SONLT, plan 2008/09: SONAR, plan 2009/10: SONAB, plan Advanced Bionics 2009/10: SONNA.

[2] Weighted average exercise price of outstanding options/warrants/WARs/SARs amounts to CHF 91.15.

[3] Weighted average exercise price for exercisable options/warrants/WARs/SARs amounts to CHF 85.99.

The fair value of options/warrants/WARs/SARs at grant date was determined by using an „Enhanced American Pricing Model“. The expected volatility is based on historical volatility. The assumptions for valuation used for the programs 2009 and 2010 are as follows:

Assumptions for valuation at grant date	Welcome AB Executive Equity Award Plan 2010	Executive Equity Award Plan 2010	Executive Equity Award Plan 2009 Type 1	Executive Equity Award Plan 2009 Type 2
Valuation date	30.12.2009	01.02.2010	01.02.2009	01.02.2009
Expiration date	30.12.2013	28.02.2015	28.02.2014	28.02.2017/2020[1]
Share price on grant date	CHF 125.50	CHF 131.00	CHF 56.00	CHF 56.00
Exercise price	CHF 125.80	CHF 131.00	CHF 56.00	CHF 56.00
Volatility	32.3%	32.2%	32.2%	32.2%
Expected dividend yield	0.92%	0.89%	1.82%	1.82%
Weighted risk free interest rate	1.2%	1.3%	1.4%	2.1%
Weighted average fair value of options/warrants issued	**CHF 25.53**	**CHF 27.57**	**CHF 11.08**	**CHF 15.02**

[1] The options are split into 4 equal tranches with the following expiration dates: 28.02.2017, 28.02. 2018, 28.02.2019, 29.02.2020.

Options/Warrants – Executive Equity Award Plan

The exercise price of the options/warrants is generally equal to the market price of the Sonova share at the SIX Swiss Exchange at grant date. The fair value of the options/warrants granted is estimated at grant date and recorded as an expense over the corresponding vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period to ensure that in the end only a charge for vested amounts occurred. While the options may be exercised between the end of the vesting period and the expiration date of the options the tradable warrants may be sold by the plan participants between the end of the vesting period and the expiration date of the warrants. The tradable warrants will be exercised at the end of the expiration date and shares are issued from the conditional share capital. One share will be issued for 25 warrants. If options are exercised, one share per option is issued from the conditional share capital.

Changes in outstanding options/warrants	2009/10		2008/09	
	Number of options/ warrants[2]	Weighted average exercise price (CHF)	Number of options/ warrants[2]	Weighted average exercise price (CHF)
Outstanding options/warrants at April 1	2,437,299	73.29	2,007,162	76.20
Granted	417,640	131.00	639,860	56.00
Exercised/sold[1]	(686,915)	56.65	(180,128)	43.87
Forfeited	(25,710)	72.33	(29,595)	76.52
Outstanding options/warrants at March 31	**2,142,314**	**89.88**	**2,437,299**	**73.29**
Exercisable at March 31	**694,642**	**85.98**	**789,497**	**69.86**

[1] In 2009/10 exercised: 578,661 options, sold: 108,254 warrants. Total consideration from exercise of options amounted to CHF 30.4 million (previous year CHF 7.3 million). The weighted average share price of the options exercised during the year 2009/10 was CHF 123.17 (previous year CHF 80.48).

[2] For better comparison, the number of warrants have been adjusted according to exercise ratio 25:1.

Warrant Appreciation Rights (WARs)/Share Appreciation Rights (SARs) – Executive Equity Award Plan

The exercise price of the WARs/SARs is generally equal to the market price of the Sonova share at the SIX Swiss Exchange at grant date. Upon exercise of a WAR/SAR, a participant shall be paid, in cash, an amount equal to the products of the number of shares for which the participant exercised WARs/SARs, multiplied by the excess, if any, of the per-share market price at the date of exercise over the per-share exercise price (determined at the date of grant of WARs/SARs). The initial fair value of the WARs/SARs is in line with the valuation of the warrants/options of the respective period and recorded as an expense over the vesting period. Until the liability is settled, it is revalued at each reporting date recognizing changes in fair value in the income statement. The WARs/SARs may be sold between the end of the vesting period and the expiration date of the WARs/SARs. The Group covers the obligation resulting from the WARs and SARs through conditional share capital.

Changes in outstanding WARs/SARs				2009/10				2008/09
	Number of WARs	Weighted average exercise price (CHF)	Number of SARs	Weighted average exercise price (CHF)	Number of WARs	Weighted average exercise price (CHF)	Number of SARs	Weighted average exercise price (CHF)
Outstanding WARs/SARs at April 1	**82,580**	**77.51**	**28,400**	**95.05**	**44,400**	**96.00**	**28,400**	**95.05**
Granted	99,892	127.60			38,180	56.00		
Exercised/sold	(9,058)	79.40	(4,400)	95.05				
Forfeited	(1,200)	96.00	(800)	95.05				
Outstanding WARs/SARs at March 31[1]	**172,214**	**106.33**	**23,200**	**95.05**	**82,580**	**77.51**	**28,400**	**95.05**
Exercisable at March 31[2)/3)]	**14,786**	**80.35**	**16,500**	**95.05**	**7,350**	**96.00**	**14,200**	**95.05**

1) The carrying amount of the liability relating to the WARs at March 31, 2010 is CHF 2.8 million (previous year CHF 0.4 million) and the one for the SARs amounts to CHF 0.9 million (previous year CHF 0.2 million).
2) The intrinsic value of the SARs exercisable at March 31, 2010 amounts to CHF 35.95 (previous year CHF 0).
3) The intrinsic value of the WARs exercisable at March 31, 2010 amounts to CHF 50.65 (previous year CHF 0).

Shares/Restricted Share Units (RSUs) – Executive Equity Award Plan

For the EEAPs 2005 to 2009, shares have been granted to legitimated persons. The value of an individual share granted is equal to the market price on the SIX Swiss Exchange on the grant date. For the EEAP 2010, restricted share units (RSUs) have been granted to legitimated persons. The value of an RSU is equal to the market price on the SIX Swiss Exchange on the grant date, adjusted for the fair value of expected dividends, as RSUs are not entitled to dividends. RSUs entitle the holder to receive one share per RSU after the blocking period.

The shares/RSUs are subject to a blocking period, which starts on the date the shares/RSUs are granted. The shares/RSUs delivered under this plan are shares repurchased by the Group on the open stock market or created out of the conditional share capital.

The cost of the shares/RSUs granted as part of the EEAP program is expensed over the expected vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period to ensure that in the end only a charge for vested amounts occurred.

Changes in outstanding shares/RSUs	2009/10	2008/09
	Number of shares/RSUs	Number of shares
Restricted shares at April 1	**193,312**	**160,710**
Granted	94,502	104,979
Released	(69,321)	(60,297)
Forfeited	(3,660)	(12,080)
Restricted shares/RSUs at March 31	**214,833**	**193,312**

31. Contingent liabilities

At March 31, 2010 and 2009, there were no pledges given to third parties other than in relation to bank loans and mortgages. As security for the bank loan of CHF 470 million, granted in connection with the acquisition of Advanced Bionics, the shares of Advanced Bionics have been pledged. Mortgages are secured by properties in the amount of CHF 0.3 million (previous year CHF 0.3 million). The net book value of these properties amounts to CHF 0.7 million at March 31, 2010 (previous year CHF 0.8 million).

Guarantees issued to third parties decreased to CHF 2.6 million (previous year CHF 4.0 million). There were no recourse liabilities in respect of discounted bills of exchange at March 31, 2010 and 2009. Open purchase orders as of March 31, 2010 and 2009 were related to recurring business activities.

32. Leasing liabilities

At March 31, 2010 the following non-cancellable minimum operating lease obligations existed:

Financial year 1,000 CHF	31.3.2010	31.3.2009
2009/10		21,954
2010/11	28,562	16,229
2011/12	22,177	12,372
2012/13	17,519	10,142
2013/14	15,214	8,610
2014/15	13,383	5,297
thereafter	32,537	7,945
Total	**129,392**	**82,549**

The operating lease commitments relate primarily to long-term rental agreements which are, in general, renewable.

In financial year 2009/10, CHF 31.7 million have been recognized as expenses for leases in the consolidated income statement (previous year CHF 27.2 million).

As of March 31, 2010 and 2009, the Group had no financial lease obligations.

33. Number of employees

At March 31, 2010, the Sonova Group employed 6,843 people (previous year 5,339). They were engaged in the following regions and activities:

By region	31.3.2010	31.3.2009
Switzerland	1,026	1,011
EMEA (excl. Switzerland)	1,479	1,244
Americas	2,805	1,920
Asia/Pacific	1,533	1,164
Total	**6,843**	**5,339**
By activity		
Research and development	481	312
Operations	2,800	2,144
Sales and marketing, general and administration	3,562	2,883
Total	**6,843**	**5,339**

The average number of employees of the Sonova Group for the year was 5,933 (previous year 5,108). Total personnel expenses for the financial year 2009/10 amounted to CHF 467.4 million (previous year CHF 396.6 million).

34. Exchange rates

The following main exchange rates were used for currency translation:

	31.3.2010	31.3.2009	2009/10	2008/09
	Year-end rates		Average rates for the year	
AUD 1	0.98	0.79	0.90	0.87
BRL 1	0.60	0.49	0.57	0.57
CAD 1	1.05	0.91	0.98	0.98
CNY 1	0.16	0.17	0.16	0.16
EUR 1	1.43	1.52	1.50	1.56
GBP 1	1.61	1.64	1.70	1.88
JPY 100	1.14	1.17	1.15	1.11
USD 1	1.07	1.15	1.06	1.10

35. Events after balance sheet date

There have been no material events after the balance sheet date.

36. List of significant consolidated companies

Company name	Activity	Domicile		Share capital Local currency 1,000	Shares held
Switzerland					
Sonova Holding AG	A	Stäfa	CHF	3,305	
Phonak AG	A, B, C, D	Stäfa	CHF	2,500	99.3%
Phonak Acoustic Implants SA	D	Lonay	CHF	1,000	100%
Phonak Communications AG	B, C, D	Murten	CHF	500	100%
Phonak Hearing Systems AG	B	Stäfa	CHF	100	100%
Advanced Bionics AG	A	Zug	CHF	4,350	100%
Indomed AG	A	Zug	CHF	1,000	100%
Indomed Hearing Systems GmbH	B	Stäfa	CHF	20	100%
Verve Hearing Systems AG	B	Stäfa	CHF	100	100%
EMEA (excluding Switzerland)					
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450	100%
Advanced Bionics NV	B, D	Brussels (BE)	EUR	62	100%
Phonak Belgium NV	A, B	Dilbeek (BE)	EUR	15,311	100%
Ets. Lapperre BHAC NV	B	Groot-Bijgaarden (BE)	EUR	124	100%
HIMSA A/S	B	Copenhagen (DK)	DKK	1,000	25%[1]
Phonak Danmark A/S	B	Frederiksberg (DK)	DKK	11,075	100%
Advanced Bionics Sarl	B	Mulhouse (FR)	EUR	12,000	100%
Phonak France SA	B	Bron-Lyon (FR)	EUR	305	100%
Advanced Bionics European Research Center GmbH	D	Hanover (DE)	EUR	25	100%
Advanced Bionics GmbH	B	Munich (DE)	EUR	26	100%
Phonak GmbH	B	Fellbach-Oeffingen (DE)	EUR	25	100%
Unitron Hearing GmbH	B	Fellbach-Oeffingen (DE)	EUR	41	100%
Phonarium Szolgáltató Kft.	B	Budapest (HU)	HUF	5,000	49%[1]
Advanced Bionics Srl	B	Milan (IT)	EUR	10	100%
Phonak Italia Srl	B	Milan (IT)	EUR	1,040	100%
TRE S.A.	A	Luxembourg (LU)	EUR	31	100%
Phonak B.V.	B	Vianen (NL)	EUR	227	100%
Unitron Hearing B.V.	B	Vianen (NL)	EUR	18	100%
Phonak AS	B	Oslo (NO)	NOK	900	100%
Unitron Hearing AS	B	Oslo (NO)	NOK	6,100	100%
Phonak Polska Sp. Z o.o.	B	Warsaw (PL)	PLN	100	100%
Phonak CIS Ltd.	B	Moscow (RU)	RUB	4,000	100%
Advanced Bionics Spain, Srl	B	Alicante (ES)	EUR	3	100%
Phonak Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100%
Phonak AB	B	Stockholm (SE)	SEK	200	100%
Unitron Hearing AB	B	Stockholm (SE)	SEK	100	100%
Phonak Duyu Sistemleri Ithalat Ihracat Ticaret Pazarlama Limited Sirketi	B	Istanbul (TR)	TRY	655	100%
Advanced Bionics UK Ltd.	B	Cambridge (UK)	GBP	0[2]	100%
Phonak Group Ltd.	B	Warrington (UK)	GBP	2,500	100%
Lukatit Investments 14 (Pty) Ltd.	B	Fourways North (ZA)	ZAR	0[3]	100%

Company name	Activity	Domicile	Share capital Local currency 1,000		Shares held
Americas					
Phonak do Brasil – Sistemas Audiológicos Ltda.	B	São Paulo (BR)	BRL	570	100%
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	7,500	100%
Phonak Canada Ltd.	B	Mississauga (CA)	CAD	88,694	100%
Unitron Hearing Ltd.	B, C, D	Kitchener (CA)	CAD	17,436	100%
Unitron Hearing Colombia Ltd.	B	Bogotá (CO)	USD	100	100%
Advanced Bionics Mexico S.A. de C.V.	B	México D.F. (MX)	MXN	50	100%
Bionic Services Mexico S.A. de C.V.	B	México D.F. (MX)	MXN	50	100%
Phonak Mexicana S.A. de C.V.	B	México D.F. (MX)	MXN	50	100%
Advanced Bionics LLC	B, C, D	Valencia (US)	USD	143,937	100%
InSound Medical, Inc.	B, C, D	Newark (US)	USD	0[4]	100%
Newport Health Network, Inc.	B	Greenwood Village (US)	USD	610	100%
Phonak LLC	B	Warrenville (US)	USD	1,250	100%
Unitron Hearing, Inc.	B	Plymouth (US)	USD	46,608	100%
Asia/Pacific					
Hearing Retail Group Pty. Ltd.	B	Sydney (AU)	AUD	0[5]	100%
Phonak Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750	100%
Phonak (Shanghai) Co., Ltd.	B	Shanghai (CN)	CNY	20,041	100%
Sichuan i-hear Co., Ltd.	B	Sichuan (CN)	CNY	19,119	100%
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249	100%
Advanced Bionics Asia Pacific Ltd.	B	Hong Kong (HK)	HKD	10	100%
Phonak India Pvt. Ltd.	B	Navi Mumbai (IN)	INR	100	100%
Nihon Bionics Co., Ltd.	B	Tokyo (JP)	JPY	35,000	100%
Phonak Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100%
Phonak Korea Ltd.	B	Seoul (KR)	KRW	50,000	100%
Unitron Hearing Korea Co., Ltd.	B	Seoul (KR)	KRW	200,000	37.5%[1]
Phonak New Zealand Ltd.	B	Auckland (NZ)	NZD	250	100%
Phonak Singapore Pte Ltd.	B	Singapore (SGP)	SGD	250	100%
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000	100%

Activities:
A Holding/Finance: This entity is a holding or finance company.
B Sales: This entity performs sales and marketing activities.
C Production: This entity performs manufacturing for the Group.
D Research: This entity perfoms research and development activities for the Group.
[1] Accounted for using the equity method.
[2] GBP 100
[3] ZAR 400
[4] USD 10
[5] AUD 100

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

PRICEWATERHOUSECOOPERS

Report of the Statutory Auditor
on the Consolidated Financial Statements 2009/10
to the Annual General Shareholders' Meeting of
Sonova Holding AG
Stäfa

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Sonova Holding AG, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated changes in equity and notes (pages 80 to 129) for the year ended 31 March 2010.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 March 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Patrick Balkanyi	Urs Honegger
Audit expert	Audit expert
Auditor in charge	

Zurich, May 3, 2010

Income Statements

1,000 CHF	Notes	2009/10	2008/09
Income			
Management and licence fees		20,388	16,072
Investment income	4.1	202,171	239,675
Other income		16	1
Interest income		9,942	9,463
Gains/(losses) on marketable securities		18,016	(15,816)
Exchange gains/(losses), net		530	(3,149)
Total income		**251,063**	**246,246**
Expenses			
Office and professional expenses		7,344	5,844
Advertising and PR expenses		631	763
Interest expenses		5,364	4,477
Other operating expenses		459	1,160
Other expenses		4,546	366
Write-down of loans		6,524	4,399
Taxes	4.2	2,652	506
Total expenses		**27,520**	**17,515**
Net profit for the year		**223,543**	**228,731**

Balance Sheets

Assets 1,000 CHF	Notes	31.3.2010	31.3.2009
Cash and cash equivalents		11,504	4,301
Marketable securities	3.1	36,476	71,407
Amounts due from Group Companies		133,719	2,746
Other receivables		232	1,618
Prepayments		89	100
Total current assets		**182,020**	**80,172**
Loans to Group Companies	3.2	929,315	496,200
Loans to third parties		4,727	4,137
Investments	3.3	251,634	247,103
Total non-current assets		**1,185,676**	**747,440**
Total assets		**1,367,696**	**827,612**

Liabilities and shareholders' equity 1,000 CHF	Notes	31.3.2010	31.3.2009
Trade payables		124	5
Other payables – third parties		5,957	5,616
Other payables – Group Companies			36,854
Accruals		12,220	1,544
Bank loans	3.4	470,000	
Loans from Group Companies		159,668	194,561
Total liabilities		**647,969**	**238,580**
Share capital		3,305	3,312
General legal reserve		112,016	81,628
Reserve for treasury shares	3.5	26,353	74,535
Retained earnings		578,053	429,557
Total shareholders' equity	3.6	**719,727**	**589,032**
Total liabilities and shareholders' equity		**1,367,696**	**827,612**

NOTES TO THE FINANCIAL STATEMENTS
AS OF MARCH 31, 2010

1. General

The financial statements of Sonova Holding AG are prepared in accordance with the principles of Swiss corporate law.

2. Disclosures required by Swiss corporate law

2.1 Sureties, guarantees and pledges given on behalf of third parties

1,000 CHF	31.3.2010	31.3.2009
Guarantees given in respect of rental obligations of Group Companies	11,702	14,545

2.2 Conditional and authorized capital

1,000 CHF	31.3.2010	31.3.2009
Conditional capital at year-end	320	349
Authorized capital at year-end	166	168

At the Annual General Shareholder's Meeting on July 7, 2005 the conditional share capital of CHF 264,270 (5,285,400 shares) has been increased by CHF 165,056 (3,301,120 shares) to CHF 429,326 (8,586,520 shares). As of March 31, 2010, 6,404,675 (previous year 6,983,336) shares thereof have not yet been issued. These shares are reserved for long-term incentive plans.

At the Annual General Shareholders' Meeting 2007 the Board of Directors was authorized, based on article 651 of the Swiss corporate law (OR), to increase the share capital within a maximum period of two years. This authorization expired on June 12, 2009. The Annual General Shareholders' Meeting held on June 10, 2009, approved the creation of authorized share capital of 3,311,520 registered shares with a par value of CHF 0.05 per share. The Board of Directors is authorized to exclude subscription rights of shareholders and to allocate them to third parties if the new shares are to be used for the acquisition of companies, part of companies, equity stakes or the financing of such transactions. The authorized share capital of 3,311,520 registered shares created on June 10, 2009, has not yet been used. The authorization granted to the Board of Directors to augment the company's share capital with the authorized share capital created expires on June 9, 2011.

2.3 Significant shareholders

At year-end, the following significant shareholders were listed in the share register (with shareholdings in excess of 3% of the issued share capital):

	31.3.2010	31.3.2009
Andy Rihs	10.68%	10.66%
Chase Nominees Ltd.[1]	10.44%	9.69%
Beda Diethelm	10.19%	10.97%
Hans-Ueli Rihs	6.76%	8.36%
Registered shareholders with less than 3%	35.70%	36.36%
Not registered	26.23%	23.96%

[1] Registered without voting rights.

2.4 Risk assessment

Sonova Holding AG, as the ultimate parent company of the Sonova Group, faces the same risks as the ones identified at Group level. Therefore, please refer to the disclosure of the Group-wide risk management procedures as described in Note 24 of the Group's consolidated financial statements.

2.5 Compensation and shareholdings

Content and method of determining the compensation and the shareholding programs

The compensation principles of the Sonova Group are based on the principle of performance-based compensation. The compensation packages of Sonova Group employees comprise a target income, consisting generally of a fixed base salary and a variable target-based salary component, as well as other additional benefits. The compensation principles are reviewed on a regular basis. Any changes must be approved by the CEO and/or the Nomination and Compensation Committee.

Fixed salary

The fixed base salary gives each employee a regular and predictable salary that does not depend on the employee's annual performance or on the development of the Sonova Group's business. The salary level is based on the functional profile, the market situation and the employee's skills. In its turn, salary progression depends primarily on the employee's individual performance and the economic climate.

Variable salary

The variable salary is an integral element of the target income. The split between the fixed and variable salary components is a function of the job profile and respective management level. The targets for achieving the variable salary component are mutually defined and agreed upon in consultation with the employees at the beginning of the financial year. The amount paid out depends on the employee's actual achievement of objectives by the end of the financial year and also on the overall performance of the Sonova Group or the respective unit. If the employee actually reaches less than 80% of the stipulated target, no variable salary component is paid out. If the objectives set are exceeded, according to defined criteria the payout may amount to as much as 200% of the variable salary component.

Executive Equity Award Plan

The Executive Equity Award Plan (EEAP) serves as a long-term incentive and is offered annually to the Board of Directors, the Management Board, as well as other management levels of the Sonova Group. The plan entitles them to receive shares, options, warrants, warrant appreciation rights (WARs), and/or restricted share units (RSUs). The number of shares, options, warrants, WARs and RSUs granted varies depending on the respective management level and on individual performance. The shares, options, warrants, WARs and RSUs granted as part of the EEAP are split into four equal tranches. The options, warrants and WARs have terms of five years. Each tranche vests each year, starting one year after the grant date. The strike price on which the options, warrants and WARs are based corresponds to the closing price for the shares on the Swiss stock exchange (SIX Swiss Exchange) on the date on which the options, warrants and WARs were granted. The fair value of the options, warrants and WARs is calculated on the grant date using an option pricing model. The shares/RSUs have a blocking period up to four years. One of the four equal tranches vests each year, starting one year after the grant date. Additional infor-mation can be found in Note 30 to the Consolidated Financial Statements.

Welcome AB Executive Award Plan 2010

The Welcome AB Executive Equity Award Plan (EEAP) 2010 has been issued in conjunction with the acquisition of Advanced Bionics to selected employees of Advanced Bionics. This plan was provided in relation to the Advanced Bionics integration and entitles participants to purchase warrant appreciation rights (WARs). The WARs granted in conjunction with this plan have a term of four years and are divided into two tranches. The blocking period for the first half of the WARs expires after two years, and the blocking period for the second half expires after three years.

Determination of the compensation to members of the Board of Directors and the Management Board

In general, the compensation policies and the Executive Equity Award Plan (EEAP) described above apply to the Board of Directors as well as the CEO and the Management Board.

The compensation policies for the Board of Directors differ from those for Sonova Group employees. The members of the Board of Directors receive a retainer and no variable cash compensation. Dr. Valentin Chapero Rueda receives no compensation for his mandate as a member of the Board of Directors due to his mandate as CEO.

In Management Board compensation, the variable salary component has a stronger weighting with respect to the target income than for other employees of the Sonova Group. The variable cash compensation is a function of company performance, based on sales, operating profit (EBITA) and individual achievement of objectives. The Management Board members also participate in the EEAP and can profit from fringe benefits. The Board of Directors can grant other cash com-ponents for exceptional achievements which were not part of the yearly target setting.

The CEO's incentive plan differs in that the EEAP options will not be granted to the CEO annually. The granting of options, including the period for exercising, is part of the employment contract.

The compensation of the members of the Board of Directors as well as, on the CEO's recommendation, the compensation of the other members of the Management Board is determined and periodically reviewed by the Nomination and Compensation Committee. The compensation of the CEO is periodically reviewed by the Nomination and Compensation Committee and approved by the Board of Directors.

Compensation to members of the Board of Directors and the Management Board

Compensation to the Board of Directors

Total compensation to the Board of Directors consists of a fixed fee, attendance fees, expenses, social benefits (employer's contribution) and participation in the Executive Equity Award Plan (solely with entitlement to receive options, warrants, WARs and SARs).

The following table shows the compensation of the individual members of the Board of Directors in the year under review and in the previous year:

in CHF							2009/10
	Fixed fee	Attendance fee/expenses[1]	Social benefits (employer's contribution)[2]	Total cash compensation	Value of warrants[3]	Number of warrants[3] granted	Total compensation
Andy Rihs, Chairman	120,000	28,000	146,705	294,705	275,725	250,000	570,430
William D. Dearstyne, Vice-Chairman	60,000	28,000	11,211	99,211	275,725	250,000[4]	374,936
Heliane Canepa, Member	60,000	23,000	98,225	181,225	275,725	250,000	456,950
Dr. Michael Jacobi, Member	60,000	24,500	259,414	343,914	275,725	250,000	619,639
Robert F. Spoerry, Member	60,000	22,500	204,642	287,142	275,725	250,000	562,867
Anssi Vanjoki, Member	45,000	12,500	10,456	67,956	275,725	250,000	343,681
Ronald van der Vis, Member	45,000	12,000	10,456	67,456	275,725	250,000	343,181
Total	**450,000**	**150,500**	**741,109**	**1,341,609**	**1,930,075**	**1,750,000**	**3,271,684**

1) Attendance fees and expenses are based on the number of attended meetings of each member of the Board of Directors.
2) Including social security contributions on the tax value of options/WARs/SARs exercised during the reporting period.
3) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
4) WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
Dr. Valentin Chapero Rueda receives no compensation for his mandate as a member of the Board of Directors due to his mandate as CEO.

in CHF							2008/09
	Fixed fee	Attendance fee/expenses[1]	Social benefits (employer's contribution)[2]	Total cash compensation	Value of warrants[3]	Number of warrants[3] granted	Total compensation
Andy Rihs, Chairman	120,000	30,500	22,074	172,574	199,530	450,000	372,104
William D. Dearstyne, Vice-Chairman	60,000	30,000	11,521	101,521	199,530	450,000[4]	301,051
Heliane Canepa, Member	60,000	24,000	69,066	153,066	199,530	450,000	352,596
Dr. Michael Jacobi, Member	60,000	25,500	16,491	101,991	199,530	450,000	301,521
Robert F. Spoerry, Member	60,000	22,000	76,478	158,478	199,530	450,000	358,008
Total	**360,000**	**132,000**	**195,630**	**687,630**	**997,650**	**2,250,000**	**1,685,280**

1) Attendance fees and expenses are based on the number of attended meetings of each member of the Board of Directors.
2) Including social security contributions on the tax value of options/WARs/SARs exercised during the reporting period.
3) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
4) WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).

Compensation to the Management Board

The total compensation to the Management Board consists of a fixed and a variable salary, fringe benefits, social benefits (employer's contribution) and participation in the Executive Equity Award Plan (solely with entitlement to receive warrants/options).

The following table shows the compensation granted to the CEO (highest compensation) and the other members of the Management Board in the year under review and in the previous year:

in CHF								2009/10
	Fixed salary	Variable salary[1]	Fringe benefits	Social benefits (employer's contribution)[2]	Total cash compen-sation[1)/2)]	Value of warrants[3]	Number of warrants[3] granted	Total compensation[2]
Dr. Valentin Chapero Rueda, CEO	1,185,597	1,866,830	16,000	439,010	3,507,437			3,507,437
Other members of the Management Board[4]	2,470,164	1,539,756	194,715	805,980	5,010,615	4,888,603	4,432,500	9,899,218
Total	**3,655,761**	**3,406,586**	**210,715**	**1,244,990**	**8,518,052**	**4,888,603**	**4,432,500**	**13,406,655**

1) The variable salary will be paid out after the end of the reporting year.
2) Including social security contributions on the tax value of options/warrants exercised during the reporting period.
3) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
4) Elmar Götz was member of the Management Board until January 2010.

in CHF								2008/09
	Fixed salary	Variable salary[1]	Fringe benefits	Social benefits (employer's contribution)[2]	Total cash compen-sation[1)/2)]	Value of warrants[3]/ options	Number of warrants[3]/ options granted	Total compensation[2]
Dr. Valentin Chapero Rueda, CEO	1,156,680	887,199	16,000	271,865	2,331,744	2,403,200	160,000	4,734,944
Other members of the Management Board	2,520,804	1,020,126	220,612	619,864	4,381,406	2,338,935	5,275,000	6,720,341
Total	**3,677,484**	**1,907,325**	**236,612**	**891,729**	**6,713,150**	**2,338,935/ 2,403,200**	**5,275,000/ 160,000**	**11,455,285**

1) The variable salary will be paid out after the end of the reporting year.
2) Including social security contributions on the tax value of options/warrants exercised during the reporting period.
3) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).

Additional payments to members of the Board of Directors and the Management Board

Neither in the reporting period nor in the previous year were fees paid for additional services on top of the ordinary compensation, any loans awarded or guarantees given to members of the Board of Directors or the Management Board and persons closely linked to them.

Payments to former members of the Board of Directors and the Management Board

During the reporting period the former member of the Management Board Herbert Bächler has exercised options. The company has paid the social security contribution by exercise in the amount of CHF 55,961.

Besides this payment neither in the reporting period nor in the previous year were additional payments made, any loans awarded, guarantees or severance packages given to former members of the Board of Directors or the Management Board and persons closely linked to them.

Shareholdings of members of the Board of Directors and the Management Board

Shareholdings of the Board of Directors

As of March 31, 2010, the members of the Board of Directors and persons closely linked to them held directly and indirectly 7,106,410 Sonova shares (10.8% of total share capital), 90,000 options, 4,500,000 warrants, 1,000,000 Warrant Appreciation Rights and 12,000 Share Appreciation Rights.

The following table shows the shareholdings of the individual members of the Board of Directors and persons closely linked to them:

			31.3.2010			31.3.2009
	Shares	Warrants[1]	Options	Shares	Warrants[1]	Options
Andy Rihs	7,059,100	1,000,000	24,000	7,059,100	750,000	36,000
William D. Dearstyne	20,300	1,000,000[2]	24,000[3]	8,310	750,000[2]	36,000[3]
Heliane Canepa	15,010	1,000,000	15,000	15,010	750,000	21,000
Dr. Michael Jacobi	2,000	1,000,000	15,000	2,000	750,000	33,000
Robert F. Spoerry	10,000	1,000,000	24,000	10,000	750,000	36,000
Anssi Vanjoki		250,000				
Ronald van der Vis		250,000				
Total	**7,106,410**	**5,500,000**	**102,000**	**7,094,420**	**3,750,000**	**162,000**

[1] Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
[2] WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
[3] Thereof 12,000 SARs (SARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
For shareholdings of Dr. Valentin Chapero Rueda see shareholdings of the Management Board.

The following table shows the detailed breakdown of the outstanding warrants/options:

	Warrants EEAP 10[2]	Warrants EEAP 09[3]	Warrants EEAP 08[4]	Options EEAP 07[5]	Options EEAP 06[6]	Total warrants[1]	Total options
						31.3.2010	
Andy Rihs	250,000	450,000	300,000	12,000	12,000	1,000,000	24,000
William D. Dearstyne	250,000[7]	450,000[7]	300,000[7]	12,000[8]	12,000	1,000,000[7]	24,000[8]
Heliane Canepa	250,000	450,000	300,000	12,000	3,000	1,000,000	15,000
Dr. Michael Jacobi	250,000	450,000	300,000	12,000	3,000	1,000,000	15,000
Robert F. Spoerry	250,000	450,000	300,000	12,000	12,000	1,000,000	24,000
Anssi Vanjoki	250,000					250,000	
Ronald van der Vis	250,000					250,000	
Total	**1,750,000**	**2,250,000**	**1,500,000**	**60,000**	**42,000**	**5,500,000**	**102,000**

[1] Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
[2] Strike price CHF 131.00, blocking period 01.03.2010 – 28.02.2014 whereas one tranche being released each year, exercise period 01.03.2011 – 28.02.2015.
[3] Strike price CHF 56.00, blocking period 01.03.2009 – 28.02.2013 whereas one tranche being released each year, exercise period 01.03.2010 – 28.02.2014.
[4] Strike price CHF 96.00, blocking period 01.03.2008 – 29.02.2012 whereas one tranche being released each year, exercise period 01.03.2009 – 28.02.2013.
[5] Strike price CHF 95.05, blocking period 01.02.2007 – 31.01./28.02.2011 whereas one tranche being released each year, exercise period 01.02.2008 – 31.01./28.02.2012.
[6] Strike price CHF 63.25, blocking period 01.02.2006 – 31.01.2010 whereas one tranche being released each year, exercise period 01.02.2007 – 31.01.2011.
[7] WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
[8] Thereof 12,000 SARs (SARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
For shareholdings of Dr. Valentin Chapero Rueda see shareholdings of the Management Board.

	Warrants EEAP 09[2]	Warrants EEAP 08[3]	Options EEAP 07[4]	Options EEAP 06[5]	Options EEAP 05[6]	Total warrants[1]	Total options
						31.3.2009	
Andy Rihs	450,000	300,000	12,000	12,000	12,000	750,000	36,000
William D. Dearstyne	450,000[7]	300,000[7]	12,000[8]	12,000	12,000	750,000[7]	36,000[8]
Heliane Canepa	450,000	300,000	12,000	6,000	3,000	750,000	21,000
Dr. Michael Jacobi	450,000	300,000	12,000	12,000	9,000	750,000	33,000
Robert F. Spoerry	450,000	300,000	12,000	12,000	12,000	750,000	36,000
Total	**2,250,000**	**1,500,000**	**60,000**	**54,000**	**48,000**	**3,750,000**	**162,000**

[1] Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
[2] Strike price CHF 56.00, blocking period 01.03.2009 – 28.02.2013 whereas one tranche being released each year, exercise period 01.03.2010 – 28.02.2014.
[3] Strike price CHF 96.00, blocking period 01.03.2008 – 29.02.2012 whereas one tranche being released each year, exercise period 01.03.2009 – 28.02.2013.
[4] Strike price CHF 95.05, blocking period 01.02.2007 – 31.01./28.02.2011 whereas one tranche being released each year, exercise period 01.02.2008 – 31.01./28.02.2012.
[5] Strike price CHF 63.25, blocking period 01.02.2006 – 31.01.2010 whereas one tranche being released each year, exercise period 01.02.2007 – 31.01.2011.
[6] Strike price CHF 39.00, blocking period 01.02.2005 – 31.01.2009 whereas one tranche being released each year, exercise period 01.02.2006 – 31.01.2010.
[7] WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
[8] Thereof 12,000 SARs (SARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).

Shareholdings of the Management Board

As of March 31, 2010, the members of the Management Board and persons closely linked to them held directly and indirectly 830 Sonova shares, 11,020,000 warrants and 797,076 options.

The following table shows the shareholdings of the individual members of the Management Board and persons closely linked to them:

	31.03.2010			31.03.2009		
	Shares	Warrants[1]	Options	Shares	Warrants[1]	Options
Dr. Valentin Chapero Rueda			660,000			884,000
Oliver Walker		1,611,250	5,000		1,200,000	30,000
Paul Thompson		1,231,250	4,000		1,025,000	41,000
Sarah Kreienbühl		1,587,500	11,750		1,025,000	23,500
Dr. Hans Leysieffer		1,231,250	4,000		1,025,000	28,500
Cameron Hay		1,152,500	13,750		725,000	25,250
Ignacio Martinez		1,525,000	23,000		1,075,000	36,000
Alexander Zschokke		1,231,250	5,576		1,025,000	21,625
Hans Mehl	830	1,450,000	70,000	830	1,000,000	70,000
Elmar Götz[2]					600,000	
Total	**830**	**11,020,000**	**797,076**	**830**	**8,700,000**	**1,159,875**

[1] Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
[2] Member of the Management Board until January 2010.

The following table shows the detailed breakdown of the outstanding warrants/options:

						31.3.2010	
	Warrants EEAP 10[2]	Warrants/ options EEAP 09[3]	Warrants EEAP 08[5]	Options EEAP 07[6]	Options EEAP 06[7]	Total warrants[1]	Total options
Dr. Valentin Chapero Rueda		160,000[4]		500,000			660,000
Oliver Walker	742,500	618,750	250,000	5,000		1,611,250	5,000
Paul Thompson	562,500	468,750	200,000	4,000		1,231,250	4,000
Sarah Kreienbühl	562,500	625,000	400,000	8,000	3,750	1,587,500	11,750
Dr. Hans Leysieffer	562,500	468,750	200,000	4,000		1,231,250	4,000
Cameron Hay	427,500	475,000	250,000	10,000	3,750	1,152,500	13,750
Ignacio Martinez	562,500	625,000	337,500	16,000	7,000	1,525,000	23,000
Alexander Zschokke	562,500	468,750	200,000	5,576		1,231,250	5,576
Hans Mehl	450,000	500,000	500,000	70,000[8]		1,450,000	70,000
Total warrants	**4,432,500**	**4,250,000**	**2,337,500**			**11,020,000**	
Total options		**160,000**		**622,576**	**14,500**		**797,076**

1) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
2) Strike price CHF 131.00, blocking period 01.03.2010 – 28.02.2014 whereas one tranche being released each year, exercise period 01.03.2011 – 28.02.2015.
3) Strike price CHF 56.00, blocking period 01.03.2009 – 28.02.2013 whereas one tranche being released each year, exercise period 01.03.2010 – 28.02.2014.
4) Strike price CHF 56.00, extraordinary allocation, options blocking period 01.03.2009 – 28.02.2015 whereas one tranche being released each year, exercise period 01.03.2012 – 29.02.2020 .
5) Strike price CHF 96.00, blocking period 01.03.2008 – 29.02.2012 whereas one tranche being released each year, exercise period 01.03.2009 – 28.02.2013.
6) Strike price CHF 95.05, blocking period 01.02.2007 – 30.09.2011 whereas one tranche being released each year, exercise period 01.02.2008 – 30.09.2012.
7) Strike price CHF 63.25, blocking period 01.02.2006 – 31.01.2010 whereas one tranche being released each year, exercise period 01.02.2007 – 31.01.2011.
8) These Options were granted to Hans Mehl at commencement of work on April 1, 2007.

31.3.2009

	Warrants/ options EEAP 09[2]	Warrants EEAP 08[4]	Options EEAP 07[5]	Options EEAP 06[6]	Options EEAP 05[7]	Total warrants[1]	Total options
Dr. Valentin Chapero Rueda	160,000[3]		500,000		224,000		884,000
Oliver Walker	825,000	375,000	20,000	10,000		1,200,000	30,000
Paul Thompson	625,000	400,000	16,000	15,000	10,000	1,025,000	41,000
Sarah Kreienbühl	625,000	400,000	16,000	7,500		1,025,000	23,500
Dr. Hans Leysieffer	625,000	400,000	16,000	10,000	2,500	1,025,000	28,500
Cameron Hay	475,000	250,000	10,000	11,250	4,000	725,000	25,250
Ignacio Martinez	625,000	450,000	16,000	15,000	5,000	1,075,000	36,000
Alexander Zschokke	625,000	400,000	16,000	5,625		1,025,000	21,625
Hans Mehl	500,000	500,000	70,000[8]			1,000,000	70,000
Elmar Götz[9]	350,000	250,000				600,000	
Total warrants	**5,275,000**	**3,425,000**				**8,700,000**	
Total options	**160,000**		**680,000**	**74,375**	**245,500**		**1,159,875**

[1] Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
[2] Strike price CHF 56.00, blocking period 01.03.2009 – 28.02.2013 whereas one tranche being released each year, exercise period 01.03.2010 – 28.02.2014.
[3] Strike price CHF 56.00, extraordinary allocation, options blocking period 01.03.2009 – 28.02.2015 whereas one tranche being released each year, exercise period 01.03.2012 – 29.02.2020 .
[4] Strike price CHF 96.00, blocking period 01.03.2008 – 29.02.2012 whereas one tranche being released each year, exercise period 01.03.2009 – 28.02.2013.
[5] Strike price CHF 95.05, blocking period 01.02.2007 – 30.09.2011 whereas one tranche being released each year, exercise period 01.02.2008 – 30.09.2012.
[6] Strike price CHF 63.25, blocking period 01.02.2006 – 31.01.2010 whereas one tranche being released each year, exercise period 01.02.2007 – 31.01.2011.
[7] Strike price CHF 39.00, blocking period 01.02.2005 – 30.09.2009 whereas one tranche being released each year, exercise period 01.02.2006 – 30.09.2010.
[8] These Options were granted to Hans Mehl at commencement of work on April 1, 2007.
[9] Member of the Management Board until January 2010.

3. Notes to the balance sheet

3.1 Marketable securities

Marketable securities include, among other items, 192,088 treasury shares (previous year 881,309) purchased for a total consideration of CHF 24,814,161 (previous year CHF 74,534,573). At March 31, 2010, these shares had a market value of CHF 25,163,528 (previous year CHF 60,634,059). The reduction in the amount of treasury shares is mainly due to the capital reduction approved by the General Shareholders' Meeting on June 10, 2009 and the corresponding destruction of 718,500 shares.

During the financial year 2009/10 344,416 treasury shares at an average price of CHF 128.59 have been purchased by Sonova Holding AG and further group companies, while 303,137 treasury shares at an average price of CHF 114.12 have been disposed of.

3.2 Loans to Group companies

Of total loans, 51% are denominated in Swiss Francs (previous year 18%), 16% in Canadian dollars (previous year 27%), 14% in Euros (previous year 24%), 14% in US dollars (previous year 23%) and 5% in other currencies (previous year 8%).

3.3 List of significant investments

Company name	Activity	Domicile		Share capital Local currency 1,000	Shares held by Sonova Holding
Switzerland					
Phonak AG	A, B,C,D	Stäfa	CHF	2,500	99.3%
Phonak Communications AG	B,C,D	Murten	CHF	500	100%
Phonak Hearing Systems AG	B	Stäfa	CHF	100	100%
Indomed AG	A	Zug	CHF	1,000	100%
Indomed Hearing Systems GmbH	B	Stäfa	CHF	20	100%
Verve Hearing Systems AG	B	Stäfa	CHF	100	100%
EMEA (excluding Switzerland)					
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450	100%
Phonak Belgium NV	A,B	Dilbeek (BE)	EUR	15,311	100%
Phonak Holding GmbH	A	Fellbach-Oeffingen (DE)	EUR	153	100%
Phonak Danmark A/S	B	Frederiksberg (DK)	DKK	11,075	100%
Phonak Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100%
Phonak France SA	B	Bron-Lyon (FR)	EUR	305	100%
Phonarium Szolgáltató Kft.	B	Budapest (HU)	HUF	5,000	49%
Phonak Italia Srl	B	Milan (IT)	EUR	1,040	100%
Phonak B.V.	B	Vianen (NL)	EUR	227	100%
Phonak AS	B	Oslo (NO)	NOK	900	100%
Unitron Hearing AS	B	Oslo (NO)	NOK	6,100	100%
Phonak Polska Sp. Z o.o.	B	Warsaw (PL)	PLN	100	100%
Phonak CIS Ltd.	B	Moscow (RU)	RUB	4,000	100%

Company name	Activity	Domicile		Share capital Local currency 1,000	Shares held by Sonova Holding
Phonak AB	B	Stockholm (SE)	SEK	200	100%
Unitron Hearing AB	B	Stockholm (SE)	SEK	100	100%
Phonak Group Ltd.	B	Warrington (UK)	GBP	2,500	100%
Lukatit Investments 14 (Pty) Limited	B	Fourways North (ZA)	ZAR	0[1]	100%
Americas					
National Hearing Services Inc.	B	Victoria (CA)	CAD	7,500	100%
Phonak Canada Ltd.	B	Mississauga (CA)	CAD	88,694	100%
Phonak Mexicana S.A. de C.V.	B	México D.F. (MX)	MXN	50	100%
Unitron Hearing, Inc.	B	Plymouth (US)	USD	46,608	100%
Asia/Pacific					
Phonak Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750	100%
Phonak (Shanghai) Co., Ltd	B	Shanghai (CN)	CNY	20,041	100%
Sichuan i-hear Co., Ltd.	B	Sichuan (CN)	CNY	19,119	100%
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249	100%
Phonak India Pvt. Ltd.	B	Navi Mumbai (IN)	INR	100	100%
Phonak Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100%
Phonak Korea Ltd.	B	Seoul (KR)	KRW	50,000	100%
Unitron Hearing Korea Co., Ltd.	B	Seoul (KR)	KRW	200,000	37.5%
Phonak New Zealand Ltd.	B	Auckland (NZ)	NZD	250	100%
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000	100%

Description:
A Holding/Finance: This entity is a holding or finance company
B Sales: This entity performs sales and marketing activities for the group
C Production: This entity performs manufacturing for the group
D Research: This entity performs research and development activities for the group
[1] ZAR 400

3.4 Financial liabilities

The acquisition of the Advanced Bionics Corporation was financed by Sonova Holding AG with a combination of existing cash and an underwritten senior credit facility in the amount of CHF 470 million. The senior credit facility is made in two tranches, a CHF 240 million amortizing loan with a term of three years and a CHF 230 million term facility with a term of five years. Credit Suisse, UBS and Zürcher Kantonalbank have underwritten the syndicated credit facility as mandated lead arrangers. Within the next 12 months CHF 80 million become due for repayment.

3.5 Reserve for treasury shares

A reserve for treasury shares in the amount of CHF 26,353,024 (previous year CHF 74,534,573) was established which is equal to the cost price (see Note 3.1). Shares with a purchase value of CHF 1,538,863 (previous year CHF 0) are held by other Group Companies and are included in the reserve for treasury shares of Sonova Holding AG. The decrease of the reserve for treasury shares in the amount of CHF 48,181,549 resulted from the capital reduction of CHF 57,840,577 and the purchase of treasury shares of CHF 9,659,028 of Sonova Holding AG and further Group Companies.

3.6 Summary of changes in shareholders' equity

1,000 CHF

	Share capital	General legal reserve	Treasury share reserve	Retained earnings	Total shareholders' equity
Balance April 1, 2009	**3,312**	**81,628**	**74,535**	**429,557**	**589,032**
Dividend paid				(65,388)	(65,388)
Capital increases (incl. share premium) from conditional capital	29	30,388			30,417
Capital decrease	(36)		(57,841)		(57,877)
Increase in reserve for treasury shares			9,659	(9,659)	
Net profit for the year				223,543	223,543
Balance March 31, 2010	**3,305**	**112,016**	**26,353**	**578,053**	**719,727**

During the financial year 2009/10, an additional 578,661 registered shares with a par value of CHF 0.05 each, or a total par value of CHF 28,933 were issued from the conditional capital (which was created for the purpose of an equity participation for key employees of the Sonova Group) for a total net consideration of CHF 30,417,134. In the financial year 2009/10, the conditional share capital with a par value of CHF 349,167 (6,983,336 shares) decreased by CHF 28,933 or 578,661 shares (previous year CHF 8,704 or 174,078 shares), thereby leaving CHF 320,234 (6,404,675 shares) for distribution. Based on the remaining conditional capital, a total of 2,142,314 (previous year 2,437,299) employee stock options were outstanding as of March 31, 2010, which can be exercised until February 2020 .

The treasury share reserve differs from the treasury shares in the consolidated financial statements due to Warrant Appreciation Rights (WARs). Derivative instruments such as WARs are not recorded in the financial statements of Sonova Holding AG (off balance sheet transaction).

4. Notes to the income statement

4.1 Investment income

This comprises dividends received from Group Companies and other investments.

4.2 Taxes

The tax expense consists of Swiss federal taxes on non-investment income (the company is exempt from income taxes in the canton of Zurich).

APPROPRIATION OF AVAILABLE EARNINGS

As proposed by the Board of Directors to the Annual General Shareholders' Meeting of June 15, 2010

1,000 CHF	31.3.2010	31.3.2009[1]
Carried forward from previous year	**364,169**	**253,673**
Allocation to reserve for treasury shares	(9,659)	(52,847)
Net profit for the year	223,543	228,731
Available earnings	**578,053**	**429,557**
Dividend distribution	(79,064)[2]	(65,388)
Balance to be carried forward	**498,989**	**364,169**

[1] Approved by the Annual General Shareholders' Meeting of June 10, 2009.

[2] If the Annual General Shareholders' Meeting approves the proposed appropriation of available earnings, a gross dividend of CHF 1.20 per registered share of CHF 0.05 will be paid out (previous year CHF 1.00).

PRICEWATERHOUSECOOPERS

Report of the Statutory Auditor
on the Financial Statements 2009/10
to the Annual General Shareholders' Meeting of
Sonova Holding AG
Stäfa

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Sonova Holding AG, which comprise the income statement, balance sheet and notes (pages 132 to 146) for the year ended 31 March 2010.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 March 2010 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Patrick Balkanyi	Urs Honegger
Audit expert	Audit expert
Auditor in charge	

Zurich, May 3, 2010

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