sonova

ANNUAL REPORT 2007/08

PIONEERS IN HEARING

HIGHLIGHTS

- Sales increase by 12.3% to CHF 1,204.8 million (whereof 11.1% organic growth, 1.7% from acquisitions and –0.5% currency effect) significantly exceeding hearing instrument market growth

- EBITA margin (excluding one-off costs for the prohibited GN ReSound acquisition) rises to 28.2% (prior year 26.4%)

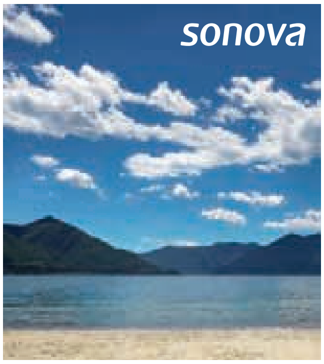
- Income after taxes (excluding one-off costs) grows by 25.7% to CHF 305.2 million. Reported income after taxes reaches CHF 274.1 million

- Dividend increases by 33% to CHF 1.00 (proposal to the Annual General Shareholders' Meeting)

- New product releases: the hearing systems Exélia, Naída, Yuu and Next set new benchmarks in hearing system technology

- Distribution network extended further: new wholesale companies set up in India, Mexico and South Africa

- *Hear the World,* Phonak's initiative has attracted new ambassadors: Mick Jagger, Annie Lennox and Rod Stewart



Sonova Teams
Sonova offers top-class specialists from across the globe an inspiring working environment for the development, manufacture and distribution of groundbreaking hearing systems, where they have room to express their individual ideas. People are our most important capital and, for this reason, the Annual Report 2007/08 contains pictures of members of various teams in front of the symbolic Sonova platform. They stand as representatives of all our employees who, through their skills and knowledge, form the bedrock of Sonova's success.

At a glance ›

AT A GLANCE

Key Figures

in 1,000 CHF unless otherwise specified	Reported performance 2007/08	Underlying performance 2007/08 [1]	2006/07	2005/06
Sales	**1,204,779**	**1,204,779**	**1,072,796**	**866,682**
change compared to previous year (%)	12.3	12.3	23.8	31.2
Gross profit	**841,584**	**841,584**	**732,075**	**577,587**
change compared to previous year (%)	15.0	15.0	26.7	38.2
in % of sales	69.9	69.9	68.2	66.6
Operating profit (EBITA)[2]	**331,737**	**339,752**	**283,643**	**213,862**
change compared to previous year (%)	17.0	19.8	32.6	70.0
in % of sales	27.5	28.2	26.4	24.7
Income after taxes	**274,140**	**305,196**	**242,875**	**173,499**
change compared to previous year (%)	12.9	25.7	40.0	81.0
in % of sales	22.8	25.3	22.6	20.0
Diluted earnings per share (CHF)	**4.044**	**4.503**	**3.590**	**2.584**
Balance Sheet				
Capital employed[3]	**607,417**	**607,417**	**547,215**	**446,588**
in % of sales	50.4	50.4	51.0	51.5
Equity	**919,064**	**919,064**	**894,687**	**624,522**
Equity financing ratio (%)[3]	**72.2**	**72.2**	**70.8**	**67.3**
Net cash[3]	**311,647**	**311,647**	**296,480**	**177,934**
Cash Flow				
Cash flow from operating activities	**303,759**	**303,759**	**279,611**	**166,550**
in % of sales	25.2	25.2	26.1	19.2
Capital expenditure (tangible and intangible assets)[3]	**55,892**	**55,892**	**31,242**	**26,995**
Free cash flow[3]	**219,392**	**219,392**	**144,542**	**101,834**
Profitability				
Return on capital employed (%)	**56.6**	**58.0**	**56.3**	**53.0**
Return on equity (%)	**30.2**	**33.7**	**32.0**	**32.3**
Employees				
Number of employees (average)	**4,351**	**4,351**	**3,813**	**3,166**
Number of employees (end of period)	**4,746**	**4,746**	**4,023**	**3,428**

[1] Excluding one-off costs for the prohibited acquisition of the GN ReSound Group. Balance sheet and cash flow as reported.

[2] Before acquisition-related amortization (EBITA).

[3] For detailed definitions, please refer to “5 Year Key Figures”.

GLOBAL PRESENCE

Core brands

PHONAK life is on

unitron hearing

Additional brands

Acoustic Implants

ARGOSY

Distribution partners

better hearing

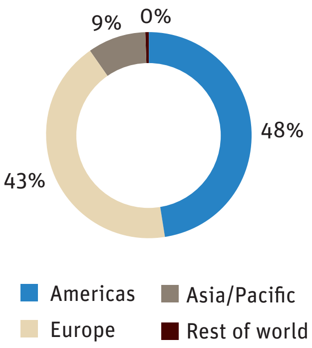
HANSATON Hörsysteme Einfach unbeschwert Hören

i-Hear 智音听力

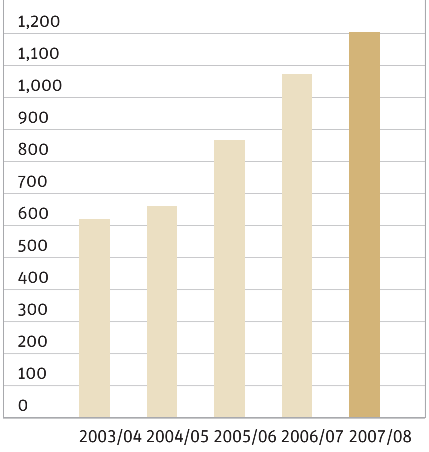
Island Hearing A SOUND EXPERIENCE.

LAPPERRE hearing systems

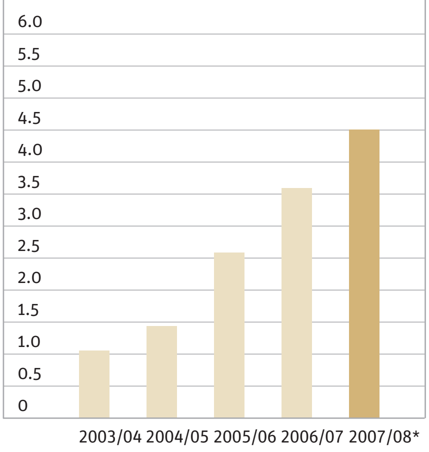
Share of sales by main markets 2007/08



Sales in CHF m



Diluted earnings per share in CHF



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

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GREAT POTENTIAL FOR FURTHER GROWTH

Chairman's Foreword

> "The innovative strength of the Sonova Group and the associated short product renewal cycles represent a decisive competitive advantage in the hearing instrument industry."

I am delighted to report that the Sonova Group has once again posted strong growth over the past financial year. The increase in sales by around 12% to over CHF 1.2 billion has again been double the overall growth rate for the hearing instrument industry, while earnings growth was also disproportionately high. Sonova shareholders benefit from these impressive results via a dividend increase of 33% to CHF 1.00 (subject to the approval of the Annual General Shareholders' Meeting).

This success story is mainly due to our well proven strategy: on the one hand, continuously improving the performance of our hearing systems using cutting-edge technology and, on the other, distributing our market-ready products through our continually expanding global sales network.

The Sonova Group has always strived to be the industry leader in terms of technology. For many years our declared aim has been not just to be a hearing system company, but an all-round hearing healthcare company. Consequently, we have been working for a considerable length of time on innovative concepts such as ultra low power analog wireless technology. The next development step has been the implementation of our digital wireless technology, on which the newest Phonak Exélia and Naída hearing systems are based. Our development work in the field of wireless technology can be traced back to the early nineties. Even then, we were committed to making this technology a core element in improved hearing. Today, we are undertaking equally intensive research in the field of implantable hearing systems.

Andy Rihs

As a result of this long-term thinking, new, freely programmable platforms continue to be rolled out – first PALIO, and more recently CORE – allowing us to bring new products to market within a very short timeframe. This innovative strength and the associated short renewal cycles represent a decisive competitive advantage in the hearing instrument industry.

Exceeding market growth rates is an important goal for the Sonova Group, which means we should continue to gain market share. The current level of market growth is also supported by significantly higher potential demand, even in the western industrialized countries there are still millions of people who suffer from hearing loss but who do not wear a hearing system, to say nothing of potential customers in the many emerging markets of Asia, Eastern Europe and Latin America. The anticipated economic potential for the hearing instrument industry therefore has to be continually revised upwards. The Sonova Group can look forward to enormous opportunities for growth, which it must exploit through strategic continuity, strength of leadership and innovative drive. This fact is not altered in any way by the prohibited GN ReSound transaction.

I am certain that the Sonova Group can look to the future with great confidence, and I would like to take this opportunity to express my gratitude to all our employees throughout the company for their exceptional commitment. My sincere thanks also go to all our shareholders, customers, partners and suppliers for the trust they have placed in us.

Andy Rihs
Chairman of the Board of Directors

"A FLYING START TO THE NEW FINANCIAL YEAR"

CEO Valentin Chapero Rueda explains how the Sonova Group maintains its high level of innovation, enabling it to grow substantially even during weaker periods in the economic cycle.

Mr Chapero, how would you characterize Sonova Group's annual results?

They are excellent results. Sonova increased its sales by 12.3% to over CHF 1.2 billion, and also improved its profitability. At 28.2%, the EBITA margin is 180 basis points higher than the previous year, and income after taxes has grown by 25.7% – a disproportionate increase. We developed the new high-performance CORE processor platform over the course of the financial year, and February 2008 saw the successful market launch of the first CORE-based Phonak hearing systems, Exélia and Naída. Our second hearing system brand, Unitron Hearing, also provided a major boost for growth, clearly establishing itself in the premium hearing system segment with the launch of Yuu in November 2007.

How does Sonova's performance compare with that of its competitors?

In the financial year 2007/08, we grew twice as fast as the market as a whole, thereby once again significantly increasing our market share. In local currencies, the Sonova Group grew by 12.8%, of which 11.1% was due to our own efforts. On the other hand, market growth during the reporting period was at the lower end of the long-term growth forecast range of 6 – 9%. The quality of our result also improved, both in terms of the balance of our product and customer mix and also in terms of profitability. In this respect we clearly did better than our competitors. I am assuming that Sonova has grown the fastest among the three biggest manufacturers and has also achieved the biggest improvement in profitability.

What is the secret of Sonova's success?

First and foremost it is our motivated and highly qualified employees, at all levels and across all departments, who produce extraordinary work on an ongoing basis and consistently put our strategy of innovation, expansion of our sales and distribution capacity and pro-active cost management into practice. Look at our rate of innovation: we generate 59% of our hearing system sales with products which have been on the market for less than two years. Sonova has also continuously extended its sales network and now has its own distribution companies in India, Mexico and South Africa.

So, has everything run perfectly smoothly?

Unfortunately, everything seldom runs perfectly smoothly, and a few developments lie beyond our control. One such example is the takeover block by the German Federal Cartel Office which prevented us from completing our planned acquisition of the GN ReSound Group. As a consequence, our annual accounts have been burdened with considerable one-off costs. In addition, Christmas trade in the reporting period was well below expectations. Had we seen sales at average levels in December, then Sonova Group's growth would have been as much as one percent higher. So no, not everything has gone perfectly, but Sonova Group's employees have proven once again that they can respond successfully to any challenge.

The 2007/08 financial year is behind us. How has Sonova started the new business year?

We've made a good start. We enjoyed a "flying start", because we were able to lay the foundations for a successful business year 2008/09 as far back as February 2008 with the successful launch of the Exélia and Naída hearing systems. Exélia, the new first class hearing system, and Naída, for people with profound hearing loss, are opening up new dimensions in speech intelligibility, communication and interaction. With the inspiro wireless radio system with Dynamic FM, which is mainly used in schools, Phonak is again setting new standards in audiological performance and, with Yuu, Unitron Hearing is offering previously unattainable flexibility in the premium hearing system segment. Beyond this, Unitron Hearing has launched its new product family Next, and has thus overhauled its entire product range in the business, economy and basic segments. The Personal Communication Assistant (PCA), which won the Reddot design award, is now also available as Audéo III in the economy segment.

And what are the current market trends for hearing systems?

We expect the global market for hearing systems to develop in a similar manner this year to 2007/08. This market is characterized by stable demand and a number of specific features. For example, the vast majority of our customers are over 65 years old and have a secure income, namely their pension. The purchasing process does not take place spontaneously. It is not uncommon for it to last up to ten years from the initial onset of hearing impairment. Demographic trends, such as "baby boomers" and continually increasing life expectancy, together with strong growth in the emerging markets, will ensure constantly accelerating growth over the longer term. But more important than the market environment for the Sonova Group is our level of innovation and competitive strength. We are aiming for an above-average level of growth for the financial year 2008/09 also, and are seeking to expand our market share once again.

Meaning that fiscal 2008/09 will be another record year?

The course is set. Many new products have already been successfully launched onto the market, and there are a number of other important product launches still to come in the current financial year. We also plan to expand our range of services and our sales and distribution capacity. We will also focus more strongly on cost management in the financial year 2008/09. With closely targeted cost optimization measures we plan to neutralize any negative cost effects caused by the increased strength of the Swiss Franc.

And what are the implications of this business outlook for the financial targets for sales, profitability and earnings growth?

Sales growth should be around 10% in local currencies, and profitability, i.e. the EBITA margin, should once again improve in the current financial year. In addition, we are asking the Annual General Shareholders' Meeting to approve the cancellation of the repurchased shares. The share buy-back program will be an additional driver for earnings growth in the financial year 2008/09.

STÄFA, SWITZERLAND – GLOBAL PRODUCTION

“In the hybrid manufacturing we produce the chipset, which is the actual heart of the hearing system. I never cease to be amazed at how small this chipset is, considering how many components it contains and the level of performance it can produce.”

Gülay Gürbüz (machine operator) with Vincenzo Gianformaggio (machine operator) and Romana Knobel (hearing device technician).

The Sonova Group has been producing hearing systems for more than 50 years. Since 2004, the hearing systems’ chipset has not only been developed at the Group’s headquarters in Stäfa, but also manufactured there. This only became possible with the introduction of the freely programmable PALIO hardware and software platform. The newest Phonak hearing systems Exélia and Naída are already based on the further improved CORE platform, incorporating wireless technology.


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ANOTHER EXCELLENT YEAR

Sonova achieved an excellent operating and financial performance, with another marked improvement in its key value drivers. The record sales figure of CHF 1.2 billion and sales growth of 12.3% shows that the Sonova Group continued to expand its market share significantly in the financial year 2007/08. Profitability improved at all levels. The company's free cash flow increased by 52% to CHF 219 million.

This section only contains a summary of the financial information and only describes the ordinary business results, excluding the one-off costs for the prohibited GN ReSound transaction (balance sheet and cash flow as reported). For more detailed information, please refer to the section "Operating & Financial Review" in this Annual Report and the following audited Consolidated Financial Statements.

in CHF m	2007/08[1]	2006/07	Change in %
Sales	1,204.8	1,072.8	12.3
EBITA[2]	339.8	283.6	19.8
EBITA margin	28.2%	26.4%	
Diluted earnings per share (CHF)	4.503	3.590	25.4
Free cash flow	219.4	144.5	51.8
ROCE	58.0%	56.3%	
ROE	33.7%	32.0%	

[1] Excluding one-off costs for the prohibited acquisition of the GN ReSound Group.

[2] Operating profit before acquisition-related amortization.

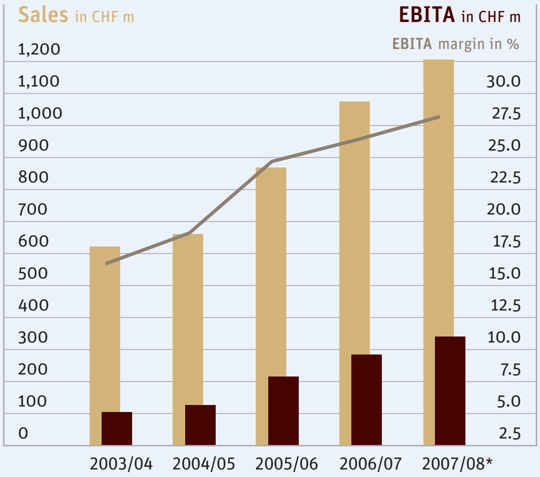
Sales

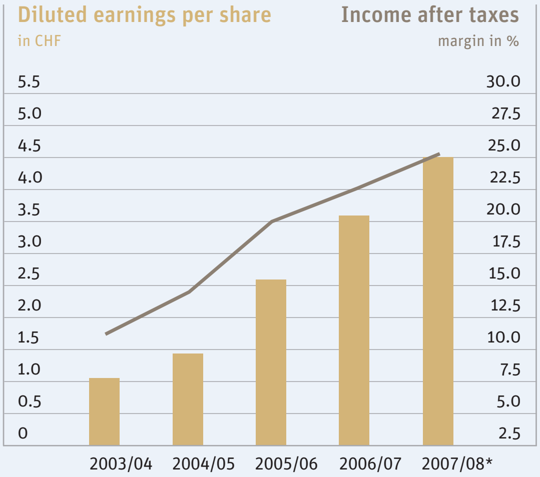
In the financial year 2007/08, the Sonova Group generated sales of CHF 1,204.8 million, equivalent to growth of 12.3% compared to the previous year. Sales growth in local currencies and excluding the effects of acquisitions was 11.1%. The effect of acquisitions was only 1.7% during the reporting period and was made up of several smaller acquisitions. Currency movements had a slight negative impact of –0.5% on sales growth. We estimate that the global market for hearing systems grew around 6% in value terms during the financial year 2007/08, which means we have once again achieved our goal of growing faster than the overall market and expanding our market share. During the course of the financial year many new products were launched. These new products, along with the continuous expansion of our distribution capacities, act as the Group's engine of growth. The high innovation rate – 59% of our hearing system sales are generated with products that are less than two years old – coupled with the new distribution companies in India, Mexico and South Africa demonstrate the consistent implementation of our strategy. Sonova's growth is broadly supported: all our brands, product groups and regions have made significant contributions to the company's growth.

Operating profit before acquisition-related amortization (EBITA)

Sonova increased its operating profit EBITA significantly by 19.8% to CHF 339.8 million (previous year CHF 283.6 million). The EBITA margin rose from 26.4% in the previous financial year to 28.2% in 2007/08. This improvement was mainly due to savings in materials procurement and economies of scale in production, which manifested itself in an increase in the gross profit margin from 68.2% last year to 69.9% in the reporting period. The proportion of added value from our Asian production facilities is steadily growing, while the level of capacity utilization at the Vietnamese production plant opened last year has also improved.

Thanks to pro-active cost management and lean structures, we were able to initiate many forward-looking, long-term projects while at the same time managing to increase our margin. Spending on Research and Development (R&D) rose 13.1% during the reporting period to CHF 76.5 million (previous year CHF 67.6 million). The headcount in our R&D department was 19% higher at the end of the financial year. We continued to expand our sales and marketing organization which pushed up expenses in this area by 10.8% to CHF 309.2 million (previous year CHF 279.0 million).





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

Investments were concentrated on the distribution structures of our worldwide Group Companies and our core initiatives such as *Hear the World* – designed to raise public awareness about the topic of hearing – or on direct to consumer marketing through the Personal Communication Assistant Audéo. The efficiency improvements planned for 2007/08 were successfully achieved, and sales and marketing costs as a percentage of sales amounting to 25.7% were therefore lower than the previous year's level of 26.0%, despite the expansion of our activities. General and administration expenses rose 6.4% during the reporting period to CHF 115.0 million (previous year CHF 108.1 million). The Group's dynamic pace of growth (both organically and through acquisitions) required the significant strengthening and expansion of our business structures. However, due to the active cost management, general and administration expenses as a percentage of sales decreased to 9.5%.

Diluted earnings per share

Sonova increased its income after taxes by 25.7% to CHF 305.2 million (previous year CHF 242.9 million). This rise, which is disproportionately higher than the sales growth, is attributable to the excellent operating profit and lower tax burden partly due to a one-off release of a tax provision. Further, the Sonova share buy-back program had a positive impact on the Group's earnings per share of 0.3%. On a diluted basis earnings per share rose 25.4% to CHF 4.503.

Free cash flow

Free cash flow rose 51.8% to CHF 219.4 million (previous year CHF 144.5 million). The hearing instrument industry is not very capital intensive, which means growth can be achieved with modest advance investment, and consistently high cash flows (excluding cash considerations for acqui-sitions) can be generated. One example is production capacities, which can be expanded quickly and with relatively little capital injection. Cash flow from operating activities rose from CHF 279.6 million in the previous year to CHF 303.8 million in the financial year 2007/08. The strong rise in free cash flow was due to the lower level of acquisition activity. The free cash flow was mainly used for dividend payments to shareholders of CHF 50.3 million (previous year CHF 33.2 million), as well as for the purchase of treasury shares worth CHF 141.4 million (previ-ous year CHF 10.2 million). Despite the capital returned to shareholders, the net cash position at the end of the reporting period amounted to CHF 311.6 million, compared to CHF 296.5 million at the same time last year.

Return on capital employed
(EBIT in % of average capital employed)

The return on capital employed (ROCE) rose to 58.0% (previous year 56.3%). Sonova's capital employed increased by 11.0% to CHF 607.4 million, less than the operating profit (EBIT), which climbed by 19.7%. The growth-related increase in capital employed was successfully contained by consistently optimizing goods flows and active management of trade receivables.

Return on equity
(Income after taxes in % of average equity)

The return on equity (ROE) improved from 32.0% last year to 33.7%. Income after taxes rose by 25.7%, while equity was only 2.7% higher than last year, at CHF 919.1 million, mainly due to the share buy-back program. (Note: equity is reduced by the value of the repurchased shares.) However, the average equity increased by 19.4%, which prevented a further acceleration in ROE. The equity financing ratio, or equity in % of total assets, amounted to 72.2% (previous year 70.8%) and provides a solid basis for the future growth of the Sonova Group.

ROBUST ORGANIC GROWTH

The Sonova Group was able to significantly strengthen its position in the financial year 2007/08, particularly with the Phonak and Unitron Hearing brands. Our wireless communication systems also impressed with excellent trading results.

General market development

The markets were characterized by healthy growth during the financial year 2007/08. Despite weak Christmas trading, in value terms market growth was within the band of long-term growth forecasts of 6 – 9%. The key markets of Germany, France and Spain saw above-average levels of growth, due to increased retail activities. The USA also recorded solid growth. The private sector market in the UK also expanded, although that growth was less dynamic than in the public sector (National Health Service). A concerted move to reduce waiting lists led to growth in the public sector market of over 20%. Japan again recorded positive growth, following a slight fall in the previous year. The emerging markets, including China, recorded excellent results, although in value terms these still only represent a small percentage of the global market.

The product mix, i.e. the relative share of first, business and economy class hearing systems as a percentage of total market volume, remained stable. In value terms, each of these market segments is roughly similar in size. However, in terms of units sold the spread is different: first class hearing systems account for 10 – 15%, business class 30 – 35% and economy class 50 – 60%. This distribution roughly corresponds with the customer structure established through market research.

The percentage of behind-the-ear (BTE) hearing systems as a proportion of total market volume continues to grow. Today, around 90% of all hearing systems sold in markets such as France and Germany are BTE systems. In the USA, in-the-ear (ITE) hearing systems still accounted for the majority of sales in the financial year 2006/07. In 2007/08, however, the proportion of BTE devices broke through the 50% barrier for the first time. The trigger for this BTE trend are the innovative micro hearing systems which offer maximum power in significantly smaller housings. According to estimates, micro hearing systems have already achieved a global market share of 20% (15% in the previous year), which is set to rise further.

Sales by product type

Both the Phonak and Unitron Hearing brands contributed to overall sales growth. Unitron Hearing grew significantly faster than the Group, reflecting the enormous market potential of this brand. The product lines Indigo, Element and the new premium hearing system Yuu ensured a real boost in growth for Unitron Hearing. In addition, Phonak's wireless communication systems once again proved their strong market position with persistently good trading results. In absolute terms, the Phonak brand was the main driver for the Group's sales growth.

Sales by region

The positive sales performance in all key markets enabled Sonova to continue to expand its global market share. The US, German, Canadian, Belgian, French, Swiss and Scandinavian Group Companies were the biggest contributors to the Group's sales growth. But Japan, Australia, China and the emerging markets also achieved above-average rates of growth.

Initiatives 2007/08

The market penetration of hearing systems has only slightly increased in recent years. In industrialized countries, only around 20% of people with hearing loss actually wear a hearing system. For this reason, Phonak launched its *Hear the World* initiative in 2006. More about *Hear the World* can be found on the following page. At product level, measures have also been taken to actively challenge the deeply ingrained prejudices that people seem to have towards hearing systems. With its Personal Communication Assistant, Audéo, Phonak has succeeded in taking the first step towards establishing a new, modern image of hearing systems in society at large. The same truth applies to both the *Hear the World* initiative and to Audéo, namely that fundamental changes of attitude can only be brought about through hard, long-term work and further innovative ideas.

Hear the World ambassadors
Mick Jagger and Annie Lennox

HEAR THE WORLD MAKES WAVES

The *Hear the World* initiative was launched in autumn 2006 by Phonak. It was created to raise public awareness worldwide about the topic of hearing and hearing loss, a problem that affects around 10% of the world's population. Most people take hearing for granted, and so it never really was on the public agenda. The initiative has now reached over 400 million people through different channels such as press articles, adverts and events, spreading the message of *Hear the World.*

Nowhere is the importance of good hearing as obvious as it is in music. In view of this, over 20 international musicians and actors have already signed up to *Hear the World,* including famous names such as Bryan Adams, Rod Stewart, Mick Jagger, Annie Lennox, Joss Stone, Plácido Domingo, the Vienna Philharmonic Orchestra, Harry Belafonte, Amy Winehouse, Moby, Diane Kruger and Franka Potente. They are all ambassadors of *Hear the World* and help to raise public awareness about the social and emotional consequences of hearing loss. And they all agreed to have their photo taken by rock star Bryan Adams to promote the *Hear the World* initiative.

Hear the World has triggered a global wave and more and more personalities are deciding to join the initiative. In Germany Franka Potente is an ambassador of *Hear the World.* In Switzerland famous names include the TV moderator Kurt Aeschbacher and the opera singer Noëmi Nadelmann. The ripples created by *Hear the World* are also being felt "Down Under", where the talented musician James Morrison has signed up to *Hear the World.* His last tour of Australia even carried this name.

Awards for *Hear the World* magazine

The combination of an emotional visual language and exclusive articles has already won three top awards for our *Hear the World* magazine, the world's first lifestyle magazine on the topic of hearing. In addition to the Best of Corporate Publishing Award in the category B2C and the iF Communication Design Award, the magazine also recently won the European Excellence Award in the category External Publication. The magazine is published quarterly in English and German and is available at selected news stands, in business hotels and airports, as well as online at www.hear-the-world.com. Net proceeds go to the *Hear the World* Foundation, set up in January 2007 to support charitable organisations and projects focused on helping people with hearing loss.

Hear the World ambassadors – an exhibition of photos by Bryan Adams

The rock star and photographer Bryan Adams photographs the famous ambassadors of the *Hear the World* initiative. "As a musician I am naturally sympathetic to a cause dedicated to help people appreciate and preserve an individual's sense of sound", he explains. The photos will be displayed publicly in an exhibition in New York and Berlin. The exhibition opens on May 1, 2008 in New York and runs until the middle of May, and then transfers to Berlin on May 29, 2008. All the works exhibited will be available for sale up to the end of September via an online auction (www.hear-the-world.com/exhibition). The proceeds from the auction will go to the *Hear the World* Foundation.

FELLBACH-OEFFINGEN, GERMANY – UNITRON GERMANY, HEADQUARTERS

"As an employee in the sales office I am in constant contact with customers, taking orders and answering queries. The smooth and rapid processing of sales orders is the most important aspect of my job. It is only by achieving this that a high level of customer satisfaction can be attained."

Tanja Jaiser (sales office assistant) with Jörg W. Backhaus (managing director), Georg Koepf (audiologist) and Justine Slawik (IT and software support).

The Unitron Hearing brand of hearing systems is known for its high quality and purpose-driven hearing solutions. It has 14 offices worldwide and has been part of the Sonova Group since the year 2000. Unitron Hearing's headquarters, along with its Research and Development center, are based in Kitchener, Canada.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CONSTANT DEVELOPMENT IS THE KEY TO PROGRESS

With ever smaller and more attractive hearing systems offering continuous improvements in hearing performance, Sonova is meeting the needs of both end users and hearing specialists.

Sonova stands for the very best in innovative hearing solutions. In the hearing instrument industry, innovation is primarily about improved hearing performance. This is mainly achieved through new or refined hearing system functions. In order for researchers and developers to be able to implement their ideas for new, groundbreaking innovations in the first place, there must be sufficient computing power available on the chipset, the heart of the hearing system. With the manufacture of the CORE (Communication Optimized Real-audio Engine) platform, Sonova has taken a further important step forward in this direction in the financial year 2007/08. Once again, computing power has been considerably increased in comparison with the existing PALIO platform. For the first time, 6 high-performance processors and 8 million transistors ensure that the hearing system can execute around 120 million operations per second. But that's not all. CORE also creates the technical conditions for a body area network in which a wireless exchange of realtime audio data between two hearing systems and a multitude of wireless communication systems (e.g. cell phones, MP3 players, laptops etc.) can take place. With CORE, Sonova has created hearing instrument industry's most advanced and versatile hard- and software-development platform, laying the foundations for even more advanced hearing system functionality in future. The product lines Exélia and Naída, which have already been launched, are based on CORE technology. Many further products based on CORE technology are under development.

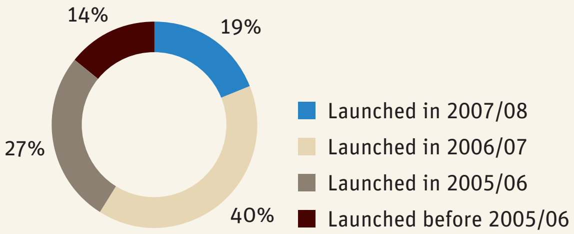
In our industry, innovation also means a constant drive towards miniaturization in hearing systems. The devices should be as good as invisible. In this respect, too, CORE points the way forward. Despite improved and expanded functionality, it was possible to keep the CORE chipset so small that a markedly improved level of hearing performance was possible in an extremely small device. But hearing systems should not only be very small and discrete: they should also be characterized by modern design. Sonova is setting benchmarks in this area too, with its Personal Communication Assistant Audéo.

Above all, innovation in our industry means that in developing our products and services we take account of the needs of the hearing specialists and of the end users. Every hearing system must first be correctly fitted by the hearing specialist so that its performance potential can be fully exploited, creating genuine added value for the end user. For this reason it is most important for the hearing specialist as well as the end customer that the hearing system can be rapidly and efficiently fitted to the user's individual hearing loss and hearing preferences. With the introduction of iCube, which allows cable-free fitting for the first time, the fitting process has been further simplified and accelerated. Our newest products demonstrate how thoroughly Sonova caters for user requirements. With Naída, for the first time, even people with significant hearing loss can benefit from the entire range of modern digital technology and, thanks to SoundRecover, again hear high-frequency signals

Exélia

which were previously inaudible to them. Naída Junior is the first hearing solution which takes into account the specific needs of children. With iCom, the wireless communications interface, we are enabling people with hearing loss to use modern communication and entertainment systems easily.

How important the contribution of these product innovations is to Sonova's business success is shown in the following chart: 59% of hearing system sales in the financial year 2007/08 were achieved by products which are less than two years old.



New products launched in 2007/08

Exélia

Based on the recently developed CORE platform, Exélia from Phonak offers top performance and sophisticated control coupled with easy and complete connectivity to the digital world. Exélia's superior hearing performance is based on SoundFlow, a revolutionary automatic system that rapidly and seamlessly creates an infinite number of situation-specific programs. Hearing system users who prefer manual control can operate Exélia simply and conveniently using the myPilot remote control, and also access useful status information. The latest ZoomControl innovation, a world first, uses the wireless connection between the hearing systems and gives the user the option of adjusting the hearing focus themselves. Combined with iCom, the wireless communications interface, Exélia allows connectivity with a multitude of modern communication and entertainment systems. The complete Exélia first class product family from Phonak includes standard and micro behind-the-ear models together with a range of in-the-ear devices, from the ultra-small CIC Petite up to the Power-IO. With the Exélia CIC Petite, the new acoustically optimized venting (AOV) technology comes into use for the first time, guaranteeing individualized, optimum venting in the smallest possible hearing system while at the same time ensuring natural sound quality free of occlusion and feedback.

Naída UP

Yuu

inspiro

MLxi

Naída UP

Naída UP, designed for people with severe to profound hearing loss, is based on the new CORE platform. It is characterized by excellent hearing performance and speech clarity, offers a wireless communication option, and has a surprisingly small, water resistant casing. SoundRecover, a Phonak proprietary algorithm, shifts and compresses high-frequency signals, which for people with severe hearing loss were not audible up till now, into an adjacent frequency range which is still audible to them. Because these high-frequency signals are now audible again, there is a marked improvement in the speech quality of the user. Naída UP Junior has been specially developed for children with severe to profound hearing loss and offers a dedicated junior software fitting mode. In addition, the new wireless iView offers parents and professionals comprehensive information about the status of the child's hearing system (current hearing program, volume level, battery life). Naída UP hearing systems for adults and children are available in two price categories.

Yuu

Yuu's advanced automatic features and improved feedback management ensure excellent sound quality even in the most challenging hearing situations. The first class Yuu product family from Unitron Hearing is equipped with the revolutionary Comfort-Clarity Balance. With it, the customer can individually set the balance between hearing comfort and speech clarity, as well as noise reduction level. And with the optional remote control Smart Control, the users can teach Yuu their preferences instantly with the click of a learnNow button or gradually over time with Yuu's self-learning feature.

Dynamic FM

The Dynamic FM platform is based on an altogether new FM technology, featuring a new chip, new algorithms, new software and new mechanics. Compared with conventional FM systems, it spectacularly enhances speech intelligibility in noisy situations. The FM transmitter inspiro has been developed primarily for use in school environments. MLXi serves as a universal dynamic FM receiver. ML9i is a new, design-integrated dynamic FM receiver for Phonak's Exélia, SaviaArt, Eleva and eXtra hearing systems. ML10i and ML11i are the names of the design-integrated, water resistant dynamic FM receivers for the Naída UP and Naída SP hearing systems respectively.

Naída SP

Audéo

Next

New products already launched in 2008/09

Naída SP

Like Naída UP, Naída SP is based on the new CORE platform and perfectly completes Phonak's power offering. The smaller Naída SP models offer the same groundbreaking functions, the same advanced wireless communication options and a similarly water resistant casing as the Naída UP models, but now also for individuals with moderately severe to severe hearing loss. Naída SP Junior has been specially developed for children with moderately severe to severe hearing loss. Naída SP hearing systems for adults and children are available in two price categories.

Audéo III

The launch of Audéo, the Personal Communication Assistant (PCA) from Phonak, was a milestone in the history of hearing systems in 2007. With its top performance, unique design and original marketing campaign, Audéo speaks to a new generation of younger first-time users who could not be reached with traditional products and marketing approaches. With a comprehensive package of highly advanced functions, for example CrystalSound and Digital SurroundZoom, Audéo offers effortless hearing coupled with maximum clarity and optimum speech intelligibility, particularly in difficult hearing situations. The featherlight PCA also scores highly through its avant-garde design and fashionable color schemes. Canal Receiver Technology (CRT) ensures optimum transmission of the high frequency range in an ultra-small device. Audéo is the smallest micro hearing system in the industry, still accomodating a size 312 battery. With the market launch of Audéo III in the economy class, the Audéo product family now offers solutions to meet any budget.

Next

The new Next hearing systems series from Unitron Hearing includes four outstanding product lines: Next 16, Next 8, Next 4 and Next Essential. The Next hearing systems are characterized by the most advanced feedback management technology: it detects and suppresses multiple feedback peaks faster, while maintaining superior sound quality. Next 16 incorporates Comfort-Clarity Balance, which allows the user to adjust the system to their individual sound preferences. This application has already proven its worth in the Yuu system. In addition, Next 16 and Next 8 also have the new, high-performance automation program AutoPro for rapid and seamless transitions. The Next hearing systems are available in many different form factors, from ultra-small CIC to Moxi, Moda and standard behind-the-ear models and in all classes from basic level to economy and business class.

STÄFA, SWITZERLAND – PHONAK, DEVELOPMENT

“There is still enormous potential for continuously improving hearing systems. We have many new ideas, which we will be putting into practice in the coming months and years.”

Jadranka Fey (electroacoustics) and her colleagues Sascha Liebe (development engineer) and Axel Schlesinger (development engineer).

Many unique products, technologies and functions have been brought to life by Phonak‘s Research and Development department, and have set standards for the entire industry. Examples include the Personal Communication Assistant Audéo, the AudioZoom function, which for the first time makes directional hearing possible in a hearing system, and SoundRecover, a Phonak proprietary algorithm which shifts and compresses high-frequency signals to make them audible for people with severe hearing loss.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PERFORMANCE IN A SOCIAL WORK ENVIRONMENT

Encouraging continuous professional development, greater individual responsibility and a team spirit helps to further develop Sonova's strong corporate culture.

The hearing instrument industry lives on constant innovation in the area of both products and services. The highest quality standards apply to our manufacturing processes, and first-rate services are offered at the interfaces between hearing systems, hearing advice and end users. Motivated, dedicated and creative employees therefore have a major role to play in our success story. A strong corporate culture lays the foundation for the creativity of our staff and the resulting innovations. Sonova's corporate culture is characterized by flat hierarchical structures, equal treatment of employees, responsibility for one's own actions and open communication. To sustain and further develop this strong corporate culture is one of management's top priorities and a driver for sustainable economic success.

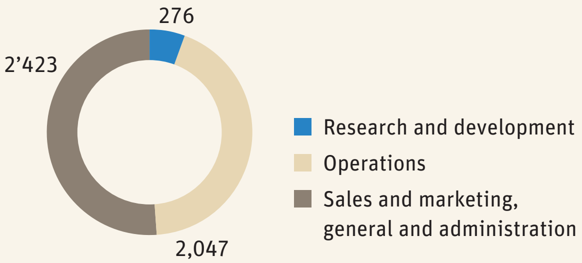
Knowledge management is a core element of Sonova's management philosophy. At Sonova there are no closed doors: employees can consult with their colleagues at any time. Dedicated and carefully planned professional development is also an important success driver. The central goal is to promote specialist expertise, to develop personal, social and management skills and to encourage entrepreneurial thinking beyond the individual's own area of responsibility.

Three years ago Sonova stepped up its efforts to develop standard groupwide education and training programs. During the financial year 2007/08 the "Leadership Excellence Program" was launched for middle managers, rounding off Sonova's global management development offering. All programs are held once a year, and refresher courses will be made available.

A new and important module was added to the training program during the reporting period. While the focus has been on corporate management over the last two years, the new "Passion for Selling" program deals with sales as a growth driver. The aim is to increase the sales efficiency across the entire Sonova Group. The main building blocks for "Passion for Selling" include: understanding mechanisms in the hearing instrument market, identifying client needs and applying sales techniques, including the emotional aspects of selling. During the training program, which lasts several weeks, the knowledge acquired during study will be implemented in the local market and the concrete results analysed at follow-up sessions. This will allow participants to draw on uniform global approaches to selling. These are based on a clearly defined and communicated sales strategy which can be adapted to local market conditions as required. "Passion for Selling" will be introduced into all Group Companies in the financial year 2008/09 in a bid to further enhance the sales culture within the Sonova Group.

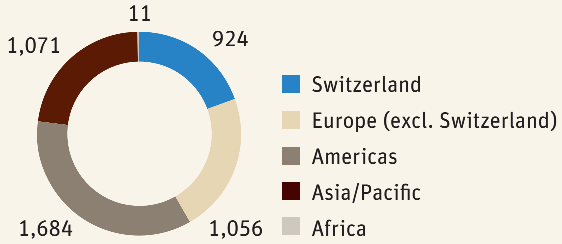
Left: Employees working on final assembly
Right: Phonak Vietnam

Employees by activity 2007/08



The Sonova Group has significantly grown and employed 4,746 people as of March 31, 2008 (prior year 4,023). This increase is mainly the result of the expansion of the sales and marketing organization in order to increase market coverage through direct sales representatives and to support the many strategically important product launches more effectively. New posts were also created in operations to keep up with the expansion of the Group's sales volume. The headcount in research and development was increased by 19%.

Employees by region 2007/08



The rise in the number of people employed in Switzerland is part of our drive to strengthen our groupwide functions, particularly research and development. The headcount in Europe (excl. Switzerland) and in the Americas increased due to the expansion of our sales and marketing teams. Production capacities were also increased in China, in addition to a major expansion in our production facility in Ho Chi Minh City, Vietnam. Our Vietnamese production plant manufactures wireless communication systems and also hearing systems.

PRODUCTION IN VIETNAM

The opening of our Vietnamese production facility in 2007 was an important strategic step for the Sonova Group. The opening of a third manufacturing plant caters for the faster pace of growth and provides greater flexibility in the global production process. The distribution of tasks across the three production sites – Stäfa in Switzerland, Suzhou in China and Ho Chi Minh City in Vietnam – has been clearly defined. Automated production and high-end processes are handled exclusively in Switzerland, while the labour-intensive final assembly is carried out mainly in China and increasingly in Vietnam as well. The new building in Vietnam was opened after a construction period of just four months and after just three more months, the factory began its first shipments. Both the building and the workbenches are identical to those in our production facilities in Switzerland and China.

A sense of belonging to the company

When it first started production, our Vietnamese factory only produced individual components, but now it already makes complete products. This steep learning curve could only be mastered in good time through close collaboration between all parties involved, across international borders. Sonova's specific corporate culture has been particularly helpful here. Responsibilities are delegated, but employees still feel they are supported and assisted in their tasks. With this approach a new organisation using only locally recruited management is able to produce excellent results in just a short space of time. The feeling of belonging to the company is encouraged not only in the workplace, the communal canteens or the intensive education and training programs, but also outside work through several social events.

RESPONSIBLE ACTION ENSURES CONTINUITY

Sustainable thinking and action is key to Sonova's commercial success and thus an integral part of our business activity.

Sonova promotes sustainable development in all areas of the business. The Sonova Group's consistently strong results are largely thanks to the particularly high level of respect that the company has for its employees. The development of a strong corporate culture at Sonova therefore has both a long tradition and the highest priority.

Two years ago we set down our values and rules of behavior in an Employee Code of Conduct for the first time, which applies to the entire Group. During the reporting year the content was updated to keep pace with changing demands. In addition, a Sonova Compliance Hotline was established through which all Sonova Group employees can register their concerns anonymously. Independent specialists answer the calls and forward reports to the appropriate person at Sonova for investigation. The new Employee Code of Conduct is available on the Sonova website – translated into 13 languages. In the financial year 2008/09, corresponding web-based training programs will be implemented across the Group.

The Sonova Group is committed to a variety of projects that promote general awareness of the importance of good hearing and the advantages of hearing systems. Of these, Phonak's *Hear the World* initiative launched in 2006 is the most important. The hugely positive response we have received from the media and international personalities makes us confident of achieving our long-term goals in this regard. At the same time, the Sonova Group supports diverse social projects aimed at improving the quality of life for people with hearing loss. The focus here is on supporting children with hearing loss, a cause also championed by the *Hear the World* Foundation.

Key information

For detailed information, please refer to our corporate website (www.sonova.com/en/commitments), which contains an extensive sustainability section.

Employees

- 2,277 employees, 52% of the average headcount, took part in training and professional development courses
- Our third groupwide accident survey recorded 34 accidents that resulted in employees being unable to continue working
- Over 900 employees own shares of the Sonova Group through share participation schemes

Products

- Six new product lines smoothly launched in 2007/08
- MDD 93/42/EEC compliant
- RoHS 2002/95/EC compliant (on a voluntary basis)
- Certified to ISO 9001:2000 and 13485:2003

Environment

- The quantity of raw materials going into the annual production of hearing systems is roughly equivalent to four mid-class passenger cars
- EU Directive WEEE implemented worldwide

School pupils in Asmara, Eritrea, after their hearing systems were fitted

HEARING SYSTEMS FOR CHILDREN IN ERITREA

Through SUKE, the official Swiss committee for the support of Eritrea, Phonak's *Hear the World* Foundation learned about 29 children with severe hearing loss who had no access to hearing systems. In June 2007 these children danced to music for the first time in their lives. The *Hear the World* Foundation had immediately sent the necessary hearing systems to Eritrea, and also arranged an ENT doctor and a hearing system technician to visit the schools in Keren and Asmara. There, 58 little ears were longing for their first hearing experience.

"Dr Ben switches the children's hearing systems on. A magic moment!" reported Eritrea Info, the SUKE magazine, in June 2007. "Suddenly the children are paddling with their arms, pointing to their ears again and again: I can hear you! I can hear you! [...] and their radiance of joy almost breaks your heart."

Bill Barkeley (left) and his guide on the peak of Mount Kilimanjaro

BILL BARKELEY – DEDICATION AND PASSION

Usher syndrome is the principal cause of deaf-blindness around the world. Bill Barkeley, director of an American industrial company who himself suffers from the syndrome, made a decision to over-come his limits and climb Mount Kilimanjaro to raise global awareness of Usher syndrome, despite having diminished vision and hearing. He reached the summit of Africa's highest mountain on September 19, 2007. To support him in his mission, the *Hear the World* Foundation provided him with hearing systems as well as a wireless communication system.

To let the world know about his project, Bill Barkeley had a documentary film made about his expedition and gave many interviews: "I had a passion to share a message of hope for those who are blind, deaf or both. I am particularly delighted that my mission has succeeded in greatly raising awareness, even among people who have no vision or hearing loss, for the simple reason that it is a story about universal values such as inspiration, aspiration and determination."

GROOT-BIJGAARDEN, BELGIUM – LAPPERRE HEADQUARTERS, RETAIL STORE

“Our goal is to respond as precisely as possible to the individual needs of the hearing system wearer. The challenge is to select the best hearing system for every single one of our customers, and to adjust it to match their individual hearing preferences.”

Tania Iemants (hearing center assistant) with Dominique Jaspers (district manager) and Roel Van Gelder (hearing center manager).

The Lapperre retail chain was founded in 1948. It has been part of the Sonova Group’s global sales network since 1996, and today has around 50 hearing centers, along with more than 200 other sales outlets throughout Belgium and Luxembourg. Belgium’s market leader in the sale and fitting of hearing systems employs around 180 people.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FURTHER STRENGTHENING OF SHAREHOLDER RIGHTS

The Board of Directors of the Sonova Group has committed itself to maintaining the highest standards of integrity and transparency in its governance of the company and to further strengthening the rights of shareholders.

Corporate Governance describes how management is organized and how this is put into practice. It ultimately aims to lead us to success by protecting the interests of our shareholders while at the same time creating value for all stakeholders. The Board of Directors has committed itself to maintaining the highest standards of integrity and transparency in the governance of the company. In this, it is guided by the Swiss Code of Best Practice and the most recent principles of Corporate Governance.

Good Corporate Governance seeks to balance entrepreneurship, control and transparency, while promoting efficient decisionmaking processes within the company. The Board of Directors and the Management Board constantly work on improving the quality of Corporate Governance.

In the course of the previous financial year 2006/07, the Board of Directors focused on ensuring more transparent reporting on Corporate Governance. Disclosure of various rules and regulations has made our internal organization, the Board of Directors' instruments for controlling the Management Board, and the compensation principles of the Sonova Group more transparent and clearer to the stakeholders outside the company.

In the financial year 2007/08, the Board of Directors took steps to further strengthen the rights of shareholders. To this end the Board of Directors will make a motion to the General Shareholders' Meeting of June 11, 2008, to cut the minimum amount of capital a shareholder must own to be entitled to request an item be included on the agenda from 5% to 1%. This reduction will allow smaller shareholders and groups of shareholders to table a motion for the General Shareholders' Meeting. The Board of Directors will also make a motion to the General Shareholders' Meeting for the abolition of the "opting up" clause, which currently requires a shareholder to make a public purchase offer once he owns 49% of the voting rights, as opposed to the legal threshold of 33 1/3%. This measure is designed to strengthen the rights and the equivalence of the shareholders.

The General Shareholders' Meeting will also decide whether an individual shareholder can be represented at the General Shareholders' Meeting by an authorized agent who does not have to be a shareholder in the company. This gives shareholders more flexibility in exercising their voting rights.

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

New elements of the Corporate Governance report

- More detailed information on the shareholder structure
- Two year overview of compensation to the Board of Directors and the Management Board
- More detailed information of the shareholdings owned by members of the Board of Directors and the Management Board

Key information

Detailed information can be found in the main Corporate Governance report on the following pages.

Changes in share capital

As of March 31	2008	2007	2006	2005	2004
Ordinary capital (in CHF)	3,372,575	3,356,257	3,318,046	3,301,120	3,273,110
Total shares	67,451,506	67,125,144	66,360,925	66,022,400	65,462,200
Authorized capital (in CHF)	167,813	165,056	165,056		
Authorized shares	3,356,260	3,301,120	3,301,120		
Conditional capital (in CHF)	357,871	374,189	412,400	264,270	292,280
Conditional shares [1]	7,157,414	7,483,776	8,247,995	5,285,400	5,845,600

[1] Of the 7,157,414 conditional shares at March 31, 2008, 3,856,294 are reserved for employee share option programs.

Options

Total number of options exercised in 2007/08:
326,362
Total number of options outstanding at March 31, 2008:
2,079,962
Total number of options available for exercise in 2008/09:
1,006,093

Significant shareholders as of March 31

	2008 Number of shares	2008 in %	2007 in %
Beda Diethelm	7,262,500	10.77	10.97
Chase Nominees Ltd. [1]	7,244,565	10.74	9.14
Andy Rihs	7,239,100	10.73	10.78
Hans-Ueli Rihs	5,765,813	8.55	8.93

[1] Registered without voting rights.

Auditors

PricewaterhouseCoopers AG, first appointed at the General Shareholders' Meeting of July 5, 2001. The head auditor is Patrick Balkanyi (since November 6, 2006).

Compensation

Total compensation to the Board of Directors:
CHF 2.5 million
Total compensation to the Management Board:
CHF 13.1 million
Highest total compensation:

- Board of Directors: Andy Rihs, a cash payment of CHF 305,336 and 300,000 warrants on Sonova shares with a value of CHF 300,000
- Management Board: Valentin Chapero, a cash payment of CHF 3,062,727

Shareholders' participation rights

- Voting rights restrictions: registration in the share register as a shareholder with voting rights is limited to 5% of the share capital (this rule does not apply to the founding shareholders).
- Voting rights representation: in exercising their voting rights, no shareholder may unite, by a combination of own and represented shares, more than 10% of the shares of the company.
- Obligation to make a public purchase offer: a purchaser of shares is obliged to make a public purchase offer when he has more than 49% of the voting rights ("opting up").

This 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, 2008. The report complies with the general principles on Corporate Governance set down in the Articles of Association and Organizational Regulations, which in turn comply with the Directive on Information relating to Corporate Governance published by the SWX Swiss Exchange.

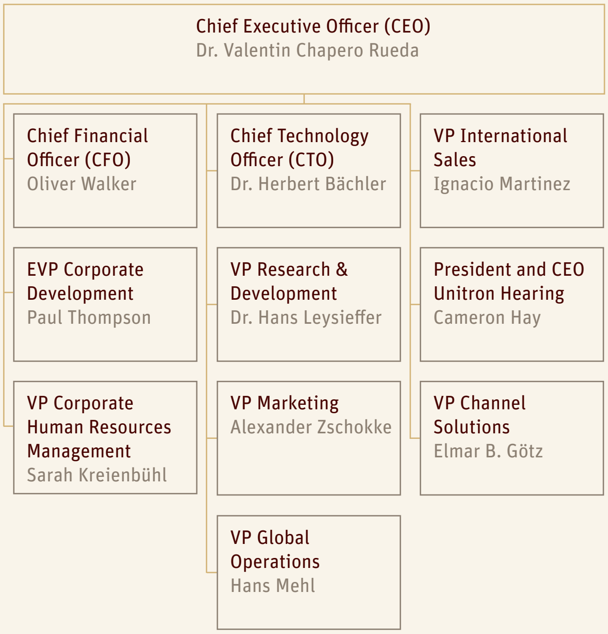
Group structure

Operational Group structure

The Sonova Group is headquartered in Stäfa, Switzerland, and is active in over 90 countries through a combination of 54 subsidiaries in 29 countries and a network of independent distributors. Sonova Holding AG is the parent company and is listed on the SWX Swiss Exchange.

The following chart shows the operational Group structure as of March 31, 2008:

The following chart shows the structure of the Management Board as of March 31, 2008:



Listed companies

Apart from Sonova Holding AG there are no other companies belonging to the consolidated Sonova Group whose equity securities are listed on a stock exchange.

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

	2008	2007	2006
Market capitalization			
in CHF m	6,145	6,243	4,924
in % of equity	669%	698%	785%
Share price in CHF	91.10	93.00	74.20
P/E ratio	22.4x	25.9x	28.7x

Registered office	8712 Stäfa, Switzerland
Listing	SWX 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 significant companies of the Sonova Group as of March 31, 2008 (registered office, share capital in local currency and share of the significant investments held in %):

Sonova Holding AG Stäfa (CH)	CHF 3,373

Switzerland

Phonak AG Stäfa (CH)	CHF 2,500 99.3%
Phonak Hearing Systems AG Stäfa (CH)	CHF 100 100%
Phonak Communications AG Murten (CH)	CHF 500 100%
Phonak Acoustic Implants SA Lonay (CH)	CHF 1,000 100%
Indomed AG Zug (CH)	CHF 1,000 100%
Indomed Hearing Systems GmbH Stäfa (CH)	CHF 20 100%

Europe (excluding Switzerland)

Phonak GmbH Fellbach-Oeffingen (DE)	EUR 25 100%
Unitron Hearing GmbH Fellbach-Oeffingen (DE)	EUR 41 100%
Phonak France SA Bron-Lyon (FR)	EUR 305 100%
Phonak Italia Srl Milan (IT)	EUR 1,040 100%
Phonak Ibérica S.A.U. Alicante (ES)	EUR 7,000 100%
Ets. Lapperre BHAC NV Groot-Bijgaarden (BE)	EUR 124 100%
Phonak Belgium NV Dilbeek (BE)	EUR 15,311 100%
Phonak B.V. Nieuwegein (NL)	EUR 227 100%
Unitron Hearing B.V. Nieuwegein (NL)	EUR 18 100%
Hansaton Akustische Geräte Gesellschaft m.b.H. Wals-Himmelreich (AT)	EUR 450 100%
Phonak Danmark A/S Frederiksberg (DK)	DKK 9,000 100%
HIMSA A/S Copenhagen (DK)	DKK 1,000 25%
Phonak AB Stockholm (SE)	SEK 200 100%
Unitron Hearing AB Stockholm (SE)	SEK 100 100%
Phonak AS Oslo (NO)	NOK 900 100%
Unitron Hearing AS Oslo (NO)	NOK 100 100%
Phonak Group Ltd. Warrington (UK)	GBP 150 100%
Phonak Polska Sp. Z o.o. Warsaw (PL)	PLN 100 100%
Phonarium Szolgáltató Kft. Budapest (HU)	HUF 3,000 49%
Phonak CIS Ltd. Moscow (RU)	RUB 4,000 100%

Americas

Phonak LLC Warrenville (US)	USD 1,250 100%
Unitron Hearing, Inc. Plymouth (US)	USD 46,608 100%
Phonak Canada Ltd. Mississauga (CA)	CAD 88,694 100%
Unitron Hearing Ltd. Kitchener (CA)	CAD 17,436 100%
National Hearing Services Inc. Victoria BC (CA)	CAD 7,500 100%
THC Finance Ltd. Bermuda (BM)	CHF 21 100%
CAS Produtos Médicos Ltda. Sao Paulo (BR)	BRL 570 100%
Phonak Mexicana S.A. de C.V. México D.F. (MX)	MXN 50 100%

Asia/Pacific/Africa

Phonak Pty. Ltd. Baulkham Hills (AU)	AUD 750 100%
Hearing Retail Group Pty. Ltd. Sydney (AU)	AUD 0.1 100%
Phonak New Zealand Ltd. Auckland (NZ)	NZD 250 100%
Jordan Hearing Aids Manufacturing Co., Ltd. Amman (JO)	JOD 80 100%
Phonak Japan Co., Ltd. Tokyo (JP)	JPY 10,000 100%
Unitron Hearing (Suzhou) Co., Ltd. Suzhou (CN)	CNY 32,594 100%
Sichuan i-hear Co., Ltd. Sichuan (CN)	CNY 19,119 100%
Phonak (Shanghai) Co., Ltd. Shanghai (CN)	CNY 20,041 100%
Phonak Operation Center Vietnam Co., Ltd. Binh Duong (VN)	VND 8,796,000 100%
Unitron Hearing Korea Co., Ltd. Seoul (KR)	KRW 200,000 37.5%
Phonak India Pvt. Ltd. Navi Mumbai (IN)	INR 100 100%
Lukatit Investments 14 (Pty) Ltd. Fourways North (ZA)	ZAR 0.1 100%

Share capital in local currency 1,000

Shareholders

Registered shareholders

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

Number of shares	Registered shareholders 31.3.2008	Registered shareholders 31.3.2007
1 – 100	4,685	4,083
101 – 1,000	8,149	8,691
1,001 – 10,000	1,522	1,567
10,001 – 100,000	147	149
100,001 – 1,000,000	28	30
> 1,000,000	8	5
Total registered shareholders	**14,539**	**14,525**

Significant shareholders

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

	2008	2008	2007
	Number	in %	in %
Beda Diethelm[1]	7,262,500	10.77	10.97
Chase Nominees Ltd.[2]	7,244,565	10.74	9.14
Andy Rihs[1]	7,239,100	10.73	10.78
Hans-Ueli Rihs[1]	5,765,813	8.55	8.93
Registered shareholders with interests below 3%	24,704,736	36.62	34.46
Not registered	15,234,792	22.59	25.72
Total shares	**67,451,506**	**100.00**	**100.00**[3]

[1] The founding shareholders Beda Diethelm, Andy Rihs and Hans-Ueli Rihs were already shareholders before the Initial Public Offering in November 1994. There are no shareholders' agreements between these persons.

[2] Registered without voting rights.

[3] Equals to the share capital as of March 31, 2007.

Further, the following shareholders of Sonova Holding AG have given notifications of shareholdings over 3%:

Barclays Plc & its subsidiaries have informed the company that they hold 6.20% of the share capital as of January 9, 2007.

FMR LLC has informed the company that they hold 5.12% of the share capital as of December 7, 2007. The following overview shows the notified shareholdings of FMR LLC in the reporting period:

Date	Purchase positions in %	Sale positions in %
December 7, 2007	5.12	
December 4, 2007	4.60	
October 29, 2007	below 5.00	
September 25, 2007	5.27	

Credit Suisse Group has informed the company that they held over 3% of the share capital for a short time. The following overview shows the notified shareholdings of Credit Suisse Group in the reporting period:

Date	Purchase positions in %	Sale positions in %
March 26, 2008	below 3.00	
March 18, 2008	3.25	0.98

Shareholder structure

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

Type	31.3.2008	31.3.2007
Individual shareholders	41%	42%
Legal entities	13%	11%
Nominees, fiduciaries	23%	21%
Not registered	23%	26%
Total	**100%**	**100%**

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

Origin	31.3.2008	31.3.2007
Switzerland	38%	39%
Europe (ex Switzerland)	31%	28%
Americas	5%	5%
Rest of the World	3%	2%
Not registered	23%	26%
Total	**100%**	**100%**

Cross-shareholdings

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

Capital structure

Capital

As of March 31, 2008, the capital of Sonova Holding AG comprised the following:

Ordinary capital (in CHF)	3,372,575
Total shares	67,451,506
Authorized capital (in CHF)	167,813
Authorized shares	3,356,260
Conditional capital (in CHF)	357,871
Conditional shares	7,157,414

Authorized and conditional capital

Authorized capital

The General Shareholders' Meeting held on June 12, 2007, approved the creation of authorized share capital of 3,356,260 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 with the authorized share capital created expires on June 12, 2009.

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 or investment in companies.

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 with 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:

	2008	2007	2006
Ordinary capital (in CHF)	3,372,575	3,356,257	3,318,046
Total shares	67,451,506	67,125,144	66,360,925
Authorized capital (in CHF)	167,813	165,056	165,056
Authorized shares	3,356,260	3,301,120	3,301,120
Conditional capital (in CHF)	357,871	374,189	412,400
Conditional shares	7,157,414	7,483,776	8,247,995

The authorized share capital of 3,356,260 registered shares created on June 12, 2007, has not yet been used.

From a maximum of 8,000,000 approved conditional shares with a par value of CHF 0.05, 4,143,706 shares have been issued up to March 31, 2008, reducing the maximum conditional share capital reserved for key employees share option plans to 3,856,294 (previous year 4,182,656) shares. In 2007/08, a total of 386,224 options were granted as part of the Sonova Executive Equity Award Plan (EEAP). In 2006/07, a total of 1,138,995 options, and in 2005/06, a total of 446,318 options were granted. As of March 31, 2008, a total of 2,079,962 (prior year 2,020,390) options were outstanding. 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 created on July 7, 2005, to improve the company's financial flexibility, has not yet been used.

Shares and participation certificates

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

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

	2008	2007
First trading line	211,175	44,344
Second trading line [1]	1,017,800	
Total owned shares	**1,228,975**	**44,344**

[1] Pursuant to the share buy-back program approved by the Board of Directors on August 15, 2007 up to 10% of the outstanding shares shall be repurchased via a second trading line on the SWX Swiss Exchange until 2010 at the latest. The Board of Directors will ask for cancellation of the corresponding shares at each Annual General Shareholders' Meeting.

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 comprehensive rights, the acquirer of shares must place an application for entry in the share register. The Corporation may refuse the entry in the share register if the applicant does not explicitly declare that he has acquired and will hold the shares in its own name and on its own account. The registration in the share register as a shareholder with voting rights is limited to 5% of the share capital (Art. 6 para. 2 of the Articles of Association). Parties who act together are considered as one person. The restrictions on the voting and representation rights do not apply to the founding shareholders. The Board of Directors may approve further exceptions with good reason and no special quorum is required for such decisions.

Granting exceptions in the year under review

During the reporting period, no exceptions to the above listed rules were granted by the Board of Directors.

Admissibility of nominee registrations

Sonova Holding AG does not have a specific regulation under which conditions a nominee can apply for entry in the share register.

Procedure and conditions for cancelling statutory privileges and limitations on transferability

To abolish this regulation, the absolute majority of the votes represented at the General Shareholders' Meeting is sufficient.

Convertible bonds and warrants/options

Sonova Holding AG has not issued any convertible bonds.

The following overview shows the options granted as part of the employee option programs (Key People Program and Executive Equity Award Plan) by March 31, 2008:

Options granted/outstanding				Blocking and exercise periods			Changes in 2007/08	
Year	Total granted	of which outstanding	Strike price in CHF	Blocking period	Exercise period	Number of options	Exercised	Expired
2001/02	13,500		56.00	01.09.2001–31.08.2006	01.09.2006–31.08.2007		1,500	
2002/03	28,500		13.00	01.02.2003–31.01.2007	01.02.2007–31.12.2007		8,250	3,000
	27,000		13.00	01.02.2003–31.01.2007	01.02.2007–31.01.2008		3,000	
	100,000		14.00	01.07.2003–30.06.2007	01.07.2007–30.06.2009		100,000	
2003/04	758,450	40,675	28.00	01.02.2004–31.01.2007	01.02.2007–31.01.2009	40,675	143,559	
	22,000	10,000	28.00	01.02.2004–31.01.2008	01.02.2008–31.01.2010	10,000		
2004/05	342,400	161,825	39.00	01.02.2005–31.01.2006	01.02.2006–31.01.2010		12,875	
			39.00	01.02.2005–31.01.2007	01.02.2007–31.01.2010	24,625	9,847	
			39.00	01.02.2005–31.01.2008	01.02.2008–31.01.2010	68,400	4,103	
			39.00	01.02.2005–31.01.2009	01.02.2009–31.01.2010	68,800		
	400,000	285,000	39.00	01.10.2005–30.09.2006	01.10.2006–30.09.2010			
			39.00	01.10.2005–30.09.2007	01.10.2007–30.09.2010	85,000	15,000	
			39.00	01.10.2005–30.09.2008	01.10.2008–30.09.2010	100,000		
			39.00	01.10.2005–30.09.2009	01.10.2009–30.09.2010	100,000		
2005/06	446,318	305,368	63.25	01.02.2006–31.01.2007	01.02.2007–31.01.2011	25,927	16,875	
			63.25	01.02.2006–31.01.2008	01.02.2008–31.01.2011	93,538	7,853	
			63.25	01.02.2006–31.01.2009	01.02.2009–31.01.2011	92,950	750	
			63.25	01.02.2006–31.01.2010	01.02.2010–31.01.2011	92,953	750	
2006/07	360,515	117,080	95.05	01.02.2007–31.01.2008	01.02.2008–31.01.2012	29,108	800	
			95.05	01.02.2007–31.01.2009	01.02.2009–31.01.2012	29,324	400	
			95.05	01.02.2007–31.01.2010	01.02.2010–31.01.2012	29,323	400	
			95.05	01.02.2007–31.01.2011	01.02.2011–31.01.2012	29,325	400	
	228,480	224,080	95.05	01.03.2007–28.02.2008	01.03.2008–28.02.2012	56,320		
			95.05	01.03.2007–28.02.2009	01.03.2009–28.02.2012	55,920		
			95.05	01.03.2007–28.02.2010	01.03.2010–28.02.2012	55,920		
			95.05	01.03.2007–28.02.2011	01.03.2011–28.02.2012	55,920		
	500,000	500,000	95.05	01.10.2007–30.09.2008	01.10.2008–30.09.2012	133,000		
			95.05	01.10.2007–30.09.2009	01.10.2009–30.09.2012	133,000		
			95.05	01.10.2007–30.09.2010	01.10.2010–30.09.2012	134,000		
			95.05	01.10.2007–30.09.2011	01.10.2011–30.09.2012	100,000		
	50,000	50,000	95.05	01.02.2007–31.05.2010	01.06.2010–31.05.2012	50,000		
2007/08 [1]	371,224	370,934	96.00	01.03.2008–28.02.2009	01.03.2009–28.02.2013	92,734		
			96.00	01.03.2008–28.02.2010	01.03.2010–28.02.2013	92,733		
			96.00	01.03.2008–28.02.2011	01.03.2011–28.02.2013	92,734		
			96.00	01.03.2008–29.02.2012	01.03.2012–28.02.2013	92,733		
	15,000	15,000	96.00	01.03.2008–31.05.2011	01.06.2011–31.05.2013	15,000		
Total	**3,663,387**	**2,079,962**				**2,079,962**	**326,362**	

[1] The options granted during the reporting year 2007/08 were issued as warrants at a split ratio 25:1. The warrants are tradable at the SWX Swiss Exchange. The following overview shows the details of the warrants:

Name	Ticker symbol	Year	Security no.	Market Maker	Type	Split ratio	Number of warrants	Strike price	Expiry
SONLT CS C 03/13	SONLT	2008	3760598	Credit Suisse	american call	25:1	9,648,350	96.00	28.02.2013

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 the management.
None of the Board members has or has had any operational positions within Sonova Holding AG or any of its subsidiaries during the last three years. Nor are there any business relations between individual Board members, including companies or organizations represented by any individual member and the 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 founders of the Group, together with his partner Beda Diethelm and his brother Hans-Ueli Rihs.
He owns several companies, which are mainly active in the real estate and cycling business. In addition, he is investor and board member in a few start-up companies.
In 1966, Andy Rihs joined Beda Diethelm, who came to Phonak a year earlier as technical manager. Andy Rihs began to build up the marketing and commercial aspect of the company. He first established a sales organization for Switzerland, then gradually built up a global distribution network. Andy Rihs led Sonova as CEO until April 2000, and as interim CEO from April to September 2002. Under his leadership, the company grew continuously and succeeded in establishing an outstanding brand image for Sonova – known for products of the highest technological standard and reliability.
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 Ticketcorner Holding AG
Member of the Board of Sport und Event Holding AG
Member of the Board of Media Punkt AG
Member of the Board of Pearlwater Mineralquellen 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 the 34 years of his career managing diversified healthcare companies, he gained valuable business experience in Asia, Central and Eastern Europe as well as Latin America. He served in many different functions during his 26 years at Johnson & Johnson. Within this period, he also led two major acquisitions for the company – Cordis and DePuy – both of which today occupy leadership positions in interventional cardiology and orthopedics, respectively.
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.

Heliane Canepa
Member, non-executive

Dr. Michael Jacobi
Member, non-executive

Robert F. Spoerry
Member, non-executive

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 parent company Nobel Biocare Holding AG until September 1, 2007.
Before joining Nobel Biocare, Heliane Canepa was for 20 years CEO of the Switzerland- and US-based company Schneider Worldwide, a medtech company in the cardiology, balloon dilatation field. In 1995, Heliane Canepa was named “Female Entrepreneur of the year” and in 2000 and in 2006 “Entrepreneur of the year” in Switzerland. In 2005, she was ranked No. 6 in the Financial Times, Women in Business Europe’s Top 25.
Heliane Canepa completed business school in Dornbirn, Austria, West London College in London, Sorbonne University in Paris, and the Foreign Executive Development Program at Princeton University, New Jersey.

Other activities:
Member of the Board of Mayoris AG

Dr. Michael Jacobi (born in 1953, German citizen) has been working as an independent consultant since 2007.
From 1996 to 2007, he was CFO and member of the Executive Committee of Ciba Specialty Chemicals Inc. Prior to this, since 1978, Michael Jacobi held various management positions in the area of finance at Ciba Geigy Group in Brazil, the US and Switzerland.
Michael Jacobi studied economics and business administration at the University of St. Gallen, Switzerland, at the University of Washington in Seattle and at the Harvard Business School in Boston. He graduated with a doctoral degree from the University of St. Gallen in 1979 with a thesis on International Accounting.

Other activities:
Member of the Board of Hilti AG

Robert F. Spoerry (born in 1955, Swiss citizen) has been Executive Chairman of the Board of Mettler-Toledo International Inc., a leading global manufacturer and marketer of precision instruments and related services for use in laboratory, manufacturing and food retailing applications.
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 Ciba-Geigy in 1996, and the company’s subsequent Initial Public Offering on the New York Stock Exchange (NYSE) in 1997. In 1998, he was nominated Chairman of the Board.
Robert F. Spoerry graduated in Mechanical Engineering at the Swiss Federal Institute of Technology in Zürich and holds an MBA of the University of Chicago.

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

Other activities and vested interests

None of the Board members has any position in governing or supervisory bodies of any important organization, institution or foundation under private or public law, any permanent management or consultancy function for important interest groups, or any official function or political post.

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 are elected individually by the Annual General Shareholders' Meeting. In general, each member is elected for a period of three business years. The term ends on the day of the Annual General Shareholders' Meeting for the last business year of the term. If, during a term, a substitute is elected to the Board of Directors, the newly elected member finishes the term of his predecessor. Re-elections for successive terms are possible. A member of the Board of Directors who reaches the age of 70 during his or her term must resign at the next Annual General Shareholders' Meeting.

First election and remaining term of office

The following overview shows the date of the first election and the remaining term of office for each member of the Board of Directors:

Name	Position	First election	Term expires
Andy Rihs	Chairman	1985	AGM 2009
William D. Dearstyne	Vice-Chairman	2003	AGM 2009
Heliane Canepa	Member	1999	AGM 2008
Dr. Michael Jacobi	Member	2003	AGM 2009
Robert F. Spoerry	Member	2003	AGM 2009

Internal organizational structure

Allocation of tasks within the Board of Directors

The Board constitutes itself. It appoints its Chairman, its Vice-Chairman, as well as a Secretary who is not necessarily a member of the Board. Since 2006/07, Pascal Brandenberger has been Secretary of the Board of Directors.

The allocation of assignments between the Board of Directors and the CEO is defined in the Sonova Group Organizational Regulations. In accordance with the Organizational 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

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

Within the context of its overall remit, the Audit Committee reviews on behalf of the Board of Directors the work and effectiveness of the external and internal audit, evaluates the financial control, the financial structure and risk management mechanisms of the company, and reviews the interim and annual financial accounts of the Group. The Audit Committee also supervises audits to be completed by the internal audit department and reviews the results of these audits (see Committee Charters).

The Audit Committee meets at least four times a year, but as often as required. In the reporting period, the Committee met four times.

Nomination and Compensation Committee

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

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

The Nomination and Compensation Committee meets at least three times a year, but as often as required. In the reporting period, the Committee met three times.

Work methods of the Board of Directors and its committees

During the reporting period, the Board of Directors held seven meetings. Telephone conferences were organized to discuss time-sensitive business issues. Furthermore, three ad-hoc meetings were held between the Board of Directors and the Management Board, in conjunction with the planned acquisition of the GN ReSound Group, which in the meantime was prohibited by the German Federal Cartel Office. 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	D
Number of meetings 2007/08	7	4	3	3
Andy Rihs	7	–	3	3
William D. Dearstyne	7	4	3	3
Heliane Canepa	6	3	–	3
Dr. Michael Jacobi	7	4	–	3
Robert F. Spoerry	7	–	3	3
Average length of meetings	6 – 8 h	3 h	3 h	2 h

A Board of Directors.
B Audit Committee.
C Nomination and Compensation Committee.
D Ad-hoc meetings in conjunction with the planned acquisition of the GN ReSound Group, which has been prohibited by the German Federal Cartel Office in the meantime.

The agenda of Board meetings are set by the Chairman, those of committee meetings by the respective committee Chairman. Any Board or committee member may request a meeting or that an item be added to the agenda. Board and committee members are provided, in advance of meetings, with adequate materials to prepare for the items on the agenda. The Board and its committees are a quorum if a majority of its members is present. The Board and its committees approve resolutions with the majority of their 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 CEO and CFO and according to the agenda other members of the Management Board attend Board and committee meetings. The Board of Directors consults external experts where necessary when discussing specific topics.

Definition of areas of responsibility

The Board of Directors of Sonova Holding AG has the primary duty of the overall direction of the company except for those decisions reserved by law for the General Shareholders' Meeting. The Board of Directors is responsible to shareholders for the performance of the company. The Board shall decide 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

During the Board and committee meetings, the Management Board reports regularly to the Board of Directors. At each Board meeting, the CEO informs the Board of Directors on the status of current business operations as well as major business transactions (see Rules on Board Operations and Procedures). Further, the Board of Directors 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 turnover, average selling prices and units for each major product, subsidiary and market. Informal telephone conferences are held as required between Board Members and the CEO or CFO. Further, each member of the Board of Directors may request information on all matters concerning the company.

Furthermore, the Board of Directors has an independent control authority, the internal audit. The internal audit carries out operational and compliance audits; it assists the organizational units in the accomplishment of objectives by providing an independent approach to the evaluation, improvement and effectiveness of their internal control framework; it prepares reports regarding the audits it has performed; and it reports any actual or suspected irregularities to the Audit Committee.

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

Dr. Valentin Chapero Rueda
CEO

Oliver Walker
CFO

Dr. Herbert Bächler
CTO

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 Sonova as CEO in October 2002.

Before joining Sonova, Valentin Chapero Rueda was CEO of the Mobile Networks Division of Siemens. Prior to this, between mid-1996 and the end of 1999, he was CEO of the Siemens Audiology Group, the world's largest hearing instrument manufacturer at that time. He took the company into the digital era, tripling sales and significantly improving profitability. Valentin Chapero Rueda began his career within the R&D department of Nixdorf Computer.

Valentin Chapero Rueda, whose parents are Spanish, grew up and completed his education in Germany. He graduated in Physics at the University of Heidelberg, Germany, and was awarded his doctorate with a thesis in the medicine/physics field.

Oliver Walker (born in 1969, Swiss citizen) was appointed CFO of Sonova in October 2004.

Before joining Sonova, he held the position of CFO of Stratec Medical Group Oberdorf, Switzerland, since 2000. Stratec is a leading international medical devices company, specializing in the development, manufacture, and marketing of instruments and implants for the surgical treatment of bones. Prior to Stratec, Oliver Walker worked for seven years with the Von Roll Group, a diversified industrial company. His most recent position there was as Vice President Finance and Controlling for the division Von Roll Infratec.

Oliver Walker studied economics at the University of Berne, Switzerland; he holds a Masters Degree in Business Administration.

Dr. Herbert Bächler (born in 1950, Swiss citizen) has been a key member of Sonova's management team since 1981. In June 2002, he was appointed to the position of Chief Technology Officer (CTO) and became a member of the Management Board.

Herbert Bächler is responsible, on a groupwide basis, for directing the various research projects. His duties include the pursuit of new technologies and their application to hearing instruments and related business opportunities.

Herbert Bächler received his diploma in Electronic Engineering in 1973 and his doctorate in 1978 from the Swiss Federal Institute of Technology (ETH) Zürich, Switzerland.

Paul Thompson
EVP Corporate Development

Sarah Kreienbühl
VP Corporate Human Resources Management

Dr. Hans Leysieffer
VP Research & Development

Paul Thompson (born in 1967, Canadian citizen) was appointed to the position of Executive 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 was CFO of Sonova since January 2002. Between 1998 and 2001, Paul Thompson acted as CFO and later also as COO of the Unitron Hearing Group. Before joining Unitron Hearing, between 1987 and 1998, he worked for Ernst & Young in Canada, first in the auditing division and then in the management consulting division.

Paul Thompson studied finance and economics at the University of Waterloo, Canada. In 1992, Paul Thompson was granted his Chartered Accountant designation and in 1998, he achieved the designation of Certified Management Consultant.

Sarah Kreienbühl (born in 1970, Swiss citizen) has been Vice President Corporate HRM since August 2004.

Before that, Sarah Kreienbühl was 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, Zürich, Switzerland, where she did executive search projects and also introduced new assessment and management audit services. She started her career as a psychologist with Swissair, where she was involved in the selection of pilots and air traffic managers.

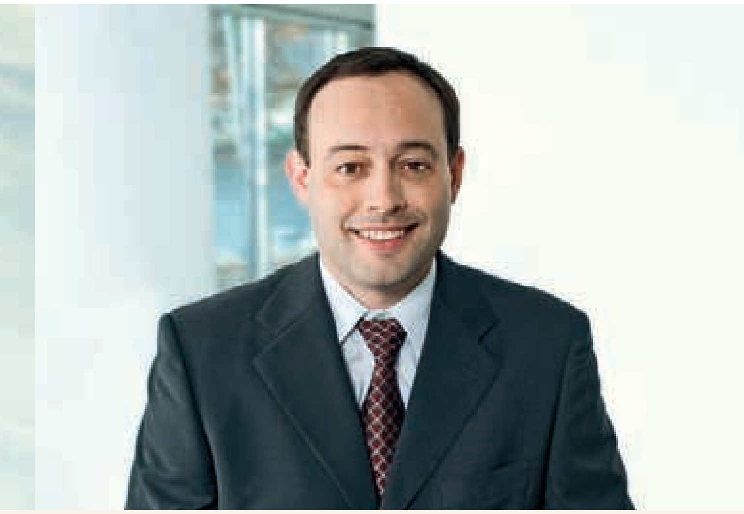
Sarah Kreienbühl studied Applied Psychology at the University of Zürich, Switzerland.

Dr. Hans Leysieffer (born in 1957, German citizen) has been Vice President R&D since October 2003.

Prior to that he was 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 cochlea implants in Europe and India.

Hans Leysieffer studied electrical engineering at the Technical University of Munich, Germany, gaining a PhD for his dissertation on sensory transmission of speech for patients suffering from total hearing loss.

Cameron Hay
President and CEO Unitron Hearing



Ignacio Martinez
VP International Sales

Cameron Hay (born in 1967, Canadian citizen) has been President and CEO of Unitron Hearing since January 2005. Before that, he was COO and GM of the Kitchener Operations Center. His tasks there included setting up the Unitron Hearing Operations Center in Suzhou, China. Cameron Hay started his career with IBM and then went on to perform various management functions as a business consultant with Ernst & Young, focused on the high-tech sector.
Cameron Hay gained a degree in Industrial Engineering at 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 VP International Sales effective January 2005. Prior to this position he was Managing Director of Phonak Spain since 2001. He has over 20 years of experience in the hearing instrument industry. Before joining Phonak, he was working for Widex Audifonos S.A. in Spain, holding positions as Assistant Technical Director, and most recently, as Director of Sales and Marketing.
Ignacio Martinez has studied electronic engineering at the Universitat Politécnica de Catalunya in Barcelona. He also completed training as a hearing care professional.

Alexander Zschokke (born in 1965, Swiss citizen) was appointed Vice President Marketing in July 2006.
Before joining Sonova, since 2002, he was Managing Director of Brand View, a marketing agency working among others for Woolworth, Bulgari and Giorgio Armani. Prior to that, he spent over 10 years in the fashion and retail industry. As Vice President Marketing for Bally and later for Salvatore Ferragamo, he managed the worldwide development of global brands. Prior to his experience 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 Zürich, Switzerland.

Alexander Zschokke
VP Marketing

Hans Mehl
VP Global Operations

Elmar B. Götz
VP Channel Solutions

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

Elmar B. Götz (born in 1962, German citizen) joined Sonova as Vice President Channel Solutions in April 2007. Since 2005, he was CEO of Synoptik Sweden AB, one of the leading optical chains in Sweden. Prior to that, he was Marketing Director for the Avanzi Holding in Italy and Commercial Director for the Apollo-Optik chain in Germany. Between 1991 and 2001, he held several management positions in Sales and Marketing at Procter & Gamble, both in Germany and in the United States.
Elmar B. Götz studied Business Administration at the University of Passau, Germany, and the University of Tours, France, and earned a Master's Degree.

Other activities and vested interests

None of the members of the Management Board has any position in governing or supervisory bodies of any important organization, institution or foundation under private or public law, any permanent management or consultancy function for important interest groups, or any official function or political post.

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 the compensation and the shareholding programs

The compensation principles of the Sonova Group are based on performance considerations. The compensation packages of Sonova Group employees consist of a basic salary (made up of a fixed and a variable performance-related salary) as well as further incentive plans which are regularly reviewed by the Nomination and Compensation Committee.

Fixed salary

The fixed salary is intended to give each employee a regular and predictable salary that does not depend on the annual performance of the employee or of the Sonova Group's business. Salary levels depend on job characteristics, market competitiveness as well as on the skills of each employee. The salary evolution depends on the individual performance of the employee.

Variable salary

The variable salary is an integrated element of the basic salary. The split between fixed salary and variable salary is typically defined in the employment contract and depends on the job characteristics and management level. The targets to achieve the variable salary are typically defined for each employee at the beginning of the financial year. At the end of the financial year, the variable salary is generally multiplied with an individual payout factor for each employee. The size of the payout multiplier depends on the actual performance achieved by the employee compared with the individual objectives agreed upon at the beginning of the financial year and the overall performance of the Sonova Group respectively the relevant organizational unit. Incentive payout multipliers can range from 0 to 2. If the employee's achievement of objectives falls below a certain level, no variable salary will be paid out. For exceptional performance, higher payout multipliers may apply. Such cases require the approval of the CEO and/or the Nomination and Compensation Committee.

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 Share Appreciation Rights (SARs). The amount of shares, options, warrants, WARs and SARs granted varies depending on the management level. Shares, options, warrants, WARs and SARs granted as part of the EEAP are split into four equal tranches. For the options, warrants, WARs and SARs, one tranche vests each year over four years, starting one year after the grant date. The shares are blocked over four years, one tranche being released each year, starting one year after the grant date. The purchase price of the shares will generally be equal to the market price on the SWX Swiss Exchange on the date the shares are purchased. The fair value of the options, warrants, WARs and SARs is estimated on the grant date using a binomial option pricing model. Additional information thereto is disclosed in Note 30 of the Consolidated Financial Statements.

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

The compensation policies and the incentive plans (EEAP) described before apply equally to the Management Board, as well as mostly to the Board of Directors and to the CEO.

The compensation policies of the Board of Directors differ from those of the employees of the Sonova Group, instead of a basic salary (made up of a fixed and a variable performance-related salary), the Board of Directors receives a fixed and an attendance fee.

The incentive plan of the CEO differs therein that the options of the EEAP will not be granted annually to him. The allocation of the options inclusive a short time shift of the exercise periods are based on the long-term employment contract running until 2010.

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 determined by the Board of Directors and periodically reviewed by the Nomination and Compensation Committee.

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 to the individual members of the Board of Directors in the year under review and in the previous year:

in CHF							EEAP		
	Financial year	Fixed fee	Attendance fee[1]	Expenses[1]	Social benefits (employer's contribution)[2]	Total cash compensation	Value of warrants[3]/ options	Number of warrants[3]/ options granted	Total compensation
Andy Rihs	2007/08	120,000	23,000	6,500	155,836	305,336	300,000	300,000	605,336
Chairman	2006/07	120,000	23,000	6,500	21,058	170,558	212,640	12,000	383,198
William D. Dearstyne	2007/08	60,000	23,000	5,500	8,206	96,706	300,000	300,000[4]	396,706
Vice Chairman	2006/07	60,000	24,000	7,000	108,293	199,293	212,640	12,000[5]	411,933
Heliane Canepa	2007/08	60,000	18,000	4,500	158,326	240,826	300,000	300,000	540,826
Member	2006/07	60,000	18,000	4,000	10,223	92,223	212,640	12,000	304,863
Dr. Michael Jacobi	2007/08	60,000	21,000	5,500	126,061	212,561	300,000	300,000	512,561
Member	2006/07	60,000	23,000	6,500	22,347	111,847	212,640	12,000	324,487
Robert F. Spoerry	2007/08	60,000	19,000	4,500	11,309	94,809	300,000	300,000	394,809
Member	2006/07	60,000	20,000	4,000	10,466	94,466	212,640	12,000	307,106
Total (active	**2007/08**	**360,000**	**104,000**	**26,500**	**459,738**	**950,238**	**1,500,000**	**1,500,000[6]**	**2,450,238**
members)	**2006/07**	**360,000**	**108,000**	**28,000**	**172,387**	**668,387**	**1,063,200**	**60,000[7]**	**1,731,587**
Daniel Borel	2007/08				53,621	53,621			53,621
former Member	2006/07	20,000	4,000	500	173,137	197,637			197,637
Total (incl. former	**2007/08**	**360,000**	**104,000**	**26,500**	**513,359**	**1,003,859**	**1,500,000**	**1,500,000[6]**	**2,503,859**
members)	**2006/07**	**380,000**	**112,000**	**28,500**	**345,524**	**866,024**	**1,063,200**	**60,000[7]**	**1,929,224**

[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 warrants/options/Warrant and Share Appreciation Rights exercised during the reporting period.

[3] Exercise ratio between warrants and options, 25:1 (see also Note 30 in the consolidated financial statements).

[4] Warrant Appreciation Rights (WARs) grant the right to participate in the appreciation of the Sonova shares without issuance of shares. Exercise ratio between WARs and SARs, 25:1.

[5] Share Appreciation Rights (SARs) grant the right to participate in the appreciation of the Sonova shares without issuance of shares.

[6] Thereof 300,000 WARs.

[7] Thereof 12,000 SARs.

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		Basic salary					EEAP		
	Financial year	Fixed salary	Variable salary[1]	Fringe benefits	Social benefits (employer's contribution)[2]	Total cash compensation[1] [2]	Value of warrants[3]/ options	Number of warrants[3]/ options granted	Total compensation[2]
Dr. Valentin Chapero, CEO	2007/08	1,071,000	1,105,526	16,000	870,201	3,062,727			3,062,727
	2006/07	1,018,250	1,303,318	16,000	241,706	2,579,274	9,445,610	500,000[4]	12,024,884
Other members of the Management Board	2007/08	2,680,123	1,179,563	243,679	677,003	4,780,368	3,950,000/ 1,274,400	3,950,000/ 70,000	10,004,768
	2006/07	2,229,329	1,319,068	178,770	530,011	4,257,178	2,232,730	126,000	6,489,908
	2007/08	**3,751,123**	**2,285,089**	**259,679**	**1,547,204**	**7,843,095**	**3,950,000/ 1,274,400**	**3,950,000/ 70,000**	**13,067,495**
Total	**2006/07**	**3,247,579**	**2,622,386**	**194,770**	**771,717**	**6,836,452**	**11,678,340**	**626,000**	**18,514,792**

[1] According to the compensation policies of the Sonova Group, the variable salary results from the split of the basic salary defined in the employment contract and the payout multiplier, which reflects individual as well as Group targets (sales growth and EBITA). The variable salary will be paid out after the end of the reporting year. At the time of the preparation of this Annual Report the data considered reflected the latest estimates available.

[2] Including social security contributions on the tax value of warrants and options exercised during the reporting period.

[3] Exercise ratio between warrants and options, 25:1 (see also Note 30 in the consolidated financial statements).

[4] In conjunction with the long-term employment contract running until 2010, signed in 2005, Valentin Chapero Rueda received the second and last ordinary allocation of options in the reporting period. These options are split into four tranches. One tranche vests each year over four years, starting one year after the grant date.

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 Board of Directors Daniel Borel has exercised the remaining options of his term of office. The company has paid the social security contribution by exercise in the amount of CHF 53,621.

During the reporting period the former member of the Management Board Toni Schrofner has exercised his remaining options. The company has paid the social security contribution by exercise in the amount of CHF 72,204.

Besides these payments 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, 2008, the members of the Board of Directors and persons closely linked to them held directly and indirectly 7,274,420 Sonova shares.

The following table shows the shareholdings of the individual members of the Board of Directors and persons closely linked to them as of March 31:

(10.8% of total share capital), 162,000 options, 1,200,000 warrants, 300,000 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:

	31.3.2008			31.3.2007		
	Shares	Options	Warrants[1]	Shares	Options	Warrants[1]
Andy Rihs	7,239,100	36,000	300,000	7,239,100	48,000	
William D. Dearstyne	8,310	36,000[3]	300,000[2]	8,310	36,000[3]	
Heliane Canepa	15,010	21,000	300,000	15,010	45,000	
Dr. Michael Jacobi	2,000	33,000	300,000	175	45,000	
Robert F. Spoerry	10,000	48,000	300,000	10,000	48,000	
Total	**7,274,420**	**174,000[3]**	**1,500,000[4]**	**7,272,595**	**222,000[3]**	

[1] Exercise ratio between warrants and options, 25:1 (see also Note 30 in the consolidated financial statements).

[2] Warrant Appreciation Rights (WARs) grant the right to participate in the appreciation of the Sonova shares without issuance of shares. Exercise ratio between WARs and SARs, 25:1.

[3] Thereof 12,000 SARs.

[4] Thereof 300,000 WARs.

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

	31.3.2008		31.3.2007	31.3.2008	31.3.2008	31.3.2007	31.3.2008	31.3.2007	31.3.2008	31.3.2007
	Options	Warrants[1]	Options	EEAP 08[2]	EEAP 07[3]	EEAP 07[3]	EEAP 06[4]	EEAP 06[4]	EEAP 05/ Older[5]	EEAP 05/ Older[5]
Andy Rihs	36,000	300,000	48,000	300,000	12,000	12,000	12,000	12,000	12,000	24,000[10]
William D. Dearstyne	36,000[6]	300,000[7]	36,000[6]	300,000[7]	12,000[8]	12,000[8]	12,000	12,000	12,000	12,000
Heliane Canepa	21,000	300,000	45,000	300,000	12,000	12,000	6,000	12,000	3,000	21,000[9]
Dr. Michael Jacobi	33,000	300,000	45,000	300,000	12,000	12,000	12,000	12,000	9,000	21,000[9]
Robert F. Spoerry	48,000	300,000	48,000	300,000	12,000	12,000	12,000	12,000	24,000[10]	24,000[10]
Total	**174,000[6]**	**1,500,000[11]**	**222,000[6]**	**1,500,000[11]**	**60,000[6]**	**60,000[6]**	**54,000**	**60,000**	**60,000**	**102,000**

[1] Exercise ratio between warrants and options, 25:1 (see also Note 30 in the consolidated financial statements).

[2] Strike price CHF 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.

[3] Strike price CHF 95.05, blocking period 01.02.2007 – 31.01.2011 whereas one tranche being released each year, exercise period 01.02.2008 – 31.01.2012.

[4] 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.

[5] EEAP 2005: 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; Key People Program 2004: Strike price CHF 28.00, blocking period 01.02.2004 – 31.01.2007, exercise period 01.02.2007 – 31.01.2009.

[6] Thereof 12,000 SARs.

[7] Warrant Appreciation Rights (WARs) grant the right to participate in the appreciation of the Sonova shares without issuance of shares. Exercise ratio between WARs and SARs, 25:1.

[8] Share Appreciation Rights (SARs) grant the right to participate in the appreciation of the Sonova shares without issuance of shares.

[9] 12,000 options from EEAP 2005 and 9,000 options from Key People Program 2004.

[10] 12,000 options from EEAP 2005 and 12,000 options from Key People Program 2004.

[11] Thereof 300,000 WARs.

Shareholdings of the Management Board

As of March 31, 2008, the members of the Management Board and persons closely linked to them held directly and indirectly 1,082 Sonova shares and 1,140,938 options and 3,950,000 warrants.

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

	31.3.2008			31.3.2007		
	Shares	Options	Warrants[1]	Shares	Options	Warrants[1]
Dr. Valentin Chapero Rueda		785,000			900,000	
Oliver Walker		45,000	500,000	1,250	55,000	
Dr. Herbert Bächler	1,082	46,000	400,000	821	46,000	
Paul Thompson		41,000	400,000		41,000	
Sarah Kreienbühl		32,250	400,000		36,000	
Dr. Hans Leysieffer		36,000	400,000		36,000	
Cameron Hay		25,250	250,000		25,250	
Ignacio Martinez		36,000	450,000		36,000	
Alexander Zschokke		24,438	400,000		24,438	
Hans Mehl		70,000	500,000			
Elmar B. Götz			250,000			
Total (active members)	**1,082**	**1,140,938**	**3,950,000**	**2,071**	**1,199,688**	
Toni Schrofner				168	25,000	
Total (incl. former members)	**1,082**	**1,140,938**	**3,950,000**	**2,239**	**1,224,688**	

[1] Exercise ratio between warrants and options, 25:1 (see also Note 30 in the consolidated financial statements).

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

	31.3.2008		31.3.2007	31.3.2008		31.3.2007	31.3.2008	31.3.2007	31.3.2008	31.3.2007
	Options	Warrants[1]	Options	EEAP 08[2]	EEAP 07[3]	EEAP 07[3]	EEAP 06[4]	EEAP 06[4]	EEAP 05/ Older[5]	EEAP 05/ Older[5]
Dr. Valentin Chapero Rueda	785,000		900,000		500,000	500,000			285,000	400,000
Oliver Walker	45,000	500,000	55,000	500,000	20,000	20,000	15,000	20,000	10,000	15,000
Dr. Herbert Bächler	46,000	400,000	46,000	400,000	16,000	16,000	20,000	20,000	10,000	10,000
Paul Thompson	41,000	400,000	41,000	400,000	16,000	16,000	15,000	15,000	10,000	10,000
Sarah Kreienbühl	32,250	400,000	36,000	400,000	16,000	16,000	11,250	15,000	5,000	5,000
Dr. Hans Leysieffer	36,000	400,000	36,000	400,000	16,000	16,000	15,000	15,000	5,000	5,000
Cameron Hay	25,250	250,000	25,250	250,000	10,000	10,000	11,250	11,250	4,000	4,000
Ignacio Martinez	36,000	450,000	36,000	450,000	16,000	16,000	15,000	15,000	5,000	5,000
Alexander Zschokke	24,438	400,000	24,438	400,000	16,000	16,000	8,438	8,438		
Hans Mehl	70,000	500,000		500,000	70,000[6]					
Elmar B. Götz		250,000		250,000						
Total (active members)	**1,140,938**	**3,950,000**	**1,199,688**	**3,950,000**	**696,000**	**626,000**	**110,938**	**119,688**	**334,000**	**454,000**
Toni Schrofner			25,000					15,000		10,000
Total (incl. former members)	**1,140,938**	**3,950,000**	**1,224,688**	**3,950,000**	**696,000**	**626,000**	**110,938**	**134,688**	**334,000**	**464,000**

[1] Exercise ratio between warrants and options, 25:1 (see also Note 30 in the consolidated financial statements).

[2] 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.

[3] Strike price CHF 95.05, blocking period 01.02.2007 – 31.01.2011 whereas one tranche being released each year, exercise period 01.02.2008 – 31.01.2012.

[4] 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.

[5] 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.

[6] These options were granted to Hans Mehl at commencement of work by April 1, 2007.

Shareholders’ participation rights

Voting rights and representation restrictions

Voting rights restrictions

To be recognized as a shareholder with comprehensive rights, the acquirer of shares must place an application for entry in the share register. The registration in the share register as a shareholder with voting rights is limited to 5% of the share capital (Art. 6 para. 2 of the Articles of Association). Linked parties are considered as one person. The restrictions do not apply to the founding shareholders.

Granting exceptions in the year under review

No exceptions were granted in the reporting period.

Procedure and conditions for abolishing statutory voting rights restrictions

To abolish this regulation, the absolute majority of the votes represented at the General Shareholders’ Meeting is sufficient.

Statutory rules on participation in the General Shareholders’ Meeting

In exercising their voting rights, no shareholder may unite, by a combination of own and represented shares together, more than 10% of the total number of shares of the company as shown in the share register (Art. 12 para. 2 of the Articles of Association). The restrictions on the voting rights do not apply to the founding shareholders. The Board of Directors may approve further exceptions with good reason and no special quorum is required for such decisions. During the reporting period, no exceptions to the above listed rules were granted.

Statutory quorums

The General Shareholders’ Meeting passes its resolutions and carries out its elections with an absolute majority of the share votes represented, to the extent that neither the law nor the Articles of Association provide otherwise.

Convocation of the General Shareholders’ Meeting

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

Extraordinary General Shareholders’ Meetings can be called as often as necessary, in particular, in all cases required by law.

General Shareholders’ Meetings are convened by the Board of Directors and, if necessary, by the auditors. Extraordinary General Shareholders’ Meetings are convened by the Board of Directors if shareholders representing at least 10% of the share capital request such meetings in writing, setting forth the items to be discussed and the proposals to be decided upon.

Agenda

Shareholders entitled to vote who represent at least 5% of the share capital may request items to be added to the agenda by indicating the relevant proposals. Such requests must be addressed in writing to the Chairman of the Board of Directors no later than 60 days before the meeting.

Inscription in the share register

The share register will be closed for about five days before the General Shareholders’ Meeting for administrative reasons. During this period, an admission card, with corresponding voting papers, will be sent to shareholders. In case of a partial sale of shares within this time, the confirming documents must be exchanged on the day of the General Shareholders’ Meeting at the information desk. The shares can be traded at any time and are not blocked.

Changes of control and defense measures

Duty to make an offer

A purchaser of shares is obliged to make a public purchase offer when he has more than 49% of the voting rights at his disposal (“opting up”, as per Art. 8 of the Articles of Association).

Clauses on changes of control

There are no agreements in place that, in the event of a change of control, provide members of the Board of Directors or the Management Board with abnormally high severance payments or other lucrative benefits. In 2005, a member of the Management Board, CEO Valentin Chapero Rueda, signed a long-term employment contract running until 2010. Under a change of control provision, he is entitled to his full salary and part of the bonus payments in case the employment is terminated due to a change of control.

Auditors

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

During the Annual General Shareholders' Meeting of July 5, 2001 PricewaterhouseCoopers AG was elected as auditors of Sonova Holding AG and the Sonova Group. At the Annual General Shareholders' Meeting of June 12, 2007, PricewaterhouseCoopers AG was re-elected for another term of one year. Patrick Balkanyi is the lead auditor responsible for the existing auditing mandate.

Fees

The following overview shows all costs which PricewaterhouseCoopers charged to the Sonova Group during the financial years 2007/08 and 2006/07:

1,000 CHF	2007/08	2006/07
Audit services	1,023	836
Audit-related services	210	875
Tax services	313	400
Non-audit services	504	187
Total	**2,050**	**2,298**

Audit services are defined as the standard audit work that needs to be performed each year in order to issue opinions on the Consolidated Financial Statements of the Sonova Group as well as opinions on the local statutory accounts.

Audit-related services consist of services which can be performed by the Group auditor but which are not directly in connection with the annual standard audit work, such as audits of newly implemented system controls, consent and comfort letters in relation to regulatory filings or acquisition due diligence services.

Tax services consist of tax compliance and other services.

Non-audit services include mainly costs in conjunction with the planned acquisition of the GN ReSound Group, which has been prohibited by the German Federal Cartel Office in the meantime.

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 2007/08, 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 quarterly its findings to the Board of Directors.

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 issued guidelines on how to deter both corporate insiders and external consultants from making use of confidential information. The Board of Directors has established so called black-out periods to prevent insiders from trading in shares and options of Sonova Holding AG during sensitive periods.

Important information available on Sonova's investors website

Capital structure and shareholder rights:

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

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

Restrictions on shareholder rights
www.sonova.com/en/commitments/corparatebodies/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/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 11, 2008

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

November 11, 2008

Publication of Semi-Annual Report as of Sept 30, 2008
Media and Analysts Conference

May 2009

Publication of Annual Report as of March 31, 2009
Media and Analysts Conference

June 2009

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

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STÄFA, SWITZERLAND – REGIONAL CENTER CENTRAL EUROPE, ITE LABORATORY

“Our team does all we can to ensure that our customers in Germany, Austria and Switzerland are supplied with the ITE devices they require as quickly as possible. At the same time we place great emphasis on personal advice and support.”

Werner Holzinger (customer advisor) with his colleagues
Regula Frommenwiler (team leader), Nataya Jaiman (hearing device technician)
and Lamai Brotzer (hearing device technician).

The “in-the-ear” or ITE laboratory: the hearing systems manufactured here are worn in the ear canal, whereby each of these devices is unique. That is because every ITE hearing system is tailored to fit perfectly in the ear canal of each user. The hearing device technicians who work in this line of production need a good eye and excellent fine-motor skills.


sonova

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5 Year Key Figures (Consolidated)

in 1,000 CHF unless otherwise specified	Reported performance 2007/08	Underlying performance 2007/08 [1]
Sales	**1,204,779**	**1,204,779**
change compared to previous year (%)	12.3	12.3
Gross profit	**841,584**	**841,584**
change compared to previous year (%)	15.0	15.0
in % of sales	69.9	69.9
Research & development costs	**76,454**	**76,454**
in % of sales	6.3	6.3
Sales & marketing costs	**309,200**	**309,200**
in % of sales	25.7	25.7
Operating profit before acquisition-related amortization (EBITA)	**331,737**	**339,752**
change compared to previous year (%)	17.0	19.8
in % of sales	27.5	28.2
Operating profit (EBIT)	**326,743**	**334,758**
change compared to previous year (%)	16.8	19.7
in % of sales	27.1	27.8
Income after taxes	**274,140**	**305,196**
change compared to previous year (%)	12.9	25.7
in % of sales	22.8	25.3
Number of employees (average)	**4,351**	**4,351**
change compared to previous year (%)	14.1	14.1
Number of employees (end of period)	**4,746**	**4,746**
change compared to previous year (%)	18.0	18.0
Net cash[2]	**311,647**	**311,647**
Net working capital[3]	**107,890**	**107,890**
in % of sales	9.0	9.0
Capital expenditure (tangible and intangible assets)[4]	**55,892**	**55,892**
Capital employed[5]	**607,417**	**607,417**
in % of sales	50.4	50.4
Total assets	**1,273,009**	**1,273,009**
Equity	**919,064**	**919,064**
Equity financing ratio (%)[6]	**72.2**	**72.2**
Free cash flow[7]	**219,392**	**219,392**
in % of sales	18.2	18.2
Return on capital employed (%)[8]	**56.6**	**58.0**
Return on equity (%)[9]	**30.2**	**33.7**
Basic earnings per share (CHF)	4.087	4.551
Diluted earnings per share (CHF)	**4.044**	**4.503**
Cash-based diluted earnings per share (CHF)[10]	4.093	4.552
Dividend per share (CHF)	1.00[11]	

[1] Excluding one-off costs for the prohibited acquisition of the GN ReSound Group (see Note 6). Balance sheet and cash flow as reported.

[2] Cash and cash equivalents + other current financial assets – short-term debts – other current financial liabilities – non-current financial liabilities.

[3] Receivables + inventories – trade payables – other short-term liabilities – taxes payable – short-term provisions.

[4] Excluding goodwill and intangibles relating to acquisitions.

[5] Total assets – cash and cash equivalents – other current financial assets – trade payables – other liabilities – provisions – deferred tax liabilities.

[6] Equity in % of total assets.

[7] Cash flow from operating activities + cash flow from investing activities.

[8] EBIT in % of capital employed (average).

[9] Income after taxes in % of equity (average).

[10] Excluding the amortization of acquisition-related intangibles, net of tax.

[11] Proposal to the Annual General Shareholders’ Meeting of June 11, 2008.

2006/07	2005/06	2004/05	2003/04
1,072,796	**866,682**	**660,375**	**620,538**
23.8	31.2	6.4	17.9
732,075	**577,587**	**417,814**	**372,642**
26.7	38.2	12.1	30.2
68.2	66.6	63.3	60.1
67,590	**62,780**	**48,932**	**58,203**
6.3	7.2	7.4	9.4
278,978	**205,731**	**159,117**	**129,457**
26.0	23.7	24.1	20.9
283,643	**213,862**	**125,830**	**103,515**
32.6	70.0	21.6	115.0
26.4	24.7	19.1	16.7
279,765	**212,696**	**125,797**	**94,961**
31.5	69.1	32.5	354.2
26.1	24.5	19.0	15.3
242,875	**173,499**	**95,856**	**69,359**
40.0	81.0	38.2	248.2
22.6	20.0	14.5	11.2
3,813	**3,166**	**2,719**	**2,523**
20.4	16.4	7.8	5.3
4,023	**3,428**	**2,926**	**2,689**
17.3	17.2	8.8	12.7
296,480	**177,934**	**93,785**	**9,501**
96,313	**125,866**	**79,496**	**58,358**
9.0	14.5	12.0	9.4
31,242	**26,995**	**23,083**	**21,351**
547,215	**446,588**	**355,919**	**340,837**
51.0	51.5	53.9	54.9
1,263,392	**928,125**	**743,360**	**683,684**
894,687	**624,522**	**449,704**	**349,090**
70.8	**67.3**	**60.5**	**51.1**
144,542	**101,834**	**83,781**	**118,349**
13.5	11.7	12.7	19.1
56.3	**53.0**	**36.1**	**26.4**
32.0	**32.3**	**24.0**	**21.6**
3.637	2.607	1.450	1.056
3.590	**2.584**	**1.434**	**1.050**
3.628	2.596	1.434	N/A
0.75	0.50	0.30	0.20

ANOTHER EXCELLENT YEAR

Sales increased by 12.3% to CHF 1,204.8 million, the EBITA margin rose 180 basis points to 28.2% and the diluted earnings per share increased by as much as 25.4% to CHF 4.503. With an equity financing ratio of 72.2%, the Sonova Group has an exceptionally strong financial position and financial flexibility for further internal and external expansion.

Sales

In the financial year 2007/08, the Sonova Group generated sales of CHF 1,204.8 million, equivalent to growth of 12.3% compared to the prior financial year. Sales growth in local currencies and excluding the effects of acquisitions was 11.1%. The effect of acquisitions was only 1.7% during the reporting period and was made up of several smaller acquisitions. Currency movements had a modest negative impact of –0.5% on sales growth.

Sales growth was driven mainly by the success of our product lines Savia Art, Audéo, microPower, Eleva, eXtra and Una of the Phonak brand, and the highly successful product families Yuu, Indigo and Element from Unitron Hearing. The Phonak product lines Exélia and Naída had a very successful launch in February 2008 and provided a boost to sales growth in the last two months of the reporting period. Wireless communication systems achieved a growth rate of 10%, while sales of miscellaneous products and services rose by 17%.

There were only minor changes to the product mix, i.e. the sales contribution of individual product groups as a percentage of total sales, compared with the financial year 2006/07. Over the last financial year all product groups performed very well, with economy class hearing systems posting the highest sales growth thanks to the success of the Element product line from Unitron Hearing as well as Una and the consistently dynamic growth of Phonak’s product family eXtra.

In 2007/08 the Sonova Group comfortably beat the average growth rate of all the regional markets in which it operates. Sales growth in local currencies came to 10.5% in Europe, 13.9% in the Americas, and a very impressive 17.5% in the Asia/Pacific region. This evenly distributed growth across all geographical markets reflects Sonova’s global presence and its successful expansion drive, especially in Asian markets.

Breakdown of sales by product groups:

in CHF m	2007/08		2006/07	
Product groups	**Sales**	**Share**	**Sales**	**Share**
First class hearing systems	365	30 %	334	31 %
Business class hearing systems	248	21 %	222	21 %
Economy class hearing systems	344	29 %	301	28 %
Wireless communication systems	78	6 %	71	7 %
Miscellaneous	170	14 %	145	13 %
Total sales	**1,205**	**100 %**	**1,073**	**100 %**

Gross profit

In 2007/08 gross profit increased by 15.0% to CHF 841.6 million (previous year CHF 732.1 million). During the reporting period, Sonova's growth allowed it to achieve significant economies of scale not only in production but also in materials procurement. The proportion of added value from our Asian production facilities is steadily growing, while the level of capacity utilization at the Vietnamese production plant opened last year has significantly increased. Higher global prices for raw materials and energy had no significant impact on overall production costs, because of our low material and energy requirements. As a result, the gross profit margin improved to 69.9%, compared with 68.2% in the previous year.

Operating profit before acquisition-related amortization (EBITA)

Ignoring the exceptional one-off costs for the prohibited acquisition of the GN ReSound Group, Sonova increased its operating profit EBITA significantly by 19.8% to CHF 339.8 million (previous year CHF 283.6 million). The EBITA margin rose from 26.4% in the financial year 2006/07 to 28.2% in the financial year 2007/08.

Spending on Research and Development (R&D) rose 13.1% during the reporting period to CHF 76.5 million (previous year CHF 67.6 million). Apart from ongoing recruitment to strengthen our R&D team, additional external costs were also incurred for CORE, our newly developed modular hardware and software development platform. Two unique hearing systems, Exélia and Naída, based on CORE are already on the market.

Sales and marketing expenses rose 10.8% to CHF 309.2 million (previous year CHF 279.0 million). After investing heavily in our global sales and marketing organization in 2006/07, Sonova benefited, as planned, from efficiency improvements during the reporting period. Sales and marketing costs as a percentage of total sales came to 25.7%, lower than the previous year's level of 26.0%.

General and administration expenses rose 6.4% during the reporting period to CHF 115.0 million (previous year CHF 108.1 million). The Group's dynamic pace of growth (both organically and through acquisitions) required the significant expansion of our business structures. However, due to the pro-active cost management, general and administration expenses as a percentage of sales decreased to 9.5%.

During the reporting period, other income fell to CHF –1.2 million, compared with CHF 6.2 million in the previous year. This negative result is mainly attributable to the strengthening of the Swiss Franc versus all other major currencies during the last months of the financial year 2007/08. One-off costs of CHF 8.0 million in connection with the prohibited GN ReSound acquisition were charged to other expenses. Reported operating profit EBITA is therefore CHF 8.0 million lower, at CHF 331.7 million.

Effect of one-off costs (CHF 35.0 million before taxes) for the prohibited acquisition of the GN ReSound Group:

in CHF m	Reported performance	Underlying performance	Effect of one-off costs
Sales	**1,204.8**	**1,204.8**	**0.0**
Gross profit	**841.6**	**841.6**	**0.0**
in % of sales	69.9 %	69.9 %	
Other (expenses) / income, net	(9.2)	(1.2)	(8.0)
Operating profit (EBITA)	**331.7**	**339.8**	**(8.0)**
in % of sales	27.5 %	28.2 %	
Operating profit (EBIT)	**326.7**	**334.8**	**(8.0)**
in % of sales	27.1 %	27.8 %	
Financial expenses	(23.4)	3.5	(26.9)
Income before taxes	**303.3**	**338.3**	**(35.0)**
Income after taxes	**274.1**	**305.2**	**(31.1)**
in % of sales	22.8 %	25.3 %	

Income after taxes

Ignoring the one-off costs for the prohibited acquisition of the GN ReSound Group, Sonova increased its income after taxes by 25.7% to CHF 305.2 million (previous year CHF 242.9 million). As a result of the share buy-back program, earnings per share improved by another 0.3%. Excluding the acquisition-related amortization of intangibles, cash-based earnings per share on a diluted basis rose 25.5% to CHF 4.552.

During the reporting period, the net financial result was slightly lower, due to the non-cash effect of discounting the expected future acquisition-related "earn-out" payments and the negative performance of securities, at CHF 5.1 million (previous year CHF 5.6 million). As a result of the German Federal Cartel Office's prohibition of the GN ReSound acquisition, financial expenses included a charge for additional one-off costs of CHF 26.9 million incurred in connection with the provision of guaranteed financing and the planned capital increase for the takeover (estimated at CHF 3.3 billion in aggregate).

Income tax amounted to CHF 33.1 million in the reporting period (previous year CHF 41.3 million). As a percentage of income before taxes, income tax declined from 14.5% in the previous financial year to 9.8% in the financial year 2007/08, due to a change in the geographic allocation of taxable income. Further, an uncertain tax situation in connection with an acquisition could be solved in 2007/08. The release of the corresponding provision, which was set up several years ago, resulted in a one-off income tax reduction of CHF 9.8 million.

Taking into account all one-off costs, income after taxes rose 12.9% to CHF 274.1 million. The diluted earnings per share rose 12.6% to CHF 4.044 over the reporting period.

Cash flow

Cash flow from operating activities rose 8.6% from CHF 279.6 million in the financial year 2006/07 to CHF 303.8 million in 2007/08. This rise was mainly attributable to the higher income before taxes and significant higher non-cash items due to unrealized exchange losses. These effects were compensated by the increase in net working capital as a result of expanded business activities. The free cash flow, which also takes into consideration the cash flow from investing activities, climbed 51.8% to CHF 219.4 million (previous year CHF 144.5 million). Higher investments in tangibles and intangibles, mainly caused by the business startup of Phonak Acoustic Implants in May 2007, were more than offset by the much lower acquisition activity. As a result the cash outflow for investing activities fell to CHF 84.4 million during the reporting period (previous year CHF 135.1 million). The free cash flow of CHF 219.4 million was mainly used for dividend payments to shareholders of CHF 50.3 million (previous year CHF 33.2 million), as well as for the purchase of treasury shares worth CHF 141.4 million (previous year CHF 10.2 million). Of the shares repurchased at the cost of CHF 141.4 million, CHF 109.1 million were purchased on the market as part of the share buy-back program via a second trading line. In the financial year 2007/08 the Sonova Group posted a cash outflow for these financing activities of CHF 198.4 million (previous year CHF 41.3 million). Considering the negative currency translation difference, cash and cash equivalents increased by CHF 12.9 milion.

Key figures from the consolidated cash flow statements of the Sonova Group:

in CHF m	2007/08	2006/07
Cash flow from operating activities	**303.8**	**279.6**
Cash flow from investing activities	(84.4)	(135.1)
Free cash flow	**219.4**	**144.5**
Cash flow from financing activities	(198.4)	(41.3)
Increase in cash and cash equivalents	12.9	104.8
Cash and cash equivalents at March 31	297.2	284.3

Balance sheet structure

The Sonova Group's capital employed has increased 11.0% to CHF 607.4 million. This increase was mainly in non-current assets due to the expansion of our business activities. By contrast, there was little change in net working capital due to currency translation effects, improved control of receivables, active inventory management and further optimization of the global goods flows. The average payment period for clients to settle their invoices ("days sales outstanding") was once again slightly lower than last year. The increase in inventories was mainly driven by the launch of several new product lines towards the end of the financial year. Overall, an increase in trade receivables and inventories related to business expansion contrasts with a reduction in short and long-term provisions. The reduction in provisions is attributable to the settlement of a court case involving a patent dispute, and the release of a tax provision, which was set up several years ago in connection with an acquisition. Net cash as of March 31, 2008, rose to CHF 311.6 million, compared with CHF 296.5 million at the same time last year. Despite the purchase of treasury shares worth CHF 141.4 million including CHF 109.1 million as part of the share buy-back program, and the release of the foreign currency hedge reserve of CHF 49.1 million set aside for the planned acquisition of the GN ReSound Group, shareholders' equity increased once again. The equity financing ratio (equity in % of total assets) rose from 70.8% last year to 72.2% this year.

Share buy-back program successfully initiated

As announced on August 15, 2007, Sonova intends to repurchase up to 10% of its outstanding shares over the next three years. The buy-back program started on September 20, 2007, via a second trading line, and will continue until September 30, 2010, at the latest. The program allows Sonova to return its cash not used for operations and funds generated from future free cash flows to its shareholders. At the same time, Sonova's solid financial position means that this share buy-back program will not impact its financial flexibility for further internal and external expansion. The Group has repurchased, through its share buy-back program, 1,017,800 Sonova shares, or 1.4% of the share capital up to March 31, 2008. The Board of Directors will be submitting a motion to the AGM of June 11, 2008, to cancel these shares, along with any other shares repurchased up to April 25, 2008.

Consolidated Income Statements

1,000 CHF	Notes	2007/08	2006/07
Sales	5	**1,204,779**	**1,072,796**
Cost of sales		(363,195)	(340,721)
Gross profit		**841,584**	**732,075**
Research and development		(76,454)	(67,590)
Sales and marketing		(309,200)	(278,978)
General and administration		(114,998)	(108,098)
Other (expenses)/income, net	6	(9,195)	6,234
Operating profit before acquisition-related amortization (EBITA)1)		**331,737**	**283,643**
Acquisition-related amortization	19	(4,994)	(3,878)
Operating profit (EBIT)2)		**326,743**	**279,765**
Financial income	7	11,332	9,041
Financial expenses	7	(33,126)	(3,461)
Share of loss in associates/joint ventures	17	(1,646)	(1,140)
Income before taxes		**303,303**	**284,205**
Income taxes	8	(29,163)	(41,330)
Income after taxes		**274,140**	**242,875**
Attributable to:			
Equity holders of the parent		273,349	241,629
Minority interests		791	1,246
Basic earnings per share (CHF)	9	4.087	3.637
Diluted earnings per share (CHF)	9	4.044	3.590

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 Balance Sheets

Assets 1,000 CHF	Notes	31.3.2008	31.3.2007
Cash and cash equivalents	11	297,241	284,341
Other current financial assets	12	16,188	64,003
Trade receivables	13	226,500	222,432
Other receivables and prepaid expenses	14	47,992	50,192
Inventories	15	101,685	94,151
Total current assets		**689,606**	**715,119**
Property, plant & equipment	16	128,391	120,663
Intangible assets	19	301,960	285,759
Investments in associates/joint ventures	17	37,229	37,982
Other non-current financial assets	18	40,174	35,980
Deferred tax assets	8	75,649	67,889
Total non-current assets		**583,403**	**548,273**
Total assets		**1,273,009**	**1,263,392**

Liabilities and equity 1,000 CHF	Notes	31.3.2008	31.3.2007
Short-term debts	21, 24	720	64
Trade payables		50,495	41,755
Current income tax liabilities		52,717	59,542
Other current financial liabilities	24	28	348
Other short-term liabilities	22	117,868	105,690
Short-term provisions	20	47,207	63,475
Total current liabilities		**269,035**	**270,874**
Non-current financial liabilities	23, 24	1,034	460
Long-term provisions	20	39,045	47,204
Other long-term liabilities	25	10,417	10,759
Deferred tax liabilities	8	34,414	39,408
Total non-current liabilities		**84,910**	**97,831**
Total liabilities		**353,945**	**368,705**
Share capital	26	3,373	3,356
Share premium		199,809	175,802
Treasury shares		(129,821)	(3,038)
Retained earnings		841,005	715,042
Equity attributable to equity holders of the parent		**914,366**	**891,162**
Minority interests		4,698	3,525
Equity		**919,064**	**894,687**
Total liabilities and equity		**1,273,009**	**1,263,392**

The Notes are an integral part of the consolidated financial statements

Consolidated Cash Flow Statements

1,000 CHF	Notes	2007/08		2006/07	
Income before taxes			**303,303**		**284,205**
Depreciation of property, plant & equipment	16	25,545		24,225	
Amortization of intangible assets	19	9,709		7,929	
Loss on sale of tangible and intangible assets, net		295		397	
Share of loss in associates/joint ventures	17	1,646		1,140	
Decrease in long-term provisions		(4,337)		(11,089)	
Financial expenses/(income), net	7	21,794		(5,580)	
Unrealized exchange differences		21,164		(5,217)	
Other non-cash items		16,726	92,542	10,405	22,210
Cash flow before changes in net working capital			**395,845**		**306,415**
Increase in trade receivables		(21,238)		(25,012)	
Increase in other receivables and prepaid expenses		(7,173)		(13,143)	
(Increase)/decrease in inventories		(18,964)		1,827	
Increase in trade payables		7,787		265	
(Decrease)/increase in other payables, accruals and short-term provisions		(14,317)		39,630	
Income taxes paid		(38,181)	(92,086)	(30,371)	(26,804)
Cash flow from operating activities			**303,759**		**279,611**
Purchase of property, plant & equipment	16	(38,055)		(27,060)	
Proceeds from sale of property, plant & equipment		1,722		1,287	
Cash consideration for acquisitions, net of cash acquired	27	(36,443)		(86,991)	
Purchase of intangible assets		(18,431)		(4,983)	
Proceeds from sale of intangible assets		483		57	
Increase in other non-current financial assets		(4,331)		(22,633)	
Interest received and realized gain from financial assets		10,688		5,254	
Cash flow from investing activities			**(84,367)**		**(135,069)**
Free cash flow			**219,392**		**144,542**
Repayments of borrowings and mortgages		(7,696)		(26,830)	
Proceeds from capital increases		9,131		25,513	
Sale of treasury shares		605		3,469	
Purchase of treasury shares		(141,358)		(10,230)	
Dividend paid by Sonova Holding AG		(50,308)		(33,165)	
Dividend paid to minorities		(680)		(136)	
Interest paid and other financial expenses		(8,108)		(388)	
Cash flow from financing activities			**(198,414)**		**(41,317)**
Currency translation differences			(8,078)		1,567
Increase in cash and cash equivalents			**12,900**		**104,792**
Cash and cash equivalents at April 1			284,341		179,549
Cash and cash equivalents at the end of the financial year			**297,241**		**284,341**

The Notes are an integral part of the consolidated financial statements

Consolidated Statements of Recognized Income and Expense

1,000 CHF	2007/08	2006/07
Income after taxes	**274,140**	**242,875**
Actuarial gain/(loss) from defined benefit plans, net	49	(747)
Fair value adjustments on cash flow hedges[1]	(49,099)	49,099
Currency translation differences	(48,249)	(8,898)
Income and expenses directly recognized in equity	**(97,299)**	**39,454**
Total recognized income and expense	**176,841**	**282,329**
Attributable to equity holders of Sonova Holding AG	176,050	281,083
Attributable to minority interests	791	1,246

[1] As the acquisition of the GN ReSound Group has been prohibited by the German Federal Cartel Office, the relating contingent hedge contracts have lapsed without any costs for the Group (refer Note 24).

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	Cumulative translation adjustment	Treasury shares	Hedge reserve	Minority interests	Total equity
Balance April 1, 2006	**3,318**	**154,042**	**469,031**	**(1,907)**	**(2,183)**		**2,221**	**624,522**
Total recognized income and expense			**240,882**	**(8,898)**		**49,099**	**1,246**	**282,329**
Changes in minorities							194	194
Capital increase of Sonova Holding AG from conditional capital	38	25,475						25,513
Share-based payments		5,544						5,544
Sale of treasury shares		(794)			9,375			8,581
Purchase of treasury shares					(10,230)			(10,230)
Capitalized financing costs[1]		(8,465)						(8,465)
Dividend paid			(33,165)				(136)	(33,301)
Balance March 31, 2007	**3,356**	**175,802**	**676,748**	**(10,805)**	**(3,038)**	**49,099**	**3,525**	**894,687**
Total recognized income and expense			**273,398**	**(48,028)**		**(49,099)**	**570**	**176,841**
Changes in minorities							1,283	1,283
Capital increase of Sonova Holding AG from conditional capital	17	9,114						9,131
Share-based payments		4,507						4,507
Sale of treasury shares		1,921			14,575			16,496
Purchase of treasury shares					(141,358)			(141,358)
Capitalized financing costs[1]		8,465						8,465
Dividend paid			(50,308)				(680)	(50,988)
Balance March 31, 2008	**3,373**	**199,809**	**899,838**	**(58,833)**	**(129,821)**	**0**	**4,698**	**919,064**

[1] Capitalized costs in relation to the expected capital increase in connection with the planned acquisition of the GN ReSound Group. These costs have been reversed after the transaction has been prohibited by the German Federal Cartel Office.

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 (formerly Phonak 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

For the financial year 2007/08 the following standards, amendments and interpretations have become effective for the Group:

IFRS 7 "Financial Instruments: Disclosures" and IAS 1 (revised) "Presentation of Financial Statements: Capital Disclosures".
The adoption of these standards resulted in additional disclosures, but did not have any impact on the Group's result and financial position.

IFRIC 8 "Scope of IFRS 2", IFRIC 9 "Reassessment of embedded Derivatives", IFRIC 10 "Interim Financial Reporting and Impairment" and IFRIC 11 "Group and Treasury Share Transactions" have also been adopted by the Group as of April 1, 2007 without having any significant impact on the consolidated financial statements 2007/08.

The following new or revised IFRS Standards and Interpretations will become effective for financial periods beginning on or after January 1, 2008 and have not yet been applied:

- IAS 1 (revised), Presentation of Financial Statements (effective January 1, 2009)
- IAS 23 (revised), Borrowing Costs (effective January 1, 2009)
- IFRS 3 (revised), Business Combinations (effective July 1, 2009)
- IFRS 8, Operating Segments (effective January 1, 2009)
- IFRIC 12, Service Concession Arrangements (effective January 1, 2008)
- IFRIC 13, Customer Loyalty Programmes (effective July 1, 2008)
- IFRIC 14, The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective January 1, 2008)

The Group is currently evaluating the potential impact of the adoption of these new or amended standards and interpretations and expects no significant impacts on the Group's result and financial position.

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 April 30, 2008.

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 page 72, "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 3 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 3 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 statement 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 Sonova 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 subsidiary, the related cumulative translation adjustment is transferred from equity and included in the profit or loss from the disposal in the income statement.

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 3 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 receivables

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, labour, 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 when 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 middle ear 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 risk 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 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 client relationships, customer lists and brand names and are amortized over a period of 3 – 10 years. Other intangible assets are generally amortized over a period of 3 – 10 years applying the straight-line method. 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 on which the warranty is still active. Short-term portions of warranty provisions are reclassified to short term provisions at each reporting date.

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.

Provision is made for non-recoverable withholding taxes 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

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Group is active in one business segment; the design, development, manufacture, distribution and service of hearing systems and related products. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. The Sonova Group has set the following geographical segments: Europe, Americas, Asia/Pacific and Rest of world.

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 under the section financial instruments.

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 business combinations and goodwill, above).

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 a binomial 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 results 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 investments, 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 that 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 prohibited acquisition of the GN ReSound Group, the Group had entered into contingent cash flow hedges. For the contracts qualifying for hedge accounting the effective portion of the gain or loss on the hedging instrument was recognized directly in the statement of recognized income and expense in equity, while any ineffective portion was 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 2007/08 such costs contingent on future events (earn-out and holdback of purchase prices) of CHF 31.9 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 128.4 million as disclosed in Note 16 and intangible assets, including goodwill with a carrying value of CHF 302.0 million as disclosed in Note 19.

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 75.6 million related to deductible differences and, in certain cases, tax loss carry-forwards 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 2007/08 amounts to CHF 133.3 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 37.6 million as of March 31, 2008 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 current financial year 2007/08, the Sonova Group has acquired several smaller entities which are individually not material. The effect of these acquisitions is disclosed in aggregate in Note 27.

In the financial year 2006/2007, besides the acquisition of several smaller entities the Group acquired National Hearing Services Inc., Canada as of April 1, 2006.

5. Segment information

1,000 CHF	2007/08 Europe	2006/07	2007/08 Americas	2006/07
Sales				
Third parties	549,739	483,293	574,788	525,285
Intersegment sales	404,186	384,177	5,089	7,919
Total sales	**953,925**	**867,470**	**579,877**	**533,204**
Operating profit/(loss) (EBIT)	**329,530**	**310,956**	**10,642**	**23,100**
Financial (expenses)/income, net				
Share of (loss)/gain in associates/joint ventures	(2,143)	(1,391)	497	251
Income before taxes				
Income taxes				
Income after taxes				
Total assets	**1,414,234**	**1,341,061**	**571,588**	**601,680**
thereof: Investments in associates/joint ventures	33,577	36,466	3,652	1,516
Total liabilities	**368,859**	**372,607**	**358,143**	**389,080**
Capital expenditure in tangible and intangible assets	39,521	18,229	13,028	9,649
Depreciation and amortization on tangible and intangible assets	20,398	19,862	11,302	10,156
Share-based payments	13,269	8,112	2,964	2,161
Third party sales based on location of customers	**515,060**	**454,296**	**575,988**	**525,900**
Growth in local currencies	10.5 %	13.5 %	13.9 %	34.3 %

[1] "Corporate/Eliminations" include unallocated corporate assets and liabilities and intersegment eliminations.

The Group is active in one business segment; the design, development, manufacture, distribution and service of hearing systems and related products.

The primary segment information is presented according to geographical regions based on location of assets. This is in line with the organizational structure.

2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07
Asia/Pacific		Rest of world		Corporate/ Eliminations[1]		Total	
78,709	64,218	1,543				1,204,779	1,072,796
90,962	77,882			(500,237)	(469,978)		
169,671	**142,100**	**1,543**		**(500,237)**	**(469,978)**	**1,204,779**	**1,072,796**
(4,454)	**(6,296)**	**(520)**		**(8,455)**	**(47,995)**	**326,743**	**279,765**
						(21,794)	5,580
						(1,646)	(1,140)
						303,303	**284,205**
						(29,163)	(41,330)
						274,140	**242,875**
88,707	**78,633**	**657**		**(802,177)**	**(757,982)**	**1,273,009**	**1,263,392**
						37,229	37,982
88,043	**75,543**	**1,174**		**(462,274)**	**(468,525)**	**353,945**	**368,705**
5,025	5,332	21				57,595	33,210
3,532	2,136	22				35,254	32,154
780	463					17,013	10,736
107,215	**87,398**	**6,516**	**5,202**			**1,204,779**	**1,072,796**
17.5 %	29.6 %	26.5 %	(3.4) %			12.8 %	24.1 %

6. Other (expenses)/income, net

1,000 CHF	2007/08	2006/07
Other operating expenses	(8,077)	(119)
Other operating income	25	40
Exchange differences	(1,143)	6,313
Total	**(9,195)**	**6,234**

In the financial statements 2006/07, the Group assessed the acquisition of the GN ReSound Group to be probable. Correspondingly, costs in the amount of CHF 19.1 million were recorded in the balance sheet as prepaid expenses and equity. After the planned transaction had been prohibited by the German Federal Cartel Office (FCO) and after the "Oberlandesgericht Düsseldorf" had ruled that it does not have the power to grant interim relief in merger prohibition cases, the Group terminated the transaction to acquire the GN ReSound Group as of August 15, 2007. As a consequence, previously capitalized costs have been expensed in the reporting period.

The effect on the income statement can be summarized as follows: costs in the amount of CHF 26.9 million relating to the financing of the transaction (predominantly planned capital increase as well as financing costs) have been expensed and are included in "financial expenses" (refer Note 7). Additional acquisition-related costs (due diligence costs, legal costs) in the amount of CHF 8.0 million have been expensed and are included in "other operating expenses".

The negative exchange result in the reporting period is primarily driven by the weakening of the US Dollar and Euro against the Swiss Franc.

7. Financial (expenses)/income, net

1,000 CHF	2007/08	2006/07
Gain on financial assets	4	203
Interest income	10,260	5,815
Other financial income	1,068	3,023
Total financial income	**11,332**	**9,041**
Mortgage interest	(16)	(163)
Other interest expenses	(2,820)	(302)
Other financial expenses	(30,290)	(2,996)
Total financial expenses	**(33,126)**	**(3,461)**
Total	**(21,794)**	**5,580**

Other interest expenses primarily consist of present value adjustments on loans given to business partners.

Other financial expenses mainly include the non-recurring cost items relating to the financing (predominantly planned capital increase as well as financing costs) of the prohibited transaction to acquire the GN ReSound Group in the amount of CHF 26.9 million (refer Note 6).

8. Taxes

1,000 CHF	2007/08	2006/07
Income taxes	47,269	49,585
Change in deferred taxes	(18,106)	(8,255)
Total tax expense	**29,163**	**41,330**

Reconciliation of tax expense		
Income before taxes	303,303	284,205
Weighted average expected tax rate	12.5 %	15.2 %
Tax at weighted average rate	**37,892**	**43,204**
+/– Effects of		
Expenses/(income) not subject to tax	(564)	(443)
Changes of unrecognized loss carryforwards	2,240	1,574
Change in tax rates on deferred tax balances	649	(3,408)
Prior year (income)/expense and other items	(11,054)	403
Total tax expense	**29,163**	**41,330**
Weighted average effective tax rate	9.6 %	14.5 %

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.

An uncertain tax situation in connection with an acquisition could be solved in the reporting period. The Group therefore released a provision which was set up several years ago in the amount of CHF 9.8 million (included in "prior year (income)/expense and other items"). Due to this effect and a change in the country mix of the taxable profit, the weighted average effective tax rate was reduced to 9.6%.

Composition of deferred tax assets and liabilities	31.3.2008		31.3.2007	
1,000 CHF	Assets	Liabilities	Assets	Liabilities
Tax loss carryforwards	20,305		13,438	
Financial assets				320
Receivables	1,738	2,709	1,592	1,988
Inventories incl. allowances	30,750	4,078	32,009	1,480
Property, plant & equipment	802	5,816	457	6,242
Intangible assets	2,863	13,547	1,780	11,853
Provisions	14,392	5,799	15,920	2,865
Other liabilities	4,799	2,465	2,693	14,660
Deferred taxes	**75,649**	**34,414**	**67,889**	**39,408**

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

Movements in deferred taxes 1,000 CHF	**2007/08**	2006/07
Changes through business combinations	(937)	(6,505)
Deferred taxes recognized in the income statement	18,106	8,255
Exchange differences	(4,415)	(990)
Total changes in deferred taxes	**12,754**	**760**

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	**31.3.2008**	31.3.2007
Within 1–3 years	8,421	
Within 4 years	3,720	2,588
Within 5 years	770	3,091
More than 5 years	12,189	13,844
Total	**25,100**	**19,523**

9. Earnings per share

Basic 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	**2007/08**	2006/07
Income after taxes (1,000 CHF)	273,349	241,629
Weighted average number of outstanding shares	66,886,784	66,427,741
Basic earnings per share (CHF)	**4.087**	**3.637**

Diluted earnings per share

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 2008 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	2007/08	2006/07
Income after taxes (1,000 CHF)	273,349	241,629
Weighted average number of outstanding shares	66,886,784	66,427,741
Adjustment for dilutive share options	708,031	881,195
Adjusted weighted average number of outstanding shares	67,594,815	67,308,936
Diluted earnings per share (CHF)	**4.044**	**3.590**

10. Dividend per share

The Board of Directors of Sonova Holding AG proposes to the Annual General Shareholders' Meeting, to be held on June 11, 2008, that a dividend of CHF 1.00 (previous year CHF 0.75) per share shall be distributed.

11. Cash and cash equivalents

1,000 CHF	31.3.2008	31.3.3007
Cash on hand	357	404
Current bank accounts	289,242	279,325
Time deposits	7,642	4,612
Total	**297,241**	**284,341**

The 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	31.3.2008	31.3.2007
Marketable securities	12,982	12,633
Positive replacement value of forward foreign exchange contracts	3,206	51,370
Total	**16,188**	**64,003**

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 are equal to their fair value at market prices.

13. Trade receivables

1,000 CHF	31.3.2008	31.3.2007
Trade accounts receivable	237,401	233,287
Provision for doubtful accounts	(10,901)	(10,855)
Total	**226,500**	**222,432**

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

1,000 CHF	31.3.2008	31.3.2007
Total trade accounts receivable, net	**226,500**	**222,432**
of which:		
Not overdue	167,978	162,523
Overdue 1 – 30 days	25,922	28,414
Overdue 31 – 90 days	17,529	16,031
Overdue 91 – 180 days	10,027	9,234
Overdue more than 181 days	5,044	6,230
Total trade accounts receivable, net	**226,500**	**222,432**

Provisions for doubtful accounts receivable are 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	2007/08	2006/07
April 1	**(10,855)**	**(8,629)**
Utilization or reversal of provisions for doubtful accounts	4,064	4,310
Set up of provisions for doubtful accounts	(4,980)	(6,371)
Changes through business combinations	(6)	(182)
Exchange differences	876	17
March 31	**(10,901)**	**(10,855)**

During 2007/08 the Group has utilized CHF 0.9 million (previous year CHF 0.6 million) of this provision to impair receivables.

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

1,000 CHF	31.3.2008	31.3.2007
CAD	16,704	17,953
CHF	18,885	17,386
EUR	89,513	76,065
GBP	10,772	10,565
USD	58,457	69,846
Other	32,169	30,617
Total trade accounts receivable, net	**226,500**	**222,432**

14. Other receivables and prepaid expenses

1,000 CHF	31.3.2008	31.3.2007
Other receivables	33,198	26,621
Prepaid expenses	14,794	23,571
Total	**47,992**	**50,192**

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	31.3.2008	31.3.2007
Raw materials and components	20,335	16,017
Work-in-process	43,282	38,225
Finished products (incl. purchased goods)	70,988	73,459
Allowances	(32,920)	(33,550)
Total	**101,685**	**94,151**

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

In 2007/08, CHF 300.8 million (previous year CHF 278.1 million) were recognized as an expense and included in “cost of sales”.

16. Property, plant & equipment

1,000 CHF					31.3.2008
	Land	Buildings	Total Land & Buildings	Plant & Equipment	Total
Cost					
Balance April 1	9,465	80,123	89,588	175,721	265,309
Changes through business combinations		180	180	1,961	2,141
Additions		1,808	1,808	36,247	38,055
Disposals	(27)	(196)	(223)	(9,807)	(10,030)
Exchange differences	(126)	(972)	(1,098)	(9,811)	(10,909)
Balance March 31	**9,312**	**80,943**	**90,255**	**194,311**	**284,566**
Accumulated depreciation					
Balance April 1	203	29,030	29,233	115,413	144,646
Additions		2,405	2,405	23,140	25,545
Disposals		(8)	(8)	(8,005)	(8,013)
Exchange differences	(6)	(424)	(430)	(5,573)	(6,003)
Balance March 31	**197**	**31,003**	**31,200**	**124,975**	**156,175**
Net book value					
Balance April 1	9,262	51,093	60,355	60,308	120,663
Balance March 31	**9,115**	**49,940**	**59,055**	**69,336**	**128,391**

1,000 CHF					31.3.2007
	Land	Buildings	Total Land & Buildings	Plant & Equipment	Total
Cost					
Balance April 1	9,260	78,755	88,015	166,569	254,584
Changes through business combinations	104	281	385	2,276	2,661
Additions	32	1,036	1,068	25,992	27,060
Disposals	(20)	(116)	(136)	(17,725)	(17,861)
Exchange differences	89	167	256	(1,391)	(1,135)
Balance March 31	**9,465**	**80,123**	**89,588**	**175,721**	**265,309**
Accumulated depreciation					
Balance April 1	197	26,791	26,988	110,341	137,329
Additions		2,269	2,269	21,956	24,225
Disposals		(43)	(43)	(16,134)	(16,177)
Exchange differences	6	13	19	(750)	(731)
Balance March 31	**203**	**29,030**	**29,233**	**115,413**	**144,646**
Net book value					
Balance April 1	9,063	51,964	61,027	56,228	117,255
Balance March 31	**9,262**	**51,093**	**60,355**	**60,308**	**120,663**

Tangible assets (buildings, plant and equipment) are insured against fire for a value of CHF 279.4 million (previous year CHF 256.3 million).

Pledged assets amounted to CHF 1.0 million (previous year CHF 1.2 million).

There are no assets held under finance leases.

Capital expenditures for plant and equipment under construction in the current financial year amounted to CHF 4.1 million (previous year CHF 3.5 million).

17. Investments in associates/joint ventures

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

1,000 CHF	**2007/08**	2006/07
Current assets	14,596	17,809
Non-current assets	19,720	25,287
Total assets	**34,316**	**43,096**
Current liabilities	(14,621)	(17,111)
Non-current liabilities	(11,397)	(18,681)
Total liabilities	**(26,018)**	**(35,792)**
Net assets	**8,298**	**7,304**
Income for the year	45,652	30,631
Expenses for the year	(49,779)	(33,837)
Loss for the year	**(4,127)**	**(3,206)**
Net book value as at year end	37,229	37,982
Share of loss recognized by the Group	(1,646)	(1,140)

In the financial year 2007/08, several acquisitions of investments in associates have been undertaken for a total purchase consideration of CHF 4.7 million (previous year CHF 33.9 million).

As of April 26, 2007 the 25% investment in Cochlear Acoustics Ltd. has been sold to its majority shareholder. As part of the sales transaction the Group has taken over some intellectual property rights. These assets will be used in the development of middle ear implants.

Sales to associates and joint ventures in the financial year 2007/08 amounted to CHF 13.9 million (previous year CHF 6.2 million).

At March 31, 2008 accounts receivable from associates and joint ventures amounted to CHF 3.0 million (previous year CHF 2.9 million).

Investments with a net book value of CHF 37.2 million have a business year different than the Sonova Group. The latest available information for the respective companies vary between December 2007 and February 2008.

18. Other non-current financial assets

1,000 CHF	31.3.2008	31.3.2007
Financial assets at fair value through profit or loss	5,510	4,771
Long-term loans to associates	14,331	21,929
Long-term loans to third parties	20,333	9,280
Total	**40,174**	**35,980**

Financial assets at fair value through profit or loss mainly 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 three other minority interests in third party companies.

Long-term loans are primarily denominated in CHF, EUR, CAD and GBP. The respective repayment periods vary between 13 months and five years and the interest rates vary between 4.9% and 7.8%.

19. Intangible assets

1,000 CHF					31.3.2008
	Goodwill	Software	Intangibles relating to acquisitions	Other intangibles	Total
Cost					
Balance April 1	241,518	21,281	40,912	1,336	305,047
Changes through business combinations	23,637	1	11,103		34,741
Additions	1,438	2,565	265	15,272	19,540
Disposals	(246)	(434)	(338)	(108)	(1,126)
Exchange differences	(22,855)	(1,532)	(5,367)	(157)	(29,911)
Balance March 31	**243,492**	**21,881**	**46,575**	**16,343**	**328,291**
Accumulated amortization					
Balance April 1		13,951	5,008	329	19,288
Additions		3,480	4,994	1,235	9,709
Disposals		(403)		(108)	(511)
Exchange differences		(1,118)	(1,019)	(18)	(2,155)
Balance March 31		**15,910**	**8,983**	**1,438**	**26,331**
Net book value					
Balance April 1	241,518	7,330	35,904	1,007	285,759
Balance March 31	**243,492**	**5,971**	**37,592**	**14,905**	**301,960**

1,000 CHF					31.3.2007
	Goodwill	Software	Intangibles relating to acquisitions	Other intangibles	Total
Cost					
Balance April 1	183,281	18,990	18,948	663	221,882
Changes through business combinations	63,305	609	22,635	17	86,566
Additions	1,167	3,631	801	551	6,150
Disposals		(2,042)			(2,042)
Exchange differences	(6,235)	93	(1,472)	105	(7,509)
Balance March 31	**241,518**	**21,281**	**40,912**	**1,336**	**305,047**
Accumulated amortization					
Balance April 1		12,139	1,183	181	13,503
Additions		3,926	3,878	125	7,929
Disposals		(1,994)			(1,994)
Exchange differences		(120)	(53)	23	(150)
Balance March 31		**13,951**	**5,008**	**329**	**19,288**
Net book value					
Balance April 1	183,281	6,851	17,765	482	208,379
Balance March 31	**241,518**	**7,330**	**35,904**	**1,007**	**285,759**

Other intangible assets include cost for the development of middle ear implants in the amount CHF 6.5 million, capitalized in the reporting period.

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

The Group has performed impairment tests on goodwill in the first half of the financial year 2007/08. 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 of the corresponding cash-generating unit. 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 cost to sell; 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 five-year period. Cash flows beyond the five-year period are extrapolated using the estimated long-term growth rates stated below. The long-term growth rates are below the long-term average growth rate for the hearing instruments industry in which the cash-generating units operate. Gross margin is projected to remain constant.

Key assumptions used for value-in-use calculations of material goodwill amounts:

1,000 CHF

	Carrying amount of goodwill	Currency	Basis for recoverable amount	Discount rate	Projection period	Long-term growth rate
Unitron Group	59,509	Multiple	Value in use	9 %	5 years	1.00 %
Hansaton	33,198	EUR	Value in use	8 %	5 years	1.00 %
Lapperre	15,668	EUR	Value in use	8 %	5 years	0.50 %
Phonak Ibérica	8,020	EUR	Value in use	8 %	5 years	1.00 %
CAS Produtos Médicos	14,471	BRL	Value in use	18 %	5 years	1.00 %
Metro Hearing	14,802	USD	Value in use	9 %	5 years	1.00 %
National Hearing Services	34,603	CAD	Value in use	9 %	5 years	1.00 %
Hearing Retail Group	9,446	AUD	Value in use	8 %	5 years	1.00 %

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

Based on the impairment tests performed in the first half of the reporting period, 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 any of the cash-generating units.

20. Provisions

1,000 CHF				31.3.2008				31.3.2007
	Provision for warranty and returns	Other provisions	Earn-out provisions	Total	Provision for warranty and returns	Other provisions	Earn-out provisions	Total
Balance April 1	41,686	34,336	34,657	110,679	33,229	28,816	16,591	78,636
Changes through business combinations	64	49		113	621	1,323		1,944
Amounts used	(16,394)	(30,795)	(7,679)	(54,868)	(24,933)	(17,063)	(1,249)	(43,245)
Reversals	(1,243)	(1,079)	(397)	(2,719)	(2,233)	(3,237)		(5,470)
Increases	18,625	16,144	6,264	41,033	35,876	25,226	16,730	77,832
Present value adjustments			2,233	2,233			2,828	2,828
Exchange differences	(5,188)	(1,826)	(3,205)	(10,219)	(874)	(729)	(243)	(1,846)
Balance March 31	**37,550**	**16,829**	**31,873**	**86,252**	**41,686**	**34,336**	**34,657**	**110,679**
thereof short-term	28,523	11,867	6,817	47,207	33,305	22,656	7,514	63,475
thereof long-term	9,027	4,962	25,056	39,045	8,381	11,680	27,143	47,204

On average, the Group grants a 15 months warranty period for its products. 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 three 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.

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

21. Short-term debts

1,000 CHF	31.3.2008	31.3.2007
Current maturities of mortgages	144	25
Other short-term debts	576	39
Total	**720**	**64**
Unused borrowing facilities	63,459	63,271

The book value of short-term debts approximates to fair value.

22. Other short-term liabilities

1,000 CHF	31.3.2008	31.3.2007
Other payables	25,728	15,601
Accrued expenses	84,966	83,835
Deferred income	7,174	6,254
Total	**117,868**	**105,690**

Other payables include 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.

Accrued expenses for vacation pay relate to both unutilized holiday days as well as to payments for holidays required by law of certain countries.

23. Non-current financial liabilities

1,000 CHF	31.3.2008	31.3.2007
Mortgages	331	366
Other non-current financial liabilities	703	94
Total	**1,034**	**460**

The mortgages are secured by liens on the related real estate. The principal amount bears interest at 3.4% per annum. The fair value of the mortgages approximates to book value.

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

Analysis by currency 1,000 CHF			31.3.2008			31.3.2007
	Mortgages	Other non-current financial liabilities	Total	Mortgages	Other non-current financial liabilities	Total
CHF		282	282		94	94
EUR		183	183			
DKK	331		331	366		366
USD		50	50			
CAD		168	168			
NZD		20	20			
Total	**331**	**703**	**1,034**	**366**	**94**	**460**

24. Financial risk management and financial instruments

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 annually approved by the Board of Directors 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, relating in particular to inter-company sales and the settlement of inter-company loans, forward currency contracts and options are entered into.

Foreign currency sensitivity analysis

A 5% strengthening/weakening of the following currencies against the Swiss Franc as of March 31, 2008 and 2007 would have had the 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	2007/08	2006/07	2007/08	2006/07
	Impact on income after taxes		Impact on equity	
Change in USD / CHF +5 %	2,714	1,294	3,203	2,644
Change in USD / CHF –5 %	(2,571)	(1,327)	(3,203)	(2,644)
Change in EUR / CHF +5 %	6,067	5,700	303	426
Change in EUR / CHF –5 %	(6,115)	(6,237)	(303)	(426)

Interest rate risk

As the Group has no material long-term interest bearing assets and liabilities, Sonova Group has only limited exposure to interest rate changes.

The most substantial exposure on assets relates to cash and cash equivalents with an average interest bearing amount for the financial year 2007/08 of CHF 298 million (previous year CHF 194 million). If interest rates during the financial year 2007/08 had been 1% higher/lower on these accounts, income after taxes would have been CHF 2.6 million higher/lower (previous year CHF 1.7 million).

No derivative instruments have been used to hedge against changes in interest rates, except for extraordinary interest rate hedges in connection with the prohibited acquisition of the GN ReSound Group (refer to interest rate hedge on page 92). However, the interest situation and hedging possibilities are continuously monitored.

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 (1.0 % of total assets as of March 31, 2008) 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, 2008, 72 % 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 'AA' 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 but the Group assesses its customers taking into account its financial positions, past experience and other factors. Due to the fragmented customer base (no single debtor balance above 2% 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 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 net cash/debt position and to ensure that the Group's obligations can be settled on time. The Group aims to grow 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.

The following table summarizes the contractual maturities of financial liabilities as of March 31, 2008 and 2007:

1,000 CHF					31.3.2008
	Due < 3 months	**3 months to 1 year**	**1 – 5 years**	**Due > 5 years**	**Total**
Current financial liabilities					
Short-term debts	505	215			720
Derivatives – negative replacement value	28				28
Trade and other short-term liabilities	103,146	22,225			125,371
Total current financial liabilities	**103,679**	**22,440**			**126,119**
Non-current financial liabilities					
Mortgages			97	234	331
Other non-current financial liabilities			703		703
Total non-current financial liabilities			**800**	**234**	**1,034**
Total financial liabilities	**103,679**	**22,440**	**800**	**234**	**127,153**

1,000 CHF					31.3.2007
	Due < 3 months	**3months to 1 year**	**1 – 5 years**	**Due > 5 years**	**Total**
Current financial liabilities					
Short-term debts	18	46			64
Derivatives – negative replacement value	348				348
Trade and other short-term liabilities	90,398	21,080			111,478
Total current financial liabilities	**90,764**	**21,126**			**111,890**
Non-current financial liabilities					
Mortgages			100	266	366
Other non-current financial liabilities			94		94
Total non-current financial liabilities			**194**	**266**	**460**
Total financial liabilities	**90,764**	**21,126**	**194**	**266**	**112,350**

Hedge accounting

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 (Note 12) whereas negative replacement values are recorded as financial liabilities at fair value through profit or loss.

As of March 31, 2008, the following currency contracts with the following notional and fair values were open:

1,000 CHF	Notional amount of forward contracts / derivatives – remaining life					Fair value
	Due < 3 months	3 months to 1 year	1 – 5 years	Due > 5 years	Total	Total
Currency instruments with						
Positive replacement values	61,479	10,500			71,979	3,206
Negative replacement values	31,688				31,688	(28)
Total	**93,167**	**10,500**			**103,667**	**3,178**

As of March 31, 2007, the following currency contracts with the following notional and fair values were open:

1,000 CHF	Notional amount of forward contracts / derivatives – remaining life					Fair value
	Due < 3 months	3 months to 1 year	1 – 5 years	Due > 5 years	Total	Total
Currency instruments with						
Positive replacement values	21,919	3,294,143			3,316,062	51,370
Negative replacement values	97,489				97,489	(348)
Total	**119,408**	**3,294,143**			**3,413,551**	**51,022**

In connection with the prohibited acquisition of the GN Resound Group, the Group had entered into contingent cash flow hedges in the financial year 2006/07:

Interest rate hedge

For a total amount of CHF 500 million the Group had entered into contracts to hedge part of the fluctuation risk of interest rates in connection with the debt financing of the prohibited acquisition of the GN ReSound Group (total purchase price to be financed by debt equaled CHF 1,500 million). Corresponding hedge contracts had a duration of two to three years.

As the acquisition was not closed the contracts lapsed without costs for the Group. The hedges did not qualify for hedge accounting, hence the positive replacement values have been recognized in the income statement 2006/07 as financial income.

Currency rate hedge

The foreign exchange rate contract was denominated in DKK and the underlying principal amount equaled DKK 15,500 million. The contract was planned to mature at the day of the closing of the GN ReSound Group acquisition. As the acquisition could not be closed, the contract lapsed without costs for the Group. Up to mid of January 2007, the hedge contract fulfilled the criteria for hedge accounting under IAS 39. Given the ongoing discussion with the German Federal Cartel Office, from mid January 2007 on, the hedge did no longer qualify for hedge accounting under IAS 39. The change in the positive replacement value in the financial year 2006/07 has been recognized in other financial income (see Note 7). The ineffective portion relating to this contingent cash flow hedge up to mid January 2007 amounted to CHF 1.9 million and was included in financial expenses.

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 around CHF 800 million.

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

To maintain investor confidence, without compromising the future development of the business, the Group initiated a share buy-back program in 2007. The program allows Sonova Group to return its cash not used for operations and funds generated from future free cash flows to its shareholders. Due to the solid financial position of Sonova, this share buy-back program will not impact the financial flexibility for further internal and external expansion.

25. Other long-term liabilities

1,000 CHF	31.3.2008	31.3.2007
Long-term deferred income	8,997	9,018
Retirement benefit obligations	1,420	1,741
Total	**10,417**	**10,759**

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 Each share has a nominal value of CHF 0.05	Issued registered shares	Treasury shares[1]	Outstanding shares
Balance March 31, 2006	**66,360,925**	**(34,633)**	**66,326,292**
Issue of new shares from conditional capital[2]	764,219		764,219
Purchase of treasury shares		(142,916)	(142,916)
Sale of treasury shares		133,205	133,205
Balance March 31, 2007	**67,125,144**	**(44,344)**	**67,080,800**
Issue of new shares from conditional capital[2]	326,362		326,362
Purchase of treasury shares		(326,911)	(326,911)
Sale of treasury shares		160,080	160,080
Purchase of shares intended to be cancelled[3]		(1,017,800)	(1,017,800)
Balance March 31, 2008	**67,451,506**	**(1,228,975)**	**66,222,531**

Nominal value of share capital 1,000 CHF	Share Capital	Treasury shares[1]	Outstanding share capital
Balance March 31, 2006	**3,318**	**(2)**	**3,316**
Issue of new shares from conditional capital[2]	38		38
Purchase of treasury shares		(7)	(7)
Sale of treasury shares		7	7
Balance March 31, 2007	**3,356**	**(2)**	**3,354**
Issue of new shares from conditional capital[2]	17		17
Purchase of treasury shares		(16)	(16)
Sale of treasury shares		8	8
Purchase of shares intended to be cancelled[3]		(51)	(51)
Balance March 31, 2008	**3,373**	**(61)**	**3,312**

[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 Shareholders’ Meetings on November 18, 1994, July 13, 2000 and July 7, 2005, a conditional share capital of a maximum of 11,301,120 shares had been approved. As of March 31, 2008, 7,157,414 (previous year 7,483,776) shares thereof have not yet been issued.

The Annual General Shareholders’ Meeting held on June 12, 2007, approved the creation of authorized share capital of 3,356,260 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 3,356,260 registered shares created on June 12, 2007, 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 12, 2009.

27. Acquisitions of subsidiaries

During financial year 2007/08, the Group entered into several individually not material business combinations. The companies acquired are operating in Asia, Australia, Europe, North America and South Africa and are all in the business of selling hearing instruments.

During financial year 2006/07, the Group entered into the following significant business combination:

Name	Place	Date	Structure	Purpose	Business acquired
National Hearing Services Inc.	Canada	1.4.2006	Share deal (100 %)	Sale of hearing instruments	Hearing instruments business

In addition to the above, several smaller companies were acquired during the financial year 2006/07 in Europe, North America and Australia. The purpose of these companies is the sale of hearing instruments.

All acquisitions have been accounted for applying the purchase method of accounting.

Assets and liabilities resulting from the acquisitions look as follows:

1,000 CHF	Notes	2007/08		2006/07	
		Fair value	Carrying amount before acquisition	Fair value	Carrying amount before acquisition
Current assets		13,345	13,343	11,684	11,649
Property, plant & equipment	16	2,141	2,140	2,661	2,600
Intangible assets	19	11,104	9,613	23,261	12,169
Other non-current assets		1,425	26	1,913	1,676
Current liabilities		(6,135)	(6,137)	(8,083)	(8,083)
Non-current liabilities		(9,917)	(7,556)	(20,834)	(14,092)
Net assets		**11,963**	**11,429**	**10,602**	**5,919**
Minority interests		(1,306)			
Net assets net of minority interests		**10,657**		**10,602**	
Goodwill	19	23,637		63,305	
Purchase price incl. acquisition-related costs		**34,294**		**73,907**	
For which the Group recorded a long-term provision for earn-out or holdback		(5,014)		(15,654)	
Cash consideration		**29,280**		**58,253**	
Cash and cash equivalents acquired		(4,347)		(4,726)	
Cash consideration, net of cash acquired		**24,933**		**53,527**	
Cash outflow for investments in associates, minority shareholdings and earn-out payments		**11,510**		**33,464**	
Total cash outflow from acquisitions		**36,443**		**86,991**	

Contribution of acquired companies from acquisition to	31.3.2008	31.3.2007
Sales	10,809	47,753
Net income	(826)	2,322

Contribution, if the acquisitions would have occurred on April 1	2007	2006
Sales	21,822	55,620
Net income	(2,370)	3,176

In the financial statements 2006/07, net assets with a fair value of CHF 0.2 million, goodwill of CHF 28.9 million and cash consideration, net of cash acquired of CHF 23.0 million, related to the acquisition of National Hearing Services Inc.

The initial accounting for several small 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.

28. Related party transactions

1,000 CHF	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07
	Management Board		Board of Directors		Total	
Short-term employee benefits	7,843	6,298	950	866	8,793	7,164
Share based payments	5,224	11,678	1,500	1,063	6,724	12,741
Total	**13,067**	**17,976**	**2,450**	**1,929**	**15,517**	**19,905**

Total compensation to the Management Board, as shown above, relates to 11 members (previous year 10 members).

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

Phonak AG had a sponsorship agreement with ARcycling Ltd. effective until December 31, 2006. The corresponding expenses included in the consolidated income statement 2006/07 amounted to CHF 1.9 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 2.4 of the parent company accounts.

29. Employee benefits

Sonova Group's retirement plans include defined benefit pension plans in Switzerland, Austria, Canada, Germany and Norway. 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	31.3.2008	31.3.2007
Present value of funded obligations	(132,323)	(111,261)
Fair value of plan assets	132,815	115,488
Net present value of funded plan	**492**	**4,227**
Present value of unfunded obligations	(993)	(1,334)
Total (liabilities)/assets, net	**(501)**	**2,893**
Amount unrecognized in line with IAS 19.58b(ii)	(919)	(4,634)
Liabilities in the balance sheet, net	**(1,420)**	**(1,741)**
Amounts in the balance sheet:		
Liabilities	(1,420)	(1,741)
Assets		
Assets/(liabilities) in the balance sheet, net	**(1,420)**	**(1,741)**

Statement of recognized income and expense (SORIE) CHF 1,000	**2007/08**	2006/07
Asset limitation of change in funded plans	(3,715)	(1,200)
Actuarial (gain)/loss on obligations	(3,620)	424
Actuarial loss on plan assets	7,286	1,523
Net effect in statement of recognized income and expense	**(49)**	**747**

Cumulative actuarial (gain)/loss recognized in SORIE CHF 1,000	**2007/08**	2006/07
Recognized actuarial loss at beginning of period	3,020	1,060
Actuarial loss charged for the year	3,666	1,946
Cumulative actuarial loss recognized in SORIE	**6,686**	**3,006**

Amounts recognized in the income statement CHF 1,000	**2007/08**	2006/07
Service cost	14,870	12,014
Participants' contributions	(5,830)	(4,720)
Interest cost	3,689	3,242
Expected return on plan assets	(4,626)	(4,133)
Total employee benefit expenses	**8,103**	**6,403**

The amount recognized in the consolidated income statement 2007/08 has been charged to cost of sales (CHF 2.7 million, previous year CHF 2.1 million), research and development (CHF 2.3 million, previous year CHF 1.7 million), sales and marketing (CHF 1.2 million, previous year CHF 1.1 million) as well as general and administration (CHF 1.9 million, previous year CHF 1.5 million) in the income statement.

Movement in the defined benefit obligation CHF 1,000	**2007/08**	2006/07
Beginning of the year	112,595	98,778
Interest cost	3,689	3,242
Current service cost	14,870	12,014
Benefits received/(paid), net	5,834	(1,937)
Actuarial (gain)/loss on obligation	(3,620)	424
Exchange differences	(52)	74
Present value of obligation at end of period	**133,316**	**112,595**

Movement in the fair value of the plan assets CHF 1,000	2007/08	2006/07
Beginning of the year	115,488	103,366
Expected return on plan assets	4,626	4,133
Employer's contributions paid	8,021	6,618
Participants' contributions	5,830	4,720
Benefits received /(paid), net	6,151	(1,833)
Actuarial loss on plan assets	(7,286)	(1,523)
Exchange differences	(15)	7
Fair value of plan assets at end of period	**132,815**	**115,488**

Principal actuarial assumptions (weighted average)	2007/08	2006/07
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:	31.3.2008	31.3.2007
Cash	6.5 %	6.0 %
Domestic bonds	22.6 %	28.7 %
Foreign bonds	8.5 %	8.3 %
Domestic equities	16.0 %	15.4 %
Foreign equities	18.8 %	16.7 %
Real estates	11.3 %	12.0 %
Alternative investments	16.3 %	12.9 %

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 –2.7 million (previous year CHF 2.6 million).

The expected employer's contributions to be paid in the financial year 2008/09 amount to CHF 8.7 million.

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

CHF 1,000	31.3.2008	31.3.2007	31.3.2006	31.3.2005	31.3.2004
Present value of defined benefit obligation	(133,316)	(112,595)	(98,778)	(83,823)	(72,590)
Fair value of plan assets	132,815	115,488	103,366	85,257	72,728
(Deficit)/Surplus	**(501)**	**2,893**	**4,588**	**1,434**	**138**
Experience adjustments on plan liabilities	3,620	(424)	(2,823)	(739)	(2,257)
Experience adjustments on plan assets	(7,286)	(1,523)	4,898	(1,203)	1,963

Defined contribution plans

Several of the Group's entities have a defined contribution plan. The employer's contributions amounting to CHF 5.9 million in the year ended March 31, 2008 (previous year CHF 5.0 million) are recognized directly in the income statement.

Termination benefits

During financial years 2007/08 and 2006/07, no termination benefits have been expensed.

30. Employee share option and share purchase plans

Up to financial year 2003/04, members of the Board of Directors of Sonova Holding AG, the Management Board as well as management and senior employees of other Group Companies annually received a certain number of options on the shares of Sonova Holding AG in accordance with the "Key People Program" established in 1997. In February 2005, 2006, 2007 and again in February 2008, the Group launched an Executive Equity Award Program (EEAP) for the Board of Directors of Sonova Holding AG, for the Management Board as well as for the management and senior employees of other Group Companies. In addition in February 2005, 2006 and 2007 the Group launched a Share Purchase Plan (SPP) for the Group's employees.

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

1,000 CHF	2007/08	2006/07
Equity-settled share-based payment costs	16,602	10,666
Cash-settled share-based payment costs	411	70
Total share-based payment costs	**17,013**	**10,736**

Key people Program (granted between 2000 and 2004)

Members of the Board of Directors of Sonova Holding AG, the Management Board as well as management and senior employees of other Group Companies annually received a certain number of options on the shares of Sonova Holding AG in accordance with the "Key People Program" established in 1997. This was basically unde the condition that the respective employees had been employed by the Sonova Group for a period of generally at least two years. The options were granted for no consideration and each option entitled the holder to one Sonova share after a lock-up period of generally two or three years at a predefined exercise price. The exercise price corresponds to the average market price over the last one or three months immediately prior to the month of the grant. Also, in accordance with special agreements, key people within the Sonova Group were granted options, partially with and partially without consideration. The shares required for the share option plan were issued from the conditional share capital which was created by resolutions of the 2000 Annual General Shareholders' Meeting in accordance with Article 3a of Sonova Holding AG's articles of incorporation.

Executive Equity Award Plan (EEAP) (granted 2005, 2006, 2007 and 2008)

The Executive Equity Award Plan is offered annually to the Board of Directors, to the Management Board as well as to management and senior employees of other Group Companies, entitling them to receive options, warrants and/or shares free of charge. Compared to the previous years, the EEAP plan 2008 was amended in the way that instead of options (respectively Share Appreciation Rights (SARs) for the plan legitimated U.S. Persons), warrants have been granted to the legitimated persons (Warrant Appreciation Rights (WARs) for the plan legitimated U.S.Persons). The amount of options, SARs, WARs and/or shares granted varies depending on the degree of management responsibility held. Options, warrants, SARs, WARs and shares granted as part of the EEAP are split into four equal tranches. For the options, warrants, SARs and WARs, one tranche vests annually over four years. The first tranche is vested one year after the grant date. The shares are blocked over four years, one tranche being released each year, starting one year after the grant date.

Options – Executive Equity Award Plan (granted 2005, 2006 and 2007)

The exercise price of the options is generally equal to the market price of the Sonova share at the SWX Swiss Exchange at grant date. The fair value of the options 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. The options may be exercised between the end of the vesting period and the expiration date of the options. If options are exercised, shares are issued from the conditional share capital.

Warrants – Executive Equity Award Plan (granted 2008)

The exercise price of the warrants is generally equal to the market price of the Sonova share at the SWX Swiss Exchange at grant date. The fair value of the warrants is based on market price at the grant date and recorded as an expense over the 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. The tradable warrants may be sold between the end of the vesting period and the expiration date of the warrants. If the warrants are exercised, shares are issued from the conditional share capital in the relation 25:1.

The following table shows the assumptions on which the valuation of warrants and share options granted during the last two periods was based:

	Executive Equity Award Plan 2008	Executive Equity Award Plan 2007
Valuation date	1.2.2008	1.2.2007
Expiration date	28.2.2013	31.1.2012/28.2.2012
Share price on grant date	CHF 96.00	CHF 95.05
Exercise price	CHF 96.00	CHF 95.05
Volatility	26.6 %	22.7 %
Expected dividend yield	0.73%	0.75%
Weighted risk free interest rate	2.5 %	2.5 %
Fluctuation rate	0.5 %	0.5 %
Weighted average fair value of options issued	**CHF 25.00**	**CHF 18.43**

The fair value of warrants and share options at grant date was determined either by the market price or using a binomial option pricing model.

The expected volatility is based on market volatility and represents the actual market volatility of the traded warrants.

Outstanding options/warrants – Key People Program and Executive Equity Award plan

Changes in outstanding options/warrants:	2007/08		2006/07	
	Number of options/ warrants[2]	Weighted average exercise price (CHF)	Number of options	Weighted average exercise price (CHF)
Outstanding options at April 1	2,007,539	64.08	1,942,693	38.57
Granted	436,224	96.00	829,315	95.05
Exercised[1]	(326,362)	27.98	(764,219)	33.29
Forfeited	(37,439)	66.61	(250)	39.00
Outstanding options at March 31	**2,079,962**	**76.88**	**2,007,539**	**64.08**
Exercisable at March 31	**431,743**	**55.40**	**294,471**	**35.00**

[1] Total consideration from exercise of options amounted to CHF 9.1 million (previous year CHF 25.4 million).
The weighted average share price of the options exercised during the year 2007/08 was CHF 110.21 (previous year CHF 93.52).

[2] Number of warrants have been adjusted according to exercise ratio 25:1.

Summary of outstanding and exercisable options/warrants at March 31, 2008:	Outstanding options/warrants			Exercisable options	
Exercise price range (CHF)	Number	Average remaining life (years)	Weighted average exercise price (CHF)	Number	Weighted average exercise price (CHF)
28.00	50,675	1.0	28.00	50,675	28.00
39.00	446,825	2.3	39.00	177,400	39.00
63.25	305,368	2.8	63.25	118,840	63.25
95.05	891,160	4.2	95.05	84,828	95.05
96.00	385,934	4.9	96.00		
28.00 – 96.00	**2,079,962**	**3.7**	**76.88**	**431,743**	**55.40**

Warrant Appreciation Rights (WARs) – Executive Equity Award Plan (granted 2008)

The exercise price of the WARs is generally equal to the market price of the Sonova share at the SWX Swiss Exchange at grant date. Upon exercise of a WAR, a participant shall be paid, in cash, an amount equal to the products of the number of shares for which the participant exercised WARs, 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). The fair value of the WARs is based on market price 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 may be sold between the end of the vesting period and the expiration date of the WARs.

The carrying amount of the liability relating to the WARs at March 31, 2008 is CHF 0.4 million. No WARs had vested at March 31, 2008.

Changes in outstanding WARs:	2007/08
	Number of WARs
Outstanding WARs at April 1	
Granted	44,400
Released	
Forfeited	
Outstanding WARs at March 31	**44,400**
Exercisable at March 31	**0**

Share Appreciation Rights (SARs) – Executive Equity Award Plan (granted 2007)

The exercise price of the SARs is generally equal to the market price of the Sonova share at the SWX Swiss Exchange at grant date. Upon exercise of a SAR, a participant shall be paid, in cash, an amount equal to the products of the number of shares for which the participant exercised 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 SARs). The fair value of the SARs is estimated at the grant date 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 SARs may be exercised after expiration of the vesting period during the term of the options which is five years from the date the SARs are granted.

The carrying amount of the liability relating to the SARs at March 31, 2008 is CHF 0.3 million and the remaining life is four years.

Changes in outstanding SARs:	2007/08		2006/07	
	Number of SARs	Weighted average exercise price (CHF)	Number of SARs	Weighted average exercise price (CHF)
Outstanding SARs at April 1	31,600	95.05		
Granted			31,600	95.05
Exercised				
Forfeited	(3,200)	95.05		
Outstanding SARs at March 31	**28,400**	**95.05**	**31,600**	**95.05**
Exercisable at March 31[1]	**7,100**	**95.05**	**0**	**0**

[1] The intrinsic value of the SARs exercisable at March 31, 2008 amounts to CHF 0 (prior year CHF 0).

Shares – Executive Equity Award Plan (granted 2005, 2006, 2007 and 2008)

The value of an individual share granted is equal to the market price on the SWX Swiss Exchange on the grant date. The shares are subject to a blocking period, which starts on the date the shares are granted. The shares delivered under this plan are shares repurchased by the Group on the open stock market. The cost of the shares granted as part of the EEAP program is expensed pro rata temporis 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:	2007/08	2006/07
	Number of shares	Number of shares
Restricted shares at April 1	**156,377**	**144,908**
Granted	63,999	60,051
Released	(55,035)	(43,257)
Forfeited	(4,631)	(5,325)
Restricted shares at March 31	**160,710**	**156,377**

Share Purchase Plan (granted 2006 and 2007)

In the financial years 2005/06 and 2006/07 a Share Purchase Plan (SPP) was offered annually to permanent employees of the Group, having completed their probationary period. A participant could purchase up to a maximum number of shares. For every two shares purchased, the participant received one additional share free of charge. The purchase price of the shares was generally equal to the market price on the SWX Swiss Exchange on the date the shares were purchased and the additional shares were accepted. The shares under this plan are subject to a blocking period which is in line with the vesting period commencing on the expiry date of the offer. The duration of the blocking period may be up to 24 months. All shares under this plan (the shares purchased by the participant and the share offered) were repurchased by Sonova on the open stock market. The cost of the shares offered as part of the SPP program is charged pro rata temporis over the blocking period to the income statement. Assumptions are made regarding the forfeiture rate which is adjusted during the blocking period to ensure that in the end only a charge for vested amounts occurred.

31. Contingent liabilities

At March 31, 2008 and 2007, there were no pledges given to third parties other than in relation to mortgages secured by properties (see Note 23) in an amount of CHF 0.3 million (previous year CHF 0.4 million). The net book value of these properties remained at CHF 0.8 million at March 31, 2008 (previous year CHF 0.8 million).

Guarantees issued to third parties decreased to CHF 3.5 million (previous year CHF 10.6 million). There were no recourse liabilities in respect of discounted bills of exchange at March 31, 2008 and 2007. Open purchase orders as of March 31, 2008 and 2007 were related to recurring business activities.

32. Leasing liabilities

At March 31, 2008 the following non-cancellable minimum operating lease obligations existed:

Business Year 1,000 CHF	**31.3.2008**	31.3.2007
2007/08		13,653
2008/09	13,714	10,192
2009/10	10,434	7,376
2010/11	8,234	6,450
2011/12	6,358	5,142
2012/13	5,037	3,248
thereafter	11,050	1,088
Total	**54,827**	**47,149**

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

In financial year 2007/08, CHF 21.9 million have been recognized as expenses for leases in the consolidated income statement (previous year CHF 17.7 million).

As of March 31, 2008 and 2007, the Group had no financial lease obligations.

33. Number of employees

At March 31, 2008, the Sonova Group employed 4,746 people (previous year 4,023). They were engaged in the following regions and activities:

By region	31.3.2008	31.3.2007
Switzerland	924	844
Europe (excl. Switzerland)	1,056	915
Americas	1,684	1,545
Asia/Pacific	1,071	719
Africa	11	
Total	**4,746**	**4,023**

By activity		
Research and development	276	232
Operations	2,047	1,748
Sales and marketing, general and administration	2,423	2,043
Total	**4,746**	**4,023**

The average number of employees of the Sonova Group for the year was 4,351 (previous year 3,813). Total personnel expenses for the financial year 2007/08 amounted to CHF 364.0 million (previous year CHF 316.0 million).

34. Exchange rates

Mainly, the following exchange rates were used for currency translation:

	31.3.2008	31.3.2007	2007/08	2006/07
	Year-end rates Balance sheet		Average rates for the year Income statement	
AUD 1	0.92	0.99	1.00	0.95
BRL 1	0.57	0.59	0.62	0.58
CAD 1	0.98	1.06	1.12	1.09
CNY 1	0.14	0.16	0.16	0.16
EUR 1	1.57	1.62	1.64	1.59
GBP 1	1.99	2.39	2.33	2.34
JPY 100	0.99	1.03	1.01	1.06
USD 1	1.00	1.22	1.16	1.24

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	3,373	
Phonak AG	A, B, C, D	Stäfa	CHF	2,500	99.3 %
Phonak Hearing Systems AG	B	Stäfa	CHF	100	100 %
Phonak Communications AG	B, C, D	Murten	CHF	500	100 %
Indomed AG	A	Zug	CHF	1,000	100 %
Phonak Acoustic Implants SA	D	Lonay	CHF	1,000	100 %
Indomed Hearing Systems GmbH	B	Stäfa	CHF	20	100 %
Europe (excluding Switzerland)					
Phonak GmbH	B	Fellbach-Oeffingen (DE)	EUR	25	100 %
Unitron Hearing GmbH	B	Fellbach-Oeffingen (DE)	EUR	41	100 %
Phonak France SA	B	Bron-Lyon (FR)	EUR	305	100 %
Phonak Italia Srl	B	Milan (IT)	EUR	1,040	100 %
Phonak Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100 %
Ets. Lapperre BHAC NV	B	Groot-Bijgaarden (BE)	EUR	124	100 %
Phonak Belgium NV	A, B	Dilbeek (BE)	EUR	15,311	100 %
Phonak B.V.	B	Nieuwegein (NL)	EUR	227	100 %
Unitron Hearing B.V.	B	Nieuwegein (NL)	EUR	18	100 %
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450	100 %
Phonak Danmark A / S	B	Frederiksberg (DK)	DKK	9,000	100 %
HIMSA A / S	D	Copenhagen (DK)	DKK	1,000	25 % 1)
Phonak AB	B	Stockholm (SE)	SEK	200	100 %
Unitron Hearing AB	B	Stockholm (SE)	SEK	100	100 %
Phonak AS	B	Oslo (NO)	NOK	900	100 %
Unitron Hearing AS	B	Oslo (NO)	NOK	100	100 %
Phonak Group Ltd.	B	Warrington (UK)	GBP	150	100 %
Phonak Polska Sp. Z o.o.	B	Warsaw (PL)	PLN	100	100 %
Phonarium Szolgáltató Kft.	B	Budapest (HU)	HUF	3,000	49 % 1)
Phonak CIS Ltd.	B	Moscow (RU)	RUB	4,000	100 %

Company name	Activity	Domicile	Share capital Local currency 1,000		Shares held
Americas					
Phonak LLC	B	Warrenville (US)	USD	1,250	100 %
Unitron Hearing, Inc.	B	Plymouth (US)	USD	46,608	100 %
Phonak Canada Ltd.	A, B	Mississauga (CA)	CAD	88,694	100 %
Unitron Hearing Ltd.	B, C, D	Kitchener (CA)	CAD	17,436	100 %
National Hearing Services Inc.	B	Victoria (CA)	CAD	7,500	100 %
THC Finance Ltd.	A	Bermuda (BM)	CHF	21	100 %
CAS Produtos Médicos Ltda.	B	Sao Paulo (BR)	BRL	570	100 %
Asia / Pacific					
Phonak Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750	100 %
Hearing Retail Group Pty. Ltd.	B	Sydney (AU)	AUD	0 [2]	100 %
Phonak New Zealand Ltd.	B	Auckland (NZ)	NZD	250	100 %
Jordan Hearing Aids Manufacturing Co., Ltd.	B	Amman (JO)	JOD	80	100 %
Phonak Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100 %
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	32,594	100 %
Sichuan i-hear Co., Ltd.	B	Sichuan (CN)	CNY	19,119	100 %
Phonak (Shanghai) Co., Ltd.	B	Shanghai (CN)	CNY	20,041	100 %
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	8,796,000	100 %
Unitron Hearing Korea Co., Ltd.	B	Seoul (KR)	KRW	200,000	37.5 % [1]
Phonak India Pvt. Ltd.	B	Navi Mumbai (IN)	INR	100	100.0 %
Rest of World					
Lukatit Investments 14 (Pty) Limited	B	Forways North (ZA)	ZAR	0 [3]	100 %

Activities:
A Holding / Finance: The entity is a holding or finance company.
B Sales: The entity undertakes sales and marketing activities for the Group.
C Production: This entity undertakes manufacturing for the Group.
D Research: This entity undertakes research and development activities for the Group.

[1] Accounted for using the equity method.

[2] AUD 100

[3] ZAR 100

Report of the Group Auditors

PRICEWATERHOUSECOOPERS

Report of the Group Auditors
to the Annual General Shareholders' Meeting of
Sonova Holding AG
Stäfa

As auditors of the Group, we have audited the consolidated financial statements (consolidated income statements, consolidated balance sheets, consolidated cash flow statements, consolidated statements of recognized income and expense, consolidated changes in equity and notes – pages 60 to 109) of Sonova Holding AG for the year ended March 31, 2008.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements 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.

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

PricewaterhouseCoopers AG

Patrick Balkanyi Auditor in charge	Urs Honegger

Zürich, April 30, 2008

Income Statements

1,000 CHF	Notes	2007/08	2006/07
Income			
Management and licence fees		18,068	18,257
Investment income	4.1	253,362	55,610
Other income		2,757	
Interest income		6,703	8,752
Total income		**280,890**	**82,619**
Expenses			
Office and professional expenses		6,773	6,186
Advertising and PR expenses		657	514
Depreciation			43
Interest expenses		4,752	4,410
Losses on marketable securities		1,661	167
Other operating expenses		2,256	1,299
Other expenses		19,594	327
Write-down of investment		2,117	608
Exchange losses, net		21,345	3,093
Taxes	4.2	250	857
Total expenses		**59,405**	**17,504**
Net profit for the year		**221,485**	**65,115**

Balance Sheets

Assets 1,000 CHF	Notes	**31.3.2008**	31.3.2007
Cash and cash equivalents		16,585	34,403
Marketable securities	3.1	140,565	15,671
Amounts due from Group companies		3,487	1,775
Other receivables	3.2	2,752	9,567
Prepayments		134	75
Total current assets		**163,523**	**61,491**
Investments and loans			
Loans to Group companies	3.3	374,256	335,358
Loan to third party		4,154	4,776
Investments	3.4	233,273	212,361
Total non-current assets		**611,683**	**552,495**
Total assets		**775,206**	**613,986**

Liabilities and shareholders' equity 1,000 CHF	Notes	**31.3.2008**	31.3.2007
Trade payables			
Third parties		9,777	558
Other payables			
Third parties		6,679	6,066
Group companies			24,484
Loans from Group companies		196,100	199,737
Accruals		1,002	1,801
Total liabilities		**213,558**	**232,646**
Share capital		3,373	3,356
Legal reserves			
General legal reserve		107,859	174,723
Reserve for treasury shares	3.5	130,931	3,038
Free reserves		98,000	98,000
Retained earnings		221,485	102,223
Total shareholders' equity	3.6	**561,648**	**381,340**
Total liabilities and shareholders' equity		**775,206**	**613,986**

Notes to the Financial Statements at March 31, 2008

1. General

The financial statements of Sonova Holding AG (formerly Phonak 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	**31.3.2008**	31.3.2007
Guarantees given to banks in respect of credit arrangements of subsidiaries	2,059	2,243
Guarantees given in respect of rental obligations and bank debts of subsidiaries	15,340	22,356

2.2 Conditional and authorized capital

1,000 CHF	**31.3.2008**	31.3.2007
Conditional capital at year-end	358	374
Authorized capital at year-end	168	165

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, 2008, 7,157,414 (previous year 7,483,776) shares thereof have not yet been issued. These shares are reserved for use in the key employees share option plans (Key People Program and Executive Equity Award Plan).

The Annual General Shareholder's Meeting held on June 12, 2007, approved the creation of authorized share capital of 3,356,260 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 3,356,260 registered shares created on June 12, 2007, 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 12, 2009.

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):

	31.3.2008	31.3.2007
Beda Diethelm	10.8 %	11.0 %
Chase Nominees Ltd.[1]	10.7 %	9.1 %
Andy Rihs	10.7 %	10.8 %
Hans-Ueli Rihs	8.6 %	8.9 %
Registered shareholders with less than 3 %	36.6 %	34.5 %
Not registered	22.6 %	25.7 %

[1] Registered without voting rights.

2.4 Compensation and shareholdings

Content and method of determining the compensation and the shareholding programs

The compensation principles of the Sonova Group are based on performance considerations. The compensation packages of Sonova Group employees consist of a basic salary (made up of a fixed and a variable performance-related salary) as well as further incentive plans which are regularly reviewed by the Nomination and Compensation Committee.

Fixed salary

The fixed salary is intended to give each employee a regular and predictable salary that does not depend on the annual performance of the employee or of the Sonova Group's business. Salary levels depend on job characteristics, market competitiveness as well as on the skills of each employee. The salary evolution depends on the individual performance of the employee.

Variable salary

The variable salary is an integrated element of the basic salary. The split between fixed salary and variable salary is typically defined in the employment contract and depends on the job characteristics and management level. The targets to achieve the variable salary are typically defined for each employee at the beginning of the financial year. At the end of the financial year, the variable salary is generally multiplied with an individual payout factor for each employee. The size of the payout multiplier depends on the actual performance achieved by the employee compared with the individual objectives agreed upon at the beginning of the financial year and the overall performance of the Sonova Group respectively the relevant organizational unit. Incentive payout multipliers can range from zero to two. If the employee's achievement of objectives falls below a certain level, no variable salary will be paid out. For exceptional performance, higher payout multipliers may apply. Such cases require the approval of the CEO and/or the Nomination and Compensation Committee.

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 Share Appreciation Rights (SARs). The amount of shares, options, warrants, WARs and SARs granted varies depending on the management level. Shares, options, warrants, WARs and SARs granted as part of the EEAP are split into four equal tranches. For the options, warrants, WARs and SARs, one tranche vests each year over four years, starting one year after the grant date. The shares are blocked over four years, one tranche being released each year, starting one year after the grant date. The purchase price of the shares will generally be equal to the market price on the SWX Swiss Exchange on the date the shares are purchased. The fair value of the options, warrants, WARs and SARs is estimated on the grant date using a binomial option pricing model. Additional information thereto is disclosed in Note 30 of the Consolidated Financial Statements.

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

The compensation policies and the incentive plans (EEAP) described before apply equally to the Management Board, as well as mostly to the Board of Directors and to the CEO.

The compensation policies of the Board of Directors differ from those of the employees of the Sonova Group, instead of a basic salary (made up of a fixed and a variable performance-related salary), the Board of Directors receives a fixed and an attendance fee.

The incentive plan of the CEO differs therein that the options of the EEAP will not be granted annually to him. The allocation of the options inclusive a short time shift of the exercise periods are based on the long-term employment contract running until 2010.

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 determined by the Board of Directors and periodically reviewed by the Nomination and Compensation Committee.

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 to the individual members of the Board of Directors in the year under review and in the previous year:

in CHF							EEAP		
	Financial year	Fixed fee	Attendance fee[1]	Expenses[1]	Social benefits (employer's contribution)[2]	Total cash compensation	Value of warrants[3]/ options	Number of warrants[3]/ options granted	Total compensation
Andy Rihs	2007/08	120,000	23,000	6,500	155,836	305,336	300,000	300,000	605,336
Chairman	2006/07	120,000	23,000	6,500	21,058	170,558	212,640	12,000	383,198
William D. Dearstyne	2007/08	60,000	23,000	5,500	8,206	96,706	300,000	300,000[4]	396,706
Vice Chairman	2006/07	60,000	24,000	7,000	108,293	199,293	212,640	12,000[5]	411,933
Heliane Canepa	2007/08	60,000	18,000	4,500	158,326	240,826	300,000	300,000	540,826
Member	2006/07	60,000	18,000	4,000	10,223	92,223	212,640	12,000	304,863
Dr. Michael Jacobi	2007/08	60,000	21,000	5,500	126,061	212,561	300,000	300,000	512,561
Member	2006/07	60,000	23,000	6,500	22,347	111,847	212,640	12,000	324,487
Robert F. Spoerry	2007/08	60,000	19,000	4,500	11,309	94,809	300,000	300,000	394,809
Member	2006/07	60,000	20,000	4,000	10,466	94,466	212,640	12,000	307,106
Total (active	**2007/08**	**360,000**	**104,000**	**26,500**	**459,738**	**950,238**	**1,500,000**	**1,500,000**[6]	**2,450,238**
members)	**2006/07**	**360,000**	**108,000**	**28,000**	**172,387**	**668,387**	**1,063,200**	**60,000**[7]	**1,731,587**
Daniel Borel	2007/08				53,621	53,621			53,621
former Member	2006/07	20,000	4,000	500	173,137	197,637			197,637
Total (incl. former	**2007/08**	**360,000**	**104,000**	**26,500**	**513,359**	**1,003,859**	**1,500,000**	**1,500,000**[6]	**2,503,859**
members)	**2006/07**	**380,000**	**112,000**	**28,500**	**345,524**	**866,024**	**1,063,200**	**60,000**[7]	**1,929,224**

[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 warrants/options/Warrant and Share Appreciation Rights exercised during the reporting period.

[3] Exercise ratio between warrants and options, 25:1 (see also Note 30 in the consolidated financial statements).

[4] Warrant Appreciation Rights (WARs) grant the right to participate in the appreciation of the Sonova shares without issuance of shares. Exercise ratio between WARs and SARs, 25:1.

[5] Share Appreciation Rights (SARs) grant the right to participate in the appreciation of the Sonova shares without issuance of shares.

[6] Thereof 300,000 WARs.

[7] Thereof 12,000 SARs.

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		Basic salary					EEAP		
	Financial year	Fixed salary	Variable salary[1]	Fringe benefits	Social benefits (employer's contribution)[2]	Total cash compensation[1] [2]	Value of warrants[3]/ options	Number of warrants[3]/ options granted	Total compensation[2]
Dr. Valentin Chapero,	2007/08	1,071,000	1,105,526	16,000	870,201	3,062,727			3,062,727
CEO	2006/07	1,018,250	1,303,318	16,000	241,706	2,579,274	9,445,610	500,000[4]	12,024,884
Other members of the Management Board	2007/08	2,680,123	1,179,563	243,679	677,003	4,780,368	3,950,000/ 1,274,400	3,950,000/ 70,000	10,004,768
	2006/07	2,229,329	1,319,068	178,770	530,011	4,257,178	2,232,730	126,000	6,489,908
Total	**2007/08**	**3,751,123**	**2,285,089**	**259,679**	**1,547,204**	**7,843,095**	**3,950,000/ 1,274,400**	**3,950,000/ 70,000**	**13,067,495**
	2006/07	**3,247,579**	**2,622,386**	**194,770**	**771,717**	**6,836,452**	**11,678,340**	**626,000**	**18,514,792**

[1] According to the compensation policies of the Sonova Group, the variable salary results from the split of the basic salary defined in the employment contract and the payout multiplier, which reflects individual as well as Group targets (sales growth and EBITA). The variable salary will be paid out after the end of the reporting year. At the time of the preparation of this Annual Report the data considered reflected the latest estimates available.

[2] Including social security contributions on the tax value of warrants and options exercised during the reporting period.

[3] Exercise ratio between warrants and options, 25:1 (see also Note 30 in the consolidated financial statements).

[4] In conjunction with the long-term employment contract running until 2010, signed in 2005, Valentin Chapero Rueda received the second and last ordinary allocation of options in the reporting period. These options are split into four tranches. One tranche vests each year over four years, starting one year after the grant date.

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 Board of Directors Daniel Borel has exercised the remaining options of his term of office. The company has paid the social security contribution by exercise in the amount of CHF 53,621.

During the reporting period the former member of the Management Board Toni Schrofner has exercised his remaining options. The company has paid the social security contribution by exercise in the amount of CHF 72,204.

Besides these payments 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, 2008, the members of the Board of Directors and persons closely linked to them held directly and indirectly 7,274,420 Sonova shares (10.8% of total share capital), 162,000 options, 1,200,000 warrants, 300,000 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:

	31.3.2008			31.3.2007		
	Shares	Options	Warrants[1]	Shares	Options	Warrants[1]
Andy Rihs	7,239,100	36,000	300,000	7,239,100	48,000	
William D. Dearstyne	8,310	36,000[3]	300,000[2]	8,310	36,000[3]	
Heliane Canepa	15,010	21,000	300,000	15,010	45,000	
Dr. Michael Jacobi	2,000	33,000	300,000	175	45,000	
Robert F. Spoerry	10,000	48,000	300,000	10,000	48,000	
Total	**7,274,420**	**174,000[3]**	**1,500,000[4]**	**7,272,595**	**222,000[3]**	

[1] Exercise ratio between warrants and options, 25:1 (see also Note 30 in the consolidated financial statements).

[2] Warrant Appreciation Rights (WARs) grant the right to participate in the appreciation of the Sonova shares without issuance of shares. Exercise ratio between WARs and SARs, 25:1.

[3] Thereof 12,000 SARs.

[4] Thereof 300,000 WARs.

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

	31.3.2008		31.3.2007	31.3.2008		31.3.2007	31.3.2008	31.3.2007	31.3.2008	31.3.2007
	Options	Warrants[1]	Options	EEAP 08[2]	EEAP 07[3]	EEAP 07[3]	EEAP 06[4]	EEAP 06[4]	EEAP 05/ Older[5]	EEAP 05/ Older[5]
Andy Rihs	36,000	300,000	48,000	300,000	12,000	12,000	12,000	12,000	12,000	24,000[10]
William D. Dearstyne	36,000[6]	300,000[7]	36,000[6]	300,000[7]	12,000[8]	12,000[8]	12,000	12,000	12,000	12,000
Heliane Canepa	21,000	300,000	45,000	300,000	12,000	12,000	6,000	12,000	3,000	21,000[9]
Dr. Michael Jacobi	33,000	300,000	45,000	300,000	12,000	12,000	12,000	12,000	9,000	21,000[9]
Robert F. Spoerry	48,000	300,000	48,000	300,000	12,000	12,000	12,000	12,000	24,000[10]	24,000[10]
Total	**174,000[6]**	**1,500,000[11]**	**222,000[6]**	**1,500,000[11]**	**60,000[6]**	**60,000[6]**	**54,000**	**60,000**	**60,000**	**102,000**

[1] Exercise ratio between warrants and options, 25:1 (see also Note 30 in the consolidated financial statements).

[2] Strike price CHF 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.

[3] Strike price CHF 95.05, blocking period 01.02.2007 – 31.01.2011 whereas one tranche being released each year, exercise period 01.02.2008 – 31.01.2012.

[4] 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.

[5] EEAP 2005: 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; Key People Program 2004: Strike price CHF 28.00, blocking period 01.02.2004 – 31.01.2007, exercise period 01.02.2007 – 31.01.2009.

[6] Thereof 12,000 SARs.

[7] Warrant Appreciation Rights (WARs) grant the right to participate in the appreciation of the Sonova shares without issuance of shares. Exercise ratio between WARs and SARs, 25:1.

[8] Share Appreciation Rights (SARs) grant the right to participate in the appreciation of the Sonova shares without issuance of shares.

[9] 12,000 options from EEAP 2005 and 9,000 options from Key People Program 2004.

[10] 12,000 options from EEAP 2005 and 12,000 options from Key People Program 2004.

[11] Thereof 300,000 WARs.

Shareholdings of the Management Board

As of March 31, 2008, the members of the Management Board and persons closely linked to them held directly and indirectly 1,082 Sonova shares and 1,140,938 options and 3,950,000 warrants. The following table shows the shareholdings of the individual members of the Management Board and persons closely linked to them:

	31.3.2008			31.3.2007		
	Shares	Options	Warrants[1]	Shares	Options	Warrants[1]
Dr. Valentin Chapero Rueda		785,000			900,000	
Oliver Walker		45,000	500,000	1,250	55,000	
Dr. Herbert Bächler	1,082	46,000	400,000	821	46,000	
Paul Thompson		41,000	400,000		41,000	
Sarah Kreienbühl		32,250	400,000		36,000	
Dr. Hans Leysieffer		36,000	400,000		36,000	
Cameron Hay		25,250	250,000		25,250	
Ignacio Martinez		36,000	450,000		36,000	
Alexander Zschokke		24,438	400,000		24,438	
Hans Mehl		70,000	500,000			
Elmar B. Götz			250,000			
Total (active members)	**1,082**	**1,140,938**	**3,950,000**	**2,071**	**1,199,688**	
Toni Schrofner				168	25,000	
Total (incl. former members)	**1,082**	**1,140,938**	**3,950,000**	**2,239**	**1,224,688**	

[1] Exercise ratio between warrants and options, 25:1 (see also Note 30 in the consolidated financial statements).

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

	31.3.2008		31.3.2007	31.3.2008		31.3.2007	31.3.2008	31.3.2007	31.3.2008	31.3.2007
	Options	Warrants[1]	Options	EEAP 08[2]	EEAP 07[3]	EEAP 07[3]	EEAP 06[4]	EEAP 06[4]	EEAP 05/ Older[5]	EEAP 05/ Older[5]
Dr. Valentin Chapero Rueda	785,000		900,000		500,000	500,000			285,000	400,000
Oliver Walker	45,000	500,000	55,000	500,000	20,000	20,000	15,000	20,000	10,000	15,000
Dr. Herbert Bächler	46,000	400,000	46,000	400,000	16,000	16,000	20,000	20,000	10,000	10,000
Paul Thompson	41,000	400,000	41,000	400,000	16,000	16,000	15,000	15,000	10,000	10,000
Sarah Kreienbühl	32,250	400,000	36,000	400,000	16,000	16,000	11,250	15,000	5,000	5,000
Dr. Hans Leysieffer	36,000	400,000	36,000	400,000	16,000	16,000	15,000	15,000	5,000	5,000
Cameron Hay	25,250	250,000	25,250	250,000	10,000	10,000	11,250	11,250	4,000	4,000
Ignacio Martinez	36,000	450,000	36,000	450,000	16,000	16,000	15,000	15,000	5,000	5,000
Alexander Zschokke	24,438	400,000	24,438	400,000	16,000	16,000	8,438	8,438		
Hans Mehl	70,000	500,000		500,000	70,000[6]					
Elmar B. Götz		250,000		250,000						
Total (active Members)	**1,140,938**	**3,950,000**	**1,199,688**	**3,950,000**	**696,000**	**626,000**	**110,938**	**119,688**	**334,000**	**454,000**
Toni Schrofner			25,000					15,000		10,000
Total (incl. former members)	**1,140,938**	**3,950,000**	**1,224,688**	**3,950,000**	**696,000**	**626,000**	**110,938**	**134,688**	**334,000**	**464,000**

[1] Exercise ratio between warrants and options, 25:1 (see also Note 30 in the consolidated financial statements).

[2] 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.

[3] Strike price CHF 95.05, blocking period 01.02.2007 – 31.01.2011 whereas one tranche being released each year, exercise period 01.02.2008 – 31.01.2012.

[4] 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.

[5] 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.

[6] These options were granted to Hans Mehl at commencement of work by April 1, 2007.

3. Notes to the balance sheet

3.1 Marketable securities

Marketable securities include, among other items, 1,228,975 treasury shares (previous year 44,344) purchased for a total consideration of CHF 130,930,877 (previous year CHF 3,037,786). At March 31, 2008, these shares had a market value of CHF 111,959,623 (previous year CHF 4,123,992). Of the total 1,228,975 treasury shares, 1,017,800 shares were purchased by the Group as part of the buy-back program.

During the financial year 2007/08, 1,344,711 treasury shares at an average price of CHF 105.12 have been purchased, while 160,080 treasury shares at an average price of CHF 96.12 have been disposed of.

3.2 Other receivables

Included are, in particular, amounts due from the Swiss Federal Tax Authority in respect of recoverable withholding taxes on dividend and interest income.

3.3 Loans to Group companies

Of total loans, 35% are denominated in Canadian Dollars, 35% in Swiss Francs, 17% in US Dollars, 6% in Australian Dollars, 3% in Euros, and 4% in other currencies.

3.4 List of significant investments

Company name	Activity	Domicile	Share capital Local currency 1,000		Shares held by Sonova Holding AG
Switzerland					
Phonak AG	A, B, C, D	Stäfa	CHF	2,500	99.3 %
Phonak Hearing Systems AG	B	Stäfa	CHF	100	100 %
Phonak Communications AG	B, C, D	Murten	CHF	500	100 %
Indomed AG	A	Zug	CHF	1,000	100 %
Indomed Hearing Systems GmbH	B	Stäfa	CHF	20	100 %
Europe (excluding Switzerland)					
Phonak GmbH	B	Fellbach-Oeffingen (DE)	EUR	25	100 %
Phonak France SA	B	Bron-Lyon (FR)	EUR	305	100 %
Phonak Italia Srl	B	Milan (IT)	EUR	1,040	100 %
Phonak Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100 %
Phonak Belgium NV	A, B	Dilbeek (BE)	EUR	15,311	100 %
Phonak B.V.	B	Nieuwegein (NL)	EUR	227	100 %
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450	100 %
Phonak Danmark A / S	B	Frederiksberg (DK)	DKK	9,000	100 %
Phonak AB	B	Stockholm (SE)	SEK	200	100 %
Unitron Hearing AB	B	Stockholm (SE)	SEK	100	100 %
Phonak AS	B	Oslo (NO)	NOK	900	100 %
Phonak Group Ltd.	B	Warrington (UK)	GBP	150	100 %

Company name	Activity	Domicile	Share capital Local currency 1,000		Shares held by Sonova Holding AG
Phonak Polska Sp. Z o.o.	B	Warsaw (PL)	PLN	100	100 %
Phonarium Szolgáltató Kft.	B	Budapest (HU)	HUF	3,000	49 %
Phonak CIS Ltd.	B	Moscow (RU)	RUB	4,000	100 %
Americas					
Phonak Canada Ltd.	A, B	Mississauga (CA)	CAD	88,694	100 %
Unitron Hearing, Inc.	B	Plymouth (US)	USD	46,608	100 %
National Hearing Services Inc.	B	Victoria (CA)	CAD	7,500	100 %
Asia/Pacific					
Phonak Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750	100 %
Phonak New Zealand Ltd.	B	Auckland (NZ)	NZD	250	100 %
Jordan Hearing Aids Manufacturing Co., Ltd.	B	Amman (JO)	JOD	80	100 %
Phonak Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100 %
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	32,594	100 %
Sichuan i-hear Co., Ltd.	B	Sichuan (CN)	CNY	19,119	100 %
Phonak (Shanghai) Co., Ltd	B	Shanghai (CN)	CNY	20,041	100 %
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	8,796,000	100 %
Unitron Hearing Korea Co., Ltd.	B	Seoul (KR)	KRW	200,000	37.5 %
Phonak India Pvt. Ltd.	B	Navi Mumbai (IN)	INR	100	100.0 %
Rest of world					
Lukatit Investments 14 (Pty) Limited	B	Forways North (ZA)	ZAR	0 [1]	100 %

Activities:
A Holding/Finance: The entity is a holding or finance company.
B Sales: The entity undertakes sales and marketing activities for the Group.
C Production: This entity undertakes manufacturing for the Group.
D Research: This entity undertakes research and development activities for the Group.

[1] ZAR 100

3.5 Reserve for treasury shares

A reserve for treasury shares in the amount of CHF 130,930,877 (previous year CHF 3,037,786) was established which is equal to the cost price (see Note 3.1). The increase in the amount of CHF 127,893,091 was debited to general legal reserve and retained earnings.

3.6 Summary of changes in shareholders' equity

1,000 CHF

	Share capital	General legal reserve	Free reserve	Treasury share reserve	Retained earnings	Total sharehol-ders' equity
Balance April 1, 2007	**3,356**	**174,723**	**98,000**	**3,038**	**102,223**	**381,340**
Dividend paid					(50,308)	(50,308)
Capital increases (incl. share premium) from conditional capital	17	9,114				9,131
Increase in reserve for treasury shares		(75,978)		127,893	(51,915)	0
Net profit for the year					221,485	221,485
Balance March 31, 2008	**3,373**	**107,859**	**98,000**	**130,931**	**221,485**	**561,648**

During the financial year 2007/08, an additional 326,362 registered shares with a par value of CHF 0.05 each, or a total par value of CHF 16,318 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 9,130,098. In the financial year 2007/08, the conditional share capital with a par value of CHF 374,189 (7,483,776 shares) decreased by CHF 16,318 or 326,362 shares (previous year CHF 38,211 or 764,219 shares), thereby leaving CHF 357,871 (7,157,414 shares) for distribution. Based on the remaining conditional capital, a total of 2,079,962 (previous year 2,007,539) employee stock options were outstanding as of March 31, 2008, which can be exercised until February 2013.

The treasury share reserve differs to 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 11, 2008

1,000 CHF	31.3.2008	31.3.2007[1]
Carried forward from previous year	**51,915**	**37,963**
Allocation to reserve for treasury shares	(51,915)	(855)
Allocation from free reserves	98,000	
Net profit for the year	221,485	65,115
Available earnings	**319,485**	**102,223**
Dividend distribution	(67,452)[2]	(50,308)
Balance to be carried forward	**252,033**	**51,915**

[1] Approved by the Annual General Shareholders' Meeting of June 12, 2007.

[2] If the Annual General Shareholders' Meeting approves the proposes appropriation of available earnings, a gross dividend of CHF 1.00 per registered share of CHF 0.05 will be paid out (previous year CHF 0.75).

Report of the Statutory Auditors

PRICEWATERHOUSECOOPERS

Report of the Statutory Auditors
to the Annual General Shareholders' Meeting of
Sonova Holding AG
Stäfa

As statutory auditors, we have audited the accounting records and the financial statements (income statements, balance sheets and notes – pages 112 to 122) of Sonova Holding AG for the year ended March 31, 2008.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records, the financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

P. Balkany

Patrick Balkanyi
Auditor in charge

Urs Honegger

Zürich, April 30, 2008

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The English version is the governing text.