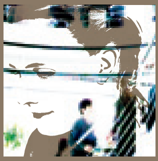
sonova
HEAR THE WORLD

ANNUAL REPORT 2012/13



LEADERSHIP DRIVEN BY INNOVATION

Sonova aims to be recognized as the innovation leader in the global hearing care market, so we constantly challenge the limits of technology.

We base our leadership on a full pipeline of new technologies, products, and features – and prove it every day in close, productive relationships with hearing care professionals, who appreciate how our technological innovation creates tangible benefit for their clients.

HIGHLIGHTS

– *Sonova reached record sales in financial year 2012 / 13:*

Sales, at CHF 1,795 million, rose 10.8 % in Swiss francs and 7.4 % in local currencies. Both the hearing instruments and cochlear implants segment and all major regions contributed to the increase.

– *Consolidating our market leading position in hearing instruments:*

Despite a challenging market environment, sales in the hearing instrument segment grew by 4.9 % in local currencies, driven by continuing strong innovation and a global sales presence. EBITA margin rose by 100 basis points to 23.3 %, thanks to strict cost control and favorable currency development.

– *Break-even target reached in cochlear implants:*

Supported by an strong sales increase of 47.1 % in local currencies, the cochlear implant segment reached a key milestone, breaking even for the first time on a normalized basis.

– *Significant operational improvements, increased margins and strong cash flow:*

Normalized for one-off costs, EBITA was CHF 386 million, up 22.6 % in Swiss francs and 15.4 % in local currencies. Operating margin improved by 200 basis points to 21.5 %. Operating free cash flow rose 33 % to CHF 319 million.

– *Reported results affected by legacy events at Advanced Bionics:*

Reported 2012 / 13 EBITA of CHF 183 million fully accounts for a one-off provision increase to cover potential liabilities in the wake of a 2006 product recall of Advanced Bionics.

– *Substantially higher dividend proposed:*

Ending the year with a solid balance sheet and a strong positive net cash position, the Board of Directors proposes to the 2013 AGM a distribution of CHF 1.60 per share, an increase of 33 % over the previous year.

SONOVA GROUP KEY FIGURES

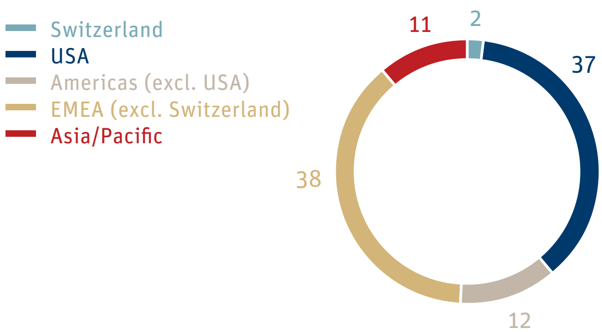
in CHF m unless otherwise specified	Reported performance 2012 / 13	Change in %	Normalized performance 2012 / 13[1]	Change in %	2011 / 12
Sales	1,795.3	10.8 %	1,795.3	10.8 %	1,619.8
EBITA	182.8	(42.0 %)	386.4	22.6 %	315.2
EBITA margin	10.2 %		21.5 %		19.5 %
EPS (CHF)	1.66	(55.3 %)	4.62	24.5 %	3.71
Operating free cash flow[1]	318.6	33.0 %	318.6		239.5
ROCE[2]	10.5 %		10.5 %		19.2 %
ROE[2]	7.2 %		7.2 %		17.5 %

[1] Excluding one-off cost, mainly related to the increase of the product liability provision within the cochlear implants business (see Note 7 of the Consolidated Financial Statements). Balance sheet related key figures (including respective ratios) as reported.

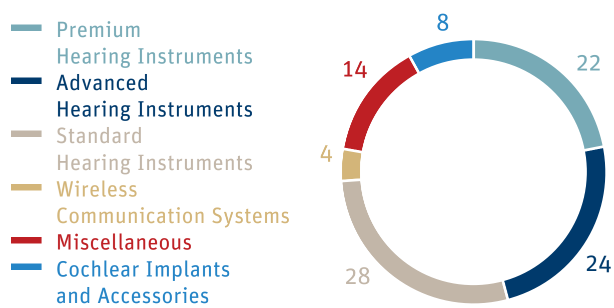
[2] For detailed definitions, please refer to “5 Year Key Figures”.

KEY FIGURES

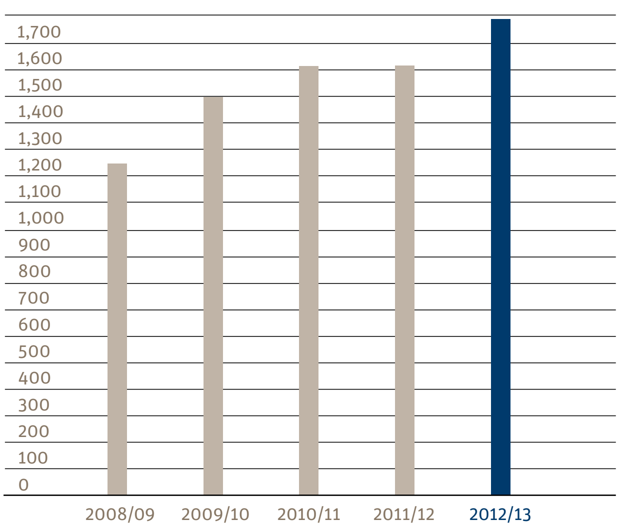
SALES BY REGIONS 2012/13
in %



SALES BY PRODUCT GROUPS 2012/13
in %

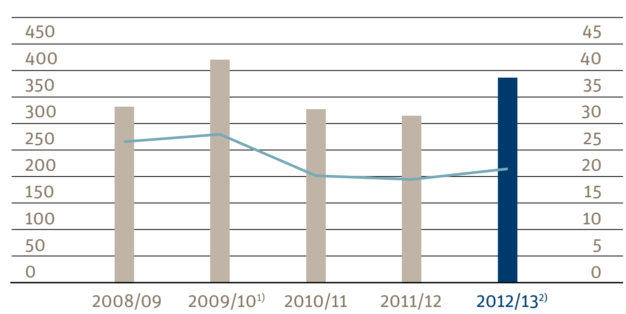


SALES
in CHF m

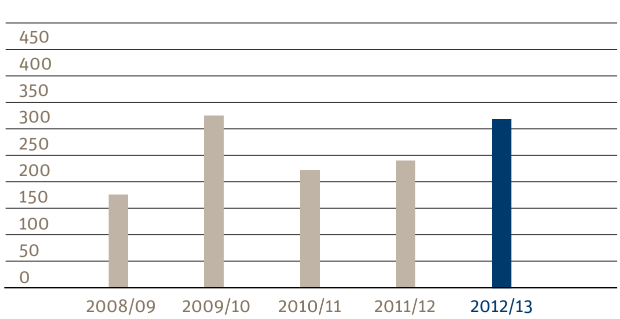


EBITA
in CHF m

EBITA
margin in %

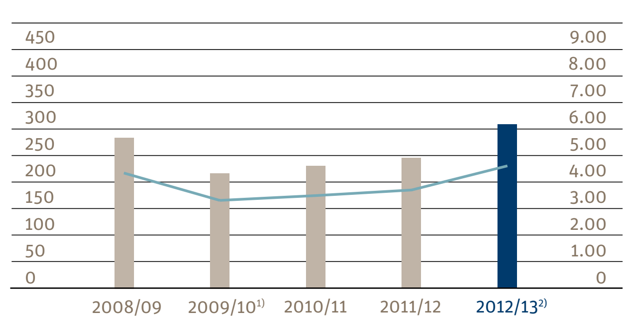


OPERATING FREE CASH FLOW
in CHF m



INCOME AFTER TAXES
in CHF m

EPS
in CHF



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

[2] Excluding one-off cost, mainly related to the increase of the product liability provision within the cochlear implants business (see note 7 of the Consolidated Finacial Statements).

TABLE OF CONTENT

02 LETTER TO SHAREHOLDERS

06 STRATEGY AND BRANDS

26 CORPORATE SOCIAL RESPONSIBILITY

28 CORPORATE GOVERNANCE

44 COMPENSATION REPORT

52 FINANCIAL REVIEW

58 5 YEAR KEY FIGURES

60 CONSOLIDATED FINANCIAL STATEMENTS

104 FINANCIAL STATEMENTS OF SONOVA HOLDING AG

INVESTOR INFORMATION (Back cover foldout)

LETTER TO SHAREHOLDERS

Robert F. Spoerry / Chairman of the Board of Directors
Lukas Braunschweiler / CEO

ON COURSE FOR OUR TARGETS

– Our strategy, focused on profitable growth businesses and market-leading innovation, delivered strong progress in 2012 / 13. The company demonstrated that it is on track for its mid-term goals to achieve continuous growth in sales and earnings.

DEAR SHAREHOLDERS,

We are happy to report that the Sonova Group achieved solid sales growth in financial year 2012 / 13. Both the hearing instruments and the cochlear implants segments contributed to the increase. We are proud to present strong growth in earnings and cash flows, and a substantial expansion of margins on a normalized basis*.

The accomplishments of this financial year demonstrate once again the combined power of our strong position in a growing global market and our untiring drive to innovate, creating advanced, attractive products that offer outstanding customer benefit. Most of all, the foundation of our success is the passion and ingenuity of our employees and their drive to bring the delight of hearing to ever more people.

SOLID FINANCIAL RESULTS

Sales for the year were CHF 1.795 million, a rise of 10.8 % in Swiss francs, or 7.4 % in local currencies. Hearing instruments sales grew by 8.2 % and cochlear implants by 52.3 %. Gross profit was CHF 1.240 million, up 12.1 % from the previous year. The operating profit (EBITA) excluding one-off items increased by 22.6 % over 2011 / 12 to reach CHF 386.4 million. The normalized financial results were in line with our targets. Supported by a strong operating free cash flow of CHF 318.6 million, the net cash position reached CHF 185.8 million.

PROVISION FOR PRODUCT LIABILITY CLAIMS

In April 2013, Advanced Bionics was confronted with the verdict of a US District Court in Kentucky in a case brought by a patient who had a cochlear implant from Advanced Bionics that malfunctioned. The device in question was implanted in 2006; it formed part of a voluntary recall announced by Advanced Bionics in March 2006, more than three years before the company was acquired by Sonova. A jury awarded the plaintiff unexpectedly high punitive damages. After a comprehensive review, Advanced Bionics has decided to increase its provisions for such claims by CHF 198 million; this increase is reported with the results of financial year 2012 / 13. To provide more consistent insight into the operating performance of the Group, this Annual Report generally refers to results that have been normalized for the effects of this one-off, non-recurring cost. We are convinced that the increased provision will protect the Group's balance sheet from any further impact related to this potential pre-acquisition liability.

HEARING INSTRUMENTS – CONTINUING INNOVATION

Our hearing instruments business saw sales growth of 4.9 % in local currencies, accelerating in the course of the year and strengthening Sonova's position as global market leader. Our innovation strength was reflected in the high share of sales generated by products introduced within the previous two years. This applied across our whole product portfolio and to both our Phonak and Unitron hearing instrument brands.

Our technology platform approach lets us set a hard-to-match pace of innovation. We took another decisive leap forward with the introduction of Phonak's new Quest platform. Introduced in October 2012 and expanded in April 2013, it represents one of the most comprehensive launches for the Phonak brand. Unitron also introduced premium products for its advanced Era platform, along with the market-changing Flex product and service concept.

Retail made significant contributions to growth in the hearing instruments segment, both from organic expansion and from targeted acquisitions. We further expanded our network of hearing care professionals within our retail business; this allows us to provide excellent audiological service to our clients while helping to shape the future of our industry. We are gradually grouping our retail activities under the Connect Hearing brand and have launched initiatives in selected countries to generate greater brand awareness.

COCHLEAR IMPLANTS – SURPASSING BREAK-EVEN

Our cochlear implants segment continued on its upward path in sales and profitability. The segment achieved record sales in 2012 / 13 and surpassed break-even for normalized EBITA for the first time, in line with our strategic plan.

Our strategy calls for close collaboration in R & D to share the benefits of innovation across the Group. The complementary strengths of the Advanced Bionics and Phonak R&D teams were amply demonstrated by the development of a next-generation sound processor, Naída CI Q70[1], and the revolutionary HiFocus Mid-Scala electrode[2], designed to protect the delicate structures of the cochlea and preserve residual hearing without compromising performance.

Our cochlear implants business continues to extend into new markets: we won a large government tender in China for the first time after having served that country's private market for a number of years.

STRENGTHENING GROUP MANAGEMENT

We have further strengthened Sonova's management team. Hartwig Grevener took up his post as CFO effective August 1, 2012. Andi Vonlanthen was promoted to the Management Board as Group Vice President Research and Development, effective April 1, 2012. In support of our growth strategy, we have further developed and expanded the Management Board.

We have divided our international sales organization into three regions to improve our focus on local markets. Claude Diversi, previously the head of Phonak France, has been promoted to lead Phonak sales and distribution for Europe and South America. Paul Thompson has added responsibility for Phonak North America to his duties as Group Vice President Business Development. And Chin-Hwee Lim has been appointed Vice President Sales Asia Pacific, effective April 1, 2013.

We completed our leadership team development with the appointment to the Management Board of Stefan Launer (Vice President Science & Technology), Jan Metzdorff (Vice President Unitron), and Franz Petermann (Vice President Channel Solutions), effective April 1, 2013.

ENHANCING CORPORATE GOVERNANCE

The issues arising from the delayed profit warning of March 2011 have now been entirely resolved: the SIX Swiss Exchange gave its final ruling on July 10, 2012 and Sonova agreed an out-of-court settlement on October 5, 2012 with a group of investors. In January 2013, the Zürich District Attorney's office announced the discontinuation of all proceedings against certain former and current members of Sonova's management team and Board of Directors.

In the year under review, we took further steps to improve our corporate governance. As a global company with a wide range of businesses, we are keenly aware of the need to act as industry leaders, not just in products and services, but also in the ethical way we interact with our suppliers, customers, and colleagues. We have therefore extensively updated our Code of Conduct; the new version has been systematically rolled out across the Group.

We have further refined our compensation structure: members of the Board of Directors will no longer be paid in share options, but only restricted shares (details in the Compensation Report, page 44).

1 Pending regulatory approval

2 Pending regulatory approval in the United States

CHANGES TO THE BOARD OF DIRECTORS

Having served on the Board of Directors for fourteen years, Heliane Canepa has decided to step down at the 2013 AGM. We would like to sincerely thank her for her dedicated service to the company and wish her well for the future. The Board of Directors has also granted an exception from the automatic retirement due to age to Andy Rihs, allowing him to complete his current term of office, which expires at the 2015 AGM. We are very pleased that he will continue to play a pivotal role in the long-term success of Sonova.

Jinlong Wang is proposed for election to the Board of Directors at the 2013 AGM. He is currently senior vice president of Starbucks Corporation and president of Starbucks Asia Pacific Region. With his extensive business background both in China and in the United States, he will be a valuable addition to the current Board of Directors.

At the 2013 AGM, the mandates of John J. Zei and Beat Hess will come up for re-election. The (re)elections will be for a term of three years.

INCREASE IN DIVIDEND PROPOSED

Supported by strong cash flows, Sonova ended the year with a solid balance sheet and net cash position. Our priority in use of cash continues to be seeking profitable complementary acquisitions. Nevertheless, the Board of Directors will propose to the 2013 AGM a substantially higher distribution of CHF 1.60 per share, paid without withholding taxes from the capital contribution reserves. This represents a significant increase of 33 % compared to the prior financial year.

COMMITTING TO CORPORATE SOCIAL RESPONSIBILITY

We are pleased to announce that Sonova has further extended its corporate social responsibility (CSR) program announced last year, including the appointment of a dedicated senior CSR manager. The company's CSR activities are now described in a separate report (available at www.sonova.com/en/csrreport/); this, combined with the information in the Annual Report, fulfils the requirements of Global Reporting Initiative (GRI) Application Level C.

We strengthened our social commitment this year by expanding the mission of the Hear the World Foundation, which supports needy people with hearing loss around the world, to become a program of the entire Sonova Group.

EXTENDING OUR THANKS

Delivering on our strategic goals demands the dedication of everyone in the company. We commend all Sonova employees for their achievements this year; the results show that our efforts are paying off. We thank our shareholders, whose continued support lets us plan for continuous innovation. And we thank our customers, whose desire for a life without limitations spurs us on to deliver ever better hearing experience.

LOOKING AHEAD – A FURTHER STEP TOWARDS OUR TARGETS

Sonova has a clear and focused strategy; the company's solid performance in 2012 / 13 represents the benefits of its implementation. We aim to continue on this path toward achieving the mid-term financial targets we announced last year. By relentlessly pursuing innovation, we will maintain and build on strong market positions. We expect profitable growth to continue in fiscal year 2013 / 14. Overall sales are anticipated to grow by 6 % – 8 % and EBITA to rise between 9 % – 13 % (both measured in local currencies and on a normalized basis).

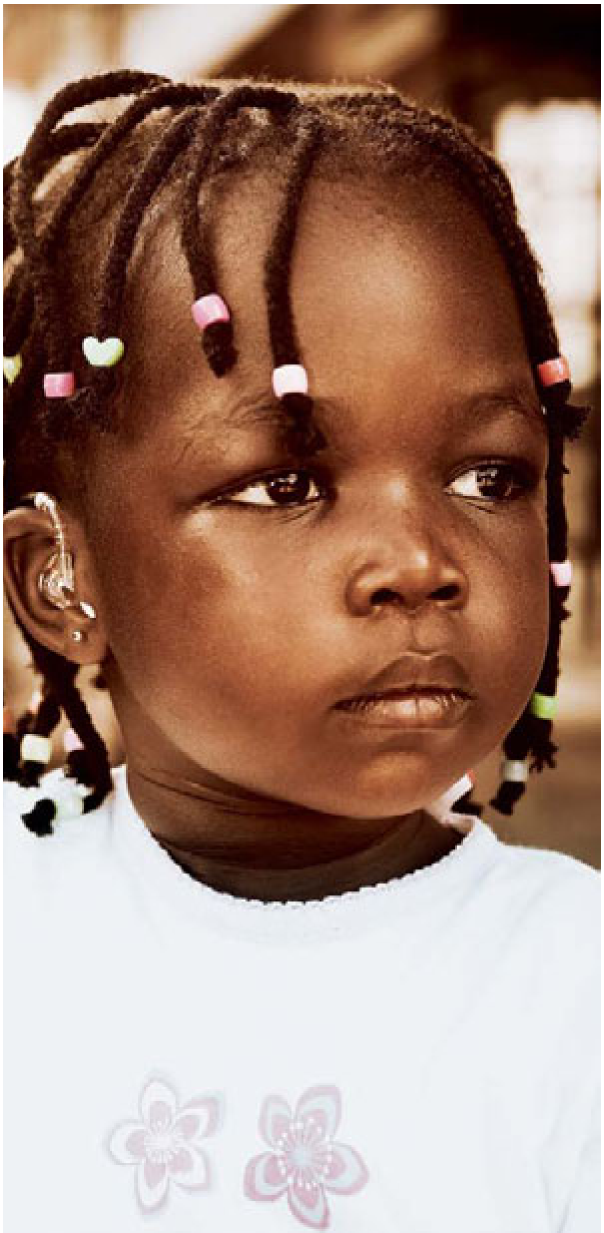
Robert Spoerry
Chairman of the Board
of Directors

Lukas Braunschweiler
CEO

* Adjusted for one-off charges of CHF 203.6 million which consist of a product liability provision increase related to Advanced Bionics' Vendor B product recall in 2006, a restructuring provision for the reorganization of the Advanced Bionics in France and the amount paid last October in connection with the out-of-court settlement with a group of investors related to the delayed profit warning in March 2011.

LEADERSHIP
DRIVEN BY
INNOVATION

STRATEGY AND BRANDS



SONOVA

– We envision a world where everyone enjoys the delight of hearing and therefore lives a life without limitations.

At Sonova, our vision is straightforward: a world where every hearing loss finds a solution and all people equally enjoy the delight of hearing. Each and every day we pursue this vision, following our clear, focused strategy of customer driven innovation – innovation in what we make, in how we make it, and how we sell it. Innovation proven by a full pipeline of new technologies, products, and features. Innovation demonstrated in close, productive relationships with the hearing care professionals and their clients who team with us to shape the future. Our mission to be recognized as the innovation leader in the global hearing care market demands that we deliver continuous improvements to our hearing care solutions. Each new step better meets the needs of our customers and adds tangible benefits for their clients.

We are a technology driven company, but the purpose of our technology is all about helping people. Our customers provide us with the motivation and the constructive suggestions that make continuous improvements possible. Our employees constantly challenge technological limits, developing first-in-the-industry features and approaches. They consult with the hearing care profession in the pursuit of solutions that will make a real difference in people's lives. Easy communication; a rich, full family and social life; fully appreciating the beauties of nature and the pleasure of music; engaging completely with the community: these are the ultimate goals of our technical innovation.

A PORTFOLIO OF SOLUTIONS FOR EVERY CHALLENGE

Sonova is one of the most wide-ranging, best positioned hearing care providers in the industry. Being able to offer hearing instruments, cochlear implants, and – through our retail business – professional audiological services, we are uniquely qualified to deliver a full spectrum of solutions, treating all major forms of hearing loss.

sonova
HEAR THE WORLD

Sonova reaches the market through our four core business brands: Phonak and Unitron for hearing instruments, Advanced Bionics for cochlear implants, and Connect Hearing for professional audiological services. The Sonova Group coordinates the R&D and marketing resources of the four brands, as well as the extensive customer feedback they generate. This allows the entire business portfolio to work together as one to create compelling new products and solutions.

Sonova's group strategy is to maintain a balanced portfolio of profitable businesses. This allows the company to generate sustainable growth by successfully addressing the various opportunities and dynamics within our product lines and regions. The Group invests in attractive new business opportunities, while continuing to foster the organic expansion of its existing franchises and seeking to promote synergies among its different businesses and activities.

Full new product and solution pipelines are the core of Sonova's innovation strategy: we target to invest around 7% of sales into research and development. The hearing care market responds strongly to innovation and there is ample room for further progress – in instruments, software, and services. By building on our innovative base technologies across the different businesses, maintaining our rigorous technology-platform approach to product and solution development, we accelerate time-to-market and consistently generate around 70% of our sales from products launched within the previous two years.

STRONG COMPETITIVE POSITIONS

More than 10 million hearing instruments are sold worldwide every year; Sonova expects this figure to continue to grow at a low-to-mid single-digit rate, with average selling prices likely to remain relatively stable in the medium term. By capturing significant market share over the past decade, Sonova has grown from a mid-sized competitor in the market to become the world's largest manufacturer of hearing instruments.

Sonova remains dedicated to supporting the hearing care professionals who provide the vital audiological services to ensure that each hearing solution works optimally for their clients. Sonova's commitment to them is complete and comprehensive, both in technical support and in making sure that their businesses continue to grow. The majority of Sonova products will continue to be sold through third party channel partners, primarily by independent hearing care professionals. Where necessary and practical, Sonova will also invest in its own retail business by expanding its network of hearing care professionals. The current focus for investment is on a few selected countries, including the US, Canada, Brazil, the UK, France, Belgium, Austria, Australia, and New Zealand.

The global market volume for cochlear implants is currently estimated at around 40,000 devices implanted each year. This market should grow at a rate in the low teens, driven by the further extension of diagnostic indications, new surgical products that preserve residual hearing, and new government programs in some emerging markets. Advanced Bionics has a strong reputation for putting patient health first and for offering a competitive, innovative product portfolio. Research and development synergies between Phonak and Advanced Bionics drive the introduction of unique new products with outstanding audiological performance. Now that Advanced Bionics and Phonak have joined forces, the future of cochlear implant solutions has never been brighter.

FURTHER BUILDING ON MARKET LEADERSHIP

The global hearing care market varies in structure and dynamics from one country to another. Sonova takes a balanced, multi-dimensional approach to extending the strong market positions of its brands and product solutions. This approach comprises further penetrating existing markets, expanding accessible markets, integrating service channels, and directly marketing to consumers and patients.

Continuous product innovation and ever-improving services support our efforts to further penetrate our existing markets and increase our share of business with each customer, becoming their supplier of choice. Our significant investments in research and development permit a high cadence of product introductions, which further strengthens our reputation as the innovation leader. Our broad brand portfolio allows us to create distinctive and carefully tailored value propositions, offering targeted solutions that specifically address the needs of people with hearing loss.

With the introduction of the new generation Lyric in April 2012, Sonova continues to provide alternative product concepts that appeal to people who are usually reluctant to seek a solution for hearing loss because of perceived stigma or lack of comfort and convenience. Such new products give us the ability to further expand the accessibility of this traditionally underserved hearing solution market.

Sonova aims to expand its accessible markets through a number of initiatives, including exploring the potential of fast-growing emerging markets. We have proven in Brazil that we can successfully capture growth – both through our wholesale and retail organizations. Our focus is now on China, where we see significant potential for Sonova. We are implementing our focused strategic plan to tap into this opportunity.

For more than a decade, Sonova has built up a retail business in selected markets through targeted acquisitions. The success of this strategy benefits from economies of scale, integrating acquired businesses into a single retail model with best-practice processes, systems, and services. We have complemented this acquisition strategy with new store openings and new business concepts such as in-store partnerships with pharmacies.

LEVERAGING OUR GLOBAL INFRASTRUCTURE

With advanced R&D and manufacturing facilities on three continents, Sonova is in a uniquely strong position to optimize its global processes and cost efficiency, thereby increasing gross profit and EBITA margins. In the near term, we do not see the need for major investments into new plants or local infrastructure. We intend to leverage the key elements of our global network and infrastructure.

With R&D hubs in Switzerland, Canada (Kitchener, Ontario), and the US (Valencia, California), Sonova is able to tap into the talent pool around the world. We produce our broad range of hearing solutions at our centers in Switzerland, combined with modern and efficient facilities in Vietnam and China, and a new cochlear implant production facility in California. Sonova's distribution is built on a broad network of wholly-owned subsidiaries in over 30 countries, which account for well over 90 % of the Group's sales, as well as through distributors in more than 70 countries.

SONOVA

HEAR THE WORLD FOUNDATION

A GROUP-WIDE COMMITMENT

The Hear the World Foundation is a global initiative to raise awareness about the importance of hearing and the consequences of hearing loss – a problem that affects around 15 % of the world's adult population. It addresses the social and psychological effects of hearing loss, especially among children, and provides information on prevention and solutions.

Over the past six years, the Hear the World Foundation has supported more than 50 projects on all five continents, both technologically and financially and thus given hundreds of people with hearing loss the chance of a better life. During the same time, the initiative has won scores of awards and generated over nine billion media contacts and almost a million website visitors.

The Hear the World Foundation has come to be the most prominent element of Corporate Social Responsibility (CSR) at Sonova. As recognition of this, Sonova encourages employee engagement in the work of the Foundation by offering Employee Volunteering Opportunities.

To further emphasize our commitment and drive, the phrase "Hear The World" is now part of the Sonova logo. It confirms Sonova's vision to create a world in which everyone has a chance to enjoy the delight of hearing and live a life without limitations.

HEARING AIDS

Phonak is the leading and most innovative brand in hearing aids and wireless communication solutions for audiological applications. The product range includes Lyric: a unique solution that is placed deeply in the ear canal and can stay there for up to four months, completely invisible and hassle-free. The superior Phonak hearing care solutions are used by millions of people on a daily basis and help them live their lives to the fullest, even in the toughest listening situations.

Unitron is built on strong, personal relationships with hearing care professionals and products that make a real difference in the lives of people with hearing loss. Unitron has a proven track record of developing technological innovations that provide natural sound with exceptional speech understanding, and a relentless drive to deliver an exceptional customer experience.

COCHLEAR IMPLANTS

Advanced Bionics is a global leader in developing the most advanced cochlear implant systems in the world. Founded in 1993 and a subsidiary of the Sonova Group since 2009, Advanced Bionics develops cutting-edge cochlear implant technology designed to help children and adults with significant hearing loss enjoy clear, high-resolution sound, optimal speech understanding in noisy settings and an outstanding music experience.

RETAIL

The Connect Hearing Group is a fast growing international professional service network of hearing care providers. It is dedicated to delivering outstanding service and technology solutions for people with hearing loss. Constantly thinking to improve information, education, screening, counseling and support, Connect Hearing always puts its customers in the center of attention, knowing that better hearing starts with understanding their individual needs.

PHONAK

– Phonak is the driving force of hearing care. We creatively challenge the limits of technology in order to help people hear, understand and experience more of life's rich soundscapes.

Phonak's goal is simple: to enable people to live a life without limitations – to interact freely and communicate with confidence. Our most important measure of success is the positive impact our technologies have on people's experience of the world. Sound is vital, sound is beautiful: our quest to offer the best hearing experience is also a quest to provide a better quality of life.

People want to hear – but also to be heard. Phonak is keen to be the driving force in hearing care, so we make sure we keep listening: to the people who use our products, those who might one day use them, and to all the hearing care professionals whose daily contact with their clients and deep insight into their needs help to steer our innovation. We are passionately committed to understanding the challenges faced by people who live with hearing loss. We constantly strive to push beyond the boundaries of today's technology. Every type of hearing loss deserves its optimal hearing solution. Phonak aims to provide that solution – because "life is on" and should have no limits.

FULL SPECTRUM OF PRODUCTS

Phonak offers the broadest product range in the industry, extending across the full spectrum of form factors and performance levels, so that hearing care professionals have all they need to recommend the right solution with the right features for each of their clients. Phonak products are arranged in families, including the Bolero range of traditional Behind-The-Ear (BTE) hearing instruments, Virto In-The-Ear (ITE) instruments, the Audéo family of cosmetically attractive Receiver-In-Canal (RIC) instruments, and Naída power hearing instruments.

During the year under review, we substantially upgraded Lyric, our invisible, extended wear, deep-in-the-canal hearing instrument, to a new generation. Thanks to an even smaller design, the anatomical fit rate was increased by 50 %, ensuring a comfortable fit in more than 70 % of ear canals and expanding the benefits of this unique product to even more people. Lyric opens a whole new market for the hearing care professional: the millions of people with mild-to-moderate hearing loss who resisted conventional hearing instruments, whether for reasons of aesthetics, self-image, or perceived inconvenience.

PHONAK
life is on

The Nios product family supports Phonak's market-leading position in pediatric hearing solutions. In January 2013, Phonak announced a dedicated marketing campaign celebrating "40 years of connecting children to the world:" creating instruments that help children with hearing loss to reach their full potential. Continuous close collaboration with hearing care professionals, researchers, children and their families, combined with Phonak's commitment to innovation, have produced a compact, versatile, high performance pediatric product portfolio. All Phonak pediatric hearing aids feature a child-friendly, robust, water- and dirt-resistant housing – in recognition of every child's sense of adventure.

CHALLENGING THE LIMITS OF TECHNOLOGY

Phonak's market-leading position has not come about by chance. Leadership comes from continuously challenging the limits of technology: envisaging the next fundamental technology platform at the same time as perfecting the current one. In October 2012, at the 57th International Congress of Hearing Aid Acousticians (EUHA), Phonak announced the latest milestone in its innovation journey: the new Quest technology platform. Maximizing the capabilities of the most advanced chip technology, Quest provides all the benefits of Phonak's unique Binaural VoiceStream Technology (see below for details).

Products based on the new Quest platform include a full, completely redesigned range of BTE instruments: Bolero Q – offering a choice of four models, addressing a wide range of cosmetic and audiological needs in three performance levels. All Bolero Q instruments are nano-coated with the latest in plasma coating technology to ensure moisture resistance and a comfortable wearing experience. The color palette now includes eight new hair and skin tones to meet a broad range of individual tastes.

Phonak has also introduced a full portfolio of custom (ITE) instruments based on the new platform: Virto Q. All Virto Q models are available in three performance levels. They offer a wide range of options and flexibility in format – from the tiniest Phonak product all the way to the most powerful full ITE instrument. Phonak nano, the popular Invisible-In-Canal (IIC) hearing aid, is now available in two versions for an even higher fit rate.

Virto Q and Bolero Q have both been welcomed in the market, as shown by the high rate at which these Quest-based models have been bought to replace previous generation products.

PHONAK ENGAGING VOICES

Innovation at Phonak is not only a question of how products are designed and manufactured; it is also a question of how they are marketed. In a field as complex and personal as hearing care, it is essential to communicate clearly how new technology advances can improve the individual's experience of daily life. In the same month that it launched the new Quest technology platform, Phonak unveiled an innovative marketing concept: "Phonak engaging voices." The centerpiece of the campaign is the Phonak Soundscape, a panoramic visualization of the richness of common, real-life listening situations that are nevertheless often a challenge for people with hearing loss: a lively family reunion, a visit to a favorite restaurant, a romantic walk on a windy day, and so on. Thanks to its broad and deep product range and industry leading technologies, Phonak has a tailored solution that can make each of these challenging real-life situations as enjoyable and rewarding as it should be. The variety of experiences captured in the Soundscape allows for a long-term, consistent communication of Phonak's products and technologies. It gives the whole portfolio a unified visual style while allowing focused marketing of the benefits of each specific model or feature.

INNOVATION MAINTAINS MOMENTUM

Phonak innovation continued at a driving pace in 2013: after the end of the financial year in April, the Quest platform was extended to support two new model families offering solutions for the most critical segments of the hearing instrument market – people with mild hearing loss and those with profound hearing loss. People with mild hearing loss usually hear well in quiet situations but need help in understanding speech in challenging environments: they place a high value on sound quality and on the esthetics of the instrument. The Audéo Q Receiver-In-Canal (RIC) family combines proven Quest performance with a very attractive design at four performance levels. The RIC form factor is the fastest growing style worldwide. All members of the Audéo Q family include a tinnitus noise management program.

The Naída Q power range of products applies the newest technology to achieve the best performance for all types of severe to profound hearing loss. The rollout of Audéo Q and Naída Q was complemented by the launch of our latest wireless technology solution: Roger, which builds on Phonak's leadership in miniaturized wireless communication systems. Roger is the new digital standard that bridges the understanding gap, in noise and over distance, by wirelessly transmitting the speaker's voice directly to the listener. It offers maximum performance, zero hassle, and universal compatibility with all brands of hearing aids, cochlear implants, and Phonak's SoundField classroom amplification system.

GLOBAL SALES AND DISTRIBUTION NETWORK

Phonak benefits from a well established global sales and distribution system. Present in over 90 countries through its direct subsidiaries, as well as through its extensive network of independent distributors, Phonak has a balanced geographic footprint, with significant sales in the Americas, EMEA, and Asia Pacific regions. Growth in individual country markets can be affected by number of factors, including the local economic situation and the national healthcare reimbursement system. Thanks to its global presence, Phonak can benefit from positive trends in individual markets while absorbing disruptions caused by changes in local reimbursement policies or economic conditions. Furthermore, the business can allocate resources around its existing global production infrastructure to support solid growth in operating margins.

Phonak is present in most major markets, but current geographic sales analysis reveals that the Asia Pacific region, and in particular China, represents a relatively small portion of its overall sales. This clearly does not reflect the large potential of the Chinese market. For this reason, Sonova has launched a targeted market strategy to develop this area in the coming years.

PHONAK

BINAURAL VOICE-STREAM TECHNOLOGY

A UNIQUE BASIS FOR ADVANCED FEATURES

Normal hearing depends on processing sound information from both ears at once. Phonak has long been a pioneer in binaural systems, in which two hearing instruments mimic the natural hearing experience by mutually adjusting their sensitivity to select the important sound and "zoom" in on it, thereby greatly improving speech understanding. Phonak has advanced these systems to a new level of sophistication with Binaural VoiceStream Technology, unique in the industry. Digital wireless communication transfers full audio information from one instrument to the other in real time, allowing four microphones to act as one integrated system.

Phonak binaural technology has provided such popular features as narrow beam sensitivity for noisy situations (StereoZoom), telephone signals streamed to both instruments (DuoPhone), and four-directional control of microphone sensitivity zones (auto ZoomControl). Now Phonak has pushed the boundaries of technology yet further, making it possible for hearing aid wearers to hear and interact even in the most difficult situations. Wind noise has always proved a challenge to hearing aid wearers. Quest's new Speech in Wind feature samples and compares the wind noise from both hearing aids. The aid with the better speech signal then streams it to the other side, producing a measured increase in speech intelligibility of up to 40 %.

Auto StereoZoom is the only technology capable of automatically narrowing the beam of microphone sensitivity to focus on a single speaker, while suppressing other interfering sounds. This produces a significant 3 dB improvement in signal-to-noise ratio, increasing speech intelligibility up to 45 %. Thanks to the Quest technology platform, StereoZoom has been integrated into the SoundFlow automatic program. This eliminates the need for hearing aid wearers to make manual adjustments: in noisy situations, the hearing aid automatically focuses on the voice the hearing aid wearer wants to hear, allowing effortless interaction even in the most challenging environments.

LEADERSHIP
DRIVEN BY
INNOVATION

UNITRON

– Unitron delivers an exceptional customer experience based on renowned personal service and products that make a real difference in people's lives.

Hearing care is a high technology business, bringing together sophisticated sound gathering, processing, and communication capabilities and then miniaturizing them to fit comfortably in or behind a human ear. Yet all this technology, impressive though it may be, is simply the means to an end: making a real difference in people's lives. And that takes more than just technical genius; it grows from interactions between people – the designers and manufacturers, hearing care professionals, and their clients. Openness, dedication to service, willingness to go further… these values make for good relationships, and good relationships produce better hearing outcomes.

Unitron's mission is to deliver an exceptional customer experience, not just an excellent product. Tireless pursuit of this mission, through the individual initiative of highly motivated employees, is helping us to build a reputation for service in markets around the world. Individual initiative is the key: our best ideas come from our employees in the field. We analyze these positive examples and then implement them across the organization, creating a consistent, distinctive experience that customers value. This makes for profitable business, generating the best kind of profits: those that stem from high customer satisfaction, loyalty, and advocacy.

Based in Canada, Unitron is present in over 65 countries through its direct subsidiaries, as well as through a wide network of independent distributors. Our goal is to use our strong base in North America to further develop our position in core markets in Europe and Asia.

unitron™
Hearing matters

EXCEPTIONAL CUSTOMER SERVICE –THE UNITRON WAY

For Unitron, this business is personal: the company's culture is based on a strong individual commitment from its employees to the success and satisfaction of its customers and their clients. Closeness to the customer is essential: only by gaining deep understanding of the business and needs of hearing care professionals – and, in turn, of their relationship with their clients – can Unitron deliver a truly personal service. The company's emphasis on personal service is summed up in "The Unitron Way:" principles that govern every dealing between its people and their customers. These include a commitment to make every interaction easy and personal; to genuinely listen and act on customers' input; and to have the best people on Unitron's team, each one committed to customer success. New service initiatives for this year include MyService, an online portal that gives customers access to their account information 24 hours a day, seven days a week. This allows them to check at their leisure on such information as order status, warranty lookup, and account status, as well as to access marketing tools to promote their business. The portal is up and running in North America and several European markets and is planned to be rolled out in other major regions.

Unitron's online presence is backed up by its Live Voice policy. Every customer who calls Unitron should be answered by a real person, not a recording; in Canada, Live Voice is available 12 hours a day. North American and several European markets also offer extended business hours, including early morning and Saturday customer support. These, as with Unitron's free delivery and global warranty, are all part of being an approachable company that is easy to do business with.

The Unitron Way is clearly appreciated by customers: in a 2012 Net Promoter Score survey in the US, more than 65 % of the hearing care professionals polled said that they would actively recommend Unitron to fellow professionals. In Germany, where Unitron has more than 35 years of market experience, a 2012 market survey showed the strong value of its partnership approach: it gained the biggest increase in customer satisfaction of all 13 manufacturers in the German market.

PRODUCTS THAT MAKE A REAL DIFFERENCE

Unitron has always focused its technology development on delivering natural sound with superior speech intelligibility. In March 2012, Unitron announced two new premium instruments based on its latest-generation Era technology platform: Quantum Pro and Moxi Pro. These deliver industry-leading enhancements, such as SpeechZone directional sensitivity, which enrich wearers' hearing experience and speech understanding, even in the most challenging listening environments. The Era-based portfolio was further extended in October 2012 with the introduction of Max, a super power device with a Power Adaptation Manager to prevent over-amplification.

The Moxi family of sleek, low-profile but high-fidelity RIC instruments offers a combination of sophisticated performance, natural sound, and ease of use. In April 2013, Unitron expanded its portfolio with the launch of Moxi Kiss, a state-of-the-art RIC product with an eye-catching new design. Available in five price categories, it builds on the success of the original Moxi product family, but with a look that aims to the future, representing the first step in Unitron's plans to implement a new design language reflecting its brand identity. Moxi Kiss also adds a tinnitus masker to its capabilities for the first time. It will be included among the models suitable for the revolutionary Flex product and services concept (see details below).

HEARING MATTERS – COMMUNICATING THE BRAND

Unitron's business is personal; it is also a growth business. The company's goal is to establish its brand globally, which means building up in each new market the trusting, productive relationships that drive Unitron's success. The first priority is to communicate what makes Unitron different, engaging customers and potential customers with its values. One tool for helping people clearly understand what Unitron stands for has been applied with great success over the past two years: the "Favorite Sounds" movement.

It started very simply: Unitron asked hearing care professionals around the world, "What is your favorite sound?" The response was overwhelming, showing the powerful emotions people throughout this industry feel about the vital role of sound in life. The responses were also very individual, often linked to memories, particular people, or places: "crunching snow;" "unwrapping presents;" "my grand-daughter's laugh." It showed how personal any approach to hearing solutions must be.

This was not a campaign where one company spoke to the market, but a forum where the industry spoke to itself, revealing the passion and dedication that hearing care professionals feel about their role in clients' lives. Unitron shares that passion and dedication as an integral part of the brand identity it conveys to the market.

Two years on, the movement continues: "Favorite Sounds" has crossed all continents – in more than 40 countries and 22 languages – with more than 5,000 people having shared their favorite sound. In many markets local hearing care professionals have launched their own versions of "Favorite Sounds" as a tool to build their businesses and create stronger relationships with their clients.

UNITRON

UNITRON FLEX

UNIQUE OPTIONS FOR THE PROFESSIONAL

Over 50 % of people with hearing loss do not go on to buy a hearing instrument after having visited a hearing care professional. In part, this may be because of delay: in the past, people diagnosed with hearing loss might have to wait for two weeks before they could receive their first hearing aid. During that time – without having actually experienced their hearing solution – some would lose confidence or simply give up on the process.

No longer: in October 2012 Unitron launched Flex, a game-changing product and services offering. It gives hearing care professionals two unique advantages: Flex:trial, the ability to offer their clients an immediate, risk-free programmable hearing instrument trial; and Flex:upgrade, the world's first in-clinic solution for upgradeable hearing instruments.

With Flex:trial, hearing care professionals can program a single hearing instrument to higher or lower levels of technology as often and for as long as needed, providing a personal trial solution to each client. Clients newly diagnosed with hearing loss get immediate access to the technology level best suited to their needs and experience the life-enhancing benefits of amplification right from their first appointment.

Flex:upgrade lets hearing care providers accommodate a client's changing needs over the lifetime of the product through real-time upgrades of the hearing instrument's technology. Unitron is the first in the industry to offer these abilities to program, trial, and upgrade full technology levels, even after purchase, within the clinic – in minutes, while the client waits. The result for Unitron's customer is convenience, flexibility, and increased revenue.

The response from the market has been highly favorable, with customers in key markets such as the US, Australia, France, and Germany reporting significant increases in all the key metrics – advertisement responses, appointment-to-inquiry ratios, sales closed, and client satisfaction. New customers are approaching Unitron specifically because of Flex: it is a passport to growth.

LEADERSHIP
DRIVEN BY
INNOVATION

Connect Hearing
Outstanding understanding

CONNECT HEARING

– Connect Hearing is the most trustworthy hearing care provider – passionate about providing better hearing through professional consulting and personalized solutions that exceed clients' expectations.

Sonova's retail business has made increasingly important contributions to the success of its Hearing Instruments segment. More than fifteen years of experience in service channels have given us a clear sense of what clients really want: personalized solutions, not just products; deep understanding of hearing loss and hearing technology; excellent audiological service from dedicated, expert hearing care professionals. We strive to meet these needs in all the ways we already serve the hearing care industry, from independent audiologists and shops to hearing centers, clinics, and hospitals. We have also included them among the essential values of Connect Hearing, the brand under which we are grouping our own retail presence.

Connect Hearing has two main roles: the first is to ensure that our clients receive exceptional care from highly trained, passionate hearing care professionals. The second is to help shape the future of our industry by maintaining high audiological standards while broadening the base of professional expertise and customer knowledge. Sonova has built up its retail presence in a set of selected markets by pursuing organic growth, opening new stores, and making complementary acquisitions. Launching the Connect Hearing brand is the logical next step. It helps us to establish uniform standards and values across our retail business, attracting the best audiological talent and providing exceptional service – while at the same time securing market share and obtaining further market insight.

Connect Hearing assures exceptional and state-of-the-art audiological care for our clients, presented in a modern, attractive environment and backed by the highest technological standards in hearing aids and in-store diagnostic and fitting equipment. Connect Hearing is a brand clients know they can trust.

GROWING THE BUSINESS

To secure organic growth, Connect Hearing continuously improves returns from the existing network of stores and clinics, boosting traffic through stores by targeted marketing campaigns and improving the conversion of sales leads, while making each appointment as productive as possible and demonstrating the real-life benefits of advanced hearing solutions to clients.

Connect Hearing invests for future growth by opening new stores that complement the existing network and make efficient use of the network's integrated operations and standardized in-store processes. New stores are carefully planned and only opened in selected markets and locations, determined very much by the structure of the business in each country.

The company continues to expand its network through complementary acquisitions. In many cases, Sonova has enjoyed long-term relationships as a reliable supplier and partner to independent hearing aid retailers or smaller chains of shops. Very often these customers are family-owned companies. When the time comes to consider succession planning, Connect Hearing can be an attractive choice to carry on the business and ensure that their clients continue to experience the professional audiological services they have come to know and trust. Therefore, it is essential that these acquisitions be integrated smoothly without major interruptions to their daily activity.

As a broad, integrated retail network, Connect Hearing has the scale and funds to develop innovative new concepts for counseling, fitting, and distribution (such as shop-in-shop selling) – as well as to expand successful concepts into other markets. Connect Hearing is able to keep up with trends, and to set new ones.

A balanced, appropriate use of these four strategic approaches, coupled with a clear focus on market selection, allows Connect Hearing to quickly reach the critical mass necessary to benefit from economies of scale and thus to grow profitably and sustainably.

OPERATIONAL EXCELLENCE

The key to profitability in retail is optimizing processes through the continuous pursuit of operational excellence. Sonova's long industry experience has given Connect Hearing a head start in applying successful practices and efficient, robust methods across the business. This includes intelligent design of in-store processes and tasks to make the best use of human and technical resources, thereby getting the most value out of each appointment. By introducing standard operating procedures and systems (such as IT systems and tools), and by improving on skills through regular professional training, Connect Hearing aims to build up its effectiveness and efficiency through continuous improvement. Accurate measurement and benchmarking of standardized performance criteria leads to ever-better results.

Efficient lead generation and conversion are essential to a successful retail business. A strong brand identity and exceptional service reinforce each other in clients' minds, creating a virtuous cycle of positive brand awareness. At its center is the memorable experience of excellent professional care every time a client visits a Connect Hearing shop. Exceptional service is the unique key product – the thing without which nothing else will sell. It is essential that the hearing care professionals who provide audiological services through Connect Hearing are knowledgeable and experienced in the most up-to-date technologies and procedures available. Training therefore always aims for the highest standard.

This year, Sonova's Hansaton retail network in Austria conducted a thorough analysis of its service and sales processes, to understand and optimize the way that counseling, testing, fitting, discussion, and after sale service combine to create a relationship of trust with their clients. Training and coaching helped Hansaton retail staff make the most out of these five main points of client contact. The result: the stores that participated in the pilot scheme recorded significant increases in sales, with more premium and advanced products bought, despite a shorter overall sales process. Hansaton identified this consistent approach to service and client orientation as a key success factor and has implemented it across the company.

BUILDING AND GROWING THE BRAND

Growth also depends on brand awareness. Connect Hearing has launched a series of initiatives to present its brand directly to customers in selected markets. In the US, for example, Connect Hearing has run direct-to-customer commercials on the theme "Better hearing starts with a story. Tell us yours!" The stories presented in the campaign show that hearing loss does not just affect the elderly, but a wide variety of people for whom Connect Hearing can offer individual solutions.

The companies that make up the Sonova Connect Hearing Group all aim to benefit from the recognition and economies of scale that arise from homogenous and consistent branding. Where a current brand is successful in its local market, its name may not change immediately, but the goal remains to create a common look and feel.

The essential characteristics of the Connect Hearing brand and value proposition are:

– Connect Hearing offers customized and personalized hearing solutions with outstanding audiological service and the best available technology;
– The hearing care professionals have a passion for their work, manifested through unique client relationships; and
– The Connect Hearing counseling process is professional; it results in a solution – not a product.

Canada offers a clear example of the benefits of combining retail operations under the Connect Hearing brand. Sonova first entered the Canadian retail market in 2006, when it acquired Island Hearing; by 2010, it was operating under more than 20 different brands. The grouping of all these businesses under one name paralleled the integration of processes and client experience into a single high standard of audiological service offering. Today Connect Hearing Canada is the country's first national brand for hearing care services and its largest network of hearing care centers, with more than 100 practices from coast to coast. Connect Hearing Canada is one of the most successful retail businesses of Sonova – a model for further brand integration in other major markets such as the US.

CONNECT HEARING

BOOTS HEARING CARE

A NEW BUSINESS MODEL LINKS TWO QUALITY BRANDS

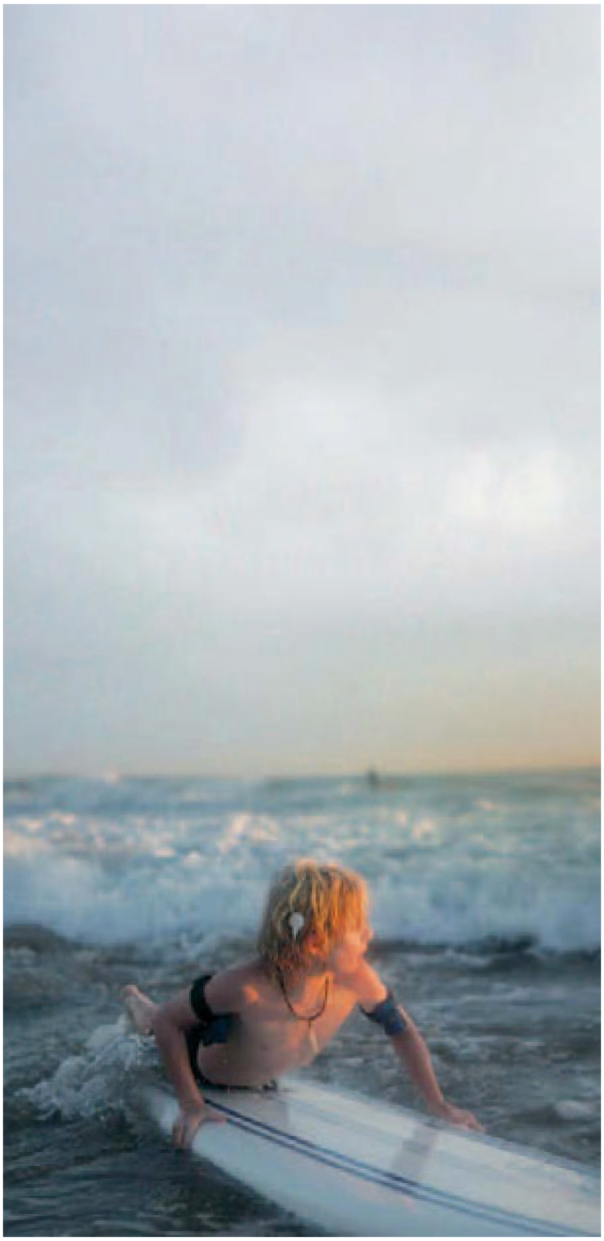
Sonova's partnership with Boots, the UK's leading pharmacy-led health and beauty retailer, has generated a highly successful retail concept. Both companies are strongly quality conscious and committed to providing excellent customer service. Sonova's goal is to strengthen the professional audiology channel through service partnerships. Boots already provides in-store eye care through its Boots Opticians brand. The fit between the two companies is clear.

David Ormerod Hearing Centres, a Sonova Group company, launched its partnership with Boots in 2003, operating shop-in-shop Boots hearingcare centres within attractive town-center Boots stores, where professional audiologists offer state-of-the-art counseling and fitting services. As a reflection of their long-term commitment, Boots deepened its partnership with Sonova in February 2013, when it bought a 49 % minority stake in David Ormerod Hearing Centres.

The partnership benefits all parties. It helps Boots offer a clearly differentiated service to its clients and increases its store traffic. Boots hearingcare and Boots Opticians serve a similar demographic; having both offers under one roof creates synergies between the two activities, such as joint marketing campaigns.

Clients benefit by dealing with a single trusted brand, known for its high quality. Boots hearingcare clients are entitled to a lifetime of aftercare, including follow-up appointments to ensure proper fitting and regular checkups. This successful partnership shows how Sonova pursues innovation – not just in developing and offering products but also in distributing and servicing them.

LEADERSHIP
DRIVEN BY
INNOVATION



ADVANCED BIONICS

– Advanced Bionics is committed to putting patients first; providing the best possible hearing performance remains at the forefront of all we do.

Advanced Bionics cochlear implants represent the leading edge of hearing technology, enabling people with severe-to-profound hearing loss to communicate freely. The decision to have a cochlear implant is a lifelong one – it needs full commitment from the recipient and the recipient's family, from the surgeons and hearing care professionals, and from the manufacturer. At Advanced Bionics, we call this "the journey to hearing." Our promise has always been to put the patient first, and we are keenly aware of our responsibility, not just to provide the most up-to-date technical innovations, but to dramatically enhance each recipient's quality of life.

A cochlear implant system consists of two main components: the external component, a sound processor, which is worn behind the ear or discreetly off the ear, and the two internal components, the implant and electrode, which deliver electrical stimulation to the hearing nerve. Cochlear implants bypass the damaged part of the inner ear to help recipients experience as close to normal hearing as possible:

1. Sound waves are captured by a microphone located on the sound processor or headpiece.
2. The sound processor converts the captured sound into detailed digital information.
3. The magnetic headpiece wirelessly transmits the digital signals to the implant.
4. The implant converts the received digital information into electrical signals that travel down the electrode array to the auditory nerve.
5. The auditory nerve sends impulses to the brain, where they are interpreted as sound.

Advanced Bionics was founded 20 years ago; since then we have become a global leader in cochlear implant innovation. We employ approximately 800 people in our cochlear implant business and provide products in over 50 countries, relying on a worldwide network of dedicated implant clinics and specialists.

ACCELERATING INNOVATION

Advanced Bionics joined the Sonova Group in 2009. Since these hearing solution providers combined forces, there have been significant investments in new technologies and product development for cochlear implants, with the firmly held goal of increasing the pace of innovation. Product lifecycles in this segment tend to be longer than in hearing instruments, both because of the technical complexity of this incredibly sophisticated technology, and because of global requirements for regulatory approval of new products. Even so, the Advanced Bionics commitment to provide cochlear implant recipients with the best possible hearing experience combines with the advantage of shared research and development efforts across the Sonova Group in order to bring new products to the market at a faster rate than previously possible.

Advanced Bionics has long been an innovation leader. Its Los Angeles-based development group has produced the industry's most sophisticated implants, offering an unprecedented natural hearing experience. The ClearVoice speech-in-noise algorithm, which received FDA approval in March 2012, is the first sound-processing algorithm in the industry to be given a superiority claim. It is widely acknowledged by cochlear implant recipients and audiologists to be one of the biggest advances in speech comprehension since the introduction of the cochlear implant.

We expect 2013 to be the year in which Sonova's investment in technology, research and development for cochlear implants becomes clearly evident to the market. Pending regulatory approval, we will see the market launch of step-change innovations in the sound processor, wireless connectivity, front-end processing and the electrode.

Expectations are high because the response to last year's innovation has been excellent: Neptune, the world's first and only waterproof and swimmable sound processor, marked its debut in 2012 by generating a substantial part of Advanced Bionics processor sales. Its innovative freestyle nothing-on-the-ear design and robust IP68-rated resistance to both moisture and dust ingress makes it a favorite among children and adults with an active lifestyle.

In February 2013, Advanced Bionics received European TÜV and Health Canada approval for its revolutionary HiFocus Mid-Scala electrode[1], which is designed to protect the delicate structures of the cochlea and help preserve the recipient's residual hearing without compromising performance. Featuring the industry's smallest pre-curved array, the HiFocus Mid-Scala is the only pre-curved electrode developed for the latest "soft" surgery techniques, including round window insertion. Its unique mid-scala placement allows for maximized performance with full-spectrum hearing. Like every electrode array in the HiFocus line, the Mid-Scala model supports Advanced Bionics proprietary current steering technology for stimulation that more closely resembles normal hearing. Developed through extensive research and using state-of-the-art manufacturing processes, the HiFocus Mid-Scala electrode is fully upgradeable for next-generation sound processing. It gives recipients the opportunity to enjoy the best possible hearing now and improved hearing in the future as new technology is introduced.

AB AND PHONAK – PARTNERS FOR BETTER HEARING

From the time Advanced Bionics joined the Sonova Group, it has been clear that the combined R & D strengths of Advanced Bionics and Phonak would offer great potential for further breakthrough innovations in the broader cochlear implant market. Sonova has been diligent in informing hearing care professionals, parents, and cochlear implant recipients about the range of possibilities now opening for those affected by severe-to-profound hearing loss. Phonak's industry leading sound processing technologies and years of experience in developing innovative and sophisticated hearing-enhancement algorithms synergizes perfectly with Advanced Bionics industry leadership in high-fidelity signal processing and targeted stimulus delivery.

At the time of acquisition, the two Sonova businesses began working together for the development of improved solutions for cochlear implant recipients, supporting the Advanced Bionics mission to put patients first. One example of the successful collaboration is the new Naída CI Q70 sound processor[2] (see details below) which gives cochlear implant recipients access to a full range of industry-leading technologies from both Advanced Bionics and Phonak.

1 Pending regulatory approval in the United States

2 Pending regulatory approval

The synergies between the two partners are not limited to product development and innovation. Together, Advanced Bionics and Phonak are working to deliver a better, faster, and more efficient fitting experience for hearing instruments and sound processors alike. Phonak has built strong expertise and positions in the power and pediatric hearing instrument segments – both of which have close parallels with the cochlear implant recipient population. Phonak's close-knit, active network of audiologists who focus on these two client groups represents a bank of fitting expertise and a potential source of referrals for cochlear implantation. Through education and communication with cochlear implant clinics, these hearing care professionals can ensure that their clients continue to receive the best possible solution throughout their journey to hearing, even when hearing loss reaches a level where traditional hearing instruments can no longer provide adequate amplification. If their clients opt for a cochlear implant and thus for surgery, the hearing care professional can continue to take an active role in consultation, the fitting process, and other follow-up services.

EXPANDING THE GLOBAL FOOTPRINT

Advanced Bionics has built a solid position in the US market, and has been working to expand its presence outside the US since becoming part of the global Sonova hearing care group. This strategy will continue to be implemented rigorously as Advanced Bionics aims to get closer to its customers by expanding its local presence. An essential part of these efforts is the company's field force of clinical specialists who provide support, training, and troubleshooting services to cochlear implant clinics around the world. Advanced Bionics investment in these experts is an essential passport into new markets.

These efforts to expand Advanced Bionics global footprint are already bearing fruit: in 2012/13, for the first time in the company's history, it won a central government tender in China after several years of successfully serving the Chinese private market.

ADVANCED BIONICS

NAÍDA CI Q70

A SOUND PROCESSOR LIKE NO OTHER

In early 2013, Advanced Bionics unveiled Naída CI Q70[1], its newest, most advanced behind-the-ear sound processor. At first glance it is obvious that the new processor is significantly (40%) smaller and lighter than its predecessor – as thin as the industry-leading power hearing aid.

Even more impressive is the range of new features, which combine state-of-the-art technologies developed by Advanced Bionics and Phonak, the respective innovation leaders in cochlear implants and hearing instruments. As one example, the Advanced Bionics ClearVoice feature, which has been clinically proven to help cochlear implant recipients to understand speech significantly better in noise, is now combined with Phonak's UltraZoom dual-microphone technology. Together, these two features have demonstrated improvement in speech understanding in noise by up to 55 percent[2].

Connecting the sound processors on both ears through Phonak's unique Binaural VoiceStream Technology offers a wide range of features previously unavailable to cochlear implant recipients: ZoomControl (ability to focus on a speaker on either side), DuoPhone (automatic streaming of a telephone caller's voice to both devices), and Quick Sync simultaneous one-button control. With the introduction of Quest, Phonak's leading sound processing technology platform, other Phonak features will become available in the future.

Using the Phonak ComPilot, for the first time ever, recipients can connect wirelessly to Bluetooth devices, mobile phones, computers, media players, TVs, navigation systems, FM, and other consumer electronic devices. ComPilot also connects to the Phonak RemoteMic, a lightweight wearable microphone that streams the speaker's voice directly to both of the recipient's ears in difficult listening environments, such as restaurants, playgrounds and meetings.

1 Pending regulatory approval

2 Buechner A, Dyballa K-H, Hehrmann P, Fredelake S, Lenarz T. Advanced beamformers for cochlear implant users in challenging listening conditions. Submitted to Otology & Neurotology, 2013

LEADERSHIP
DRIVEN BY
INNOVATION

CORPORATE SOCIAL RESPONSIBILITY

Sonova has further expanded its corporate social responsibility (CSR) activities over the past year – with firm commitment, a clear strategy, and targeted initiatives.

OUR APPROACH TO CORPORATE SOCIAL RESPONSIBILITY

Sonova's reputation for ethical behavior is one of its most valuable company assets. It stems from our daily actions and is thus an integral part of our drive to create sustainable success and value. To provide practical guidance, we revised our Code of Conduct, shared it with our employees, and trained them group-wide.

Our employees are the key to Sonova's success. We remain focused on high employee satisfaction and an increasing internal leadership recruitment rate. Sophisticated talent acquisition and succession planning processes, combined with the training capabilities of the Sonova Academy, ensure that we continue to have highly qualified and motivated employees.

Although Sonova is a high-technology company with relatively few energy- or material-intensive activities, we have further intensified our efforts to reduce our environmental impact with a clear focus on the life cycle of our products and on reducing our group-wide carbon footprint. Despite Sonova's growing business in the year under review, our carbon emissions per employee decreased slightly, due to improved efficiency measures. Thanks to our employees' determination and commitment, all Sonova's operation centers are now ISO 14001 certified.

Sonova reports its CSR activities according to the requirements of the Global Reporting Initiative (GRI) and participates in the Carbon Disclosure Project (CDP).

HEAR THE WORLD – A SONOVA GROUP INITIATIVE

Sonova assumes responsibility extending beyond its own business activities. In 2012, we confirmed our social commitment by expanding the mission of the Hear the World Foundation to become a strategic initiative of the Sonova Group. This underlines our support, across all our brands, for underprivileged people with hearing loss.

CSR REPORT 2012/13 ONLINE

THE SONOVA CSR REPORT

IN LINE WITH OUR ENHANCED CSR ACTIVITIES, WE HAVE PUBLISHED A SEPARATE CSR REPORT TO COMPLEMENT THE ANNUAL REPORT. THIS FOCUSES ON SONOVA'S CSR GOVERNANCE, ENGAGEMENT, AND PERFORMANCE.

The report covers CSR governance, including organizational structures and norms such as the Code of Conduct and other important CSR-related policies. A materiality matrix maps social and environmental topics relevant to Sonova and its stakeholders. Separate chapters report and discuss our social and environmental performance relative to employees, product responsibility, suppliers, and community involvement – each to the limits of available data. The content of the Sonova CSR Report, combined with the information in the Annual Report, fulfills the requirements of the Global Reporting Initiative (GRI) Application Level C.

Sonova is a globally active company with a strong presence in all key markets. We diversify our risk and enhance our competitiveness by running several operation centers located in different countries. This year's CSR report features an extensive reportage about our modern operation center in Vietnam.

The full report can be downloaded at:
www.sonova.com/en/csrreport/

CORPORATE GOVERNANCE

Good corporate governance ensures trust between the company and its various stakeholders. Thus, Sonova continued to enhance its corporate governance.

During the financial year 2012/13, Sonova further strengthened its compliance program by launching a revised Code of Conduct along with a series of related measures such as a comprehensive anti-bribery policy. An effective compliance program and leadership by example are important corporate governance tools: Sonova further changed the compensation structure for members of the Board of Directors from options to restricted shares, thereby applying best practice in Board compensation.

During this financial year Sonova concluded all matters relating to the profit warning of March 16, 2011: the SIX Swiss Exchange finished its inquiry and Sonova entered into a settlement with a group of investors. The Zurich district attorney's office closed its investigation without initiating any charges against the individuals concerned.

At Sonova, corporate governance is based upon and structured to conform with international standards and practices. The company fulfills its legal duties under Articles 663b, 663b^{bis} and 663c of the Swiss Code of Obligations, the SIX Swiss Exchange Directive on Information Relating to Corporate Governance, and the standards defined in the Swiss Code of Best Practice for Corporate Governance. The present report describes the principles of Corporate Governance for the Sonova Group and provides background information on the Group's executive officers and bodies as of March 31, 2013. All the relevant documents can be accessed at the Corporate Governance section of the Sonova website: www.sonova.com/en/commitments/corporategovernance. For clarity and transparency, the Compensation Report is presented as a separate chapter of this Annual Report.

GROUP STRUCTURE

OPERATIONAL GROUP STRUCTURE

The Sonova Group is headquartered in Stäfa, Switzerland, and is active in over 90 countries. Sonova has subsidiaries in over 30 countries and a network of independent distributors serving other markets. Details of its business segments can be found in Note 6 of the Consolidated Financial Statements.

LISTED COMPANIES

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

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

	2013	2012	2011
Market capitalization in CHF million	7,649	6,677	5,444
in % of equity	468 %	452 %	405 %
Share price in CHF	113.90	100.30	81.85

Registered office	8712 Stäfa, Switzerland
Listed on	SIX Swiss Exchange
Security number	1254978
ISIN	CH0012549785
Ticker symbol	SOON
Par value	CHF 0.05

NON-LISTED COMPANIES

A list of the significant companies of the Sonova Group as of March 31, 2013 can be found in the Consolidated Financial Statements in Note 35.

SHAREHOLDERS

REGISTERED SHAREHOLDERS

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

Number of shares	Registered shareholders 31.3.2013	Registered shareholders 31.3.2012
1 – 100	5,793	6,479
101 – 1,000	8,608	9,835
1,001 – 10,000	1,177	1,330
10,001 – 100,000	163	162
100,001 – 1,000,000	29	21
> 1,000,000	7	6
Total registered shareholders	**15,777**	**17,833**

SIGNIFICANT SHAREHOLDERS

The following overview shows the registered shareholdings of significant shareholders as of March 31. Significant shareholders may also hold non-registered shares which are reported under "Not registered":

	2013	2013	2012	2012
	No. of shares	in %	No. of shares	in %
Chase Nominees Ltd. [1]	11,769,397	17.53	9,816,290	14.74
Beda Diethelm [2]	6,647,719	9.90	6,647,259	9.98
Andy Rihs [2]	4,203,765	6.26	5,574,598	8.37
Hans-Ueli Rihs [2]	4,166,000	6.20	4,222,713	6.34
Nortrust Nominees Ltd [1]	2,546,454	3.79	2,110,134	3.17
Mellon Bank Nominee [1]	2,448,306	3.65	2,619,938	3.94
Registered shareholders with less than 3 % of shares	19,239,912	28.65	18,985,354	28.52
Not registered	16,130,262	24.02	16,598,047	24.94
Total shares	**67,151,815**	**100.00**	**66,574,333**	**100.00**

1) Registered without voting rights.

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

In addition, the following shareholders of Sonova Holding AG have reported shareholdings of over 3 % or a reduction of the shareholding below 3 % in the financial year 2012 / 13:

BlackRock, Inc., 40 East 52nd Street, New York 10022, USA (parent company) controls 3.15 % of the capital following a stock purchase on March 26, 2013.

T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, Maryland 21202, USA, has informed the company that it holds less than 3 % of the capital as of February 27, 2013.

AKO Capital LLP, 61 Conduit Street, London W1S 2GB, United Kingdom, holds 3.05 % of the capital following a stock purchase on February 5, 2013.

MFS Investment Management and its affiliates, 500 Boylston Street, Boston, Massachusetts 02110, USA, have informed the company that it holds 9.99 % of the capital as of December 6, 2012.

Credit Suisse Funds AG, Kalandergasse 4, 8045 Zurich, Switzerland, has informed the company that it holds less than 3 % of the capital as of November 15, 2012.

Harding Loevner LP, 400 Crossing Boulevard, Fourth Floor, Bridgewater, New Jersey 08807, USA, holds 3.02 % of the capital following a stock purchase on June 1, 2012.

CROSS-SHAREHOLDINGS

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

CAPITAL STRUCTURE

CAPITAL

As of March 31, 2013, the capital of Sonova Holding AG comprised the following:

Ordinary capital (in CHF)	3,357,591
Total shares	67,151,815
Authorized capital (in CHF)	n.a.
Authorized shares	n.a.
Conditional capital (in CHF)	267,180
Conditional shares	5,343,605

AUTHORIZED AND CONDITIONAL CAPITAL

Authorized capital

The General Shareholders' Meeting held on June 10, 2009 approved the creation of authorized share capital of 3,311,520 registered shares with a par value of CHF 0.05 per share. The authorization expired on June 9, 2011 and the respective provision in the Articles of Association of Sonova Holding AG was removed by a resolution of the Board of Directors of Sonova Holding AG on June 14, 2011.

Conditional capital

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

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

CHANGES IN CAPITAL

As of March 31, 2013, the capital of Sonova Holding AG comprised the following:

	2013	2012	2011
Ordinary capital (in CHF)	3,357,591	3,328,717	3,325,720
Total shares	67,151,815	66,574,333	66,514,393
Authorized capital (in CHF)	n.a.	n.a.	165,576
Authorized shares	n.a.	n.a.	3,311,520
Conditional capital (in CHF)	267,180	296,054	299,051
Conditional shares	5,343,605	5,921,087	5,981,027

The authorized share capital of 3,311,520 registered shares created on June 10, 2009, has not been used and the authorization expired on June 9, 2011.

A total of 5,957,515 of a maximum of 8,000,000 approved conditional shares with a par value of CHF 0.05 each have been issued, so that the maximum conditional share capital reserved for key employees' share option plans was reduced by March 31, 2013, to 2,042,485 (previous year: 2,619,967) shares. In the financial year 2012/2013, a total of 200,967 options were granted as part of the Sonova Executive Equity Award Plan (EEAP). In 2011/12 and 2010/11, the number of options granted totaled 305,230 and 612,065 respectively. As of March 31, 2013, there were still 1,423,420 options outstanding (compared with 1,980,435 in the previous year). Each of these options entitles the holder to purchase one registered share in Sonova Holding AG with a par value of CHF 0.05.

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

SHARES AND PARTICIPATION CERTIFICATES

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

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

	2013	2012
First trading line	26,714	39,782
Total treasury shares	**26,714**	**39,782**

Sonova Holding AG has not issued any participation certificates.

PROFIT-SHARING CERTIFICATES

Sonova Holding AG has not issued any profit-sharing certificates.

LIMITATIONS ON TRANSFERABILITY AND NOMINEE REGISTRATIONS

Limitations on transferability for each share category

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

Exceptions granted in the year under review

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

Admissibility of nominee registrations

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

Procedure and conditions for cancelling statutory privileges and limitations on transferability

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

CONVERTIBLE BONDS AND OPTIONS

Sonova Holding AG has not issued any convertible bonds.

The executive and employee share ownership programs of Sonova Holding AG (Executive Equity Award Plan) are described in greater detail in the Compensation Report (beginning on page 44 and in Note 31 to the Consolidated Financial Statements (beginning on page 96).

BOARD OF DIRECTORS

INTRODUCTION

The primary duty of the Board of Directors of Sonova Holding AG is to set the overall direction of the company and the supervision and control of management (see Art. 716a para. 1 of the Swiss Code of Obligations).

Andy Rihs, having reached the age of 70, has been granted an exemption by the Board of Directors from the requirement to retire automatically because of age. Our Organizational Regulations allow for exceptions under special circumstances. He has helped to build the company from a family-owned hearing-aid business to a publicly held global leader in hearing solutions and we are very pleased that he will continue to play a pivotal role in the long term success of Sonova.

Having served on the Board since 1999, Heliane Canepa will step down from her role at the 2013 Annual General Shareholders' Meeting. During her time on the Board, she helped to build Sonova's leadership position. Her extensive experience in the medtech industry was of significant value in shaping the future of the Group.

The Board of Directors nominated Jinlong Wang for election at the 2013 Annual General Shareholders' Meeting. With his extensive business and legal background both in China and in the United States, he is a valuable addition to the current Board of Directors.

The mandates of John J. Zei and Beat Hess will come up for re-election at the Annual General Shareholders' Meeting of this year.

EXECUTIVE MANAGEMENT POSITIONS

Except for Valentin Chapero Rueda, who was elected to the Board of Directors at the General Shareholders' Meeting on June 10, 2009, and was also the Chief Executive Officer (CEO) of Sonova Holding AG until March 30, 2011 when he stepped down from both positions, no member of the Board of Directors holds an executive management position with Sonova Holding AG or any of its subsidiaries, or has held such a position in the past three years.

SIGNIFICANT BUSINESS CONNECTIONS OF BOARD MEMBERS WITH SONOVA HOLDING AG OR ITS SUBSIDIARIES

Except for the transactions disclosed in Note 29 to the Consolidated Financial Statements of Sonova Holding AG, there are no business connections between individual Board members, including companies or organizations represented by them, and the Sonova Holding AG.

OTHER ACTIVITIES AND VESTED INTERESTS

Except as disclosed in the biographies of the members of the Board of Directors, no member of the Board of Directors holds any position in a governing or supervisory body of any important private or public sector organization, institution or foundation; none holds any permanent management or consultancy position with an important interest group, or any public or political office.

ELECTIONS AND TERMS OF OFFICE

Election procedure and limits on the terms of office

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

According to the Organizational Regulations, reelections for successive terms are possible. Members of the Board of Directors shall retire regardless of their current term of office at the first General Shareholders' Meeting following their seventieth birthday. In exceptional cases the Board of Directors can make an exemption. Such an exemption was made in the case of Andy Rihs, who although having reached the age of 70, will remain a Member of the Board of Directors until the 2015 General Shareholders' Meeting.

First election and remaining term of office

The following overview shows the date of first election and the term expiry date for each member of the Board of Directors.

Name	Position	First elected	Term expires
Robert F. Spoerry	Chairman	2003	AGM 2015
Beat Hess	Vice-Chairman	2012	AGM 2013
Heliane Canepa	Member	1999	AGM 2013
Michael Jacobi	Member	2003	AGM 2015
Andy Rihs	Member	1985	AGM 2015
Ronald van der Vis	Member	2009	AGM 2014
Anssi Vanjoki	Member	2009	AGM 2014
John J. Zei	Member	2010	AGM 2013

ROBERT F. SPOERRY

(born 1955, Swiss citizen) has been Chairman of the Board of Sonova Holding AG since March 30, 2011 and a non-executive member of the Board since 2003. He is also 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 from the Swiss Federal Institute of Technology (ETH) in Zurich, Switzerland, and holds an MBA from the University of Chicago.

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

BEAT HESS

(born 1949, Swiss citizen) has been Vice-Chairman of the Board of Sonova Holding AG since June 19, 2012. From 1988 to 2003, he served as General Counsel of ABB Group and, from 2003 to 2011, as Group Legal Director and Member of the Group Executive Committee of Royal Dutch Shell plc.

Beat Hess studied at the Universities of Geneva, Freiburg, and Miami, is an attorney-at-law and holds a Ph.D. in Law.

Other activities:
- Member of the Board of Directors of Nestlé S.A.
- Member of the Board of Directors of Holcim Ltd.

HELIANE CANEPA

(born 1948, Swiss citizen) is member of the board of directors of swiss smile Holding AG since 2012. She was President and CEO of Nobel Biocare AB, Sweden, and CEO of the group's parent company, Nobel Biocare Holding AG, until September 1, 2007.

Before joining Nobel Biocare, Heliane Canepa was CEO for 20 years of Schneider Worldwide, a medical technology company based in Switzerland and the United States that manufactures balloon catheters.

Heliane Canepa completed business school in Dornbirn, Austria, and continued her studies at West London College in London, Paris-Sorbonne University in Paris, and the Foreign Executive Development Program at Princeton University in New Jersey (USA).

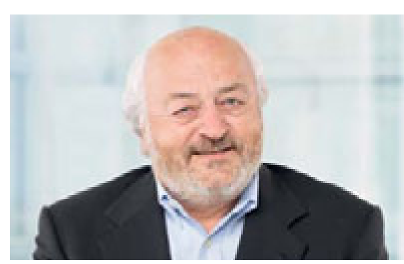
MICHAEL JACOBI

(born 1953, Swiss and German citizen) has worked as an independent consultant since 2007.

From 1996 to 2007, he was CFO and member of the Executive Committee of Ciba 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 in 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 was awarded a Ph.D. from the University of St. Gallen in 1979.

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



ANDY RIHS

(born 1942, Swiss citizen) has been member of the Board of Directors of Sonova Holding AG since its foundation in 1985. He is one of the company's founders, together with his former business partner Beda Diethelm and his brother Hans-Ueli Rihs. He also owns several companies that are mainly active in the real estate and cycling business, and he holds interests in various high-tech start-ups.

In 1966 Andy Rihs joined Beda Diethelm, who had come to Phonak a year earlier as technical manager, and concentrated on the company's marketing and commercial operations. He first established a sales organization for Switzerland and later gradually built up a global distribution network. Andy Rihs managed the Sonova Group as CEO until April 2000 and again as interim CEO from April to September 2002. Under his leadership, the company grew continuously and established an outstanding reputation as a provider of technologically advanced products.

Andy Rihs completed his education and business training primarily in Switzerland and France.

Other activities:
– Chairman of the Board of BMC Group Holding AG

RONALD VAN DER VIS

(born 1967, Dutch citizen) was Executive Director of the Board of Esprit Holdings Limited, a global lifestyle company listed on the Hong Kong Stock Exchange, from June 2009 and group CEO from November 2009; both positions ended in October 2012. He continued as an advisor to the company until January 2013.

Prior to this, since 1998, he held various general management positions at Pearle Europe B.V., a leading optical retailer. He was CEO of Pearle Europe group from January 2004 to April 2009.

Ronald van der Vis graduated from the Nyenrode Business University in the Netherlands and received his Master's Degree in Business Administration (with honors) from the Manchester Business School in the UK.

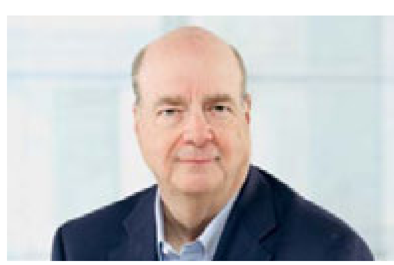
Other activities:
– Advisor to private equity portfolio companies
– Group CEO of Esprit Holdings Limited (until October 2012)
– Executive Director of the Board of Esprit Holdings Limited (until October 2012)

ANSSI VANJOKI

(born 1956, Finnish citizen) is Individual Multicontributor of RKBS Oy, a technology start-up investment company. He was Executive Vice President and General Manager of Nokia until March 2011 and member of the Nokia Group Executive Board from 1998 to 2011. He is also Chairman of the Board of Amer Sports Corporation, one of the world's leading suppliers of sports equipment and owner of Salomon, Atomic, Wilson, Precor, and Suunto brands.

Anssi Vanjoki has a Master's Degree in Business Administration from the Helsinki School of Economics and Business Administration.

Other activities:
– Chairman of the Board of Amer Sports Corporation
– Chairman of the Board of Vertu Holdings Ltd.
– Member of the Board of Koskisen Oy
– Member of the Board of Basware Corporation Oy
– Angel Investor and Chairman and Member of the Board of several technology start-up companies



JOHN J. ZEI

(born 1944, US citizen) was CEO of Knowles Electronics, the primary supplier of acoustic components for the hearing instruments industry, through the end of 2009. He retired as "Senior Advisor" from Knowles in 2010.

John J. Zei was previously President of Rexton, a hearing instrument manufacturer in the US, and later President and CEO of Siemens Hearing Instruments, Inc. He served three times as Chairman of the Hearing Industries Association (HIA). He also served in as President of the HIA, Chairman of the hearing industry's Market Development Committee, and on the Board of the Better Hearing Institute.

John J. Zei has a law degree from Loyola University, Chicago, and a Master's Degree in Business Administration from the University of Chicago.

Other activities:
– Member of the Board of Koolspan, Inc.

INTERNAL ORGANIZATIONAL STRUCTURE

Allocation of tasks within the Board of Directors

The Board of Directors constitutes itself. It appoints a Chairman, Vice-Chairman, and Secretary. The Secretary does not need to be a member of the Board.

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 Committee Charters were revised in June 2011. The committees usually meet before the Board of Directors meets and report to the Board on their activities and findings. The overall responsibility for duties delegated to the committees remains with the Board.

AUDIT COMMITTEE

The members of the Audit Committee are Michael Jacobi (Chairman), Heliane Canepa, and Anssi Vanjoki.

The duties of the Audit Committee include reviewing the performance and effectiveness of external and internal audit on behalf of the entire Board of Directors; evaluating the company's financial control systems, financial structure and risk management control mechanisms; and reviewing the interim and annual accounts and financial statements of the Sonova Group. The Audit Committee is also regularly updated on the company's compliance program. The Audit Committee Charter is available at: http://www.sonova.com/en/Commitments/regulationsprinciples/Pages/CommitteeCharters.aspx.

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

Nomination and Compensation Committee

The members of the Nomination and Compensation Committee are Robert F. Spoerry (Chairman), John. J. Zei, and Beat Hess.

The primary task of the Nomination and Compensation Committee is to select suitable candidates for election to the Board of Directors, to the position of CEO, and, upon the recommendation of the CEO, to nominate candidates for appointment to the Management Board. The Nomination and Compensation Committee also reviews and proposes to the Board of Directors the structure and amount of compensation for the Management Board and for the Board of Directors. The Nomination and Compensation Committee submits the relevant proposals and nominations for decision by the Board of Directors. The Nomination and Compensation Committee Charter is available at: http://www.sonova.com/en/Commitments/regulationsprinciples/Pages/CommitteeCharters.aspx.

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

Work methods of the Board of Directors and its committees

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

	A	B	C
No. of meetings in 2012/13	11[1]	4	5
Robert F. Spoerry	11	4[2]	5
William D. Dearstyne[3]	3	–	1
Beat Hess[4]	6	–	3
Heliane Canepa	10	4	–
Michael Jacobi	10	4	–
Andy Rihs	11	–	–
Anssi Vanjoki	11	4	–
Ronald van der Vis	10	–	–
John J. Zei	11	–	5
Average meeting length	6 – 8h[5]	3h	3h

A Board of Directors
B Audit Committee.
C Nomination and Compensation Committee.
1) Including telephone conferences
2) As guest
3) Resigned at the AGM 2012
4) First elected at the AGM 2012
5) Excluding telephone conferences

Urgent business matters were discussed in various telephone conferences. In addition to formal meetings at which minutes were taken, the members of the Board of Directors or of the committees also met informally for other activities that required additional time. These included, for example, preparations for formal meetings.

The agenda for meetings of the Board of Directors is set by the Chairman of the Board, and those of committee meetings by the respective committee Chairman. Any member of the Board of Directors or a committee may request a meeting or ask that an item be put on the agenda. Members of the Board of Directors and the committees are provided in advance of meetings with all relevant documents that enable them to prepare for the discussion of the items on the agenda during the meeting. The Board of Directors and its committees constitute a quorum if a majority of the members are present. The Board of Directors and its committees approve resolutions by a majority of members present at the meeting. In the event of an equal number of votes, the Chairman has the casting vote (see Rules on Board Operations and Procedures at: http://www.sonova.com/en/Commitments/regulationsprinciples/Pages/RBOP.aspx).

The Board of Directors works closely with the Management Board. In general, the meetings of the Board of Directors and its committees are also attended by the CEO and the CFO and, depending on the agenda, other members of the Management Board. The Board of Directors and the committees meet in executive sessions after every Board / committee meeting. The Board of Directors consults external experts when necessary in connection with specific topics.

DEFINITION OF AREAS OF RESPONSIBILITY

The Board of Directors of Sonova Holding AG is responsible for the overall direction of the company, except in matters reserved by law to the General Shareholders' Meeting. The Board of Directors decides on all matters that 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. The division of responsibility between the Board of Directors and the Management Board is set out in detail in the company's Organizational Regulations (see: http://www.sonova.com/en/Commitments/regulationsprinciples/Pages/OrganizationalRegulations.aspx).

INFORMATION AND CONTROL INSTRUMENTS VIS-À-VIS THE MANAGEMENT BOARD

The Management Board reports regularly to the Board of Directors during meetings of the Board and its committees. At each Board meeting, the Management Board informs the Board of Directors of the status of current business matters and financial results as well as major business transactions; it also presents relevant strategic initiatives and updates. Each year a Board meeting is reserved for presentation and discussion of the company's strategy. The Board of Directors is provided with monthly consolidated sales reports providing data on revenue, average selling prices, and units for each major product, subsidiary, and market. The Board of Directors also receives on a monthly basis the Financial Report with the full profit and loss statement, the balance sheet, and the cash flow statement, as well as the CEO's report on business performance, the competitive situation, updates on various initiatives, and an outlook. Informal telephone conferences are held as required between Board Members and the CEO or CFO. Furthermore, each member of the Board of Directors may request information on all matters concerning the company.

The Board of Directors also has an independent control body in the form of Internal Audit. The Head of Internal Audit reports to the Chairman of the Audit Committee. Internal Audit carries out compliance and operational audits and assists the business units in attaining their goals by guaranteeing independent evaluation of the effectiveness of internal control processes. Management is responsible for the control of business risks and for compliance with laws and regulations. The Audit Committee approves the annual work plan of Internal Audit and thus ensures that the relevant Group companies are adequately reviewed on a rotating basis. The Audit Committee also reviews and discusses the reports on completed audits submitted by Internal Audit. Internal Audit monitors and tracks the implementation of the necessary measures by Group companies to address previous internal audit findings and regularly reports to the Audit Committee on the progress made.

In the financial year 2012 / 13, Internal Audit was renamed Internal Audit, Risk, and Compliance as it extended its scope by assuming responsibility for risk assessment, the internal control system (ICS), and new compliance management tasks.

The Board of Directors conducts an annual risk management assessment. In accordance with the Audit Committee Charter, the Audit Committee reviews the company's risk management program before it is presented to the Board of Directors. The Group has implemented an efficient system to identify and analyze operational, financial, and legal risks related to the Group's business activities and has appointed persons specifically responsible for risk management. The risk management function categorizes risks by severity and probability and determines the measures necessary to address or mitigate them. The Management Board reports to the Board of Directors on an annual basis regarding current risks and measures for risk mitigation. The Board of Directors reviews the risk map and provides input from a strategic point of view. An internal control system (ICS) for financial reporting risks is in place. The Board of Directors receives annual updates on the compliance with the ICS guidelines by the relevant companies of the Group.

MANAGEMENT BOARD

The Management Board is responsible for the preparation, implementation, and monitoring of the strategic roadmap; the management of their respective Group functions; and the preparation, implementation, and delivery of the annual plan and budget. The Management Board also prepares for and executes decisions made by the Board of Directors. According to the Organizational Regulations of Sonova Holding AG, which were revised in June 2011, the Management Board is chaired by the CEO and comprises at least the CFO and such additional members as required by the organizational set-up of the company. The members of the Management Board are proposed by the CEO and are appointed by the Board of Directors on the request of the Nomination and Compensation Committee.

LUKAS BRAUNSCHWEILER

(born 1956, Swiss citizen) joined the Sonova Group as CEO in November 2011. Before joining the company, he was CEO of the Swiss technology group RUAG. From 2002 to 2009, as President & CEO, he headed the Dionex Corporation. The California-based company, active in the life sciences industry, was listed on the Nasdaq stock exchange. Prior to this, he worked from 1995 to 2002 in various group executive positions in Switzerland and the US for the precision instruments manufacturer Mettler Toledo.

Lukas Braunschweiler received a Master of Science in analytical chemistry (1982) and was awarded a Ph.D. in physical chemistry (1985) from the Swiss Federal Institute of Technology (ETH) in Zurich, Switzerland.

Lukas Braunschweiler is a member of the Board of Directors of the Schweiter Technology Group and of Tecan Group Ltd. He did not stand for re-election at the AGM of Tecan Group Ltd. on April 18, 2012.

HARTWIG GREVENER

(born 1966, German citizen) joined the Sonova Group as CFO in August 2012. Before joining the company, he was Group CFO of Jet Aviation, a business group of General Dynamics (NYSE: GD). From 2001 to 2006 Hartwig Grevener was CFO for the European operations of Gate Gourmet, one of the leading global airline catering firms. Previous professional experiences include positions at the German logistics group Hapag-Lloyd, A.T. Kearney management consultants, and BMW.

Hartwig Grevener holds a diploma in Business Administration and Mechanical Engineering from the University of Berlin (1991) as well as a Ph.D. in Business Administration from the University of St. Gallen (1994).

MAARTEN BARMENTLO

(born 1967, Dutch citizen) joined the Sonova Group as Group Vice President, Marketing in January 2011. Before joining the company, he served as Senior Vice President and General Manager for MRI (Magnetic Resonance Imaging) Systems at Philips Healthcare in the Netherlands. Maarten Barmentlo gained over 20 years of working experience within Philips covering a variety of functional areas and Business Units in the Netherlands and in the US. He was responsible in various global management positions for areas such as domestic appliances, personal care, oral health care, as well as for other consumer and professional healthcare categories. He started his career in Corporate Research at Philips.

Maarten Barmentlo received a Master's Degree in physics from Utrecht University in the Netherlands and was awarded a Ph.D. in physics from Leiden University in the Netherlands.

CLAUDE DIVERSI

(born in 1964, French and Italian citizen) joined the Sonova Group in March 2005 as Managing Director of Phonak France. He was appointed Vice President Sales for the Region Europe and South America as of May 2012, thereby joining the Management Board. Claude Diversi has an extensive track record as a sales executive with a broad experience in all disciplines of sales, including reporting, sales force management, and executing trade marketing strategies. Prior to joining Phonak, he worked in sales management positions in companies such as British American Tobacco, Dowbrands / Melitta Europe, Pillsbury, and Kraft Food France.

Claude Diversi majored in international business at the University of Paris Descartes.

HANSJÜRG EMCH

(born 1968, Swiss citizen) joined the Sonova Group as Group Vice President, Medical in March 2011. Before joining Sonova, he was President of the Global Spine division of Synthes, the implant manufacturer. During his time at Synthes he held various positions and gained broad specialist and management skills, including experience in general management, sales, product and business development, as well as clinical and regulatory affairs in the US and Europe.

Hansjürg Emch has a Master of Science and Engineering degree from the Swiss Federal Institute of Technology (ETH) in Zurich and completed the Program for Management Development at Harvard Business School.

SARAH KREIENBÜHL

(born 1970, Swiss citizen) has been Group Vice President, Corporate Human Resource Management since August 2004 and in addition Group Vice President, Corporate Communications since 2012. She was previously Head of Global Human Resources and member of the Executive Board of the Tecan Group in Männedorf, Switzerland. Prior to that she was a consultant with Amrop International, Zurich, Switzerland, where she did executive search projects and also introduced new assessment and management audit services. She started her career as a psychologist with Swissair, where she was involved in the selection of pilots and air traffic controllers.

Sarah Kreienbühl studied Applied Psychology at the University of Zurich, Switzerland, and obtained a Master's Degree, followed by a number of additional qualifications in the field of human resource management.

HANS MEHL

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

Hans Mehl completed his education in business administration in Germany.

PAUL THOMPSON

(born 1967, Canadian citizen) has been with Sonova since 2002. Since March 2012, he has been Group Vice President, Sales for the Region North and Central America. He has also been Group Vice President, Corporate Development since 2005. In this position he is responsible for business development and M&A transactions. From March 2011 until July 2012, he served as interim CFO of Sonova Holding AG, having already been CFO of the Sonova Group from 2002 to 2004. From 1998 to 2001, Paul Thompson was CFO and later COO of Unitron Hearing Group. Before that he worked for Ernst & Young in Canada from 1987 to 1998 – first in auditing, and then in management consultancy.

Paul Thompson studied finance and business studies at the University of Waterloo, Canada. In 1992 he became a Chartered Accountant.

ANDI VONLANTHEN

(born 1961, Swiss Citizen) has been Group Vice President Research & Development since April 2012. He started his professional career at Phonak in 1984 in the area of product development, where he contributed significantly to a large number of technological innovations and product launches. As one of many innovations, he developed the first ever multi-microphone system for hearing instruments, which revolutionized the entire industry. From 2002 to 2004, he was appointed Vice President R&D at Unitron. As of 2004 he was responsible for the Group System Integration function.

Andi Vonlanthen received a degree in Electronic Engineering at the HTL Brugg Windisch, Switzerland in 1984.

Changes in the Management Board

During the financial year 2012/13 Hartwig Grevener took up his position as CFO on August 1, 2012.

As a result of the reorganization of the former International Sales function into three regions – Europe and Latin America, North and Central America, and Asia/Pacific – effective May 1, 2012, Claude Diversi became responsible for the Region Europe and Latin America, Paul Thompson for the region North and Central America and, effective April 1, 2013, Chin-Hwee Lim became Vice President for the Region Asia Pacific.

Andi Vonlanthen was promoted to the Management Board as Group Vice President, Research & Development, as of April 1, 2012.

The company will further expand its Management Board, reflecting the significance of Sonova's growth strategy across all businesses. With effect from April 1, 2013, Stefan Launer (Vice President Science & Technology), Jan Metzdorff (Vice President Unitron) and Franz Petermann (Vice President Channel Solutions) will join the Management Board. All three new members have already been working successfully in their current role at Sonova, reporting to the CEO.

Alexander Zschokke, former Global Vice President Channel Solutions, has left the Group in September 2012 and Ignacio Martinez, former Global Vice President International Sales, in October 2012.

Other activities and vested interests

Except as disclosed in the biographies of the members of the Management Board, no member of the Management Board holds any position in a governing or supervisory body of any important private or public sector organization, institution or foundation; none holds any permanent management or consulting position with an important interest group, or any public or political office.

Management contracts

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

Compensation, shareholdings and loans

Details of Board and Management compensation are contained in the Compensation Report (beginning on page 44) and in Note 3.6 to the Financial Statements of Sonova Holding AG (beginning on page 109).

SHAREHOLDERS' PARTICIPATION RIGHTS

VOTING RIGHTS AND REPRESENTATION RESTRICTIONS

Voting rights restrictions

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

Statutory rules on participation in the General Shareholders' Meeting

When exercising voting rights, no shareholder can combine, with their own and represented shares, more than 10% of the total number of shares as shown in the Commercial Register (Art. 14 para. 2 of the Articles of Association). This voting right restriction does not apply to founding shareholders. The Board of Directors may approve other exceptions if it has good reason to do so, in which case no special quorum is required.

Procedure and conditions for abolishing the regulation regarding voting right restrictions

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

Exceptions granted in the year under review

During the reporting period, no exceptions to the above-listed rules were granted.

STATUTORY QUORUMS

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

CONVOCATION OF THE GENERAL SHAREHOLDERS' MEETING

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

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

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

INCLUSION OF ITEMS ON THE AGENDA

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

REGISTRATION IN THE SHARE REGISTER

For administrative reasons, the share register is closed approximately one week prior to the date of the General Shareholders' Meeting (the exact date will be communicated in the invitation to the General Shareholders' Meeting). Admission cards and voting forms are sent to shareholders during this period. In the event of a partial sale of shares during this period, the admission card already delivered must be exchanged on the day of the General Shareholders' Meeting at the information desk. The shares can be traded at any time and are not blocked.

CHANGES OF CONTROL AND DEFENSE MEASURES

DUTY TO MAKE AN OFFER

The Articles of Association of Sonova Holding AG do not contain provisions for opting out or opting up. The result is that an investor who directly, indirectly or in concert with third parties acquires shares in the company and, together with the shares he already possesses, thereby exceeds the $33\,^1/_3$ percent threshold of voting rights in the company is required to submit an offer for all shares outstanding, according to Swiss stock exchange law.

CLAUSES ON CHANGES OF CONTROL

In case of a change of control and a related termination of employment, unvested equity instruments granted under the EEAP would vest on a pro-rata basis only. There are no other agreements in place that would lead to additional severance payments (e.g. "golden parachutes") or other compensation to members of the Board of Directors or the Management Board in the event of a change of control (details of Board and Management compensation are contained in the compensation report beginning on page 44 and in Note 3.6 of the Financial Statements of Sonova Holding AG beginning on page 109).

AUDITORS

DURATION OF THE MANDATE AND TERM OF OFFICE OF THE LEAD AUDITOR

At the General Shareholders' Meeting on July 5, 2001, PricewaterhouseCoopers AG was elected auditor for Sonova Holding AG and the Sonova Group. At the General Shareholders' Meeting on June 19, 2012, PricewaterhouseCoopers AG was re-elected for another one-year term. Patrick Balkanyi has served as lead auditor for the existing auditing mandate since November 6, 2006.

FEES

PricewaterhouseCoopers charged the following fees during the reporting years 2012/13 and 2011/12:

1,000 CHF	2012/13	2011/12
Audit services	1,273	1,227
Audit-related services	54	93
Tax services	187	181
Non-audit services	436	284
Total	**1,950**	**1,785**

Audit services are defined as the standard audit work performed each year in order to issue an audit opinion on the parent company and Consolidated Financial Statements of the Sonova Group as well as opinions on the local statutory financial accounts or statements. Also included is extra work within the audit that can only be provided by the Sonova Group auditor, such as auditing of non-recurring transactions or the implementation of new accounting policies as well as consents and comfort letters in relation to regulatory filings.

Audit-related services consist of support to the audit like the provision of advice on upcoming new accounting rules that could also be provided by other sources than the auditor signing the audit report.

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

Non-audit related services in the financial year 2012/13 mainly consisted of consulting fees in connection with transfer pricing, the employee shareholding program, acquisition due diligence and the support for internal audit.

The values of audit, audit-related, tax and non-audit services are in line with ratios suggested by commonly applied good practice standards that relate to the independence of auditors. A formal policy issued by the Audit Committee is in place that regulates all non-audit assignments of the auditors.

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 2012/13, the external auditors attended 2 out of 4 Audit Committee meetings. The Audit Committee of the Board of Directors reviews the performance, compensation, and independence of the external auditors on a regular basis. The Audit Committee reports its findings to the Board of Directors quarterly.

INFORMATION POLICY

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 our aim to inform our shareholders, employees, and business partners in the most direct, open, and transparent way possible about our strategy, our global activities, and the current state of the company.

All publications are made available to all shareholders, the media and the stock exchange at the same time. All shareholders entered in the share register automatically receive the Shareholders' letter, an invitation to the General Shareholders' Meeting and, on request, a copy of the Annual Report of Sonova Holding AG. Sonova utilizes a news service that delivers press releases to interested stakeholders.

The website of the Sonova Group www.sonova.com contains information on the company results, the financial calendar as well as current investor presentations. The Investor Relations function includes presentations of annual and interim results, roadshow presentations, and presentations on the latest product launches held at industry conventions.

More information tools, permanent sources of information and contact addresses are shown on the back cover foldout of this Annual Report.

INSIDER TRADING POLICY

The Board of Directors has issued a policy on deterring corporate insiders from making use of confidential information. The Securities Trading Policy was revised and implemented in 2011/12, including a training program for employees. The policy provides for blocking periods to prevent insiders from trading in securities of Sonova Holding AG during sensitive time periods. The general blocking periods start one month prior to the end of any half-year or full year reporting period and end two full trading days following the respective release of the results. Special blocking periods are implemented when necessary or appropriate. The implementation of blocking periods is within the responsibility of the CFO, who coordinates with the CEO. In addition to blocking periods, the guidelines also provide for pre-trading clearance for members of the Board of Directors, the Management Board, and for selected employees.

COMPENSATION REPORT

Sonova is all about people. The value and success of our company strongly depends on our employees. We therefore aim to attract the best talent available in a highly competitive global employment market. As custodians of shareholders' equity, we assume our responsibility to maintain a transparent and sustainable compensation approach.

We significantly revised our compensation system last year, with respect both to the overall mix of executive compensation and to the forms of equity granted under the long-term incentive plan (Executive Equity Award Plan - EEAP). These changes have proven successful and have confirmed our aim to design and maintain an attractive, effective, and sustainable compensation system.

To further align the interests of the members of the Management Board and Board of Directors with our shareholders, we implemented the Sonova Share Ownership Guidelines, requiring specific minimum shareholdings. In addition, we changed the equity compensation for the Board of Directors from a mix of options and Restricted Share Units (RSUs) to restricted shares only with the 2013 Equity Grant.

We continually monitor public and investors' concerns over executive compensation in general, and have recognized an increased demand for transparency. Therefore, in addition to the disclosures we have made in previous years, this report includes further details and explanations about pension contributions, notice periods in our executive contracts, principles governing severance payments, the key elements of our variable compensation scheme, change of control clauses, and other topics.

SUMMARY OF REPORT

The compensation report describes the compensation system in place at Sonova, including the key elements and general principles, the bodies responsible for its design, the approval framework, and the implementation. The report also provides detailed information on the compensation paid to the Board of Directors and the Management Board in the financial year 2012/13 and 2011/12. This report reflects the requirements under item 5 of the Annex to the Directive on Information relating to Corporate Governance (Directive Corporate Governance, DCG) published by the SIX Swiss Exchange on October 29, 2008. It also includes all information required by Articles 663b^{bis} and 663c paragraph 3 of the Swiss Code of Obligations. This information is also provided in Note 3.6 of the Financial Statements of Sonova Holding AG, beginning on page 109.

INVOLVEMENT OF SHAREHOLDERS

Sonova is strongly committed to a compensation system that is transparent to its shareholders. In last year's General Shareholders' Meeting, the Board of Directors sought the shareholders' views by holding a consultative vote on the compensation report, which included the compensation system as a whole and the various remuneration elements. Shareholders will have the same opportunity to express their views through a vote at the General Shareholders' Meeting on June 18, 2013. The Board of Directors will take the results into consideration when making any future adjustments to the structure of the compensation system.

There is clear demand from the public and from governments for more transparency on executive compensation. Sonova is committed to fulfill the additional requirements necessary to further build trust with all our stakeholders.

STANDARDS AND PRINCIPLES

We aim to sustain a simple, balanced, transparent, and performance-driven compensation system for all employees including executive management. The compensation system is designed to attract and retain highly qualified employees who contribute to reach our strategic and operational goals. It also aims to encourage and reward individual performance in line with the company's values and targets.

Sonova's executive employment agreements do not provide for severance payments. In case of a change of control and a related termination of employment, unvested equity instruments granted under the EEAP would vest on a pro-rata basis only.

The CEO's notice period is 12 months, whereas the members of the Management Board have a notice period of 6 months.

COMPENSATION GOVERNANCE AND APPROVAL FRAMEWORK

The members of the Nomination and Compensation Committee (NCC) are appointed by the Board of Directors. In the year under review, the members were Robert F. Spoerry (Chairman), John J. Zei, and Beat Hess. The Board of Directors approves the general remuneration scheme for the Board of Directors and Management Board, based on proposals presented by the NCC, which are generally prepared in close cooperation with the Corporate Human Resources Management department. The Board of Directors approves the remuneration and the form and amount of long-term incentive elements to be granted to the Board of Directors. Furthermore, it is the responsibility of the Board of Directors to approve the remuneration and employment terms of the CEO – including the long-term incentive scheme – as proposed by the NCC. The Board of Directors also approves the variable cash payment to the CEO according to the employment terms, also based on the NCC's proposal. It is the responsibility of the NCC to approve, upon recommendation of the CEO, the remuneration, including incentives (such as the form and amount of long-term incentives and variable cash payments) of those executive managers who report directly to the CEO. Furthermore, the Board of Directors approves the annual total amount of long-term incentives granted under the EEAP, based on the NCC's proposal.

After each NCC meeting, the Board of Directors receives a summary of the topics discussed, decisions taken, and recommendations made. The NCC meets at least three times a year. It met five times in the year under review.

All employees, including Management Board members, are subject to an annual formal performance review process. This process is based on various guiding principles designed to align individual, team, and corporate strategic goals and financial targets; to provide performance-driven incentives; and to promote personal development.

The compensation structures at Sonova link individual performance to the financial success of the company. The annual employee performance review affects both the fixed base salary and the variable cash compensation. The fixed base salary is determined by the individual's function and performance as well as industry benchmarks.

BENCHMARK STUDIES AND EXTERNAL ADVISORS

We review employee compensation annually and undertake periodic benchmark reviews based on reference values for the total compensation paid to individuals working in comparable positions at similar companies. An employee who meets the agreed performance goals generally receives a total remuneration package in line with the benchmarks and market.

We periodically review the remuneration for members of the Management Board, comparing data from executive surveys and benchmarks from companies of similar size and structure and / or operating in related industries.

In 2011 we conducted a detailed analysis in cooperation with an independent firm specialized on compensation surveys and analysis. The survey identified two relevant peer groups: nine companies in the international Medical Technology sector[1] and eleven Swiss companies in the General Industry sector of comparable size[2]. The review's conclusion was that overall the members of the Management Board are compensated consistent with both peer groups, but showed that the compensation mix was not in line with market practice The respective changes were implemented in and reported for the financial year 2012 / 13. On a relative basis, the adapted compensation mix contains a reduced long-term incentive element (EEAP) and an increased cash compensation element.

A similar benchmark process is conducted on a regular basis to review and determine the compensation of the Board of Directors, comparing Sonova with companies of a similar size and structure in the international medical technology sector, and with Swiss companies in the general industry sector.

1 Cochlear Ltd, Fresenius Medical Care AG & Co. KGaA, Medtronic Inc., St. Jude Medical, Stryker, Synthes Inc., William Demant Holding A / S, Zimmer Holdings Inc., Smith & Nephew plc

2 Geberit AG, Georg Fischer AG, Givaudan SA, Lindt & Sprüngli AG, Logitech International SA, Lonza Group AG, Mettler-Toledo International Inc., Nobel Biocare Holding AG, OC Oerlikon Crop AG, Straumann Holding AG, Sulzer AG

TOTAL REMUNERATION MODEL

COMPENSATION ELEMENTS			
FIXED BASE SALARY	VARIABLE CASH COMPENSATION	LONG-TERM INCENTIVE (EEAP)	BENEFITS
Base pay that depends upon the job level and the job market and is paid out regularly	Variable compensation in cash depending upon the individual, team and company performance	Variable Compensation in equity	Mandatory and voluntary benefits granted by the employer
CASH COMPENSATION			
TOTAL COMPENSATION			
TOTAL REMUNERATION			

COMPENSATION ELEMENTS

The Sonova compensation system has three main elements: a fixed base salary, a variable cash compensation that reflects the individual, team, and company's performance during the particular financial year, and – for selected executive managers and employees – a long-term incentive element under the EEAP. The total relative compensation mix varies between fixed base salary, variable cash, and long-term incentive depending on the employee's management level: the higher the level, the larger the relative portion of the variable cash compensation and the long-term incentive element.

FIXED BASE SALARY

The fixed base salary ensures each employee a regular and predictable salary paid out in regular installments. The salary level is based on the scope and complexity of the position, market norms and benchmarks, and the employee's experience and skills. Salary progression depends primarily on the employee's individual performance as well as market developments and the economic environment.

VARIABLE CASH COMPENSATION

The variable salary is an integral element of an employee's cash compensation, paid as a lump sum after the end of a given fiscal year. The performance goals that must be met to achieve the variable cash compensation are mutually defined and agreed with the employees at the beginning of the financial year. The weight allocated between the fixed base and variable cash compensation varies by job profile and management level. The target variable cash compensation is typically around 10 % of the fixed base salary for employees, and ranges from 10 % to 43 % for higher and middle management. For the year under review, members of the executive Management Board had a target variable cash compensation between 45 % and 50 % of the fixed base salary; for the CEO it was 62.5 %. Individual targets and quantitative targets based on financial metrics such as sales, operating expenses, EBITA, and earning per share (EPS) have been used in the year under review, depending on the employee's function at a Group and / or business unit level. If less than a certain threshold of a given performance target is achieved, no variable cash compensation is paid out on that specific target. If performance exceeds a given target, the related variable cash compensation may go above 100 % but is capped at a maximum of 200 % of the targeted amount.

LONG TERM INCENTIVE (EXECUTIVE EQUITY AWARD PLAN – EEAP)

The EEAP is a long-term equity-based incentive plan offered annually to members of the Board of Directors and the Management Board, as well as to other management levels of the Sonova Group. The grants are made in the form of options, restricted stock units (RSUs), and restricted shares. Around 400 individuals are participating in the EEAP 2013.

The EEAP granted to the Board of Directors in 2013 is entirely in restricted shares. Management EEAP participants received in 2013 either 50 % of the grant value in options and 50 % in RSUs (for higher levels of management) or 100 % of the grant value in RSUs (middle management). The CEO received an equity compensation mix of 62.5 % in options and 37.5 % in RSUs.

The restricted shares granted to the Chairman are subject to a restriction period until June 1, 2018 and the restricted shares granted to the other members of the Board of Directors are subject to a restriction period until June 1, 2017.

EEAP 2013	MANAGEMENT BOARD, HIGHER & MIDDLE MANAGEMENT	
EQUITY	OPTIONS	RSUs
GRANT DATE	February 1st, 2013	February 1st, 2013
EXERCISE / STRIKE PRICE	CHF 109.10 Sonova share closing price at SIX on February 1st, 2013	n. a.
VESTING DATE	25 % vest on June 1, 2014 25 % vest on June 1, 2015 25 % vest on June 1, 2016 25 % vest on June 1, 2017	25 % vest on June 1, 2014 25 % vest on June 1, 2015 25 % vest on June 1, 2016 25 % vest on June 1, 2017
EXERCISE PERIOD	After vesting until expiry of the options	n. a.
MATURITY	Total 7 years	Not limited
EXPIRY	January 31, 2020	n. a.

EEAP 2013	BOARD OF DIRECTORS
EQUITY	RESTRICTED SHARES
GRANT DATE	February 1st, 2013
RESTRICTION PERIOD	100% until June 1, 2018 (Chairman) 100% until June 1, 2017 (other members)

The options and RSUs granted to management EEAP participants under the plan are split into four equal installments that vest annually, starting on June 1st of the year following the grant year. The exercise price of the options is the closing price for the Sonova share on the Swiss stock exchange (SIX Swiss Exchange) on the grant date. The option term is seven years. The fair value of the options is calculated on the grant date using an option pricing model. Additional information is available in Note 31 to the Consolidated Financial Statements. The re-pricing of any out-of-the-money options granted under the EEAP is not permitted.

EEAP FOR US PARTICIPANTS

In compliance with relevant United States federal and state laws, the Sonova EEAP grants share appreciation rights (SARs) rather than options to eligible employees in the United States. SARs grant the right to participate in appreciation in the value of Sonova shares without issuance of shares. Any SARs granted are subject to the same grant dates, vesting conditions and maturity as the options granted to non-US participants.

SONOVA SHARE OWNERSHIP GUIDELINES

To further align the interests of the Board of Directors and Management Board with those of the shareholders, the Sonova Share Ownership Guidelines require members of both boards to hold a specified number of Sonova shares in order to be eligible to participate in the EEAP. Members of the Board of Directors must hold at least 2,000 Sonova shares. The CEO must hold 8,000; the Group Vice Presidents (GVPs) 3,000; and the Vice Presidents (VPs) of the Management Board 1,500 Sonova shares each. These holdings must be achieved within 3 years; the NCC monitors progress toward the totals on an annual basis.

BOARD OF DIRECTORS COMPENSATION

The members of the Board of Directors receive a cash retainer, a committee fee (if applicable), and a meeting attendance fee. There is no variable salary compensation. Members of the Board of Directors receive a long-term compensation through their participation in the EEAP. In 2013, the applicable EEAP grants have been changed to comprise 100 % restricted shares. These shares are subject to a restriction period from February 1, 2013 to June 1, 2018 (Chairman) or from February 1, 2013 to June 1, 2017 (all other members of the Board of Directors).

As of 2012, members of the Board of Directors are subject to the Sonova Share Ownership Guidelines described earlier.

The table on page 110 shows the compensation for the individual members of the Board of Directors for the financial year 2012 / 13 and the previous year.

Aside from these payments, no other payments were made to current and former members of the Board of Directors or persons closely linked to them in this reporting period.

MANAGEMENT BOARD COMPENSATION

As mentioned above, the compensation elements that apply to Sonova employees in general also apply to members of the Management Board, including the CEO, although with a larger relative size for the variable compensation and the EEAP element, respectively.

In the year under review, the targeted variable cash compensation ranged between 45 % and 50 % of the fixed base salary for members of the Management Board and was 62.5 % of the fixed base salary for the CEO. The variable cash compensation for the Management Board is based on three performance target categories: Group, business unit, and individual level. As with all other employees, if less than a certain threshold of a given performance target is achieved, no variable cash compensation is paid out on that specific target. If the performance meets the given target, 100 % of the related variable cash compensation is paid out. If performance exceeds a given target, the related variable cash compensation may go above 100 % but is capped at a maximum of 200 % of the targeted amount.

Group performance targets are sales, EBITA, free cash flow, and earnings per share (EPS). Business unit performance targets are sales, EBITA, average sales price (ASP), and operating expenses of the respective business unit. Group and business unit performance targets together are weighted at between 60 % and 80 % of the total. The three to five individual performance targets for each member of the Management Board are weighted between 20 % and 40 % of the total.

COMPENSATION ELEMENTS	FIXED BASE SALARY	VARIABLE CASH COMPENSATION	LONG-TERM INCENTIVE (EEAP)	BENEFITS
CEO	Base	TARGET = 62.5 % of base RANGE = 0 – 125 % of base	Fair value at grant = 100 % of base (62.5 % in options and 37.5 % RSUs)	Benefits
MANAGEMENT BOARD	Base	TARGET = 50 % of base RANGE = 0 – 100 % of base	Fair value at grant = 100 % of base (50 % in options and 50 % in RSUs)	Benefits

As described above, members of the Management Board receive half of the fair value of the EEAP in options and half in RSUs. As of 2012, the members of the Management Board are subject to the Sonova Share Ownership Guidelines described earlier.

The highest total remuneration for a Management Board member in the year under review was paid to the CEO, Lukas Braunschweiler. His fixed base salary was CHF 800,000 and the target variable cash compensation was CHF 500,000 (62.5 % of the fixed base salary). His effective variable cash payout for performance in the year under review was CHF 645,918, whereas the maximum potential variable cash payout would have been CHF 1,000,000 (125 % of the fixed base salary). In addition, a long-term incentive (EEAP) element with a 2013 fair value of CHF 799,833, fringe benefits of CHF 20,147, employers pension contributions of CHF 125,951 and employers social insurance contribution of CHF 72,663 are all reflected in Lukas Braunschweiler's total remuneration of CHF 2,464,512.

The table on page 112 shows the compensation for the CEO (highest compensation) and the other members of the Management Board for the financial year 2012 / 13 and the previous year. Payments to ten other members of the Management Board are covered in the table for the financial year 2012 / 13, of whom two left the Management Board during the financial year 2012 / 13. Payments to eight other members of the Management Board (other than the ad-interim CEO) are covered in the financial year 2011 / 12.

Considering arriving and departing Management Board members on a pro rata basis, the Management Board had on average 9.7 members in 2012 / 13, which includes transitional overlaps between arriving and departing members. This compares to an average size of the Management Board of 7.5 members in the prior year and thus represents an increase of 30 %. The increase in total compensation from CHF 9.7 million to CHF 12.0 million by 24 % is caused by the increase of the average size of the Management Board, including said transition effects.

Aside from these payments, no other payments were made to current or former members of the Management Board or persons closely linked to them in this reporting period.

ADDITIONAL INFORMATION REGARDING PAYMENTS TO MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

No fees were paid for additional services beyond the stated compensation, nor were any loans awarded or guarantees given to members of the Board of Directors or the Management Board or persons closely linked to them in this reporting period.

SHAREHOLDINGS OF MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

The tables on page 113 show the shareholdings of the individual members of the Board of Directors and persons closely linked to them. Further, the table on page 114 shows the detailed breakdown of the Board of Director's outstanding warrants / options.

The tables on page 115 show the shareholdings of individual members of the Management Board and persons closely linked to them. Further, the table on page 116 shows the detailed breakdown of the Management Board's outstanding warrants / options.

FINANCIAL REPORTING

52 FINANCIAL REVIEW

58 5 YEAR KEY FIGURES

60 CONSOLIDATED FINANCIAL STATEMENTS
Consolidated Income Statements
Consolidated Statements of Comprehensive Income
Consolidated Balance Sheets
Consolidated Cash Flow Statements
Consolidated Changes in Equity
Notes to the Consolidated Financial Statements
Report of the Statuary Auditor on the Consolidated Financial Statements

104 FINANCIAL STATEMENTS OF SONOVA HOLDING AG
Income Statements
Balance Sheets
Notes to the Financial Statements
Appropriation of Available Earnings
Report of the Statutory Auditor on the Financial Statements

INVESTOR INFORMATION (Back cover foldout)

FINANCIAL REVIEW

RESULTS 2012 / 13

SOLID GROWTH IN SALES AND EARNINGS

– In the financial year 2012 / 13, Sonova generated sales of CHF 1,795.3 million, an increase of 10.8 % in Swiss francs or 7.4 % in local currencies. Normalized for one-off charges, EBITA was CHF 386.4 million, up 22.6 % in Swiss francs or 15.4 % in local currencies and representing a rise to 21.5 % of sales.

NEW SALES RECORD ACHIEVED

The Sonova Group achieved another sales record in the year under review. Group sales rose 10.8 % in Swiss francs and 7.4 % in local currencies to CHF 1,795.3 million (2011 / 12: CHF 1,619.8 million). The majority of the increase came from organic growth, which reached 5.2 % in local currencies.

As in previous years, Sonova made a number of small acquisitions of retail distribution companies in selected countries, which are reported in the hearing instrument segment. At the Group level, external growth for 2012 / 13 stemming from these acquisitions and the full-year effect of previous-year acquisitions represented around CHF 35.3 million or 2.2 % of Group sales. Favorable currency development also contributed CHF 56.0 million to reported sales, adding 3.4 % to the growth rate in Swiss francs.

GROWTH REFLECTS BROAD GLOBAL FOOTPRINT

All major regions achieved a solid sales increase. Sales in the EMEA region (Europe, Middle-East and Africa), which accounted for 40 % of Group sales, rose by 5.3 % in local currencies. This was achieved despite declines in Switzerland, the Nordic countries and France, where market growth was hampered by changes in reimbursement, public tender conditions, or the economic climate. On the other hand, Sonova performed well in other key markets such as the United Kingdom, Germany, and Spain, allowing further expansion of our market share in those countries.

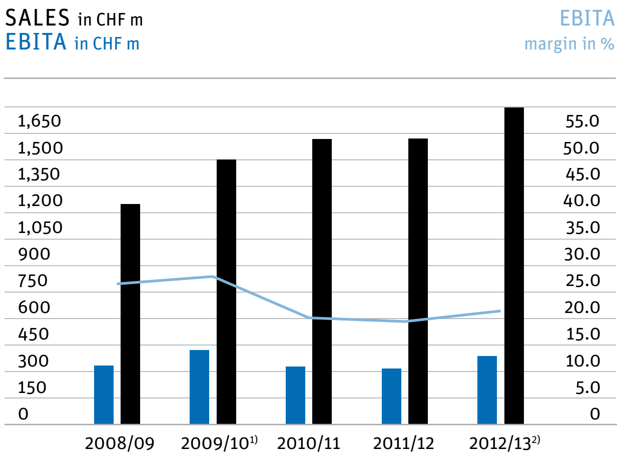
The return of Advanced Bionics to the market in September 2011 accelerated growth in the United Sates in the first half of fiscal year 2012 / 13. Coupled with Unitron's strong performance and a solid second half-year improvement in Phonak's business, US sales rose by 6.8 % in local currency and accounted for 37 % of Group sales for the year. Performance further benefited from the encouraging uptake of the new-generation Lyric, launched in April 2012. Sonova also managed to successfully defend its high market share in business with the US Department of Veterans Affairs (VA). A strong performance in Canada and Brazil lifted growth in the rest of the Americas (excluding the USA) to 7.8 % in local currencies. The rest of the Americas accounted for 12 % of Group sales in financial year 2012 / 13.

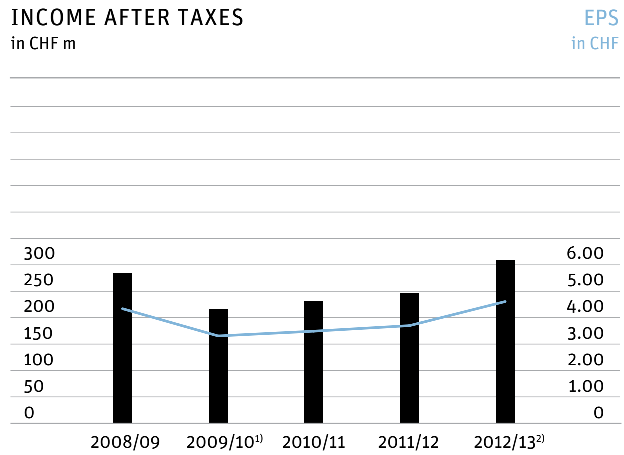
In the Asia / Pacific region, which contributed 11 % to Group sales in the year under review, sales rose by 17.7 % in local currencies, driven by solid growth in China, Australia, and Japan.

SONOVA GROUP KEY FIGURES

in CHF m unless otherwise specified	Reported performance 2012 / 13	Change in %	Normalized performance 2012 / 13[1)]	Change in %	2011 / 12
Sales	1,795.3	10.8 %	1,795.3	10.8 %	1,619.8
EBITA	182.8	(42.0 %)	386.4	22.6 %	315.2
EBITA margin	10.2 %		21.5 %		19.5 %
EPS (CHF)	1.66	(55.3 %)	4.62	24.5 %	3.71
Operating free cash flow[1)]	318.6	33.0 %	318.6		239.5
ROCE[2)]	10.5 %		10.5 %		19.2 %
ROE[2)]	7.2 %		7.2 %		17.5 %

1) Excluding one-off cost, mainly related to the increase of the product liability provision within the cochlear implants business (see Note 7 of the Consolidated Financial Statements). Balance sheet related key figures (including respective ratios) as reported.
2) For detailed definitions, please refer to "5 Year Key Figures".





[1] Restated based on finalization of the acquisition accounting of Advanced Bionics.
[2] Excluding one-off cost, mainly related to the increase of the product liability provision within the cochlear implants business (see Note 7 of the Consolidated Financial Statements).

SOLID MARGIN IMPROVEMENT

Gross profit reached CHF 1,240.1 million (2011/12: CHF 1,105.9 million), an increase of 12.1% over the prior year. This corresponds to a gross margin of 69.1%, an 80 basis points increase over the prior year, including 30 basis points from positive currency effects. Both the hearing instruments and the cochlear implants segment contributed to the margin improvement.

The Group maintained its high level of investment in research and development (R&D). R&D spending (including the increase in capitalized development costs) rose by 5.5% from CHF 132.7 million in 2011/12 to CHF 140.0 million in 2012/13. As a number of cochlear implant development projects reached pre-defined milestones and are getting closer to commercialization, the share of capitalized development costs for the year increased to CHF 28.3 million (2011/12: CHF 16.8 million). Net R&D costs as charged to the income statement for 2012/13 amounted to CHF 113.5 million, or 6.3% of sales, down from last year's level of 7.2%.

Sales and marketing costs were CHF 558.9 million for the period, rising by 11.0% in Swiss francs or 8.0% in local currencies. About half of the increase in local currencies was attributable to retail acquisitions. Sales and marketing expenses represented 31.1% of sales, unchanged from the prior year. Despite our further global expansion, general and administrative expenses rose less than sales, by 7.5% in Swiss francs or 5.4% in local currencies, reaching CHF 181.3 million. General and administrative expenses as a percentage of sales therefore dropped to 10.1% (2011/12: 10.4%), reflecting controlled cost management during the financial year.

Other expenses of CHF 203.6 million reflect one-off charges: The main item is a cochlear implant product liability provision increase of CHF 197.8 million in the context of a first-instance verdict rendered in April 2013 by a US District Court in Kentucky, in a case related to Advanced Bionics' Vendor B product recall in 2006. Further one-off charges include a restructuring provision for the reorganization of Advanced Bionics' international distribution center in Rixheim, France, and the amount paid last October in connection with the out-of-court settlement with a group of investors related to the delayed profit warning in March 2011. All three 2012/13 cost items reported under "other expenses" represent one-off costs that are excluded from discussions of normalized values referred to in this Annual Report. Last year, other expenses included restructuring charges of CHF 2.4 million, connected with the closure of Phonak Acoustic Implants.

In summary, total operating expenses excluding other expenses rose by 8.3% in Swiss francs or by 5.7% in local currencies, well below the respective sales growth figures. Normalized operating profit before acquisition-related amortization and impairments (EBITA) was CHF 386.4 million, with an EBITA margin of 21.5% (2011/12: 19.5%). This represents a strong increase of 22.6% in Swiss francs or 15.4% in local currencies. Favorable currency development contributed CHF 22.7 million to the rise in normalized EBITA in Swiss francs, or 60 basis points to the normalized operating margin improvement of 200 basis points. The reported EBITA, which includes the one-off charges represented in other expenses, was CHF 182.8 million.

SALES BY REGIONS

in CHF m	2012/13			2011/12	
	Sales	Share	Growth in local currencies	Sales	Share
EMEA (excl. Switzerland)	678	38%	7.3%	626	39%
Switzerland	28	2%	(28.1%)	38	2%
USA	671	37%	6.8%	590	36%
Americas (excl. USA)	222	12%	7.8%	206	13%
Asia/Pacific	196	11%	17.7%	160	10%
Total sales	**1,795**	**100%**	**7.4%**	**1,620**	**100%**

Normalized operating profit (EBIT) rose by 25.2% to CHF 360.3 million (20.1% of sales), driven mainly by the strong growth in normalized EBITA.

STRONG GROWTH IN EPS

Income taxes for the financial year totaled CHF 37.8 million, up from CHF 35.4 million in 2011/12. The potential tax benefit from the increased provision for cochlear implant product liabilities has not been capitalized, leading to an increased reported effective income tax rate of 25.2%, up from 12.6% in the previous year. Reported income after taxes was CHF 112.0 million, while normalized income after taxes was CHF 308.9 million, up 25.4% from the previous year. Normalized basic earnings per share (EPS) therefore reached CHF 4.62 (2011/12: CHF 3.71), a strong rise of 24.5% over the previous year.

WORKFORCE INCREASES TO 8,952

At the end of financial year 2012/13, the Group's total workforce stood at 8,952 full time equivalents – an increase of 729 over the previous year. The increase originates mainly from additions in sales and distribution, including retail acquisitions, and from expanded capacity at our Vietnam site, related to increased production of the new generation of Lyric.

HEARING INSTRUMENTS SEGMENT: CONSOLIDATING OUR MARKET LEADING POSITION

The hearing instruments segment achieved sales of CHF 1,648.5 million in financial year 2012/13, which represents a growth rate of 8.2% in Swiss francs and 4.9% in local currencies. Organic growth accounted for 2.6% of the increase, a figure above the growth rate of the overall global market. Acquisitions of sales and distribution companies in selected countries added 2.3% to the reported growth rate, including the full-year effect of acquisitions completed during the previous financial year. Favorable currency development added CHF 50.9 million or 3.3% to the reported sales growth of the hearing instruments segment.

Supported by the successful launch of the well-received Phonak Quest platform in October 2012 and by the sustained strong performance of our Unitron brand, growth accelerated over the course of the year, despite an increasingly challenging market environment in Continental Europe. Innovation continued to prove an important driver of growth: Sonova generated 70% of its hearing instrument revenue from products that have been on the market for less than two years. We are confident that with the new products launched under both the Phonak and Unitron brand at the AudiologyNOW! congress in April, the innovation rate will remain at a high level. The retail business also contributed to growth in the hearing instruments segment, thanks in particular to the strong performance of David Ormerod Hearing Care in the UK, the US retail business, and Hansaton in Austria.

Accelerating sales in the Premium category during the second half-year lifted the growth rate for this product group to 4.8 % in local currencies. The Advanced category showed the strongest growth with sales rising by 5.4 % in local currencies while sales in the Standard category increased by 3.6 %. Premium hearing instruments accounted for 22 % of Group sales, while Advanced and Standard accounted for 24 % and 28 % respectively. Pressure from government austerity measures weighed on the sales of wireless communication systems in the first half of the year, with a partial recovery in the second half; sales for the year declined by 5.8 % in local currencies. The launch in April 2013 of the all-new Roger platform, our latest industry leading wireless technology, offers exciting future growth prospects in this business. Sales of miscellaneous products and services grew by 9.6 % in local currencies in 2012 / 13, accounting for 14 % of Group sales. This category mainly consists of revenues from services and from the distribution of accessories and batteries.

EBITA for the hearing instruments segment reached CHF 384.7 million, equivalent to an EBITA margin of 23.3 %. EBITA rose by 13.4 % in Swiss francs and by 6.7 % in local currencies. At constant currency, the EBITA margin would have reached 22.6 %, a 30 basis points improvement over the previous year. Integration costs from retail acquisitions, particularly in the US, largely offset the positive effect from strict operating cost control.

COCHLEAR IMPLANTS SEGMENT: BREAK-EVEN TARGET REACHED

Normalized for one-off costs (i.e. the increase in product liability provision as well as the restructuring provision for Advanced Bionics in Rixheim, France), the performance of the cochlear implants segment was another highlight in the year under review. The business benefited from a full year of sales of its HiRes 90K implant following approval from the US Food and Drug Administration (FDA) in September 2011. The company also won, for the first time, a tender with the central government in China; this was mostly fulfilled during the second half of financial year 2012 / 13. As a result, sales rose to CHF 146.7 million, an increase of 52.3 % in Swiss francs or 47.1 % in local currencies.

The cochlear implants segment returned a normalized EBITA of CHF 1.8 million (2011 / 12: EBITA loss of CHF 24.1 million). Breaking even for the first time is a key milestone in the development of this business. The company also presented significant innovations during the year, including a new processor and a new electrode design that will generate profitable growth beyond 2012 / 13.

The reported EBITA loss of CHF 199.2 million mainly reflects the increase in product liability provision of CHF 197.8 million, related to a voluntary recall of an implant in 2006 – more than three years prior to Sonova's acquisition of Advanced Bionics in 2009. Today the HiRes 90K implant of Advanced Bionics has an industry leading reliability rate.

STRONG FREE CASH FLOW GROWTH

Cash flow from operating activities rose by 27.0 % to CHF 387.1 million in the year under review. The increase reflects the rise in normalized EBITA of 22.6 % and a favorable impact from working capital changes compared with the previous year. This working capital impact relates to favorable changes in trade receivables, payables, and accruals, partly offset by the effects of higher inventory and increased prepaid VAT.

Investments in tangible and intangible assets reached CHF 82.3 million, up CHF 1.7 million, mainly as a result of higher

SALES BY PRODUCT GROUPS

in CHF m	2012 / 13			2011 / 12	
Product groups	Sales	Share	Growth in local currencies	Sales	Share
Premiums hearing instruments	393	22 %	4.8 %	360	22 %
Advanced hearing instruments	435	24 %	5.4 %	376	23 %
Standard hearing instruments	496	28 %	3.6 %	490	30 %
Wireless communication systems	64	4 %	(5.8 %)	65	4 %
Miscellaneous	260	14 %	9.6 %	233	15 %
Total hearing instruments	1,648	92 %	4.9 %	1,524	94 %
Cochlear implants and accessories	147	8 %	47.1 %	96	6 %
Total sales	**1,795**	**100 %**	**7.4 %**	**1,620**	**100 %**

capitalized development costs in the cochlear implants business. Operating free cash flow increased strongly by 33.0 % to CHF 318.6 million. The cash consideration for acquisitions was CHF 56.2 million, including earn-out payments for prior period acquisitions, down from CHF 83.1 million in the prior year. This resulted in a free cash flow of CHF 262.4 million, up 67.7 % from last year.

NET CASH TURNING POSITIVE – MAINTAINING A SOLID BALANCE SHEET

Capital employed reached CHF 1,449.5 million, down from CHF 1,540.3 million at the end of financial year 2011 / 12. The decline is due to the increased provision for cochlear implant product liability of CHF 197.8 million, partly offset by higher net working capital and the currency impact on non-current assets.

Helped by strong cash flow development, the Sonova Group ended the year with a net cash position of CHF 185.8 million, as opposed to a net debt of CHF 64.4 million at the end of the previous financial year. The reported return on capital employed (ROCE) of 10.5 % is below the previous year's figure due to the increased provision for cochlear implant product liability. Excluding the effect of one-off costs, ROCE would have been 22.6 %, up 340 basis points from the previous year.

The Board of Directors will propose to the 2013 AGM a substantially increased distribution of CHF 1.60 per share, payable without withholding taxes from the capital contribution reserves. This reflects the strong cash flows and financial position of the Group and confidence in its future performance. It also considers that the cash outflow from the cochlear implant product liability provision will extend over a period of 5 years or more. The proposed dividend represents an increase in payout ratio from 32 % to 35 % of normalized income after taxes.

OUTLOOK 2013 / 14

With our clear focus on driving profitable growth and our continued commitment to innovation, we aim to further expand and build on the strong market positions of Sonova. Despite a somewhat higher level of uncertainty regarding short-term market developments, we expect continued solid growth in sales and earnings in 2013 / 14, both in the hearing instruments and cochlear implants segment. Overall sales are anticipated to grow by 6 % – 8 % and EBITA to rise between 9 % – 13 % (both measured in local currencies and on a normalized basis).

While actual reported results may vary based on currency fluctuations, Sonova continues to mitigate the impact of the strong Swiss franc on earnings growth through its long-term global resource allocation strategy. A strengthening of the US dollar by 5 % would affect sales in the financial year by approximately CHF + 38 million and EBITA by approximately CHF + 11 million. The corresponding effect of a 5 % stronger euro would be CHF + 24 million on sales and CHF + 12 million on EBITA.

SONOVA SHARE PRICE
SWISS PERFORMANCE INDEX (Rebased)

SHARE PRICE PERFORMANCE[1)]

	10 years	5 years	3 years	2 years	1 year
Sonova shares	845.2 %	25.0 %	(13.1 %)	39.2 %	13.6 %
Swiss Performance Index (SPI)[2)]	151.3 %	21.5 %	20.6 %	25.1 %	26.7 %
Sonova shares relative to the SPI	693.9 %	3.5 %	(33.6 %)	14.1 %	(13.2 %)

1) Performance of the Sonova shares and SPI refers to the respective period prior to the last trading day of financial year 2012 / 13
2) The Swiss Performance Index (SPI) is considered Switzerland's overall stock market index. It comprises practically all of the SIX Swiss Exchange-traded equity securities of companies that are domiciled in Switzerland or the Principality of Liechtenstein.

5 YEAR KEY FIGURES

in 1,000 CHF unless otherwise specified	Reported performance 2012/13	Normalized performance 2012/13[1]
Sales	**1,795,262**	**1,795,262**
change compared to previous year (%)	10.8	10.8
Gross profit	**1,240,106**	**1,240,106**
change compared to previous year (%)	12.1	12.1
in % of sales	69.1	69.1
Research & development costs	**113,529**	**113,529**
in % of sales	6.3	6.3
Sales & marketing costs	**558,865**	**558,865**
in % of sales	31.1	31.1
Operating profit before acquisition-related amortization and impairment (EBITA)	**182,805**	**386,421**
change compared to previous year (%)	(42.0)	22.6
in % of sales	10.2	21.5
Operating profit (EBIT)	**156,676**	**360,292**
change compared to previous year (%)	(45.5)	25.2
in % of sales	8.7	20.1
Income after taxes	**112,037**	**308,913**
change compared to previous year (%)	(54.5)	25.4
in % of sales	6.2	17.2
Number of employees (average)	**8,709**	**8,709**
change compared to previous year (%)	9.3	9.3
Number of employees (end of period)	**8,952**	**8,952**
change compared to previous year (%)	8.9	8.9
Net cash[4]	**185,800**	**185,800**
Net working capital[5]	**187,148**	**187,148**
in % of sales	10.4	10.4
Capital expenditure (tangible and intangible assets)[6]	**82,354**	**82,354**
Capital employed[7]	**1,449,538**	**1,449,538**
in % of sales	80.7	80.7
Total assets	**2,680,934**	**2,680,934**
Equity	**1,635,338**	**1,635,338**
Equity financing ratio (%)[8]	**61.0**	**61.0**
Free cash flow[9]	**262,370**	**262,370**
Operating free cash flow[10]	**318,553**	**318,553**
in % of sales	17.7	17.7
Return on capital employed (%)[11]	**10.5**	**10.5**
Return on equity (%)[12]	**7.2**	**7.2**
Basic earnings per share (CHF)	1.66	4.62
Diluted earnings per share (CHF)	1.66	4.61
Dividend/distribution per share (CHF)	**1.60[13]**	**1.60[13]**

[1] Excluding one-off cost, mainly related to the increase of the product liability provision within the cochlear implants business (see Note 7). Balance sheet related key figures (including respective ratios) as reported.
[2] Restated based on finalization of the acquisition accounting of Advanced Bionics.
[3] All changes compared to previous year are based on the underlying performance 2007/08.
[4] Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.
[5] Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.
[6] Excluding goodwill and intangibles relating to acquisitions.
[7] Total assets – cash and cash equivalents – other current financial assets (without loans) – trade payables – other liabilities – provisions – tax liabilities.
[8] Equity in % of total assets.

2011/12	2010/11	Restated 2009/10[2]	Reported 2009/10	2008/09[3]
1,619,848	**1,616,700**	**1,500,306**	**1,500,306**	**1,249,197**
0.2	7.8	20.1	20.1	3.7
1,105,924	**1,118,681**	**1,058,597**	**1,058,427**	**867,218**
(1.1)	5.7	22.1	22.0	3.0
68.3	69.2	70.6	70.5	69.4
116,178	**107,760**	**87,034**	**87,034**	**77,377**
7.2	6.7	5.8	5.8	6.2
503,354	**498,589**	**402,626**	**402,626**	**340,312**
31.1	30.8	26.8	26.8	27.2
315,199	**326,622**	**420,276**	**420,106**	**331,778**
(3.5)	(22.3)	26.7	26.6	(2.3)
19.5	20.2	28.0	28.0	26.6
287,699	**270,810**	**251,419**	**406,753**	**325,014**
6.2	7.7	(22.6)	25.1	(2.9)
17.8	16.8	16.8	27.1	26.0
246,410	**231,080**	**216,632**	**354,813**	**284,110**
6.6	6.7	(23.8)	24.9	(6.9)
15.2	14.3	14.4	23.6	22.7
7,970	**7,291**	**5,933**	**5,933**	**5,108**
9.3	22.9	16.1	16.1	17.4
8,223	**7,840**	**6,843**	**6,843**	**5,339**
4.9	14.6	28.2	28.2	12.5
(64,448)	**(111,287)**	**(126,029)**	**(126,029)**	**227,689**
163,434	**158,190**	**144,363**	**177,011**	**152,355**
10.1	9.8	9.6	11.8	12.2
80,073	**111,457**	**89,272**	**89,272**	**75,985**
1,540,326	**1,455,999**	**1,388,537**	**1,534,387**	**798,934**
95.1	90.1	92.6	102.3	64.0
2,287,202	**2,171,644**	**2,324,026**	**2,409,257**	**1,426,560**
1,475,878	**1,344,712**	**1,262,508**	**1,408,358**	**1,026,623**
64.5	**61.9**	**54.3**	**58.5**	**72.0**
156,406	**71,593**	**(301,388)**	**(301,388)**	**79,003**
239,535	**221,541**	**324,754**	**324,754**	**176,285**
14.8	13.7	21.6	21.6	14.1
19.2	**19.0**	**23.0**	**34.9**	**46.2**
17.5	**17.7**	**18.9**	**29.1**	**29.2**
3.71	3.50	3.32	5.41	4.35
3.71	3.47	3.28	5.36	4.33
1.20	**1.20**	**1.20**	**1.20**	**1.00**

[9] Cash flow from operating activities + cash flow from investing activities.
[10] Free cash flow – cash consideration for acquisitions, net of cash acquired.
[11] EBIT in % of capital employed (average).
[12] Income after taxes in % of equity (average).
[13] Proposal to the Annual General Shareholders' Meeting of June 18, 2013.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS

1,000 CHF	Notes	2012/13	2011/12
Sales	6	**1,795,262**	**1,619,848**
Cost of sales		(555,156)	(513,924)
Gross profit		**1,240,106**	**1,105,924**
Research and development		(113,529)	(116,178)
Sales and marketing		(558,865)	(503,354)
General and administration		(181,291)	(168,668)
Other expenses, net	7	(203,616)	(2,525)
Operating profit before acquisition-related amortization and impairment (EBITA)[1)]		**182,805**	**315,199**
Acquisition-related amortization	20	(26,129)	(22,622)
Impairment	20		(4,878)
Operating profit (EBIT)[2)]		**156,676**	**287,699**
Financial income	8	3,651	6,682
Financial expenses	8	(12,613)	(13,593)
Share of profit in associates / joint ventures	18	2,105	993
Income before taxes		**149,819**	**281,781**
Income taxes	9	(37,782)	(35,371)
Income after taxes		**112,037**	**246,410**
Attributable to:			
Equity holders of the parent		110,917	246,761
Non-controlling interests		1,120	(351)
Basic earnings per share (CHF)	10	1.66	3.71
Diluted earnings per share (CHF)	10	1.66	3.71

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

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

1,000 CHF	Notes	2012 / 13	2011 / 12
Income after taxes		**112,037**	**246,410**
Actuarial loss from defined benefit plans, net	30	(16,632)	(7,456)
Tax effect on actuarial loss from defined benefit plans		2,264	1,109
Fair value adjustment on cash flow hedges		2,265	(6,605)
Currency translation differences		52,167	(42,723)
Tax effect on currency translation items		(1,868)	2,654
Other comprehensive income, net of tax		**38,196**	**(53,021)**
Total comprehensive income		**150,233**	**193,389**
Attributable to:			
Equity holders of the parent		149,845	193,435
Non-controlling interests		388	(46)

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

CONSOLIDATED BALANCE SHEETS

Assets 1,000 CHF	Notes	31.3.2013	31.3.2012
Cash and cash equivalents	12	434,766	191,938
Other current financial assets	13	4,640	6,801
Trade receivables	14	339,689	339,419
Current income tax receivables		10,968	13,658
Other receivables and prepaid expenses	15	71,505	52,003
Inventories	16	204,258	164,303
Total current assets		**1,065,826**	**768,122**
Property, plant and equipment	17	248,571	242,490
Intangible assets	20	1,199,769	1,120,590
Investments in associates / joint ventures	18	19,339	15,668
Other non-current financial assets	19	30,032	42,312
Deferred tax assets	9	117,397	98,020
Total non-current assets		**1,615,108**	**1,519,080**
Total assets		**2,680,934**	**2,287,202**

Liabilities and equity 1,000 CHF	Notes	31.3.2013	31.3.2012
Current financial liabilities	22, 25	7,196	16,246
Trade payables		74,684	69,533
Current income tax liabilities		57,209	72,934
Other short-term liabilities	23	205,748	177,303
Short-term provisions	21	106,271	91,561
Total current liabilities		**451,108**	**427,577**
Non-current financial liabilities	24	241,770	241,559
Long-term provisions	21	256,908	79,051
Other long-term liabilities	26	50,261	33,694
Deferred tax liabilities	9	45,549	29,443
Total non-current liabilities		**594,488**	**383,747**
Total liabilities		**1,045,596**	**811,324**
Share capital	27	3,358	3,329
Treasury shares		9,401	2,733
Retained earnings and other reserves		1,594,136	1,468,063
Equity attributable to equity holders of the parent		**1,606,895**	**1,474,125**
Non-controlling interests		28,443	1,753
Equity		**1,635,338**	**1,475,878**
Total liabilities and equity		**2,680,934**	**2,287,202**

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

CONSOLIDATED CASH FLOW STATEMENTS

1,000 CHF	Notes		2012/13		2011/12
Income before taxes			**149,819**		**281,781**
Depreciation, amortization and impairment of tangible and intangible assets	17,20	81,657		78,310	
Loss on sale of tangible and intangible assets, net		457		250	
Share of gain in associates / joint ventures	18	(2,105)		(993)	
Increase in long-term provisions		196,686		1,038	
Financial expenses, net	8	8,962		6,911	
Unrealized exchange differences		(7,951)		(939)	
Share based payments	31	16,248		20,496	
Other non-cash items		(94)	293,860	615	105,688
Cash flow before changes in net working capital			**443,679**		**387,469**
Decrease / (increase) in trade receivables		8,292		(29,604)	
(Increase) / decrease in other receivables and prepaid expenses		(17,448)		1,226	
(Increase) / decrease in inventories		(31,140)		2,500	
Increase in trade payables		2,296		4,956	
Increase / (decrease) in other payables, accruals and short-term provisions		31,511		(15,103)	
Income taxes paid		(50,137)	(56,626)	(46,638)	(82,663)
Cash flow from operating activities			**387,053**		**304,806**
Purchase of tangible and intangible assets		(82,297)		(80,552)	
Proceeds from sale of tangible and intangible assets		735		1,522	
Cash consideration for acquisitions, net of cash acquired	28	(56,183)		(83,129)	
Decrease in other financial assets		11,032		10,821	
Interest received and realized gain from financial assets		2,030		2,938	
Cash flow from investing activities			**(124,683)**		**(148,400)**
Decrease in borrowings		(1,322)		(40,991)	
Proceeds from capital increases		54,389		5,335	
(Purchase) / sale of treasury shares, net		(4,539)		(573)	
Dividends paid		(79,887)		(79,891)	
Changes in non-controlling interests		15,045		(4,750)	
Interest paid and other financial expenses		(5,477)		(6,677)	
Cash flow from financing activities			**(21,791)**		**(127,547)**
Exchange gains / (losses) on cash and cash equivalents			2,249		(2,054)
Increase in cash and cash equivalents			**242,828**		**26,805**
Cash and cash equivalents at the beginning of the financial year			191,938		165,133
Cash and cash equivalents at the end of the financial year			**434,766**		**191,938**

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	Retained earnings and other reserves	Translation adjustment	Treasury shares	Hedge reserve	Non-controlling interests	Total equity
Balance April 1, 2011	**3,326**	**1,529,557**	**(193,177)**	**1,653[1)]**	**(1,861)**	**5,214**	**1,344,712**
Income for the period		246,761				(351)	246,410
Actuarial loss from defined benefit plans, net		(7,456)					(7,456)
Tax effect on actuarial loss		1,109					1,109
Fair value adjustment on cash flow hedges					(6,605)		(6,605)
Currency translation differences			(43,028)			305	(42,723)
Tax effect on currency translation			2,654				2,654
Total comprehensive income		**240,414**	**(40,374)**		**(6,605)**	**(46)**	**193,389**
Changes in non-controlling interests		(4,257)				(3,294)	(7,551)
Capital increase from conditional capital	3	5,332					5,335
Share-based payments		19,340				15	19,355
Sale of treasury shares		(551)		1,653			1,102
Purchase of treasury shares				(573)			(573)
Dividend paid		(79,755)				(136)	(79,891)
Balance March 31, 2012	**3,329**	**1,710,080**	**(233,551)**	**2,733[1)]**	**(8,466)**	**1,753**	**1,475,878**
Balance April 1, 2012	**3,329**	**1,710,080**	**(233,551)**	**2,733[1)]**	**(8,466)**	**1,753**	**1,475,878**
Income for the period		110,917				1,120	112,037
Actuarial loss from defined benefit plans, net		(16,632)					(16,632)
Tax effect on actuarial loss		2,264					2,264
Fair value adjustment on cash flow hedges					2,265		2,265
Currency translation differences			52,899			(732)	52,167
Tax effect on currency translation			(1,868)				(1,868)
Total comprehensive income		**96,549**	**51,031**		**2,265**	**388**	**150,233**
Changes in non-controlling interests		(3,409)				26,302	22,893
Capital increase from conditional capital	29	54,360					54,389
Share-based payments		4,548					4,548
Sale of treasury shares		616		16,835			17,451
Purchase of treasury shares				(10,167)			(10,167)
Dividend paid		(79,887)					(79,887)
Balance March 31, 2013	**3,358**	**1,782,857**	**(182,520)**	**9,401[1)]**	**(6,201)**	**28,443**	**1,635,338**

[1)] Includes derivative financial instruments on treasury shares.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2013

1. CORPORATE INFORMATION

The Sonova Group (the "Group") specializes in the design, development, manufacture, worldwide distribution and service of technologically advanced hearing systems for adults and children with hearing impairment. The Group operates worldwide and distributes its products in over 90 countries through its own distribution network and through independent distributors. The ultimate parent company is Sonova Holding AG, a limited liability company incorporated in Switzerland. Sonova Holding AG's registered office is located at Laubisrütistrasse 28, 8712 Stäfa, Switzerland.

2. BASIS OF 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 (IAS) and Interpretations issued by the International Accounting Standards Board (IASB). The consolidated financial statements were approved by the Board of Directors of Sonova Holding AG on May 14, 2013 and are subject to approval by the Annual General Shareholders' Meeting on June 18, 2013.

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 35.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities and contingent assets and liabilities at the date of the financial statements as well as revenue and expenses reported for the financial year (refer also to Note 2.7, "Significant accounting judgements and estimates"). Actual results could differ from these estimates.

2.1 CHANGES IN ACCOUNTING POLICIES

The Group has adopted several minor amendments to existing standards and interpretations as of April 1, 2012, without having a significant impact on the Group's result and financial position.

The following new or amended standards that have been published will affect the Group after March 31, 2013:

IAS 19 (Revised) "Employee benefits" (effective for the Group as of April 1, 2013)
Among other items the revised standard requires:
– the elimination of the optional 'corridor approach'. As the Group already recognizes actuarial gain and losses in other comprehensive income, this change will have no impact on the Groups financial statements.
– that the previously separately calculated interest costs and the expected return on plan assets will be replaced by a single net interest component calculated by applying the discount rate to the net defined benefit asset or liability. This change of policy will lead to higher employee benefit costs of the Group (if this concept had been adopted by the Group in the financial year 2012/13 it is estimated that the employee benefit costs would have been CHF 2.5 million higher).

IFRS 9 "Financial instruments" (effective for the Group as of April 1, 2015)
The adoption of this new standard will change the classification and measurement of financial instruments. The Group is evaluating the potential impact that the new standard will have on the Group's result and financial position, but currently does not expect a material impact on the Group's result and financial position. The mandatory effective date for the Group will be on April 1, 2015, however early application will be permitted.

Furthermore as of April 1, 2013, the Group will adopt certain new and amended standards and interpretations.

From the adoption of these new and amended standards and interpretations the Group does not expect a significant impact on the Group's result and financial position:

– IFRS 10 "Consolidated financial statements"
The standard which replaces IAS 27, introduces a new single definition of control.
– IFRS 11 "Joint arrangements"
The new standard which replaces IAS 31, has eliminated the policy choice of proportionate consolidation for jointly controlled entities.
– IFRS 12 "Disclosures of interest in other entities"
The new standard combines and enhances disclosure requirements for subsidiaries, joint arrangements andunconsolidated entities.
– IFRS 13 "Fair value measurement"
The new standard provides guidance on how to measure and to disclose assets and liabilities at fair value. The new standard does not specify rules in which cases the fair value has to be used.

In addition, the amendment to IAS 1 "Presentation of items of other comprehensive income" will require companies to separate items that are presented in other comprehensive income based on whether they may be recycled to profit or loss in the future.

2.2 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. Non-controlling interests in equity and net income or loss are shown separately in the balance sheet and income statement. Changes in the ownership interest of a subsidiary that does not result in a loss of control will be accounted for as an equity transaction. Neither goodwill nor any gains or losses will result.

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 (including unrealized profit on intercompany inventories) are eliminated in full.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures are accounted for using the equity method of accounting. Investment in associates are entities in which Sonova has a significant influence but does not exercise control (usually 20 % – 50 % of voting rights). Joint ventures are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control.

Under the equity method, the investment in an associate / joint venture 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 associate / joint venture after the acquisition date. When the Group's share of losses in an associate / joint venture equals or exceeds its interest in the associate / joint venture, no further losses are recognized, unless there is a legal or constructive obligation. In order to apply the equity method the most recent available financial statements of an associate/joint venture are used, however due to practicability reasons the reporting dates might vary up to three months from the Group's reporting date.

2.3 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 intercompany loans that are considered part of the net investment in a foreign entity are recorded in other comprehensive income 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 (see Note 5). Translation differences arising from this process are recorded in other comprehensive income in equity. On disposal of a Group company, the related cumulative translation adjustment is transferred from equity and included in the profit or loss from the disposal in the income statements.

2.4 ACCOUNTING AND VALUATION PRINCIPLES

CASH AND CASH EQUIVALENTS

This item includes cash on hand and cash at banks, bank overdrafts, term deposits and other short-term highly liquid investments with original maturities of three months or less. The cash flow statement summarizes the movements in cash and cash equivalents.

OTHER CURRENT FINANCIAL ASSETS

Other current financial assets consist of financial assets held for trading as well as short-term loans to third parties. Marketable securities within this category are classified as financial assets at fair value through profit or loss (see Note 2.5). Derivatives are classified as held for trading unless they are designated as hedges (see Note 2.6).

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.

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, labor, efficiency, and capacity utilization. Standard costs are regularly reviewed and, if necessary, revised in the light of current conditions. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion (where applicable) and selling expenses. Manufactured finished goods and work-in-process are valued at the lower of production cost or net realizable value. Provisions are established for slow-moving, obsolete and phase-out inventory.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and 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.

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. Expenditure 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.

LEASING

There are no assets that are held under leases which effectively transfer to the Group the risks and rewards of ownership (finance leases). Therefore all leases are classified as operating leases, and payments are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's benefit.

INTANGIBLE ASSETS

Purchased intangible assets such as software, licences and patents, are measured at cost less accumulated amortization (applying the straight-line method) and any impairment in value. Software is amortized over a useful life of 3 – 5 years. Intangibles relating to acquisitions of subsidiaries (excluding goodwill) consist generally of technology, client relationships, customer lists, and brand names, and are amortized over a period of 3 – 15 years. Other intangible assets are generally amortized over a period of 3 – 10 years. For capitalized development costs amortization starts when the capitalized asset is ready for use, which is generally after receipt of approval from regulatory bodies. These assets are amortized over the estimated useful life of 2 – 7 years applying the straight-line method. For in-process capitalized development costs these capitalized costs are tested annually for impairment. Except for goodwill, the Sonova Group has no intangible assets with an indefinite useful life.

RESEARCH AND DEVELOPMENT

Research costs are expensed as incurred. Development costs are capitalized only if the identifiable asset is commercially and technically feasible, can be completed, its costs can be measured reliably and will generate probable future economic benefits. Group expenditures which fulfill these criteria are limited to the development of tooling and equipment as well as costs relating to the development of cochlear 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.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition 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. Any difference between the cost of the business combination and 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, or more frequently if events or changes in circumstances indicate that its value might be impaired. Acquisition-related costs are expensed. For each business combination, the Group recognizes the non-controlling interests in the acquiree at fair value or at the non-controlling interests proportionate share in the recognized amounts of the acquiree's identifiable net assets.

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 2.5).

CURRENT FINANCIAL LIABILITIES

Current financial liabilities consist of short-term bank debt and all other interest bearing debt with a maturity of 12 months or less. Given the short-term nature of these debts they are carried at nominal value. In addition, current financial liabilities also consist of financial liabilities resulting from earn-out agreements as well as deferred payments from acquisitions with a maturity of 12 months or less. In the case of earn-outs, they are classified as financial liabilities at fair value through profit or loss.

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.

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

NON-CURRENT FINANCIAL LIABILITIES

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

SHARE CAPITAL

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

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

INCOME TAXES

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

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

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

REVENUE RECOGNITION

Sales are recognized net of sales taxes and discounts upon delivery of products and services and reasonably assured collectibility of the related receivables.

For hearing instruments sold, as usual in this industry, a trial period is granted to the end consumer. Probable returns of products are estimated and a corresponding provision is recognized. The portion of goods sold that is expected to be returned is estimated based on historical product returns.

For cochlear implants, sales are generally recognized upon delivery to the hospital.

Sales of service contracts, such as long-term service contracts and extended warranties are seperated from the sale of goods and recognized on straight-line basis over the term of the contract.

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.

ACQUISITION-RELATED AMORTIZATION

The Group is continously amending its business portfolio with small acquisitions resulting in acquisition-related intangibles (see section "Intangible Assets") and related amortization charges. The Group discloses acquisition-related amortization as a separate line item in the income statement, and identifies EBITA, in line with the Group internal reporting to the CEO, as its key profit metric (refer to Note 6). The functional allocation of these acquisition-related amortization costs are further disclosed in Note 20 "Intangible Assets" in the notes to the financial statements.

SEGMENT REPORTING

Operating segments are defined on the same basis as information is provided to the chief operating decision maker. For the Sonova Group, the Chief Executive Officer (CEO) is the chief operating decision maker, who is responsible for allocating resources and assessing the performance of operating segments. Additional general information regarding the factors used to identify the entity's reportable segments are disclosed in Note 6.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of an asset or, where it is not possible to estimate the recoverable amount of an individual asset, a cash-generating unit is the higher of its fair value less selling costs and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. If the recoverable amount is lower than the carrying amount, an impairment loss is recognized. Impairment of financial assets is described in Note 2.5, Financial assets. For the purpose of impairment testing, goodwill as well as corporate assets are allocated to cash generating units. A goodwill impairment test is performed annually, even if there is no indication of impairment (see section "Business combinations and goodwill").

RELATED PARTIES

A party is related to an entity if the party directly or indirectly controls, is controlled by, or is under common control with the entity, has an interest in the entity that gives it significant influence over the entity, has joint control over the entity or is an associate or a joint venture of the entity. In addition, members of the Board of Directors and the Management Board or close members of their families are also considered related parties as well as post-employment plan organizations (pension funds) for the benefit of Sonova employees. 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 several 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 other comprehensive income in equity.

Other long-term benefits

Other long-term benefits mainly comprise length of service compensation benefits in certain Group companies. 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 determined at the grant date and recorded as an expense over the vesting period (for details refer to Note 31). The expense is charged to the appropriate income statement heading within the operating result and an equivalent increase in equity is recorded.

2.5 FINANCIAL ASSETS

Sonova classifies its financial assets in the categories financial assets at fair value through profit or loss, and loans and receivables. Management determines the classification of its investments at initial recognition. 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 consist of cash-settled calls on Sonova shares as a hedge against obligations from warrant appreciation rights (WARs) and share appreciation rights (SARs) allocated to US employees participating in the Executive Equity Award Plan (EEAP) and certain minority investments in hearing aid related businesses. These financial assets are measured at their fair value. Those fair value changes are included in the profit or loss for the period in which they arise.

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 are measured at amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, minus any reduction for impairment or uncollectibility. The effective interest method is a method calculating the amortized cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

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 will not result in a carrying amount of the financial asset that exceeds what the 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.

2.6 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group regularly hedges its net exposure from foreign currency balance sheet positions 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 forward and option contracts are entered into and closed within the half-year reporting period.

In connection with the acquisition of Advanced Bionics, the Group has entered into an interest swap agreement to protect the company against rising interest rates. As the agreement qualifies for hedge accounting, the gain or loss on the hedging instrument is recognized in other comprehensive income in equity (refer Note 24).

2.7 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.

These include, but are not limited to, the following areas:

Capitalization of development costs
As outlined under 2.4 "Accounting and valuation principles" the Group capitalizes costs relating to the development of cochlear implants. In determining the commercial as well as the technical feasibility, management judgement may be required.

Business combinations and transactions with minorities
In the course of recognizing assets and liabilities from business combinations or transactions with minorities, management judgements might be required for the following areas:
– Acquisition-related intangibles resulting from technology, customer relationships, client lists or brand names.
– Contingent consideration arrangements.

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 (for business combinations entered into before April 1, 2010) or in the income statement (for business combinations entered into after April 1, 2010). As at the end of the financial year 2012/13 such liabilities contingent on future events amount to CHF 12.6 million (previous year CHF 37.1 million) and are disclosed under provisions for earn-out (for business combinations entered into before April 1, 2010) or other financial liabilities (for business combinations entered into after April 1, 2010).

INTANGIBLE ASSETS, INCLUDING GOODWILL

The Group has intangible assets with a carrying value of CHF 1,199.8 million (previous year CHF 1,120.6 million) as disclosed in Note 20.

Included in the intangible assets is goodwill in the amount of CHF 953.6 million (previous year CHF 896.1 million).

Furthermore intangible assets also include capitalized development costs in the amount of CHF 59.6 million (previous year CHF 33.0 million).

The Group determines annually, in accordance with the accounting policy stated in Note 2.4, 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 117.4 million (previous year CHF 98.0 million) related to deductible differences and, in certain cases, tax loss carryforwards, provided that their utilization appears probable. The recoverable value is based on forecasts of the corresponding taxable Group company over a period of several years. As actual results may differ from these forecasts, the deferred tax assets may need to be adjusted accordingly.

EMPLOYEE BENEFIT PLANS

The Sonova Group has various employee benefit plans. Most of its salaried employees are covered by these plans, of which some are defined benefit plans. The present value of the defined benefit obligations at the end of the financial period 2012/13 amounts to CHF 248.9 million (previous year CHF 211.4 million) as disclosed in Note 30. This includes CHF 246.8 million (previous year CHF 209.0 million) from the Swiss pension plan.

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 30.

PROVISION FOR WARRANTY AND RETURNS

As of March 31, 2013 the Group recorded provisions for warranty and returns of CHF 72.2 million (previous year CHF 65.9 million) as disclosed in Note 21.

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

PROVISION FOR PRODUCT LIABILITIES

As of April 16, 2013 Advanced Bionics was confronted with a verdict of the Kentucky Western District Court. A case was brought by a patient whose cochlear implant malfunctioned as a result of moisture ingress. The device in question was part of a voluntary recall issued by Advanced Bionics in March 2006. A jury awarded the plaintiff unexpectedly high damages, including punitive damages, totaling USD 7.25 million.

In light of the verdict, Sonova reassessed its provisions for such claims and decided to increase its provision for claims of this kind by CHF 197.8 million to a total of CHF 249.5 million.

The calculation of this provision is based on past experience and the expected number and cost of existing and future claims.

As actual results may differ from these forecasts, the respective provision may need to be adjusted accordingly.

3. CHANGES IN GROUP STRUCTURE

In the financial years 2012 / 13 and 2011 / 12 the Group entered into several business combinations which were individually not significant. The companies acquired are in the business of distributing hearing instruments.

The effect of the acquisitions for the financial year 2012 / 13 and 2011 / 12 is disclosed in Note 28.

As of February 22, 2013 Sonova Holding AG announced that Boots UK Limited, the UK's leading pharmacy-led health and beauty retailer and member of Alliance Boots, acquired a 49 % minority stake in David Ormerod Hearing Centres, a company owned 100 % by the Sonova Group. As the change in ownership interest did not result in a loss of control, the sale was accounted as an equity transaction. Neither changes to goodwill nor any gains or losses in the income statement resulted from this transaction.

As of October 10, 2012 Sonova Holding AG announced the potential reorganization of AB Sarl in Rixheim France, which then employed 47 people. Since October 2012 the plans have further developed and substantiated. Restructuring costs have been considered and are included in the income statement 2012 / 13 in the line "Other expenses, net".

As part of the further consolidation of the Hearing implants division of Sonova, as of September 30, 2011 the Group announced the closure of the Phonak Acoustic Implants site in Lonay, Switzerland, which employed 26 people working on the middle ear implant Ingenia. The Ingenia device was still in the development stage, did not have the CE certification or FDA approval, and was not yet commercially available. As a result of the closure, fixed assets in the amount of CHF 1.3 million were written off. These costs together with further restructuring costs in the amount of CHF 1.4 million are included in the income statement 2011 / 12 in the line "Other expenses, net". In addition a write-off of CHF 4.9 million of previously capitalized development costs was recorded and is included in the income statement 2011 / 12 in the line "Impairment".

4. NUMBER OF EMPLOYEES

At March 31, 2013, the Sonova Group employed the full time equivalent of 8,952 people (previous year 8,223). They were engaged in the following regions and activities:

By region	31.3.2013	31.3.2012
Switzerland	1,127	1,096
EMEA (excl. Switzerland)	2,377	2,231
Americas	3,304	3,014
Asia / Pacific	2,144	1,882
Total	**8,952**	**8,223**
By activity		
Research and development	567	543
Operations	3,447	3,073
Sales and marketing, general and administration	4,938	4,607
Total	**8,952**	**8,223**

The average number of employees (full time equivalents) of the Sonova Group for the year was 8,709 (previous year 7,970). Total personnel expenses for the financial year 2012 / 13 amounted to CHF 634.2 million (previous year CHF 576.8 million).

5. EXCHANGE RATES

The following main exchange rates were used for currency translation:

	31.3.2013	31.3.2012	2012 / 13	2011 / 12
	Year-end rates		Average rates for the year	
AUD 1	0.99	0.94	0.97	0.92
BRL 1	0.47	0.50	0.47	0.52
CAD 1	0.94	0.91	0.94	0.89
CNY 1	0.15	0.14	0.15	0.14
EUR 1	1.22	1.21	1.21	1.21
GBP 1	1.44	1.44	1.48	1.41
JPY 100	1.01	1.10	1.14	1.12
USD 1	0.95	0.90	0.94	0.88

6. SEGMENT INFORMATION

SEGMENT INFORMATION BY BUSINESS SEGMENTS

Since the acquisition of Advanced Bionics as of December 30, 2009, the Group is active in the two business segments cochlear implants and hearing instruments, which are reported separately to the Group's chief operating decision maker (i.e. Chief Executive Officer). The financial information that is provided to the Group's chief operating decision maker, which is used to allocate resources and to assess the performance, is primarily based on the sales analysis (by product groups and regions) as well as the consolidated income statements, balance sheets and cash flow statements for the individual segments.

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

Cochlear implants: This operating segment includes the companies that are active in the design, development, manufacture, distribution and service of hearing implants and related products. As part of the further consolidation of the Hearing implants division of Sonova, the Group announced on September 30, 2011 the closure of the Phonak Acoustic Implants (PAI) site in Lonay, Switzerland (for further details refer to Note 3). The segment consists of Advanced Bionics and the related sales organizations, which were acquired as of December 30, 2009 and which provide cochlear implant systems. Research and development as well as marketing activities of Advanced Bionics are predominantly centralized in the United States and Switzerland while production resides in the United States. The distribution of products is effected through sales organizations in the individual markets.

1,000 CHF	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
	Hearing instruments		Cochlear implants		Corporate / Eliminations		Total	
Segment sales	1,648,827	1,523,597	146,818	96,427			1,795,645	1,620,024
Intersegment sales	(298)	(69)	(85)	(107)			(383)	(176)
Sales	**1,648,529**	**1,523,528**	**146,733**	**96,320**			**1,795,262**	**1,619,848**
Operating profit before acquisition-related amortization and impairment (EBITA)	**384,653**	**339,265**	**(199,248)**	**(24,066)**	**(2,600)**		**182,805**	**315,199**
Segment assets	**2,100,373**	**1,996,577**	**529,238**	**453,742**	**(520,179)**	**(470,162)**	**2,109,432**	**1,980,157**
Unallocated assets[1]							571,502	307,045
Total assets							**2,680,934**	**2,287,202**

[1] Unallocated assets include cash and cash equivalents, other current financial assets (excluding loans), investments in associates / joint ventures, employee benefit assets and deferred tax assets.

Reconciliation of reportable segment profit 1,000 CHF	2012/13	2011/12
EBITA (as per segment reporting)	182,805	315,199
Acquisition-related amortization	(26,129)	(22,622)
Impairment[1]		(4,878)
Financial costs, net	(8,962)	(6,911)
Share of gain in associates / joint ventures	2,105	993
Income before taxes	**149,819**	**281,781**

[1] Impairment in the financial year 2011/12 relates to the segment "Cochlear implants".

ENTITY-WIDE DISCLOSURES

Sales by product groups 1,000 CHF	2012/13	2011/12
Premium hearing instruments	393,336	359,831
Advanced hearing instruments	434,530	375,908
Standard hearing instruments	495,904	490,206
Wireless communication systems	64,159	65,271
Miscellaneous	260,600	232,312
Total hearing instruments	**1,648,529**	**1,523,528**
Cochlear implants and accessories	146,733	96,320
Total sales	**1,795,262**	**1,619,848**

Sales and selected non-current assets by regions 1,000 CHF	2012/13	2011/12	2012/13	2011/12
Country	Sales[1]		Selected non-current assets[2]	
Switzerland	27,454	38,209	236,676	213,705
EMEA (excl. Switzerland)	678,041	626,307	331,409	325,604
USA	671,385	590,228	653,229	605,751
Americas (excl. USA)	222,346	205,586	152,940	148,790
Asia/Pacific	196,036	159,518	93,425	84,898
Total Group	**1,795,262**	**1,619,848**	**1,467,679**	**1,378,748**

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

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

7. OTHER EXPENSES, NET

Other expenses in the financial year 2012/13 of CHF 203.6 million consist of an increase in provision for product liabilities, cost for the out-of-court settlement with a group of investors and for the announced restructuring of the Rixheim (France) establishment of Advanced Bionics.

The provision for product liabilities was reassessed and increased (CHF 197.8 million) in the light of the verdict of the Kentucky Western District Court. For further information refer to Note 2.7 "Provision for product liabilities" and Note 21 "Provisions".

The settlement with a group of investors was announced in October 2012 and charges of CHF 2.6 million were debited to the first half year results of 2012/13.

Other operating expenses in the financial year 2011 / 12 primarily consisted of restructuring costs in connection with the closure of the Phonak Acoustic Implants site in Lonay, Switzerland (refer Note 3).

8. FINANCIAL EXPENSES, NET

1,000 CHF	2012 / 13	2011 / 12
Interest income	2,607	4,418
Other financial income	1,044	2,264
Total financial income	**3,651**	**6,682**
Interest expenses	(5,917)	(5,977)
Other financial expenses	(6,696)	(7,616)
Total financial expenses	**(12,613)**	**(13,593)**
Total	**(8,962)**	**(6,911)**

Other financial expenses include, amongst other items, the unwinding of the discount on provisions as well as earn-out payments, the loss from remeasuring previously held equity investment to fair value at date of acquisition of these companies as well as fair value adjustments of financial instruments.

9. TAXES

1,000 CHF	2012 / 13	2011 / 12
Income taxes	45,215	58,411
Change in deferred taxes	(7,433)	(23,040)
Total tax expense	**37,782**	**35,371**
Reconciliation of tax expense		
Income before taxes	149,819	281,781
Weighted average expected tax rate	13.6 %	10.8 %
Tax at weighted average rate	**20,396**	**30,478**
+/- Effects of		
Expenses / (income) not subject to tax, net	1,463	(2,448)
Changes of unrecognized loss carryforwards / deferred tax assets	82,688	5,095
Local tax rate different to Group average tax rate	(62,866)	(3,673)
Change in tax rates on deferred tax balances	(6,644)	(191)
Prior year adjustments and other items, net	2,745	6,110
Total tax expense	**37,782**	**35,371**
Weighted average effective tax rate	25.2 %	12.6 %

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

Deferred tax assets and (liabilities) 1,000 CHF					31.3.2013
	Property, plant & equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax loss carryforwards	Total
Balance April 1	(6,842)	(23,404)	32,979	65,844	68,577
Changes through business combinations		(1,115)			(1,115)
Deferred taxes recognized in the income statement	1,723	1,119	15,391	(10,800)	7,433
Deferred taxes recognized in OCI[1]			2,264		2,264
Exchange differences	(63)	3,168	(5,464)	(2,952)	(5,311)
Balance March 31	**(5,182)**	**(20,232)**	**45,170**	**52,092**	**71,848**
Amounts in the balance sheet					
Deferred tax assets					117,397
Deferred tax liabilities					(45,549)
Total deferred taxes, net					**71,848**

[1] Other comprehensive income.

Deferred tax assets and (liabilities) 1,000 CHF					31.3.2012
	Property, plant & equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax loss carryforwards	Total
Balance April 1	(5,135)	(24,647)	34,795	45,767	50,780
Changes through business combinations		(7,622)			(7,622)
Deferred taxes recognized in the income statement	(1,783)	7,374	(632)	18,081	23,040
Deferred taxes recognized in OCI[1]			1,109		1,109
Exchange differences	76	1,491	(2,293)	1,996	1,270
Balance March 31	**(6,842)**	**(23,404)**	**32,979**	**65,844**	**68,577**
Amounts in the balance sheet					
Deferred tax assets					98,020
Deferred tax liabilities					(29,443)
Total deferred taxes, net					**68,577**

[1] Other comprehensive income.

Deferred tax assets have been capitalized based on the projected future performance of the Group companies.

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	31.3.2013	31.3.2012
Within 1 – 3 years	22,979	20,674
Within 4 years	16,763	10,852
Within 5 years	31,066	13,963
More than 5 years[1]	206,068	150,655
Total	**276,876**	**196,144**

[1] Includes pre-acquisition tax losses with limitation of use.

10. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the income after taxes attributable to the ordinary equity holders of the parent company by the weighted average number of shares outstanding during the year.

Basic earnings per share	2012/13	2011/12
Income after taxes (1,000 CHF)	110,917	246,761
Weighted average number of outstanding shares	66,661,813	66,482,691
Basic earnings per share (CHF)	**1.66**	**3.71**

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 2008 through to 2013 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	2012/13	2011/12
Income after taxes (1,000 CHF)	110,917	246,761
Weighted average number of outstanding shares	66,661,813	66,482,691
Adjustment for dilutive share options	126,775	112,174
Adjusted weighted average number of outstanding shares	66,788,588	66,594,865
Diluted earnings per share (CHF)	**1.66**	**3.71**

11. DIVIDEND PER SHARE

The Board of Directors of Sonova Holding AG proposes to the Annual General Shareholders' Meeting, to be held on June 18, 2013, that instead of a dividend, a distribution from reserve from capital contributions of CHF 1.60 (previous year CHF 1.20) per share (free of Swiss witholding tax) shall be distributed (for further details refer to 2.4 "Summary of changes in shareholders' equity" in the financial statements 2012/13 of Sonova Holding AG).

12. CASH AND CASH EQUIVALENTS

1,000 CHF	31.3.2013	31.3.2012
Cash on hand	779	645
Current bank accounts	392,852	178,304
Term deposits	41,135	12,989
Total	**434,766**	**191,938**

Bank accounts and term deposits 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.

13. OTHER CURRENT FINANCIAL ASSETS

1,000 CHF	31.3.2013	31.3.2012
Marketable securities		1,419
Loans to third parties	4,640	5,382
Total	**4,640**	**6,801**

Marketable securities as at March 31, 2012 mainly consisted of quoted bonds and equity funds.

14. TRADE RECEIVABLES

1,000 CHF	31.3.2013	31.3.2012
Trade receivables	367,220	357,144
Provision for doubtful receivables	(27,531)	(17,725)
Total	**339,689**	**339,419**

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

1,000 CHF	31.3.2013	31.3.2012
Total trade receivables, net	**339,689**	**339,419**
of which:		
Not overdue	241,207	227,507
Overdue 1 – 30 days	47,498	45,951
Overdue more than 30 days	50,984	65,961
Total	**339,689**	**339,419**

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

1,000 CHF	2012/13	2011/12
Provision for doubtful receivables, April 1	**(17,725)**	**(14,342)**
Utilization or reversal	2,792	7,319
Additions	(11,693)	(10,357)
Changes through business combinations	(267)	(1,109)
Exchange differences	(638)	764
Provision for doubtful receivables, March 31	**(27,531)**	**(17,725)**

During 2012/13 the Group has utilized CHF 2.0 million (previous year CHF 4.7 million) of this provision to write-off receivables.

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

1,000 CHF	31.3.2013	31.3.2012
CAD	29,403	29,705
CHF	13,505	15,895
EUR	91,605	92,726
BRL	35,475	29,116
USD	114,294	119,435
Other	55,407	52,542
Total trade receivables, net	**339,689**	**339,419**

15. OTHER RECEIVABLES AND PREPAID EXPENSES

1,000 CHF	31.3.2013	31.3.2012
Other receivables	56,064	35,939
Prepaid expenses	15,441	16,064
Total	**71,505**	**52,003**

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

16. INVENTORIES

1,000 CHF	31.3.2013	31.3.2012
Raw materials and components	42,847	33,935
Work-in-process	68,676	58,832
Finished products	122,233	108,946
Allowances	(29,498)	(37,410)
Total	**204,258**	**164,303**

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

In 2012/13, CHF 472.7 million (previous year CHF 439.8 million) were recognized as an expense and included in “cost of sales”.

17. PROPERTY, PLANT AND EQUIPMENT

1,000 CHF					31.3.2013
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	161,603	178,723	114,941	4,276	459,543
Changes through business combinations	34	776	656		1,466
Additions	7,434	20,106	16,677	2,993	47,210
Disposals		(4,248)	(3,507)	(265)	(8,020)
Transfers		(1,430)	3,627	(2,197)	
Exchange differences	652	2,930	2,743	33	6,358
Balance March 31	**169,723**	**196,857**	**135,137**	**4,840**	**506,557**
Accumulated depreciation					
Balance April 1	(42,336)	(116,656)	(58,061)		(217,053)
Additions	(5,015)	(22,443)	(17,069)		(44,527)
Disposals		3,860	3,055		6,915
Exchange differences	(201)	(1,311)	(1,809)		(3,321)
Balance March 31	**(47,552)**	**(136,550)**	**(73,884)**		**(257,986)**
Net book value					
Balance April 1	119,267	62,067	56,880	4,276	242,490
Balance March 31	**122,171**	**60,307**	**61,253**	**4,840**	**248,571**

1,000 CHF					31.3.2012
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	148,975	166,805	105,970	6,567	428,317
Changes through business combinations		1,367	2,126		3,493
Additions	14,777	20,399	17,261	2,422	54,859
Disposals	(616)	(11,285)	(7,559)		(19,460)
Transfers	44	3,764	897	(4,705)	
Exchange differences	(1,577)	(2,327)	(3,754)	(8)	(7,666)
Balance March 31	**161,603**	**178,723**	**114,941**	**4,276**	**459,543**
Accumulated depreciation					
Balance April 1	(38,491)	(106,576)	(51,138)		(196,205)
Additions	(4,770)	(21,929)	(15,114)		(41,813)
Disposals	396	10,675	6,627		17,698
Exchange differences	529	1,174	1,564		3,267
Balance March 31	**(42,336)**	**(116,656)**	**(58,061)**		**(217,053)**
Net book value					
Balance April 1	110,484	60,229	54,832	6,567	232,112
Balance March 31	**119,267**	**62,067**	**56,880**	**4,276**	**242,490**

Property, plant and equipment as of March 31, 2013 were insured against fire for a value of CHF 469.6 million (previous year CHF 453.6 million).

Pledged fixed assets amounted to CHF 0.03 million (previous year CHF 0.03 million).

There are no assets held under finance leases.

18. INVESTMENTS IN ASSOCIATES / JOINT VENTURES

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

1,000 CHF	**2012 / 13**	2011 / 12
Current assets	6,218	4,228
Non-current assets	850	2,395
Total assets	**7,068**	**6,623**
Current liabilities	(2,134)	(2,376)
Non-current liabilities	(878)	(2,426)
Total liabilities	**(3,012)**	**(4,802)**
Net assets	**4,056**	**1,821**
Income for the year	12,863	10,168
Expenses for the year	(10,276)	(9,127)
Profit for the year	**2,587**	**1,041**
Net book value at year-end	19,339	15,668
Share of gain recognized by the Group	2,105	993

In the financial year 2012 / 13, the Group acquired three associates for a total purchase consideration of CHF 2.7 million. The associates acquired are in the business of selling hearing instruments.

In the financial year 2011 / 12 one associate has been acquired due to a conversion of a third party loan. Additionally, the Group acquired an additional share in three previously held equity investments, resulting in a change of control (step up acquisitions). These companies are since then fully consolidated. The total net book value at the time of gaining control over these three entities amounted to CHF 2.3 million.

Sales to associates / joint ventures in the financial year 2012 / 13 amounted to CHF 11.7 million (previous year CHF 9.7 million). At March 31, 2013 trade receivables towards associates / joint ventures amounted to CHF 2.8 million (previous year CHF 0.6 million).

At the end of the financial years 2012 / 13 and 2011 / 12, no unrecognized losses existed.

Investments with a net book value of CHF 19.3 million (previous year CHF 15.7 million) have a business year different than the Sonova Group. The latest available information for the respective companies varies between December 2012 and February 2013.

19. OTHER NON-CURRENT FINANCIAL ASSETS

1,000 CHF	31.3.2013	31.3.2012
Financial assets at fair value through profit or loss	8,900	8,700
Loans to associates	9,944	8,713
Loans to third parties	11,188	24,899
Total	**30,032**	**42,312**

Financial assets at fair value through profit or loss mainly consist of minority interests in patent and software development companies specific to the hearing aid industry. Besides these non-controlling investments, financial assets at fair value through profit or loss also consists of warrants to hedge the financial exposure in connection with the employee share option program (refer to Note 31).

The loans are primarily denominated in CAD, EUR and USD. Loans to third parties consists mainly of loans to customers. As of March 31, 2013, the respective repayment periods vary between one and six years and the interest rates vary between 2% and 5%. Generally, the valuation of the loans approximates to fair value.

20. INTANGIBLE ASSETS

1,000 CHF					31.3.2013
	Goodwill	Intangibles relating to acquisitions	Capitalized development costs	Software and other intangibles	Total
Cost					
Balance April 1	1,035,445	234,442	33,336	57,549	1,360,772
Changes through business combinations	26,856	11,879		24	38,759
Additions		6,679	28,299	6,845	41,823
Disposals	(5,786)[1]	(51)		(501)	(6,338)
Exchange differences	43,898	6,820	14	896	51,628
Balance March 31	**1,100,413**	**259,769**	**61,649**	**64,813**	**1,486,644**
Accumulated amortization and impairments					
Balance April 1	(139,309)	(65,523)	(300)	(35,050)	(240,182)
Additions		(26,129)[2]	(1,787)	(9,214)	(37,130)
Disposals		16		449	465
Exchange differences	(7,484)	(1,939)		(605)	(10,028)
Balance March 31	**(146,793)**	**(93,575)**	**(2,087)**	**(44,420)**	**(286,875)**
Net book value					
Balance April 1	896,136	168,919	33,036	22,499	1,120,590
Balance March 31	**953,620**	**166,194**	**59,562**	**20,393**	**1,199,769**

1) Disposals of goodwill include primarily earn-out adjustments.
2) Relates to research and development (CHF 3.7 million) and sales and marketing (CHF 22.4 million).

1,000 CHF					31.3.2012
	Goodwill	Intangibles relating to acquisitions	Capitalized development costs	Software and other intangibles	Total
Cost					
Balance April 1	996,841	204,397	56,548	56,502	1,314,288
Changes through business combinations	73,291	36,428		61	109,780
Additions	223	479	16,805	8,409	25,916
Disposals	(4,292)[1]	(7)	(40,378)	(6,863)	(51,540)
Exchange differences	(30,618)	(6,855)	361	(560)	(37,672)
Balance March 31	**1,035,445**	**234,442**	**33,336**	**57,549**	**1,360,772**
Accumulated amortization and impairments					
Balance April 1	(141,957)	(44,433)	(35,500)	(33,336)	(255,226)
Additions		(22,622)[2]	(300)	(8,697)	(31,619)
Disposals			40,378	6,571	46,949
Impairment			(4,878)		(4,878)
Exchange differences	2,648	1,532		412	4,592
Balance March 31	**(139,309)**	**(65,523)**	**(300)**	**(35,050)**	**(240,182)**
Net book value					
Balance April 1	854,884	159,964	21,048	23,166	1,059,062
Balance March 31	**896,136**	**168,919**	**33,036**	**22,499**	**1,120,590**

[1] Disposals of goodwill include primarily earn-out adjustments.
[2] Relates to research and development (CHF 3.5 million) and sales and marketing (CHF 19.1 million).

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

For the purpose of impairment testing, goodwill is allocated to a cash-generating unit or a group of cash-generating units, which are expected to benefit from the synergies of the corresponding business combination.

In the financial year 2012/13 the Group did a review of the allocation of goodwill to cash-generating units. The reasoning was that over recent years the Group has turned from a producer and wholesaler into a fully integrated hearing solution provider covering the whole value chain. Synergies achieved through centralized control over the value-chain, centralized production as well as economies of scale, partly driven by the acquisition of companies which business is the distribution of hearing instruments, led to a situation where the allocation of goodwill had to be reconsidered. The Group concluded that a meaningful allocation of goodwill to cash-generating-units could only be done at the level of the segments hearing instruments and cochlear implants. This also reflects the level that the goodwill is monitored by management.

For both of the two cash-generating units the recoverable amount (higher of the cash-generating unit's fair value less selling costs and the cash-generating units value in use) is compared to the carrying amount. Future cash flows are discounted with the Weighted Average Cost of Capital (WACC) including the application of the Capital Asset Pricing Model (CAPM). Value in use is normally assumed to be higher than the fair value less selling costs. Therefore, fair value less selling costs is only investigated when value in use is lower than the carrying amount of the cash-generating unit.

Based on the impairment tests performed, there was no need for the recognition of any impairment of goodwill for the financial years 2012/13 and 2011/12.

HEARING INSTRUMENTS

As of March 31, 2013, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 646.4 million (prior year CHF 604.5 million).

The cash flow projections were based on the most recent business plan approved by management. The business plan for the hearing instruments business was projected over a five year period. Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.0 % representing the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 9.3 % was used.

An increase in the discount rate of 1 % would not result in an impairment of goodwill.

COCHLEAR IMPLANTS

As of March 31, 2013, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 307.2 million (prior year CHF 291.6 million).

The cash flow projections were based on the most recent business plan approved by management. The business plan for the Cochlear implants business was projected over an eight year period which reflects the long-term development cycle of the implant business. Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.0 % (prior year 2.1 %) representing the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 9.7 % (prior year 9.7 %) was used.

An increase in the discount rate of 1 % would not result in an impairment of goodwill.

Impairment on capitalized intangibles of Phonak Acoustic Implants in the financial year 2011 / 12

As part of the further consolidation of the Hearing implants division of Sonova, as of September 30, 2011 the Group announced the closure of the Phonak Acoustic Implants site in Lonay, Switzerland, which employed 26 people working on the middle ear implant Ingenia. The Ingenia device was still in the development stage, did not have the CE certification or FDA approval, and was not yet commercially available. As a result of the closure a write-off of CHF 4.9 million of previously capitalized development costs was recorded and is included in the income statement 2011 / 12 in the line "Impairment". As of March 31, 2012 all of the development costs previously capitalized in Phonak Acoustic Implants, had been impaired.

21. PROVISIONS

1,000 CHF					31.3.2013
	Warranty and returns	Reimbursement to customers	Product liabilities	Other provisions	Total
Balance April 1	65,899	9,317	48,847	46,545	170,608
Changes through business combinations				93	93
Amounts used	(35,074)	(5,061)	(2,902)	(17,558)	(60,595)
Reversals	(1,973)			(7,322)	(9,295)
Increases	41,073	7,144	197,766	7,914	253,897
Present value adjustments			508		508
Exchange differences	2,225	312	5,326	100	7,963
Balance March 31	**72,150**	**11,712**	**249,545**	**29,772**	**363,179**
thereof short-term	55,307	11,685	25,260	14,019	106,271
thereof long-term	16,843	27	224,285	15,753	256,908

1,000 CHF					31.3.2012
	Warranty and returns	Reimbursement to customers	Product liabilities	Other provisions	Total
Balance April 1	79,219	11,838	53,749	56,405	201,211
Changes through business combinations	1,522	20		291	1,833
Amounts used	(48,029)	(7,121)	(4,283)	(8,137)	(67,570)
Reversals	(998)	(286)		(6,064)	(7,348)
Increases	36,955	5,383		5,999	48,337
Present value adjustments			477	70	547
Exchange differences	(2,770)	(517)	(1,096)	(2,015)	(6,398)
Balance March 31	**65,899**	**9,317**	**48,847**	**46,549**	**170,612**
thereof short-term	51,252	9,317	1,228	29,764	91,561
thereof long-term	14,647		47,619	16,785	79,051

The disclosure of the provisions has been amended to enhance the information on product liabilities in relation to the cochlear implants business and on reimbursement to customers as well as to take into account the reduced level of earn-out provisions.

The provision for warranty and returns considers any costs arising from the warranty given on products sold. In general, the Group grants a 12 to 24 months warranty period for hearing instruments and related products and up to 10 years on cochlear implants. During this period, products will be repaired or a replacement product will be provided free of charge. The provision is based on turnover, past experience and projected warranty claims.

The provision for reimbursement to customers considers commitments to provide volume rebates. The provision is based on expected volumes. The large majority of the cash outflows are expected to take place within the next 12 months.

The provision for product liabilities considers the expected costs for recall related claims in relation to the cochlear implant business of Advanced Bionics. The provision is based on past experience and the expected number and cost of existing and future claims. It covers the cost for replacement products, medical expenses, compensation for actual damages as well as legal fees. The increase of the provision in the current financial year relates to the reassessment of the provision following the verdict of the Kentucky Western District Court as of April 16, 2013. For further information refer to Note 2.7 "Provision for product liabilities". The timing of the cash outflows is uncertain since it will largely depend upon the outcome of administrative and legal proceedings.

Other provisions include, amongst others, earn-out provisions of CHF 2.0 million (previous year CHF 18.1 million) as well as provisions for specific business risks such as litigation and restructuring costs which arise during the normal course of business. Earn-out provisions reflect the present value of estimated earn-out payments for acquisitions prior to April 1, 2010. The timing of cash outflows for the other provisions are expected to take place within the next one to three years.

22. CURRENT FINANCIAL LIABILITIES

1,000 CHF	31.3.2013	31.3.2012
Short-term debt	123	176
Other current financial liabilities	7,073	16,070
Total	**7,196**	**16,246**
Unused borrowing facilities	40,851	59,305

Current financial liabilites consist primarily of financial liabilities resulting from earn-out agreements as well as deferred payments from acquisitions.Given the short-term nature of the deferred payments as well as the short-term debt they are carried at nominal value. The book value of deferred payments and short-term debt approximates fair value.

23. OTHER SHORT-TERM LIABILITIES

1,000 CHF	31.3.2013	31.3.2012
Other payables	39,823	29,685
Accrued expenses	140,247	130,153
Deferred income	25,678	17,465
Total	**205,748**	**177,303**

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 include salaries, social expenses, vacation pay, bonus and incentive compensation as well as accruals for outstanding invoices from suppliers.

24. NON-CURRENT FINANCIAL LIABILITIES

1,000 CHF	31.3.2013	31.3.2012
Bank debt	228,874	228,140
Interest swap – negative replacement value	6,201	8,466
Other non-current financial liabilities	6,695	4,953
Total	**241,770**	**241,559**

Bank debt includes the remaining bank loan of CHF 230 million granted in connection with the acquisition of Advanced Bionics (refer to Note 25). The fair value of the bank debt as of March 31, 2013 amounts to CHF 235.1 million (previous year CHF 236.6 million).

Other non-current financial liabilities consist of amounts due in relation to the Share Appreciation Rights (SARs) and Warrant Appreciation Rights (WARs) (refer to Note 31) as well as obligations in relation to earn-out agreements from acquisitions.

Analysis by currency 1,000 CHF			31.3.2013					31.3.2012
	Bank debt	Interest swap – negative replacement value	Other non-current financial liabilities	Total	Bank debt	Interest swap – negative replacement value	Other non-current financial liabilities	Total
CHF	228,706	6,201	965	235,872	227,943	8,466	1,421	237,830
EUR			912	912			1,477	1,477
DKK	168			168	197			197
USD			4,463	4,463			1,770	1,770
CAD			161	161			243	243
AUD			174	174				
Other			20	20			42	42
Total	**228,874**	**6,201**	**6,695**	**241,770**	**228,140**	**8,466**	**4,953**	**241,559**

25. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

GROUP RISK MANAGEMENT

Risk management at Group level is an integral part of business practice and supports the strategic decision-making process. The assessment of risk is derived from both “top-down” and “bottom-up” and covers corporate, all business segments, and all consolidated Group companies. This approach allows for the Group to examine all types of risk exposures caused by internal and by external impacts and events, from financial, operational processes, customer and products, management and staff. The risk exposures are managed by specific risk mitigating initiatives, frequent re-evaluations, communication, risk consolidation and prioritization.

The responsibility for the process of risk assessment and monitoring is allocated to the internal audit department. The Management Board, in addition to Group companies and functional managers, support the annual risk assessment and are responsible for the management of the risk mitigating initiatives. The Board of Directors discusses and analyzes the Group’s risks at least once a year in the context of a strategy meeting.

FINANCIAL RISK MANAGEMENT

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

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

MARKET RISK

Exchange rate risk

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

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

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

As of March 31, 2013 and 2012, no forward currency contracts were open.

Foreign currency sensitivity analysis

A 5 % strengthening / weakening of the following currencies against the Swiss franc as of March 31, 2013 and 2012 (for foreign currency rates refer to Note 5) would create an impact on income after taxes and equity as shown in the following table. The analysis assumes all other variables to remain constant.

1,000 CHF	2012 / 13	2011 / 12	2012 / 13	2011 / 12
	Impact on income after taxes		Impact on equity	
Change in USD / CHF + 5 %	3,732	2,105	20,289	20,521
Change in USD / CHF – 5 %	(3,732)	(2,105)	(20,289)	(20,521)
Change in EUR / CHF + 5 %	4,247	4,479	11,541	10,808
Change in EUR / CHF – 5 %	(4,247)	(4,479)	(11,541)	(10,808)

Interest rate risk

The Group has only limited exposure to interest rate changes. The CHF 240 million short-term portion of the CHF 470 million loan, entered into in connection with the acquisition of Advanced Bionics, has already been repaid. For the long-term bank loan of CHF 230 million, the Group entered into a swap agreement that protects the Group against an increase in interest rates, as the floating interest rates are swapped against fixed rates. As the conditions of the swap are in line with the underlying conditions of the financing agreement, the swap can be considered as 100 % effective and hedge accounting has been applied. As of March 31, 2013, the negative fair value of the interest rate swap amounts to CHF 6.2 million and represents the theoretical replacement value. If interest rates had been 0.5 % lower / higher, the valuation of the swap would have changed by approximately CHF 2.3 million and the equity would have been CHF 2.3 million lower / higher.

The most substantial interest exposure on assets relates to cash and cash equivalents with an average interest-bearing amount for the financial year 2012 / 13 of CHF 250 million (previous year CHF 114 million). If interest rates during the financial year 2012 / 13 had been 1 % higher/lower on these accounts, income after taxes would have been CHF 2.5 million higher / lower (previous year CHF 1.0 million).

Other market risks

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

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 at least single "A" rated (S & P) financial institutions (as of March 31, 2013, the largest balance with a single counterparty amounted to 25 % of total cash and cash equivalents).

The Group performs continuous credit checks on its receivables. Due to the customer diversity there is no single credit limit for all customers, however the Group assesses its customers taking into account their financial position, past experience, and other factors. Due to the fragmented customer base (no single customer balance is greater than 10 % of total trade accounts receivable), the Group is not exposed to any significant concentration risk.
The same applies to loans to third and related parties.

The Group does not expect any significant losses either from receivables or from other financial assets.

LIQUIDITY RISK

Group finance is responsible for centrally managing the net cash / debt position and to ensure that the Group's obligations can be settled on time. The Group aims to grow further and wants to remain flexible in making time-sensitive investment decisions. This overall objective is included in the asset allocation strategy. A rolling forecast based on the expected cash flows is conducted and updated regularly to monitor and control liquidity, to ensure that the financial covenants are met and to ensure the contractual repayment of the bank debt. As of March 31, 2013, the covenants are met.

The following table summarizes the contractual maturities of financial liabilities as of March 31, 2013 and 2012:

1,000 CHF					31.3.2013
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Short-term debt	123				123
Other current financial liabilities	209	6,864			7,073
Trade payables and other short-term liabilities	172,976	42,505			215,481
Total current financial liabilities	**173,308**	**49,369**			**222,677**
Long-term bank debt		5,048	232,600	64	237,712
Other non-current financial liabilities			6,695		6,695
Total non-current financial liabilities		**5,048**	**239,295**	**64**	**244,407**
Total financial liabilities	**173,308**	**54,417**	**239,295**	**64**	**467,084**

1,000 CHF					31.3.2012
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Short-term debt	84	92			176
Other current financial liabilities		16,070			16,070
Trade and other short-term liabilities	146,679	43,770			190,449
Total current financial liabilities	**146,763**	**59,932**			**206,695**
Long-term bank debt		5,100	237,023	42	242,165
Other non-current financial liabilities			4,953		4,953
Total non-current financial liabilities		**5,100**	**241,976**	**42**	**247,118**
Total financial liabilities	**146,763**	**65,032**	**241,976**	**42**	**453,813**

FAIR VALUE HIERARCHY

The following table summarizes the financial instruments carried at fair value, by valuation method as of March 31, 2013 and 2012. The different levels have been defined as follows:

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

1,000 CHF				31.3.2013
	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through profit or loss	3,313		5,587	8,900
Total	**3,313**		**5,587**	**8,900**
Financial liabilities				
At fair value through profit or loss			(13,734)	(13,734)
Derivatives used for hedging		(6,201)		(6,201)
Total		**(6,201)**	**(13,734)**	**(19,935)**
				31.3.2012
Financial assets				
At fair value through profit or loss	4,697		5,422	10,119
Total	**4,697**		**5,422**	**10,119**
Financial liabilities				
At fair value through profit or loss		(11,903)	(9,120)	(21,023)
Derivatives used for hedging		(8,466)		(8,466)
Total		**(20,369)**	**(9,120)**	**(29,489)**

The following table presents the changes in level 3 financial instruments for the year ended March 31, 2013 and 2012:

Financial assets at fair value through profit or loss 1,000 CHF	2012/13	2011/12
Balance April 1	5,422	5,460
Gains/(losses) recognized in profit or loss	165	(38)
Balance March 31	**5,587**	**5,422**

Financial liabilities at fair value through profit or loss 1,000 CHF	2012/13	2011/12
Balance April 1	(9,120)	(6,118)
Additions, net	(4,976)	(5,970)
Gains recognized in profit or loss	362	2,968
Balance March 31	**(13,734)**	**(9,120)**

CAPITAL RISK MANAGEMENT

It is the Group's policy to maintain a strong equity base and to secure a continuous "investment grade" rating. Remaining financial debt shall be repaid with priority while the Group's strong balance sheet and earnings tracking provides for significant debt capacity.
The company aims to return excess cash to shareholders as far as not required for organic and acquisition related growth.

26. OTHER LONG-TERM LIABILITIES

1,000 CHF	31.3.2013	31.3.2012
Long-term deferred income	21,146	20,426
Retirement benefit obligations	29,115	13,268
Total	**50,261**	**33,694**

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 30.

27. MOVEMENTS IN SHARE CAPITAL

Issued registered shares	Issued registered shares	Treasury shares[1]	Outstanding shares
Balance March 31, 2011	**66,514,393**	**(47,060)**	**66,467,333**
Issue of new shares from conditional capital[2]	59,940		59,940
Purchase of treasury shares		(7,115)	(7,115)
Sale / transfer of treasury shares		14,393	14,393
Balance March 31, 2012	**66,574,333**	**(39,782)**	**66,534,551**
Issue of new shares from conditional capital[2]	577,482		577,482
Purchase of treasury shares		(94,044)	(94,044)
Sale / transfer of treasury shares		107,112	107,112
Balance March 31, 2013	**67,151,815**	**(26,714)**	**67,125,101**

Nominal value of share capital 1,000 CHF	Share Capital	Treasury shares[1]	Outstanding share capital
Balance March 31, 2011	**3,326**	**(2)**	**3,324**
Issue of new shares from conditional capital[2]	3		3
Purchase of treasury shares			
Sale / transfer of treasury shares			
Balance March 31, 2012	**3,329**	**(2)**	**3,327**
Issue of new shares from conditional capital[2]	29		29
Purchase of treasury shares		(5)	(5)
Sale / transfer of treasury shares		5	5
Balance March 31, 2013	**3,358**	**(2)**	**3,356**

Each share has a nominal value of CHF 0.05.
[1] Treasury shares are purchased on the open market and are not entitled to dividends.
[2] Created for the purpose of the employee share option plan.

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, 2013, 5,343,605 shares (previous year 5,921,087 shares) thereof have not yet been issued. These shares are reserved for long-term incentive plans.

28. ACQUISITIONS OF SUBSIDIARIES

Assets and liabilities arising from acquisitions:

1,000 CHF	2012/13	2011/12
Trade receivables	948	3,684
Other current assets	1,657	7,993
Property, plant and equipment	1,466	3,493
Intangible assets	11,903	36,489
Other non-current assets	1,805	555
Current liabilities	(1,127)	(18,361)
Non-current liabilities	(3,443)	(13,234)
Net assets	**13,209**	**20,619**
Goodwill	26,856	73,291
Purchase consideration	**40,065**	**93,910**
Fair value of previously held stake before the business combination[1]		(2,313)
Liabilities for earn-outs or holdbacks[2]	(5,318)	(5,946)
Cash consideration	**34,747**	**85,651**
Cash and cash equivalents acquired	(908)	(3,294)
Cash consideration, net of cash acquired	**33,839**	**82,357**
Cash outflow for investments in associates, non-controlling interests and earn-out payments	22,344	772
Total cash outflow from acquisitions	**56,183**	**83,129**

[1] In the financial year 2011/12 a loss of CHF 2.2 million from remeasuring the previously held stakes to fair value was included in the financial result.

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

Several small companies were acquired during the financial year 2012/13 and 2011/12 in Asia/Pacific, Europe, and North America. The business of these companies is the distribution of hearing instruments. All acquisitions have been accounted for applying the acquisition method of accounting. For business combinations entered into in the financial year 2012/13, acquisition-related costs in the amount of CHF 0.5 million (2011/12 CHF 1.1 million) have been expensed and are included in the line “General and administration” in the income statements.

The initial accounting for the acquisitions in the current financial year is provisional and the fair values assigned to the identifiable assets acquired and liabilities assumed are still subject to change. The goodwill is attributed mainly to expected synergies, the labor force and the favorable sales growth potential.

1,000 CHF	2012/13	2011/12
Contribution of acquired companies from date of acquisition		
Sales	16,301	23,929
Net income	809	709
Contribution, if the acquisitions occurred on April 1		
Sales	20,446	43,295
Net income	1,024	2,664

29. RELATED PARTY TRANSACTIONS

1,000 CHF	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
	Management Board		Board of Directors		Total	
Short-term employee benefits	7,529	5,352	1,617	1,590	9,146	6,942
Post-employment benefits	692	501			692	501
Share based payments	3,814	3,855	1,217	1,485	5,031	5,340
Total	**12,035**	**9,708**	**2,834**	**3,075**	**14,869**	**12,783**

The total compensation to the Management Board for the reporting period 2012/13, as shown above, relates to the nine current members as well as to two members which have left the Management Board during the financial period 2012/13. The total compensation to the Management Board for the reporting period 2011/12, as shown above, related to eight members. During the period 2011/12 one member left the Management Board while the new CEO joined the Management Board.

The total compensation to the Board of Directors for the reporting period 2012/13, as shown above, relates to eight current members (previous year eight members).

Until June 2011, a consultancy agreement existed between John J. Zei, a member of the Board of Directors and the Group, for specific assignments on behalf of the Group which are beyond his role as a member of the Board of Directors. In the reporting period 2011/12, a total amount of CHF 36,425 was paid by the Group for the consultancy services provided under this contract.

During the financial year 2012/13 several lease agreements existed between the Group and ARim AG, a company fully owned by Andy Rihs, member of the Board of Directors of Sonova Holding AG. The lease agreements relate to warehouse, parking, and child care space. The annual lease payment amounted to CHF 0.3 million (previous year CHF 0.6 million). The office space lease agreement expired by March 2012.

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

Transactions between the Group and the various post-employment benefit plans for the employees of the Group are described in Note 30.

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 3.6 of the financial statements of Sonova Holding AG.

30. EMPLOYEE BENEFITS

DEFINED BENEFIT PLANS

Sonova Group's retirement plans include defined benefit pension plans, primarily in Switzerland (the net present value of the funded Swiss pension plan amounts to CHF –28.4 million) but also in several other countries. These plans are both funded and unfunded and are accounted for as defined benefit plans according to IAS 19, based on recent actuarial valuations.

The results of the plans are summarized below:

Amounts recognized in the balance sheet CHF 1,000	31.3.2013	31.3.2012
Present value of funded obligations[1]	(248,017)	(210,410)
Fair value of plan assets	219,802	198,091
Net present value of funded plans	**(28,215)**	**(12,319)**
Present value of unfunded obligations	(900)	(949)
Total liabilities, net	**(29,115)**	**(13,268)**
Amounts in the balance sheet:		
Retirement benefit obligation	(29,115)	(13,268)

[1] Out of the CHF 248.0 million (previous year 210.4 million), CHF 246.9 million (previous year CHF 209.0 million) relate to the Swiss pension plan.

Actuarial loss / (gain) recognized in other comprehensive income (OCI) CHF 1,000	2012 / 13	2011 / 12
Actuarial loss / (gain) on obligations	23,411	(4,027)
Actuarial (gain) / loss on plan assets	(6,779)	11,483
Actuarial loss recognized in other comprehensive income	**16,632**	**7,456**

Cumulative actuarial loss recognized in equity CHF 1,000	2012 / 13	2011 / 12
Recognized actuarial loss at beginning of period	20,626	13,170
Actuarial loss charged for the year	16,632	7,456
Cumulative actuarial loss recognized in equity	**37,258**	**20,626**

Amounts recognized in the income statement CHF 1,000	2012 / 13	2011 / 12
Current service cost	22,758	22,291
Participants' contributions	(9,188)	(8,610)
Interest cost	5,821	6,172
Expected return on plan assets	(7,902)	(7,755)
Total employee benefit expenses[1]	**11,489**	**12,098**

[1] The amount recognized in the consolidated income statement 2012 / 13 has been charged to:
– cost of sales CHF 3.1 million (previous year CHF 3.2 million)
– research and development CHF 3.4 million (previous year 3.4 million)
– sales and marketing CHF 2.1 million (previous year 2.6 million)
– general and administration CHF 2.9 million (previous year CHF 2.9 million)

Movement in the present value of the defined benefit obligations CHF 1,000	2012/13	2011/12
Beginning of the year	211,359	198,727
Interest cost	5,821	6,172
Current service cost	22,758	22,291
Benefits (paid)/received, net	(14,493)	(11,691)
Actuarial loss/(gain) on obligations	23,411	(4,027)
Exchange differences	61	(113)
Present value of obligations at end of period	**248,917**	**211,359**

Movement in the fair value of the plan assets CHF 1,000	2012/13	2011/12
Beginning of the year	198,091	193,460
Expected return on plan assets	7,902	7,755
Employer's contributions paid	12,247	11,521
Participants' contributions	9,188	8,610
Benefits (paid)/received, net	(14,445)	(11,713)
Actuarial gain/(loss) on plan assets	6,779	(11,483)
Exchange differences	40	(59)
Fair value of plan assets at end of period	**219,802**	**198,091**

Principal actuarial assumptions (weighted average)	2012/13	2011/12
Discount rate	2.00%	2.75%
Future salary increases	1.75%	1.75%
Future pension increases	0%	0%
Expected return on plan assets	4%	4%
Fluctuation rate	10%	10%
Demography	BVG 2010	BVG 2010

The plan assets consist of:	31.3.2013	31.3.2012
Cash	4.2%	5.6%
Domestic bonds	30.0%	23.6%
Foreign bonds	8.2%	8.9%
Domestic equities	13.7%	15.5%
Foreign equities	22.3%	21.0%
Real estates	11.7%	12.5%
Alternative investments	9.9%	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 14.7 million (previous year CHF – 3.7 million). The expected employer’s contributions to be paid in the financial year 2013/14 amount to CHF 12.4 million.

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

CHF 1,000	31.3.2013	31.3.2012	31.3.2011	31.3.2010	31.3.2009
Present value of defined benefit obligations	(248,917)	(211,359)	(198,727)	(167,311)	(144,956)
Fair value of plan assets	219,802	198,091	193,460	167,890	122,205
(Deficit) / surplus	**(29,115)**	**(13,268)**	**(5,267)**	**579**	**(22,751)**
Experience adjustments on plan liabilities	(23,411)	15,898	(720)	(532)	7,526
Experience adjustments on plan assets	6,779	(11,483)	(1,215)	23,870	(30,334)

DEFINED CONTRIBUTION PLANS

Several of the Group's entities have a defined contribution plan. The employer's contributions amounting to CHF 11.0 million in the year ended March 31, 2013 (previous year CHF 8.5 million) are recognized directly in the income statement.

31. EXECUTIVE EQUITY AWARD PLAN

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

For the EEAP 2013, options / SARs / restricted shares and RSUs have been granted.

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

1,000 CHF	2012 / 13	2011 / 12
Equity-settled share-based payment costs	15,771	19,178
Cash-settled share-based payment costs	477	1,318
Total share-based payment costs	**16,248**	**20,496**

The following table shows an overview of the outstanding options / warrants / WARs / SARs, granted as part of the EEAP programs 2008 to 2013.

Summary of outstanding options / warrants / WARs / SARs granted until March 31, 2013:

Financial year	Plan participants	Grant date / Expiry date	Granted	Exercise price (CHF)	Vesting conditions	Outstanding	Average remaining life (years)	Exercisable
2008 / 09 Equity-settled	Warrants granted to BoD, MB and key employees[1]	01.02.2009 28.02.2014	479,860	56.00	4 equal tranches, vest annually over 4 years	145,745	0.9	145,745
2008 / 09 Equity-settled	Options granted to former CEO	01.02.2009 28.02.2017	160,000	56.00	4 equal tranches, vest annually over 4 years[2]	35,000	3.9	35,000
2008 / 09 Cash-settled	WARs granted to key employees in the USA[1]	01.02.2009 28.02.2014	38,180	56.00	4 equal tranches, vest annually over 4 years	2,520	0.9	2,520
2009 / 10 Equity-settled	Warrants granted to BoD, MB and key employees[1]	01.02.2010 28.02.2015	417,640	131.00	4 equal tranches, vest annually over 4 years	308,060	1.9	231,795
2009 / 10 Cash-settled	WARs granted to key employees in the USA[1]	01.02.2010 28.02.2015	34,500	131.00	4 equal tranches, vest annually over 4 years	23,050	1.9	19,900
2009 / 10 Cash-settled	WARs granted to key employees of Advanced Bionics [1]	01.01.2010 30.12.2013	65,392	125.80	2 equal tranches, vest annually after 2 years	38,714	0.8	38,714
2010 / 11 Equity-settled	Warrants granted to BoD, MB and key employees[1]	01.02.2011 29.02.2016	556,530	118.40	4 equal tranches, vest annually over 4 years	360,495	2.9	195,250
2010 / 11 Cash-settled	WARs granted to key employees in the USA[1]	01.02.2011 29.02.2016	55,535	118.40	4 equal tranches, vest annually over 4 years	35,935	2.9	23,167
2011 / 12 Equity-settled	Options granted to interim CEO, CFO	27.05.2011 27.05.2016	40,000	88.30	4 equal tranches, vest annually over 4 years	20,000	3.2	5,000
2011 / 12 Equity-settled	Options granted to BoD, MB and key employees	01.02.2012 31.01.2019	265,230	95.85	4 equal tranches, vest annually over 4 years[3]	252,541	5.8	
2011 / 12 Cash-settled	SARs granted to key employees in the USA	01.02.2012 31.01.2019	33,244	95.85	4 equal tranches, vest annually over 4 years[3]	23,924	5.8	
2012 / 13 Equity-settled	Options granted MB and key employees	01.02.2013 31.01.2020	200,967	109.10	4 equal tranches, vest annually over 4 years[4]	200,967	6.8	
2012 / 13 Cash-settled	SARs granted to key employees in the USA	01.02.2013 31.01.2020	26,221	109.10	4 equal tranches, vest annually over 4 years[4]	26,221	6.8	
Total			**2,373,299**	**98.49**		**1,473,172**[5]	**3.6**	**697,091**[6]

1) For better comparison with options issued, the number of warrants has been adjusted by factor 25, as 25 warrants qualify for one share. The warrants are tradable at the SIX Swiss Exchange. The ticker symbols are as follows: plan 2008 / 09: SONAR, plan 2009 / 10: SONAB, plan Advanced Bionics 2009 / 10: SONNA, plan 2010 / 11: SONCA.
2) First vesting date 01.03.2012.
3) First vesting date 01.06.2013.
4) First vesting date 01.06.2014.
5) Weighted average exercise price of outstanding options / warrants / WARs / SARs amounts to CHF 107.59.
6) Weighted average exercise price for exercisable options / warrants / WARs / SARs amounts to CHF 106.74.

The fair value of options / warrants / WARs / SARs at grant date was determined by using an "Enhanced American Pricing Model". The expected volatility is based on historical volatility. The assumptions for valuation used for the programs of the financial year 2012 / 2013 and 2011 / 2012 are as follows:

Assumptions for valuation at grant date	Executive Equity Award Plan 2013	Executive Equity Award Plan 2012	Interim Executive Equity Award Plan 2011
Valuation date	01.02.2013	01.02.2012	27.05.2011
Expiration date	31.01.2020	31.01.2019	27.05.2016
Share price on grant date	CHF 109.10	CHF 95.85	CHF 88.30
Exercise price	CHF 109.10	CHF 95.85	CHF 88.30
Volatility	32.3 %	33.8 %	32.7 %
Expected dividend yield	1.33 %	1.28 %	1.36 %
Weighted risk free interest rate	0.5 %	0.3 %	1.1 %
Weighted average fair value of options / SARs issued	**CHF 24.19**	**CHF 19.55**	**CHF 17.96**

Options / warrants

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

Changes in outstanding options/warrants:	2012 / 13		2011 / 12	
	Number of options / warrants[2]	Weighted average exercise price (CHF)	Number of options / warrants[2]	Weighted average exercise price (CHF)
Outstanding options / warrants at April 1	1,800,548	100.54	1,725,184	101.03
Granted	200,967	109.10	305,230	94.86
Exercised / sold[1]	(503,908)	86.89	(91,885)	83.24
Forfeited	(174,799)	103.64	(137,981)	105.50
Outstanding options / warrants at March 31	**1,322,808**	**106.64**	**1,800,548**	**100.54**
Exercisable at March 31	**612,790**	**104.52**	**1,059,395**	**98.63**

[1] Out of the movement for the financial year 2012 / 13, 227,758 (previous year 59,940) relates to options exercised and 276,150 (previous year 31,945) to warrants sold. Total consideration from exercise of options amounted to CHF 21.4 million (previous year CHF 5.7 million). The weighted average share price of the options exercised during the year 2012 / 13 was CHF 94.90 (previous year CHF 99.32).

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

Warrant Appreciation Rights (WARs)/Share Appreciation Rights (SARs)

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

Changes in outstanding WARs/SARs:	2012/13				2011/12			
	Number of WARs	Weighted average exercise price (CHF)	Number of SARs	Weighted average exercise price (CHF)	Number of WARs	Weighted average exercise price (CHF)	Number of SARs	Weighted average exercise price (CHF)
Outstanding WARs/SARs at April 1	**179,887**	**110.95**	**33,244**	**95.05**	**190,967**	**111.37**	**13,600**	**95.05**
Granted			26,221	109.10			33,244	95.85
Exercised/sold	(32,470)	73.80						
Forfeited	(47,198)	111.81	(9,320)	95.85	(11,080)	118.14	(13,600)	95.05
Outstanding WARs/SARs at March 31[1)]	**100,219**	**122.59**	**50,145**	**102.78**	**179,887**	**110.95**	**33,244**	**95.85**
Exercisable at March 31[2)]	**84,301**	**122.91**			**96,343**	**106.61**		

1) The carrying amount of the liability relating to the WARs at March 31, 2013 is CHF 0.7 million (previous year CHF 1.9 million) and the one for the SARs amounts to CHF 0.5 million (previous year CHF 0.07 million).
2) The intrinsic value of the WARs exercisable at March 31, 2013 amounts to CHF 0 (previous year CHF 0).

Shares/Restricted Shares/Restricted Share Units (RSUs)

For the EEAPs 2005 to 2009, shares have been granted to eligible employees. The value of an individual share granted is equal to the market price on the SIX Swiss Exchange on the grant date. For the EEAPs 2010 to 2013, restricted share units (RSUs) have been granted to legitimated persons. The value of an RSU is equal to the market price on the SIX Swiss Exchange on the grant date, adjusted for the fair value of expected dividends, as RSUs are not entitled to dividends. RSUs entitle the holder to receive one share per RSU after the vesting period. In addition to the RSUs granted in respect to the EEAP 2013, restricted shares have been granted to the Chairman of the Board of Directors as well as to the other members of the Board of Directors. These restricted shares are entitled to dividends and are blocked for a period of 64 months (in case of the Chairman of the Board of Directors), respectively 52 months (in case of the other members of the Board of Directors).

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

The cost of the shares/RSUs granted as part of the EEAP program is expensed over the expected vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period to ensure that in the end only a charge for vested amounts occurred. The costs for the shares granted to the members of the Board of Directors have been expensed in the financial year 2012/13 as there is no vesting period related to these shares.

Changes in outstanding shares/RSUs:	2012/13	2011/12
	Number of shares/RSUs	Number of shares/RSUs
Shares/RSUs at April 1	**294,305**	**241,299**
Granted	145,452	155,692
Released	(65,224)	(84,401)
Forfeited	(21,739)	(18,285)
Shares/RSUs at March 31	**352,794**	**294,305**

32. CONTINGENT LIABILITIES

At March 31, 2013 and 2012, there were no pledges given to third parties other than in relation to bank loans and mortgages. As security for the initial bank loan of CHF 470 million, out of which CHF 230 million were still outstanding, granted in connection with the acquisition of Advanced Bionics, the shares of Advanced Bionics have been pledged. In addition a deposit in the amount of CHF 1.0 million has been pledged in relation to a bank guarantee. Mortgages are secured by properties in the amount of CHF 0.2 million (previous year CHF 0.2 million). The net book value of these properties amounts to CHF 1.2 million at March 31, 2013 (previous year CHF 1.2 million). Open purchase orders as of March 31, 2013 and 2012, were related to recurring business activities.

33. LEASING LIABILITIES

At March 31, 2013 the following non-cancellable minimum operating lease obligations existed:

Financial year 1,000 CHF	31.3.2013	31.3.2012
2012/13		31,323
2013/14	35,330	23,958
2014/15	27,132	19,453
2015/16	23,744	16,557
2016/17	20,950	14,318
2017/18	19,321	14,063
thereafter	25,877	11,047
Total	**152,354**	**130,719**

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

In financial year 2012/13, CHF 43.6 million have been recognized as expenses for leases in the consolidated income statement (previous year CHF 39.5 million).

As of March 31, 2013 and 2012, the Group had no financial lease obligations.

34. EVENTS AFTER BALANCE SHEET DATE

As of April 16, 2013 Advanced Bionics was confronted with a verdict of the Kentucky Western District Court. A case was brought by a patient whose cochlear implant malfunctioned as a result of moisture ingress. The device in question was part of a voluntary recall issued by Advanced Bionics in March 2006. A jury awarded the plaintiff unexpectedly high damages, including punitive damages, totaling USD 7.25 million.

As of April 26, 2013 the Group informed that its US subsidiary Advanced Bionics LLC decided to appeal the verdict of the Kentucky Western District Court.

For futher information regarding the financial impact of this verdict on the financial statements 2012/13 refer to Note 2.7 “Provision for product liabilities” as well as to Note 21 “Provisions”.

35. LIST OF SIGNIFICANT COMPANIES

Company name	Activity	Domicile	Share / paid-in capital[1] Local currency 1,000			Shares held
Switzerland						
Sonova Holding AG	A	Stäfa	CHF	3,358		
Phonak AG	A, B, C, D	Stäfa	CHF	2,500		100 %
Advanced Bionics AG	A, B	Stäfa	CHF	4,350		100 %
Indomed AG	A	Zug	CHF	1,000		100 %
EMEA (excluding Switzerland)						
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450		100 %
Ets. Lapperre BHAC NV	B	Groot-Bijgaarden (BE)	EUR	124		100 %
Phonak GmbH	B	Fellbach-Oeffingen (DE)	EUR	25		100 %
Phonak Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000		100 %
Audition Santé SAS	B	Cahors (FR)	EUR	3,800		100 %
Phonak France SA	B	Bron-Lyon (FR)	EUR	1,000		100 %
Advanced Bionics Sarl	B	Rixheim (FR)	EUR	12,000		100 %
Phonak Italia Srl	B	Milan (IT)	EUR	1,040		100 %
Phonak B.V.	B	Vianen (NL)	EUR	227		100 %
Phonak AB	B	Stockholm (SE)	SEK	200		100 %
David Ormerod Hearing Centres Ltd.	B	Conwy (UK)	GBP	0	2)	51 %
Phonak Group Ltd.	B	Warrington (UK)	GBP	2,500		100 %
Americas						
Phonak do Brasil – Sistemas Audiológicos Ltda.	B	Sao Paulo (BR)	BRL	36,179		100 %
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	0	3)	100 %
1879763 Ontario Inc.	B	Mississauga (CA)	CAD	0	3)	100 %
Jack Jones Hearing Centers, Inc.	B	Fort Worth (US)	USD	42		100 %
Connect Hearing Inc.	B	Naperville (US)	USD	0	3)	100 %
Ear Professionals International Corporation	B	Pomona (US)	USD	5		74 %
Unitron Hearing, Inc.	B	Plymouth (US)	USD	46,608		100 %
Advanced Bionics Corp.	A	Valencia (US)	USD	1		100 %
Advanced Bionics LLC	B, C, D	Valencia (US)	USD	0	3)	100 %
Phonak LLC	B	Warrenville (US)	USD	0	3)	100 %
Sonova United States Hearing Instruments, LLC	A	Warrenville (US)	USD	0	3)	100 %
Development Finance Inc.	A	Wilmington (US)	USD	0	4)	100 %
Asia / Pacific						
Hearing Retail Group Pty. Ltd.	B	Sydney (AU)	AUD	0	5)	100 %
Phonak Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750		100 %
Phonak (Shanghai) Co., Ltd.	B	Shanghai (CN)	CNY	20,041		100 %
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249		100 %
Phonak Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000		100 %
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000		100 %

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

1) Share / paid-in capital may not reflect the taxable share / paid-in capital amount and does not include any paid-in surplus.
2) GBP 133
3) Without par value
4) USD 100
5) AUD 100

CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENT

– Report of the Statutory Auditor on the Consolidated Financial Statements 2012 / 13 to the Annual General Shareholders' Meeting of Sonova Holding AG Stäfa.

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REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

As statutory auditor, we have audited the consolidated financial statements of Sonova Holding AG, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated changes in equity and notes (pages 60 to 101) for the year ended 31 March, 2013.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended March 31, 2013, give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

PricewaterhouseCoopers AG

Patrick Balkanyi Audit expert Auditor in charge	Fabian Zurbuchen Audit expert

Zurich, May 14, 2013

FINANCIAL STATEMENTS OF SONOVA HOLDING AG

INCOME STATEMENTS

1,000 CHF		2012/13	2011/12
Income			
Investment income		432,365	293,009
Financial income		45,426	14,860
Other income		18,370	18,074
Total income		**496,161**	**325,943**
Expenses			
Financial expenses		(7,344)	(28,463)
Administration expenses		(7,502)	(6,471)
Depreciation and amortization		(4,184)	
Other expenses	2.1	(15,984)	(658)
Total expenses		**(35,014)**	**(35,592)**
Net profit for the year		**461,147**	**290,351**

BALANCE SHEETS

Assets 1,000 CHF	Notes	31.3.2013	31.3.2012
Cash and cash equivalents		58,138	753
Marketable securities	2.2	2,810	5,306
Amounts due from third parties		4,258	1,546
Amounts due from Group Companies		9,789	267,228
Total current assets		**74,995**	**274,833**
Loans to third parties		488	724
Loans to Group Companies		1,417,608	847,373
Investments		314,089	296,714
Total non-current assets		**1,732,185**	**1,144,811**
Total assets		**1,807,180**	**1,419,644**

Liabilities and shareholders' equity 1,000 CHF	Notes	31.3.2013	31.3.2012
Liabilities to third parties		5,601	13,924
Liabilities to Group Companies		3,669	5,342
Accruals		4,044	5,213
Total short-term liabilities		**13,314**	**24,479**
Bank loans	2.3	230,000	230,000
Loans from Group Companies		4,121	41,068
Total long-term liabilities		**234,121**	**271,068**
Total liabilities		**247,435**	**295,547**
Share capital		3,358	3,329
General reserve		1,800	1,800
Reserve from capital contributions		124,337	149,865
Reserve for treasury shares	2.2	2,810	4,227
Retained earnings		1,427,440	964,876
Total shareholders' equity	2.4	**1,559,745**	**1,124,097**
Total liabilities and shareholders' equity		**1,807,180**	**1,419,644**

NOTES TO THE FINANCIAL STATEMENTS AS OF MARCH 31, 2013

1. GENERAL

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

2. NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

2.1 OTHER EXPENSES

Other expenses include, among other items, payments for an out-of-court settlement of all alleged claims without acknowledging any legal obligations with a group of investors, tax expenses, foreign exchange losses and realized losses as a result of a reduced investment.

2.2 MARKETABLE SECURITIES AND RESERVE FOR TREASURY SHARES

Marketable securities include 26,714 treasury shares (previous year 39,782) purchased for a total consideration of CHF 2,810,104 (previous year CHF 4,226,952). At March 31, 2013, these shares had a market value of CHF 3,042,725 (previous year CHF 3,990,135). Due to the lower of cost or market principle only CHF 2,810,104 are considered in the balance sheet.

A reserve for treasury shares in the amount of CHF 2,810,104 (previous year CHF 4,226,952) was established which is equal to the cost price. No treasury shares are held by other Group companies.

The following table shows the movement of the reserve for treasury shares and the treasury shares at market value.

Number / 1,000 CHF

	Number	Reserve for treasury shares	Treasury shares at market value
Balance March 31, 2012	**39,782**	**4,227**	**3,990**
Purchase of treasury shares	94,044	9,964	9,964
Sale of treasury shares	(107,112)	(11,381)	(11,289)
Profit from sale of own shares and revaluation			377
Balance March 31, 2013	**26,714**	**2,810**	**3,042**

2.3 BANK LOANS

The acquisition of the Advanced Bionics Corporation was financed by Sonova Holding AG with a combination of existing cash and an underwritten senior credit facility in the amount of CHF 470 million. The senior credit facility was made in two tranches, a CHF 230 million facility with a term of five years (due in December 2014) and a CHF 240 million amortizing loan, whereof the total amount has been re-paid by July 2011.

2.4 SUMMARY OF CHANGES IN SHAREHOLDERS' EQUITY

1,000 CHF	Share capital	General reserve	Reserve from capital contributions	Reserve for treasury shares	Retained earnings	Total share-holders' equity
Balance April 1, 2012	**3,329**	**1,800**	**149,865**	**4,227**	**964,876**	**1,124,097**
Distribution			(79,887)			(79,887)
Capital increases (incl. share premium) from conditional capital	29		54,360			54,389
Decrease in reserve for treasury shares				(1,417)	1,417	
Net profit for the year					461,147	461,147
Balance March 31, 2013	**3,358**	**1,800**	**124,337**	**2,810**	**1,427,440**	**1,559,745**

During the financial year 2012/13, an additional 577,482 registered shares with a par value of CHF 0.05 each, or a total par value of CHF 28,874 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 54,388,638. In the financial year 2012/13, the conditional share capital with a par value of CHF 296,054 (5,921,087 shares) decreased by CHF 28,874 or 577,482 shares (previous year CHF 2,997 or 59,940 shares), thereby leaving CHF 267,180 (5,343,605 shares) for distribution. Out of the remaining conditional capital, a total of 1,322,808 (previous year 1,800,548) employee stock options were outstanding as of March 31, 2013, which can be exercised until January 2020.

The treasury share reserve differs from the treasury shares in the consolidated financial statements due to Warrant Appreciation Rights (WARs) and Share Appreciation Rights (SARs). Derivative instruments such as WARs and SARs are not recorded in the financial statements of Sonova Holding AG (off balance sheet transaction).

3. DISCLOSURES REQUIRED BY SWISS CORPORATE LAW

3.1 SURETIES, GUARANTEES AND PLEDGES GIVEN ON BEHALF OF THIRD PARTIES

1,000 CHF	31.3.2013	31.3.2012
Guarantees given in respect of rental obligations of Group Companies	5,868	6,629

3.2 LIST OF SIGNIFICANT INVESTMENTS

Company name	Activity	Domicile	Share / paid-in capital[1] Local currency 1,000		Shares held by Sonova Holding
Switzerland					
Phonak AG	A, B,C,D	Stäfa	CHF	2,500	100 %
Indomed AG	A	Zug	CHF	1,000	100 %
EMEA (excluding Switzerland)					
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450	100 %
Phonak Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100 %
Audition Santé SAS	B	Cahors (FR)	EUR	3,800	15 %[2]
Phonak France SA	B	Bron-Lyon (FR)	EUR	1,000	30 %[2]
Phonak Italia Srl	B	Milan (IT)	EUR	1,040	100 %
Phonak B.V.	B	Vianen (NL)	EUR	227	100 %
Phonak AB	B	Stockholm (SE)	SEK	200	100 %
Phonak Group Ltd.	B	Warrington (UK)	GBP	2,500	100 %
David Ormerod Hearing Centres Ltd.	B	Conwy (UK)	GBP	0 [3]	51 %
Americas					
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	0 [4]	100 %
1879763 Ontario Inc.	B	Mississauga (CA)	CAD	0 [4]	100 %
Sonova United States Hearing Instruments, LLC	A	Warrenville (US)	USD	0 [4]	100 %
Asia / Pacific					
Phonak Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750	100 %
Phonak (Shanghai) Co., Ltd	B	Shanghai (CN)	CNY	20,041	100 %
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249	100 %
Phonak Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100 %
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000	100 %

Description:
A Holding / Finance: The entity is a holding or finance company.
B Sales: The entity performs sales and marketing activities for the group.
C Production: This entity performs manufacturing for the group.
D Research: This entity performs research and development activities for the group.
[1] Share / paid in capital may not reflect the taxable share/paid-in capital amount and does not include any paid-in surplus.
[2] The remaining shares are held by a subisidiary of Sonova Holding AG.
[3] GBP 133
[4] Shares without par value

3.3 CONDITIONAL CAPITAL

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, 2013, 5,343,605 shares with a nominal value of CHF 267,180 (previous year 5,921,087 shares with a nominal value of CHF 296,054) thereof have not yet been issued. These shares are reserved for long-term incentive plans.

3.4 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). Significant shareholders may also hold non-registered shares which are reported under "Not registered".

	31.3.2013	31.3.2012
Chase Nominees Ltd.[1)]	17.53%	14.74%
Beda Diethelm	9.90%	9.98%
Andy Rihs	6.26%	8.37%
Hans-Ueli Rihs	6.20%	6.34%
Nortrust Nominees Ltd.[1)]	3.79%	3.17%
Mellon Bank Nominee[1)]	3.65%	3.94%
Registered shareholders with less than 3%	28.65%	28.52%
Not registered	24.02%	24.94%

[1)] Registered without voting rights.

3.5 RISK ASSESSMENT

Sonova Holding AG, as the ultimate parent company of the Sonova Group, faces the same risks as the ones identified at Group level. Therefore, please refer to the disclosure of the Group-wide risk management procedures as described in Note 25 of the Group's consolidated financial statements.

3.6 COMPENSATION AND SHAREHOLDINGS

BOARD OF DIRECTORS COMPENSATION

The members of the Board of Directors receive a cash retainer, a committee fee (if applicable), and a meeting attendance fee. There is no variable salary component. Members of the Board of Directors receive a long-term compensation through their participation in the Executive Equity Award Plan (EEAP). In 2013, the applicable EEAP grants have been changed to comprise 100% restricted shares. These shares are subject to a restriction period from February 1, 2013 to June 1, 2018 (Chairman) or from February 1, 2013 to June 1, 2017 (all other members of the Board of Directors).

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

in CHF						2012/13
	Fixed fee	Attendance fee / expenses[1]	Employer's social insurance contribution[2]	Total cash compensation	Value of restricted shares[3]	Total compensation
Robert F. Spoerry, Chairman	500,000	2,500	56,129	558,629	291,300	849,929
Beat Hess, Vice-Chairman[4]	105,986	7,000	17,215	130,201	154,375	284,576
Heliane Canepa, Member[5]	107,500	10,000	42,201	159,701		159,701
Michael Jacobi, Member	125,000	10,000	25,917	160,917	154,375	315,292
Andy Rihs, Member	100,000	8,500	27,336	135,836	154,375	290,211
Anssi Vanjoki, Member	107,500	10,500	18,197	136,197	154,375	290,572
Ronald van der Vis, Member	100,000	8,500	17,454	125,954	154,375	280,329
John J. Zei, Member	107,500	11,000	15,914	134,414	154,375	288,789
Total (active members)	**1,253,486**	**68,000**	**220,363**	**1,541,849**	**1,217,550**	**2,759,399**
William D. Dearstyne, former member[6]	28,493	3,000	43,531	75,024		75,024
Total (including former members)	**1,281,979**	**71,000**	**263,894**	**1,616,873**	**1,217,550**	**2,834,423**

The compensation shown in the table above is gross and based on the accrual principle.
[1] Attendance fees and expenses are based on the number of attended meetings of each member of the Board of Directors (no attendance fees for the chairman).
[2] Including social security contributions on the tax value of options / WARs / SARs exercised and restricted shares granted during the reporting period.
[3] Tax value per restricted share at grant date: for the Chairman of the Board of Directors CHF 79.46, for the other members of the Board of Directors CHF 84.22.
[4] New member of the Board of Directors since June 2012.
[5] Heliane Canepa will resign from the Board of Directors at the annual shareholders meeting from June 18, 2013 and therefore did not participate in the EEAP 2013.
[6] William D. Dearstyne resigned from the Board of Directors at the annual shareholders meeting from June 19, 2012.

in CHF								2011/12
	Fixed fee	Attendance fee / expenses[1]	Employer's social insurance contribution[2]	Total cash compensation	Value of restricted shares[3]	Value of RSUs[4]	Value of options[5]	Total compensation
Robert F. Spoerry, Chairman	500,000	2,500	113,714	616,214	310,264			926,478
William D. Dearstyne, Vice-Chairman[6]	205,000	10,500	11,586	227,086				227,086
Heliane Canepa, Member	107,500	9,000	9,148	125,648		95,794	99,998	321,440
Michael Jacobi, Member	125,000	8,500	10,637	144,137		95,794	99,998	339,929
Andy Rihs, Member	100,000	7,500	4,808	112,308		95,794	99,998	308,100
Anssi Vanjoki, Member	107,500	9,500	9,560	126,560		95,794	99,998	322,352
Ronald van der Vis, Member	100,000	6,000	9,148	115,148		95,794	99,998	310,940
John J. Zei, Member	107,500	10,000	5,436	122,936		95,794	99,998[7]	318,728
Total	**1,352,500**	**63,500**	**174,037**	**1,590,037**	**310,264**	**574,764**	**599,988**	**3,075,053**

The compensation shown in the table above is gross and based on the accrual principle.
[1] Attendance fees and expenses are based on the number of attended meetings of each member of the Board of Directors (no attendance fees for the chairman).
[2] Including social security contributions on the tax value of options / WARs / SARs exercised and restricted shares granted during the reporting period.
[3] Tax value per restricted share at grant date CHF 74.35.
[4] Fair value per RSU at grant date CHF 91.84.
[5] Fair value per option at grant date CHF 19.55.
[6] William D. Dearstyne resigned from the Board of Directors at the annual shareholders meeting from June 19, 2012 and therefore did not participate in the EEAP 2012. He received an additional cash compensation of CHF 75,000.
[7] SARs (SARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).

Aside from these payments, no other payments were made to current and former members of the Board of Directors or persons closely linked to them in this reporting period.

MANAGEMENT BOARD COMPENSATION

In the year under review, the targeted variable cash component ranged between 45 % and 50 % of the fixed base salary for members of the Management Board and was 62.5 % of the fixed base salary for the CEO. The variable cash compensation for the Management Board is based on three performance target categories: Group, business unit, and individual level. If less than a certain threshold of a given performance target is achieved, no variable cash component is paid out on that specific target component. If the performance meets the given target, 100 % of the related variable cash component is paid out. If performance exceeds a given target, the related variable cash component may go above 100 % but is capped at a maximum of 200 % of the targeted amount.

Group performance targets are sales, EBITA, free cash flow, and earnings per share (EPS). Business unit performance targets are sales, EBITA, average sales price (ASP), and operating expenses of the respective business unit. Group and business unit performance targets together are weighted at between 60 % and 80 % of the total. In addition three to five individual performance targets for each member of the Management Board are weighted between 20 % and 40 % of the total.

The highest total remuneration for a Management Board member in the year under review was paid to the CEO, Lukas Braunschweiler. His fixed base salary was CHF 800,000 and the target variable cash component was CHF 500,000 (62.5 % of the fixed base salary). His effective variable cash payout for performance in the year under review was CHF 645,918, whereas the maximum potential variable cash payout would have been CHF 1,000,000 (125 % of the fixed base salary). In addition, a long-term incentive (EEAP) component with a 2013 fair value of CHF 799,833, fringe benefits of CHF 20,147, employer's pension contributions of CHF 125,951 and employer's social insurance contributions of CHF 72,663 are all reflected in Lukas Braunschweiler's total remuneration of CHF 2,464,512.

The following table shows the compensation for the CEO (highest compensation) and the other members of the Management Board for the financial year 2012 / 13 and the previous year. Payments to ten other members of the Management Board are covered in the table for the financial year 2012 / 13, of whom two left the Management Board during the financial year 2012 / 13. Payments to eight other members of the Management Board (other than the ad-interim CEO) are covered in the financial year 2011 / 12.

Considering arriving and departing Management Board members on a pro rata basis, the Management Board had on average 9.7 members in 2012 / 13, which includes transitional overlaps between arriving and departing members. This compares to an average size of the Management Board of 7.5 members in the prior year and thus represents an increase of 30 %. The increase in total compensation from CHF 9.7 million to CHF 12.0 million by 24 % is caused by the increase of the average size of the Management Board, including said transition effects.

in CHF									2012 / 13
	Fixed salary	Variable salary[1]	Fringe benefits	Employer's pension contribution	Employer's social insurance contribution[2]	Total cash compensation	Value of RSUs[3]	Value of options[4]	Total compensation
Lukas Braunschweiler, CEO	800,000	645,918	20,147	125,951	72,663	1,664,679	299,953	499,880	2,464,512
Other members of the Management Board[5]	2,839,851	1,923,318	153,968	491,625	427,931	5,836,693	1,506,941	1,507,016	8,850,650
Total (active members)	**3,639,851**	**2,569,236**	**174,115**	**617,576**	**500,594**	**7,501,372**	**1,806,894**	**2,006,896**	**11,315,162**
Former members of the Management Board[6]	362,077	159,008	21,796	74,533	102,114	719,528			719,528
Total (including former members)	**4,001,928**	**2,728,244**	**195,911**	**692,109**	**602,708**	**8,220,900**	**1,806,894**	**2,006,896**	**12,034,690**

The compensation shown in the table above is gross and based on the accrual principle.

1) The variable salary will be paid out after the end of the reporting year.

2) Including social security contributions on the tax value of options/warrants exercised during the reporting period.

3) Fair value per RSU at grant date CHF 103.97.

4) Fair value per option at grant date CHF 24.19.

5) Andi Vonlanthen, GVP Research & Development, joined the Management Board as of April 2012; Claude Diversi, VP International Sales, joined the Management Board as of May 2012; Hartwig Grevener, CFO, joined the Management Board as of August 2012.

6) Alexander Zschokke, former GVP Channel Solutions, was a member of the Management Board until September 2012 and Ignacio Martinez, former GVP International Sales, until October 2012.

in CHF									2011 / 12
	Fixed salary	Variable salary[1]	Fringe benefits	Employer's pension contribution	Employer's social insurance contribution[2]	Total cash compensation	Value of RSUs[3]	Value of options[4]	Total compensation
Alexander Zschokke, interim CEO[5]	472,774	174,013	16,000	91,056	88,925	842,768	191,588	559,097	1,593,453
Other members of the Management Board[6]	2,278,095	1,505,352	410,445	405,495	330,609	4,929,996	1,245,323	1,859,076	8,034,395
Total (active members)	**2,750,869**	**1,679,365**	**426,445**	**496,551**	**419,534**	**5,772,764**	**1,436,911**	**2,418,173**	**9,627,848**
Former members of the Management Board[7]	15,391	7,137	1,668	4,538	51,802	80,536			80,536
Total (including former members)	**2,766,260**	**1,686,502**	**428,113**	**501,089**	**471,336**	**5,853,300**	**1,436,911**	**2,418,173**	**9,708,384**

The compensation shown in the table above is gross and based on the accrual principle.

1) The variable salary will be paid out after the end of the reporting year.

2) Including social security contributions on the tax value of options / warrants exercised during the reporting period.

3) Fair value per RSU at grant date CHF 91.84.

4) Fair value per option at grant date CHF 19.55, respectively CHF 17.96 for the additional grant to the interim CEO and CFO.

5) Alexander Zschokke was interim CEO until October 31, 2011.

6) Lukas Braunschweiler, CEO, joined Sonova as of November 1, 2011.

7) Hans Leysieffer, former GVP Research & Development, was a member of the Management Board until April 2011.

Aside from these payments, no other payments were made to current or former members of the Management Board or persons closely linked to them in this reporting period.

ADDITIONAL INFORMATION REGARDING PAYMENTS TO MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

No fees were paid for additional services beyond the stated compensation, nor were any loans awarded or guarantees given to members of the Board of Directors or the Management Board or persons closely linked to them in this reporting period.

SHAREHOLDINGS OF MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Shareholdings of the Board of Directors

As of March 31, 2013, the members of the Board of Directors and persons closely linked to them held directly and indirectly 4,644,835 Sonova shares/restricted shares (6.9 % of total share capital), 4,462,500 warrants, 250,000 Warrant Appreciation Rights, 25,575 options, 5,115 Share Appreciation Rights and 6,258 RSUs.

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

					31.3.2013					31.3.2012
	Shares	Restricted Shares[1) 2)]	RSUs[2)]	Warrants[2) 3)]	Options[2)]	Shares	Restricted Shares[1) 2)]	RSUs[2)]	Warrants[2) 3)]	Options[2)]
Robert F. Spoerry	12,000	7,839		950,000		10,000	4,173		1,250,000	
Beat Hess		1,833								
Heliane Canepa	47,000		1,043	612,500	5,115	24,100		1,043	1,250,000	5,115
Michael Jacobi	2,000	1,833	1,043	950,000	5,115	2,000		1,043	1,250,000	5,115
Andy Rihs	4,560,498	1,833	1,043	950,000	5,115	5,604,598		1,043	1,250,000	5,115
Anssi Vanjoki	1,000	1,833	1,043	500,000	5,115			1,043	500,000	5,115
Ronald van der Vis	2,000	1,833	1,043	500,000	5,115	2,000		1,043	500,000	5,115
John J. Zei	1,500	1,833	1,043	250,000[4)]	5,115[5)]	1,000		1,043	250,000[4)]	5,115[5)]
Total (active members)	**4,625,998**	**18,837**	**6,258**	**4,712,500**	**30,690**	**5,643,698**	**4,173**	**6,258**	**6,250,000**	**30,690**
William D. Dearstyne						32,310			987,500[4)]	
Total (including former member)	**4,625,998**	**18,837**	**6,258**	**4,712,500**	**30,690**	**5,676,008**	**4,173**	**6,258**	**7,237,500**	**30,690**

1) These shares are subject to a restriction period which varies from June 1, 2017 to June 1, 2018 depending on the grant date.
2) For further details see also Note 31 in the consolidated financial statements.
3) Exercise ratio between warrants and options: 25:1.
4) WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
5) SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

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

						31.3.2013
	Options EEAP 12[2]	Warrants EEAP 11[3]	Warrants EEAP 10[4]	Warrants EEAP 09[5]	Total options	Total warrants[1]
Robert F. Spoerry		250,000	250,000	450,000		950,000
Heliane Canepa	5,115	250,000	250,000	112,500	5,115	612,500
Michael Jacobi	5,115	250,000	250,000	450,000	5,115	950,000
Andy Rihs	5,115	250,000	250,000	450,000	5,115	950,000
Anssi Vanjoki	5,115	250,000	250,000		5,115	500,000
Ronald van der Vis	5,115	250,000	250,000		5,115	500,000
John J. Zei	5,115[6]	250,000[7]			5,115[6]	250,000[7]
Total	**30,690**	**1,750,000**	**1,500,000**	**1,462,500**	**30,690**	**4,712,500**

In 2013, the grants have been changed to 100 % in restricted shares.
[1] Exercise ratio between warrants and options: 25:1 (see also Note 31 in the consolidated financial statements).
[2] Exercise price CHF 95.85, vesting period 01.02.2012-01.06.2016 whereas one tranche being vested each year, exercise period 01.06.2013-31.01.2019.
[3] Exercise price CHF 118.40, vesting period 01.03.2011-28.02.2015 whereas one tranche being vested each year, exercise period 01.03.2012-29.02.2016.
[4] Exercise price CHF 131.00, vesting period 01.03.2010-28.02.2014 whereas one tranche being vested each year, exercise period 01.03.2011-28.02.2015.
[5] Exercise price CHF 56.00, vesting period 01.03.2009-28.02.2013 whereas one tranche being vested each year, exercise period 01.03.2010-28.02.2014.
[6] SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).
[7] WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).

							31.3.2012
	Options EEAP 12[2]	Warrants EEAP 11[3]	Warrants EEAP 10[4]	Warrants EEAP 09[5]	Warrants EEAP 08[6]	Total options	Total warrants[1]
Robert F. Spoerry		250,000	250,000	450,000	300,000		1,250,000
William D. Dearstyne		250,000[7]	250,000[7]	337,500[7]	150,000[7]		987,500[7]
Heliane Canepa	5,115	250,000	250,000	450,000	300,000	5,115	1,250,000
Michael Jacobi	5,115	250,000	250,000	450,000	300,000	5,115	1,250,000
Andy Rihs	5,115	250,000	250,000	450,000	300,000	5,115	1,250,000
Anssi Vanjoki	5,115	250,000	250,000			5,115	500,000
Ronald van der Vis	5,115	250,000	250,000			5,115	500,000
John J. Zei	5,115[8]	250,000[7]				5,115[8]	250,000[7]
Total	**30,690**	**2,000,000**	**1,750,000**	**2,137,500**	**1,350,000**	**30,690**	**7,237,500**

[1] Exercise ratio between warrants and options: 25:1 (see also Note 31 in the consolidated financial statements).
[2] Excercise price CHF 95.85, vesting period 01.02.2012-01.06.2016 whereas one tranche being vested each year, exercise period 01.06.2013-31.01.2019.
[3] Exercise price CHF 118.40, vesting period 01.03.2011-28.02.2015 whereas one tranche being vested each year, exercise period 01.03.2012-29.02.2016.
[4] Exercise price CHF 131.00, vesting period 01.03.2010-28.02.2014 whereas one tranche being vested each year, exercise period 01.03.2011-28.02.2015.
[5] Exercise price CHF 56.00, vesting period 01.03.2009-28.02.2013 whereas one tranche being vested each year, exercise period 01.03.2010-28.02.2014.
[6] Exercise price CHF 96.00, vesting period 01.03.2008-29.02.2012 whereas one tranche being vested each year, exercise period 01.03.2009-28.02.2013.
[7] WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
[8] SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

Shareholdings of the Management Board

As of March 31, 2013, the members of the Management Board and persons closely linked to them held directly or indirectly 22,079 Sonova shares, 33,884 RSUs, 194,155 options, and 6,470,500 warrants.

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

				31.3.2013				31.3.2012
	Shares	RSUs[1]	Options[1]	Warrants[1] [2]	Shares	RSUs[1]	Options[1]	Warrants[1] [2]
Lukas Braunschweiler	7,000	6,014	46,244		5,000	3,129	25,575	
Maarten Barmentlo		4,009	18,497	869,000		2,086	10,230	869,000
Claude Diversi[3]		2,154	9,941	512,500				
Hansjürg Emch	2,238	4,009	18,497	661,000	4,285	2,086	10,230	661,000
Hartwig Grevener[4]		1,923	8,267					
Sarah Kreienbühl	479	4,009	18,497	1,281,250		2,086	10,230	1,738,000
Hans Mehl	1,330	4,009	18,497	1,137,500	1,330	2,086	10,230	1,762,500
Paul Thompson	2,100	4,009	38,497	1,281,250	2,100	2,086	30,230	1,537,500
Andi Vonlanthen[5]	8,932	3,748	17,218	728,000				
Total (active members)	**22,079**	**33,884**	**194,155**	**6,470,500**	**12,715**	**13,559**	**96,725**	**6,568,000**
Ignacio Martinez[6]								1,550,000
Alexander Zschokke[7]					800	2,086	30,230	1,537,500
Total (including former members)	**22,079**	**33,884**	**194,155**	**6,470,500**	**13,515**	**15,645**	**126,955**	**9,655,500**

[1] For further details see also Note 31 in the consolidated financial statements.
[2] Exercise ratio between warrants and options: 25:1 (see also Note 31 in the consolidated financial statements).
[3] Member of the Management Board since May 2012.
[4] Member of the Management Board since August 2012.
[5] Member of the Management Board since April 2012.
[6] Member of the Management Board until October 2012.
[7] Member of the Management Board until September 2012.

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

31.3.2013	Options EEAP 13[2]	Options EEAP 12[3]	Options (interim CEO / CFO) 11/12[4]	Warrants EEAP 11[5]	Warrants EEAP 10[6]	Warrants EEAP 09[7]	Total options	Total warrants[1]
Lukas Braunschweiler	20,669	25,575					46,244	
Maarten Barmentlo	8,267	10,230		475,000	394,000		18,497	869,000
Claude Diversi	4,443	5,498		225,000	225,000	62,500	9,941	512,500
Hansjürg Emch	8,267	10,230		475,000	186,000		18,497	661,000
Hartwig Grevener	8,267						8,267	
Sarah Kreienbühl	8,267	10,230		562,500	562,500	156,250	18,497	1,281,250
Hans Mehl	8,267	10,230		562,500	450,000	125,000	18,497	1,137,500
Paul Thompson	8,267	10,230	20,000	562,500	562,500	156,250	38,497	1,281,250
Andi Vonlanthen	8,267	8,951		224,000	224,000	280,000	17,218	728,000
Total	**82,981**	**91,174**	**20,000**	**3,086,500**	**2,604,000**	**780,000**	**194,155**	**6,470,500**

[1] Exercise ratio between warrants and options: 25:1 (see also Note 31 in the consolidated financial statements).
[2] Exercise price CHF 109.10, vesting period 01.02.2013-01.06.2017 whereas one tranche being vested each year, exercise period 01.06.2014-31.01.2020.
[3] Exercise price CHF 95.85, vesting period 01.02.2012-01.06.2016 whereas one tranche being vested each year, exercise period 01.06.2013-31.01.2019.
[4] Exercise price CHF 88.30, vesting period 28.05.2011-27.05.2015 whereas one tranche being vested each year, exercise period 28.05.2012-27.05.2016.
[5] Exercise price CHF 118.40, vesting period 01.03.2011-28.02.2015 whereas one tranche being vested each year, exercise period 01.03.2012-29.02.2016.
[6] Exercise price CHF 131.00, vesting period 01.03.2010-28.02.2014 whereas one tranche being vested each year, exercise period 01.03.2011-28.02.2015.
[7] Exercise price CHF 56.00, vesting period 01.03.2009-28.02.2013 whereas one tranche being vested each year, exercise period 01.03.2010-28.02.2014.

31.3.2012	Options EEAP 12[2]	Options (interim CEO / CFO) 11/12[3]	Warrants EEAP 11[4]	Warrants EEAP 10[5]	Warrants EEAP 09[6]	Warrants EEAP 08[7]	Total options	Total warrants[1]
Lukas Braunschweiler	25,575						25,575	
Maarten Barmentlo	10,230		475,000	394,000			10,230	869,000
Hansjürg Emch	10,230		475,000	186,000			10,230	661,000
Sarah Kreienbühl	10,230		562,500	562,500	513,000	100,000	10,230	1,738,000
Ignacio Martinez			562,500	562,500	312,500	112,500		1,550,000
Hans Mehl	10,230		562,500	450,000	250,000	500,000	10,230	1,762,500
Paul Thompson	10,230	20,000	562,500	562,500	312,500	100,000	30,230	1,537,500
Alexander Zschokke	10,230	20,000	562,500	562,500	312,500	100,000	30,230	1,537,500
Total	**86,955**	**40,000**	**3,762,500**	**3,280,000**	**1,700,500**	**912,500**	**126,955**	**9,655,500**

[1] Exercise ratio between warrants and options: 25:1 (see also Note 31 in the consolidated financial statements).
[2] Exercise price CHF 95.85, vesting period 01.02.2012-01.06.2016 whereas one tranche being vested each year, exercise period 01.06.2013-31.01.2019.
[3] Exercise price CHF 88.30, vesting period 28.05.2011-27.05.2015 whereas one tranche being vested each year, exercise period 28.05.2012-27.05.2016.
[4] Exercise price CHF 118.40, vesting period 01.03.2011-28.02.2015 whereas one tranche being vested each year, exercise period 01.03.2012-29.02.2016.
[5] Exercise price CHF 131.00, vesting period 01.03.2010-28.02.2014 whereas one tranche being vested each year, exercise period 01.03.2011-28.02.2015.
[6] Exercise price CHF 56.00, vesting period 01.03.2009-28.02.2013 whereas one tranche being vested each year, exercise period 01.03.2010-28.02.2014.
[7] Exercise price CHF 96.00, vesting period 01.03.2008-29.02.2012 whereas one tranche being vested each year, exercise period 01.03.2009-28.02.2013.

APPROPRIATION OF AVAILABLE EARNINGS

As proposed by the Board of Directors to the Annual General Shareholders' Meeting of June 18, 2013:

1,000 CHF	31.3.2013	31.3.2012[1)]
Carried forward from previous year	**964,876**	**673,446**
Allocation from reserve for treasury shares	1,417	1,079
Net profit for the year	461,147	290,351
Available earnings	**1,427,440**	**964,876**
Balance to be carried forward	**1,427,440**	**964,876**

[1)] Approved by the Annual General Shareholders' Meeting of June 19, 2012.

RESERVE FROM CAPITAL CONTRIBUTIONS

1,000 CHF	31.3.2013	31.3.2012[1)]
Carried forward from previous year	**69,977**	**36,300**
Transfer from available earnings		108,233
Capital increase from conditional capital	54,360	5,332
Reserve from capital contributions	**124,337**	**149,865**
Distribution[2)]	(107,400)	(79,887)
Balance to be carried forward	**16,937**	**69,977**

[1)] Approved by the Annual General Shareholders' Meeting of June 19, 2012.
[2)] If the Annual General Shareholders' Meeting approves the proposed appropriation of available earnings, a gross dividend of CHF 1.60 per registered share of CHF 0.05 will be paid out (previous year CHF 1.20).

FINANCIAL STATEMENTS OF SONOVA HOLDING AG

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

– Report of the Statutory Auditor on the Financial Statements 2012 / 13 to the Annual General Shareholders' Meeting of Sonova Holding AG Stäfa

pwc

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of Sonova Holding AG, which comprise the income statement, balance sheet and notes (pages 104 to 117) for the year ended March 31, 2013.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended March 31, 2013, comply with Swiss law and the company's articles of incorporation.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Patrick Balkanyi Audit expert Auditor in charge	Fabian Zurbuchen Audit expert

Zurich, May 14, 2013

OUR VISION

We envision a world where everyone enjoys the delight of hearing and therefore lives a life without limitations.

OUR MISSION

We strive to be recognized as the innovation leader in the global hearing care market.

INNOVATION

We strive to be recognized as the innovation leader across all disciplines.

We offer the best solutions to our customers.

We continuously push the limits of technology.

As we grow our business, we remain pragmatic and quickly adapt to changing circumstances.

ENGAGEMENT

Our highly dedicated employees are key to win the hearts and minds of our customers.

We are team players and believe in cross-functional teams in which every voice matters.

We pursue a strong presence in local markets and we understand local needs.

RESPONSIBILITY

We strive to be credible and transparent towards all stakeholders.

We turn the challenges of our customers into our own, bringing everyone the delight of hearing.

We take our social responsibility serious: we are committed to the prevention of hearing loss and support people affected by hearing loss.

INVESTOR INFORMATION

CAPITAL STRUCTURE AND SHAREHOLDER RIGHTS

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

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

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

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

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

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

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

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

FINANCIAL CALENDAR

June 18, 2013
General Shareholders' Meeting of Sonova Holding AG
at Zurich Hallenstadion, Zurich-Oerlikon

November 18, 2013
Publication of Semi-Annual Report
as of September 30, 2013
Media and Analysts Conference

May 20, 2014
Publication of Annual Report
as of March 31, 2014
Media and Analysts Conference

June 17, 2014
General Shareholders' Meeting of Sonova Holding AG
at Zurich Hallenstadion, Zurich-Oerlikon

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

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This Annual Report is also available in German.
The English version is the governing text.