THE HEARING CARE COMPANY

sonova

All the Sounds of Life

Annual Report 2010/11

ALL THE SOUNDS OF LIFE

better hearing –
better quality of life

Communication is a megatrend and hearing is a fundamental part of it. Only those who hear and understand their environment successfully participate in our communication-based society. As the technology and market leader in the hearing care industry, our aim is to provide people worldwide with better hearing and communication through a broad product offering, including hearing instruments and hearing implants. With our extensive technological expertise and comprehensive product portfolio, we are steadily advancing along the path of becoming the global hearing care company.

"All the Sounds of Life" is the theme of this year's Annual Report. On the following pages, you will find examples of how people use our technologies, and the quality of life they gain through our personalized hearing care solutions.

I hope you enjoy this fascinating journey through the world of sounds.

Alexander Zschokke
Interim CEO

HIGHLIGHTS & KEY FIGURES

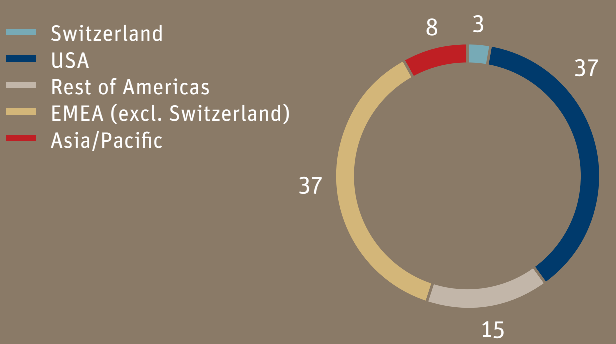
- New sales record of CHF 1,616.7 million: Sonova increased its sales by 13.3% in local currencies.
- Growth across all regions: all geographic regions contributed in local currencies to the record sales figures.
- Solid financial position: the Group has an equity financing ratio of 61.9% and net debt of CHF 111.3 million.
- Negative impact of the temporary Advanced Bionics recall: EBITA went down to CHF 326.6 million, the EBITA margin to 20.2%.
- Sonova emphasizes its technological leadership: 74% of sales were generated with hearing instruments that have been on the market for less than two years.
- Substantial investments in innovation: investments in R&D totaled CHF 107.8 million, with a strong focus on future technologies.
- Increase in workforce: headcount stood at 7,840 at the end of FY 2010/11, an increase of almost 1,000 resulting from both acquisitions and internal growth.
- Creating a hearing care company: combined expertise and joint distribution channels between hearing instruments and hearing implants will ensure that more and more people have access to Sonova's hearing solutions.

SONOVA GROUP KEY FIGURES

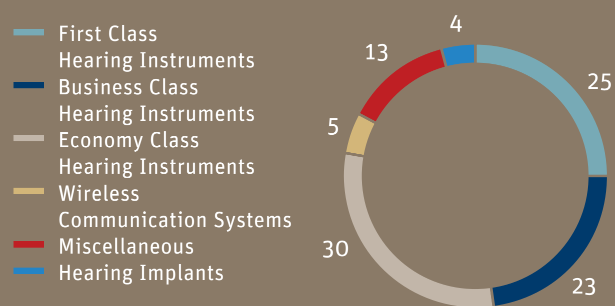
	2010/11	2009/10[2]	Change in %
Sales	1,616.7	1,500.3	7.8%
EBITA	326.6	420.3	(22.3)%
EBITA margin	20.2%	28.0%	
Cash-based basic earnings per share (CHF)[1]	4.27	5.61	(24.0)%
Operating free cash flow[1]	221.5	324.8	(31.8)%
ROCE[1]	19.0%	23.0%	
ROE[1]	17.7%	18.9%	

[1] For detailed definitions, please refer to "5 Year Key Figures".
[2] Restated based on finalization of the acquisition accounting of Advanced Bionics.

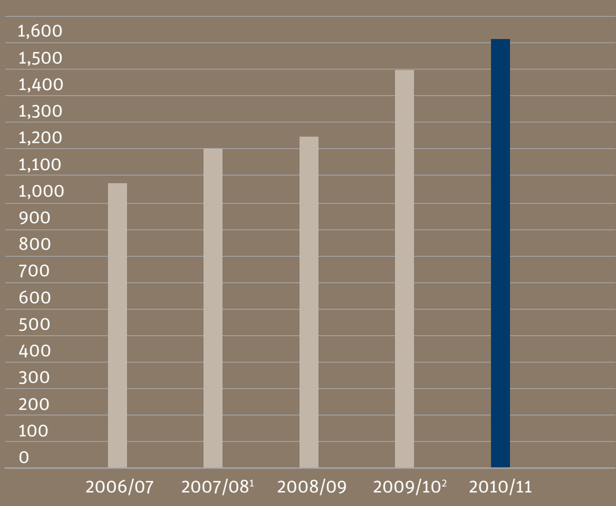
SALES BY REGIONS 2010/11
in %



SALES BY PRODUCT GROUPS 2010/11
in %

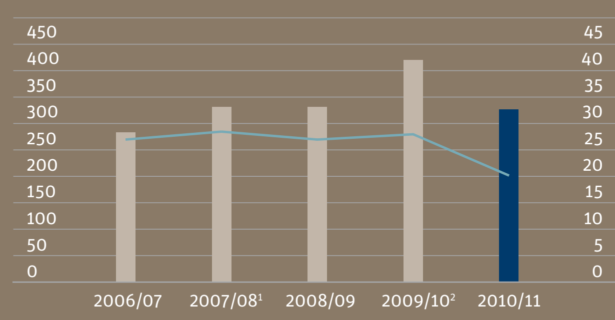


SALES
in CHF m

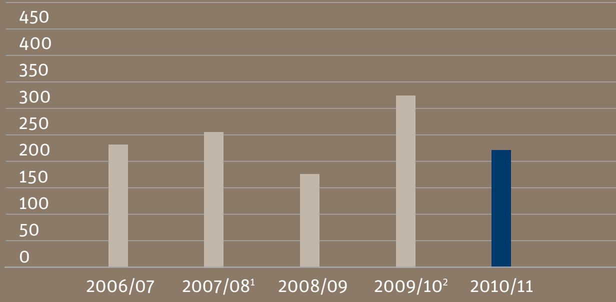


EBITA
in CHF m

EBITA
margin in %

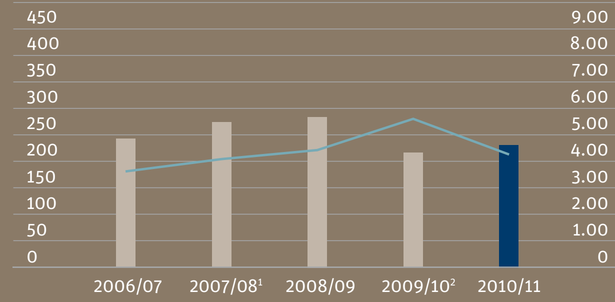


OPERATING FREE CASH FLOW
in CHF m



INCOME AFTER TAXES
in CHF m

CASH-BASED BASIC EARNINGS PER SHARE in CHF



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

2) Restated based on finalization of the acquisition accounting of Advanced Bionics.

AN EVENTFUL YEAR LIES BEHIND US

Dear shareholders

The financial year 2010/11 was an eventful year for us – both in a positive and negative way.

On the positive side, we achieved a number of successes. The highlight was undoubtedly the successful launch of our highest-performing generation of hearing instruments under the Phonak brand, based on the new Spice platform technology. We celebrated the opening of our new high-tech production facility in Stäfa, attended by Federal Councillor Doris Leuthard, marking the beginning of a new era in production. With the launch of the revolutionary Lyric product concept in key markets outside the USA, we have taken a major step forward in tapping new potential in the hearing instrument market. On the other side, we had to take set-backs for the Advanced Bionics hearing implants and saw ourselves confronted with insider trading allegations in the context of the profit warning in March 2011.

Overall, the Sonova Group achieved record sales of CHF 1.617 billion in a solid market environment in the financial year 2010/11. This corresponds to a 13.3% growth in local currencies, or 7.8% in Swiss francs. Operating profit (EBITA) was CHF 326.6 million, 22% below the previous-year level. The EBITA margin fell to 20.2% (considering the one-off costs resulting from the March 2011 events), mainly a result of the strong Swiss franc as well as the recall of and temporary selling freeze on Advanced Bionics products.

Growth in the hearing instruments core business

Our core business, the hearing instruments segment, again performed well, with growth of 10.1% on a currency-adjusted basis. Sonova is in a strong position in this segment thanks to its latest innovations. The launch of the new Spice platform was a key milestone last year. The chip generation unveiled in fall 2010 sets new standards in terms of processing power and performance. Phonak launched a comprehensive product portfolio in late fall 2010, enabling improved understanding in all sound environments across all segments and degrees of hearing loss. Unitron also launched its product range based on the new platform technology in spring 2011, and will contribute to growth under new management. With investments in the market launch of Lyric, the only invisible hearing instrument that can be worn for up to four months at a time, under the Phonak brand in the financial year 2010/11, we have put in place a platform to better tap the potential of the mild to moderate hearing loss market in key markets outside the USA.

Expansion of the hearing implants segment

The market for implants offers considerable potential with anticipated annual growth of 10–15% and will become more important for the Sonova Group going forward. The appointment of a Group Vice President Medical reflects the growing importance of this business as we consolidate our medical competence at Group level. Through the next product generation and the expansion of the international presence of Advanced Bionics, we are creating the conditions to achieve above-average growth over the next few years, thereby returning this segment to profitability.

Unexpected set-backs and turbulences

Despite record sales Sonova faced some challenges last year. Advanced Bionics' voluntary cochlear implant recall in November 2010 impacted sales and delayed the planned expansion of the hearing implant segment. The recall led to lost sales and profitability in the current financial year, and a one-time non-cash goodwill impairment posted in the 2009/10 financial year. The profit warning in March 2011, the preceding management transactions in shares and options, plus the allegation of insider trading not only triggered a major fall in share price, but also caused uncertainty and a loss of confidence among our investors, partners and employees. We would like to apologize unreservedly for this.

The Board of Directors responded promptly to the turbulences. It launched an independent investigation and created a task force to establish and ensure compliance with internal processes, so as to avoid a repetition of these events. Sonova will give its full support to the ongoing investigations by the SIX Exchange Regulation and the District Attorney.

Management changes

As a consequence of the investigation CEO Valentin Chapero and CFO Oliver Walker tendered their resignations. The Chairman of the Board of Directors Andy Rihs also stepped down, as he felt that he shared responsibility given his position. The Board of Directors has appointed Alexander Zschokke and Paul Thompson as interim CEO and CFO, respectively. Both are longstanding members of management at Sonova: Alexander Zschokke as Head of Marketing and Channel Solutions since 2006, and Paul Thompson as CFO

from 2002 to 2004 and subsequently Head of Corporate Development. In terms of strategy, we will continue on our path to becoming the global hearing care company, with the aim of helping as many people as possible, wherever they are in the world, to hear better and thus improve their quality of life.

Unaltered solid balance sheet

With low net debt of CHF 111.3 million and an equity financing ratio of 61.9%, Sonova remains in a solid financial position. This position builds the basis for the next steps towards future growth and continued investments into research and development as well as our distribution channels.

Recommended distribution of CHF 1.20

The Board of Directors will propose a distribution of CHF 1.20, without withholding taxes, per share from the capital contribution reserve. This equals a payout ratio of 25%, excluding one-off effects.

Outlook 2011/12

We expect to achieve solid growth in the hearing instruments segment in the coming year. Even though the Advanced Bionics products will gradually return to the market following the recent TÜV certification, the forecast of the hearing implants segment is dependent upon the timing of re-entry into the U.S. market. We expect overall sales in 2011/12 to be slower in the first half of the financial year because of reduced sales by Advanced Bionics. Furthermore, the strong Swiss franc will continue to adversely impact the sales and earnings growth of the full year.

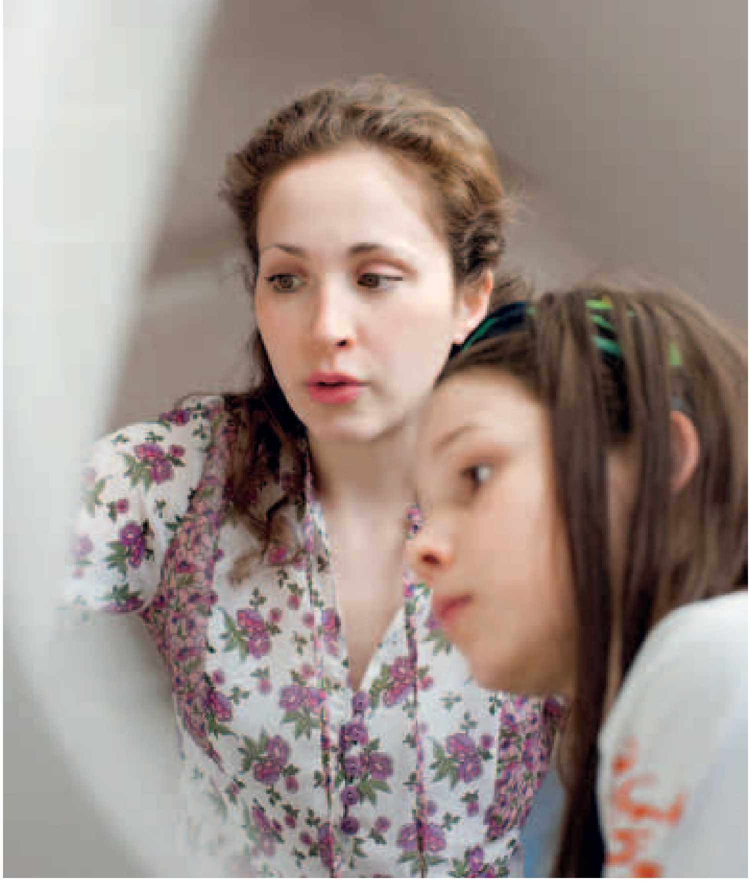
We would like to take this opportunity to express our gratitude to you, our shareholders, your interest in Sonova and your loyalty in a year that saw many successes, but also several difficult situations. We would also like to thank all our employees. They have made Sonova a global leader and their commitment allows us to continue our pursuit of our mission and goals, even in these eventful times.

Robert Spoerry
Chairman of the Board of Directors

Alexander Zschokke
Interim CEO

“I love playing the piano in front of an audience, and I try to play it in a very emotional way. When I succeed in doing so, I feel proud and happy.”

Joel Bornett, age 12, Germany
His solution: a behind-the-ear hearing instrument from Phonak (Ambra/CROS)



BREAKING BARRIERS
– with talent and technology

When Joel developed meningitis at the age of 14 months, which left him with severe inner ear damage, no one could imagine that he would one day learn to play an instrument.

Since then, Joel has become completely deaf in his left ear and has profound hearing loss in his right ear.

Joel began wearing hearing aids from Phonak at a young age and since the age of seven he has been using the wireless Phonak CrosLink solution in his completely deaf ear. Around the same time, he began to take piano lessons. They were originally intended to serve as hearing therapy, but Joel soon proved to have great musical talent.

Today, he wears the high-performance Phonak Ambra hearing instrument, which is equipped with a music program. He turns it on manually when playing music and it helps him to play the piano even better and with more differentiation. In fact, he plays so well that he won first place in the regional competition "Young people make music" ("Jugend musiziert") in 2011. Above all, the judges praised his ability to feel and express the music and to make the audience feel it as well.

In truth, one would expect Joel to reach his musical limits at some point due to his profound hearing loss. But he keeps managing to delay that event – with talent, passion and Phonak technology. Joel has recently begun wearing the new Phonak CROS, which wirelessly transmits sound in full bandwidth from the deaf ear to the hearing instrument in the other ear. This not only makes it easier for him to understand language in a noisy environment; his piano playing has also improved and taken on a softer tone – something his piano teacher also confirms.

SONOVA GROUP
Sonova – the hearing care company

Sonova Holding AG develops, manufactures and distributes solutions for better hearing. With its comprehensive technological expertise, its extensive brand and product portfolio and its global distribution presence, Sonova is in an excellent position to serve the fast-growing market for hearing-related products.

The Sonova Group, which was formed from Phonak Holding AG on August 1, 2007, has over 60 years of experience in hearing technology. The current portfolio includes hearing systems distributed under the Phonak, Unitron, Lyric, and Sona brands; implant solutions from Advanced Bionics and Phonak Acoustic Implants; wireless communication and radio technologies, and hearing protection solutions from Phonak Communications.

As the industry's technology leader, Sonova has more than 7,800 employees and works daily to help people througout the world hear better and enjoy a higher quality of life. With investments of CHF 107 million in research and development in the 2010/2011 financial year, Sonova has made a commitment to innovation over the long term.

With a comprehensive portfolio and a strategic focus on core competencies, the Group plans to further increase its sales and EBITA margin in the coming years and to grow faster than the market.

SONOVA AT A GLANCE – KEY FIGURES FOR 2010/2011

— EBITA: CHF 326.6 million
— EBITA margin: 20.2%
— Cash-based basic earnings per share: CHF 4.27
— Operating free cash flow: CHF 221.5 million

1.617
Sales in CHF billion

90
countries – worldwide presence

— ROCE: 19.0%
— ROE: 17.7%

ON THE WAY TO BECOMING A GLOBAL HEARING CARE COMPANY

"Blindness separates people from things; deafness separates people from people." The words of the 18th-century philosopher Immanuel Kant are truer today than ever before. Hearing has become a megatrend. Hearing is necessary for understanding and forms the basis for interpersonal communication. Sonova provides solutions for better hearing.

BETTER HEARING: A MEGATREND

Hearing has become a prerequisite for social and professional integration in our modern society. Today, we communicate anytime and anywhere – using wireless and mobile systems, and across continents. Approximately 16% of the world's population is affected by hearing loss and could benefit from technological assistance in order to participate in our communication-based society. Demographic trends and increasing noise pollution in daily life and at work mean that this figure is constantly growing. The World Health Organization (WHO) estimates that 1.1 billion people will suffer from hearing loss by 2015. And the trend spans generations: about one-third of individuals with hearing loss are of retirement age, but the majority are significantly younger.

Technological solutions play an increasingly important role when good hearing is the goal. More and more powerful hearing solutions enable people to experience once again all the sounds that shape the world and connect us with other people. Technology serves individuals and their hearing needs: devices can now be fitted according to individual preferences and lifestyles and ensure optimum quality of life. Even people who are almost totally deaf can hear again and participate actively in life with the aid of modern technologies.

People with normal hearing can also benefit from modern technology. It's hard to imagine walking down the street without seeing people wearing small in-ear headphones that transmit conversations and music directly. Wireless communication solutions enable people to understand each other easily, even in the noisiest environments. Referees and linesmen conferring across the pitch, construction workers needing instructions when building tunnels, and sailing crews working together on deck despite wind and weather – they all use state-of-the-art technologies for better understanding and interference-free communication.

When you are in a noise-intensive working environment, you not only need good communication but also effective hearing protection. Employers in many countries are required to provide professional hearing protection devices when noise levels reach 85 dB or above. Customized solutions offer personalized protection and can be worn comfortably for many hours.

Better hearing means greater quality of life and social integration. Better hearing creates the foundation for performance and professional success. The hearing megatrend is not only a social phenomenon but has now become an economic factor. Modern hearing technology can improve employees' quality of life and as a result their productivity, and thus play a positive role in the economy as a whole.

With its sophisticated product portfolio, Sonova provides the best individual solution for each person, thereby covering all personal hearing needs.

GROWTH MARKET FOR HEARING SOLUTIONS

The hearing megatrend means that the market for hearing-related products covers more and more aspects and product groups and is experiencing continuous growth. People today can choose the technological solution that best fits their individual needs from a wide range of options, depending on their type and degree of hearing loss as well as on their hearing preferences and requirements.

Hearing instruments

People who have sensorineural hearing loss ranging from mild to severe are best served by a hearing instrument. The willingness to wear such a device varies and increases with the degree of hearing loss. While most people with mild hearing loss manage without a hearing instrument, almost three quarter of people with severe hearing loss wear a hearing instrument. There are primarily two kinds of hearing instruments: behind-the-ear models (BTE), which are suitable for all degrees of hearing loss, and in-the-ear models (ITE), which are generally custom-made and can be worn by people with mild to profound hearing loss. Sonova offers a wide selection of high-quality BTE, ITE, and CIC (completely-in-the-canal) hearing instruments that are virtually invisible from the outside.

TYPES OF HEARING LOSS

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

Various adverse effects on this process can result in hearing impairment. The cause of hearing loss may lie in the outer, middle, or inner ear; in the auditory nerve; or in the brain. Possible causes include exposure of the ear to very loud sounds (e. g. acoustic trauma or noise), poisoning, infectious diseases, injuries to the ear, or hereditary diseases.

Age-related hearing impairment (presbycusis) is the most frequent cause of hearing loss. Hearing begins to decrease gradually once a person reaches age 30. It is primarily the hair cells, which are important for high-frequency sounds and thus for speech intelligibility, that degenerate with increasing age. More than 50% of people over the age of 70 are hard of hearing.

Cochlear implants

Cochlear implants are a medical solution for sensorineural hearing loss ranging from severe hearing impairment to complete deafness. They electrically stimulate the auditory nerve. Sonova develops and distributes cochlear implants under the Advanced Bionics brand.

Direct acoustic cochlear stimulation (DACS)

The DACS middle ear implant is suitable for mixed and moderate to severe hearing loss. Phonak Acoustic Implants is developing a middle ear implant that can directly stimulate an intact cochlea by mechanical means.

Hearing protection

More and more people need some type of hearing protection – either standard models or a customized solution – in the professional domain that will ensure that their hearing is protected in noisy work environments. Sonova manufactures and markets hearing protection solutions under the Phonak Communications brand.

Communication and FM solutions

Wireless communication and FM solutions are today utilized in many different ways: for better acoustics in theaters, to facilitate better understanding in school environments and meeting rooms, or for communication across greater distances. People with or without hearing loss can benefit from FM solutions that transmit speech directly to the ear by radio waves and block out background noise. Phonak Communications serves this market with a broad range of solutions.

ACHIEVING SUCCESS THROUGH WELL-DEFINED CORE COMPETENCIES

Sonova stands for innovative hearing care solutions. With more than 60 years of experience in hearing technology and the most comprehensive product portfolio in the business, the Sonova Group is extremely well positioned to continue to expand its leading role and to profit to an even greater degree from the trends in this growth industry.

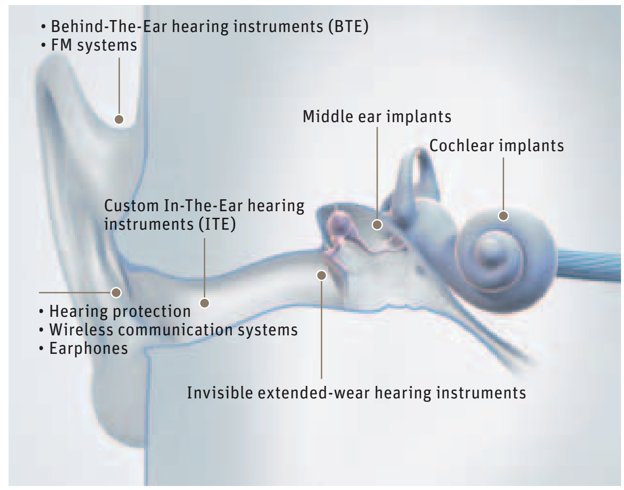
Innovation, a strong global presence and a clear customer focus are the main pillars of Sonova's sustainable growth strategy. Strong core competencies form the foundation for the current and future success of the Sonova Group and its brands. A strong research and development program, leading-edge production facilities, innovative marketing, and a global distribution network ensure that people around the world will hear and communicate better every day.

Technology leader thanks to platform concept

Sonova has become an innovation leader and is one of the biggest drivers in the fast-paced evolution of state-of-the-art hearing technology. Research and development is a key source of strength for the Sonova Group. R&D expenditures totaling CHF 108 million in the financial year 2010/11 enable the company to stay one step ahead of the market and to continue setting new standards in areas such as miniaturization, wireless technologies, and sound quality.

Thanks to a platform concept that is unique in the industry, Sonova is able to quickly transform technological innovations into a complete product portfolio under a number of brands, thus leveraging synergies and achieving economies of scale. Every two to four years, Sonova introduces a new platform that forms the basis for new products launched every six to nine months.

This modular principle, which was introduced in 2002, comprises four key components: the processor, the algorithms, the mechanical design, and the fitting software. The heart of the product is the processor, which is identical in all models based on a given platform. The algorithms form the basis for different functions. Mechanical components such as speakers, microphones, and housings are combinable and are installed in multiple models. The fitting software, which can be used for all models on a given platform, makes it possible to fine-tune the hearing instruments to meet the end customer's individual needs.

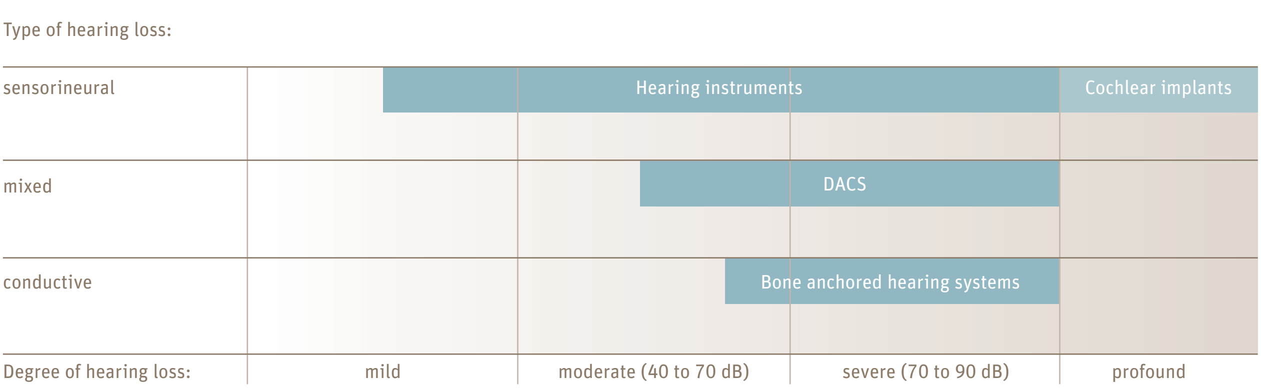


Sonova has launched three platform generations to date. The PALIO and CORE platforms set new standards in microchip technology in 2004 and 2007. With the launch of the Spice platform in the fall of 2010, Sonova combined the highest performance hybrid in the industry with an elegant product design and innovative fitting software, underscoring its technology leadership once again.

High-tech manufacturing

The new Sonova technology and manufacturing center in Stäfa, Switzerland, was officially opened in October 2010. With this project, worth more than CHF 40 million, the Sonova Group is investing in Switzerland as a business location and in the top quality of its products. A significant portion of Sonova's total manufacturing is handled in Stäfa, with a focus on high-tech components for hearing systems; 90% of hearing solutions manufactured in Stäfa are exported around

HEARING CARE SOLUTIONS



SONOVA'S PRINCIPLES

Sonova's vision

We aim to help newborns, children, and adults around the world hear and understand better, thereby improving the quality of life of as many people as possible.

Sonova's mission

We implement our vision through continuous development of new and powerful solutions for better hearing. With our broad portfolio of innovative products and services, we offer the appropriate solution for every hearing need.

Sonova's values

Our focus is on the individual. We are involved in numerous projects and initiatives throughout the world aimed at raising awareness of the importance of good hearing and of potential technological solutions. As an employer, we offer our staff great opportunities for career development based on a flat hierarchy and an open corporate culture. Through efficient and responsible use of resources, we create the basis for sustainable and environmentally-friendly business practices.

the globe. Manufacturing based on advanced technology is also carried out according to the same quality standards, mainly focused on manual production, at two locations in Asia – Ho Chi Minh City, Vietnam, and Shuzou, China. Production of hearing implants is located in Valencia, USA.

End-user focus through innovative marketing

As a pioneer in marketing, Sonova not only addresses hearing professionals but also targets the people who will benefit from the latest hearing technology. Through its Hear the World initiative, the company has been educating people throughout the world about the importance of good hearing and appropriate hearing solutions for a number of years. Instead of highlighting products, Sonova focuses on the right solution for the individual needs of people with hearing loss. This initiative has been increasingly successful in eliminating the stigma associated with hearing instruments and in establishing the image of a small high-tech marvel in the minds of end users. With new product concepts such as Lyric and innovative marketing concepts such as Sona, Sonova is addressing and accessing new target groups that were previously unwilling to consider a hearing instrument.

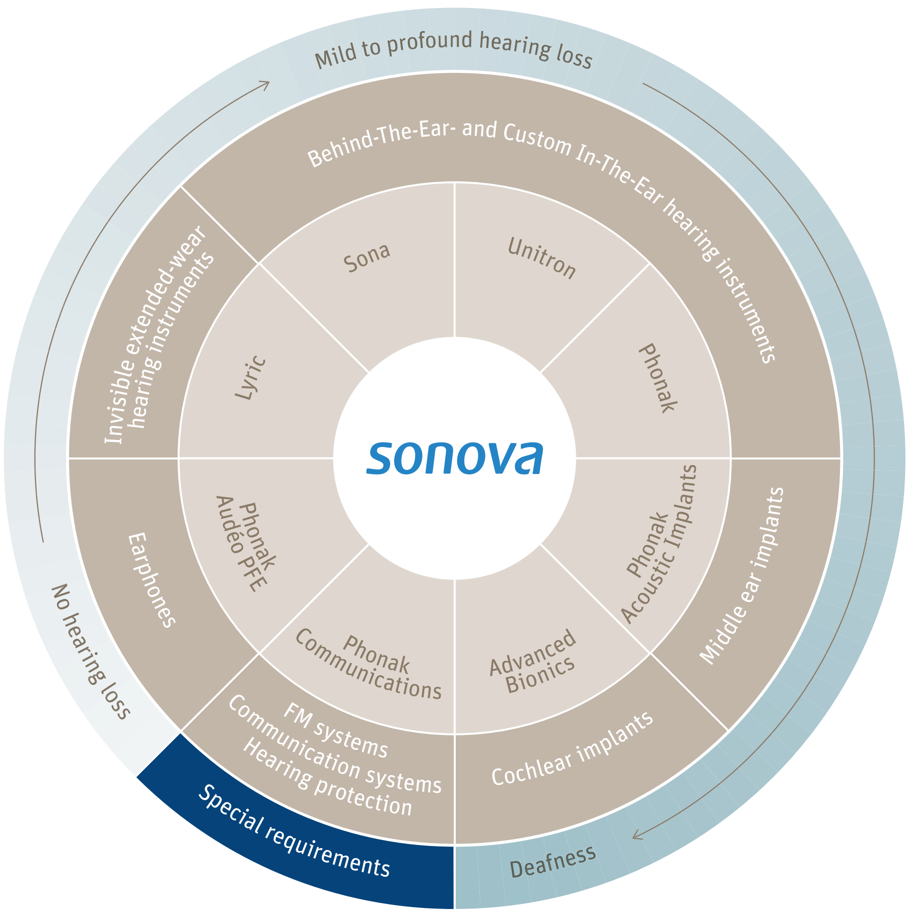
An extensive distribution network

Sonova is expanding its worldwide market leadership with the help of a growing global distribution network. By working with established distribution partners, Sonova guarantees a high-quality range of services in individual countries, remains close to end users, and builds customer loyalty to its brands and products.

Effectively combining core competencies

Sonova combines its core competencies at Group level and offers all its brands access to a wide range of expertise. This ensures that all product groups and brands will benefit from Sonova's extensive experience and strong competencies in the areas of research & development, production, marketing, and distribution. This approach guarantees knowledge transfer within the Sonova Group, creates synergies and economies of scale, and forms the basis for further growth of all the brands in the portfolio. Continuous improvement, a highly cost-conscious approach, and ongoing process optimization guarantee efficiency and a high degree of added value.

THE SONOVA GROUP



ACHIEVING SUCCESS WITH STRONG BRANDS

Sonova technology stands for better hearing in all areas of life. The company is the only manufacturer to serve a range of market segments – from medical solutions to entertainment electronics – and can offer an individualized solution for every hearing need based on its comprehensive brand portfolio.

Hearing instrument brands

With its highly diversified brand and product portfolio, Sonova has successfully established itself as the global market leader for hearing instruments. In addition to products manufactured by Phonak, its internationally renowned main brand, the Sonova Group also supplies powerful hearing systems to people throughout the world under the Unitron, Sona, and Lyric brands. Sonova plans to continue expanding its position as industry leader based on this comprehensive portfolio.

Phonak, the Sonova Group's best known brand, is headquartered in Stäfa, Switzerland, where it has been developing, manufacturing and distributing innovative hearing and radio systems since 1947. The company is number one in the hearing instrument market, and now has a presence in over 90 countries. Phonak is an innovation and technology leader that has regularly been setting new standards in terms of performance, miniaturization, and design for over 60 years.

Phonak markets the first invisible hearing instrument that is located deep in the ear canal and can be worn for up to four months without interruption under the Lyric brand. The "contact lens for the ear," which was developed by InSound Medical, USA, and is now distributed as part of the Phonak product portfolio in most regions, specifically targets people who were previously unwilling to consider a hearing aid – either for esthetic reasons or because of prejudices regarding handling and sound quality. Lyric is a solution that overcomes the entry barriers for a hearing instrument and has the potential to provide new impetus to the hearing instrument market and to efforts to deal with hearing loss.

The Unitron brand, which is based in Kitchener, Canada, and offers state-of-the-art hearing systems, is the second strongest brand in the Sonova Group. With 16 branches and over 53 distribution partners in other countries, Unitron gives people around the world access to good hearing through its products in all price segments. Based on the Sonova technology platform, Unitron offers modern hearing instruments that offer better speech understanding even in difficult situations. Unitron holds a strong market position in the business and economy class segments.

Sonova has been marketing an innovative product concept under the Sona brand since November 2009. Sona is present in Germany, France, the Netherlands, Switzerland, and the USA to date. The instruments are available in three form factors in standard housing and are instantly configured using special software according to the wearer's degree of hearing loss and individual needs. Audiologists are guaranteed continuous availability of these devices based on efficient warehousing.

Hearing implant brands

The young hearing implant segment has considerable growth potential. Sonova, which sells cochlear implants under the Advanced Bionics brand, is well positioned to play an important role in the development of implant technology and to benefit from the segment's future growth.

Advanced Bionics Corporation, which was established in 1993 in Valencia, California, has been part of the Sonova Group since January 2010. As a manufacturer of cochlear implants, it uses state-of-the-art technology to help people who are hard of hearing or deaf to hear again. The company distributes its systems in over 50 countries and works with more than 600 highly qualified specialists throughout the world to provide powerful cochlear implants and comprehensive medical care.

Sonova is also represented in the middle ear implant segment by Phonak Acoustic Implants, which was founded in 2007. A research and development team is working to develop Ingenia, a DACS (direct acoustic cochlea stimulation) middle ear implant, to market maturity.

Better hearing for people with normal hearing

Hearing solutions for people who are not hearing impaired represent a fast-growing market segment. With its broad portfolio of wireless communication solutions, professional hearing protection and in-ear headphones, Sonova covers all enhanced hearing needs for people who hear normally.

Phonak Communications AG has been the technology and market leader in the area of wireless systems for audiology applications since 1992. Communication systems for users around the world who work in the areas of security, film, tourism, culture and sports are developed and manufactured in Murten, Switzerland. These systems are often used under especially demanding conditions such as in security monitoring, film production or competitive sports.

Phonak also develops solutions for the growing business of professional hearing protection based on its extensive experience with the anatomy of the ear.

SOLID FOUNDATION FOR FUTURE GROWTH

Sonova is continuing to develop its business as the hearing care company and is pursuing its goal of meeting all current and future hearing needs with a solution-oriented portfolio. There will be a stronger focus on medical solutions. Sonova is projecting long-term average unit sales growth in the global market of 4–7% per year in the area of hearing instruments and 10–15% per year in the hearing implant segment. The Sonova Group is planning to grow at a faster pace in the coming years than the market as a whole in both segments by systematically implementing its successful strategy.

"The quality of life that I have gained from my hearing instrument is priceless. Nobody should willingly give that up."

Art Furrer, age 74, Switzerland
His solution: an in-the-ear hearing instrument from Phonak (Ambra IX)

STRAIGHT FROM REAL LIFE
– cowboy hat meets high tech

Art Furrer is a Swiss original: mountain guide, ski instructor, the father of ski acrobatics and a dedicated hotelier.

Nearly every evening he walks around the restaurants of his hotels. A conversation here, a greeting there – this is Art Furrer at his best. And on his head he always wears his trademark cowboy hat, a reminder of the 13 years he spent in the US teaching the Kennedys, among others, how to ski. Talking to people and having a chat are almost as important to Art Furrer as the air he breathes.

But the time came when he was forced to admit that it was becoming increasingly difficult to understand the guests in his crowded restaurant. High-pitched sounds were also becoming ever more challenging: as a nature-loving alpinist and mountain guide, he especially missed hearing birds and crickets chirping. When his hearing care professional diagnosed age-related hearing loss, he knew he had to do something.

High-performance, user-friendly, small, and ergonomic – Art Furrer was surprised to see what today's modern hearing instruments have to offer. He decided in favor of Ambra IX from Phonak, an in-the-ear hearing instrument that is prac-tically invisible externally. Since wearing it, he has been able to thoroughly enjoy concerts, lectures, and the sounds of nature again. And he even feels completely confident and at ease during conversations in noisy settings.

Those affected by hearing loss wait an average of ten years before doing something about their condition. This is a serious problem, because during that time the brain forgets how to hear and the ability to hear has to be painstakingly relearned. This was reason enough for Art Furrer to talk openly about his hearing loss and to encourage others to take action early on.

HEARING INSTRUMENTS
– global market leader thanks to innovation and a broad product portfolio

Cutting-edge technology, innovative service concepts, and strong brands: Sonova enables people with virtually every type and degree of hearing loss to hear better and live a fuller life.

Sonova is extending its technological leadership with the Spice platform:
- Chipset with 16 million transistors
- 200 million processing operations per second
- 1.5 Mbit memory
- The premium Phonak Ambra device sets standards in terms of performance and speech intelligibility

CRT (Canal Receiver Technology) is currently the fastest growing market segment for Behind-The-Ear hearing instruments. With the most comprehensive CRT portfolio in the industry, Sonova is well positioned to benefit disproportionately from this trend.

Phonak is introducing Lyric, the "contact lens for the ear", also in markets outside the USA. Lyric is the first invisible hearing instrument that can be worn around the clock for up to four months at a time. The new product concept has the potential to revolutionize attitudes to hearing loss and hearing instruments.

Unitron offers a comprehensive range of hearing instruments with a good price-performance ratio. Models with advanced features and CRT models at all price levels ensure that the entire market is fully covered.

The young Sona brand represents an entirely new product and service concept with many advantages for hearing care professionals and end customers alike: immediate availability, easy storage, fast results.

THE MARKET LEADER IN FIGURES

- 74% of sales are generated by products that are less than two years old.
- Sales in financial year 2010/11: CHF 1,546 million.
- Share of total Group sales: 96%

Strongly positioned with 5 product groups:

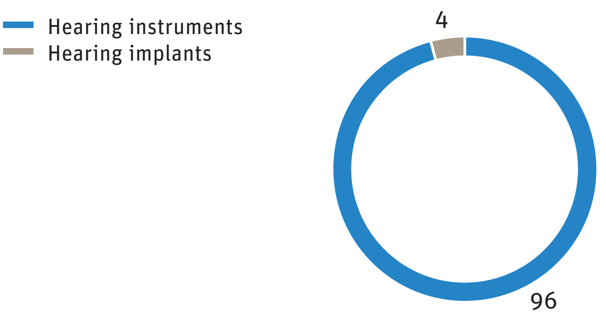
Sales in CHF:
- First class hearing instruments: 398 million
- Business class hearing instruments: 379 million
- Economy class hearing instruments: 481 million
- Wireless communication systems: 75 million
- Miscellaneous products: 213 million

THE HEARING INSTRUMENT MARKET – CONTINUOUS GROWTH

According to estimates, more than 9.5 million hearing instruments were sold worldwide last year. Europe, the Middle East and Africa (EMEA) account for roughly 45% of the global market, while around 35% of products are sold in the USA and 20% in the rapidly developing Asia/Pacific region. Sonova is well established in the target markets of North America and Europe and is pursuing a clear growth strategy in the emerging markets.

SALES BY SEGMENTS 2010/11

in %



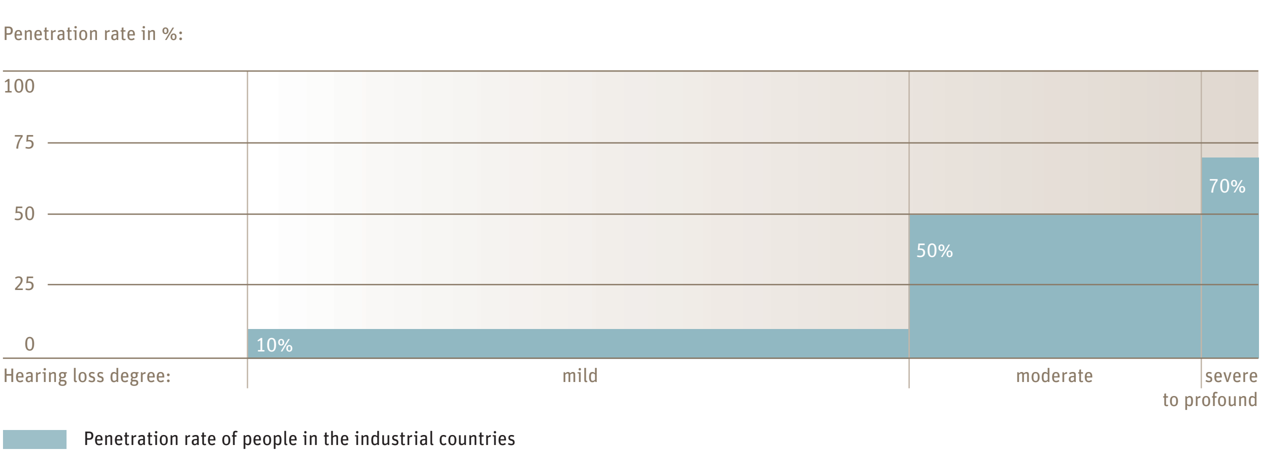
The market for hearing instruments has been growing continuously for years – a trend that is expected to continue. Unit sales in the hearing instrument segment grew by an estimated 4–5% last year. Sonova estimates the long-term average growth in unit sales worldwide to be 4–7% per year.

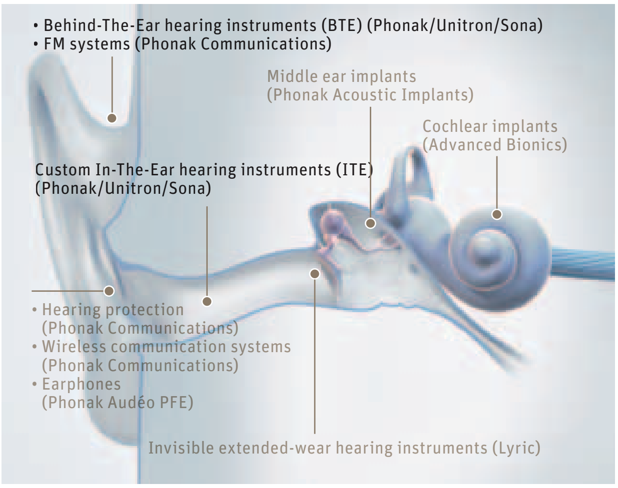
One key growth driver is demographic development: as a result of population growth, longer life expectancy, an increase in average age, and exposure to noise pollution at work and in leisure time, an increasing number of people need a hearing instrument. In addition, an above-average increase in demand for hearing instruments is expected among the baby boomer generation in the coming years. The number of replacement purchases increases the older a person becomes, while more and more young people are being diagnosed with hearing loss. In the future, people will wear hearing instruments over a much longer period of their lives and will require a larger number of systems.

Further potential lies in the relatively low penetration rate: only 20% of people in the industrialized countries who would benefit from a hearing instrument currently wear one. Penetration generally depends to a large extent on the degree of hearing loss: 70% of people with severe to profound hearing loss who can barely manage in everyday life without the assistance of technology wear a hearing system. The penetration rate is just under 50% for people with moderate hearing loss and only 10% for people with mild hearing loss.

Emerging markets, including South America and Asia Pacific, increasingly become a growth driver as well. With the average income steadily rising in these regions, a continuously growing penetration rate can be expected in these markets in the coming years.

HEARING INSTRUMENTS PENETRATION RATE





The core brand Phonak features a full range of hearing instruments across all price-performance classes. Thanks to technological innovations, the devices provide increasingly better performance for improved speech comprehension and quality of life. In addition, Phonak also serves the promising market segment of wireless FM systems for audiologic applications.

The Unitron brand is aimed at customers who are more inclined to seek value for money. The hearing systems are available in various price classes with a wide selection of functions and form factors, offering particularly good speech understanding in different situations. Unitron has a strong presence in the business and economy class segments.

The latest member of the premium-class Phonak family offers an innovative product approach aimed at the mild to moderate hearing loss segment: Lyric, the "contact lens for the ear," is the first hearing instrument that can be worn invisibly in the ear canal for up to four months without interruption.

The young Sona brand represents a unique product and service concept for people with mild to moderate hearing loss. Hearing care professionals benefit from simplified storage and ordering processes and an innovative fitting process. Sona models are available to end customers in two form factors and several price-performance classes and can be configured immediately to the wearer's preferences.

Sonova's aim is to further increase penetration of the hearing instrument market in order to reach an even larger customer base with its products. The Group's strategy is based on easier access to hearing instruments, focus on customer needs, and a strong service mentality.

Sonova provides end customers with better access to hearing instruments by having a higher number of points of sale and actively supporting hearing care professionals in selecting locations and making their shops more attractive. The Group believes a key success factor in reaching customers is to focus on the needs of hearing instrument wearers and hearing care professionals. Technological innovations and continuous improvements in the performance of hearing instruments lead to improved customer satisfaction and thus to broader acceptance of hearing instruments.

Innovation – in terms of products, quality and range of services, training of hearing care professionals and marketing and sales – is therefore the prime requirement for long-term success in the hearing instrument sector.

Sonova also sees enormous potential in overcoming the current stigma of wearing a hearing instrument. With the help of a broad educational campaign, for example, in connection with the Hear the World initiative, the Group is committed to dispelling prejudices and fostering a broader public awareness of the benefits of modern audio technology.

GEARED TO MARKET AND CUSTOMER NEEDS

It is clear what customers want: hearing instruments should deliver better understanding in noisy environments and a natural sound experience. They should also be easy to use and ever smaller – and, if possible, invisible. The trend towards miniaturization has been successfully exploited in recent years. The smallest BTE models almost completely disappear behind the ear. With its Phonak core brand of miniature hearing instruments Sonova plays a pioneering role and has the smallest model currently on the market in every performance and amplification class. Phonak's Lyric is the first extended-wear hearing solution that sits deep in the ear canal, is completely invisible from the outside and can be worn for up to four months without interruption.

THE PHONAK SPICE GENERATION

– THE SPICE CHIPSET: 16 million transistors packed in 65 nanometer technology offering the fastest processing speed with 200 million operations per second, and the largest memory in the industry at 1.5 Mbit.

– THE DESIGN APPROACH: ContourDesign goes beyond the esthetics of the devices. The instruments are not only visually attractive but are also designed to be ergonomic and user-friendly. Each Spice generation BTE model is the smallest in its amplification class.

– THE FITTING SOFTWARE: Phonak Target is the first software solution to be geared to the fitting style of the hearing care professional instead of prescribing a rigid process. Target permits fast, simple, and individualized fitting.

– THE PRODUCT RANGE: The Spice generation is available in all segments and form factors. Customers benefit from the performance of the new chipset both in the premium class and the business and economy classes.

Ambra Petite

Ambra microM

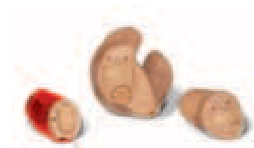
Audeo S High-tech Ceramic

Audeo S MINI

Audeo S YES

CROS

CROS Tip



In-ear models

In Canal Receiver Technology, the loudspeaker is situated directlyin the ear, and the audio signal is transmitted via a special thin tube. This results in better amplification performance, effective feedback suppression and improved comfort. These advantages mean that demand for the CRT design is growing rapidly. Featuring the most comprehensive CRT range and the successful Audéo S product family, the core brand Phonak serves what is currently the fastest growing hearing instrument segment.

Ease of operation is also at the top of customers' wish lists. Thanks to self-learning programs in the Phonak and Unitron models, which store and automatically call up the wearer's preferences, manual adjustments are largely a thing of the past.

Natural audio quality is a key criterion for the acceptance of hearing instruments. The unique calculating and processing performance of Sonova's new Spice generation means that incoming signals are processed even faster and are transmitted in real time to both ears to ensure a natural sound experience. Lyric, which sits deep in the ear canal, can take advantage of the natural function of the pinna to achieve superb sound quality.

Better comprehension is a fundamental concern of every hearing instrument wearer. Based on its platform strategy, Sonova is continuously developing new functions to ensure optimum speech intelligibility, especially when there is background noise. The powerful chip performance of the Spice technology has made it possible to further develop technologies to focus on a dominant speech source, effectively filtering out background noise and adjusting to the audio environment in real time for crystal clear intelligibility in the most varied of acoustic situations.

Through its innovations, Sonova meets the key needs of end customers. Sonova offers hearing care professionals a range of models with which they can specifically target their customers, tap new customer groups, and grow successfully.

INNOVATION AS A STRATEGIC COMPETITIVE ADVANTAGE

Thanks to one of the highest innovation rates in the industry, Sonova was able to consolidate its technological leadership in financial year 2010/11. Products that have been on the market for less than two years accounted for 74% of sales in the hearing instrument segment.

Sonova's unique platform concept forms the basis of its competitive advantage. It guarantees the rapid introduction of new products and extremely efficient research and development work. The Spice generation was introduced in the fall of 2010 as the most advanced microchip technology in the industry. More than 16 million transistors perform 200 million operations per second. The wireless connection is faster and more stable, and binaural directionality and adaptive intelligence ensure effortless comprehension even in challenging situations. The Target software extends the choice of wireless adjustment options for the Spice models, which are 20–30% smaller than their predecessors thanks to their innovative design.

Hearing instrument technology has undergone rapid development in recent years. Nevertheless, Sonova sees plenty of room for improvement and innovation in areas such as speech intelligibility in difficult acoustic environments and natural sound quality. There is also great potential in improving cosmetic aspects, user-friendliness, design, ease of use and links to modern communication devices. In the future, Sonova will be presenting new innovative solutions in these areas.

Sonova's commitment to innovation is recognized worldwide and has received several awards. Among others, the Phonak BTE Audéo MINI model received the 2010 red dot award for product design, while the Phonak Ambra, the premium model of the Spice generation, was singled out for the 2011 iF design award.

PRODUCT INNOVATIONS

Modern hearing instruments integrate chip technologies that are several times more powerful than those of earlier generations. They deliver significantly more computing power and faster processing speeds. Highly developed algorithms permit the integration of increasingly sophisticated functions that ensure improved speech intelligibility, individual adjustment to the wearer's needs, and automatic adjustment to the current acoustic situation.

Binaural directionality

The latest generation of hearing instruments based on the Spice chip technology is able to focus more strongly on the dominant speech source for improved speech intelligibility in difficult acoustic situations. Based on the unique ability to transmit an audio signal in full bandwidth and in

WIDE RANGE OF HEARING INSTRUMENTS

The choice of the right hearing instrument depends on the degree of hearing loss, the size and shape of the pinna and ear canal, the required functions, the end customer's budget, and their esthetic preferences.

Standard Behind-The-Ear (BTE) hearing instruments

The standard housing is worn behind the ear and is connected to the ear canal via a sound-conducting tube. Standard BTE devices are suitable for people with mild to severe hearing loss. Today's BTE models come in attractive designs. They are comfortable to wear, ergonomic, and resistant to moisture and dirt.

Micro BTE/CRT hearing instruments

Micro BTE hearing instruments are significantly smaller than standard BTE models and are suitable for people with mild to moderate hearing loss. They are based on Canal Receiver Technology (CRT), where the loudspeaker is placed outside the housing, in the ear canal close to the eardrum.

Custom In-The-Ear (ITE) hearing instruments

Custom ITE instruments are completely contained in an individualized acrylic shell that fits in the ear canal. ITE models are designed for people with mild to moderate hearing loss. One of their main advantages is that they can take advantage of the natural function of the pinna. In-the-canal (ITC) instruments are placed in the ear canal but are also visible within the outer ear. The tiny Completely-in-the-canal (CIC) instruments are virtually invisible from the outside.

Standardized In-The-Ear (ITE) hearing instruments

These ITE instruments are 45% smaller than typical CIC devices and feature a standard housing, allowing them to be fitted during the customer's first appointment. An articulated joint eliminates unpleasant pressure points in the ear canal while the wearer is speaking, chewing or swallowing. Since April 2010, Sonova has offered a standardized CIC instrument for each of its three hearing instrument brands: Audéo ZIP (Phonak), Fuse (Unitron) and sona: vogue intro (Sona). Deep-in-the-canal (DIC) instruments are inserted even deeper into the ear canal and sit there permanently. Lyric is the first model in the Sonova range that can be worn deep in the ear canal, where it is completely invisible from the outside, for up to four months.

real time between hearing instruments, StereoZoom overcomes the challenge of holding a one-to-one conversation in noisy environments. During telephone conversations DuoPhone transmits the signal in real time from the ear against which the receiver is held to the other ear for optimum comprehension.

SoundRecover

SoundRecover, an innovation based on CORE technology, was integrated in all Phonak hearing instruments available on the market in 2010 and thus across all price-performance classes and form factors and for all degrees of hearing loss. SoundRecover compresses incoming signals in the high-frequency range, which people with hearing loss are no longer able to perceive. It then transposes them to a lower frequency range so that they are audible again.

Adaptive intelligence

Adaptive intelligence allows wearers of the latest hearing instrument models to adapt to everyday situations in real time. The self-learning FlexControl algorithm controls the SoundFlow automatic system and adapts the settings intelligently to the hearing instrument wearer and their environment. The system classifies sound environments so that it recognizes the intention behind manual inputs, allowing it to respond appropriately but variably to the same input. Second-generation SoundFlow analyzes the acoustic environment on the basis of up to 46 sound attributes to generate an infinite number of situation-specific automatic hearing programs. The hearing instrument stores the preferred settings and the corresponding parameters. Over time the system responds as desired without the need for manual adjustments.

Tailored fitting

To optimally meet the individual needs of the wearer, every hearing instrument should be fitted by a hearing care professional. During the fitting process the system is adjusted to the end customer's personal preferences and hearing loss with the help of special software developed by the manufacturer. Sonova's Phonak Target is the first fitting software developed in close cooperation with hearing care professionals and precisely tailored to their needs. Target is the first program to adapt flexibly to the hearing care professional's fitting style rather than prescribing a rigid process.

Price-performance classes

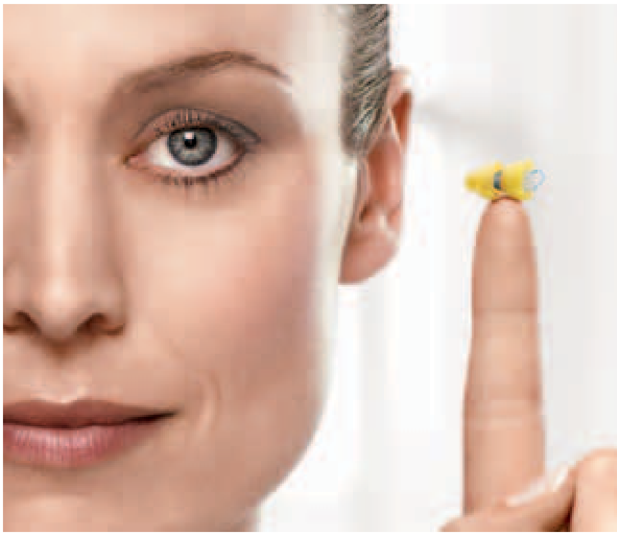
Hearing instruments are available in various price-performance classes, which each manufacturer groups into its own categories. Performance is defined primarily by the functions offered by the hearing system. Sonova divides its hearing instruments into first, business, economy, and basic class – the latter being combined with economy class. In financial year 2010/11, Phonak introduced a complete product range based on the new Spice platform that covers every price-performance class: the premium model Phonak Ambra, the business model Solana and the economy solution Cassia. In addition, the new range includes the new Audéo S portfolio, a refinement of the proven Audéo CRT family, the Audéo ZIP in-the-ear model and the Audéo S SMART Ceramic, the first hearing instrument using high-performance ceramic technology. The current range is completed by CROS, the solution for people with unilateral or unequal hearing loss. Unitron has introduced the Moxi 3G, a new CRT product family that covers every price-performance class. In the economy segment, the Unitron Shine is a high-performance BTE model at an affordable price.

Improved speech intelligibility through FM systems

Frequency-modulated (FM) systems improve speech intelligibility in noisy environments and over large distances. They consist of a microphone, an FM transmitter and an FM receiver. The speaker is equipped with a transmitter. The listener wears a receiver that is connected to the audio input of their hearing instrument or cochlear implant. The audio signals are conveyed from the transmitter to the receiver by radio waves, so that the voice of the speaker is transmitted directly to the listener's hearing system. Background noises and echoes are thus eliminated. FM systems are particularly suitable for use by schoolchildren with hearing loss during lessons.

The Dynamic FM platform of Phonak, the market leader in the field of wireless communication systems for audiological applications, is the most advanced FM solution in the industry. Compared to conventional FM systems, Dynamic FM enables much better speech intelligibility in noisy environments. Studies have shown that Dynamic FM improves speech intelligibility for users of hearing instruments and cochlear implants by more than 50%. In financial year 2010/11, Phonak introduced Dynamic SoundField, an FM system for improved speech intelligibility in classrooms, thus tapping a promising market segment. The system amplifies the teacher's voice without magnifying the overall noise level in the classroom. Children both with or without

LYRIC – THE "CONTACT LENS FOR THE EAR" OVERCOMES ALL ENTRY BARRIERS



On average it takes people with hearing loss up to ten years to decide to wear a hearing instrument. The reasons most often cited for hesitating so long are prejudices with regard to esthetics, handling, comfort, sound quality, and social barriers.

Lyric is the first hearing instrument to satisfactorily address all the objections of end customers:
- Esthetics: Lyric is placed invisibly deep in the ear canal, 4 mm in front of the eardrum.
- Handling: Lyric can be worn round the clock for up to four months at a time, doing away with the need for daily insertion, regular cleaning, and battery changing.
- Sound quality: because it is placed deep in the ear, Lyric takes advantage of the natural function of the pinna to produce a particularly natural sound experience.
- Comfort: with Lyric people can engage in daily activities and forget they are wearing a hearing instrument, even while playing sports, showering, phoning, or driving.

Lyric has the potential to revolutionize attitudes to hearing loss and hearing instruments and to become the first hearing instrument that end users actively ask for. Hearing care professionals who become Lyric partners therefore benefit from numerous advantages:
- Lyric makes it possible to tap new customer segments and to attract first-time users into stores.
- Lyric wearers return regularly to their hearing care professional to have the unit replaced, resulting in strong customer loyalty.
- Lyric ensures plannable long-term revenue thanks to the subscription model.
- Lyric offers rapid results and a high level of customer satisfaction. The unit can be digitally adjusted quickly and easily, and once in place end customers can immediately enjoy a new hearing experience.
- Lyric offers the opportunity to increase sales of other hearing instruments. If it turns out that Lyric is unsuitable for an interested customer, they are all the more likely to opt for a conventional model.

hearing loss can benefit from the resulting clear intelligibility. Teachers can save their voice, as they no longer have to speak loudly to be understood by all the children.

DISTRIBUTION CHANNELS

Hearing instruments are generally distributed through specialized retailers and institutions such as hospitals, hearing clinics and other primary care facilities. The retail channel includes players that range in size from small shops with one or two locations to international chains with more than 100 outlets. More than 80% of hearing instruments are sold through private retailers, mainly through hearing care professionals with special training in fitting hearing instruments. New private distribution channels for hearing instruments aimed at people with mild hearing loss have evolved in recent years. However, fitting hearing instruments for severe hearing loss is highly complex and remains the purview of specialists.

Some manufacturers operate their own retail stores. Wholesale of hearing instruments is Sonova's core business. However, the Group owns retail outlets in selected countries such as, for example, Hansaton in Austria and Lapperre in Belgium. By operating these stores, Sonova gains direct access to end customers, allowing it to learn more about their preferences.

Government-controlled subsidized distribution happens through hospitals, public institutions or similar channels. The key public contracts at the international level are with the National Health Service (NHS) in the UK, the Australian Health Services (AHS), and the Department of Veterans Affairs (VA) in the USA. Government-controlled distribution makes up somewhat less than 20% of the total global market, though the exact figure varies considerably between countries. In the USA about 20% of unit sales are accounted for by the VA contract, while the NHS contract in Great Britain covers around 80% of the market. Sonova is one of the main suppliers to the VA, whereas sales to the AHS and NHS are limited and in both cases include pediatric solutions and niche products.

LYRIC – A REVOLUTIONARY PRODUCT CONCEPT OVERCOMES ENTRY BARRIERS

Sonova added a promising new product category to its range from the previous financial year through the acquisition of InSound Medical Inc., a manufacturer of medical equipment based in Newark, California. Lyric is the first hearing instrument system in the world that sits invisibly deep in the ear canal and can be worn continuously for up to four months without interruption. The total transaction price comprised an up-front cash consideration, which mainly covers past R&D expenses incurred by InSound Medical, and earn-out payments which depended on InSound Medical's financial performance going forward and respective products. In February 2011, all earn-out obligations to date were settled with a one-time payment. Thanks to this change to the agreement, it is possible to integrate InSound Medical, which had been operated separately due to the variable purchase-price share, into Phonak's US sales strategy, allowing the company to tap the potential of the US market more effectively in the future.

Capturing untapped market potential

The mild-to-moderate-hearing-loss segment, in which Lyric features as a premium solution, accounts for the largest share of the overall market: 95% of all people with hearing loss fall into this group. At the same time, this segment has the lowest penetration rate: only 10% of people in this group wear a hearing instrument. With Lyric, Sonova is now targeting people with mild to moderate hearing loss who had previously rejected wearing a hearing instrument, largely for esthetic reasons, allowing it to tap enormous market potential. In the USA alone there are around 36 million people with mild to moderate hearing loss who still do not wear a hearing instrument; some 14 million of them are potential Lyric wearers.

Introduction in other markets

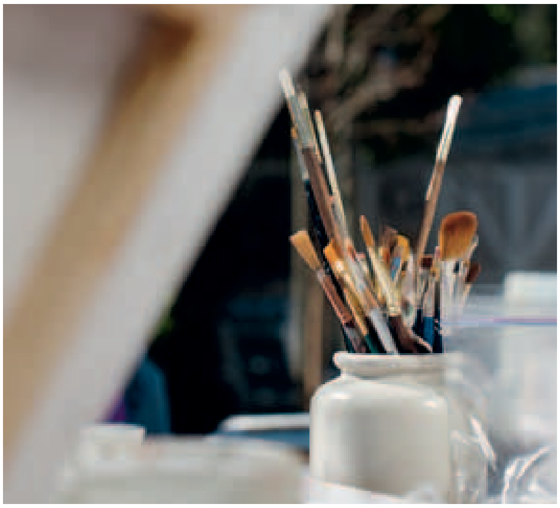
There are excellent growth opportunities for Lyric in markets outside the USA. In financial year 2010/11, Sonova introduced Lyric in Germany, France, the UK, Canada, and Austria, and the market launch of Lyric is imminent in Switzerland and Belgium.

Sonova is investing heavily in the global market launch and is supporting hearing care professionals during the introduction of Lyric with multi-day training programs that teach them how to fit, sell, and market this new product group. Comprehensive PoS material and a broadly based marketing and PR campaign are designed to raise awareness in the target group.

Creating sustainable value

Besides opening up new markets and regions, Sonova sees great potential in the further development of the Lyric product concept. A number of projects are already underway to further improve the product and realize synergies between the existing skills of InSound Medical and the research & development activities of the Sonova Group. Among other things, the development team aims to increase the service life of the instruments and achieve further miniaturization in order to make Lyric accessible to even more people.

Through investment and new opportunities created by the full integration under the Phonak brand, Sonova plans to continue to tap the potential of the target market for Lyric in the coming years.



ENJOYING
– the full sound spectrum

Diagnosed with severe hearing loss after several years of struggling during telephone conversations and giving wrong answers when she did not understand what was being asked, Evelyn Gardner started wearing hearing aids in 1987.

"I am so used to being able to hear now that I don't place any limitations on myself like I used to prior to my implants."

Evelyn Gardner, 68 years, USA
Her solution: a cochlear implant (Harmony) from Advanced Bionics

Eight years later, Evelyn almost completely relied on lip reading – even when wearing her hearing aids. She had developed a profound hearing loss by then. Despite being a sociable person, she felt uncomfortable among other people and spent less time with friends, resulting in a feeling of isolation. Her hearing aid dispenser finally told her that she might be a candidate for a cochlear implant. She had never heard of it before but started researching and finally got a sense of hope that she might be able to hear better again.

In 2006, Evelyn got her first Advanced Bionics cochlear implant. One year later, the second cochlear implant followed. Ever since, her world has changed completely. Evelyn now hears sounds that she has never heard before: the remote control of the car clicking, the air conditioning humming and the wind blowing in the trees. She no longer feels limited in any way, enjoying the company of friends and family, giving painting lessons, and regularly taking her grandchildren to the movies. She gains confidence every day and actively takes part in society again.

It is all the small sounds of life that make a difference today. The timer going off when the microwave is ready, the doorbell ringing when the neighbor comes over, birds singing, and rain drops falling against the window. The feeling of isolation long gone, Evelyn still marvels every day at how amazingly beautiful life can be if one is able to hear again.

HEARING IMPLANTS
– a comprehensive implant product portfolio for sustainable growth

Sonova is a global hearing care company with a strong worldwide presence in hearing implants and hearing instruments.

With cochlear implants from the Advanced Bionics brand and middle ear implants from the Phonak Acoustic Implants brand, Sonova is well positioned to benefit from the segment's anticipated annual growth of 10–15% in the midterm.

Through the acquisition of Advanced Bionics, Sonova has laid the foundations for a strategic expansion of the hearing implants segment. With targeted investments in research & development, the geographic expansion as well as synergies and economies of scale arising from the integration, Sonova is in a solid position to actively drive this market segment forward over the coming years and fully exploit sales potential.

Following the voluntary recall of Advanced Bionics cochlear implants in November 2010, a new course has been set in this segment in order to return to the market. Advanced Bionics received CE certification from the European notified body TÜV for changes to the manufacturing process of the CI HiRes 90K and approval to resume distribution of the implant in European markets in April 2011. The implant will be reintroduced on the US market following pending approval from the FDA.

The Ingenia middle ear implant developed by Phonak Acoustic Implants is currently still in the development phase. Market launch of the implant will follow after the end of this phase.

The appointment of Hansjürg Emch to the Management Board as Group Vice President Medical underlines the importance of the segment, and will enable Sonova to continue to focus and expand its strengths in this area.

THE HEARING IMPLANTS SEGMENT IN FIGURES

70.8 million CHF sales in the 2010/11 financial year

4% Share of total Group sales

THE HEARING IMPLANTS SEGMENT

In the 2010/11 financial year, the hearing implants segment posted sales of CHF 70.8 million, accounting for 4% of the total sales of the Sonova Group.

The Sonova Group took a strategic step towards expanding into the market segment of inner ear implants with its acquisition of Advanced Bionics, the leading U.S. manufacturer of cochlear implants, in December 2009 and the integration that commenced in January 2010. Advanced Bionics initiated a voluntary temporary recall of the HiRes 90K cochlear implant device in November 2010. This was a precautionary measure based on two instances in which the product was removed for safety reasons due to a very rare malfunction. The product recall resulted in lost sales of around CHF 60 million in the current financial year. Advanced Bionics received CE certification from the European notified body TÜV for changes to the manufacturing process of the CI HiRes 90K and approval to resume distribution of the implant in European markets in April 2011. The implant will be reintroduced on the U.S. market following pending approval from the FDA.

Sonova is also developing the Ingenia middle ear implant under the Phonak Acoustic brand, designed for individuals with moderate to severe mixed hearing loss. Ingenia is currently still in the development phase, and implants in initial patients in the test phase have been successful. As Ingenia has not yet been launched, no sales were recorded in the 2010/11 financial year.

THE GROWTH MARKET FOR HEARING IMPLANTS

The largest market for hearing implants is currently that for cochlear implants. While systems such as the Ingenia middle ear implant are considered to have high potential, this market has yet to be established and developed. Further hearing implants such as bone-anchored hearing instruments and other middle ear implants are not considered in this segment reporting, as the Sonova Group is not active in these areas.

The market for cochlear implants is still relatively young. The first cochlear implant only gained FDA approval in 1984. Since then, around 240,000 cochlear implants have been sold worldwide. This figure is very low considering there are more than 200,000 potential new cochlear implant patients each year. Around 50% of them are children – either babies who were born deaf or children with hearing loss acquired between the ages of one and six years. The remainder of the patients are adults with hearing loss due to aging, accidents, illness or ototoxicity.

Global market volume is estimated to be more than 33,000 cochlear implants sold annually. North America accounts for roughly 40% of the global market, while around 35% of implants are sold in Europe, 15% in the Asia/Pacific region and 10% in the Latin America region. Advanced Bionics has an estimated global market share of more than 15%.

Sonova expects average annual unit growth in the cochlear implant market of around 10–15% over the coming years. Medium-term growth potential, however, is limited by a number of market factors. Both the number of cochlear implant centers and capacities to perform the post-surgery fitting process are limited. In many emerging markets, reimbursement of cochlear implants by health insurers is not yet established, and quite often, patients are not informed that they are a suitable candidate for a cochlear implant system. Tests such as newborn screenings are increasingly conducted in developed countries, but the awareness and the lack of information on cochlear implants, especially in emerging countries, offers considerable potential.

A MARKET WITH SPECIFIC NEEDS

Cochlear implants enable people with profound hearing loss to deafness to participate in the world of hearing and communication. In particular, the large proportion of children who are born deaf or lose their hearing plays a central role in treatment with cochlear implants. The topic is an extremely emotional one: parents are often shocked to learn that their child suffers from such severe hearing loss that surgery will be needed to achieve the best possible development of their hearing and speech center. For adults too, however, the operation is one associated with fear and apprehension.

This is why one of Advanced Bionics' major concerns is to respond optimally to the needs of cochlear implant patients and guarantee maximum safety. With these aims in mind, the company works closely worldwide with clinics and specialists with a view to ensuring seamless care and maximum quality in all aspects of cochlear implant provision.

COCHLEAR IMPLANT (CI) PATIENT JOURNEY

Identification and referral

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

Counseling

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

Surgery

A surgeon implants the internal component of the CI and inserts the electrode array into the patient's cochlea during a two to four hour operation. The use of the HiRes 90K is allowed for babies from age twelve months on. In special cases, clinics can perform the surgery before this age.

Fitting

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

Service and maintenance

In order to improve the patient's auditory experience, the CI audiologist performs continual mappings as the brain adapts to hearing sound again, or for the first time. The CI user receives a new, improved external processor on average every five years. In this way, he benefits from the latest signal processing strategies.

In addition to the best possible care and high reliability, being able to understand speech is extremely important for wearers of cochlear implants. This is the prerequisite that – in combination with early training – accelerates and consolidates language acquisition in children. A cochlear implant allows late-deafened adults to maintain their own speech. As the implant accompanies its wearer round the clock, aspects such as comfort and ease of use, design, and miniaturization of the processor are also high on the list of priorities.

With its current cochlear implant, the Harmony HiResolution Bionic Ear System (Harmony System), Advanced Bionics has developed a high-performance system that responds precisely to the needs of the wearer.

—

SYNERGIES FOR TOMORROW'S GROWTH

Sonova is working on developing a comprehensive medical product portfolio in the area of hearing implants. Through the integration of Advanced Bionics, the Sonova Group is establishing the basis for sustainable growth in this pioneering segment. To achieve a leading market position in hearing implants, Sonova is pursuing a long-term product development plan that facilitates economies of scale and synergy effects. Advanced Bionics is currently collaborating closely with Phonak in order to realize further innovations for future product generations that facilitate even better hearing for individuals with severe hearing impairment. These innovations include a higher-performance chip, improved algorithms (digital signal processing), more advanced FM and wireless solutions and a new design approach.

In its development work, Advanced Bionics benefits from Phonak's extensive expertise with regard to the mechanical and acoustic design of hearing systems and signal processing. In two to three years' time, the new product generation will enable even better and more natural hearing, even in noisy environments. What is more, the external processor will facilitate further optimization with regard to miniaturization, design, comfort, and ease of use.

The considerable strategic importance of the hearing implants segment, which includes the Advanced Bionics and Phonak Acoustic Implants businesses, is underlined by the appointment of Hansjürg Emch to the Management Board. He became Group Vice President Medical on March 1, 2011, and has extensive experience in the area of medical implants, including from his previous role at the implant manufacturer Synthes.

ADVANCED BIONICS – POSITIONED FOR A SUCCESSFUL FUTURE

As part of the integration of Advanced Bionics, Sonova has made targeted investments in R&D as well as the expansion of the distribution structure. The integration of Advanced Bionics into Sonova's global organizational structure and supply chain will facilitate savings in areas such as administration and purchasing.

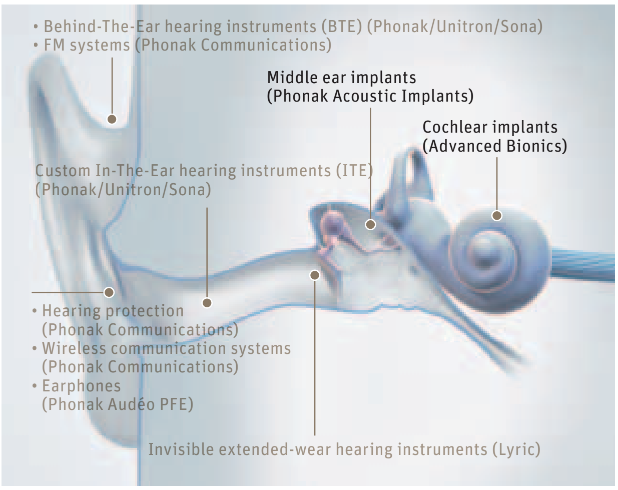
Innovation plays a key role for cochlear implant systems, particularly in the area of speech intelligibility. With its current cochlear implant system, the Harmony HiResolution Bionic Ear System (Harmony System), Advanced Bionics has developed an innovative system that facilitates significantly improved speech intelligibility, particularly in noisy environments. Thanks to HiResolution Sound, the Harmony System offers five times more sound resolution than conventional cochlear implant systems, providing more accurate representation of sound, which facilitates better speech intelligibility and more natural music perception. It has the largest dynamic input range available in cochlear implant technology, enabling it to capture and process naturally occurring sound levels ranging from soft to very loud. Speech intelligibility is also enhanced by the T-Mic, a microphone that is placed at the opening of the ear and thus captures sound like a normal hearing ear.

Advanced Bionics and Phonak are working together in R&D on the next CI generation. Future users will benefit more from the innovative technologies with which Phonak leads the market for hearing systems. Advanced Bionics will, among other things, have access to unique expertise on the mechanical and acoustic design of hearing systems as well as signal processing. In combination with the extensive experience of Advanced Bionics in the treatment of cochlear implant patients and the revolutionary approach to auditory nerve stimulation, innovative solutions are being developed that will enable individuals with severe hearing impairment to hear even better. In addition, the fitting process will be simplified further. In future, individuals with cochlear implants will benefit from an even more natural auditory experience and improved speech intelligibility, even in noisy environments. The system will adapt itself automatically to the sound environment, making it more comfortable for the wearer to listen. A central issue for innovation is the continued improvement of the external processor with regard to miniaturization, esthetics, comfort, and ease of use. Further areas of collaboration include the optimization of the leading FM technology as well as the various wireless connection options from Phonak for Advanced Bionics cochlear implants. A further focus is on solutions for children, who represent an important target group and benefit in particular from small, robust, and user-friendly cochlear implants.

INGENIA – A NEW CONCEPT WITH POTENTIAL

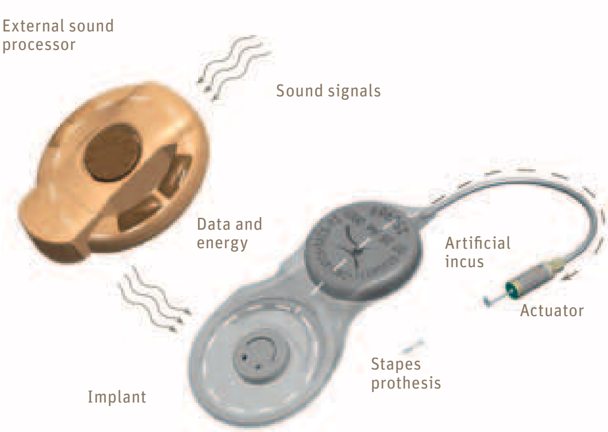
Phonak Acoustic Implants is developing a DACS (direct acoustic cochlear stimulation) middle ear implant named Ingenia. The new device is currently in the development phase. Ingenia does not yet have CE certification or FDA approval, and is not yet commercially available.

Ingenia has been designed for adult patients with moderate to severe mixed hearing loss for whom amplification via conventional hearing devices is not sufficient. The system bypasses the outer and middle ear, and mechanically stimulates the cochlea at its entrance, without significantly entering it. As Ingenia replaces the function of the ossicular chain, the system also helps individuals without a functioning middle ear to hear better.



Harmony speech processor and HiRes 90K implant

Ingenia



Ingenia consists of three main components: an external sound processor, an implant assembly and a fixation system. Unlike a cochlear implant, Ingenia does not significantly enter the cochlea, so the inner-ear structure remains intact and residual hearing is preserved.

Ingenia was designed with the aim of ensuring top performance even at low frequencies, enabling the user to benefit from optimal sound levels and amplification across the entire frequency spectrum. A further advantage of Ingenia is that the ear canal remains free and it is comfortable to wear. The fitting software is based on the Phonak software platform, which has been successfully used to fit millions of hearing systems.

Phonak Acoustic Implants will leverage both Phonak's and Advanced Bionics' technical expertise and network of relationships to make Ingenia a clinical and commercial success. The company will use Advanced Bionics' experience concerning regulatory aspects as well as its established relationships with surgeons and clinics worldwide.

A cochlear implant (CI) consists of a sound processor worn externally, with a microphone that captures sound. The processor codes the audio signal into a data flow that is needed for the auditory nerve, and then transmits the data flow wirelessly to the implant below the skin. The implant receives the data flow and power from the external device. Electrodes located on a flexible wire stimulate the cochlea electrically.

Active middle ear implants (AMEIs) vary both in form and functionally. In the case of Ingenia, the external sound processor captures the sound, filters and amplifies the audio signal and transmits power and the signal wirelessly through the skin. The implanted electronics then decode the signal, and energize the actuator, which in turn reconverts the electrical signal into mechanical vibrations of the artificial incus. The artificial incus transfers this vibration to the stapes prosthesis which then stimulates the oval window.

ABOUT ADVANCED BIONICS

Advanced Bionics (AB) was founded in 1993 by Alfred E. Mann in Valencia, California, with the aim of "helping deaf people hear." The founding team comprised seven engineers and scientists.

The company received approval from the FDA to market its first cochlear implant, Clarion, in 1996, with approval to market its products for use in children following in 1997.

In 2006, AB launched the Harmony HiResolution Bionic Ear System cochlear implant system. This outstanding system facilitates considerably improved speech intelligibility, particularly in noisy environments.

AB has been part of the Sonova Group since 2009, and benefits from the Group's high-performance hardware and software platform and comprehensive technological know-how. Joint work has been carried out on developing effective and innovative solutions in the area of cochlear implants that provide individuals who have severe to profound hearing impairment with improved quality of life, with a particular focus on solutions for children, who benefit significantly in their development from cochlear implants.

Today, Advanced Bionics is one of the world's leading companies involved in the development, manufacture, and distribution of cochlear implants and employs over 600 people. The company sells its products in some 50 countries worldwide, and has a global network of clinics and specialists, which guarantees optimal medical care.

"The system not only offers effective protection for the ears; it also allows workers to communicate safely with one another – this is very important to us."

Gotthard Tunnel construction project Strabag Switzerland
The solution: hearing protection from Phonak (Serenity SPC)

WORKING
– and communicating safely in tunnels

A project of superlatives: at 57 kilometers long, the Gotthard Tunnel is the longest construction site in the world.

The project, which in the future will allow travelers to get from Zurich to Milan in less than three hours, is scheduled to be completed by 2017.

Strabag Switzerland received the contract to expand two 20-kilometer sections of the tunnel – a huge project involving a number of challenges and high safety requirements for workers. In particular, workers' hearing has to be protected in the tunnel. The drilling often generates sound levels of around 100 decibels, which can permanently damage the ear.

Strabag sought a solution that would effectively protect hearing while still allowing the team to communicate with each other and with their foreman. Their search led them to the professional hearing protection solutions from Phonak: the customized Serenity System has a special filter that enables workers to talk to each other without removing their hearing protection – eliminating any risk to their hearing, even when jackhammers are in use.

The workers quickly got used to their new hearing protection, which they wear for up to eight hours a day – while drilling, making group decisions and even during short breaks in the tunnel. Safety Manager Daniel Schäublin has thus come one step closer to realizing his goal of ensuring that all employees complete the project with their hearing intact.

SUSTAINABILITY
– sustained success through conscientious action

At the center of Sonova's corporate culture are a flat hierarchy and motivated and dedicated employees who are encouraged to think entrepreneurially and be creative.

The Group gives high priority to sustainability in its collaboration with customers and suppliers. Sonova ensures that the quality of its products and services always meet the same high standards with Group-wide supplier guidelines, conferences and training for its partners.

Within the framework of its environmental management, Sonova ensures that it handles resources efficiently and meets global standards. Last year, the Group reached another milestone in its environmental management by becoming ISO 14001 certified.

Sonova is actively committed to raising awareness about the issues surrounding hearing and hearing loss. The Hear the World initiative launched in 2006 by Phonak pursues the goal of raising awareness around the world about the importance of good hearing, and provides information on prevention and solutions for those affected.

The Hear the World Foundation is dedicated globally to promoting equal opportunities and improving the quality of life for people affected by hearing loss. This non-profit foundation provides financial funding and hearing systems through the projects it supports.

SUSTAINABILITY IN FIGURES

- Number of employees in financial year 2010/11: 7,840 (previous year: 6,843)
- Human Capital Return on Investment (HCROI): CHF 1.480
- Number employees who participated in training: approx. 4,000

953,348

CHF Funding for the Hear the World Foundation projects

2.32 t

Emissions per employee (CO_2eq)

- Reduction of print volume at Stäfa site: 15%
- Percentage of water recycled from production purification steps: 95%

EMPLOYEES

FOCUS ON PEOPLE

One of the key factors that drives success in the hearing care industry is continuous innovation in products and services. Whether the goal is to boost the performance of a hearing system or give customers better advice, motivated, dedicated and creative employees are an absolute must. Preserving and enhancing a unique corporate culture based on flat hierarchies, respect for all employees, an approach oriented to performance and goals, accountability for one's own actions, a high level of transparency, and open communication is thus a high priority at Sonova.

Sonova has a Group-wide employee mission statement that gives primary importance to people. Personal success by employees also means sustainable success for the company as a whole, and the added value the company offers is based to a large extent on team effort.

PERSONNEL DEVELOPMENT IS A HIGH PRIORITY

Sonova fosters employee development within the Group over the long run and continuously offers different types of training. A central aspect of HR development is having a professional employee assessment system in place with integrated career planning that ensures that more than 70% of all key positions can be replaced by potential internal successors.

The training programs derived from career planning are conducted either internally by the Sonova Academy or by external institutes. This training focuses on leadership, personality development, sales, and understanding the company as a whole. Group-wide training programs are regularly held for various management levels. The training groups are usually comprised of international participants so that, in addition to just the specific content of the training, experiences can be shared across borders and cultures. In addition to the broad spectrum of training courses, the newly introduced microlearning platform “Bridge2know” makes a significant contribution to promoting the exchange of knowledge.

In financial year 2010/11, some 4,000 employees attended training and professional development courses.

FOCUS ON VALUE CREATION

The effectiveness of all HR processes is subject to systematic measurement at Sonova. Every individual employee’s performance and development is documented and evaluated in a systematic assessment process. The performance and effectiveness of the employee is measured using among others the Human Return on Investment (HCROI), which is calculated with reference to total sales generated and total costs and separated into HR-related and non-HR-related costs.

For financial year 2010/11, Sonova's HCROI was 1.480. This means that every CHF invested in an employee generates CHF 1.480 in returns. By way of comparison, the pharmaceuticals sector generates an average of 1.10 and general industry 1.02 per invested currency unit (European Human Capital Effectiveness Report, PriceWaterhouseCoopers). With above-average results, Sonova has also been significantly ahead of its competitors for some years now.

HUMAN CAPITAL ROI OF SONOVA

in CHF m	FY 2010/11	FY 2009/10	FY 2008/09
Sales	1,616.7	1,500.3	1,249.2
Total costs	1,345.9	1,248.9	926.4
HR-related costs	564.5	467.4	396.6
Non-HR-related costs	781.4	781.5[2)]	529.8
HC ROI[1)]	**1.48**	**1.86**	**1.81**

[1] Human Capital ROI = (Sales – non-HR-related costs)/HR-related costs.
[2] Restated based on the finalization of the acquisition accounting of Advanced Bionics.

EMPLOYEE CODE OF CONDUCT

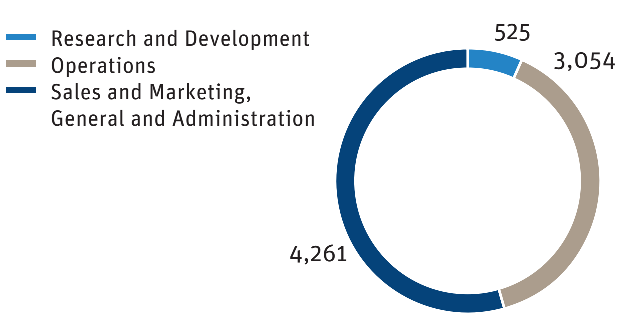
The values and rules of behavior for Sonova Group employees are set down in an employee Code of Conduct applicable across the Group. Proper ethical conduct is a regulated component of the corporate culture as it strengthens the Group’s reputation and establishes it as a reliable partner for the long term.

The Code of Conduct is binding for all employees working in the Sonova Group. Web-based training programs are continuously held across the Group. Sonova also operates a Compliance Hotline which gives all Sonova Group employees the opportunity to voice their concerns anonymously. Calls are answered by independent specialists and routed to the relevant office within the company for further processing.

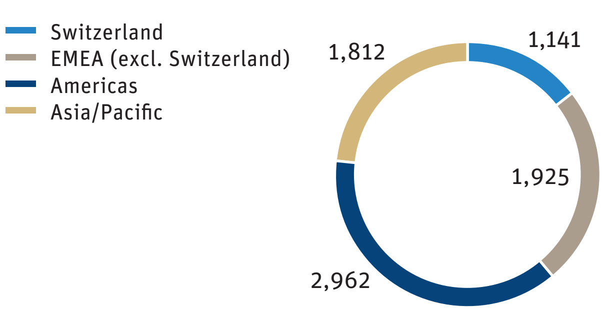
EMPLOYEES BY ACTIVITY 2010/11

Following the expansion of company activities, the Sonova Group employed a total of 7,840 (previous year: 6,843) staff as of March 31, 2011, which represents approximately 15% more than the previous year. The increase in headcount can mostly be attributed to organic growth in the distribution companies and in production. The sales and marketing organization has been further expanded to improve market coverage and meet the increased demand for hearing solutions. New jobs were created in operations to keep up with the increase in the Group's sales volume.
The consistently high importance of research and development is reflected in an increase in headcount in this area from 481 employees to 525.

EMPLOYEES BY ACTIVITY 2010/11



EMPLOYEES BY REGION 2010/11



CUSTOMERS AND SUPPLIERS

Another critical success factor lies in the sustainability of relationships with customers and suppliers. The highest possible levels of reliability, quality, and transparency in our business relationships form the basis for successful, long-term collaboration.

For Sonova, creating sustainable added value means more than just delivering top-quality, technologically advanced products to its customers. Service, training, and the quality of advice offered to end users also play a key role. Sonova thus actively promotes continuing professional development for hearing specialists and the company organizes or supports a series of conferences and conventions with its different brands.

Today's conferences and training take place both in person and virtually. In November 2010, more than 500 people attended the pediatric conference "A Sound Foundation through Early Amplification" in Chicago. More than 20 sessions with renowned international speakers were offered at the fourth virtual audiological conference organized by Phonak in June 2010.

Also in its dealings with suppliers, Sonova values high quality and sustainable business relationships. Sonova has a Group-wide set of supplier guidelines; compliance with these guidelines is monitored on a regular basis. These guidelines clearly define the management principles and working and environmental standards that are binding for all Sonova suppliers. Through these guidelines, the Group makes an active contribution to combating illegal activities such as child labor, corruption, and labor law violations as well as environmentally harmful business activities. The Group expects its employees and suppliers to conduct themselves in a manner compatible with generally recognized ethical principles.

PRODUCTS

The production of hearing systems requires the highest quality standards. To achieve this target, Sonova has made a commitment to upholding specific international sustainability and quality principles.

Sonova's quality management system focuses on customer orientation, customer satisfaction, and continuous improvement of products and processes. This is assured through

ISO 9001:2000 and 13485:2003 certification. In June 2010, the Group's headquarters in Stäfa, Switzerland, was certified to meet the ISO 14001:2004 environmental management standard that ensures the environmental impact of products and processes is minimized over the long run.

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

Supplementary technical certifications required by the EU Radio & Telecommunications Terminal Equipment Directive R&TTE 99/5/EU guarantee that end-users are protected when using analog or digital wireless technology. Sonova ensures biocompatibility in the use of the medical products it manufactures to meet the EN ISO 10993-1:2003 standard.

In the US, hearing systems are classified as Category I medical products that can be launched on the market without pre-market and FDA approval with an exemption in accordance with 510(k). The FDA recommends labeling on packaging for wireless connection technologies that indicates the potential for electromagnetic interference. The FDA is currently assessing whether wireless solutions should be tested for electromagnetic compatibility before they are approved for the US market.

The Lyric hearing system was cleared for market introduction by the US Food and Drug Administration (FDA) in the 510(k) approval process (permit number: K081136) in 2008. As a medical device, Lyric is manufactured with materials and processes that comply with the FDA Quality System Regulation 21 CFR § 820. InSound Medical has also been ISO 13485 certified since 2007, meaning it also satisfies international requirements as a medical device manufacturer. The systems for the US market have been manufactured thus far in the United States. Starting June 2011, Lyric is scheduled to be manufactured and dispatched primarily from Sonova's Vietnamese Operation Center.

The cochlear implant and the respective accessories from the Advanced Bionics brand are classified as active implantable medical products which are regulated by the EU Directive AIMDD 90/385/EEC and require approval in most markets. In the US, the HiRes 90K cochlear implant and the corresponding accessories were approved via a pre-market approval supplement (PMA-S). The systems were introduced to all other markets following this assessment.

The HiRes 90K cochlear implant was voluntarily recalled in November 2010. This was a precautionary measure based on two instances in which the product was removed for safety reasons due to an extremely rare malfunction. Advanced Bionics received CE certification from the European notified body TÜV for changes to the manufacturing process of the CI HiRes 90K and approval to resume distribution of the implant in European markets in April 2011. The implant will be reintroduced on the US market following pending approval from the FDA.

ENVIRONMENT

SUSTAINABLE ENVIRONMENTAL MANAGEMENT

Sonova is actively engaged in the protection of the environment and pursues the aim of preserving and promoting the safety and cleanliness of working and living areas at Group level. Sustainable business practices in the Group are based on the efficient use of natural resources, preventive measures to reduce environmental damage from products and processes, minimizing waste, and the safe and responsible disposal of residual waste.

The large majority of the materials Sonova uses to manufacture its hearing systems are environmentally friendly. Compared to other medical devices, the production of hearing systems uses fewer materials and less energy – the same applies to the environmental impact of processes and products. Sonova also constantly endeavors to further reduce its environmental impact.

Environmental standards implemented Group-wide include:

Ban on CFCs

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

RoHS compliance

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

WEEE compliance

To optimize the use of raw materials and improve eco-efficiency, the Sonova Group extended its recycling measures to incorporate the entire product life cycle in 2006, thereby complying worldwide with the EU directive on Waste Electrical and Electronic Equipment (WEEE). This directive requires electrical and electronic consumer devices to be returned individually to the manufacturer for environmentally friendly disposal, rather than being disposed of as household waste. Sonova has signed up for a series of recognized disposal systems in different countries. In regions not covered by the systems, the company takes back the devices for proper disposal at the headquarters in Switzerland.

REACH-compliant suppliers

In financial year 2009/10, Sonova made sure that its suppliers could prove their compliance with the REACH ordinance (Registration, Evaluation, Authorization and Restriction of Chemicals) for the safe manufacture and use of chemical substances within the European Union. An inspection of the suppliers is planned for fiscal year 2011/12. Other measures relevant to the REACH ordinance are planned at Sonova starting in 2013.

KEY ENVIRONMENTAL DATA

		Unit	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
			Switzerland		Group Companies (excl. Switzerland)		Sonova Group	
Energy								
Total energy consumption		**MWh**	**10,046**	**6,687**	**18,109**	**14,633**	**28,155**	**21,320**
Mineral oil		MWh	2,067	1,842	15	13	2,082	1,856
Natural gas		MWh	517	69	2,682	2,410	3,199	2,479
Electricity		MWh	7,463	4,776	15,476	12,209	22,939	16,985
Greenhouse gases (CO_2-equivalents)								
Carbon footprint	**(absolute)**	**t CO_2eq**	**1,642**	**1,137**	**12,054**	**9,792**	**13,696**	**10,929**
Carbon footprint	(per employee)	t CO_2eq/per employee	1.41	0.92	2.56	2.92	2.33	2.38
Direct emissions	(fossil energy)	t CO_2eq	650	502	536	481	1,185	983
Indirect emissions	(electricity)	t CO_2eq	993	635	11,518	9,311	12,511	9,946
Air emissions								
Volatile organic compounds (VOC)		l	170	158	4’243	3’109	4’413	3’267
Water								
Water consumption		m^3	15,858	14,646	51,132	35,747	66,990	50,392
Waste								
Normal waste		t	130	164	1,005	404	1,135	568
Hazardous waste	Disposal	t	11	16	5	7	17	23

The key environmental data shown in the table above cover all Sonova production sites in Switzerland, the Operation Centers (OC) in China and Vietnam and the most important Group Companies (GC) worldwide. Country-specific emission factors from Ecoinvent and data from the Federal Office for the Environment (FOEN) were used to measure the carbon footprint.

Total energy consumption of the Sonova Group increased by 32% to 28,219 MWh in financial year 2010/11. This was driven primarily by growth and acquisitions, which led to a rise in the energy needed by the Group companies and Operation Centers. The increase, however, can also be attributed to more comprehensive measurement. A growth-driven increase in energy consumption of 50% to 10,046 MWh was also recorded for the Swiss sites. The increase can be mainly explained by the expansion of production capacities and the acquisition of additional offices at the Stäfa site.

The energy data for the Sonova Group is reflected in its carbon footprint, which shows a similar trend. Owing to a more precise method of calculation the emission values for 2010/11 increased from the previous year by 25%. However, with emissions currently totaling 13,696 tons of CO_2 equivalents (CO_2eq), the environmental impact remains minimal. This represents a slightly lower emission value of 2.33 tons of CO_2eq per employee. The measurement of energy consumption and greenhouse gas emissions is continuously being expanded.

Water consumption, waste volume and emissions of volatile organic compounds (VOCs) also increased last year. The quantity of hazardous waste disposed, on the other hand, was lower throughout the Group.

—

INTRODUCTION OF AN ENVIRONMENTAL MANAGEMENT SYSTEM THAT SATISFIES THE ISO 14001:2004 STANDARD

Sonova relies on professional environmental management in its endeavors to consolidate its environmental achievements and expand them to meet the set targets. Last year, a milestone in these efforts was reached at Sonova's headquarters in Stäfa: in June 2010, Phonak AG Stäfa, which is the most important site in the Group, became the first site to successfully achieve ISO-14001 certification. The certificate issued by the French company LNE/G-MED guarantees that the environmental management system and the underlying processes satisfy the requirements of the international standard.

The ISO 14001:2004 standard sets forth the requirements for operational environmental management systems. Key elements include defining a binding environmental policy, setting voluntary annual environmental targets and creating programs, and implementing a management system to manage workflows. The focus is on a continuous improvement process to achieve individual goals and targets. There is thus a permanent internal employee who handles environmental issues at Phonak. The Group benefits from the minimization of risks and environmental impact.

Phonak's recently implemented environmental management system is based on environmental activities from previous years and brings together proven strategies with new projects and goals. The result is a systematic sustainability management system that meets the highest quality standards. The experiences thus far will make it easier for Sonova to evaluate ISO-14001 certification for other sites over the next few years.

—

STATE-OF-THE-ART ENVIRONMENTAL MANAGEMENT AT THE STÄFA SITE

Environmental protection is a long-standing tradition at the Stäfa site in Switzerland, which is home to both Sonova's headquarters and the Group's most important manufacturing center. Industrial ecology plays a crucial role in research and development. Production specifications and standards have been binding for all Group companies since 1988 and are also applied at the Operation Centers in China and Vietnam in particular. Sonova's commitment to the environment goes beyond simply complying with legal requirements.

The environmental management processes within the company affect various business units and subject areas. The following summary of planned and initiated measures provides an overview of what environmental protection means at Phonak/Sonova.

Natural resources

The specific values for overall consumption of energy, mineral oil, natural gas, electricity, water, and paper will be monitored and lowered over the long term. In the coming financial year, a modern measurement system for energy data will be introduced at the Stäfa site which will considerably increase transparency in the analysis of consumption for all buildings. Use of renewable energies will be evaluated on an ongoing basis.

Infrastructure and building technology

A number of different measures to boost infrastructure efficiency are planned as part of the ongoing changes being made to existing buildings at the company headquarters. The energy consumed by the existing lighting system can be reduced by 15%, for example, by modernizing the system. Automatic air hand dryers which achieve excellent results in comparative ecological impact assessments will also be introduced to the entire Sonova site.

Production began at the newly created production and technology center in Stäfa in February 2010. This new building raises the bar when it comes to sustainability. The construction of the building shell, the intelligent building technology and targeted heat recovery systems guarantee minimal energy consumption. A sophisticated building automation system makes it possible to flexibly control and efficiently manage the production building. Heating has been switched from oil to natural gas, resulting in significantly lower CO_2 emissions.

Optimized production

In view of ongoing advances in the development of manufacturing processes, the consumption of raw materials, auxiliary materials, and working materials is constantly being optimized in hearing system production. Efforts over the course of many years to reduce the use of solvents and volatile organic substances (VOCs) have resulted in production processes with minimal quantities of harmful substances. Today, the underlying purification steps are based on semi-aqueous and aqueous processes that recycle a total of 95%. Together with putting a total stop to use of lead solder, this led to the cantonal environmental authorities granting an exemption from pre-treatment of rinsing water in 2009.

The consumption of soldering paste was optimized last year. A total of 38 people took part in internal chemical and environmental training for employees with special qualifications.

Ecological suppliers

Environmentally friendly business practices are incorporated throughout the entire supply chain at Sonova. Environmental and sustainability criteria play a vital role in supplier selection. Sonova has binding supplier guidelines for all of its contract partners.

Sustainable procurement

Environmental friendliness, in particular energy efficiency, will be taken into account as an additional criterion when purchasing electronic equipment and investing in resources. Since January 2011, Sonova has exclusively used FSC-certified paper (Forest Stewardship Council) internally.

Marketing material

The switchover from local production of printed marketing materials for all Phonak Group companies to decentralized production in the respective countries that was implemented in 2009 resulted in a decline of around 15% in print volumes at headquarters in financial year 2010/11 and thus also in transport volumes.

Environmentally friendly product packaging

A packaging concept for global delivery of hearing systems that has been developed in line with environmental criteria is currently being tested internally.

Mobility program

Sonova also encourages its employees to act conscientiously. The percentage of employees who commute to the Stäfa headquarters by public transportation is 42%. The mobility program in Stäfa which was launched in financial year 2008/2009 will also continue in the future with incentives to use public transport – accompanied by targeted awareness campaigns.

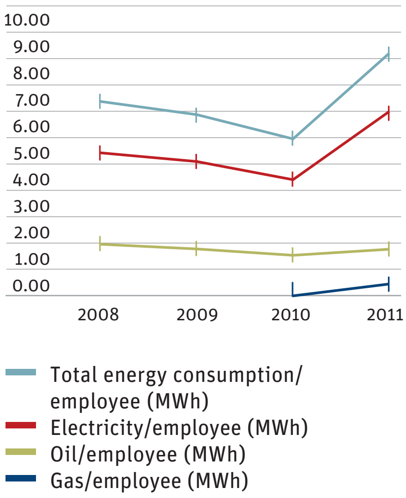
BUSINESS TRIPS

The number of business trips will be reduced as much as possible through promotion of modern communication solutions. To this end, the business air travel of all Sonova companies situated in Switzerland will be monitored. An initial comparative assessment of the indirect greenhouse gas emissions associated with this type of travel is scheduled for publication next year.

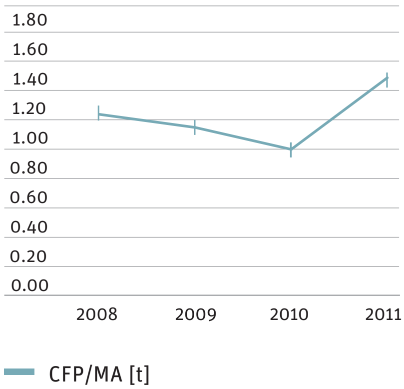
ENVIRONMENTAL MANAGEMENT AT THE STÄFA SITE

STRATEGY AND SELECTED KEY INDICATORS

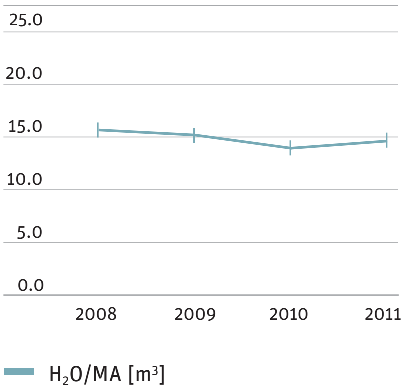
SPECIFIC ENERGY CONSUMPTION
(MWh/MA)



SPECIFIC CARBON FOOTPRINT
t CO_2eq/MA



SPECIFIC WATER CONSUMPTION
(m^3/MA)



Following many years of continuous reductions, energy consumption at the Sonova Stäfa site increased in financial year 2010/11 to 9.2 MWh per employee. The causes for the increase can be found in the occupancy of the newly built production center and in additional offices which has led to an overall increase in total energy consumption by 60% to 9,245 MWh. Efforts are underway to continue the positive trend of the last few years.

Along with the increase in energy consumption, the specific greenhouse gas emissions also increased last year by 50% to 1.49 tons of CO_2 equivalents (CO_2eq) per employee. In absolute terms, the carbon footprint of the Sonova Stäfa site amounts to 1,493 tons of CO_2eq. A strategy to reduce the specific carbon footprint is currently being defined.

The specific water consumption per employee is currently 14.7 m^3. In absolute terms, the expansion of capacities at the Stäfa site has resulted in a comparatively low increase in the amount of water consumed of around 9% to 14,708 m^3.

CORPORATE SOCIAL RESPONSIBILITY

As a global leader in hearing solutions, the Sonova Group takes its social responsibility seriously and is involved in numerous projects related to the issue of hearing. One of the most important projects is the Hear the World initiative launched by Phonak in 2006. The goal of Hear the World is to raise broad public awareness about the importance of good hearing and the consequences of hearing loss as well as about prevention and solutions. Through the Hear the World initiative, Sonova has successfully increased the attention received in the media on the issue of hearing, a topic that has been largely ignored, and thus considerably boosted public awareness. This success of this project is unique throughout the entire industry and has received most prestigious prizes for communication and marketing in the world.

Today, around 50 celebrities act as ambassadors for Hear the World. They contribute to further raising awareness of the importance of good hearing in a series of photographs taken by Bryan Adams. Hear the World was also able to attract several new high-profile ambassadors including the worldwide celebrities Sting, Ben Kingsley, Julianne Moore, and Take That.

The global educational work carried out by Hear the World is based on an integrated communication platform. It brings together elements such as events, studies and surveys, media relations, the website www-hear-the-world.com, free hearing test campaigns, the HEAR THE WORLD magazine, a network of experts, and the prominent ambassadors. A highlight this year was the partnership formed with New Kids On The Block singer Joey McIntyre. This Hear the World ambassador talks openly as a father about his son's hearing loss and draws attention to the importance of good hearing and early detection of hearing loss for young parents in a public service announcement (PSA) on US television. A PSA is broadcast for free by American TV networks if it is an issue in the public interest.

A central element of the initiative is the Hear the World Foundation. The non-profit foundation is dedicated globally to promoting equal opportunities and improving the quality of life for people affected by hearing loss. To achieve these goals, the foundation provides financial funding and makes hearing systems available. A particular focus is placed on sponsoring projects that support children with hearing loss so that they can develop at the same pace as their peers.

The first charity gala benefiting the Hear the World Foundation took place in Berlin in October 2010. Received with a high level of media interest, the event helped raise more than EUR 50,000 in charitable donations for the Hear the World Foundation through the support of 300 invited guests including celebrities from politics, business and media. A significant portion of the donations stemmed from an auction of original portraits taken by Bryan Adams of famous Hear the World ambassadors including Annie Lennox, Lenny Kravitz, and Diane Kruger. The Hear the World awards for outstanding accomplishments in the categories of "prevention", "solutions" and "support" were presented for the first time at this gala event.

The Hear the World Foundation attaches great importance to sustainability in selecting the projects it supports. This means, among other things, that when devices are donated, it must be ensured that they are adjusted, regularly checked, and batteries supplied for them on an ongoing basis. Particularly when it comes to children, it is often the support measures, like speech therapy, that are indispensable for speech development in line with their age group. In 2010, the foundation supported ten projects around the world by providing hearing systems and funding totaling CHF 953,348.

One of the sponsored projects is IMEDI which is part of the Swiss organization "Hilfe für Georgien" (Help for Georgia) which supports a state-run school in Tblisi for children with hearing loss. Only a very small handful of parents can afford hearing systems for their children here. Most students live in an isolated world without sound. In a first step, 100 students were given hearing systems by the Hear the World Foundation. Experienced audiologists from the local state-run hospital assume responsibility for adjusting and supplying the devices.

In the Dominican Republic, the Hear the World Foundation supports the Australian organization EARS in establishing sustainable medical care for people with hearing loss. The top priority is training a local workforce. This not only creates jobs, it empowers people to take action themselves. Within the scope of the programs offered by the EARS project, students can qualify as a hearing system technician after two years and an audiologist after four years.

CAMBODIA – BETTER OPPORTUNITIES FOR WOMEN AND CHILDREN WITH HEARING LOSS

The difficult situation of women in Cambodian society, which is often characterized by dependency, violence, and abuse, is even worse when physical limitations such as hearing loss are present. With no outlook for a job and isolated by society, these women can't escape the downward economic and social spiral. Basic medical knowledge is also lacking; in many families, superstition still prevails. Ear infections are often treated with chicken feathers or the entrails of dead animals.

Against this background, All Ears Cambodia – the only organization in Cambodia specializing in hearing loss in women and children – has been providing medical information and care for 14 million Cambodian women for seven years. The Hear the World Foundation supports this organization with financial funds and hearing systems.

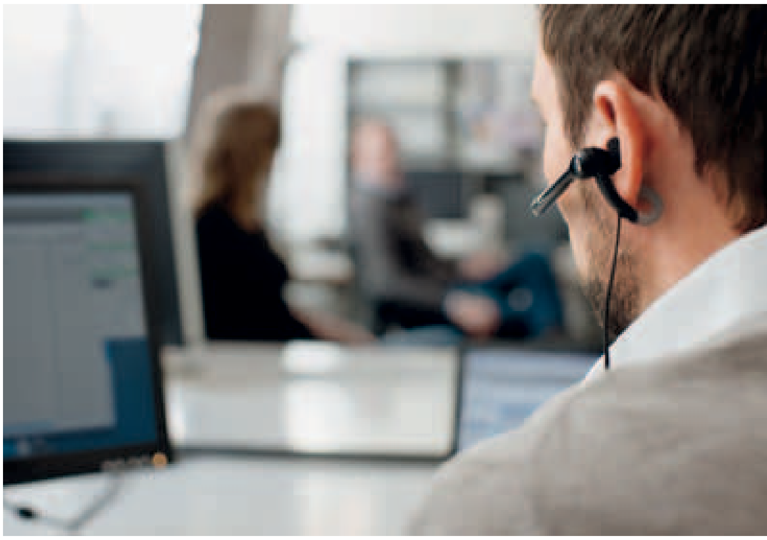
Children who have lost their hearing are given hearing systems by the Hear the World Foundation. These hearing systems are adjusted locally. Additional speech therapy makes it possible for the children to attend normal schools, which allows them to take their professional future into their own hands and ensure their own future existence. Compensation for hearing loss in adult women also gives them the opportunity to become active participants in the economy and thus social participants in society.

60% of all hearing loss in children is preventable or reversible and is often caused by infections. With informational brochures, posters and a short film shown in the waiting rooms at clinics, the population learns how to deal properly with hearing and is informed about possible illnesses so that the number of people affected by hearing loss can be permanently reduced.

As the Hear the World Foundation becomes better known around the world, the number of inquiries from private individuals asking for help has increased considerably. To respond to individual cases, the "52 Children" project was launched in 2010 to give the gift of better hearing to 52 disadvantaged children from around the world every year. The Hear the World Foundation does not just provide hearing systems, it also ensures that support is provided over the long run working together with in-country partners.

“In meetings, it was hard for me to understand people who sat far away. Thanks to Lyric this is no longer a problem – today I’m able to actively take charge of meetings again.”

Jochen Schneider, age 39, Germany
His solution: an invisible hearing instrument from Phonak (Lyric)

BETTER HEARING
– *better success at work*

Telephone calls, conferences, meetings: Jochen Schneider demonstrates his presence as a call center manager, giving instructions by telephone and coordinating face-to-face.

What he can take for granted today was once only possible with great effort. He has suffered from hearing loss since childhood, a condition he only admitted to in later years. He put up with it in school, at university and later in his job. He often did not understand everything, but constantly asking people to repeat themselves was embarrassing and could seem unprofessional – he always worried that he had missed something important or might ask a question that had already been answered.

When he was asked about his hearing outside of work, Jochen finally decided to see a doctor. The diagnosis was mild to moderate hearing loss. He opted for an in-the-ear hearing instrument, but only wore it at work, leaving it out at home, when exercising and in his free time. It was impractical and when he was exercising it actually got in the way.

In fall 2010 Jochen discovered Lyric and the instrument seemed to be perfect for him. His hearing on the phone, in meetings and in group discussions is now at an optimum level – without any effort on his part. And no one can see that he wears a hearing instrument. He himself often forgets about it because it is placed so deep in his ear and is so comfortable to wear that he stopped feeling it after a short period of time.

He is confident in meetings and conversations with coworkers. Questions, tense meetings and unpleasant telephone calls are a thing of the past. And what is particularly pleasant for someone who has to talk on the phone a lot: he can easily make phone calls with his in-the-ear headset – because of its deep placement in the ear canal, Lyric doesn't get in the way.

FOCUS ON TRANSPARENCY
– *Corporate Governance*

Sonova is committed to sound Corporate Governance and the safeguarding of its shareholders interests. The Board of Directors and the Management Board continuously work to further develop and improve the Corporate Governance.

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

At Sonova, Corporate Governance is based upon and fully in line with international standards and practices. The Company fulfils its legal obligations pursuant to Articles 663b and 663c of the Swiss Code of Obligations, the Directive on Information relating to Corporate Governance published by the SIX Swiss Exchange, and the standards defined in the Swiss Code of Best Practice for Corporate Governance.

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

CHANGES IN FINANCIAL YEAR 2010/11

At the General Shareholders' Meeting on June 15, 2010, John J. Zei was elected as a new Member of the Board of Directors for the statutory term of office of three years. John J. Zei was CEO of Knowles Electronics, one of the primary suppliers of acoustic components for the hearing instrument industry, through the end of 2009. He complements the Board of Directors in particular through his in-depth expertise in the healthcare market, especially the hearing instruments industry.

Following the introduction of the Swiss Federal Act on Intermediated Securities (FISA) on January 1, 2010, the Articles of Association of Sonova Holding AG were revised in accordance with the resolution by the General Shareholders' Meeting of June 15, 2010. This revision enabled the removal of the postponed share certificates printing previously provided for in the Articles of Association. Shareholders will, however, continue to have the possibility of requesting written evidence of their shareholding – although a printed share certificate in the form of a security will no longer be available. This change simplifies administration and corresponds to current practice among Swiss public limited companies.

There were failings with regard to the black-out on trading of Sonova shares and options in financial year 2010/2011, resulting in transactions which should not have taken place. The previous CEO and CFO of Sonova failed to issue a timely internal black-out period for trading in the run-up to the profit warning on March 16, 2011. In addition, the profit warning was issued too late, according to an investigation carried out by the Homburger law firm upon a mandate issued by the Board of Directors. As a result of this, there were equity transactions that should not have taken place. Based upon these events and their consequences for the company, CEO Valentin Chapero and CFO Oliver Walker tendered their resignations with effect March 30, 2011. In addition, Andy Rihs stepped down as Chairman of the Board of Directors; he will remain a Member of the Board of Directors.

The Board of Directors appointed Robert F. Spoerry to replace Andy Rihs. Mr. Spoerry has been a non-Executive Member of the Board of Directors of Sonova since 2003 and has extensive industry experience. He was previously CEO of Mettler Toledo, a manufacturer of precision measuring devices; he currently serves as the Chairman of its Board of Directors.

The operational management of Sonova has been taken over by Alexander Zschokke as Interim CEO. Mr. Zschokke has been a Member of the Group Management Board since 2006. He has previously been responsible for marketing and currently is Group Vice President channel solutions. Paul Thompson has been appointed Interim CFO of the Sonova Group. He previously held this position from 2002 to 2004, and has since been Group Vice President Corporate Development.

The investigation by the law firm Homburger AG ordered by the Board of Directors also showed that internal processes and internal policies were not followed by the responsible people in critical moments. As a consequence, the profit warning and the internal black-out period for trading in Sonova shares and options were issued too late.

The Board of Directors has therefore appointed a task force that will analyze in detail the shortcomings identified by Homburger AG and promptly take the appropriate remedial measures. Appropriate mechanisms and processes will ensure full observance of all legal requirements, directives, and internal documents.

In order to meet the requirements for increased transparency, Sonova also decided to revise the section covering compensation and shareholding and to report these in a separate compensation report.

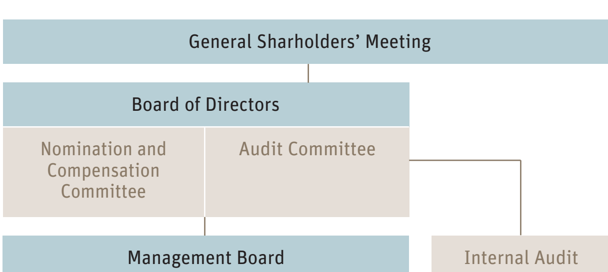
The present report describes the principles of Corporate Governance for the Sonova Group and provides background information on the Group's executive officers and bodies effective March 31, 2011. The report is based on the general principles of Corporate Governance set down in the Articles of Association and the Organizational Regulations, which in turn comply with the Directive on Information relating to Corporate Governance published by the SIX Swiss Exchange.

GROUP STRUCTURE

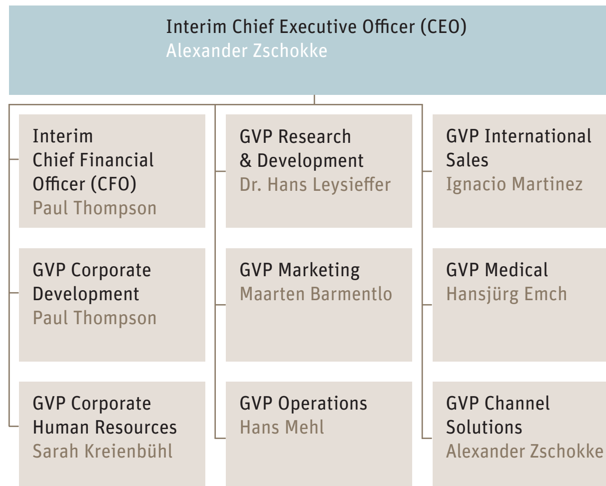
OPERATIONAL GROUP STRUCTURE

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

OPERATIONAL GROUP STRUCTURE
as of March 31, 2011



STRUCTURE OF THE MANAGEMENT BOARD
as of March 31, 2011



LISTED COMPANIES

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

Key data for the share of Sonova Holding AG as of March 31, 2011:

	2011	2010	2009
Market capitalization in CHF m	5,444	8,658	4,557
in % of equity	405%	615%	444%
Share price in CHF	81.85	131.00	68.80
P/E ratio	23.4x	24.2x	16.0x

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

NON-LISTED COMPANIES

The organizational chart showing the significant companies of the Sonova Group as of March 31, 2011, can be found in the Consolidated Financial Statements in Note 36.

SHAREHOLDERS

REGISTERED SHAREHOLDERS

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

Number of shares	Registered shareholders 31.3.2011	Registered shareholders 31.3.2010
1–100	6,666	5,818
101–1,000	10,250	8,988
1,001–10,000	1,456	1,402
10,001–100,000	177	165
100,001–1,000,000	19	28
> 1,000,000	7	7
Total registered shareholders	**18,575**	**16,408**

SIGNIFICANT SHAREHOLDERS

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

	2011	2011	2010
	Number	in %	in %
Beda Diethelm[1)]	6,647,259	9.99	10.19
Andy Rihs[1)]	6,009,598	9.04	10.68
Chase Nominees Ltd.[2)]	5,447,068	8.19	10.44
Hans-Ueli Rihs[1)]	3,792,713	5.70	6.76
Nortrust Nominees Ltd[2)]	2,058,912	3.10	n/a
Registered shareholders with less than 3% of shares	21,329,990	32.07	35.70
Not registered	21,228,853	31.91	26.23
Total shares	**66,514,393**	**100.00**	**100.00**

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

In addition, the following shareholders of Sonova Holding AG have reported shareholdings of over 3% in financial year 2010/11:

Lone Pine Capital LLC and its affiliates, 2 Greenwich Plaza, Greenwich, 06830, Connecticut, USA, hold 5.442% of the capital and voting rights following a stock purchase per March 30, 2011.

MFS Investment Management and ist affiliates, 500 Boylston St., Boston, MA 02110, hold 5.26% of the capital and voting rights following a stock purchase per March 23, 2011.

FIL Limited ("FIL"), Pembroke Hall, 42 Crow Lane, Hamilton, Bermuda, and its direct as well as indirect affiliates have informed the company that it holds less than 3% of the capital on March 17, 2011.

FMR LLC, 82 Devonshire Street, Boston, MA 02109, USA, and its direct as well as indirect affiliates have informed the company that it holds less than 3% of the capital on March 2011.

BlackRock Inc. and its affiliates, 40 East 52nd Street, New York, 10022, USA, have informed the company that it holds less than 3% of the capital on December 7, 2011.

The Sonova Group has informed the SIX Swiss Exchange that it held more than 3% of the capital, including its employees, in July 2010.

SHAREHOLDER STRUCTURE

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

Type	31.3.2011	31.3.2010
Individuals	25%	28%
Legal entities	24%	25%
Nominees, fiduciaries	19%	21%
Not registered	32%	26%
Total	**100%**	**100%**

The following overview shows the shareholder structure by shareholder origin:

Origin	31.3.2011	31.3.2010
Switzerland	35%	38%
Europe (excl. Switzerland)	28%	32%
Americas	4%	3%
Rest of world	1%	1%
Not registered	32%	26%
Total	**100%**	**100%**

CROSS-SHAREHOLDINGS

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

CAPITAL STRUCTURE

CAPITAL

As of March 31, 2011, the capital of Sonova Holding AG comprised the following:

Ordinary capital (in CHF)	3,325,720
Total shares	66,514,393
Authorized capital (in CHF)	165,576
Authorized shares	3,311,520
Conditional capital (in CHF)	299,051
Conditional shares	5,981,027

AUTHORIZED AND CONDITIONAL CAPITAL

Authorized capital

The General Shareholders' Meeting held on June 10, 2009, approved the creation of authorized share capital of 3,311,520 registered shares with a par value of CHF 0.05 per share. The Board of Directors determines the issue price, type of capital contribution, the terms for the subscription rights and the date of qualification for dividend. Unexercised subscription rights are at the disposal of the Board of Directors and to be used in the best interest of the company. The Board of Directors is authorized to exclude subscription rights of shareholders and to allocate them to third parties if the new shares are to be used for the acquisition of companies, parts of companies, equity stakes or the financing of such transactions. The authorization granted to the Board of Directors to augment the company's share capital with the authorized share capital expires on June 9, 2011.

Conditional capital

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

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

CHANGES IN CAPITAL

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

	2011	2010	2009
Ordinary capital (in CHF)	3,325,720	3,304,537	3,311,529
Total shares	66,514,393	66,090,745	66,230,584
Authorized capital (in CHF)	165,576	165,576	167,813
Authorized shares	3,311,520	3,311,520	3,356,260
Conditional capital (in CHF)	299,051	320,234	349,167
Conditional shares	5,981,027	6,404,675	6,983,336

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

A total of 5,320,093 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, 2011, to 2,679,907 (previous year: 3,103,555) shares. In the financial year 2010/2011, a total of 612,065 options were granted as part of the Sonova Executive Equity Award Plan (EEAP). In the previous years 2009/10 and 2008/09, the number of options granted totaled 517,532 and 678,040, respectively. As of March 31, 2011, there were still 1,929,751 options outstanding (compared with 2,337,728 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.

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

The following overview shows the treasury shares held by the company as of March 31, 2011:

	2011	2010
First trading line[1]	47,060	204,088
Total treasury share	**47,060**	**204,088**

[1] The share buyback program approved by the Board of Directors on August 15, 2007, was terminated on November 9, 2009. The second trading line is therefore no longer shown.

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 one person. This registration restriction does not apply to founding shareholders. The Board of Directors may approve other exceptions if it has good reason to do so, in which case no special quorum is required.

Exceptions granted in the year under review

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

Admissibility of nominee registrations

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

Procedure and conditions for 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 program of Sonova Holding AG (Executive Equity Award Plan) and Advanced Bionics (EEAP Welcome AB 2010) are described in greater detail on page 140 ff. in the Notes to the Consolidated Financial Statements.

BOARD OF DIRECTORS

The primary duty of the Board of Directors of Sonova Holding AG is the overall direction of the company and the supervision and control of management.

Except for Valentin Chapero Rueda, who was elected to the Board of Directors at the General Shareholders' Meeting on June 10, 2009, and was also the CEO of Sonova Holding AG until March 30, 2011, no member of the Board of Directors holds an executive management position or has held such a position in the past three years within Sonova Holding AG or any of its subsidiaries.

The Sonova Group constructed a new production plant on a site next to its headquarters in Stäfa, Switzerland. The factory (building shell and exterior) was built by the general contractor R-Estate AG. The land belonged to ARim AG and was purchased by the Group following completion of construction.

There is also a business agreement concerning leasing of space on the ground floor of ARim AG's planned commercial building at Laubisrütistrasse in 8712 Stäfa. This space has been specifically designed for use as a child care center for children of employees at the Stäfa headquarters. Phonak AG has subleased this space to the child care center carrier.In addition, the Group has leased 80 parking lots in the parking garage of the commercial building from ARim AG; these parking lots are sublet to employees of the Group.

Effective from October 23, 2007, the Group entered into a lease contract for the second floor of the commercial building at Laubisrütistrasse 44, 8712, Stäfa, with ARim AG. The primary lease ended on December 31st 2009. It has been extended for different time periods according to the Group's needs. Subject to another extension the lease contract will end on December 31st 2011.

Both R-Estate AG and ARim AG are wholly owned by Andy Rihs, former Chairman of the Board of Directors of Sonova Holding AG. Andy Rihs was not involved in the contract negotiations. When these transactions were discussed and approved by the Board of Directors, Andy Rihs was excused from the meeting.

One member of the Board of Directors has a consultancy contract with a company of the Sonova Group through an enterprise under his control.

All mentioned transactions took place on average market terms, similar to those in an agreement with an independent third party.

Apart from the relationships mentioned above, there are no business connections between individual Board members, including companies or organizations represented by them, and the Sonova Holding AG.

Robert F. Spoerry
Chairman since 2011, non-executive

William D. Dearstyne
Vice-Chairman, non-executive

ROBERT F. SPOERRY

(born in 1955, Swiss citizen) is Chairman of the Board of Mettler-Toledo International Inc., a leading global manufacturer and marketer of precision instruments and related services for use in laboratory, manufacturing, and food retailing applications.

Robert F. Spoerry joined Mettler-Toledo in 1983 and was Chief Executive Officer from 1993 to 2007. He led the buyout of Mettler-Toledo from Ciba-Geigy in 1996, and the company's subsequent Initial Public Offering on the New York Stock Exchange (NYSE) in 1997. In 1998, he was nominated Chairman of the Board.

Robert F. Spoerry graduated in Mechanical Engineering at the Swiss Federal Institute of Technology in Zurich, Switzerland, and holds an MBA of the University of Chicago.

Other activities:
Chairman of the Board of Mettler-Toledo International Inc.
Member of the Board of Conzzeta Holding AG
Member of the Board of Geberit AG
Member of the Board of Holcim Ltd. (End date: May 5, 2011)
Member of the Board of Schaffner Holding AG (End date: March 31 2011)

WILLIAM D. DEARSTYNE

(born in 1940, US citizen) retired in April 2003 from his position as Company Group Chairman and member of the Medical Devices and Diagnostics Group Operating Committee of Johnson & Johnson.

During his 34 year career, he managed various healthcare companies and gained valuable business experience in Asia, Central and Eastern Europe and in Latin America. He served in many different management positions during his 26 years at Johnson & Johnson. During this period he played a key role in two major acquisitions – Cordis and DePuy. Today, both companies are leaders in their respective markets, interventional cardiology and orthopedics.

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

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

Andy Rihs
Co-founder, non-executive

Heliane Canepa
Non-executive member

ANDY RIHS

(born in 1942, Swiss citizen) has been member of the Board of Directors of Sonova Holding AG since 1992. He is one of the company's founders, together with his business partner Beda Diethelm and his brother Hans-Ueli Rihs. He also owns several companies, which are mainly active in the real estate and cycling business.

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

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

HELIANE CANEPA

(born in 1948, Swiss citizen) was President and CEO of Nobel Biocare AB, Sweden, and CEO of the group's parent company, Nobel Biocare Holding AG, until September 1, 2007.

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

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

Dr Michael Jacobi
Non-executive member

Anssi Vanjoki
Non-executive member

DR MICHAEL JACOBI

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

From 1996 to 2007, he was CFO and member of the Executive Committee of Ciba Specialty Chemicals Inc. Prior to this, since 1978, Michael Jacobi held various management positions in the area of finance at Ciba Geigy Group in Brazil, the US, and Switzerland.

Michael Jacobi studied economics and business administration at the University of St. Gallen, Switzerland, at the University of Washington in Seattle and at the Harvard Business School in Boston. He graduated with a doctoral degree from the University of St. Gallen in 1979 with a thesis on International Accounting.

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

ANSSI VANJOKI

(born in 1956, Finnish citizen) is Individual Multicontributor of RKBS Oy. Anssi 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 Oyj, 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 Group Plc
Member of the Board of Koskisen Oy
Member of the Board of Free Drop Innovations Oy
Angel Investor in several technology start-up companies

Ronald van der Vis
Non-executive member

John J. Zei
Non-executive member

RONALD VAN DER VIS

(born in 1967, Dutch citizen) has been Group Chief Executive Officer of Esprit Holdings Limited since November 1, 2009, and Executive Director of the Board since June 22, 2009. Esprit Holdings is listed on the Hong Kong Stock Exchange and included in the Hang Seng Index.

Previously he held various general management positions at Pearle Europe B.V., a leading optical chain. He was Chief Executive Officer of Pearle Europe from January 2004 to April 2009.

Ronald van der Vis studied at the Nyenrode Business University in the Netherlands and received his Master's Degree in Business Administration from the Manchester Business School in the UK.

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

JOHN J. ZEI

John J. Zei (born in 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.

Previously he was President of Rexton, a hearing instrument manufacturer in the US, and later President and CEO of Siemens Hearing Instruments, Inc. John J. Zei has served as Chairman of the Hearing Industries Association (HIA) three times. Previously he served in several US American organizations as President of 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.

OTHER ACTIVITIES AND VESTED INTERESTS

One member of the Board of Directors currently has a consultancy contract with the Sonova Group. None of the members 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; any permanent management or consultancy position with an important interest group; or any public or political office.

ELECTIONS AND TERMS OF OFFICE

Election procedure and limits on the terms of office

The Articles of Association of Sonova Holding AG state that the Board of Directors must consist of a minimum of three and a maximum of nine members. The members of the Board of Directors of Sonova Holding AG are elected individually by the General Shareholders' Meeting. In general, each member is elected for a term of three years. The term ends on the day of the 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. After reaching the age of 70, members of the Board of Directors automatically retire on the date of the next General Shareholders' Meeting. In exceptional cases the Board of Directors can make an exemption. Such an exemption was made in the case of William D. Dearstyne, who will remain a Member of the Board of Directors after the age of 70 until the end of his term. William D. Dearstyne's experience and in-depth knowledge of Sonova Holding AG, combined with the insight gained as a member of the Board of Directors' investigation task force, is instrumental to ensure that the weaknesses discovered during the investigation are addressed appropriately.

First election and remaining term of office

The following overview shows the date of first election and the remaining term of office for each member of the Board of Directors. John J. Zei, who was elected to the Board of Directors at the last General Shareholders' Meeting, is included for the first time.

Name	Position	First elected	Term expires
Robert F. Spoerry	Chairman	2003	June 2012
William D. Dearstyne	Vice-Chairman	2003	June 2012
Andy Rihs	Member	1985	June 2012
Heliane Canepa	Member	1999	June 2011
Dr Michael Jacobi	Member	2003	June 2012
Anssi Vanjoki	Member	2009	June 2012
Ronald van der Vis	Member	2009	June 2012
John J. Zei	Member	2010	June 2013

INTERNAL ORGANIZATIONAL STRUCTURE

Allocation of tasks within the Board of Directors

The Board of Directors constitutes itself. It appoints a Chairman, Vice-Chairman and a Secretary. The Secretary does not need to be a member of the Board. Patrick Büchi was appointed Secretary by the Board of Directors on September 7, 2010. Sandra Wiedmer was Interim Secretary of the Board of Directors from March 19, 2010, until the appointment of Patrick Büchi.

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

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

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

AUDIT COMMITTEE

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

The duties of the Audit Committee include reviewing the performance and effectiveness of external and internal audits on behalf of the entire Board of Directors; evaluating the company's financial control 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 also supervises Internal Audit and its performance of internal audits and reviews the results (see Committee Charters).

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

Nomination and Compensation Committee

As of March 31, 2011, the members of the Nomination and Compensation Committee were Andy Rihs (Chairman), Robert F. Spoerry and William D. Dearstyne. In accordance with the resolution of the Board of Directors of May 10, William D. Dearnstyne has been elected Chairman; Andy Rihs has resigned from the Committee and John. J. Zei has been appointed a member.

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

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

Work methods of the Board of Directors and its committees

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

	A	B	C
No. of meetings in 2010/11	6	4	4
Andy Rihs	6	–	4
William D. Dearstyne	6	4	4
Heliane Canepa	6	4	–
Dr Michael Jacobi	6	4	–
Robert F. Spoerry	6	–	4
Anssi Vanjoki	4	–	–
Ronald van der Vis	4	–	–
Dr Valentin Chapero Rueda[1)]	5[2)]	–	–
John J. Zei	4[3)]	–	–
Average meeting length	6 – 8 h	3 h	3 h

A Board of Directors.
B Audit Committee.
C Nomination and Compensation Committee.
1) Dr Valentin Chapero resigned as CEO and Member of the Board of Directors on March 30, 2011.
2) One meeting was held with only non-executive members.
3) Since this member was elected to the Board of Directors at the General Shareholders' Meeting on June 15, he was not able to attend the first two meetings of financial year 2010/11.

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

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

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

DEFINITION OF AREAS OF RESPONSIBILITY

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

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

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

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

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

Alexander Zschokke
Interim CEO, GVP Channel Solutions

Paul Thompson
Interim CFO, GVP Corporate Development

MANAGEMENT BOARD

The Management Board is responsible for the operational management of the company. Furthermore, it prepares for and later executes decisions made by the Board of Directors. According to the Organizational Regulations of Sonova Holding AG, the Management Board comprises at least the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). Additional members may be added to meet strategic requirements. The Management Board is appointed by the Board of Directors at the request of the Chairman of the Management Board (CEO).

ALEXANDER ZSCHOKKE

(born in 1965, Swiss citizen) has worked for Sonova since 2006 and was appointed Interim CEO of the Sonova Group in March 2011. He has been responsible for Sonova's retail activities since February 2010 as Group Vice President, Channel Solutions, and was previously Group Vice President, Marketing, for the Sonova Group.

Before joining Sonova, he worked from 2002 as managing director of the marketing agency Brand View. Alexander Zschokke's earlier career included ten years in fashion and retail where, as Vice President, Marketing, for Bally and later for Salvatore Ferragamo, he oversaw the development of global brands. Previously he was a project manager for Contraves.

Zschokke studied mechanical engineering and business studies at the ETH Zurich, Switzerland, earning a Master of Science degree.

PAUL THOMPSON

(born in 1967, Canadian citizen) has been with Sonova since 2002 and has been appointed Interim CFO in March 2011. From 2002 to 2004 he was Chief Financial Officer of the Sonova Group already. Since 2004 he was Group Vice President, Corporate Development. In this position he was responsible for business development and M & A transactions.

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.

Hansjürg Emch
GVP Medical

Sarah Kreienbühl
GVP Corporate HR

HANSJÜRG EMCH

(born in 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 the implant manufacturer Synthes. During his time at Synthes he held various positions and gained broad specialist and management skills.

Hansjürg Emch acquired 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 from the Swiss Federal Institute of Technology (ETH Zurich) and completed the Program for Management Development at Harvard Business School.

Other activities:
Vice President of the Board of Directors at Emch Aufzüge

SARAH KREIENBÜHL

(born in 1970, Swiss citizen) is Group Vice President Corporate Human Resources Management since August 2004.

Before that, Sarah Kreienbühl was Head of Global Human Resources and member of the Executive Board of the Tecan Group in Männedorf, Switzerland. Prior to that she was a consultant with Amrop International, 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 masters degree, followed by a number of additional qualifications in the field of human resources management.

Dr Hans Leysieffer
GVP Research & Development

Ignacio Martinez
GVP International Sales

DR HANS LEYSIEFFER

(born in 1957, German citizen) is Group Vice President Research & Development since October 2003.

Prior to that he was CTO of IIP-Technologies, a start-up company for retina implants. In 1989 he founded Implex AG Hearing Technology in Munich, Germany, a company which developed the world's first fully implantable hearing device for sensorineural hearing loss. Hans Leysieffer acquired his first experience in the area of development and approval of medical technology products through clinical trials on cochlea implants in Europe and India.

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

After almost eight years with the company, Hans Leysieffer has decided to leave the Sonova Holding AG as of April 21, 2011, for personal reasons. His position will be adopted ad interim by Andy Vonlanthen, Vice President, Group Product Development.

IGNACIO MARTINEZ

(born in 1965, Spanish citizen) was appointed Group Vice President International Sales effective January 2005.

Prior to this position he was Managing Director of Phonak Spain since 2001 where he led the integration of several entities. He has 30 years of experience in the hearing instrument industry. Before joining Phonak, he was working for Widex in Spain, holding positions as Hearing Aid Technician, Assistant Technical Director, and as Director of Sales and Marketing.

Ignacio Martinez has studied electronic engineering at the Universitat Politécnica de Catalunya in Barcelona. He also completed training as hearing care professional.

Maarten Barmentlo
GVP Marketing

Hans Mehl
GVP Operations

MAARTEN BARMENTLO

(born in 1967, Dutch citizen) joined the Sonova Group as Group Vice President Marketing in January 2011.

Before joining Sonova, 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 in other consumer and professional healthcare categories. He started his career in Corporate Research at Philips.

Maarten Barmentlo received a Master in Physics from Utrecht University in the Netherlands and was awarded a PhD in Physics from Leiden University in the Netherlands for a dissertation in the field of non-linear optics.

HANS MEHL

(born in 1959, German citizen) was appointed Group Vice President Operations of Sonova in April 2007.

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

Hans Mehl completed his education in business administration in Germany.

Other activities and vested interests

None of the members of the Management Board holds any position in a governing or supervisory body of any important private or public sector organization, institution or foundation; any permanent management or consultancy position with an important interest group; or any public or political office.

Management contracts

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

COMPENSATION AND SHAREHOLDINGS
– compensation report

OVERVIEW

The compensation report describes the compensation system in place at Sonova, the elements and general principles that make up this system as well as the bodies responsible for setting compensation. The report also provides details on the compensation paid to the Board of Directors and the Management Board in financial year 2010/11. The compensation report reflects the requirements found 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. This compensation report also contains information pursuant to Articles 663b^{bis} and 663c para. 3 of the Swiss Code of Obligations. This information is also provided in Note 2.5 of the Financial Statements of Sonova Holding AG, beginning on page 153.

More participation rights for shareholders

Recently, there has been growing interest in the idea of "say on pay". This can be attributed in part to the debate triggered by the Minder Initiative and the counter-proposals presented in Parliament, but also to the initiative launched by the Ethos Foundation. The issue at hand: unlike a diverse range of other laws, Swiss law does not grant any voting rights to shareholders when it comes to compensation. The Swiss Code of Best Practice for Corporate Governance from economiesuisse recommends involving shareholders in the debate on the compensation system at the General Shareholders' Meeting in an appropriate form. The company attaches great importance to having a compensation system that is transparent, understood, and accepted by shareholders. At this year's General Shareholders' Meeting, the Board of Directors will submit a first-time proposal to shareholders to hold a consultative vote on the compensation report and thus on the compensation system. The consultative vote is not binding, leaving the ultimate decision on compensation in the hands of the Board of Directors. The Board of Directors will take the results of the consultative vote into consideration when structuring the compensation system in the future.

Standards and principles

The most important principle of Sonova's compensation system is to provide simple, transparent, performance-driven, and competitive compensation to all employees including executive management. In particular, the compensation system and its underlying principles are designed to attract and retain highly qualified and successful employees so that we can reach our strategic goals. It also aims to encourage and reward personal contributions and individual performance in line with company values.

The Nomination and Compensation Committee is responsible for reviewing and defining the structure and amount of compensation for the Management Board and the Board of Directors, taking into account salary comparisons and publicly accessible information. Last year, the members of the Committee, who are appointed by the Board of Directors, were Andy Rihs (Chairman), Robert F. Spoerry, and William D. Dearstyne. For the new financial year, the Committee is made up of Robert F. Spoerry, William D. Dearstyne, and John Zei, with William D. Dearstyne appointed as Chairman on May 10, 2011. The primary task of the Committee, along with reviewing and revising the compensation systems and salaries, is selecting suitable candidates for election to the Board of Directors, to the position of the CEO, and, upon the recommendation of the CEO, nominating candidates for appointment to the Management Board. The Nomination and Compensation Committee submits the relevant proposals and nominations to the Board of Directors. The Committee meets at least three times a year. The Committee met four times in financial year 2010/11.

All employees, including executive managers, are subject to a formal performance review process. This process is based on various guiding principles designed to align individual, team and corporate goals, provide performance-driven incentives and 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 compensation. The base salary is determined by the individual's function and performance as well as the salary budget, which is influenced by Sonova's economic situation.

All employees' compensation is reviewed annually and based on reference values for the total compensation paid to individuals working in similar positions at similar companies. An employee, for example, who meets the agreed performance goals, generally receives a total compensation package commensurate with the market average – based on the compensation paid at reference companies.

The amount of compensation received by the members of the Management Board is also reviewed every year. Comparable companies similar in size and structure or working in the healthcare industry equally serve as benchmarks. Several studies of top-level executives and corporate headquarters that show the compensation of relevant management positions are used as a basis.

Compensation benchmarks that compare Swiss companies with a similar size and structure from industries such as pharmaceuticals, chemicals, and medical technology are used as a basis to define compensation for the Board of Directors.

Compensation elements

Three elements are relevant for Sonova: a fixed base salary, a variable compensation component that revolves around the respective financial year, and, for selected executive managers and employees, a long-term variable compensation component.

Fixed salary component

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

Variable salary component

The variable salary is an integral element of the target income. The split between the fixed and variable salary components is a function of the job profile and respective management level. The targets for achieving the variable salary component are mutually defined and agreed upon in consultation with the employees at the beginning of the financial year. The variable salary component is generally 10% of the target salary for employees and 10–30% for managers. If the employee actually reaches less than 80% of the stipulated target, no variable salary component is paid out. If the targets are exceeded, the variable salary component may be a maximum of double the original amount. The amount paid out depends on the employee's actual achievement of objectives by the end of the financial year and also on the overall performance of the Sonova Group or the respective unit.

Executive Equity Award Plan

The Executive Equity Award Plan (EEAP) serves as a long-term incentive and is offered annually to the Board of Directors, the Management Board, as well as other management levels of the Sonova Group. A total of approximately 400 people are participating in the 2011 plan. The plan entitles them to receive shares, options, warrants, warrant appreciation rights (WARs), and/or restricted share units (RSUs). The number of shares, options, warrants, WARs, and RSUs granted varies depending on the respective management level and on individual performance. The shares, options, warrants, WARs, and RSUs granted as part of the EEAP are split into four equal tranches. The options, warrants, and WARs have terms of five years. Each tranche vests each year, starting one year after the grant date. The strike price on which the options, warrants, and WARs are based corresponds to the closing price for the shares on the Swiss stock exchange (SIX Swiss Exchange) on the date on which the options, warrants, and WARs were granted. The fair value of the options, warrants, and WARs is calculated on the grant date using an option pricing model.

TOTAL REMUNERATION MODEL

Reward elements	Base salary	Variable compensation	Long-term Incentives	Benefits
	Def: base pay & allowances that depend upon the job level and the job market and are paid out regularly	Def: variable compensation depending upon the personal, team and company performance	Def: variable components as blocked cash/equity	Def: mandatory and voluntary benefits granted by the employer
	Target cash compensation			
	Total compensation			
	Target remuneration			

The shares/RSUs have a blocking period of up to four years. One of the four equal tranches vests each year, starting one year after the grant date. Additional information can be found in Note 30 to the Consolidated Financial Statements.

Welcome AB Executive Equity Award Plan 2010

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

DETERMINATION OF THE COMPENSATION TO MEMBERS OF THE MANAGEMENT BOARD

The compensation policies and the Executive Equity Award Plan (EEAP) described above apply to the CEO and the Management Board. In Management Board compensation, the variable salary component has a stronger weighting with respect to the target income than for other employees of the Sonova Group. The variable cash compensation varies between 30% and 40% of the target salary for members of the Management Board and 50% of the target salary for the former CEO. If a member of the Management Board achieves less than 80% of the stipulated target, no variable salary component is paid out. If the target is exceeded, the variable cash compensation may be granted to a maximum of double the original amount, or for the former CEO, a maximum of 174%, depending on the actual level of achievement. The variable cash compensation is a function of company performance, based on sales, operating profit (EBITA), and individual achievement of objectives. The sales and EBITA targets are not interlinked. The Board of Directors can also award further cash components for exceptional achievements that do not fall under the annual objectives. The former CEO's incentive plan differed in that the EEAP options were not granted to the former CEO annually in the last few years. The granting of options, including the period for exercising, was part of his employment contract.

DETERMINATION OF THE COMPENSATION TO MEMBERS OF THE BOARD OF DIRECTORS

The compensation policies for the Board of Directors differ from those for Sonova Group employees. The members of the Board of Directors receive a retainer and no variable cash compensation. The members of the Board of Directors also participate in the Executive Equity Award Plan. The compensation for the members of the Board of Directors is defined by the Nomination and Compensation Committee, periodically reviewed and set by the Board of Directors.

COMPENSATION TO MEMBERS OF THE BOARD OF DIRECTORS

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

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

in CHF							2010/11
	Fixed fee	Attendance fee/expenses[1]	Social benefits (employer's contribution)[2]	Total cash compensation	Value of warrants[3]	Number of warrants[3] granted	Total compensation
Robert F. Spoerry, Chairman[4]	120,000	27,500	152,806	300,306	240,300	250,000	540,606
William D. Dearstyne, Vice-Chairman	120,000	30,000	320,122	470,122	240,300	250,000[5]	710,422
Andy Rihs, Member[4]	120,000	31,000	188,790	339,790	240,300	250,000	580,090
Heliane Canepa, Member	120,000	27,000	61,484	208,484	240,300	250,000	448,784
Dr. Michael Jacobi, Member	120,000	23,500	63,758	207,258	240,300	250,000	447,558
Anssi Vanjoki, Member	120,000	15,500	25,715	161,215	240,300	250,000	401,515
Ronald van der Vis, Member	120,000	14,500	25,539	160,039	240,300	250,000	400,339
John J. Zei, Member[6]	90,000	16,500	17,713	124,213	240,300	250,000[5]	364,513
Total	**930,000**	**185,500**	**855,927**	**1,971,427**	**1,922,400**	**2,000,000**	**3,893,827**

1) Attendance fees and expenses are based on the number of attended meetings of each member of the Board of Directors.
2) Including social security contributions on the tax value of options/WARs/SARs exercised during the reporting period.
3) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
4) Robert F. Spoerry took over the position as Chairman of the Board of Directors from Andy Rihs in March 2011.
5) WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
6) New member of the Board of Directors since June 2010.
Dr. Valentin Chapero Rueda received no compensation for his mandate as a member of the Board of Directors due to his mandate as CEO.

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

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

COMPENSATION TO MEMBERS OF THE MANAGEMENT BOARD

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

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

in CHF								2010/11
	Fixed salary	Variable salary[1]	Fringe benefits	Social benefits (employer's contribution)[2]	Total cash compensation[1)/2)]	Value of warrants[3]	Number of warrants[3] granted	Total compensation[2]
Dr. Valentin Chapero Rueda, CEO[4]	1,500,000	521,976	16,000	404,789	2,442,765	672,960	700,125	3,115,725
Other members of the Management Board[5]	2,396,409	1,008,930	162,315	687,055	4,254,709	3,616,515	3,762,500	7,871,224
Total	**3,896,409**	**1,530,906**	**178,315**	**1,091,844**	**6,697,474**	**4,289,475**	**4,462,625**	**10,986,949**

[1] The variable salary will be paid out after the end of the reporting year.
[2] Including social security contributions on the tax value of options/warrants exercised during the reporting period.
[3] Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
[4] Dr. Valentin Chapero Rueda was CEO until March 30, 2011.
[5] Oliver Walker was a member of the Management Board until March 30, 2011, Cameron Hay until November 30, 2010.

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

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

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

One member of the Board of Directors has a consulting contract with the Sonova Group through a company he controls and is remunerated accordingly. In the year under review, this member of the Board of Directors received CHF 72,644 for providing consulting services. These services are related to specific assignments, going beyond regular Board tasks, that he was given by the Sonova Group.

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

PAYMENTS TO FORMER MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Severance packages are generally not granted at Sonova. The payments made upon resignation of Dr. Valentin Chapero Rueda and Oliver Walker satisfy only the respective contractual terms. The principles underlying the variable compensation of Dr. Valentin Chapero Rueda and Oliver Walker for the financial year 2010/11 were not affected by their resignation. However, since the agreed performance targets were not met, variable compensation was below prior year levels. No additional payments beyond what had been contractually agreed were made. The regulations stipulate that titles (warrants/options) granted under the Executive Equity Award Plan and vested during the notice period can be exercised or sold up to 60 days after the notice period has expired. Titles that are vested only after the notice period has expired are forfeited.

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

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

Shareholdings of the Board of Directors

As of March 31, 2011, the members of the Board of Directors and persons closely linked to them held directly and indirectly 6,371,908 Sonova shares (9.6% of total share capital), 39,000 options, 6,000,000 warrants, 1,237,500 Warrant Appreciation Rights, and 3,000 Share Appreciation Rights.

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

			31.3.2011			31.3.2010
	Shares	Warrants[1]	Options	Shares	Warrants[1]	Options
Andy Rihs	6,309,598	1,250,000	3,000	7,059,100	1,000,000	24,000
William D. Dearstyne	32,300	987,500[2]	3,000[3]	20,300	1,000,000[2]	24,000[4]
Heliane Canepa	18,010	1,250,000	12,000	15,010	1,000,000	15,000
Robert F. Spoerry	10,000	1,250,000	12,000	10,000	1,000,000	24,000
Dr. Michael Jacobi	2,000	1,250,000	12,000	2,000	1,000,000	15,000
Anssi Vanjoki		500,000			250,000	
Ronald van der Vis		500,000			250,000	
John J. Zei		250,000[2]				
Total	**6,371,908**	**7,237,500**	**42,000**	**7,106,410**	**5,500,000**	**102,000**

1) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
2) WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
3) SARs (SARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
4) Thereof 12,000 SARs (SARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).

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

							31.3.2011
	Warrants EEAP 11[2]	Warrants EEAP 10[3]	Warrants EEAP 09[4]	Warrants EEAP 08[5]	Options EEAP 07[6]	Total warrants[1]	Total options
Andy Rihs	250,000	250,000	450,000	300,000	3,000	1,250,000	3,000
William D. Dearstyne	250,000[7]	250,000[7]	337,500[7]	150,000[7]	3,000[8]	987,500[7]	3,000[8]
Heliane Canepa	250,000	250,000	450,000	300,000	12,000	1,250,000	12,000
Dr. Michael Jacobi	250,000	250,000	450,000	300,000	12,000	1,250,000	12,000
Robert F. Spoerry	250,000	250,000	450,000	300,000	12,000	1,250,000	12,000
Anssi Vanjoki	250,000	250,000				500,000	
Ronald van der Vis	250,000	250,000				500,000	
John J. Zei	250,000[7]					250,000[7]	
Total	**2,000,000**	**1,750,000**	**2,137,500**	**1,350,000**	**42,000**	**7,237,500**	**42,000**

1) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
2) Strike price CHF 118.40, blocking period 1.3.2011 – 28.2.2015, whereas one tranche being released each year, exercise period 1.3.2012 – 29.2.2016.
3) Strike price CHF 131.00, blocking period 1.3.2010 – 28.2.2014, whereas one tranche being released each year, exercise period 1.3.2011 – 28.2.2015.
4) Strike price CHF 56.00, blocking period 1.3.2009 – 28.2.2013, whereas one tranche being released each year, exercise period 1.3.2010 – 28.2.2014.
5) Strike price CHF 96.00, blocking period 1.3.2008 – 29.2.2012, whereas one tranche being released each year, exercise period 1.3.2009 – 28.2.2013.
6) Strike price CHF 95.05, blocking period 1.2.2007 – 31.1./28.2.2011, whereas one tranche being released each year, exercise period 1.2.2008 – 31.1./29.2.2012.
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 the Sonova shares without issuance of shares).

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

1) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
2) Strike price CHF 131.00, blocking period 1.3.2010 – 28.2.2014, whereas one tranche being released each year, exercise period 1.3.2011 – 28.2.2015.
3) Strike price CHF 56.00, blocking period 1.3.2009 – 28.2.2013, whereas one tranche being released each year, exercise period 1.3.2010 – 28.2.2014.
4) Strike price CHF 96.00, blocking period 1.3.2008 – 29.2.2012, whereas one tranche being released each year, exercise period 1.3.2009 – 28.2.2013.
5) Strike price CHF 95.05, blocking period 1.2.2007 – 31.1./28.2.2011, whereas one tranche being released each year, exercise period 1.2.2008 – 31.1./29.2.2012.
6) Strike price CHF 63.25, blocking period 1.2.2006 – 31.1.2010, whereas one tranche being released each year, exercise period 1.2.2007 – 31.1.2011.
7) WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
8) Thereof 12,000 SARs (SARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
For shareholdings of Dr. Valentin Chapero Rueda see shareholdings of members of the Management Board.

Shareholdings of the Management Board

As of March 31, 2011, the members of the Management Board and persons closely linked to them held directly or indirectly 3,030 Sonova shares, 9,905,500 warrant, and 13,335 options.

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

			31.3.2011			31.3.2010
	Shares	Warrants[1]	Options	Shares	Warrants[1]	Options
Alexander Zschokke		1,537,500			1,231,250	5,576
Paul Thompson		1,537,500			1,231,250	4,000
Hansjürg Emch[2]	1,700	661,000				
Sarah Kreienbühl		1,738,000	790		1,587,500	11,750
Dr. Hans Leysieffer					1,231,250	4,000
Ignacio Martinez		1,550,000	4,000		1,525,000	23,000
Maarten Barmentlo[3]		869,000				
Hans Mehl	1,330	2,012,500	8,545	830	1,450,000	70,000
Dr. Valentin Chapero Rueda[4]						660,000
Oliver Walker[4]					1,611,250	5,000
Cameron Hay[5]					1,152,500	13,750
Total	**3,030**	**9,905,500**	**13,335**	**830**	**11,020,000**	**797,076**

1) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
2) Member of the Management Board since March 2011.
3) Member of the Management Board since January 2011.
4) Member of the Management Board until March 2011.
5) Member of the Management Board until November 2010.

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

31.3.2011

	Warrants EEAP 11[2]	Warrants EEAP 10[3]	Warrants EEAP 09[4]	Warrants EEAP 08[5]	Options EEAP 07[6]	Total warrants[1]	Total options
Alexander Zschokke	562,500	562,500	312,500	100,000		1,537,500	
Paul Thompson	562,500	562,500	312,500	100,000		1,537,500	
Hansjürg Emch	475,000	186,000				661,000	
Sarah Kreienbühl	562,500	562,500	513,000	100,000	790	1,738,000	790
Ignacio Martinez	562,500	562,500	312,500	112,500	4,000	1,550,000	4,000
Maarten Barmentlo	475,000	394,000				869,000	
Hans Mehl	562,500	450,000	500,000	500,000	8,545[7]	2,012,500	8,545
Total warrants/options	**3,762,500**	**3,280,000**	**1,950,500**	**912,500**	**13,335**	**9,905,500**	**13,335**

[1] Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
[2] Strike price CHF 118.40, blocking period 1.3.2011 – 28.2.2015, whereas one tranche being released each year, exercise period 1.3.2012 – 29.2.2016.
[3] Strike price CHF 131.00, blocking period 1.3.2010 – 28.2.2014, whereas one tranche being released each year, exercise period 1.3.2011 – 28.2.2015.
[4] Strike price CHF 56.00, blocking period 1.3.2009 – 28.2.2013, whereas one tranche being released each year, exercise period 1.3.2010 – 28.2.2014.
[5] Strike price CHF 96.00, blocking period 1.3.2008 – 29.2.2012, whereas one tranche being released each year, exercise period 1.3.2009 – 28.2.2013.
[6] Strike price CHF 95.05, blocking period 1.2.2007 – 30.9.2011, whereas one tranche being released each year, exercise period 1.2.2008 – 31.5.2012.
[7] These options were granted to Hans Mehl at commencement of employment on April 1, 2007.

31.3.2010

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

[1] Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
[2] Strike price CHF 131.00, blocking period 1.3.2010 – 28.2.2014, whereas one tranche being released each year, exercise period 1.3.2011 – 28.2.2015.
[3] Strike price CHF 56.00, blocking period 1.3.2009 – 28.2.2013, whereas one tranche being released each year, exercise period 1.3.2010 – 28.2.2014.
[4] Strike price CHF 56.00, extraordinary allocation, options blocking period 1.3.2009 – 28.2.2015, whereas one tranche being released each year, exercise period 1.3.2012 – 29.2.2020.
[5] Strike price CHF 96.00, blocking period 1.3.2008 – 29.2.2012, whereas one tranche being released each year, exercise period 1.3.2009 – 28.2.2013.
[6] Strike price CHF 95.05, blocking period 1.2.2007 – 30.9.2011, whereas one tranche being released each year, exercise period 1.2.2008 – 30.9.2012.
[7] Strike price CHF 63.25, blocking period 1.2.2006 – 31.1.2010, whereas one tranche being released each year, exercise period 1.2.2007 – 31.1.2011.
[8] These options were granted to Hans Mehl at commencement of employment on April 1, 2007.

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 one person. These restrictions do not apply to founding shareholders.

Exceptions granted in the year under review

No exceptions were granted in the reporting period.

Procedure and conditions for abolishing the regulation regarding voting right restrictions

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

Statutory rules on participation in the General Shareholders' Meeting

When exercising voting rights, no shareholder can combine through their own and represented shares more than 10% of the total number amount of shares as shown in the 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. 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.

AGENDA

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

REGISTRATION IN THE SHARE REGISTER

For administrative reasons, the share register is closed for about five days before the General Shareholders' Meeting. Admission cards and voting forms are sent to shareholders during this period. In the event of a partial sale of shares during this period, the admission card already delivered must be exchanged on the day of the General Shareholders' Meeting at the information desk. The shares 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.

CLAUSES ON CHANGES OF CONTROL

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

AUDITORS

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

At the 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 15, 2010, 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 2010/11 and 2009/10:

1,000 CHF	2010/11	2009/10
Audit services	1,244	1,192
Audit-related services	234	305
Tax services	339	205
Non-audit services	261	299
Total	**2,078**	**2,001**

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

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

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

Non-audit related services in the financial year 2010/11 mainly consisted of consulting fees in connection with the setting up of the employee shareholding program and the support for internal audit and IT projects.

INFORMATIONAL INSTRUMENTS PERTAINING TO THE EXTERNAL AUDIT

The external auditors report their findings semi-annually directly to the Audit Committee of the Board of Directors. In 2010/11, the external auditors attended two out of four Audit Committee meetings. The Audit Committee of the Board of Directors reviews the performance, compensation, and independence of the external auditors on a regular basis. The Audit Committee reports its findings to the Board of Directors quarterly.

INFORMATION POLICY

As a publicly listed company, the Sonova Group pursues an open and active information policy. A governing principle of this policy is to treat all stakeholders alike and to inform them at the same time. It is 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. An investigation carried out by the law firm Homburger confirmed, among other things, breaches of the ad-hoc publication requirement in financial year 2010/2011. In response to this finding, the Board of Directors created a task force to establish improved internal processes and ensure compliance with them in order to prevent these failings occurring again.

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 an invitation to the General Shareholders' Meeting and to order a copy of the Annual Report of Sonova Holding AG. The financial report is drawn up in line with International Financial Reporting Standards (IFRS).

The website of the Sonova Group also contains information on the company results, as well as current investor presentations. The Investor Relations Program covers presentations of annual and interim results, presentations on the latest product launches, meetings with investors and analysts in major financial centers, visits to the Research & Development department and Production at Stäfa (Switzerland), and presentations at broker-sponsored industry conferences.

INSIDER TRADING POLICY

In order to prevent insiders from benefiting from confidential information, the Board of Directors has issued guidelines on how to deter corporate insiders from making use of confidential information. The Board of Directors has established blocking periods to prevent insiders from trading in shares and options of Sonova Holding AG during sensitive phases. According to the Articles of Association, the decision to implement such a black-out period lies jointly with the CEO and CFO. As part of the investigation by the law firm Homburger, a failure was also detected in the run-up to the profit warning with regard to the black-out period. The Task Force deployed has also taken on this issue.

INVESTORS AT SONOVA'S WEBSITE
– *important 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 21, 2011
General Shareholders' Meeting of Sonova Holding AG
at Zurich Hallenstadion, Zurich-Oerlikon

November 16, 2011
Publication of Semi-Annual Report as of
September 30, 2011
Media and Analysts Conference

May 2012
Publication of Annual Report as of March 31, 2012
Media and Analysts Conference

June 2012
General Shareholders' Meeting of Sonova Holding AG
at Zurich Hallenstadion, Zurich-Oerlikon

CONTACTS

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

Director Investor & Corporate Relations
Dr Holger Schimanke

Assistant Investor & Corporate Relations
Nicole Müller

Share register
ShareCommService AG
Verena Deil
Europastrasse 29
8152 Glattbrugg
Switzerland
Phone +41 44 809 58 53
Fax +41 44 809 58 59

"The FM system gives you the chance to mimic normal hearing. We have seen Noah's speech capabilities progress from the day he started wearing the FM system."

Claire Warburton, Noah's mother

Noah Warburton, 2½ years, United Kingdom
His solution: a hearing instrument plus FM system from Phonak

DEVELOPING SPEECH CAPABILITIES
– modern FM technology makes it possible

At the age of two weeks, Noah Warburton was diagnosed with profound to severe hearing loss. This meant that he would have no chance to develop normal speech capabilities without technological help.

His parents decided to have him fitted with hearing instruments as soon as possible, and he got his first pair of hearing aids when he was two months old. At the age of 17 months, he started wearing Naìda in combination with an FM system.

The hearing instruments allowed Noah good understanding when people faced him directly. The FM system did not only further improve his understanding – his speech capabilities progressed tremendously when he started wearing the system. Noah immediately started pronouncing words much clearer. Today, his speech capabilities equal those of his peers, and he will have the same chances as the other children when starting school.

The FM system functions in a simple way. The person talking to Noah speaks into the transmitter, and the voice is transferred directly into the receiver of his hearing instrument. His mother uses the FM system almost all the time and his pre-school teacher also carries it most of the time. Without the FM system, Noah needs to face the speaker to be able to fully understand; the FM system allows him to hear his mother even when they are driving in the car, when he is playing in the garden or when they are in different rooms.

Noah has gained much confidence through the FM system. He doesn't miss out anything and he feels much more comfortable with it. Sometimes, he even tells his mum to turn it on because he wants to be part of everything that is going on and being said in the family.

FINANCIAL REPORTING

FINANCIAL REVIEW
– setting the course for sustainable growth

In the financial year 2010/11 Sonova generated record revenues of CHF 1,616.7 million and a growth of 13.3% in local currencies, or 7.8% in Swiss Francs.

The EBITA decreased to CHF 326.6 million and the EBITA margin to 20.2%, mainly due to the voluntary recall of Advanced Bionics and the strong Swiss franc which generated negative currency impacts.

With an equity financing ratio of 61.9% and net debt of CHF 111.3 million, the Group has a very solid financial position.

The hearing instruments segment achieved good performance in all regions, with above-average results achieved in the EMEA region and accounted for 39.5% of Group sales.

The USA remains the strongest single sales market for Sonova. The region accounts for 36.8% of total Group sales in the financial year 2010/11.

Advanced Bionics and Phonak Acoustic Implants have been consolidated into a single division, with the objective of leveraging technology and business processes. In this context, CHF 35.5 million of previously capitalized development costs were impaired as a number of past development projects no longer fit into the combined development plan. The financial statements for 2009/10 were restated to reflect the finalized acquisition accounting for Advanced Bionics and, as a result of the temporary recall's impact on sales, the business plan was updated and a goodwill impairment charge of CHF 156.6 million was recorded in the 2009/10 figures. In the mid to long term, Sonova expects not only to regain its position in the hearing implant segment, but to increase its market share as a result of new product introductions.

THE FINANCIAL RESULTS 2010/11 AT A GLANCE

1,616.7 CHF million Sales

- EBITA: CHF 326.6 million
- EBITA margin: 20.2%
- Cash-based basic earnings per share: CHF 4.27
- Proposed distribution per share: CHF 1.20

- Operating free cash flow: CHF 221.5 million
- ROCE: 19.0%
- ROE: 17.7%

344.6 CHF million Cash flow from operating activities

In the financial year 2010/11 Sonova generated revenues of CHF 1,616.7 million, another record sales level, and a growth of 13.3% in local currencies, or 7.8% in Swiss Francs. Profitability, as indicated by an EBITA margin of 20.2%, has decreased compared to the previous year, mainly due to the voluntary recall of Advanced Bionics and the strong Swiss franc. With an equity financing ratio of 61.9% and net debt of CHF 111.3 million, the Sonova Group has a very solid financial position.

This section contains a summary of financial information and describes the reported financial results for 2010/11 as compared with the financial results for 2009/10 for the Sonova Group and its two business segments – hearing instruments and hearing implants. Note that the 2009/10 financial results have been restated to reflect the finalization of the acquisition accounting for Advanced Bionics (see note 3.7 of the consolidated financial statements).

ANOTHER YEAR OF SALES GROWTH

Once again, due to an innovative and comprehensive product portfolio, Sonova remains the market leader in the hearing industry. Sonova increased its sales in financial year 2010/11 to CHF 1,616.7 million (2009/10: CHF 1,500.3 million), posting an overall growth rate of 13.3% in local currencies, or 7.8% in Swiss francs. The introduction of innovative products, such as the Spice generation of hearing instruments, contributed to this growth rate. While sales of the hearing implant segment increased over last year's level – simply because last year only reported three month's revenue from the Advanced Bionics acquisition – the results were below plan due to the temporary product recall in the second half-year.

In financial year 2009/10, Sonova completed two major acquisitions of United States based companies: Advanced Bionics, one of the leading manufacturers of cochlear implants, and InSound Medical, the producer of the world's first invisible, extended-wear hearing instrument, Lyric. By making these acquisitions, Sonova has taken two important steps towards realizing its vision of becoming the leading provider of hearing care solutions.

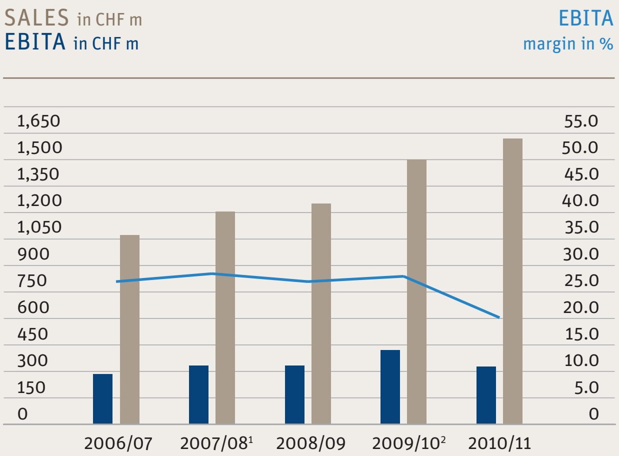
In financial year 2010/11, as in the previous year, Sanova made a series of small acquisitions of sales and distribution companies in selected countries in the hearing instrument segment. The external growth based on these acquisitions and the full-year effect of previous-year acquisitions during the past financial year was 10.8%.

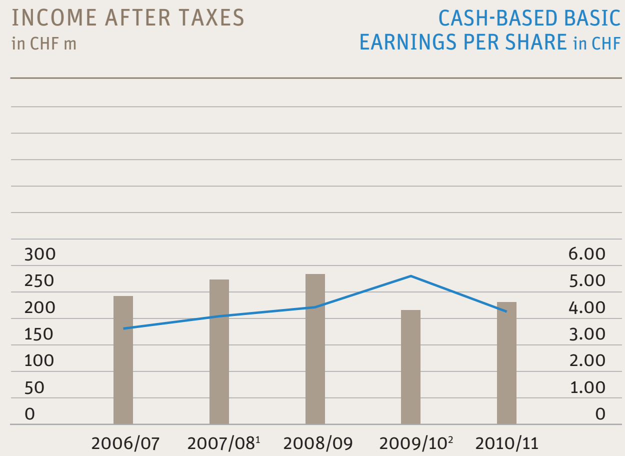
The strengthening of the Swiss franc, primarily against the Euro, the United States dollar, and the British pound, resulted in strong negative currency effects on overall sales. These effects could not be offset by the appreciation of the Canadian and Australian dollar, the Brazilian real, and the Japanese yen, resulting in a negative currency effect on reported sales of 5.6% or approximately CHF 84 million.

SONOVA GROUP KEY FIGURES

in CHF m unless otherwise specified	2010/11	2009/10[2]	Change in %
Sales	1,616.7	1,500.3	7.8%
EBITA	326.6	420.3	(22.3)%
EBITA margin	20.2%	28.0%	
Cash-based basic earnings per share (CHF)[1]	4.27	5.61	(24.0)%
Operating free cash flow[1]	221.5	324.8	(31.8)%
ROCE[1]	19.0%	23.0%	
ROE[1]	17.7%	18.9%	

[1] For detailed definitions, please refer to “5 Year Key Figures.”
[2] Restated based on finalization of the acquisition accounting of Advanced Bionics.





1) Excluding one-off costs for the prohibited acquisition of the GN ReSound Group.
2) Restated based on finalization of the acquisition accounting of Advanced Bionics.

GROWTH ACROSS ALL REGIONS

All geographic regions contributed, in local currencies, to the record sales figures in the financial year 2010/11. The hearing instruments segment achieved solid performance in all regions. The EMEA region (Europe, Middle East, and Africa), including Switzerland, which accounted for 39.5% of Group sales, performed very well as a result of rising demand and market share gains. In particular, key markets such as Germany, Italy, and the United Kingdom performed strongly.

The temporary recall in the hearing implants segment impacted results in all regions, with the strongest negative impact in the United States market. Group-wide, however, the USA, which remains the strongest single sales market for Sonova, achieved above-average growth and accounted for 36.8% of total Group sales in 2010/11.

The Group also achieved solid growth in the rest of Americas region where sales increased, driven mainly by increased demand for Sonova's products in Brazil and the further market penetration in the region. Rest of Americas accounted for 15.3% of Group sales in financial year 2010/11.

SALES BY REGIONS

in CHF m	2010/11			2009/10	
	Sales	Share	Growth in local currencies	Sales	Share
EMEA (excl. Switzerland)	597	37%	12.8%	583	39%
Switzerland	41	3%	(9.1)%	45	3%
USA	596	37%	14.3%	547	36%
Americas (excl. USA)	247	15%	24.3%	196	13%
Asia/Pacific	136	8%	2.7%	129	9%
Total sales	**1,617**	**100%**	**13.3%**	**1,500**	**100%**

The Asia/Pacific region also grew, but at a lower level, reflecting the environmental catastrophes experienced in this region in the last quarter of 2010/11.

DECREASE IN OPERATING PROFIT BEFORE AMORTIZATION AND IMPAIRMENT

While Sonova increased its gross profit to a record CHF 1,118.7 million (2009/10: CHF 1,058.6 million), the gross profit margin reduced slightly to 69.2% (2009/10: 70.5%; restated: 70.6%). Savings in purchasing, economies of scale and manufacturing efficiencies had a positive effect, but were not able to entirely offset the negative effects of the temporary recall of Advanced Bionics' cochlear implants and the strong Swiss franc.

In financial year 2010/11, Sonova posted an operating profit before acquisition-related amortization and impairment (EBITA) of CHF 326.6 million, down from CHF 420.1 million reported a year earlier (restated: CHF 420.3 million). Again, this decrease is mainly due to the voluntary recall of Advanced Bionics cochlear implants in November 2010 and the immediate reduction in sales. In addition, the negative currency effects impacted EBITA by approximately CHF 35 million.

In addition, spending on sales and marketing and general and administration has increased from 36.3% of total sales in the previous year to 42.3%. This increase in costs can be explained by the full-year effect of the acquisitions of Advanced Bionics and InSound Medical as both companies had only been consolidated into the figures for financial year 2009/10 for three months. Additionally, Sonova made investments for the roll-out of Lyric in key markets outside the USA, including Germany, France, UK, Canada, and Austria. Sonova also invested in the sales and distribution structures of subsidiaries around the world, especially in the development and expansion of sales activities in emerging markets. The general and administration expenses have increased to CHF 185.2 million, partly due to the one-time costs related to the profit warning in March 2011 and the subsequent events, including the change in management.

When excluding the one-time costs of CHF 8.1 million related to the March 2011 events, the EBITA margin decreased to 20.7% (2009/10: 28.0%).

Operating profit (EBIT) of CHF 270.8 million in 2010/11 reflects an impairment charge of CHF 35.5 million for previously capitalized development costs by Phonak Acoustic Implants. Operating profit in 2009/10 was restated to CHF 251.4 million and reflects the goodwill impairment charge of CHF 156.6 million for Advanced Bionics that was shown in the 2009/10 restated figures.

INCREASE IN WORKFORCE TO 7,800 PEOPLE

At the end of financial year 2010/11, the Group's headcount stood at 7,840 – 997 more than in the previous year. A substantial part of the growth in headcount originates from acquisitions; however, Sonova has also created new jobs as a result of internal growth and in the context of expanded marketing and sales acitivities.

INCREASE IN PROFIT COMPARED TO RESTATED 2009/10 RESULTS

Income after taxes totaled CHF 231.1 million, up from CHF 216.6 million as shown in the restated figures for the previous year. Financial income increased due to gains from remeasuring previously held equity investments to fair value at the date of acquiring these companies, under IFRS 3. On the other hand, financial expenses increased, primarily due to the higher financing costs, unwinding of discounted earn-out provisions and value adjustments for loans for the completed acquisitions. Income taxes for the financial year totaled CHF 29.0 million, consistent with the level reported in the restated 2009/10 results. The tax rate was reduced slightly to 11.2% (2009/10: 12.1%). In the reporting period, basic earnings per share were CHF 3.50 (2009/10: CHF 5.41; restated to CHF 3.32). Excluding acquisition-related non-cash items, the cash-based earnings per share amounted to CHF 4.27 (2009/10: CHF 5.60; restated to CHF 5.61).

SUBSTANTIAL INVESTMENTS IN INNOVATION

The contribution of new products to growth underlines the great importance of research and development at Sonova. Sonova generated 74% of its total sales with hearing instruments that had been on the market for less than two years, emphasizing once again the technological lead over competitors. This can be attributed primarily to the solid success of the new Spice platform. Phonak has introduced a complete product portfolio based on the most powerful chipset in the market in late autumn 2010. With the broadest CRT portfolio in the industry, Phonak is also ideally positioned in the Canal Receiver Technology market, the fastest-growing hearing instrument segment. In spring 2011, Unitron has also launched its new product portfolio based on the latest platform technology, setting the course for growth in the new financial year.

Investment in research and development was CHF 107.8 million, clearly above the previous year's level of CHF 87.0 million, and driven also by the acquisition activities. The Group continues to focus on investment in future technologies. As a consequence, the number of employees in R&D increased by 9% to 525.

CREATING A HEARING CARE COMPANY

In financial year 2009/10 Sonova began reporting on two business segments: hearing instruments and hearing implants. The former can be compared more or less with the results of financial reporting before this date. Sales of InSound Medical are consolidated with the figures for first class hearing instruments. The hearing implants segment primarily reports the results of the Advanced Bionics business that was acquired in late 2009. Both acquisitions were consolidated in the overall performance of the Sonova Group for the first three months of calendar year 2010 in the previous financial year. The Phonak Acoustic Implants business, which is also included in the hearing implants segment, did not generate any sales in 2010/11.

SALES BY PRODUCT GROUPS

in CHF m			2010/11		2009/10
	Sales	Share	Growth in local currencies	Sales	Share
First class hearing instruments	398	25%	10.8%	378	25%
Business class hearing instruments	379	23%	12.4%	353	24%
Economy class hearing instruments	481	30%	7.2%	460	31%
Wireless communication systems	75	5%	5.0%	75	5%
Miscellaneous	213	13%	7.0%	209	13%
Total hearing instruments	1,546	96%	10.1%	1,475	98%
Hearing implants	71	4%		25	2%
Total sales	**1,617**	**100%**	**13.3%**	**1,500**	**100%**

ABOVE MARKET GROWTH IN HEARING INSTRUMENTS SEGMENT

Sonova's core business, the hearing instruments segment, has performed well with an exchange rate-adjusted growth of 10.1% (organic growth: 5.8%). Overall, the hearing instrument segment achieved an increase in sales of 11% in first class, 12% in business class and 7% in economy class. First class hearing instruments accounted for 25% of Sonova's total sales in financial year 2010/11, while business class and economy class accounted for 23% and 30% respectively.

Sales of wireless communication systems grew by 5% in local currencies in 2010/11. The recently established Dynamic FM technology and the development of the new Dynamic SoundField set new standards and confirmed Phonak's leading role within this field. This market segment accounted for 5% of Sonova's sales in financial year 2010/11.

The increase in sales of hearing instruments also reflects an increase in sales of miscellaneous products and services, where sales growth was 7% in local currencies in 2010/11. This component accounted for 13% of Group sales.

BELOW EXPECTATIONS FOR HEARING IMPLANTS SEGMENT

With the acquisition of Advanced Bionics at the end of December 2009, Sonova took the strategic step to expand into the market segment of cochlear implants, thus leveraging its leading position as a global provider of hearing systems. Advanced Bionics is one of the world's leading companies in the development and manufacture of cochlear implants. The full purchase price of USD 496 million (including acquisition-related costs) was paid with CHF 40 million of existing cash and an acquisition loan in the amount of CHF 470 million.

The acquisition accounting of Advanced Bionics was finalized in financial year 2010/11 according to IFRS. As a result, the 2009/10 financial results were restated to reflect the various balance sheet and income statement adjustments (see Note 3.7 of the consolidated financial statements 2010/11 for details).

In November 2010, Advanced Bionics initiated a voluntary recall of the HiRes 90K cochlear implant device. This was a precautionary measure based on two instances in which the product was removed for safety reasons due to a very rare malfunction. The temporary product recall resulted in lost sales of around CHF 60 million in the current financial year, leaving a total of CHF 70.8 million for sales in financial year 2010/11, well behind the original expectations for this segment. Even though Sonova immediately took measures to address the problem and to receive permission to return to the market, the temporary recall had a significantly negative impact on the profitability of the segment and reduced the Group's operating profit by approximately CHF 45 million. Based on this event, and the resulting updated business plan prepared by management, the goodwill originally recorded on the acquisition was reviewed, and an impairment of CHF 156.6 million was reported in the restated financial results for 2009/10.

Also in the financial year 2010/11, Advanced Bionics and Phonak Acoustic Implants have been consolidated into a single division, led by the new Group Vice President Medical, with the objective of leveraging technology and business processes. A preliminary assessment of the potential opportunities between the two businesses, and their respective product roadmaps, indicates that a number of past development projects no longer fit into the combined development plan. As a consequence, CHF 35.5 million of previously capitalized development costs were impaired.

ADVANCED BIONICS RESUMES SALES

In April 2011, Advanced Bionics received CE certification from the European notified body TÜV for changes to the manufacturing process of the CI HiRes 90K and approval to resume distribution of the implant in European markets and other selected countries. The implant will be reintroduced in the United States market following pending approval from the United States Food and Drug Administration. With the next product generation and the expansion of the international presence of Advanced Bionics, Sonova anticipates achieving above-market growth over the next few years. In addition to the product-related and technological advantages of leveraging Sonova's hardware and software platforms, Advanced Bionics will also benefit from access to Sonova's global sales organization and be in a position to expand its international sales and service capacity.

SUSTAINABLE INVESTMENT FOR THE FUTURE

Operating free cash flow decreased in the year under review, from CHF 324.8 million to CHF 221.5 million. During the reporting period, Sonova invested heavily in the future of the business, including the development of new technologies, the market introduction of Lyric outside the United States and the global expansion of sales channels and distribution capacities. Cash consideration for acquisitions amounted to CHF 149.9 million, clearly below the previous year's level due to the acquisitions of Advanced Bionics and InSound Medical in 2009/10, but included the earn-out payment in 2010/11 of CHF 87.2 million related to InSound Medical. Overall, the cash outflow from investing activities went down to CHF 273.0 million in financial year 2010/11 compared to previous year's CHF 729.1 million, and included the completion of several acquisitions and the construction of the new high-tech production facility in Stäfa. As a result, free cash flow was CHF 71.6 million compared to CHF –301.4 million in the previous year.

The cash outflow from financing activities of CHF 236.1 million in the reporting period is mainly due to the repayment of CHF 200 million in loans related to the acquisition of Advanced Bionics. This loan is divided into two tranches: an initial loan of CHF 240 million repayable within maximum three years and a secondary loan of CHF 230 million with a five-year term. CHF 200 million of the first loan has been repaid as of March 2011. The net debt of Sonova has decreased by CHF 15 million. Dividend payments to shareholders totalled CHF 79.4 million (2009/10: CHF 65.5 million).

Cash and cash equivalents decreased by CHF 170.8 million to CHF 165.1 million.

LOW NET DEBT AND SOLID BALANCE SHEET

The capital invested by the Sonova Group has increased from CHF 1,388.5 million (restated) in 2009/10 to CHF 1456.0 million in financial year 2010/11, mainly due to increased intangible assets from acquisitions. Net working capital relative to sales has increased due to increased inventory levels at the fiscal year end related to the launch of new products on the Spice generation platform. Average days sales outstanding for accounts receivable have remained consistent with the previous year.

As of March 31, 2011, the Group reported net debt of CHF 111.3 million compared to net debt of CHF 126.0 million in the previous year. The Group's equity increased to CHF 1,344.7 million. At 61.9%, the equity financing ratio (equity as a percentage of total assets) remained at a high level. The return on capital employed (ROCE) was 19.0%, compared with 23.0% (restated) in 2009/10. The return on equity (ROE), therefore, went from 18.9% in the previous year to 17.7% in 2010/11.

Recognizing the solid performance and cash flow generation of the core business during the 2010/11 year, as well as the strong financial position of the Group, the Board of Directors will propose to the Annual General Shareholders' Meeting on June 21, 2011 a distribution of CHF 1.20 per share, equal to the previous year's dividend level, but without withholding taxes this year.

OUTLOOK 2011/12

We expect to achieve solid growth in the hearing instruments segment in the coming year. Even though the Advanced Bionics products will gradually return to the market following the recent TÜV certification, the forecast of the hearing implants segment is dependent upon the timing of re-entry into the U.S. market. We expect overall sales in 2011/12 to be slower in the first half of the financial year because of reduced sales by Advanced Bionics. Furthermore, the strong Swiss franc will continue to adversely impact the sales and earnings growth of the full year.

5 Year Key Figures (Consolidated)

in 1,000 CHF unless otherwise specified	2010/11	Restated 2009/10[1]
Sales	**1,616,700**	**1,500,306**
change compared to previous year (%)	7.8	20.1
Gross profit	**1,118,681**	**1,058,597**
change compared to previous year (%)	5.7	22.1
in % of sales	69.2	70.6
Research & development costs	**107,760**	**87,034**
in % of sales	6.7	5.8
Sales & marketing costs	**498,589**	**402,626**
in % of sales	30.8	26.8
Operating profit before acquisition-related amortization and impairment (EBITA)	**326,622**	**420,276**
change compared to previous year (%)	(22.3)	26.7
in % of sales	20.2	28.0
Operating profit (EBIT)	**270,810**	**251,419**
change compared to previous year (%)	7.7	(22.6)
in % of sales	16.8	16.8
Income after taxes	**231,080**	**216,632**
change compared to previous year (%)	6.7	(23.8)
in % of sales	14.3	14.4
Number of employees (average)	**7,291**	**5,933**
change compared to previous year (%)	22.9	16.1
Number of employees (end of period)	**7,840**	**6,843**
change compared to previous year (%)	14.6	28.2
Net cash[5]	**(111,287)**	**(126,029)**
Net working capital[6]	**158,190**	**144,363**
in % of sales	9.8	9.6
Capital expenditure (tangible and intangible assets)[7]	**111,457**	**89,272**
Capital employed[8]	**1,455,999**	**1,388,537**
in % of sales	90.1	92.6
Total assets	**2,171,644**	**2,324,026**
Equity	**1,344,712**	**1,262,508**
Equity financing ratio (%)[9]	**61.9**	**54.3**
Free cash flow[10]	**71,593**	**(301,388)**
Operating free cash flow[11]	**221,541**	**324,754**
in % of sales	13.7	21.6
Return on capital employed (%)[12]	**19.0**	**23.0**
Return on equity (%)[13]	**17.7**	**18.9**
Basic earnings per share (CHF)	3.50	3.32
Diluted earnings per share (CHF)	3.47	3.28
Cash-based basic earnings per share (CHF)[14]	**4.27**	**5.61**
Dividend per share (CHF)	1.20[15]	1.20

[1] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).
[2] All changes compared to previous year are based on the underlying performance 2007/08.
[3] Restated as a result of initial application of IFRIC 14.
[4] Excluding one-off costs for the prohibited acquisition of the GN ReSound Group. Balance sheet and cash flow as reported.
[5] Cash and cash equivalents + other current financial assets (without loans) – short-term debts – other current financial liabilities – non-current financial liabilities.
[6] Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.
[7] Excluding goodwill and intangibles relating to acquisitions.
[8] Total assets – cash and cash equivalents – other current financial assets (without loans) – trade payables – other liabilities – provisions – tax liabilities.

Reported 2009/10	2008/09[2]	Reported performance 2007/08[3]	Underlying performance 2007/08[3]/[4]	2006/07
1,500,306	**1,249,197**	**1,204,779**	**1,204,779**	**1,072,796**
20.1	3.7	12.3	12.3	23.8
1,058,427	**867,218**	**841,584**	**841,584**	**732,075**
22.0	3.0	15.0	15.0	26.7
70.5	69.4	69.9	69.9	68.2
87,034	**77,377**	**76,454**	**76,454**	**67,590**
5.8	6.2	6.3	6.3	6.3
402,626	**340,312**	**309,200**	**309,200**	**278,978**
26.8	27.2	25.7	25.7	26.0
420,106	**331,778**	**331,737**	**339,752**	**283,643**
26.6	(2.3)	17.0	19.8	32.6
28.0	26.6	27.5	28.2	26.4
406,753	**325,014**	**326,743**	**334,758**	**279,765**
25.1	(2.9)	16.8	19.7	31.5
27.1	26.0	27.1	27.8	26.1
354,813	**284,110**	**274,140**	**305,196**	**242,875**
24.9	(6.9)	12.9	25.7	40.0
23.6	22.7	22.8	25.3	22.6
5,933	**5,108**	**4,351**	**4,351**	**3,813**
16.1	17.4	14.1	14.1	20.4
6,843	**5,339**	**4,746**	**4,746**	**4,023**
28.2	12.5	18.0	18.0	17.3
(126,029)	**227,689**	**311,647**	**311,647**	**296,480**
177,011	**152,355**	**107,890**	**107,890**	**96,313**
11.8	12.2	9.0	9.0	9.0
89,272	**75,985**	**55,892**	**55,892**	**31,242**
1,534,387	**798,934**	**608,207**	**608,207**	**547,215**
102.3	64.0	50.5	50.5	51.0
2,409,257	**1,426,560**	**1,273,928**	**1,273,928**	**1,263,392**
1,408,358	**1,026,623**	**919,854**	**919,854**	**894,687**
58.5	**72.0**	**72.2**	**72.2**	**70.8**
(301,388)	**79,003**	**219,392**	**219,392**	**144,542**
324,754	**176,285**	**255,835**	**255,835**	**231,533**
21.6	14.1	21.2	21.2	21.6
34.9	**46.2**	**56.6**	**57.9**	**56.3**
29.1	**29.2**	**30.2**	**33.6**	**32.0**
5.41	4.35	4.09	4.55	3.64
5.36	4.33	4.04	4.50	3.59
5.60	**4.43**	**4.09**	**4.55**	**3.63**
1.20	1.00	1.00	1.00	0.75

[9] Equity in % of total assets.
[10] Cash flow from operating activities + cash flow from investing activities.
[11] Free cash flow – cash consideration for acquisitions, net of cash acquired.
[12] EBIT in % of capital employed (average).
[13] Income after taxes in % of equity (average).
[14] Excluding the amortization of acquisition-related intangibles, impairment and unwinding effect of the discount on acquisition-related earn-out payments, net of tax.
[15] Proposal to the Annual General Shareholders' Meeting of June 21, 2011.

Consolidated Income Statements

1,000 CHF	Notes	2010/11	2009/10[1)]
Sales	5	**1,616,700**	**1,500,306**
Cost of sales		(498,019)	(441,709)
Gross profit		**1,118,681**	**1,058,597**
Research and development		(107,760)	(87,034)
Sales and marketing		(498,589)	(402,626)
General and administration		(185,188)	(141,967)
Other expenses, net	6	(522)	(6,694)
Operating profit before acquisition-related amortization and impairment (EBITA)[2)]		**326,622**	**420,276**
Acquisition-related amortization	19	(20,312)	(12,301)
Impairment	19	(35,500)	(156,556)
Operating profit (EBIT)[3)]		**270,810**	**251,419**
Financial income	7	17,787	5,049
Financial expenses	7	(31,451)	(9,242)
Share of profit/(loss) in associates/joint ventures	17	2,960	(769)
Income before taxes		**260,106**	**246,457**
Income taxes	8	(29,026)	(29,825)
Income after taxes		**231,080**	**216,632**
Attributable to:			
Equity holders of the parent		231,010	217,218
Non-controlling interests		70	(586)
Basic earnings per share (CHF)	9	3.50	3.32
Diluted earnings per share (CHF)	9	3.47	3.28

1) Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).
2) Earnings before financial result, share of profit/(loss) in associates/joint ventures, taxes, acquisition-related amortization and impairment (EBITA).
3) 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	2010/11	2009/10[1)]
Income after taxes	**231,080**	**216,632**
Actuarial (loss)/gain from defined benefit plans, net	(7,014)	23,338
Tax effect on actuarial loss/(gain) from defined benefit plans	846	(3,238)
Fair value adjustment on cash flow hedges	196	(2,057)
Currency translation differences	(140,310)	27,237
Tax effect on currency translation items	1,878	(855)
Other comprehensive income	**(144,404)**	**44,425**
Total comprehensive income	**86,676**	**261,057**
Attributable to:		
Equity holders of the parent	87,378	261,466
Non-controlling interests	(702)	(409)

1) Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

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

Consolidated Balance Sheets

Assets 1,000 CHF	Notes	31.3.2011	31.3.2010[1)]
Cash and cash equivalents	11	165,133	335,931
Other current financial assets	12	28,589	17,548
Trade receivables	13	320,581	324,455
Other receivables and prepaid expenses	14	55,595	67,059
Inventories	15	167,594	143,198
Total current assets		**737,492**	**888,191**
Property, plant and equipment	16	232,112	200,647
Intangible assets	19	1,059,062	1,019,920
Investments in associates/joint ventures	17	10,827	35,086
Other non-current financial assets	18	51,084	81,437
Employee benefit assets	29		1,759
Deferred tax assets	8	81,067	96,986
Total non-current assets		**1,434,152**	**1,435,835**
Total assets		**2,171,644**	**2,324,026**

Liabilities and equity 1,000 CHF	Notes	31.3.2011	31.3.2010[1)]
Short-term debts	21, 24	40,135	80,876
Trade payables		61,926	65,489
Current income tax liabilities		52,413	55,123
Other current financial liabilities	24	16,905	2,789
Other short-term liabilities	22	172,130	165,467
Short-term provisions	20	116,009	110,033
Total current liabilities		**459,518**	**479,777**
Non-current financial liabilities	23, 24	231,071	390,080
Long-term provisions	20	85,202	137,717
Other long-term liabilities	25	20,854	15,347
Deferred tax liabilities	8	30,287	38,597
Total non-current liabilities		**367,414**	**581,741**
Total liabilities		**826,932**	**1,061,518**
Share capital	26	3,326	3,305
Share premium		112,691	60,649
Treasury shares		1,653	(20,812)
Retained earnings		1,221,828	1,214,328
Equity attributable to equity holders of the parent		**1,339,498**	**1,257,470**
Non-controlling interests		5,214	5,038
Equity		**1,344,712**	**1,262,508**
Total liabilities and equity		**2,171,644**	**2,324,026**

[1)] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

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

Consolidated Cash Flow Statements

1,000 CHF	Notes	2010/11		2009/10[1]	
Income before taxes			**260,106**		**246,457**
Depreciation, amortization and impairment of tangible and intangible assets	16, 19	102,847		208,174	
(Gain)/loss on sale of tangible and intangible assets, net		(364)		861	
Share of (gain)/loss in associates/joint ventures	17	(2,960)		769	
Decrease in long-term provisions		1,996		2,177	
Financial expenses, net	7	13,664		4,193	
Unrealized exchange differences		4,282		5,927	
Other non-cash items		18,518	137,983	19,473	241,574
Cash flow before changes in net working capital			**398,089**		**488,031**
Increase in trade receivables		(18,420)		(7,347)	
Decrease/(increase) in other receivables and prepaid expenses		6,756		(9,483)	
Increase in inventories		(32,414)		(24,813)	
Decrease in trade payables		(15,419)		(22,591)	
Increase in other payables, accruals and short-term provisions		30,962		37,464	
Income taxes paid		(24,912)	(53,447)	(33,536)	(60,306)
Cash flow from operating activities			**344,642**		**427,725**
Purchase of tangible and intangible assets		(111,625)		(89,876)	
Proceeds from sale of tangible and intangible assets		3,155		1,075	
Cash consideration for acquisitions, net of cash acquired	27	(149,948)		(626,142)	
Increase in other non-current financial assets		(18,353)		(16,340)	
Interest received and realized gain from financial assets		3,722		2,170	
Cash flow from investing activities			**(273,049)**		**(729,113)**
Free cash flow			**71,593**		**(301,388)**
(Decrease)/increase in borrowings		(207,737)		467,241	
Proceeds from capital increases		36,503		30,417	
Sale/(purchase) of treasury shares, net		21,529		(8,972)	
Dividends paid		(79,404)		(65,524)	
Interest paid and other financial expenses		(7,030)		(3,131)	
Cash flow from financing activities			**(236,139)**		**420,031**
Exchange (losses)/gains on cash and cash equivalents			(6,252)		573
(Decrease)/increase in cash and cash equivalents			**(170,798)**		**119,216**
Cash and cash equivalents at the beginning of the financial year			335,931		216,715
Cash and cash equivalents at the end of the financial year			**165,133**		**335,931**

[1] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

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

Consolidated Changes in Equity

1,000 CHF

	Attributable to equity holders of Sonova Holding AG							
	Share capital	Share premium	Retained earnings	Translation adjustment	Treasury shares	Hedge reserve	Non-controlling interests	Total equity
Balance April 1, 2009	**3,312**	**72,703**	**1,100,064**	**(81,814)**	**(72,397)**	**0**	**4,755**	**1,026,623**
Income for the period[1]			217,218				(586)	216,632
Other comprehensive income[1]			19,966	26,339		(2,057)	177	44,425
Total comprehensive income[1]			**237,184**	**26,339**		**(2,057)**	**(409)**	**261,057**
Changes in non-controlling interests							817	817
Capital increase from conditional capital	29	30,388						30,417
Capital decrease – share buy-back program	(36)	(57,841)			57,877			
Share-based payments		12,563					21	12,584
Sale of treasury shares		2,836			37,986			40,822
Purchase of treasury shares					(44,278)		(10)	(44,288)
Dividend paid			(65,388)				(136)	(65,524)
Balance March 31, 2010[1]	**3,305**	**60,649**	**1,271,860**	**(55,475)**	**(20,812)**	**(2,057)**	**5,038**	**1,262,508**
Balance April 1, 2010[1]	**3,305**	**60,649**	**1,271,860**	**(55,475)**	**(20,812)**	**(2,057)**	**5,038**	**1,262,508**
Income for the period			231,010				70	231,080
Other comprehensive income			(6,126)	(137,702)		196	(772)	(144,404)
Total comprehensive income			**224,884**	**(137,702)**		**196**	**(702)**	**86,676**
Changes in non-controlling interests			(683)				1,038	355
Capital increase from conditional capital	21	36,482						36,503
Share-based payments		15,233					38	15,271
Sale of treasury shares		327			31,592		24	31,943
Purchase of treasury shares					(9,127)		(13)	(9,140)
Dividend paid			(79,195)				(209)	(79,404)
Balance March 31, 2011	**3,326**	**112,691**	**1,416,866**	**(193,177)**	**1,653[2]**	**(1,861)**	**5,214**	**1,344,712**

[1] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

[2] 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, 2011

1. Corporate information

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

2. Changes in accounting policies

The Group's consolidated financial statements comply with the International Financial Reporting Standards (IFRS). For the financial year 2010/11 the following standards, amendments and interpretations have become effective for the Group:

IFRS 3 (revised) "Business Combinations"
Amongst other matters, the revised standard requires:
- that directly attributable transaction costs are expensed in the current period, whereas previously these costs have been included in the cost of acquisition;
- the contingent consideration of an acquisition shall be included in the initial acquisition accounting at fair value and any subsequent changes to the contingent consideration will be accounted for in the income statement;
- for business combinations achieved in stages, that the previously held equity interest is remeasured at fair value and any resulting gain or loss is recognized in the income statement.

IAS 27 (revised) "Consolidated and Separate Financial Statements"
Changes in the ownership interest of a subsidiary that do not result in a loss of control will be accounted for as an equity transaction. Neither goodwill nor any gains or losses will result.

In addition, improvements or other amendments of IFRSs/IASs effective as of the beginning of the financial year 2010/11 have been incorporated without having a significant impact on the Group's result and financial position.

The Group is currently assessing the potential impacts of new and revised standards that will affect the Group after March 31, 2011. While most of the new or revised standards are not expected to have a significant impact on the Group's result and financial position, the following revised standard may affect the Group after the financial year 2010/11:

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

3. Basis of consolidated financial statements

The consolidated financial statements of the Group are based on the financial statements of the individual Group Companies at March 31 prepared in accordance with uniform accounting policies. The consolidated financial statements have been prepared under the historical cost convention except for the revaluation of certain financial assets at market value, in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (IASB). The consolidated financial statements were approved by the Board of Directors of Sonova Holding AG on May 10, 2011 and are subject to approval by the Annual General Shareholders' Meeting on June 21, 2011.

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

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

3.1 Principles of consolidation

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are fully consolidated. These are entities over which Sonova Holding AG directly or indirectly exercises control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. For the consolidated entities, 100% of assets, liabilities, income, and expenses are included. 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 (incl. unrealized profit on intercompany inventories) are eliminated in full.

INVESTMENTS IN ASSOCIATES

Investments in associates are accounted for using the equity method of accounting. These are entities in which Sonova has significant influence and which are neither subsidiaries nor joint ventures of Sonova. Significant influence is the power to participate in the financial and operating policy decisions of the acquired company but is not control or joint control over those policies (usually 20–50% of voting rights). Under the equity method, the investment in an associate is initially recognized at cost (including goodwill on acquisition) and the carrying amount is increased or decreased to recognize Sonova's share of profit or loss of the acquired company after the acquisition date. In order to apply the equity method the most recent available financial statements of an associate are used, however due to practicability reasons the reporting dates might vary up to three months from the Group's reporting date. The net assets and results from associates are adjusted, if necessary, to comply with the Group's accounting policies.

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

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

INVESTMENTS IN JOINT VENTURES

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

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

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

3.2 Currency translation

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

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

Monetary assets and liabilities of Group companies which are denominated in foreign currencies are translated using year-end exchange rates. Exchange differences are recorded as an income or expense. Non-monetary assets and liabilities are translated at historical exchange rates. Exchange differences arising on 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 34). 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.

3.3 Accounting and valuation principles

CASH AND CASH EQUIVALENTS

This item includes cash on hand and cash at banks, bank overdrafts, time 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. The free cash flow is the net amount of the cash flow from operating and from investing activities.

OTHER CURRENT FINANCIAL ASSETS

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

TRADE RECEIVABLES

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

INVENTORIES

Purchased raw materials, components and finished goods are valued at the lower of cost or net realizable value. To evaluate cost, the standard cost method is applied, which approximates historical cost determined on a first-in first-out basis. Standard costs take into account normal levels of materials, supplies, 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.

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

RESEARCH AND DEVELOPMENT

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

LEASING

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

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

INTANGIBLE ASSETS

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

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the purchase method of accounting. The cost of a business combination is equal to the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Sonova Group, in exchange for control over the acquired company. 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 in the first half of the financial year, or more frequently if events or changes in circumstances indicate that its value might be impaired. Acquisition-related costs are expensed.

OTHER NON-CURRENT FINANCIAL ASSETS

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

SHORT-TERM DEBTS

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

OTHER CURRENT FINANCIAL LIABILITIES

Other current financial liabilities primarily consist of financial liabilities resulting from earn-out agreements as well as deferred payments from acquisitions with a maturity of twelve months or less. In the case of earn-outs they are classified as financial liabilities at fair value through profit or loss. Given the short-term nature of deferred payments these liabilities are carried at nominal value.

PROVISIONS

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

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 debts with a maturity of over twelve months. Such financial liabilities are recognized initially at fair value, including any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

SHARE CAPITAL

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

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

INCOME TAXES

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

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

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

REVENUE RECOGNITION

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

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

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

SEGMENT REPORTING

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

RELATED PARTIES

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

EMPLOYEE BENEFITS (IAS 19)

Pension obligations

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

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

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

Other long-term benefits

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

Equity compensation benefits

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

3.4 Financial assets

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

LOANS AND RECEIVABLES

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

HELD-TO-MATURITY INVESTMENTS

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

IMPAIRMENT OF FINANCIAL ASSETS

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The Group assesses, at each balance sheet date, whether there is any objective evidence that a financial asset may be impaired. If any such evidence exists, the Group estimates the recoverable amount of that asset and recognizes any impairment loss in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the write-down, the write-down of the financial asset is reversed. The reversal 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.

3.5 Derivative financial instruments and hedging

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

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

3.6 Significant accounting judgements and estimates

KEY MANAGEMENT JUDGEMENTS MADE IN APPLYING ACCOUNTING POLICIES

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

KEY ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

COST OF BUSINESS COMBINATIONS

A business combination agreement may provide for an adjustment to the cost of the combination contingent on future events. If the future events do not occur or the estimate needs to be revised, the cost of a business combination is revised accordingly, with a resultant change in the carrying value of goodwill (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 2010/11 such costs contingent on future events amount to CHF 28.0 million (previous year CHF 84.3 million) and are disclosed under provisions for earn-out (for business combinations entered into before April 1, 2010) or other current financial liabilities (for business combinations entered into after April 1, 2010).

INTANGIBLE ASSETS, INCLUDING GOODWILL

The Group has intangible assets, including goodwill with a carrying value of CHF 1,059.1 million (previous year CHF 1,019.9 million) as disclosed in Note 19.

Included in the intangible assets are capitalized development costs relating to the activities of Advanced Bionics and Phonak Acoustic Implants, amounting to CHF 21.1 million (previous year CHF 33.4 million).

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

DEFERRED TAX ASSETS

The consolidated balance sheet includes deferred tax assets of CHF 81.1 million (previous year CHF 97.0 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 2010/11 amounts to CHF 198.7 million (previous year CHF 167.3 million) as disclosed in Note 29. With such plans, actuarial assumptions are made for the purpose of estimating future developments, including estimates and assumptions relating to discount rates, the expected return on plan assets in individual countries, and future wage trends. Actuaries also use statistical data such as mortality tables and staff turnover rates with a view to determining employee benefit obligations. If these factors change due to a change in economic or market conditions, the subsequent results could deviate considerably from the actuarial reports and calculations. Over the medium term such deviations could have an impact on the equity. The carrying amounts of the plan assets and liabilities in the balance sheet are set out in Note 29.

PROVISION FOR WARRANTY AND RETURNS

The Group recorded provisions for warranty, product-related claims and returns of CHF 133.0 million (previous year CHF 126.5 million) as of March 31, 2011 as disclosed in Note 20.

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.

3.7 Restatement of prior year's figures

—

RESTATEMENT RESULTING FROM THE FINALIZATION OF THE ACQUISITION ACCOUNTING OF ADVANCED BIONICS (IN COMPLIANCE WITH IFRS 3 REPORTING REQUIREMENTS)

As of December 30, 2009 the Group acquired Advanced Bionics Corporation, CA, USA. Due to the short period prior to the end of the financial year, the accounting for this acquisition in the 2009/10 financial statements was provisional. IFRS 3 allows a twelve month measurement period from acquisition date to complete the initial accounting. Any changes in the carrying amounts of the identifiable assets, liabilities or contingent liabilities shall be calculated as if the fair values at the acquisition date had been recognized from that date. Comparative information included in these financial statements shall be presented as if the initial accounting had been completed from the acquisition date. This includes any changes in depreciation, amortization or other profit or loss recognized as a result of completing the initial accounting.

On November 23, 2010, the Sonova Group announced a voluntary recall of the HiRes 90K cochlear implant from Advanced Bionics and as a precaution the device was removed from the market. This measure was taken in response to two instances where the product experienced a rare malfunction requiring explantation. The two instances occurred before the acquisition date. As of the time of the finalization of the provisional acquisition accounting, such a product recall was not anticipated; therefore, the initial accounting had to be adjusted to account for the impact of the recall and the changes in the business plan on the carrying values of the assets and liabilities as of acquisition date. In addition, the acquisition balance sheet was further adjusted based on the final assessment and valuation of certain balance sheet items, including acquisition-related intangibles, provisions and inventory.

As a result of the revised acquisition accounting, the residual goodwill balance increased by CHF 136.4 million. In accordance with IAS 36 the increased goodwill was tested for impairment on a retrospective basis, using the revised business plan and an impairment charge of CHF 156.6 million was recorded in the financial year 2009/10 (refer Note 19).

The following tables reflect the impact on the prior year's financial statement line items as a result of the finalization of the acquisition accounting for Advanced Bionics:

Consolidated income statement 1,000 CHF	2009/10		2009/10
	Published	Adjustments	Restated
Sales	**1,500,306**		**1,500,306**
Cost of sales	(441,879)	170	(441,709)
Gross profit	**1,058,427**	**170**	**1,058,597**
Operating profit before acquisition-related amortization, impairment (EBITA)	**420,106**	**170**	**420,276**
Acquisition-related amortization	(13,353)	1,052	(12,301)
Impairment		(156,556)	(156,556)
Operating profit (EBIT)	**406,753**	**(155,334)**	**251,419**
Financial expenses	(9,103)	(139)	(9,242)
Income before taxes	**401,930**	**(155,473)**	**246,457**
Income taxes	(47,117)	17,292	(29,825)
Income after taxes	**354,813**	**(138,181)**	**216,632**
Attributable to:			
Equity holders of the parent	354,457	(137,239)	217,218
Non-controlling interests	356	(942)	(586)
Basic earnings per share (CHF)	5.41	(2.10)	3.32
Diluted earnings per share (CHF)	5.36	(2.07)	3.28

Consolidated balance sheet 1,000 CHF	31.3.2010		31.3.2010
	Published	Adjustments	Restated
Other receivables and prepaid expenses	70,711	(3,652)	67,059
Inventories	160,062	(16,864)	143,198
Total current assets	**908,707**	**(20,516)**	**888,191**
Property, plant and equipment	201,656	(1,009)	200,647
Intangible assets	1,100,918	(80,998)	1,019,920
Deferred tax assets	79,694	17,292	96,986
Total non-current assets	**1,500,550**	**(64,715)**	**1,435,835**
Total assets	**2,409,257**	**(85,231)**	**2,324,026**
Short-term provisions	97,901	12,132	110,033
Total current liabilities	**467,645**	**12,132**	**479,777**
Long-term provisions	82,751	54,966	137,717
Deferred tax liabilities	45,076	(6,479)	38,597
Total non-current liabilities	**533,254**	**48,487**	**581,741**
Total liabilities	**1,000,899**	**60,619**	**1,061,518**
Retained earnings	1,359,184	(144,856)	1,214,328
Equity attributable to equity holders of the parent	**1,402,326**	**(144,856)**	**1,257,470**
Non-controlling interests	6,032	(994)	5,038
Equity	**1,408,358**	**(145,850)**	**1,262,508**
Total liabilities and equity	**2,409,257**	**(85,231)**	**2,324,026**

Consolidated cash flow statement 1,000 CHF	2009/10		2009/10
	Published	Adjustments	Restated
Income before taxes	401,930	(155,473)	246,457
Depreciation, amortization and impairment of tangible and intangible assets	52,840	155,334	208,174
Financial expenses, net	4,054	139	4,193
Cash flow before changes in net working capital	**488,031**	**0**	**488,031**
Cash flow from operating activities	**427,725**	**0**	**427,725**

Consolidated Changes in Equity 1,000 CHF

	Attributable to equity holders of Sonova Holding AG							
	Share capital	Share premium	Retained earnings	Translation adjustment	Treasury shares	Hedge reserve	Non-controlling interests	Total equity
Balance April 1, 2009	**3,312**	**72,703**	**1,100,064**	**(81,814)**	**(72,397)**	**0**	**4,755**	**1,026,623**
Income for the period (published)			354,457				356	354,813
Adjustments			(137,239)				(942)	(138,181)
Income for the period (restated)			217,218				(586)	216,632
Other comprehensive income (published)			19,966	33,956		(2,057)	229	52,094
Adjustments				(7,617)			(52)	(7,669)
Other comprehensive income (restated)			19,966	26,339		(2,057)	177	44,425
Total comprehensive income (published)			**374,423**	**33,956**		**(2,057)**	**585**	**406,907**
Adjustments			(137,239)	(7,617)			(994)	(145,850)
Total comprehensive income (restated)			**237,184**	**26,339**		**(2,057)**	**(409)**	**261,057**
Balance March 31, 2010 (published)	3,305	60,649	1,409,099	(47,858)	(20,812)	(2,057)	6,032	1,408,358
Adjustments			(137,239)	(7,617)			(994)	(145,850)
Balance March 31, 2010 (restated)	**3,305**	**60,649**	**1,271,860**	**(55,475)**	**(20,812)**	**(2,057)**	**5,038**	**1,262,508**

The following table reflects the impacts on the acquisition balance sheet of Advanced Bionics in connection with the finalization of the initial accounting:

Assets and liabilites acquired 1,000 CHF	**2009/10**		**2009/10**
	Published	Adjustments	Restated
Current assets	70,175	(19,891)	50,284
Property, plant and equipment	11,186	(1,144)	10,042
Intangible assets	123,965	(56,763)	67,202
Other non-current assets	1		1
Current liabilities	(38,309)	(11,763)	(50,072)
Non-current liabilities	(10,052)	(46,874)	(56,926)
Net assets	**156,966**	**(136,435)**	**20,531**
Goodwill	347,494	136,435	483,929
Purchase consideration	**504,460**	**0**	**504,460**
Cash consideration	**504,460**	**0**	**504,460**
Cash and cash equivalents acquired	(3,589)	0	(3,589)
Cash consideration, net of cash acquired	**500,871**	**0**	**500,871**

4. Changes in Group Structure

In the financial year 2010/11 the Group entered into several business combinations which were individually not significant. The companies acquired are in the business of distributing hearing instruments. While in most of the acquisitions 100% of the share capital was acquired, the Group also entered into three business combinations where the Group previously held an equity investment (step up acquisitions). For these acquisitions, the previously held equity share was revalued to fair value, considering any fair value adjustments in the income statements (included in financial result).

In addition to the companies acquired, the Group established new sales organizations in the hearing implant business in Turkey (AB Turkey) and Australia (AB Australia) and in the hearing instrument business in Taiwan (Phonak Taiwan).

In the financial year 2009/10 the Group entered into two main business combinations, acquiring in each case 100% of the share capital. As of December 30, 2009, the Group acquired Advanced Bionics Corporation, CA, USA. Advanced Bionics is a global leader in developing and manufacturing cochlear implant systems.

As of January 6, 2010, the Group acquired InSound Medical Inc., Newark, USA. InSound Medical is the manufacturer of Lyric, an innovative, totally invisible, extended-wear hearing solution for those with mild to moderate hearing loss. InSound Medical has commercially marketed Lyric in the U.S. since 2008.

In addition, the Group acquired several small entities which are in the business of distributing hearing instruments.

The effect of the acquisitions for the financial year 2010/11 and 2009/10 is disclosed in Note 27.

5. Segment information

SEGMENT INFORMATION BY BUSINESS SEGMENTS

Until the acquisition of Advanced Bionics in the financial year 2009/10, the Group was active in one operating segment. With the acquisition of Advanced Bionics as of December 30, 2009, the Group entered into a new business segment (hearing implants) which is reported separately to the Group's chief operating decision maker. The financial information that is provided to the Group's chief operating decision maker (ie. Chief Executive Officer), which is used to allocate resources and to assess the performance, is primarily based on the sales analysis (by product groups and regions) as well as the consolidated income statements, balance sheets and cash flow statements for the individual segments.

Hearing instruments: This operating segment includes the companies that are active in the design, development, manufacture, distribution and service of hearing instruments and related products. Research and development is predominantly centralized in Switzerland and 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.

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

1,000 CHF	2010/11	2009/10	2010/11	2009/10[1]	2010/11	2009/10	2010/11	2009/10[1]
	Hearing instruments		Hearing implants		Eliminations		Total	
Segment sales	1,545,890	1,475,058	70,915	25,248			1,616,805	1,500,306
Intersegment sales	(15)		(90)				(105)	
Sales	**1,545,875**	**1,475,058**	**70,825**	**25,248**			**1,616,700**	**1,500,306**
Operating profit before acquisition-related amortization and impairment (EBITA)	**371,661**	**428,100**	**(45,039)**	**(7,824)**			**326,622**	**420,276**
Segment assets	**1,873,647**	**1,891,070**	**433,573**	**507,220**	**(404,274)**	**(555,811)**	**1,902,946**	**1,842,479**
Unallocated assets[2]							268,698	481,547
Total assets							**2,171,644**	**2,324,026**

[1] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).
[2] Unallocated assets include cash and cash equivalents, other current financial assets (excluding loans), investments in associates/joint ventures, employee benefit assets, and deferred tax assets.

Reconciliation of reportable segment profit 1,000 CHF	2010/11	2009/10[1]
EBITA (as per segment reporting)	**326,622**	**420,276**
Acquisition-related amortization	(20,312)	(12,301)
Impairment[2]	(35,500)	(156,556)
Financial costs, net	(13,664)	(4,193)
Share of gain/(loss) in associates/joint ventures	2,960	(769)
Income before taxes	**260,106**	**246,457**

1) Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).
2) Impairment in the financial year 2010/11 and 2009/10 relates to the segment "Hearing implants."

ENTITY-WIDE DISCLOSURES

Sales by product groups 1,000 CHF	2010/11	2009/10
First class hearing instruments	398,015	378,075
Business class hearing instruments	378,420	352,992
Economy class hearing instruments	481,274	460,504
Wireless communication systems	75,056	74,843
Miscellaneous	213,110	208,644
Total hearing instruments	**1,545,875**	**1,475,058**
Hearing implants	70,825	25,248
Total sales	**1,616,700**	**1,500,306**

Sales and selected non-current assets by regions 1,000 CHF	2010/11	2009/10	2010/11	2009/10[1]
Country	Sales[2]		Selected Non-current assets[3]	
Switzerland	41,279	45,426	176,931	205,497
EMEA (excl. Switzerland)	596,777	582,697	270,730	201,795
United States	595,564	546,583	647,052	632,598
Americas (excl. USA)	246,965	196,372	151,834	172,182
Asia/Pacific	136,115	129,228	55,434	43,581
Total Group	**1,616,700**	**1,500,306**	**1,301,981**	**1,255,653**

1) Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).
2) Sales based on location of customers.
3) Total of property, plant and equipment, intangible assets and investment 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.

6. Other expenses, net

1,000 CHF	2010/11	2009/10
Other operating expenses, net	(565)	(6,731)
Exchange differences	43	37
Total	**(522)**	**(6,694)**

Other operating expenses in the finanical year 2009/10 primarily consist of a fine in the amount of CHF 6.4 million issued by the German competition authority (BKartA) following inquiries as part of an investigation into the German hearing systems market.

7. Financial expenses, net

1,000 CHF	2010/11	2009/10[1]
Interest income	3,984	2,986
Other financial income	13,803	2,063
Total financial income	**17,787**	**5,049**
Interest expenses	(7,877)	(2,069)
Other financial expenses	(23,574)	(7,173)
Total financial expenses	**(31,451)**	**(9,242)**
Total	**(13,664)**	**(4,193)**

[1] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

Other financial income consists primarily of the gain of CHF 12.8 million from remeasuring previously held equity investments to fair value at date of acquisition of these companies (refer Note 27).

Other financial expenses include, amongst others, the unwinding of the discount on acquisition-related earn-out payments as well as fair value adjustments of financial instruments.

8. Taxes

1,000 CHF	2010/11	2009/10[1]
Income taxes	16,343	51,082
Change in deferred taxes	12,683	(21,257)
Total tax expense	**29,026**	**29,825**

Reconciliation of tax expense		
Income before taxes	260,106	246,457
Weighted average expected tax rate	15.6%	10.4%
Tax at weighted average rate	**40,501**	**25,636**
+/– effects of		
Expenses not subject to tax, net	886	1,656
Changes of unrecognized loss carryforwards	25,221	2,399
Local tax rate different to Group average tax rate	(36,261)	(2,751)
Change in tax rates on deferred tax balances	658	698
Prior year income and other items, net	(1,979)	2,187
Total tax expense	**29,026**	**29,825**
Weighted average effective tax rate	11.2%	12.1%

[1] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

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

Deferred tax assets and (liabilities) 1,000 CHF	Property, plant and equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax loss carryforwards	31.3.2011 Total
Balance April 1	(4,602)	(25,038)	40,803	47,226	58,389
Changes through business combinations		(6,907)		1,965	(4,942)
Deferred taxes recognized in the income statement	(764)	3,749	(6,313)	(9,355)	(12,683)
Deferred taxes recognized in equity			2,724		2,724
Exchange differences	231	3,549	(2,419)	5,931	7,292
Balance March 31	**(5,135)**	**(24,647)**	**34,795**	**45,767**	**50,780**

Amounts in the balance sheet	
Deferred tax assets	81,067
Deferred tax liabilities	(30,287)
Total deferred taxes, net	**50,780**

Deferred tax assets and (liabilities) 1,000 CHF					**31.3.2010**
	Property, plant and equipment	Intangible assets[1]	Inventories, receivables, provisions and other liabilities	Tax loss carryforwards[1]	Total[1]
Balance April 1	(4,684)	(16,330)	42,944	19,670	41,600
Changes through business combinations		(5,698)		3,966	(1,732)
Deferred taxes recognized in the income statement	164	(2,794)	1,651	22,236	21,257
Deferred taxes recognized in equity			(4,093)		(4,093)
Exchange differences	(82)	(216)	301	1,354	1,357
Balance March 31	**(4,602)**	**(25,038)**	**40,803**	**47,226**	**58,389**
Amounts in the balance sheet					
Deferred tax assets					96,986
Deferred tax liabilities					(38,597)
Total deferred taxes, net					**58,389**

[1] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

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

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

1,000 CHF	**31.3.2011**	**31.3.2010**
Within 1 – 3 years	14,116	20,983
Within 4 years	5,716	7,966
Within 5 years	5,998	7,074
More than 5 years	188,403[1]	52,998
Total	**214,233**	**89,021**

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

9. Earnings per share

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

Basic earnings per share	2010/11	2009/10[1)]
Income after taxes (1,000 CHF)	231,010	217,218
Weighted average number of outstanding shares	66,058,632	65,495,574
Basic earnings per share (CHF)	**3.50**	**3.32**

1) Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

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 2005 through to 2011 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	2010/11	2009/10[1)]
Income after taxes (1,000 CHF)	231,010	217,218
Weighted average number of outstanding shares	66,058,632	65,495,574
Adjustment for dilutive share options	552,125	681,993
Adjusted weighted average number of outstanding shares	66,610,757	66,177,567
Diluted earnings per share (CHF)	**3.47**	**3.28**

1) Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

10. Dividend per share

The Board of Directors of Sonova Holding AG proposes to the Annual General Shareholders' Meeting, to be held on June 21, 2011, that instead of a dividend, a distribution from reserve from capital contributions of CHF 1.20 per share (free of Swiss witholding tax) shall be distributed (for further details refer to "3.6 Summary of changes in shareholders' equity" in the financial statements 2010/11 of Sonova Holding AG). In the previous year, an ordinary dividend of CHF 1.20 per share was distributed.

11. Cash and cash equivalents

1,000 CHF	31.3.2011	31.3.2010
Cash on hand	609	452
Current bank accounts	156,320	334,296
Time deposits	8,204	1,183
Total	**165,133**	**335,931**

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

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

12. Other current financial assets

1,000 CHF	31.3.2011	31.3.2010
Marketable securities	11,691	11,785
Loans to third parties	16,898	5,763
Total	**28,589**	**17,548**

Marketable securities mainly consist of quoted bonds and equity funds. The carrying values of these financial assets equal market prices. The increase in loans to third parties is due to a loan that was previously included in long-term loans to third parties which matures in the financial year 2011/12.

13. Trade receivables

1,000 CHF	31.3.2011	31.3.2010
Trade accounts receivable	334,923	342,325
Provision for doubtful accounts	(14,342)	(17,870)
Total	**320,581**	**324,455**

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

1,000 CHF	31.3.2011	31.3.2010
Total trade accounts receivable, net	**320,581**	**324,455**
of which:		
Not overdue	213,692	217,868
Overdue 1 – 30 days	43,530	48,684
Overdue more than 30 days	63,359	57,903
Total	**320,581**	**324,455**

Provision for doubtful accounts 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 accounts:

1,000 CHF	2010/11	2009/10
Provision for doubtful accounts, April 1	**(17,870)**	**(11,473)**
Utilization or reversal	7,575	4,779
Set up of provision	(3,062)	(8,595)
Changes through business combinations	(2,649)	(2,594)
Exchange differences	1,664	13
Provision for doubtful accounts, March 31	**(14,342)**	**(17,870)**

During 2010/11 the Group has utilized CHF 4.1 million (previous year CHF 2.3 million) of this provision to write-off receivables.

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

1,000 CHF	31.3.2011	31.3.2010
CAD	25,070	26,559
CHF	20,889	24,066
EUR	99,243	112,122
BRL	28,332	21,125
USD	103,535	97,695
Other	43,512	42,888
Total trade accounts receivable, net	**320,581**	**324,455**

14. Other receivables and prepaid expenses

1,000 CHF	31.3.2011	31.3.2010[1]
Other receivables	37,513	42,156
Prepaid expenses	18,082	24,903
Total	**55,595**	**67,059**

[1] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

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

15. Inventories

1,000 CHF	31.3.2011	31.3.2010[1]
Raw materials and components	28,395	22,610
Work-in-process	72,918	62,197
Finished products (incl. purchased goods)	107,199	93,706
Allowances	(40,918)	(35,315)
Total	**167,594**	**143,198**

[1] Restated based on finalisation of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

The increase in inventory balances is due to the timing of new product introductions relative to the reporting date.

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

In 2010/11, CHF 412.1 million (previous year CHF 350.6 million) were recognized as an expense and included in "cost of sales."

16. Property, plant and equipment

1,000 CHF					31.3.2011
	Land	Buildings	Total land & buildings	Plant & equipment	Total
Cost					
Balance April 1	14,303	118,715	133,018	249,426	382,444
Changes through business combinations	7	95	102	3,654	3,756
Additions	3,593	19,421	23,014	56,635	79,649
Disposals	(23)	(505)	(528)	(16,566)	(17,094)
Exchange differences	(310)	(6,208)	(6,518)	(13,920)	(20,438)
Balance March 31	**17,570**	**131,518**	**149,088**	**279,229**	**428,317**
Accumulated depreciation					
Balance April 1	(179)	(35,653)	(35,832)	(145,965)	(181,797)
Additions		(3,986)	(3,986)	(34,744)	(38,730)
Disposals		156	156	15,006	15,162
Exchange differences	16	1,156	1,172	7,988	9,160
Balance March 31	**(163)**	**(38,327)**	**(38,490)**	**(157,715)**	**(196,205)**
Net book value					
Balance April 1	14,124	83,062	97,186	103,461	200,647
Balance March 31	**17,407**	**93,191**	**110,598**	**121,514**	**232,112**

1,000 CHF					31.3.2010
	Land	Buildings	Total land & buildings	Plant & equipment	Total
Cost					
Balance April 1	11,841	99,110	110,951	224,656	335,607
Changes through business combinations[1]	8	3,835	3,843	10,056	13,899
Additions	2,618	16,399	19,017	42,061	61,078
Disposals		(121)	(121)	(27,265)	(27,386)
Exchange differences[1]	(164)	(508)	(672)	(82)	(754)
Balance March 31[1]	**14,303**	**118,715**	**133,018**	**249,426**	**382,444**
Accumulated depreciation					
Balance April 1	(190)	(32,601)	(32,791)	(142,231)	(175,022)
Additions[1]		(3,159)	(3,159)	(29,636)	(32,795)
Disposals		80	80	25,691	25,771
Exchange differences	11	27	38	211	249
Balance March 31[1]	**(179)**	**(35,653)**	**(35,832)**	**(145,965)**	**(181,797)**
Net book value					
Balance April 1	11,651	66,509	78,160	82,425	160,585
Balance March 31[1]	**14,124**	**83,062**	**97,186**	**103,461**	**200,647**

[1] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

The increase in property, plant and equipment over the prior year period relates primarily to the new high-technology manufacturing center completed in Stäfa.

Tangible assets (buildings, plant and equipment) as of March 31, 2011 were insured against fire for a value of CHF 404.6 million (previous year CHF 361.2 million).

Pledged assets amounted to CHF 0.03 million (previous year CHF 0.08 million).

There are no assets held under finance leases.

Advance payments and capital expenditures for land and buildings as well as plant and equipment under construction as of the end of the financial year 2010/11, amounted to CHF 6.6 million (previous year CHF 8.3 million).

17. Investments in associates/joint ventures

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

1,000 CHF	2010/11	2009/10
Current assets	4,135	18,333
Non-current assets	1,546	10,467
Total assets	**5,681**	**28,800**
Current liabilities	(1,893)	(13,407)
Non-current liabilities	(1,082)	(11,273)
Total liabilities	**(2,975)**	**(24,680)**
Net assets	**2,706**	**4,120**
Income for the year	31,280	45,928
Expenses for the year	(32,179)	(47,411)
Loss for the year	**(899)**	**(1,483)**
Net book value as at year-end	10,827	35,086
Share of gain/(loss) recognized by the Group	2,960	(769)

In the financial year 2010/11 no associates/joint ventures have been acquired. However, the Group acquired an additional share in three previously held equity investments, resulting in a change of control (step up acquisition). These companies are now fully consolidated. The total net book value at the time of gaining control over these three entities amounted to CHF 27.9 million. In the financial year 2009/10, no associates/joint ventures were acquired.

Sales to associates and joint ventures in the financial year 2010/11 amounted to CHF 12.7 million (previous year CHF 13.1 million). At March 31, 2011 accounts receivable towards associates and joint ventures amounted to CHF 1.2 million (previous year CHF 3.9 million).

Losses in the amount of CHF 4.1 million (previous year CHF 1.0 million) have not been recognized during the period as the investment in associate has already been written down to zero. At the end of the financial year 2010/11 no unrecognized losses existed.

Investments with a net book value of CHF 10.8 million (previous year CHF 35.1 million) have a business year different than the Sonova Group. The latest available information for the respective companies varies between December 2010 and February 2011.

18. Other non-current financial assets

1,000 CHF	31.3.2011	31.3.2010
Financial assets at fair value through profit or loss	7,886	15,577
Loans to associates	10,525	26,264
Loans to third parties	32,673	39,596
Total	**51,084**	**81,437**

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

Long-term loans mainly include loans to customers and strategic business partners. The decrease compared to previous year is due to acquisitions of associates (refer Note 17) as well as to the reclassification of a previously disclosed long-term loan to short-term. The loans are primarily denominated in CHF, EUR and CAD. As of March 31, 2011, the respective repayment periods vary between one and five years and the interest rates vary between 2.5% and 4.0%. Generally, the valuation of the loans approximates to fair value.

19. Intangible assets

1,000 CHF					31.3.2011
	Goodwill	Software	Intangibles relating to acquisitions	Other intangibles	Total
Cost					
Balance April 1	962,072	33,823	184,939	51,632	1,232,466
Changes through business combinations	131,216	146	41,842	271	173,475
Additions[1]	34,803	6,620	168	25,188	66,779
Disposals[2]	(9,308)	(2,206)	(1,369)	(167)	(13,050)
Exchange differences	(121,942)	(134)	(21,183)	(2,123)	(145,382)
Balance March 31	**996,841**	**38,249**	**204,397**	**74,801**	**1,314,288**
Accumulated amortization and impairments					
Balance April 1	(156,986)	(22,654)	(28,381)	(4,525)	(212,546)
Additions		(6,628)	(20,312)[3]	(1,677)	(28,617)
Disposals		1,765	280	38	2,083
Impairment				(35,500)	(35,500)
Exchange differences	15,029	278	3,980	67	19,354
Balance March 31	**(141,957)**	**(27,239)**	**(44,433)**	**(41,597)**	**(255,226)**
Net book value					
Balance April 1	805,086	11,169	156,558	47,107	1,019,920
Balance March 31	**854,884**	**11,010**	**159,964**	**33,204**	**1,059,062**

[1] Additions of goodwill primarily result from the changed earn-out agreement with InSound Medical (refer to Note 20).
[2] Disposals of goodwill include primarily earn-out adjustments.
[3] Relates to research and development (CHF 4.0 million) and sales and marketing (CHF 16.3 million).

1,000 CHF					31.3.2010
	Goodwill	Software	Intangibles relating to acquisitions	Other intangibles	Total
Cost					
Balance April 1	321,129	27,102	76,395	32,116	456,742
Changes through business combinations[1]	619,301	307	103,875	110	723,593
Additions	1,690	8,805	185	19,389	30,069
Disposals[2]	(9,306)	(2,078)	(58)	(9)	(11,451)
Exchange differences[1]	29,258	(313)	4,542	26	33,513
Balance March 31[1]	**962,072**	**33,823**	**184,939**	**51,632**	**1,232,466**
Accumulated amortization and impairments					
Balance April 1		(20,081)	(15,266)	(2,949)	(38,296)
Additions[1]		(4,953)	(12,301)[3]	(1,569)	(18,823)
Disposals		2,049	53	2	2,104
Impairment[1]	(156,556)				(156,556)
Exchange differences[1]	(430)	331	(867)	(9)	(975)
Balance March 31[1]	**(156,986)**	**(22,654)**	**(28,381)**	**(4,525)**	**(212,546)**
Net book value					
Balance April 1	321,129	7,021	61,129	29,167	418,446
Balance March 31[1]	**805,086**	**11,169**	**156,558**	**47,107**	**1,019,920**

[1] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).
[2] Disposals of goodwill include primarily earn-out adjustments.
[3] Relates to research and development (CHF 1.1 million) and sales and marketing (CHF 11.2 million).

Other intangible assets include capitalized costs for the development of hearing implants in the amount of CHF 21.1 million (previous year CHF 33.4 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 to a group of cash-generating units, which are expected to benefit from the synergies of the corresponding business combination. The recoverable amount of a cash-generating unit (higher of the cash-generating unit's fair value less selling costs and the cash-generating units value in use) is compared to the carrying amount. Future cash flows are discounted with the Weighted Average Cost of Capital (WACC) including the application of the Capital Asset Pricing Model (CAPM). Value in use is normally assumed to be higher than the fair value less selling costs. Therefore, fair value less selling costs is only investigated when value in use is lower than the carrying amount of the cash-generating unit.

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

Actual cash flows as well as related values derived from discounting techniques could vary significantly compared to projections.

Key assumptions used for value-in-use calculations:

1,000 CHF

	Carrying amount of goodwill	Currency	Basis for recoverable amount	Discount rate	Projection period	Long-term growth rate[2]
Advanced Bionics	297,136	Multiple	Value in use	9%	10 years	2.00%
InSound Medical	134,478	USD	Value in use	8%	5 years	1.00%
TRE S.A.	67,148	EUR	Value in use	7%	5 years	1.00%
Unitron Group	57,483	Multiple	Value in use	9%	5 years	1.00%
Development Finance[1]	54,694	USD	Value in use	9%	5 years	1.00%
National Hearing Services	47,067	CAD	Value in use	9%	5 years	1.00%
Hansaton	27,457	EUR	Value in use	8%	5 years	1.00%
Hearing Retail Group	17,340	AUD	Value in use	9%	5 years	1.00%
Lapperre	12,959	EUR	Value in use	9%	5 years	1.00%
Phonak do Brasil	11,216	BRL	Value in use	12%	5 years	1.00%
Phonak Ibérica	6,634	EUR	Value in use	9%	5 years	1.00%

[1] Due to the consolidation of certain Group activities in the United States the previously separately disclosed CGU "Metro Hearing" has been consolidated with other individually smaller cash-generating units to a new CGU "Development Finance".

[2] Long-term growth rate excluding inflation.

The discount rates presented above are pre-tax rates.

Based on the impairment tests performed, there was no need for the recognition of any impairment of goodwill for the financial year 2010/11. Regarding the sensitivity of changes in the assumptions, the Group believes that a possible increase in the discount rate of 1% would not result in an impairment of goodwill in any of the cash-generating units, except for Advanced Bionics, whereas an increase in the discount rate of 1% would lead to an impairment of CHF 120 million. For Advanced Bionics, a compound average sales growth rate of 14% has been implied for the projection period of ten years which reflects management's best estimate and takes into consideration the reduced sales level due to the temporary recall. The ten year projection period reflects the long term development cycle of the implant business.

Impairment charge for the financial year 2009/10

As outlined in Note 3.7, "Restatement of prior year's figures," the acquisition accounting for the acquisition of Advanced Bionics was finalized taking into consideration the effects of the temporary recall of the HiRes 90k cochlear implant. This product recall had an impact on the business plan of Advanced Bionics, resulting in a downward revision of projected cash flows compared to the last impairment test performed. An impairment of goodwill amounting to CHF 156.6 million has been recognized for the financial period 2009/10 and is included in the income statement in the line "Impairment." The goodwill is included in the reportable segment "Hearing implants," disclosed in Note 5.

Impairment on capitalized intangibles of Phonak Acoustic Implants

In the financial year 2010/11, Advanced Bionics and Phonak Acoustic Implants have been consolidated into a single division, with the objective to leverage combined technology and business processes. A preliminary assessment of the potential opportunities between the two businesses and their respective product roadmaps indicates that a number of past development projects no longer fit into the combined development plan. As a result, a write-off of CHF 35.5 million of previously capitalized development costs was recorded and is included in the income statement in the line "Impairment". The capitalized intangibles are included in the reportable segment "Hearing implants," disclosed in Note 5.

20. Provisions

1,000 CHF				31.3.2011				31.3.2010
	Warranty and returns	Earn-out provisions	Other provisions	Total	Warranty and returns[1]	Earn-out provisions	Other provisions[1]	Total[1]
Balance April 1	126,549	84,289	36,912	247,750	44,097	43,324	15,358	102,779
Changes through business combinations	1,816		4,739	6,555	68,429		17,751	86,180
Amounts used	(35,397)	(90,732)	(14,475)	(140,604)	(30,594)	(8,204)	(10,537)	(49,335)
Reversals	(878)	(6,517)	(1,138)	(8,533)	(1,294)	(9,278)	(1,471)	(12,043)
Increases	56,005	33,875	23,599	113,479	44,301	53,476	15,645	113,422
Present value adjustments	529	5,991		6,520	139	3,821		3,960
Exchange differences	(15,656)	(3,261)	(5,039)	(23,956)	1,471	1,150	166	2,787
Balance March 31	**132,968**	**23,645**	**44,598**	**201,211**	**126,549**	**84,289**	**36,912**	**247,750**
thereof short-term	66,461	21,188	28,360	116,009	63,610	18,775	27,648	110,033
thereof long-term	66,507	2,457	16,238	85,202	62,939	65,514	9,264	137,717

[1] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

The provision for warranty and returns considers any costs arising from the warranty given on products sold. On average, the Group grants a 15 month warranty period for hearing instruments and related products and up to ten years on hearing implants. During this period, products will be repaired or replaced free of charge. The provision is based on turnover, past experience and projected warranty claims. The large majority of the cash outflows are expected to take place within the next one to six years.

Earn-out provisions reflect the present value of estimated earn-out payments for acquisitions prior to April 1, 2010. This corresponds to the discounted variable purchase price of the acquired companies. Cash outflows are expected to take place within the next one to five years. The change in earn-out provision compared to previous year is primarily driven by a change in the earn-out agreement with InSound Medical. On February 24, 2011, the Group announced a change in the existing agreement with representatives of the former shareholders of InSound Medical. It was agreed that a one-time payment of CHF 87.2 million will replace the previous earn-out agreement. The change in the earn-out agreement resulted in a payment that was CHF 31.8 million higher than previously anticipated and was paid out earlier than previously expected.

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

21. Short-term debts

1,000 CHF	31.3.2011	31.3.2010
Current maturities of long-term debts	40,018	79,322
Other short-term debts	117	1,554
Total	**40,135**	**80,876**
Unused borrowing facilities	42,215	66,826

Current maturities of long-term debts include the short-term portion of the remaining bank loan of CHF 270 million granted in connection with the acquisition of Advanced Bionics (refer to Note 24). The total loan amounted to CHF 470 million, out of which CHF 200 million has been repaid in the current financial year. The book value of short-term debts approximates fair value.

22. Other short-term liabilities

1,000 CHF	31.3.2011	31.3.2010
Other payables	28,734	36,605
Accrued expenses	128,989	120,054
Deferred income	14,407	8,808
Total	**172,130**	**165,467**

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. The increase is mainly driven by business expansion and acquisitions.

23. Non-current financial liabilities

1,000 CHF	31.3.2011	31.3.2010
Bank debts	227,964	386,893
Interest swap – negative replacement value	1,861	2,057
Other non-current financial liabilities	1,246	1,130
Total	**231,071**	**390,080**

Bank debts include the long-term portion of the remaining bank loan of CHF 270 million granted in connecton with the acquisition of Advanced Bionics (refer to Note 24). The fair value of the bank debts as of March 31, 2011 amounts to CHF 229.8 million (previous year CHF 389.0 million).

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

Analysis by currency 1,000 CHF				**31.3.2011**				**31.3.2010**
	Bank debts	Interest swap – negative replacement value	Other non-current financial liabilities	Total	Bank debts	Interest swap – negative replacement value	Other non-current financial liabilities	Total
CHF	227,195	1,861	317	229,373	386,613	2,057	682	389,352
EUR	535		92	627			102	102
DKK	234			234	280			280
USD			484	484			223	223
CAD			265	265				
Other			88	88			123	123
Total	**227,964**	**1,861**	**1,246**	**231,071**	**386,893**	**2,057**	**1,130**	**390,080**

24. Risk management and financial instruments

GROUP RISK MANAGEMENT

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

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

FINANCIAL RISK MANAGEMENT

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

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

MARKET RISK

Exchange rate risk

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

To minimize foreign currency exchange risks, which also include intercompany sales and the settlement of intercompany loans, forward currency contracts and options are entered into. The Group hedges its net foreign currency exposure based on future expected cash in- and outflows. The hedges have a duration of between one and twelve 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, 2011 and 2010, 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, 2011 and 2010 (for foreign currency rates refer to Note 34) 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	2010/11	2009/10	2010/11	2009/10
	Impact on income after taxes		Impact on equity	
Change in USD/CHF +5%	2,548	2,006	19,214	16,402
Change in USD/CHF –5%	(2,548)	(2,006)	(19,214)	(16,402)
Change in EUR/CHF +5%	3,608	3,894	9,309	8,290
Change in EUR/CHF –5%	(3,608)	(3,894)	(9,309)	(8,290)

Interest rate risk

The Group has only limited exposure to interest rate changes. A substantial 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 raising interest rates, as the floating interest rates are swapped against fixed rates. As the conditions of the swap are in line with the underlying conditions of the financing agreement, the swap can be considered as 100% effective and hedge accounting has been applied. As of March 31, 2011, the negative fair value of the interest rate swap amounts to CHF 1.9 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 4 million and the equity would have been CHF 4 million lower/higher. As of March 31, 2011, the remaining short-term portion of the bank loan of CHF 40 million is affected by interest rate changes. If interest rates for the financial year 2010/11 had been 1% higher/lower, income after taxes would have been CHF 0.4 million lower/higher.

Except as noted above, no derivative instruments have been used to hedge against changes in interest rates. However, the interest situation and hedging possiblities are continuously monitored.

The most substantial interest exposure on assets relates to cash and cash equivalents with an average interest-bearing amount for the financial year 2010/11 of CHF 237 million (previous year CHF 252 million). If interest rates during the financial year 2010/11 had been 1% higher/lower on these accounts, income after taxes would have been CHF 2.1 million higher/lower (previous year CHF 2.2 million).

Other market risks

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

The Group holds certain marketable securities which are classified as “financial assets at fair value through profit or loss” and mainly consist of quoted bonds and equity funds. These investments (0.4% of total assets as of March 31, 2011) are also below 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 four first-class financial institutions (as of March 31, 2011, 37% of total cash and cash equivalents related to one counterpart). It is the Group's policy to only enter into material transactions with financial institutions that are by the major rating agencies at least "A" rated.

The Group performs continuous credit checks on its receivables and credit limits are assigned to all customers. Due to the customer diversity there is no single credit limit for all customers, however the Group assesses its customers by applying a standard methodology and 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.

For loans to third and related parties, the Group assesses its risk by its counterpart taking into account their financial position, past experience, and other factors.

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

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

LIQUIDITY RISK

Group Finance is responsible for 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 and to ensure that the financial covenants are met and to ensure the contractual repayment of the bank debt. As of March 31, 2011, the covenants are met.

The following table summarizes the contractual maturities of financial liabilities as of March 31, 2011 and 2010:

1,000 CHF					31.3.2011
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Short-term debts	40,006	129			40,135
Other current financial liabilities		16,905			16,905
Trade and other short-term liabilities	146,326	35,558			181,884
Total current financial liabilities	**186,332**	**52,592**			**238,924**
Long-term bank debts			227,964		227,964
Interest rate swap – negative replacement value			1,861		1,861
Other non-current financial liabilities			1,188	58	1,246
Total non-current financial liabilities			**231,013**	**58**	**231,071**
Total financial liabilities	**186,332**	**52,592**	**231,013**	**58**	**469,995**

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

FAIR VALUE HIERARCHY

The following table summarizes the financial instruments carried at fair value, by valuation method as of March 31, 2011. 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				31.3.2011
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss	14,117		5,460	19,577
Total assets	**14,117**		**5,460**	**19,577**
Liabilities				
Financial liabilities at fair value through profit or loss			(6,118)	(6,118)
Derivatives used for hedging		(1,861)		(1,861)
Total liabilities		**(1,861)**	**(6,118)**	**(7,979)**
				31.3.2010
Assets				
Financial assets at fair value through profit or loss	20,174		7,188	27,362
Total assets	**20,174**		**7,188**	**27,362**
Liabilities				
Financial liabilities at fair value through profit or loss			(3,919)	(3,919)
Derivatives used for hedging		(2,057)		(2,057)
Total liabilities		**(2,057)**	**(3,919)**	**(5,976)**

The following table presents the changes in level 3 financial instruments for the year ended March 31, 2011 and 2010:

1,000 CHF	2010/11	2009/10
Balance April 1	3,269	5,286
Transfer into level 3	(4,325)	
Gains/(losses) recognized in profit or loss	398	(2,017)
Balance March 31	**(658)**	**3,269**

—

CAPITAL RISK MANAGEMENT

It is the Group's policy to maintain a strong equity capital base and an unleveraged balance sheet to support the further development of its business. The Group aims to keep an "investment grade" rating which results in an actual debt capacity of around CHF 1 billion.

The company targets a dividend pay-out ratio of between 20 and 25%.

25. Other long-term liabilities

1,000 CHF	31.3.2011	31.3.2010
Long-term deferred income	15,587	14,167
Retirement benefit obligations	5,267	1,180
Total	**20,854**	**15,347**

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

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

26. Movements in share capital

Issued registered shares	Issued registered shares	Treasury shares[1]	Outstanding shares
Balance March 31, 2009	**66,230,584**	**(881,309)**	**65,349,275**
Issue of new shares from conditional capital[2]	578,661		578,661
Purchase of treasury shares		(344,416)	(344,416)
Sale of treasury shares		303,137	303,137
Cancellation of treasury shares	(718,500)	718,500	
Balance March 31, 2010	**66,090,745**	**(204,088)**	**65,886,657**
Issue of new shares from conditional capital[2]	423,648		423,648
Purchase of treasury shares		(81,061)	(81,061)
Sale of treasury shares		238,089	238,089
Balance March 31, 2011	**66,514,393**	**(47,060)**	**66,467,333**

Nominal value of share capital 1,000 CHF	Share Capital	Treasury shares[1]	Outstanding share capital
Balance March 31, 2009	**3,312**	**(44)**	**3,268**
Issue of new shares from conditional capital[2]	29		29
Purchase of treasury shares		(17)	(17)
Sale of treasury shares		15	15
Cancellation of treasury shares	(36)	36	
Balance March 31, 2010	**3,305**	**(10)**	**3,295**
Issue of new shares from conditional capital[2]	21		21
Purchase of treasury shares		(4)	(4)
Sale of treasury shares		12	12
Balance March 31, 2011	**3,326**	**(2)**	**3,324**

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, 2011, 5,981,027 shares (previous year 6,404,675 shares) thereof have not yet been issued. These shares are reserved for long-term incentive plans.

The Annual General Shareholders' Meeting held on June 10, 2009, approved the creation of authorized share capital of 3,311,520 registered shares with a par value of CHF 0.05 per share. The Board of Directors determines the issue price, type of capital contribution, the terms for the subscription rights and the date of qualification for dividend. Unexercised subscription rights are at the disposal of the Board of Directors and to be used in the best interest of the company. The Board of Directors is authorized to exclude subscription rights of shareholders and to allocate them to third parties if the new shares are to be used for the acquisition of companies, part of companies, equity stakes, or the financing of such transactions. The authorized share capital of 3,311,520 registered shares created on June 10, 2009, has not yet been used. The authorization granted to the Board of Directors to augment the company's share capital with the authorized share capital created expires on June 9, 2011.

27. Acquisitions of subsidiaries

Assets and liabilities resulting from the acquisitions look as follows:

1,000 CHF		2010/11				2009/10
		Total	**Advanced Bionics**[4]	**InSound Medical**	**Others**	**Total**[4]
Trade receivables		9,452	35,724	882	1,377	37,983
Other current assets		24,898	14,560	3,180	4,114	21,854
Property, plant and equipment	16	3,756	10,042	1,507	2,350	13,899
Intangible assets	19	42,259	67,202	15,493	21,597	104,292
Other non-current assets		14,900	1	3,966	2,357	6,324
Current liabilities		(31,501)	(50,072)	(7,428)	(2,335)	(59,835)
Non-current liabilities		(39,781)	(56,926)	(5,847)	(2,809)	(65,582)
Net assets		**23,983**	**20,531**	**11,753**	**26,651**	**58,935**
Non-controlling interests[1]		(1,433)				
Goodwill	19	131,216	483,929	114,917	20,455	619,301
Purchase consideration		**153,766**	**504,460**	**126,670**	**47,106**	**678,236**
Fair value of previously held stake before the business combination[2]		(52,857)				
Liabilities for earn-outs or holdbacks[3]		(23,765)		(49,440)	(4,005)	(53,445)
Cash consideration		**77,144**	**504,460**	**77,230**	**43,101**	**624,791**
Cash and cash equivalents acquired		(18,902)	(3,589)	(171)	(3,093)	(6,853)
Cash consideration, net of cash acquired		**58,242**	**500,871**	**77,059**	**40,008**	**617,938**
Cash outflow for investments in associates and earn-out payments		91,706				8,204
Total cash outflow from acquisitions		**149,948**				**626,142**

[1] Proportional share of the net assets acquired.
[2] The gain of CHF 12.8 million from remeasuring the previously held stake to fair value is included in financial income.
[3] 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.
[4] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

Several small companies were acquired during the financial year 2010/11 in Asia/Pacific, Europe, and North America. The business of these companies is the sale of hearing instruments. All acquisitions have been accounted for applying the purchase method of accounting. For business combinations entered into in the financial year 2010/11, acquisition-related costs in the amount of CHF 1.0 million have been expensed and are included in the line "General and Administration" in the income statement. In 2009/10, the main acquisitions were Advanced Bionics and InSound Medical. For the financial year 2009/10, acquisition-related costs in the amount of CHF 5.0 million have been considered as part of the purchase consideration.

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

Contribution of acquired companies from acquisition to 1,000 CHF	31.3.2011				31.3.2010
	Total	Advanced Bionics[1]	InSound Medical	Others	Total[1]
Sales	47,969	25,248	2,080	19,257	46,585
Net income	(1,907)	(144,379)	(4,110)	(706)	(149,195)

Contribution, if the acquisitions occured on April 1 1,000 CHF	2010				2009
Sales	103,703	124,713	7,544	28,895	161,152
Net income	(1,839)	(168,539)	(21,471)	536	(189,474)

[1] Restated based on finalization of the acquisition accounting of Advanced Bionics (for details refer to Note 3.7).

28. Related party transactions

1,000 CHF	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
	Management Board		Board of Directors		Total	
Short-term employee benefits	8,817	8,518	1,971	1,342	10,788	9,860
Share-based payments	4,289	4,889	1,922	1,930	6,211	6,819
Total	**13,106**	**13,407**	**3,893**	**3,272**	**16,999**	**16,679**

The total compensation to the Management Board for the reporting period 2010/11, as shown above, relates to eight current members and three members that left the Management Board during the period. During the financial year 2010/11, two members joined the Management Board. The total compensation to the Management Board for 2009/10 related to nine then current members and one member that retired from the Management Board during the period.

The total compensation to the Board of Directors for the reporting period 2010/11, as shown above, relates to eight current members (previous year seven members).

In addition to the ordinary compensation of the Management Board 2010/11 (for further details refer to 'Compensation to the Management Board' in Sonova Holding AG's financial statements 2010/11), the short-term employee benefits include the contractual compensation in connection with the resignation of Dr Valentin Chapero Rueda and Oliver Walker in the amount of CHF 2.1 million payable in the financial year 2011/12.

There is a consultancy agreement 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 2010/11, a total amount of CHF 72,644 was paid by the Group for the consultancy services provided under this contract.

In the previous year 2009/10, the Group finished the construction of a new high-technology manufacturing center on a site next to the Group's headquarters in Stäfa, Switzerland. The factory was built by the general contractor R-Estate AG. The land belonged to ARim AG and has been purchased by the Group. Both R-Estate AG and ARim AG are fully owned by Andy Rihs, a member of the Board of Directors of Sonova Holding AG. The terms for purchasing the land and constructing the factory are identical to those that would have been stipulated in an agreement with an independent third party. The purchase price for the land was CHF 5.2 million, all of which was paid to ARim AG in the financial year 2009/10 and 2008/09. The amount paid to R-Estate AG for the construction of the factory (excluding interior work) was CHF 20.1 million, of which CHF 0.6 million have been paid in the reporting period (CHF 19.5 million have been paid in the previous financial years). Effective October 23, 2007 the Group entered into a lease contract with ARim AG (annual lease payment of CHF 0.3 million). In addition, as of November 2010, the Group entered into another lease contract with ARim AG (annual lease payment of CHF 0.2 million).

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

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

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

29. Employee benefits

Sonova Group's retirement plans include defined benefit pension plans, primarily in Switzerland 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	31.3.2011	31.3.2010
Present value of funded obligations	(197,709)	(166,278)
Fair value of plan assets	193,460	167,890
Net present value of funded plans	**(4,249)**	**1,612**
Present value of unfunded obligations	(1,018)	(1,033)
Total (liabilities)/assets, net	**(5,267)**	**579**
Amounts in the balance sheet:		
Liabilities	(5,267)	(1,180)
Assets		1,759

Actuarial loss/(gain) recognized in other comprehensive income CHF 1,000	2010/11	2009/10
Actuarial loss on obligations	5,799	532
Actuarial loss/(gain) on plan assets	1,215	(23,870)
Actuarial loss/(gain) recognized in other comprehensive income	**7,014**	**(23,338)**

Cumulative actuarial loss recognized in equity CHF 1,000	2010/11	2009/10
Recognized actuarial loss at beginning of period	6,156	29,494
Actuarial loss/(gain) charged for the year	7,014	(23,338)
Cumulative actuarial loss recognized in equity	**13,170**	**6,156**

Amounts recognized in the income statement CHF 1,000	2010/11	2009/10
Current service cost	19,338	17,699
Participants' contributions	(8,103)	(7,373)
Interest cost	5,454	4,731
Expected return on plan assets	(6,716)	(4,890)
Total employee benefit expenses	**9,973**	**10,167**

The amount recognized in the consolidated income statement 2010/11 has been charged to cost of sales (CHF 3.6 million, previous year CHF 3.0 million), research and development (CHF 2.6 million, previous year CHF 3.0 million), sales and marketing (CHF 1.4 million, previous year CHF 1.5 million) as well as general and administration (CHF 2.3 million, previous year CHF 2.7 million) in the income statement.

Movement in the present value of the defined benefit obligation CHF 1,000	2010/11	2009/10
Beginning of the year	167,311	144,956
Interest cost	5,454	4,731
Current service cost	19,338	17,699
Benefits received/(paid), net	963	(633)
Actuarial loss on obligation	5,799	532
Exchange differences	(138)	26
Present value of obligation at end of period	**198,727**	**167,311**

Movement in the fair value of the plan assets CHF 1,000	2010/11	2009/10
Beginning of the year	167,890	122,205
Expected return on plan assets	6,716	4,890
Employer's contributions paid	10,972	10,056
Participants' contributions	8,103	7,373
Benefits received/(paid), net	1,110	(544)
Actuarial (loss)/gain on plan assets	(1,215)	23,870
Exchange differences	(116)	40
Fair value of plan assets at end of period	**193,460**	**167,890**

Principal actuarial assumptions (weighted average)	2010/11	2009/10
Discount rate	3.10%	3.25%
Future salary increases	1.75%	1.75%
Future pension increases	0%	0%
Expected return on plan assets	4%	4%
Fluctuation rate	10%	10%

The plan assets consist of:	31.3.2011	31.3.2010
Cash	7.8%	10.2%
Domestic bonds	20.9%	24.2%
Foreign bonds	7.8%	6.4%
Domestic equities	18.3%	22.7%
Foreign equities	20.0%	17.2%
Real estates	11.9%	5.9%
Alternative investments	13.3%	13.4%

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 5.6 million (previous year CHF 27.9 million). The expected employer's contributions to be paid in the financial year 2011/12 amount to CHF 11.7 million.

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

CHF 1,000	31.3.2011	31.3.2010	31.3.2009	31.3.2008	31.3.2007
Present value of defined benefit obligation	(198,727)	(167,311)	(144,956)	(133,316)	(112,595)
Fair value of plan assets	193,460	167,890	122,205	132,815	115,488
(Deficit)/surplus	**(5,267)**	**579**	**(22,751)**	**(501)**	**2,893**
Experience adjustments on plan liabilities	(5,799)	(532)	7,526	3,620	(424)
Experience adjustments on plan assets	(1,215)	23,870	(30,334)	(7,286)	(1,523)

DEFINED CONTRIBUTION PLANS

Several of the Group's entities have a defined contribution plan. The employer's contributions amounting to CHF 7.0 million in the year ended March 31, 2011 (previous year CHF 5.3 million) are recognized directly in the income statement.

30. Employee share option and share purchase plans

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

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

1,000 CHF	2010/11	2009/10
Equity-settled share-based payment costs	18,238	14,688
Cash-settled share-based payment costs	1,314	768
Total share-based payment costs	**19,552**	**15,456**

The following table shows an overview of the outstanding options/warrants/WARs/SARs, granted as part of the EEAP programs 2007 to 2011.

Summary of outstanding options/warrants/WARs/SARs granted until March 31, 2011:

Financial year	Plan participants	Grant date/ Expiry date	Granted	Exercise price	Vesting conditions	Outstanding	Average remaining life (years)	Exercisable
2006/07 Equity-settled	Options granted to BoD, MB and key employees outside CH	01.02.2007 31.01.2012	91,235	95.05	4 equal tranches, vest annually over 4 years	21,911	0.8	21,911
2006/07 Equity-settled	Options granted to BoD, MB and key employees in CH	01.03.2007 29.02.2012	228,480	95.05	4 equal tranches, vest annually over 4 years	98,795	0.9	98,795
2006/07 Equity-settled	Options granted to former CEO	01.10.2007 30.09.2012	500,000	95.05	4 equal tranches, vest annually over 4 years	292,600	1.5	192,600
2006/07 Cash-settled	SARs granted to key employees in the USA	01.02.2007 31.01.2012	31,600	95.05	4 equal tranches, vest annually over 4 years	13,600	0.8	13,600
2007/08 Equity-settled	Warrants granted to BoD, MB and key employees[1)]	01.02.2008 28.02.2013	341,824	96.00	4 equal tranches, vest annually over 4 years	182,031	1.9	114,474
2007/08 Cash-settled	WARs granted to key employees in the USA[1)]	01.02.2008 28.02.2013	29,400	96.00	4 equal tranches, vest annually over 4 years	14,450	1.9	7,500
2007/08 Cash-settled	WARs granted to key employees in the USA[1)]	01.02.2008 31.05.2013	15,000	96.00	1 tranche, vesting 01.06.2011	15,000	2.2	
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	296,092	2.9	106,302
2008/09 Equity-settled	Options granted to former CEO	01.02.2009 31.05.2012	160,000	56.00	4 equal tranches, vest annually over 4 years, 1. vesting date 01.03.2012	40,000	1.2	

Financial year	Plan participants	Grant date/ Expiry date	Granted	Exercise price	Vesting conditions	Outstanding	Average remaining life (years)	Exercisable
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	23,590	2.9	4,500
2009/10 Equity-settled	Warrants granted to BoD, MB and key employees	01.02.2010 28.02.2015	417,640	131.00	4 equal tranches, vest annually over 4 years	375,040	3.9	104,185
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	34,500	3.9	8,625
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	47,892	2.8	
2010/11 Equity-settled	Warrants granted to BoD, MB and key employees	01.02.2011 29.02.2016	556,530	118.40	4 equal tranches, vest annually over 4 years	418,715	4.9	
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	55,535	4.9	
Total			**3,045,176**	**105.79**[2)]		**1,929,751**	**3.2**	**672,492**[3)]

1) For better comparison with options issued, the number of warrants has been adjusted by factor 25, as 25 warrants qualify for one share. The warrants are tradable at the SIX Swiss Exchange. The ticker symbols are as follows: plan 2007/08: SONLT, plan 2008/09: SONAR, plan 2009/10: SONAB, plan Advanced Bionics 2009/10: SONNA, plan 2010/11: SONCA.

2) Weighted average exercise price of outstanding options/warrants/WARs/SARs amounts to CHF 96.46.

3) Weighted average exercise price for exercisable options/warrants/WARs/SARs amounts to CHF 94.82.

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 2010 and 2011 are as follows:

Assumptions for valuation at grant date	Executive Equity Award Plan 2011	Advanced Bionics Welcome Plan 2010	Executive Equity Award Plan 2010
Valuation date	01.02.2011	30.12.2009	01.02.2010
Expiration date	29.02.2016	30.12.2013	28.02.2015
Share price on grant date	CHF 118.40	CHF 125.50	CHF 131.00
Exercise price	CHF 118.40	CHF 125.80	CHF 131.00
Volatility	32.3%	32.3%	32.2%
Expected dividend yield	1.01%	0.92%	0.89%
Weighted risk-free interest rate	1.1%	1.2%	1.3%
Weighted average fair value of options/warrants issued	**CHF 24.03**	**CHF 25.53**	**CHF 27.57**

Options/warrants – Executive Equity Award Plan

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

Changes in outstanding options/warrants	2010/11		2009/10	
	Number of options/ warrants[2]	Weighted average exercise price (CHF)	Number of options/ warrants[2]	Weighted average exercise price (CHF)
Outstanding options/warrants at April 1	2,142,314	89.88	2,437,299	73.29
Granted	556,530	118.40	417,640	131.00
Exercised/sold[1]	(559,508)	83.26	(686,915)	56.65
Forfeited	(414,152)	90.74	(25,710)	72.33
Outstanding options/warrants at March 31	**1,725,184**	**101.03**	**2,142,314**	**89.88**
Exercisable at March 31	**638,267**	**94.58**	**694,642**	**85.98**

[1] Out of the movement for the financial year 2010/11, 423,648 (previous year 578,661) relates to options exercised and 135,860 (previous year 108,254) to warrants sold. Total consideration from exercise of options amounted to CHF 36.5 million (previous year CHF 30.4 million). The weighted average share price of the options exercised during the year 2010/11 was CHF 103.71 (previous year CHF 123.17).

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

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

The exercise price of the WARs/SARs is generally equal to the market price of the Sonova share at the SIX Swiss Exchange at grant date. Upon exercise of a WAR/SAR, a participant shall be paid, in cash, an amount equal to the product of the number of shares for which the participant exercised WARs/SARs, multiplied by the excess, if any, of the pershare market price at the date of exercise over the pershare 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				2010/11				2009/10
	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	**172,214**	**106.33**	**23,200**	**95.05**	**82,580**	**77.51**	**28,400**	**95.05**
Granted	55,535	118.40			99,892	127.60		
Exercised/sold	(19,282)	73.53	(9,600)	95.05	(9,058)	79.40	(4,400)	95.05
Forfeited	(17,500)	125.80			(1,200)	96.00	(800)	95.05
Outstanding WARs/SARs at March 31[1)]	**190,967**	**111.37**	**13,600**	**95.05**	**172,214**	**106.33**	**23,200**	**95.05**
Exercisable at March 31[2)/3)]	**20,625**	**101.91**	**13,600**	**95.05**	**14,786**	**80.35**	**16,500**	**95.05**

1) The carrying amount of the liability relating to the WARs at March 31, 2011 is CHF 0.9 million (previous year CHF 2.8 million) and the one for the SARs amounts to CHF 0.03 million (previous year CHF 0.9 million).
2) The intrinsic value of the SARs exercisable at March 31, 2011 amounts to CHF 0 (previous year CHF 35.95).
3) The intrinsic value of the WARs exercisable at March 31, 2011 amounts to CHF 0 (previous year CHF 50.65).

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

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 EEAP 2010 and EEAP 2011, restricted share units (RSUs) have been granted to legitimated persons. The value of an RSU is equal to the market price on the SIX Swiss Exchange on the grant date, adjusted for the fair value of expected dividends, as RSUs are not entitled to dividends. RSUs entitle the holder to receive one share per RSU after the blocking period.

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

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

Changes in outstanding shares/RSUs	2010/11	2009/10
	Number of shares/RSUs	Number of shares/RSUs
Restricted shares/RSUs at April 1	**214,833**	**193,312**
Granted	111,576	94,502
Released	(77,412)	(69,321)
Forfeited	(7,698)	(3,660)
Restricted shares/RSUs at March 31	**241,299**	**214,833**

31. Contingent liabilities

At March 31, 2011 and 2010, 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, granted in connection with the acquisition of Advanced Bionics, the shares of Advanced Bionics have been pledged. Mortgages are secured by properties in the amount of CHF 0.2 million (previous year CHF 0.3 million). The net book value of these properties amounts to CHF 1.3 million at March 31, 2011 (previous year CHF 0.7 million).

Guarantees issued to third parties increased to CHF 7.1 million (previous year CHF 2.6 million). There were no recourse liabilities in respect of discounted bills of exchange at March 31, 2011 and 2010. Open purchase orders as of March 31, 2011 and 2010, were related to recurring business activities.

32. Leasing liabilities

At March 31, 2011 the following non-cancellable minimum operating lease obligations existed:

Business year 1,000 CHF	31.3.2011	31.3.2010
2010/11		28,562
2011/12	29,231	22,177
2012/13	23,622	17,519
2013/14	18,074	15,214
2014/15	14,567	13,383
2015/16	13,447	13,015
Thereafter	28,950	19,522
Total	**127,891**	**129,392**

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

In financial year 2010/11, CHF 38.5 million have been recognized as expenses for leases in the consolidated income statement (previous year CHF 31.7 million).

As of March 31, 2011 and 2010, the Group had no financial lease obligations.

33. Number of employees

At March 31, 2011, the Sonova Group employed 7,840 people (previous year 6,843). They were engaged in the following regions and activities:

By region	31.3.2011	31.3.2010
Switzerland	1,141	1,026
EMEA (excl. Switzerland)	1,925	1,479
Americas	2,962	2,805
Asia/Pacific	1,812	1,533
Total	**7,840**	**6,843**
By activity		
Research and development	525	481
Operations	3,054	2,800
Sales and marketing, general and administration	4,261	3,562
Total	**7,840**	**6,843**

The average number of employees of the Sonova Group for the year was 7,291 (previous year 5,933). Total personnel expenses for the financial year 2010/11 amounted to CHF 564.5 million (previous year CHF 467.4 million).

34. Exchange rates

The following main exchange rates were used for currency translation:

	31.3.2011	31.3.2010	2010/11	2009/10
	Year-end rates		Average rates for the year	
AUD 1	0.95	0.98	0.95	0.90
BRL 1	0.56	0.60	0.59	0.57
CAD 1	0.95	1.05	1.00	0.98
CNY 1	0.14	0.16	0.15	0.16
EUR 1	1.30	1.43	1.34	1.50
GBP 1	1.48	1.61	1.58	1.70
JPY 100	1.11	1.14	1.18	1.15
USD 1	0.92	1.07	1.01	1.06

35. Events after balance sheet date

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

36. List of significant consolidated companies

Company name	Activity	Domicile	Share capital Local currency 1,000		Shares held
Switzerland					
Sonova Holding AG	A	Stäfa	CHF	3,326	
Phonak AG	A, B, C, D	Stäfa	CHF	2,500	99.3%
Phonak Acoustic Implants SA	D	Lonay	CHF	1,000	100%
Phonak Communications AG	B, C, D	Murten	CHF	500	100%
Phonak Hearing Systems AG	B	Stäfa	CHF	100	100%
Advanced Bionics AG	A	Zug	CHF	4,350	100%
Indomed AG	A	Zug	CHF	1,000	100%
Indomed Hearing Systems GmbH	B	Stäfa	CHF	20	100%
Sona Hearing AG	B	Stäfa	CHF	100	100%
Verve Hearing Systems AG	B	Stäfa	CHF	100	100%
EMEA (excluding Switzerland)					
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450	100%
Advanced Bionics NV	B, D	Brussels (BE)	EUR	62	100%
Phonak Belgium NV	A, B	Dilbeek (BE)	EUR	15,311	100%
Ets. Lapperre BHAC NV	B	Groot-Bijgaarden (BE)	EUR	124	100%
HIMSA A/S	B	Copenhagen (DK)	DKK	1,000	25% [1]
Phonak Danmark A/S	B	Frederiksberg (DK)	DKK	11,075	100%
Advanced Bionics Sarl	B	Mulhouse (FR)	EUR	12,000	100%
Phonak France SA	B	Bron-Lyon (FR)	EUR	305	100%
Advanced Bionics GmbH	B, D	Hanover (DE)	EUR	51	100%
Phonak GmbH	B	Fellbach-Oeffingen (DE)	EUR	25	100%
Unitron Hearing GmbH	B	Fellbach-Oeffingen (DE)	EUR	41	100%
Phonarium Szolgáltató Kft.	B	Budapest (HU)	HUF	5,000	49% [1]
Advanced Bionics Srl	B	Milan (IT)	EUR	10	100%
Phonak Italia Srl	B	Milan (IT)	EUR	1,040	100%
TRE S.A.	A	Luxembourg (LU)	EUR	31	100%
Phonak B.V.	B	Vianen (NL)	EUR	227	100%
Unitron Hearing B.V.	B	Vianen (NL)	EUR	18	100%
Phonak AS	B	Oslo (NO)	NOK	900	100%
Phonak Polska Sp. Z o.o.	B	Warsaw (PL)	PLN	100	100%
Phonak CIS Ltd.	B	Moscow (RU)	RUB	4,000	100%
Advanced Bionics Spain, Srl	B	Alicante (ES)	EUR	3	100%
Phonak Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100%
Phonak AB	B	Stockholm (SE)	SEK	200	100%
Unitron Hearing AB	B	Stockholm (SE)	SEK	100	100%
Advanced Bionics Isitme Cihazlari Ticareti Ltd Sti	B	Istanbul (TR)	TRY	600	100%
Phonak Duyu Sistemleri Ithalat Ihracat Ticaret Pazarlama Limited Sirketi	B	Istanbul (TR)	TRY	655	100%
Advanced Bionics UK Ltd.	B	Cambridge (UK)	GBP	0 [2]	100%
Phonak Group Ltd.	B	Warrington (UK)	GBP	2,500	100%
Lukatit Investments 14 (Pty) Ltd.	B	Fourways North (ZA)	ZAR	0 [3]	100%

Company name	Activity	Domicile	Share capital Local currency 1,000		Shares held
Americas					
Phonak do Brasil – Sistemas Audiológicos Ltda.	B	São Paulo (BR)	BRL	570	100%
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	7,500	100%
Phonak Canada Ltd.	B	Mississauga (CA)	CAD	88,694	100%
Unitron Hearing Ltd.	B, C, D	Kitchener (CA)	CAD	17,436	100%
Unitron Hearing Colombia Ltd.	B	Bogotá (CO)	USD	100	100%
Advanced Bionics Mexico S.A. de C.V.	B	México D.F. (MX)	MXN	50	100%
Bionic Services Mexico S.A. de C.V.	B	México D.F. (MX)	MXN	50	100%
Connect Hearing Mexico S.A. de C.V	B	México D.F. (MX)	MXN	10,100	100%
Phonak Mexicana S.A. de C.V.	B	México D.F. (MX)	MXN	50	100%
Advanced Bionics LLC	B, C, D	Valencia (US)	USD	143,937	100%
HearingPlanet, Inc.	B	Nashville (US)	USD	23	100%
InSound Medical, Inc.	B, C, D	Newark (US)	USD	0 [4]	100%
Newport Health Network, Inc.	B	Greenwood Village (US)	USD	610	100%
Phonak LLC	B	Warrenville (US)	USD	1,250	100%
Sona Hearing LLC	B	Napperville (US)	USD	0 [5]	100%
Unitron Hearing, Inc.	B	Plymouth (US)	USD	46,608	100%
Asia/Pacific					
Advanced Bionics Australia Pty. Ltd.	B	Baulkham Hills (AU)	AUD	1	100%
Hearing Retail Group Pty. Ltd.	B	Sydney (AU)	AUD	0 [6]	100%
Phonak Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750	100%
Phonak (Shanghai) Co., Ltd.	B	Shanghai (CN)	CNY	20,041	100%
Sichuan i-hear Co., Ltd.	B	Sichuan (CN)	CNY	19,119	100%
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249	100%
Advanced Bionics Asia Pacific Ltd.	B	Hong Kong (HK)	HKD	10	100%
Phonak India Pvt. Ltd.	B	Navi Mumbai (IN)	INR	100	100%
Unitron Hearing India Private Limited	B	Mumbai (IN)	INR	2,118	100%
Nihon Bionics Co., Ltd.	B	Tokyo (JP)	JPY	35,000	100%
Phonak Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100%
Advanced Bionics Korea Ltd.	B	Seoul (KR)	KRW	50,000	100%
Phonak Korea Ltd.	B	Seoul (KR)	KRW	50,000	100%
Unitron Hearing Korea Co., Ltd.	B	Seoul (KR)	KRW	200,000	37.5% [1]
Phonak New Zealand Ltd.	B	Auckland (NZ)	NZD	250	100%
Phonak Singapore Pte Ltd.	B	Singapore (SG)	SGD	250	100%
Phonak Taiwan Pte Ltd.	B	Taipei (TW)	TWD	3,100	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 performs research and development activities for the Group.
1) Accounted for using the equity method.
2) GBP 100
3) ZAR 400
4) USD 10
5) USD 1
6) AUD 100

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers

Report of the Statutory Auditor
on the Consolidated Financial Statements 2010/11
to the Annual General Shareholders' Meeting
of Sonova Holding AG
Stäfa

—

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

As statutory auditor, we have audited the consolidated financial statements of Sonova Holding AG, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated changes in equity and notes (pages 92 to 147) for the year ended 31 March, 2011.

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, 2011, give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

PricewaterhouseCoopers AG

Patrick Balkanyi	Urs Honegger
Audit expert	Audit expert
Auditor in charge	

Zurich, May 10, 2011

Income Statements

1,000 CHF	Notes	2010/11	2009/10
Income			
Management and licence fees		20,498	20,388
Investment income	4.1	259,846	202,171
Other income			16
Interest income		17,146	9,942
Total income		**297,490**	**232,517**
Expenses			
Office and professional expenses		5,797	7,344
Advertising and PR expenses		459	631
Interest expenses		10,458	5,364
Other operating expenses		2,204	459
Other expenses		4,557	4,546
Write-down of financial assets		579	6,524
Losses/(gains) on marketable securities		1,493	(18,016)
Exchange losses/(gains), net		40,812	(530)
Taxes	4.2		2,652
Total expenses		**66,359**	**8,974**
Net profit for the year		**231,131**	**223,543**

Balance Sheets

Assets 1,000 CHF	Notes	31.3.2011	31.3.2010
Cash and cash equivalents		756	11,504
Marketable securities	3.1	15,437	36,476
Amounts due from Group companies		27,745	133,719
Other receivables		420	232
Prepayments		104	89
Total current assets		**44,462**	**182,020**
Loans to Group companies	3.2	883,174	929,315
Loans to third parties		976	4,727
Investments	3.3	287,416	251,634
Total non-current assets		**1,171,566**	**1,185,676**
Total assets		**1,216,028**	**1,367,696**

Liabilities and shareholders' equity 1,000 CHF	Notes	31.3.2011	31.3.2010
Trade payables		822	124
Other payables – third parties		17,186	5,957
Other payables – Group companies		14,760	
Accruals		5,094	12,220
Bank loans	3.4	270,000	470,000
Loans from Group companies			159,668
Total liabilities		**307,862**	**647,969**
Share capital		3,326	3,305
Legal reserves			
– General reserve		32,443	112,016
– Reserve from capital contributions		116,055	
– Reserve for treasury shares	3.5	5,306	26,353
Retained earnings		751,036	578,053
Total shareholders' equity	3.6	**908,166**	**719,727**
Total liabilities and shareholders' equity		**1,216,028**	**1,367,696**

NOTES TO THE FINANCIAL STATEMENTS AS OF MARCH 31, 2011

1. General

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

2. Disclosures required by Swiss corporate law

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

1,000 CHF	**31.3.2011**	**31.3.2010**
Guarantees given in respect of rental obligations of Group companies	8,167	11,702

2.2 Conditional and authorized capital

1,000 CHF	**31.3.2011**	**31.3.2010**
Conditional capital at year-end	299	320
Authorized capital at year-end	166	166

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, 2011, 5,981,027 shares (previous year 6,404,675 shares) thereof have not yet been issued. These shares are reserved for long-term incentive plans.

The Annual General Shareholders' Meeting held on June 10, 2009, approved the creation of authorized share capital of 3,311,520 registered shares with a par value of CHF 0.05 per share. The Board of Directors determines the issue price, type of capital contribution, the terms for the subscription rights, and the date of qualification for dividend. Unexercised subscription rights are at the disposal of the Board of Directors and to be used in the best interest of the company. The Board of Directors is authorized to exclude subscription rights of shareholders and to allocate them to third parties if the new shares are to be used for the acquisition of companies, part of companies, equity stakes or the financing of such transactions. The authorized share capital of 3,311,520 registered shares created on June 10, 2009, has not yet been used. The authorization granted to the Board of Directors to augment the company's share capital with the authorized share capital expires on June 9, 2011.

2.3 Significant shareholders

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

	31.3.2011	31.3.2010
Beda Diethelm	9.99%	10.19%
Andy Rihs	9.49%	10.68%
Chase Nominees Ltd. [1]	8.19%	10.44%
Hans-Ueli Rihs	5.70%	6.76%
Nortrust Nominees Ltd. [1]	3.10%	
Registered shareholders with less than 3%	32.07%	35.70%
Not registered	31.46%	26.23%

[1] Registered without voting rights.

2.4 Risk assessment

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

2.5 Compensation and shareholdings

Content and method of determining the compensation and the shareholding programs

The compensation principle of Sonova Group is to provide simple, transparent, performance-driven, and competitive compensation to all employees including executive management.

The Nomination and Compensation Committee is responsible for reviewing and defining the structure and amount of compensation for the Management Board and the Board of Directors, taking into account salary comparisons and publicly accessible information.

Three elements are relevant for the Group: a fixed base salary, a variable compensation component that revolves around the respective financial year, and, for selected executive managers and employees, a long-term variable compensation component.

Fixed salary component

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

Variable salary component

The variable salary is an integral element of the target income. The split between the fixed and variable salary components is a function of the job profile and respective management level. The targets for achieving the variable salary component are mutually defined and agreed upon in consultation with the employees at the beginning of the financial year. The variable salary component is generally 10% of the target salary for employees and 10–30% for managers. If the employee actually reaches less than 80% of the stipulated target, no variable salary component is paid out. If the targets are exceeded, the variable salary component may be a maximum of double the original amount. The amount paid out depends on the employee's actual achievement of objectives by the end of the financial year and also on the overall performance of the Sonova Group or the respective unit.

Executive Equity Award Plan

The Executive Equity Award Plan (EEAP) serves as a long-term incentive and is offered annually to the Board of Directors, the Management Board, as well as other management levels of the Sonova Group. A total of approximately 400 people are participating in the 2011 plan. The plan entitles them to receive shares, options, warrants, warrant appreciation rights (WARs), and/or restricted share units (RSUs). The number of shares, options, warrants, WARs, and RSUs granted varies depending on the respective management level and on individual performance. The shares, options, warrants, WARs, and RSUs granted as part of the EEAP are split into four equal tranches. The options, warrants and WARs have terms of five years. Each tranche vests each year, starting one year after the grant date. The strike price on which the options, warrants and WARs are based corresponds to the closing price for the shares on the Swiss stock exchange (SIX Swiss Exchange) on the date on which the options, warrants, and WARs were granted. The fair value of the options, warrants and WARs is calculated on the grant date using an option pricing model. The shares/RSUs have a blocking period of up to four years. One of the four equal tranches vests each year, starting one year after the grant date. Additional information can be found in Note 30 to the consolidated financial statements.

Determination of the compensation to members of the Board of Directors

The compensation policies for the Board of Directors differ from those for Sonova Group employees. The members of the Board of Directors receive a retainer and no variable cash compensation. The members of the Board of Directors also participate in the Executive Equity Award Plan. The compensation for the members of the Board of Directors is defined by the Nomination and Compensation Committee, periodically reviewed and set by the Board of Directors.

Determination of the compensation to members of the Management Board

The compensation policies and the Executive Equity Award Plan (EEAP) described above apply to the CEO and the Management Board. In Management Board compensation, the variable salary component has a stronger weighting with respect to the target income than for other employees of the Sonova Group. The variable cash compensation varies between 30%–40% of the target salary for members of the Management Board and 50% of the target salary for the former CEO. If a member of the Management Board achieves less than 80% of the stipulated target, no variable salary component is paid out. If the target is exceeded, the variable cash compensation may be granted to a maximum of double the original amount, or for the former CEO, a maximum of 174%, depending on the actual level of achievement. The variable cash compensation is a function of company performance, based on sales, operating profit (EBITA) and individual achievement of objectives. The sales and EBITA targets are not interlinked. The Board of Directors can also award further cash components for exceptional achievements that do not fall under the annual objectives. The former CEO's incentive plan differed in that the EEAP options were not granted to the former CEO annually in the last few years. The granting of options, including the period for exercising, was part of his employment contract.

COMPENSATION TO MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Compensation to the Board of Directors

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

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

in CHF							2010/11
	Fixed fee	Attendance fee/expenses[1]	Social benefits (employer's contribution)[2]	Total cash compensation	Value of warrants[3]	Number of warrants[3] granted	Total compensation
Robert F. Spoerry, Chairman[4]	120,000	27,500	152,806	300,306	240,300	250,000	540,606
William D. Dearstyne, Vice-Chairman	120,000	30,000	320,122	470,122	240,300	250,000[5]	710,422
Andy Rihs, member[4]	120,000	31,000	188,790	339,790	240,300	250,000	580,090
Heliane Canepa, member	120,000	27,000	61,484	208,484	240,300	250,000	448,784
Dr Michael Jacobi, member	120,000	23,500	63,758	207,258	240,300	250,000	447,558
Anssi Vanjoki, member	120,000	15,500	25,715	161,215	240,300	250,000	401,515
Ronald van der Vis, member	120,000	14,500	25,539	160,039	240,300	250,000	400,339
John J. Zei, member[6]	90,000	16,500	17,713	124,213	240,300	250,000[5]	364,513
Total	**930,000**	**185,500**	**855,927**	**1,971,427**	**1,922,400**	**2,000,000**	**3,893,827**

[1] Attendance fees and expenses are based on the number of attended meetings of each member of the Board of Directors.
[2] Including social security contributions on the tax value of options/WARs/SARs exercised during the reporting period.
[3] Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
[4] Robert F. Spoerry took over the position as chairman of the Board of Directors from Andy Rihs in March 2011.
[5] WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
[6] New member of the Board of Directors since June 2010.
Dr Valentin Chapero Rueda received no compensation for his mandate as a member of the Board of Directors due to his mandate as CEO.

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

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

Compensation to the Management Board

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

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

in CHF								2010/11
	Fixed salary	Variable salary[1]	Fringe benefits	Social benefits (employer's contribution)[2]	Total cash compensation[1)/2)]	Value of warrants[3]	Number of warrants[3] granted	Total compensation[2]
Dr Valentin Chapero Rueda, CEO[4]	1,500,000	521,976	16,000	404,789	2,442,765	672,960	700,125	3,115,725
Other members of the Management Board[5]	2,396,409	1,008,930	162,315	687,055	4,254,709	3,616,515	3,762,500	7,871,224
Total	**3,896,409**	**1,530,906**	**178,315**	**1,091,844**	**6,697,474**	**4,289,475**	**4,462,625**	**10,986,949**

1) The variable salary will be paid out after the end of the reporting year.
2) Including social security contributions on the tax value of options/warrants exercised during the reporting period.
3) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
4) Dr Valentin Chapero Rueda was CEO until March 30, 2011.
5) Oliver Walker was a member of the Management Board until March 30, 2011, Cameron Hay until November 30, 2010.

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

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

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

One member of the Board of Directors has a consulting contract with the Sonova Group through a company he controls and is remunerated accordingly. These services are related to specific assignments, going beyond regular Board tasks, that he was given by the Sonova Group. In the year under review, this member of the Board of Directors received CHF 72,644 for providing consulting services.

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

PAYMENTS TO FORMER MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Severance packages are generally not granted at Sonova. The payments made upon resignation of Dr Valentin Chapero Rueda and Oliver Walker satisfy only the respective contractual terms. The principles underlying the variable compensation of Dr Valentin Chapero Rueda and Oliver Walker for the financial year 2010/11 were not affected by their resignation. However, since the agreed performance targets were not met, variable compensation was below prior year levels. No additional payments beyond what had been contractually agreed were made. The regulations stipulate that titles (warrants/options) granted under the Executive Equity Award Plan and vested during the notice period can be exercised or sold up to 60 days after the notice period has expired. Titles that are vested only after the notice period has expired are forfeited.

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

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

Shareholdings of the Board of Directors

As of March 31, 2011, the members of the Board of Directors and persons closely linked to them held directly and indirectly 6,371,908 Sonova shares (9.6% of total share capital), 39,000 options, 6,000,000 warrants, 1,237,500 Warrant Appreciation Rights, and 3,000 Share Appreciation Rights.

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

	31.3.2011			31.3.2010		
	Shares	Warrants[1]	Options	Shares	Warrants[1]	Options
Andy Rihs	6,309,598	1,250,000	3,000	7,059,100	1,000,000	24,000
William D. Dearstyne	32,300	987,500[2]	3,000[3]	20,300	1,000,000[2]	24,000[4]
Heliane Canepa	18,010	1,250,000	12,000	15,010	1,000,000	15,000
Robert F. Spoerry	10,000	1,250,000	12,000	10,000	1,000,000	24,000
Dr Michael Jacobi	2,000	1,250,000	12,000	2,000	1,000,000	15,000
Anssi Vanjoki		500,000			250,000	
Ronald van der Vis		500,000			250,000	
John J. Zei		250,000[2]				
Total	**6,371,908**	**7,237,500**	**42,000**	**7,106,410**	**5,500,000**	**102,000**

1) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
2) WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
3) SARs (SARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
4) Thereof 12,000 SARs (SARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).

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

							31.3.2011
	Warrants EEAP 11[2]	Warrants EEAP 10[3]	Warrants EEAP 09[4]	Warrants EEAP 08[5]	Options EEAP 07[6]	Total warrants[1]	Total options
Andy Rihs	250,000	250,000	450,000	300,000	3,000	1,250,000	3,000
William D. Dearstyne	250,000[7]	250,000[7]	337,500[7]	150,000[7]	3,000[8]	987,500[7]	3,000[8]
Heliane Canepa	250,000	250,000	450,000	300,000	12,000	1,250,000	12,000
Dr Michael Jacobi	250,000	250,000	450,000	300,000	12,000	1,250,000	12,000
Robert F. Spoerry	250,000	250,000	450,000	300,000	12,000	1,250,000	12,000
Anssi Vanjoki	250,000	250,000				500,000	
Ronald van der Vis	250,000	250,000				500,000	
John J. Zei	250,000[7]					250,000[7]	
Total	**2,000,000**	**1,750,000**	**2,137,500**	**1,350,000**	**42,000**	**7,237,500**	**42,000**

1) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
2) Strike price CHF 118.40, blocking period 1.3.2011 – 28.2.2015, whereas one tranche being released each year, exercise period 1.3.2012 – 29.2.2016.
3) Strike price CHF 131.00, blocking period 1.3.2010 – 28.2.2014, whereas one tranche being released each year, exercise period 1.3.2011 – 28.2.2015.
4) Strike price CHF 56.00, blocking period 1.3.2009 – 28.2.2013, whereas one tranche being released each year, exercise period 1.3.2010 – 28.2.2014.
5) Strike price CHF 96.00, blocking period 1.3.2008 – 29.2.2012, whereas one tranche being released each year, exercise period 1.3.2009 – 28.2.2013.
6) Strike price CHF 95.05, blocking period 1.2.2007 – 31.1./28.2.2011, whereas one tranche being released each year, exercise period 1.2.2008 – 31.1./29.2.2012.
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 the Sonova shares without issuance of shares).

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

1) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
2) Strike price CHF 131.00, blocking period 1.3.2010 – 28.2.2014, whereas one tranche being released each year, exercise period 1.3.2011 – 28.2.2015.
3) Strike price CHF 56.00, blocking period 1.3.2009 – 28.2.2013, whereas one tranche being released each year, exercise period 1.3.2010 – 28.2.2014.
4) Strike price CHF 96.00, blocking period 1.3.2008 – 29.2.2012, whereas one tranche being released each year, exercise period 1.3.2009 – 28.2.2013.
5) Strike price CHF 95.05, blocking period 1.2.2007 – 31.1./28.2.2011, whereas one tranche being released each year, exercise period 1.2.2008 – 31.1./29.2.2012.
6) Strike price CHF 63.25, blocking period 1.2.2006 – 31.01.2010, whereas one tranche being released each year, exercise period 1.2.2007 – 31.1.2011.
7) WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
8) Thereof 12,000 SARs (SARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
For shareholdings of Dr Valentin Chapero Rueda see shareholdings of members of the Management Board.

Shareholdings of the Management Board

As of March 31, 2011, the members of the Management Board and persons closely linked to them held directly and indirectly 3,030 Sonova shares, 9,905,500 warrants and 13,335 options.

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

			31.3.2011			31.3.2010
	Shares	Warrants[1]	Options	Shares	Warrants[1]	Options
Alexander Zschokke		1,537,500			1,231,250	5,576
Paul Thompson		1,537,500			1,231,250	4,000
Hansjürg Emch[2]	1,700	661,000				
Sarah Kreienbühl		1,738,000	790		1,587,500	11,750
Dr Hans Leysieffer					1,231,250	4,000
Ignacio Martinez		1,550,000	4,000		1,525,000	23,000
Maarten Barmentlo[3]		869,000				
Hans Mehl	1,330	2,012,500	8,545	830	1,450,000	70,000
Dr Valentin Chapero Rueda[4]						660,000
Oliver Walker[4]					1,611,250	5,000
Cameron Hay[5]					1,152,500	13,750
Total	**3,030**	**9,905,500**	**13,335**	**830**	**11,020,000**	**797,076**

1) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
2) Member of the Management Board since March 2011.
3) Member of the Management Board since January 2011.
4) Member of the Management Board until March 2011.
5) Member of the Management Board until November, 2010.

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

							31.3.2011
	Warrants EEAP 11[2]	Warrants EEAP 10[3]	Warrants EEAP 09[4]	Warrants EEAP 08[5]	Options EEAP 07[6]	Total warrants[1]	Total options
Alexander Zschokke	562,500	562,500	312,500	100,000		1,537,500	
Paul Thompson	562,500	562,500	312,500	100,000		1,537,500	
Hansjürg Emch	475,000	186,000				661,000	
Sarah Kreienbühl	562,500	562,500	513,000	100,000	790	1,738,000	790
Ignacio Martinez	562,500	562,500	312,500	112,500	4,000	1,550,000	4,000
Maarten Barmentlo	475,000	394,000				869,000	
Hans Mehl	562,500	450,000	500,000	500,000	8,545[7]	2,012,500	8,545
Total warrants/options	**3,762,500**	**3,280,000**	**1,950,500**	**912,500**	**13,335**	**9,905,500**	**13,335**

1) Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
2) Strike price CHF 118.40, blocking period 1.3.2011 – 28.2.2015, whereas one tranche being released each year, exercise period 1.3.2012 – 29.2.2016.
3) Strike price CHF 131.00, blocking period 1.3.2010 – 28.2.2014, whereas one tranche being released each year, exercise period 1.3.2011 – 28.2.2015.
4) Strike price CHF 56.00, blocking period 1.3.2009 – 28.2.2013, whereas one tranche being released each year, exercise period 1.3.2010 – 28.2.2014.
5) Strike price CHF 96.00, blocking period 1.3.2008 – 29.2.2012, whereas one tranche being released each year, exercise period 1.3.2009 – 28.2.2013.
6) Strike price CHF 95.05, blocking period 1.2.2007 – 30.9.2011, whereas one tranche being released each year, exercise period 1.2.2008 – 31.5.2012.
7) These options were granted to Hans Mehl at commencement of employment on April 1, 2007.

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

[1] Exercise ratio between warrants and options: 25:1 (see also Note 30 in the consolidated financial statements).
[2] Strike price CHF 131.00, blocking period 1.03.2010 – 28.2.2014, whereas one tranche being released each year, exercise period 1.3.2011 – 28.2.2015.
[3] Strike price CHF 56.00, blocking period 1.03.2009 – 28.2.2013, whereas one tranche being released each year, exercise period 1.3.2010 – 28.2.2014.
[4] Strike price CHF 56.00, extraordinary allocation, options blocking period 1.3.2009 – 28.2.2015, whereas one tranche being released each year, exercise period 1.3.2012 – 29.2.2020.
[5] Strike price CHF 96.00, blocking period 1.3.2008 – 29.2.2012, whereas one tranche being released each year, exercise period 1.3.2009 – 28.2.2013.
[6] Strike price CHF 95.05, blocking period 1.2.2007 – 30.9.2011, whereas one tranche being released each year, exercise period 1.2.2008 – 30.9.2012.
[7] Strike price CHF 63.25, blocking period 1.2.2006 – 31.1.2010, whereas one tranche being released each year, exercise period 1.2.2007 – 31.1.2011.
[8] These options were granted to Hans Mehl at commencement of employment on April 1, 2007.

3. Notes to the balance sheet

3.1 Marketable securities

Marketable securities include, among other items, 47,060 treasury shares (previous year 192,088) purchased for a total consideration of CHF 5,305,993 (previous year CHF 24,814,161). At March 31, 2011, these shares had a market value of CHF 3,851,861 (previous year CHF 25,163,528).

During the financial year 2010/11, 104,061 treasury shares at an average price of CHF 114.45 have been purchased by Sonova Holding AG and further Group companies, while 261,089 treasury shares at an average price of CHF 127.75 have been disposed of.

3.2 Loans to Group companies

Of total loans, 42% are denominated in Swiss francs (previous year 51%), 18% in Euros (previous year 14%), 18% in US dollars (previous year 14%), 15% in Canadian dollars (previous year 16%) and 7% in other currencies (previous year 5%).

3.3 List of significant investments

Company name	Activity	Domicile		Share capital Local currency 1,000	Shares held by Sonova Holding
Switzerland					
Phonak AG	A, B,C,D	Stäfa	CHF	2,500	99.3%
Phonak Communications AG	B,C,D	Murten	CHF	500	100%
Phonak Hearing Systems AG	B	Stäfa	CHF	100	100%
Indomed AG	A	Zug	CHF	1,000	100%
Indomed Hearing Systems GmbH	B	Stäfa	CHF	20	100%
Sona Hearing AG	B	Stäfa	CHF	100	100%
Verve Hearing Systems AG	B	Stäfa	CHF	100	100%
EMEA (excluding Switzerland)					
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450	100%
Phonak Belgium NV	A,B	Dilbeek (BE)	EUR	15,311	100%
Phonak Holding GmbH	A	Fellbach-Oeffingen (DE)	EUR	153	100%
Phonak Danmark A/S	B	Frederiksberg (DK)	DKK	11,075	100%
Phonak Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100%
Phonak France SA	B	Bron-Lyon (FR)	EUR	305	100%
Phonarium Szolgáltató Kft.	B	Budapest (HU)	HUF	5,000	49%
Phonak Italia Srl	B	Milan (IT)	EUR	1,040	100%
Phonak B.V.	B	Vianen (NL)	EUR	227	100%
Phonak AS	B	Oslo (NO)	NOK	900	100%
Phonak Polska Sp. Z o.o.	B	Warsaw (PL)	PLN	100	100%
Phonak CIS Ltd.	B	Moscow (RU)	RUB	4,000	100%
Phonak AB	B	Stockholm (SE)	SEK	200	100%
Unitron Hearing AB	B	Stockholm (SE)	SEK	100	100%
Phonak Group Ltd.	B	Warrington (UK)	GBP	2,500	100%
Lukatit Investments 14 (Pty) Limited	B	Fourways North (ZA)	ZAR	0[1)]	100%
Americas					
National Hearing Services Inc.	B	Victoria (CA)	CAD	7,500	100%
Phonak Canada Ltd.	B	Mississauga (CA)	CAD	88,694	100%
Phonak Mexicana S.A. de C.V.	B	México D.F. (MX)	MXN	50	100%
Unitron Hearing, Inc.	B	Plymouth (US)	USD	46,608	100%

Company name	Activity	Domicile		Share capital Local currency 1,000	Shares held by Sonova Holding
Asia/Pacific					
Phonak Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750	100%
Phonak (Shanghai) Co., Ltd	B	Shanghai (CN)	CNY	20,041	100%
Sichuan i-hear Co., Ltd.	B	Sichuan (CN)	CNY	19,119	100%
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249	100%
Phonak India Pvt. Ltd.	B	Navi Mumbai (IN)	INR	100	100%
Phonak Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100%
Phonak Korea Ltd.	B	Seoul (KR)	KRW	50,000	100%
Unitron Hearing Korea Co., Ltd.	B	Seoul (KR)	KRW	200,000	37.5%
Phonak New Zealand Ltd.	B	Auckland (NZ)	NZD	250	100%
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000	100%

Description:
[A] Holding/Finance: 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)] ZAR 400

3.4 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 is made in two tranches, a CHF 230 million term facility with a term of five years and a CHF 240 million amortizing loan with a term of three years, whereof CHF 200 million has been re-paid in the current financial year. Within the next twelve months CHF 40 million will become due for repayment.

3.5 Reserve for treasury shares

A reserve for treasury shares in the amount of CHF 5,305,993 (previous year CHF 26,353,024) was established which is equal to the cost price (see Note 3.1). No treasury shares are held by other Group companies (previous year CHF 1,538,863 included in the reserve for treasury shares of Sonova Holding AG). The decrease of the reserve for treasury shares in the amount of CHF 21,047,031 resulted from the sales of treasury shares by Sonova Holding AG and other Group companies.

3.6 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, 2010	**3,305**	**112,016**		**26,353**	**578,053**	**719,727**
Dividend paid					(79,195)	(79,195)
Capital increases (incl. share premium) from conditional capital	21		36,482			36,503
Reclass of reserve from capital contributions		(79,573)	79,573			
Decrease in reserve for treasury shares				(21,047)	21,047	
Net profit for the year					231,131	231,131
Balance March 31, 2011	**3,326**	**32,443**	**116,055**	**5,306**	**751,036**	**908,166**

During the financial year 2010/11, an additional 423,648 registered shares with a par value of CHF 0.05 each, or a total par value of CHF 21,182 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 36,503,258. In the financial year 2010/11, the conditional share capital with a par value of CHF 320,234 (6,404,675 shares) decreased by CHF 21,182 or 423,648 shares (previous year CHF 28,933 or 578,661 shares), thereby leaving CHF 299,051 (5,981,027 shares) for distribution. Based on the remaining conditional capital, a total of 1,725,184 (previous year 2,142,314) employee stock options were outstanding as of March 31, 2011, which can be exercised until February 2016 .

With the new capital contribution principle effective as of January 1, 2011, Swiss companies are able to distribute additional paid-in capital in the form of dividends without Swiss withholding tax consequences to its shareholders. This requires companies to separately account for the reserves from capital contributions in a separate line within the legal reserves.

Sonova Holding AG is building the capital contribution reserves in two steps in which the distributable legal and free reserves are allocated, the latter is subject to the shareholders approval. Share premiums received in 2010/11 have been directly allocated to the capital contribution reserve. The impact on the equity resulting from the capital contribution principle is shown in the appropriation of available earnings.

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

4. Notes to the income statement

4.1 Investment income

This comprises dividends received from Group companies and other investments.

4.2 Taxes

The tax expense consists of Swiss federal taxes on non-investment income (the company is exempt from income taxes in the canton of Zurich). The net income from investments exceeds the net profit in the current year and therefore, no income taxes are due.

Appropriation of Available Earnings

As proposed by the Board of Directors to the Annual General Shareholders' Meeting of June 21, 2011:

1,000 CHF	31.3.2011	31.3.2010[1]
Carried forward from previous year	**498,858**	**364,169**
Allocation from/(to) reserve for treasury shares	21,047	(9,659)
Net profit for the year	231,131	223,543
Available earnings	**751,036**	**578,053**
Allocation from general reserve	30,643	
Allocation to reserve from capital contributions	(108,233)	
Dividend distribution		(79,195)
Balance to be carried forward	**673,446**	**498,858**

[1] Approved by the Annual General Shareholders' Meeting of June 15, 2010.

Capital Contribution Principle – Impact on the Equity

1,000 CHF

	Share capital	General reserve	Reserve from capital contributions	Reserve for treasury shares	Free Reserve	Retained earnings	Total share-holders' equity
Balances March 31, 2011	**3,326**	**32,443**	**116,055**	**5,306**		**751,036**	**908,166**
Allocation from reserve from capital contributions to other free reserve[1]			(79,761)		79,761		
Distribution[2]					(79,761)		(79,761)
Allocation to reserve from capital contributions			108,233			(108,233)	
Allocation to the available earnings		(30,643)				30,643	
Pro forma balances after the Annual Shareholders' Meeting 2011	**3,326**	**1,800**	**144,527**	**5,306**		**673,446**	**828,405**

[1] Proposal by the Board of Directors to the Annual General Shareholders' Meeting of June 21, 2011.
[2] If the Annual General Shareholders' Meeting approves the proposed appropriation of available earnings, a distribution of CHF 1.20 per registered share of CHF 0.05 will be paid out (previous year CHF 1.20).

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

PRICEWATERHOUSECOOPERS

Report of the Statutory Auditor
on the Financial Statements 2010/11
to the Annual General Shareholders' Meeting
of Sonova Holding AG
Stäfa

—

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of Sonova Holding AG, which comprise the income statement, balance sheet and notes (pages 150 to 164) for the year ended March 31, 2011.

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, 2011, 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

P. Balkanyi

Patrick Balkanyi
Audit expert
Auditor in charge

Urs Honegger
Audit expert

Zurich, May 10, 2011

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.

Imprint
Concept/Design: Process, Zurich
Photography: Marc Wetli, Zurich
Publishing System: Multimedia Solutions AG, Zurich
Printing: Neidhart + Schön AG, Zurich

printed climate neutrally
www.nsgroup.ch

FSC www.fsc.org MIX Paper from responsible sources FSC® C016003







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

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

028-1177-02 Printed in Switzerland