sonova

ANNUAL REPORT 2011/12

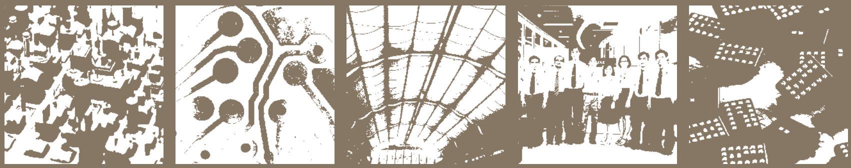
Customer Driven Innovation

Customer Driven Innovation

That's the mandate for Sonova's two main businesses – hearing instruments and hearing implants.

We pursue innovation in its broadest sense: innovation in products and processes, right across all our activities; innovation in what we make; innovation in how we make it – and how we sell it.

At the core of our innovation strategy is a rich pipeline of new products. Our goal is to give our customers and end-users enhanced, tangible benefits. This is achieved by combining our know-how with continuous feedback from the users of our hearing solutions, as well as the hearing care professionals who serve them.



HIGHLIGHTS

- *The financial year 2011/12 marked yet another sales record:*
  Sonova increased its sales by 11.6 % in local currencies to CHF 1,619.8 million. In Swiss francs, sales rose by 0.2 %.
- *Both segments showed a solid performance:*
  Growth was driven by the hearing instruments segment and by the hearing implants segment, where the HiRes 90K implant returned to all markets over the course of the year.
- *Global presence driving growth:*
  All geographic regions contributed, in local currencies, to the record sales figures.
- *Strong operational improvements:*
  At constant exchange rates, the EBITA margin improved by 180 basis points to 22.0 %. This was more than offset by the impact of the strong Swiss franc, resulting in a reported EBITA margin of 19.5 %.
- *Solid balance sheet:*
  At 64.5 %, the Group's equity financing ratio remained at a high level and net debt was reduced substantially to CHF 64.4 million.
- *Continued investments in R&D:*
  The 8 % increase in R&D investments was mainly driven by projects in the hearing implants segment, while the hearing instruments segment showed a continuously high innovation rate.
- *Clear strategic focus centered on innovation:*
  All our activities in the past year supported our vision to be recognized as the innovation leader in the global hearing care market by offering the most comprehensive range of solutions through an efficient, responsive multi-channel marketing and sales organization.

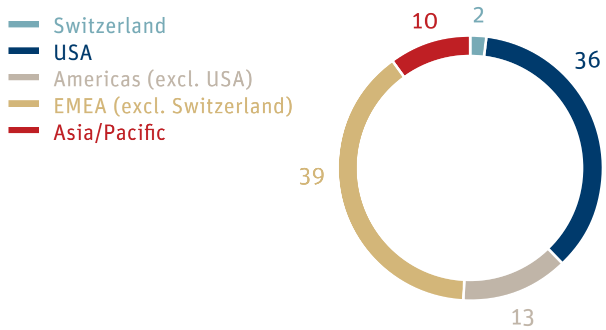
SONOVA GROUP KEY FIGURES

in CHF m unless otherwise specified	2011/12	2010/11	Change in %
Sales	1,619.8	1,616.7	0.2 %
EBITA	315.2	326.6	(3.5 %)
EBITA margin	19.5 %	20.2 %	
EPS (CHF)	3.71	3.50	6.0 %
Operating free cash flow [1]	239.5	221.5	8.1 %
ROCE [1]	19.2 %	19.0 %	
ROE [1]	17.5 %	17.7 %	

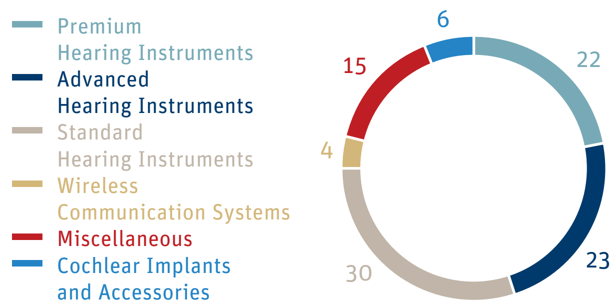
[1] For detailed definitions, please refer to "5 Year Key Figures".

KEY FIGURES

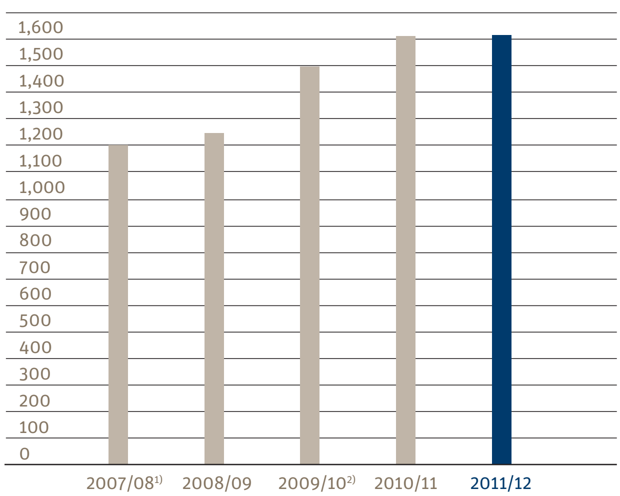
SALES BY REGIONS 2011/12
in %



SALES BY PRODUCT GROUPS 2011/12
in %

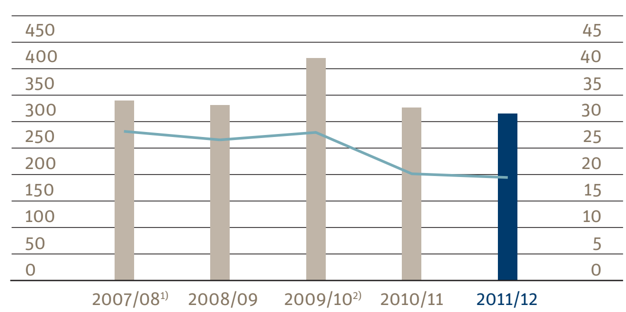


SALES
in CHF m

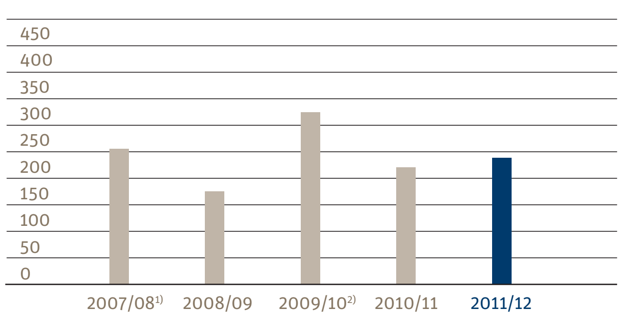


EBITA
in CHF m

EBITA
margin in %

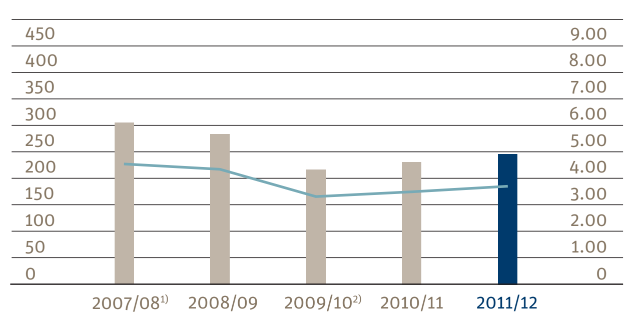


OPERATING FREE CASH FLOW
in CHF m



INCOME AFTER TAXES
in CHF m

EPS
in CHF



1) 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.

TABLE OF CONTENTS

LETTER TO SHAREHOLDERS

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

ANNUAL REPORT 2011/12

SUCCESSFULLY OVER-COMING CHALLENGES

– Despite a challenging macro-economic environment, Sonova has continued to focus on what it does best: serving a growing global market with a comprehensive range of innovative hearing solutions through an efficient, responsive multi-channel marketing and sales organization.

DEAR SHAREHOLDERS,

During the financial year 2011/12, Sonova faced and overcame significant challenges. General financial uncertainty impeded many economies and industries, but the hearing care market continued to grow at a healthy rate. The unprecedented strength of the Swiss franc against other major trading currencies affected Sonova, as it did all Swiss companies with global operations. The Group also underwent an unexpected change in executive leadership with the departure of the previous CEO and CFO in March 2011.

Nevertheless, our company was able to deal with these challenges positively and achieve continued growth. We are glad to report further strong momentum in sales as reported in local currencies. This is proof of the appeal of our innovative products, the effectiveness of our marketing and sales strategies, and the commitment of all our employees.

Sales reported in Swiss francs were adversely affected by the strength of the Swiss currency: an 11.6 % sales increase in local currencies translated into only an 0.2 % increase in sales as reported in Swiss francs. This effect, shared among all Swiss companies with international markets, was only partly mitigated by the efforts of the Swiss central bank to limit the currency's appreciation. Gross profit was CHF 1,106 million, a level consistent with the previous year. Operating profit (EBITA) reached CHF 315.2 million, 3.5 % down on the previous year; currency effects have cumulatively reduced operating profit over the past two years by more than CHF 100 million, effectively offsetting all the operational improvements made during that period. Operating free cash flow rose by 8.1 % to CHF 239.5 million. Sonova retains its strong financial position with a low net debt of CHF 64.4 million and an equity financing ratio of 64.5 %.

CLEAR STRATEGIC FOCUS – CENTERED ON INNOVATION

All our activities in the past year supported our vision to be recognized as the innovation leader in the global hearing care market. Our strategy relies on highly motivated employees, a relentless drive to delight customers, an innovation driven culture, leading products, global reach with solid presence in local markets, and globally leveraged infrastructure and processes.

We have maintained our track record of generating the vast majority of our sales from products introduced within the previous two years. During the financial year 2011/12, this ratio was 71%.

In the hearing instrument segment, we again launched many leading-edge innovations. The next-generation Spice technology platform opened the way for a broad range of groundbreaking new products, all using the latest generation of Phonak's comprehensive, easy-to-use fitting software: Target 2.0, introduced in October 2011 and upgraded to Target 2.1 in March 2012. Particularly noticeable among the new Spice products were Phonak nano, our smallest-ever custom designed in-the-canal instrument, and several water-resistant hearing aids.

In March 2012, we added the new Essential line of hearing instruments to the Spice product portfolio, to satisfy end-users seeking no-frills products without compromising on the latest technology. We also substantially upgraded the invisible, extended wear, deep-in-the-canal hearing instrument, Lyric, to a new generation. We introduced Unitron's new Quantum and Moxi hearing aids, running on the leading-edge Era technology platform. We are expanding our position in hearing instruments both through our own technical development efforts (as with the new generation of Lyric) and through continued investment in our distribution channels. We have selectively strengthened our network of hearing instrument stores through targeted acquisitions in specific markets.

In the hearing implant segment, we are glad to report that Advanced Bionics is now back on track after the recall of November, 2010: we returned to the European market in April 2011 and to the U.S. in September 2011. Cochlear implant sales have picked up and we are on the way to our long-term strategic objective of being a strong contender in this market.

Innovation is key to growth. We are confident that the combined strengths of the Advanced Bionics and Phonak research and development teams will generate significant technical breakthroughs in the coming years. We also see opportunities for cross-referral of patients between the hearing instrument and hearing implant segments of our business. This past year, we made the decision to put development efforts for middle-ear implants on hold in order to concentrate on the more promising cochlear implant market.

ADVANCING CORPORATE GOVERNANCE

One of last year's unexpected challenges was the departure in March 2011 of the previous CEO and CFO following an allegedly late profit warning.

Lukas Braunschweiler became the CEO of Sonova as of November 1, 2011. The new CFO, Hartwig Grevener, will take up his duties on August 1, 2012. We would like to take this opportunity to thank Alexander Zschokke and Paul Thompson for their excellent work as interim CEO and interim CFO respectively. Their competence and exemplary dedication helped guide the company through a difficult period.

This past year we also realigned compensation systems for members of the Board of Directors and of the Management Board. This is explained in full in the compensation chapter of this report. As was the case last year, there will be a consultative vote on the Compensation Report (and, therefore, the compensation system) at the 2012 Annual General Shareholders' Meeting.

We made adjustments to the company's Organization Regulations and revised the charters of our Nomination and Compensation Committee and our Audit Committee in order to bring corporate governance to an even higher standard. Furthermore, during the past year, all Board committees were staffed with independent Directors. All these changes are outlined in the Advancing Corporate Governance chapter starting on page 33 of this report.

The investigations by the Zurich SIX Stock Exchange into the alleged delayed profit warning, and by the Zurich District Attorney into alleged insider trading, are ongoing. We are cooperating fully with the respective authorities. In March 2012, Sonova was served with summons to pay in the amount of approximately CHF 26 million, which were filed by various investors represented by Deminor SCRL / CVBA. Sonova formally objected to the summons to pay and will vigorously oppose any potential claims by these investors.

CHANGES IN THE BOARD OF DIRECTORS

William D. Dearstyne, Vice Chairman, will be retiring from the Board of Directors, having served one year beyond the usual retirement age of 70. During his nine years on the Board, he played a very active and important role in the success of the company; his experience and knowledge were particularly valued as we took corrective action after the events of last year. We thank him for his dedicated service to the company and wish him well for the future.

Beat Hess is proposed for election to the Board at the 2012 Annual General Shareholders' Meeting. He is an attorney-at-law and holds a PhD in Law. Mr. Hess is serving as member of the Board of Directors of Nestlé S.A. and Holcim Ltd. His international and broad legal experience, including in corporate governance, compliance, and risk management, will perfectly complement the skills of the current Board of Directors.

At this year's Annual General Shareholder's Meeting, the mandates of Robert F. Spoerry, Andy Rihs, Michael Jacobi, Anssi Vanjoki, and Ronald van der Vis will come up for re-election.

RECOMMENDED DIVIDEND

At the 2012 Annual General Shareholders' Meeting, the Board of Directors will propose a distribution of CHF 1.20 per share, without withholding taxes, from the capital contribution reserve. This equals a payout ratio of more than 30 % of net income after taxes, which is in line with our target of around 30 %.

STRONG SUSTAINABILITY COMMITMENT

Sonova has a social as well as a business mission: to foster a world where every hearing loss has a solution and all people enjoy the ability to hear well. In addition, although Sonova is a high-technology company with relatively few energy- or materials-intensive activities, we recognize our responsibilities to the environment and to future generations. We have therefore decided to launch a corporate sustainability program, with an initial focus on our energy use, carbon footprint, and other green issues. We have decided to appoint a person at senior level who will plan and carry out a green initiative program throughout the company and publish a sustainability report on a regular basis, based on the format recommended by the Global Reporting Initiative (GRI).

OUR THANKS

Challenging times are the real test of an organization's people, and we are deeply grateful for the way Sonova employees have been committed and have performed over the past year. Thanks to their efforts and capabilities, we look forward to the coming years with confidence. We also thank our shareholders, whose unwavering support makes our commitment to continuous progress possible. And we thank our customers and patients, the millions of people all over the world whose hope to enjoy pure hearing delight inspires us every day.

OUTLOOK

Sonova operates in an attractive market, with several socio-economic factors combining to generate structural growth over years to come. Our market position is strong and our strategy clear. Our product and solution portfolios are unmatched in breadth, quality, performance, and innovation. We have what we need to grow profitably, and we plan to do so in fiscal year 2012/13. We expect overall sales to grow within a range of 7 % – 9 % in local currencies, and EBITA to increase within a range of 15 % – 20 % assuming exchange rates of CHF 1.21 to the euro and CHF 0.88 to the US dollar. Currency values will continue to be subject to fluctuation, but we will work to mitigate over time the impact of the strong Swiss franc on earnings growth through our long-term resource allocation strategy.

R. Spoerry

Robert Spoerry
Chairman of the Board
of Directors

Lukas Braunschweiler
CEO

VISUAL INSPECTION OF A HEARING INSTRUMENT HOUSING

“The sound of water trickling in a stream and hearing a baby chuckling. That’s my reason to like Naída.”

NAÍDA WEARER

SERVING AN ATTRACTIVE AND GROWING MARKET

Around one billion people in the world today cannot hear well – and the great majority of this vast potential market has not yet bought a hearing aid. Sonova provides the most comprehensive range of solutions to address hearing loss: leading-edge hearing instruments and accessories from Phonak and Unitron, providing a natural listening experience through advanced, versatile technology; innovative cochlear implants from Advanced Bionics, bringing reliable hearing solutions to children and adults with significant hearing loss. Sonova offers its solutions to end-users through a wide variety of service channel partners, providing them with the support they need to ensure that each consumer and patient receives the appropriate care for an optimal hearing experience.

HEARING INSTRUMENTS

DYNAMICS OF A GROWING MARKET

– The hearing instrument market continues to grow, driven by long-term socio-economic forces. It is also a diverse market, requiring a broad range of technologically advanced solutions and high reach customer service channels.

MARKET SIZE AND GROWTH PATTERN

The World Health Organization predicts that 1.1 billion people around the world will have a hearing loss by 2015. This is consistent with the estimates of various independent research firms looking at large markets such as Western Europe and North America.

The global market for hearing instruments is estimated at around 10 million devices sold per year, a small number compared with the number of people suffering from hearing loss. Sonova expects annual percentage growth in the number of hearing aids sold in developed markets to remain in the low-to-mid single digits in the coming years. We believe that average selling prices for hearing aids can be sustained at stable levels by introducing new generations of products incorporating innovations that bring enhanced, tangible benefits to end-users.

What drives market growth? Several factors: populations are aging in the developed world, prompting a growing likelihood that people will develop age-related hearing loss. The "baby boomer" generation is approaching retirement, with the desire and disposable income to address the effects of ageing. New hearing aid technologies and easier consumer access through ever-expanding service channels are also contributing to market growth – as are, in some markets, health insurers' partial reimbursement for hearing instruments. In developing markets, we believe that adoption rates will increase with improved hearing care infrastructure.

MARKET PENETRATION DRIVERS

People are increasingly aware of what they can do to address hearing loss. This is still a relatively under-served market: Sonova estimates that, while in developed markets 70 % of people with severe-to-profound hearing loss have hearing aids to help them, only 10 % of those with mild-to-moderate hearing loss currently use hearing instruments. Younger or less affected people are also increasing adoption as technology moves toward ever better sound quality and smaller, more discreet devices. For every preference and individual lifestyle, there is now a hearing solution that can greatly improve quality of life.

In 2011, the HEAR THE WORLD initiative conducted a wide-ranging study of people's attitudes toward hearing instruments and the contribution they make to personal and social well-being. The results were conclusive: taking care of your hearing clearly improves your quality of life. While a minority of people who have not yet opted for a hearing instrument say that they worry it might set them apart and impede social and personal contact, in fact the opposite is true: 86 % of respondents who use hearing instruments say that "my friends and family accept me just as I am." Those who use hearing instruments report significantly improved relationships, closer social contacts, better health and well-being, and enhanced pleasure in sports, leisure activities and nature – 81 % say it has improved their quality of life. Moreover, their partners and families also notice how the solution improves the life they share: 81 % say that they are "glad that my partner wears a hearing aid."

CHOICE IN HEARING INSTRUMENTS

The experience of hearing loss is as diverse as people are. Some hearing instrument users are of retirement age, some are young children. Their hearing loss ranges from mild to profound, with varying responses to certain frequencies or intensities of sound. Some are very active, some less so – and lifestyle strongly influences the choice of hearing assistance.

As a result, there is a wide range of hearing instrument styles and fittings, traditionally organized into three main categories:

- Behind-The-Ear solutions, which are worn behind the ear and connected to the ear canal by a sound-conducting tube. They are comfortable to wear, ergonomic, resistant to moisture and dirt, and can accommodate larger batteries for longer life. Their size varies depending on the type of usage or power level, from tiny and almost invisible when worn to somewhat larger, incorporating larger batteries for more convenient use. Thanks to technological breakthroughs, discreet wearing is now possible even for people with severe-to-profound hearing loss who use so-called "power" devices, such as Phonak Naída.
- Canal-Receiver-Technology solutions, which offer the same benefits as Behind-the-Ear instruments, covering a wide range of hearing loss, while being significantly smaller. The electronics and the battery are worn behind the ear, but the tiny loudspeaker is placed in the ear canal close to the eardrum. This results in superior sound quality and feedback stability. This product segment currently shows the fastest global growth.
- In-The-Ear solutions, which include custom-made hearing instruments that fit in the wearer's ear canal and take advantage of the sound-gathering shape of the ear itself. Today, tiny instruments such as Phonak nano and Unitron's micro CIC can be worn so deep in the ear canal that they are virtually invisible from the outside.

A promising new category is now emerging: the uniquely innovative Phonak Lyric, for people with mild-to-moderate hearing loss, which is so small that it can be inserted very close to the eardrum. It remains there 24 hours a day and can be worn for up to four months without interruption, providing unmatched convenience.

SERVICE CHANNELS: THE KEY TO A DIVERSE MARKET

A successful hearing result for the wearer depends, not only on advanced technology, but also on expert assessment, fitting, and after-sales care. This demands a high degree of personal attention. Relationships between hearing care professionals and their clients are often longstanding and repeat purchases are based on trust and the high value placed on service received. Given that people have individual reasons for being motivated to deal with their hearing loss, there is no "one size fits all" approach. The hearing care industry offers its solutions to consumers through a wide range of service channels, from individual retail shops to hearing centers and clinics to hospitals.

These service channels add demonstrable value both to the consumer's experience and to the revenues of the hearing care industry. Manufacturers such as Sonova depend on the hearing care professionals to get the best out of their products – and to sustain growth in the market. We estimate that, within the hearing care industry, all the service channels jointly generate three times more revenue than all the manufacturers combined.

HEARING INSTRUMENTS

SONOVA'S OFFERING

– Sonova has the optimal solution for every user, tailored to the individual's needs by hearing care professionals in a broad range of personalized service channels, and offered through two well-established global brands: Phonak and Unitron.

A BROAD PORTFOLIO OF SOLUTIONS

The Sonova portfolio of hearing instruments and related solutions is arranged as a matrix: technical features, physical formats and price ranges can be matched to suit almost anyone with a hearing need. Our experience in providing solutions across a wide range of hearing needs has given us a recognized capacity for versatile, high-performance devices that support a rich choice of hearing instruments, accessories, and FM systems.

We also know that performance is only part of the answer. Hearing solutions need to fit into the user's complete way of living. Invisible instruments, programs that adapt automatically to different listening situations, wireless control and communication … all these make a great difference to the acceptability of our products and to the renewed enjoyment they bring to the user.

People with normal hearing can also benefit from our solutions. Our customized hearing protection devices help preserve hearing in industry, construction, and other commercial applications. Our acoustic expertise has created sophisticated voice amplification for classrooms and meeting spaces. Wherever better hearing enhances life, you will find Sonova – because hearing is our business.

A MULTI-CHANNEL GLOBAL PRESENCE

A multi-faceted market demands a multi-channel marketing and distribution approach. Sonova distributes its products and solutions in more than 90 countries, through its own Group wholesale companies, through independent distributors and, in some regions, through owned hearing centers. We have many ways of reaching the end-user: through individual retail shops, retail chains, hearing centers, clinics, and hospitals. In some countries, we have concluded large supply or referral contracts with governments and health administrations.

In all these cases, our principal relationship is with the hearing care professionals who recommend, fit, and fine-tune our products. We take our responsibility to these professionals very seriously and do our best to support them – and through them, consumers and patients – with sophisticated, timesaving fitting software as well as extensive product information and client counseling materials.

HEARING INSTRUMENTS

PHONAK

– The core of the Sonova brand portfolio is the Phonak brand of hearing instruments: built to the highest technological standards, providing optimum speech comprehensibility in a wide range of sound conditions. Phonak also provides wireless communication systems for audiological and other applications, as well as hearing protection systems. The product range now includes Lyric: the world's first and only extended-wear hearing instrument, which is placed deep in the ear canal and is totally invisible.

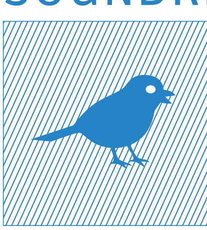
SPICE PLATFORM: RAISING THE BAR

The Phonak Spice generation, launched in October 2010 and enhanced to Spice+ in October 2011, sets new benchmarks in processing performance, fitting capabilities, and breadth of product portfolio.

The Spice product generation introduced key new functionalities such as StereoZoom, auto ZoomControl, and UltraZoom, all of which serve to narrow and direct the spatial

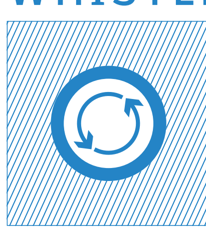
PHONAK

SOUNDRECOVER:



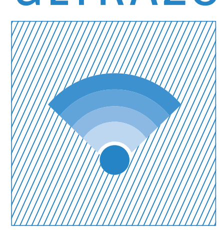
Many people with hearing loss are no longer able to perceive high-frequency sounds, which are often vital for speech comprehension and a full experience of natural environments. SoundRecover compresses the frequency of these sounds and shifts them into a lower range where they can be heard again, giving the impression of natural, full-spectrum hearing.

WHISTLEBLOCK:



Like all microphone/loudspeaker systems, hearing instruments can be affected by feedback, so most use cancellation algorithms to suppress the annoying whistle. Not all feedback-like tones are true feedback, however, so WhistleBlock uses a tagging and identifying module to apply varying levels of feedback suppression depending on each specific situation, making the full range of tones audible without artificial distortion.

ULTRAZOOM:



In noisy environments, listeners want to be able to concentrate on the one or two voices in a conversation without being distracted by the surrounding babble. UltraZoom with SNR-Boost is the first and only dual-microphone system that combines highly directional sensitivity with a unique spatial noise-cancellation algorithm designed specifically for directional applications. It offers a 15 % improvement in speech comprehension over binaural hearing instruments without this feature.

sensitivity of the instrument for optimal speech comprehension. The enhancements announced in October 2011 with Spice+ set the bar even higher, intelligently managing the hearing instrument's response in quiet as well as noisy situations, providing enhanced differentiation and sound quality.

For hearing care professionals, the Spice fitting software, Target 2.0 (now upgraded to Target 2.1), offers further refinements that streamline workflow and improve customer experience. Testing, fitting, programming, and fine-tuning combine seamlessly into one software environment with intuitive, practical commands – giving professionals freedom to concentrate on the precise needs of each customer.

The enhancements brought to the Spice platform in October 2011 are available not just across the whole previous Phonak product range, but in several new products launched during the past fiscal year, including:

- Phonak nano, our smallest custom in-the-ear design ever achieved. It is made possible by reducing the shell size using materials science know-how to create a new composite material incorporating ceramic-like reinforcement; and applying computer-aided 3D design and modeling to minimize contact with the ear canal near the sound outlet, ensuring a comfortable fit.
- A whole range of water-resistant products allowing users of all ages to pursue active lifestyles with carefree confidence: for instance, Phonak M H_2O, containing a long-lasting size 13 battery in a micro-size format; Phonak Naída S CRT, a power device with a new external receiver for moderate-to-profound hearing loss; Phonak Nios S H_2O, with a newly designed micro-sized housing perfectly suited for small ears. They all meet the IP67 standard, meaning that they will not be damaged even by 8 hours of exposure to dust or submersion in water up to 1 meter deep for 30 minutes.
- A multi-functional ComPilot accessory, which wirelessly controls and connects Spice products to many communication devices, such as telephones, televisions and music players.

AN UNPARALLELED RANGE OF CHOICE

No one can put a price on hearing, but value is important in any buying decision. Phonak is committed to offering the maximum technology value at every performance level, from the most affordable Basic product to the Premium range.

All Premium, Advanced, and Standard products accommodate wireless options to improve speech recognition, binaural hearing and telephone experience; they also give users full control of their hearing instruments through AccessLine, which provides status information, alerts, and access either to preset programs or to direct parameter settings. FM systems (details on next page) allow further extension of the instruments' capabilities. The key benefit is choice: giving hearing care professionals the means to create an experience for consumers and patients that feels as natural and simple as hearing itself.

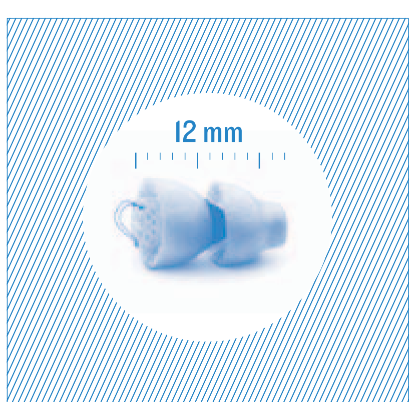
As part of its dedication to value, Phonak ensures that its innovative premium technologies soon become available in its more affordable products. For example, Phonak launched in March 2012 a new Essential line of hearing instruments that satisfy end-users seeking no-frills products without compromising on the latest technology. Products at this Essential performance level integrate features that were announced as breakthroughs only recently – such as SoundRecover, WhistleBlock, and UltraZoom (details on previous page).

LYRIC, A HEARING AID THAT CAN — SATISFY PATIENTS AND GROW BUSINESS

Most people with hearing loss fall into the "mild-to-moderate" category – yet we estimate that only 10 % of these people use a hearing instrument. One reason for this limited use is the perceived inconvenience of hearing instruments: insertion and removal, cleaning, battery replacement, and so on. With Phonak Lyric, however, we can now offer the first and only hearing instrument in the world that can be worn

PHONAK

LYRIC: THE NEW GENERATION



In March 2012, Phonak introduced an important improvement to Lyric: an even smaller design to ensure a comfortable fit in most ear canals. With this new generation, the anatomical fit rate of Lyric was increased by 50 %. Now, more than 70 % of patients have an ear canal that can be successfully fitted with this invisible, convenient solution to hearing loss that provides excellent sound quality in the perfect format for active lifestyles.

continuously – twenty-four hours a day, seven days a week – for up to four months.

Expertly inserted by a hearing care professional, it sits invisibly, deep in the ear canal. Because it is positioned so close to the eardrum, it makes best use of the anatomy of the ear to provide outstanding natural sound quality, without feedback, extraneous noise, or occlusion. It can be used while wearing earphones, playing sports, or taking a shower. There is no cleaning required and it is free from any other daily maintenance. The user – and everyone else – can forget about it and get on with enjoying life.

No wonder, then, that Lyric users are so pleased with it. In recent surveys, 88 % said they were very satisfied and that they noticed improved communication with their friends and family; 75 % expected to renew their Lyric; and 93 % said they would recommend Lyric to a friend or loved one.

Lyric therefore opens a whole new market for the hearing care professional: the millions of people with mild-to-moderate hearing loss who resisted conventional hearing instruments, whether for reasons of aesthetics, self-image, or perceived inconvenience.

Although Lyric can be removed by the user, only a trained audiologist can insert it – so each sale guarantees renewed patient contact every three or four months, when it becomes necessary to replace the device. Moreover, because the Phonak Lyric business model is predominantly based on a subscription, the hearing care professional has a dependable, recurring source of revenue.

In March 2012, Phonak introduced an important improvement with the new generation of Lyric (details on previous page).

FM (FREQUENCY MODULATION) SYSTEMS

What we hear does not have to travel all the way to the ear as sound energy. Often clarity, comprehension and noise reduction can all be improved by using radio waves as the link between the sound source and the hearing instrument. Phonak has created a range of microphones, transmitters and receivers based on its technologically advanced Dynamic FM platform to carry sound over long distances or through noisy environments. This particularly helps people with hearing loss, people having to communicate in loud or distracting situations, or people (particularly children) who have problems with auditory processing or attention deficit disorders.

Phonak's FM systems allow children who use hearing instruments to fully enjoy the exciting, often noisy, environment of the classroom without missing a word from the teacher. Now Dynamic Soundfield, Phonak's intelligent amplification system, lets audiences without hearing loss listen more easily – and speakers communicate without straining their voices. The system is completely self-regulating, ensuring that the message comes through clearly, without echo, boom or feedback. More than 100,000 children worldwide already benefit from Dynamic Soundfield in their classrooms.

HEARING INSTRUMENTS

UNITRON

– Sonova's other core hearing instrument brand is Unitron. Based in Canada, Unitron is a global organization built on strong, personal relationships with hearing care professionals to improve the lives of people with hearing loss. Distributing a full line of hearing instruments to customers in over 60 countries, Unitron has a proven track record of developing technological innovations that provide natural sound with exceptional speech understanding, and a relentless drive to deliver the best customer experience.

EXPANDING ON THE ERA PLATFORM

In June 2011, Unitron launched a range of new products based on Era, a sound processing technology platform that represents the biggest investment in Unitron's history. The range includes new products, new levels of sound quality and new fitting software.

Unitron's research and development effort is particularly focused on providing a natural sound experience with improved speech in noise performance and intelligibility. The aim of each technology advance is to deliver the most natural listening experience, so that hearing better is also more enjoyable.

The Era platform is a prime example of this focus: it began with chip technology created by the Sonova Group, to which Unitron's Canadian-based R&D and audiology professionals added further development time to create the Era platform and its related new products. These include two new product lines: Quantum (offered in Behind-the Ear and Custom

In-The-Ear including Micro CIC form factors), and Moxi, Unitron's Canal Receiver Technology – both available at four performance levels: Premium, Advanced, Standard, and Essential.

FOCUS ON NATURAL SOUND AND SPEECH INTELLIGIBILITY

End-user satisfaction depends on a natural hearing experience: the new Era platform allows Unitron to deliver high-fidelity sound. Improved speech in noise performance is the most cited desire among hearing instrument wearers: Unitron audiologists and engineers continuously improve speech understanding through an intelligent combination of adaptive technologies within the automatic program – including noise reduction, speech enhancement, directional microphones, and feedback management.

Unitron's SmartFocus technology automatically and seamlessly adjusts instrument settings to deliver improved speech intelligibility in changing noise environments. It has been further refined as part of the Era platform and enhanced with binaural spatial processing, which allows two hearing instruments to act together to pinpoint the direction of speech.

THIS BUSINESS IS PERSONAL

Unitron understands that its relationship with hearing care professionals – and the relationship between the professionals and their clients – matter most in this business. Unitron therefore validates its technology extensively through its professional customer base, to ensure that the design of its hearing instruments remains driven by real end-user benefit.

Providing the best support to its service channel partners stands at the core of Unitron's culture, and hearing care professionals recognize this. A customer from the U.S. says: "I have spoken to practitioners in all parts of the country and the 'Unitron way' is clearly something that is recognized by them. It sets you apart, in a good way… The goal at Unitron is not to get the person from the practice off the phone (regardless of the outcome!) but it is to find a solution to the issue at hand." Unitron also shares ideas to help service channel partners develop their business effectively, as mentioned by a customer from Australia: "Unitron's marketing support is amazing: they have the ability to create or expand on our ideas to provide innovative marketing ideas and concepts to improve our presence, competitiveness, and community awareness."

UNITRON

ALWAYS FINDING NEW WAYS TO SUPPORT CUSTOMERS' BUSINESSES

At over 700,000 global downloads, Unitron's uHear, a hearing screening test application for iPhone®, iPod touch®, and iPad®, has been a top-ten iTunes® medical app in New Zealand. To help its customers make best use of this successful innovation, Unitron New Zealand developed a toolbox – uHear-equipped Apple® hardware and signage – that enabled hearing care professionals to provide free hearing screening tests to their communities. Customers greatly appreciated this new portable way to reach prospective patients; more New Zealanders with hearing loss are receiving care thanks to such community outreach.

HEARING IMPLANTS

DYNAMICS OF A YOUNG AND GROWING MARKET

– Within the hearing implant market, we see a significant and promising market for cochlear implants. This market is still relatively young: the first implant only gained FDA approval in 1984. Cochlear implants bring the promise of greatly improved hearing experience and clear, intelligible speech to children and adults with significant hearing loss.

MARKET SIZE AND GROWTH PATTERNS

Today, we estimate that there are around 250,000 cochlear implant users worldwide, with a global market volume of around 30,000 implants per year.

The number of cochlear implants sold worldwide is growing by 10 % to 15 % annually, fuelled by expanding indications, such as single-sided deafness or bilateral implantations, or new implantation techniques which preserve residual hearing and thus lower the required level of hearing loss to benefit from cochlear implants. Additionally, new government programs in some emerging markets are encouraging the adoption of cochlear implants by patients with severe hearing loss.

Market size is currently limited by a few factors, however: cochlear implant surgery and post-implantation fitting are specialized, skilled procedures not yet available in every region. Health insurance in many countries still does not cover implantation or offers only limited reimbursement. Emerging countries in particular suffer from a lack of awareness and information about the potentially life-changing benefits of cochlear implants, as well as a shortage of skilled professionals.

MARKET PENETRATION DRIVERS

Roughly 40 % to 50 % of all cochlear implant recipients are infants and children who are affected by severe-to-profound sensorineural hearing loss; the other half of the market comprises adults with a similar level of hearing loss. In all cases, the decision to have a cochlear implant is a lifetime one: it is essential to be able to provide the right solution for each patient at the right time. This depends on a dedicated working partnership between the manufacturer, which offers the best available technology and services; the surgeon, who determines a patient's medical suitability for a cochlear implant and performs the implantation; and the audiologist, who assesses audiological suitability, performs the first fitting two to four weeks after implantation, and provides long-term clinical support.

COCHLEAR IMPLANTS: THE TECHNOLOGY

Cochlear implants replace the function of the inner ear by providing direct electrical stimulation of the auditory nerve, restoring hearing and speech intelligibility to children and adults with severe-to-profound hearing loss.

A cochlear implant consists of two major components:

- an external component, called the sound processor, which picks up and processes sound into detailed digital information; and
- an internal component, called the implant, which converts the digital information into electrical information that is sent to the auditory nerve from an electrode array placed inside the cochlea or inner ear. The auditory nerve sends impulses to the brain, where they are interpreted as sound.

Instead of using a speaker as the output stage, the audio signal is transmitted wirelessly from the external component to the internal component.

HEARING IMPLANTS

SONOVA'S OFFERING: ADVANCED BIONICS

– Sonova serves the cochlear implant market through the Advanced Bionics brand. Putting the patient first, Advanced Bionics brings continuous innovation to this remarkable technology, delivering the promise of clear, high-resolution sound and optimal speech understanding to children and adults with significant hearing loss.

Advanced Bionics was founded in 1993 and has been part of the Sonova Group since 2009. It is a global leader in cochlear implant technology innovation. It employs over 600 people, sells its products in more than 50 countries worldwide, and has a global network of hundreds of clinics and cochlear implant specialists, ensuring optimal care for patients.

Advanced Bionics relies on its technological strengths and patient-first mission to build long-term brand recognition and market success. Its HiRes 90K cochlear implant ranks number one in total system reliability and in internal reliability, with a 99.8 % one-year cumulative survival rate (which describes the number of implants that continue to function over the specified period of time). External sound processors such as Harmony and PSP also enjoy very high external reliability: built to survive real-world conditions, including rain, perspiration, and moisture, they have a three-month average failure rate of less than 1 %.

SOPHISTICATED TECHNOLOGY FOR A NATURAL HEARING EXPERIENCE

The Advanced Bionics performance advantage is based on a range of innovative features:

- ClearVoice: the industry's first and only speech enhancement technology. Clinically proven to deliver superior hearing performance in noise, ClearVoice analyzes and adapts to each listening situation and separates speech from surrounding noise, helping recipients hear speech better across a variety of difficult listening environments. This is a significant benefit for users of all ages and lifestyles.
- HiRes Fidelity 120 Sound: the sound processing technology that has five times more spectral resolution than any other cochlear implant system – 120 spectral bands. HiRes Fidelity 120 is the only processing strategy that can deliver and 'steer' simultaneous current between two or more electrodes, enabling the user to hear more pitches of speech and music for a full, natural listening experience.
- AutoSound: a "Set It and Forget It" sound processing program that automatically adapts to new surroundings – so there is no fumbling with dials, switches, or remote controls to make adjustments for changing sound environments.
- T-Mic Microphone: the industry's only microphone placed at the opening of the ear for naturally focused hearing, while also providing wireless connectivity to telephones, MP3 players, and other audio devices.

HELPING THE PROFESSIONAL TO HELP THE PATIENT

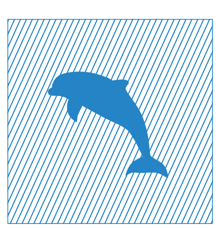
Cochlear implants stand at the leading edge of hearing technology, and also of surgical and audiological practice. Advanced Bionics is keenly aware of its responsibility toward the professionals who prescribe, implant, and fit its products. It has therefore developed a solid, comprehensive support platform for professionals and recipients, offering training, expert advice, fitting support, and rehabilitation programs. Advanced Bionics is fully dedicated to providing best-in-class service, remaining closely attuned to the needs of surgeons, audiologists, and patients.

As part of its mission to help those with significant hearing loss, Advanced Bionics sponsors the Bionic Ear Association (BEA), a dedicated group of hearing health professionals and volunteer recipients. They share experiences and provide information and support to people with cochlear implants as well as people considering this advanced hearing solution for themselves or a loved one. The BEA is an invaluable organization that is committed to providing support throughout each family's journey to hearing.

ADVANCED BIONICS

NEPTUNE:
A BREAKTHROUGH SOUND PROCESSOR FROM ADVANCED BIONICS

Until now, the one place that cochlear implant recipients could not hear was in the water. Imagine losing the gift of



hearing every time you want to swim: being unable to hear and respond to instructions from a lifeguard. Think of a child who cannot converse, learn, and listen during bath time. Today, Advanced Bionics offers Neptune, the world's first and only waterproof, swimmable sound processor. Neptune is robust, with an IP68 rating for maximum protection against dust, sand, and other particles, as well as water ingress. It is easy to use and childproof, with simple, removable controls. It is flexible, featuring the industry's only freestyle design that allows recipients to wear it just how they like it, with nothing on the ear and without compromising performance. It is fashionable, with a wide range of colors for mixing and matching. It is convenient, powered by one AAA battery, disposable or rechargeable. And it offers industry-leading Advanced Bionics sound performance technologies: ClearVoice, HiRes Fidelity 120, and AutoSound.

ASSEMBLY STEP OF A HEARING INSTRUMENT ELECTRONIC SUBPART

“The single best thing about Lyric is the fact that you are independent, you’re not tied to having batteries in your pocket. You’re back to where you were when you did not have a hearing deficit.”

LYRIC WEARER

EXTENDING LEADERSHIP WITH A CLEAR AND FOCUSED STRATEGY

Over the past two years, the Sonova Group has gone through an intensive phase of major investment. We have substantially expanded our global footprint: we now possess the largest global marketing and sales, distribution, and service network in the hearing care industry. We have entered the high-potential business of cochlear implant solutions with our acquisition of Advanced Bionics. Through our substantial investment in Phonak Lyric, the new hearing aid format, we have created an opportunity for extended-wear, invisible, and hassle-free solutions, particularly among people with mild hearing loss.

STRATEGIC OBJECTIVES

Today, the Sonova Group is the broadest and best positioned hearing care provider in the industry. We are the only company that offers a comprehensive range of solutions: both hearing instruments and hearing implants to treat all major forms of hearing loss. We are a clear market leader in hearing instruments, and a strong number two in cochlear implants. We serve our service channel partners, and through them, consumers and patients on a global basis. This is and will continue to be our mission.

We strive to be recognized as the innovation leader in the global hearing care market. In other words, we hope that our service channel partners, consumers, and patients will think of and call on Sonova first whenever they need a professional hearing care solution. This is and will continue to be our vision.

We will further build value for all our stakeholders: employees, customers, and shareholders. We will continue to grow our sales and earnings and to invest in our asset base in a focused and diligent way – both to further increase Sonova's cash flow and enterprise value, and to continuously improve the return on our assets. More specifically, it is our stated objective to continuously improve our overall EBITA margins over the next three to five years, assuming constant exchange rates.

DEDICATED EMPLOYEES AND DELIGHTED CUSTOMERS

Developing our global employee talent and working to exceed our customers' expectations are at the heart of everything we do. These aspirations drive our mission and ultimately support the implementation of our strategy, allowing us to pursue our vision of being the recognized innovation leader in the hearing care industry.

THE BINAURAL REVOLUTION

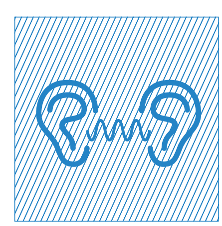
TWO EARS ARE BETTER THAN ONE

The same applies to hearing instruments – but getting two hearing aids to behave like two ears takes some very clever technology from Phonak.

Understanding speech, especially in a noisy environment, requires being able to isolate its source, identifying where the speaker is and suppressing other sounds. In normal hearing, the brain does this by comparing the input from each ear – so Phonak has developed wireless communication to send an audio signal between two hearing aids, using some of the most miniaturized radio technology ever developed.

Using this wireless full-bandwidth link with sophisticated binaural processing technologies enables Phonak to implement its unique sound management system, called StereoZoom. StereoZoom monitors and controls the input from microphones in each hearing aid to "zoom" or selectively amplify the sound (usually speech) coming from one direction while cutting down unwanted ambient noise.

Some people have unaidable hearing on one side but better hearing on the other. Phonak offers the industry's most advanced solution for this issue, called CROS: it sends the full-bandwidth audio signal from a microphone in the unaidable ear to the hearing aid in the other, giving the user a natural 360° sound picture that adapts to changing environments.



Leading-edge zoom technology from Phonak has potentially a natural application in Advanced Bionics' sophisticated noise separation systems. Combining these in the future will open the way to an even more outstanding experience for those who wear cochlear implants.

INNOVATION-DRIVEN CULTURE

Our strategic focus is on continuous innovation – across and between our two main businesses of hearing instruments and cochlear implants – to further grow sales and earnings in both. Innovation refers to our products, solutions, and processes across all disciplines: marketing, sales and distribution, new product launch, process productivity and efficiency, and resource management.

Driving strong and attractive new product and solution pipelines is and will be at the core of our innovation strategy: we will continue to invest 7 % – 8 % of our sales in research and development. The hearing care market is responding well to innovation; end-user experience has improved tremendously during the past ten years and there is ample room for further progress in terms of instruments, software, and services.

LEADING-EDGE PRODUCTS

Sonova's product innovation drive aims to provide the most complete solutions to our service channel partners and to consumers: instrument hardware and software, fitting software, and hearing care services. The product teams of Sonova's core business brands – Phonak, Unitron, and Advanced Bionics – use our innovative base technologies to apply a rigorous platform approach to solution and product development. This enables accelerated time-to-market across all product categories and price segments. Year after year, approximately 70 % of our sales are based on products launched within the previous two years.

Sonova is in the uniquely favorable position of being able to combine the marketing and R&D resources – and extensive customer feedback – of Phonak, Unitron, and Advanced Bionics to create compelling new products and solutions.

PLATFORM APROACH

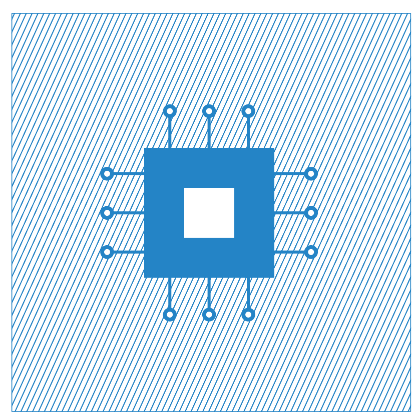
HOW
THE PLATFORM CONCEPT ENSURES FAST AND SMOOTH NEW PRODUCT DEPLOYMENT

In the 1990s, the introduction of digital hearing systems opened up exciting new opportunities for instruments with excellent sound quality in a small package – and also for continuous improvement through re-programming. Unlike hardwired systems, instruments with programmable digital signal processors (DSPs) gave hearing professionals and manufacturers the theoretical ability to go beyond simply adapting the parameters of a given algorithm to uploading entirely new algorithms to the instrument through software.

In practice, however, new algorithms were usually introduced along with new hardware, which tied their use to the particular signal processors on which they operated – so, although open technology platforms remained the ideal, they were not fully implemented in reality.

Now, for the first time, with the enhancement from Spice to Spice+, Phonak's processor enables open platform technology development in its true sense. Simply reprogramming the DSP creates an entirely new hearing instrument using algorithms that differ significantly from those shipped with the original Spice generation – not just in their parameters, but in their core functions.

What does this mean for the user? After one simple firmware update, the user's Spice hearing instrument can now handle entirely new situations: not just challenging, noisy environments but quieter moments when optimal sound reproduction and discrimination are essential. A new expansion algorithm provides a markedly smoother dynamic behavior and more agreeable sound quality. And new first-fit calculation greatly increases the user's



speedy acceptance of the hearing instrument as an improvement in quality of life.

This is just the beginning. The open platform principle means that users no longer have to wait for a new generation of hardware to benefit from new algorithms, new capabilities and new features. That in turn means that hearing care professionals have an excellent reason to remain in contact with their clients, offering further improvements to the instruments they sold. Open platforms are good for hearing – and good for business.

GLOBAL REACH WITH STRONG PRESENCE IN LOCAL MARKETS

The hearing care market, though global in nature, shows significant differences in structure from one country to another. To be recognized as the innovation leader, Sonova needs to build an open-minded, international corporate culture while at the same time having well-anchored local service and support presence on all continents and in all major countries.

Sonova takes a broad and multi-dimensional approach to continuously extend the market positions of its brands and product solutions: further penetration of existing markets, expanding accessible markets, integrating service channels, and direct marketing to consumers and patients.

Continuous product innovation and ever-improving service and support drive our efforts to further penetrate our existing markets and to increase the share of wallet with our service channel partners. Sonova is committed to developing and growing the respective market positions of the Group's core business brands: Phonak, Unitron, and Advanced Bionics. Our brand teams support their service channel partners with distinctive and carefully honed value propositions that offer targeted solutions to the needs of our valued consumers. We are dealing with people's health; we therefore strive, together with our service channel partners, to provide fully adapted solutions to every individual need.

Sonova is committed to building the required infrastructure to capitalize on the long-term growth opportunities offered by emerging markets. We have also made substantial investments to develop new product formats such as Phonak Lyric that make hearing care solutions more amenable to consumers and patients.

The end-users' experience of hearing solutions is strongly dependent on the professional services of acousticians, audiologists, clinicians, and doctors in the field. Sonova is fully dedicated to supporting these service channel partners and ensuring that their respective professional bases continue to grow in size, quality, and skills. Where necessary and practical, Sonova invests in its own service and retail

PHONAK DO BRASIL

BUILDING ON SUCCESS

Today's Brazil is a country where things move fast and grow quickly. Investment, exports and personal wealth are increasing at rates comparable only to China's. More than 30 million Brazilians have joined the middle classes during the past decade, while another 20 million have been raised out of poverty. This is a society ready, not just to host the World Cup and Olympic games, but to embrace technology that improves the quality of life.

Phonak Brazil is well prepared for accelerating growth; it has made substantial investments in building team knowledge as well as technical and marketing competence across the range of products and solutions offered by the Group, from hearing instruments and diagnostic technology to cochlear implants. Its people are dedicated and resourceful, with long-term experience in serving this market.

A sharp focus on innovation has made Phonak the recognized leader. It has set up the only digital labs in South America to produce the latest generation of custom-made hearing instruments. It has launched a flagship clinic, the "House of Hearing," in downtown São Paulo – with a training center, showroom and reception space for meetings, school demonstrations, and media events. This forms part of a multi-channel distribution network, combining government supply contracts, 30 Phonak centers selling premium products in the largest cities, and a network of fully-served hearing care professionals covering the rest of the country.

Phonak Brazil has also launched innovative marketing efforts, including a blog platform reaching out to people with hearing loss, and an ambassador program using Phonak's HEAR THE WORLD initiative to increase awareness and inform opinion.

The future looks bright in Brazil. Cochlear implants from Advanced Bionics are now available – and the local organization stands ready to support patients, surgeons and audiologists through this next great step.

network of audiology shops, such as Connect Hearing, HearingPlanet, Lapperre, Audium, and Hansaton. We thus share in and contribute to the industry's effort to further improve consumer and patient care and services.

Our professional marketing is based on trusted and proven strategies for our wholesale service channel partners, and through them to consumers and patients. At the heart of all our direct marketing campaigns is the desire to build awareness of hearing loss as one of society's key problems. There is an answer – and that drives our daily efforts to make hearing care solutions available to all consumers and patients.

LEVERAGING GLOBAL INFRASTRUCTURE AND PROCESSES

Sonova is in a uniquely strong position to leverage its existing global infrastructure so as to further expand gross profit and EBITA margins through continuous process improvement and cost productivity. In the near term, we do not see any significant investments into new plants or local infrastructure.

Specifically, we will continue to re-balance our global cost and expense base so that we can capitalize on best-cost opportunities and create a natural currency hedge by bringing costs and revenues further in line with each other – globally, sustainably, and for the long term.

By bundling together support and supply chain management processes across regions or even globally, Sonova continuously improves the efficiency, reliability, and quality of its customer services, enhancing the value of the solutions offered by our strong business brands: Phonak, Unitron, and Advanced Bionics.

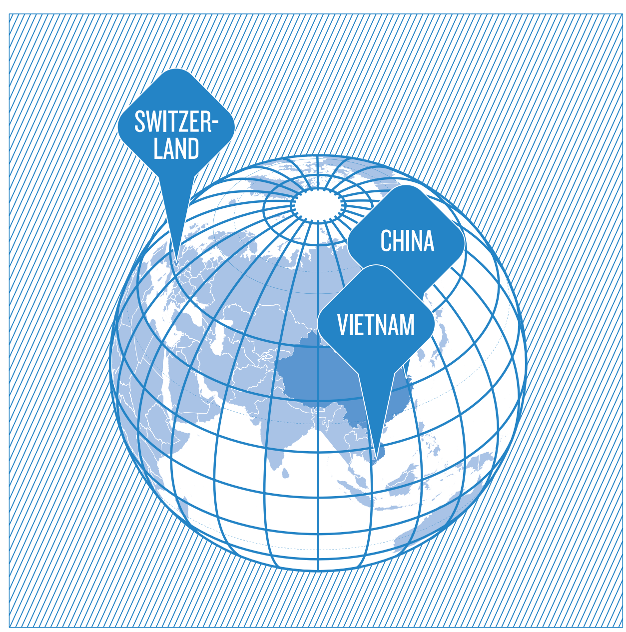
OPERATION CENTERS

OPTIMIZED MANUFACTURING PROCESS ACROSS THE WORLD

Strong growth at the Sonova Group over the past ten years has required a significant increase in our production capacity – so we created entirely new Operation Centers in Suzhou, China and Ho Chi Minh City, Vietnam. At the same time, we modernized and expanded our original facility in Stäfa, Switzerland.

But leading a global production effort is not just a matter of expanding capacity. Now that we have three sites in three different countries, we have the ability to balance demand and risk across the Group, shifting production of specific product ranges to optimize both our delivery time to our customers and our cost-revenue performance. This optimization extends to the deep integration of our suppliers and our global purchasing capabilities into our operations.

There are, nevertheless, some strategic elements of manufacturing that are specific to our Stäfa Operation Center: molding, "Hybrid" microprocessor production, and surface mount technology (SMT) assembly. These are the areas most called upon during the development and introduction of new technology platforms and products; it therefore makes sense to keep them close to our global Research & Development team based at Stäfa.



Having ramped up production in Stäfa, we can transfer manufacturing to the Asian Operating Centers as greater volumes are required. Market-leading innovation with global reach: that's the Sonova advantage.

OPEN SPACE OFFICE AT OUR OPERATION CENTER IN HO CHI MINH CITY, VIETNAM

“My son is five and has severe autism including speech and language and hearing problems. Naída has been a lifeline for him and a confidence booster.”

MOTHER OF A CHILD WEARING
NAÍDA HEARING INSTRUMENTS

BUILDING SUSTAINABILITY

PEOPLE

FOSTERING INNOVATION THROUGH MOTIVATED EMPLOYEES

– Sonova is committed to be a great place to work, where people know they can develop to the best of their potential and gain recognition for their individual abilities.

PEOPLE WHO MAKE A DIFFERENCE

Sonova is an industry leader because of the passion and commitment of the more than eight thousand employees around the world who share our vision and determination to bring better hearing to all who need it. Our success depends critically on motivating people to pursue our common mission while maintaining an open, transparent, and creative working culture.

We believe that a flat organizational structure gives all our people a clear incentive to concentrate on performance, taking ownership of their goals and responsibilities. Open communication and mutual respect help our highly skilled professionals – people from many countries with many backgrounds – to team up as a single unit for the benefit of our customers.

The Sonova Code of Conduct sets out the values and rules of behavior that define how we work. Ethical standards, trustworthiness, and transparent business dealings are critical to the Group's reputation and continued success. All new employees are trained in applying the Code of Conduct and we maintain a hotline that they can use to report on or enquire about compliance issues.

STRATEGIC TALENT MANAGEMENT

The specialized expertise and know-how on which Sonova depends for its innovative edge are not easily or quickly acquired. We have expanded strongly in recent years, and we expect to continue growing in the future. This puts ever-greater emphasis on our workforce management: talent recruitment, performance management, and career and succession planning. We therefore globally implemented an integrated talent management system, SONNET, which enables us to deal effectively with these topics.

We are committed to helping our people to perform at their best and build their careers with us, while at the same time ensuring that we retain the skills we will need in the future. A systematic employee assessment process contributes to sustainable success, and supports our goal of filling open key positions by an internal successor, if possible.

The employee assessment process helps to shape our training program, generally offered through our dedicated Sonova Academy. Groups from various levels of the company take courses in leadership, personal development, and Sonova's various businesses. Our flagship training initiative is the High Potential Program: a leadership program to help expert staff and lower management employees develop the skills for middle management roles throughout all the Sonova brands and businesses.

HUMAN VALUE: A MEASURABLE RETURN

Business success cannot be proven unless activities are measured. One of the strengths of the SONNET system is its extensive reporting capability. Its reporting module combines data from Finance and Human Resources data to generate a range of Key Performance Indicators to guide decision-making in strategic workforce management. One of the most important of these is Human Capital Return on Investment (HC ROI*), which measures the pre-tax profit or earnings produced for every unit of currency paid to an employee.

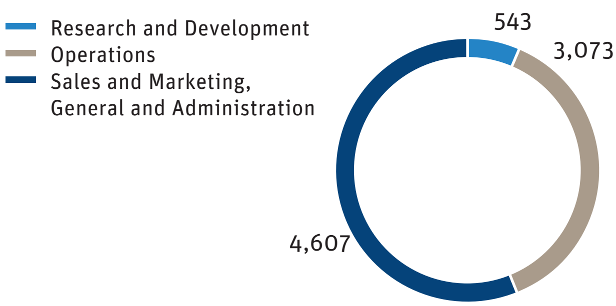
For the financial year 2011/12, Sonova's HC ROI* was 1.50. This means that, on average, every Swiss franc invested into our workforce, whether for training and education, remuneration and bonus, holiday pay, or other personnel expenses, generated CHF 1.50 in returns. This compares with an average multiple of 1.32 for the pharmaceuticals sector and 1.12 for the general industrial sector (source: February 2012, European Human Capital Effectiveness Report, PwC). These above-average results are part of a continuing trend, confirming the attractiveness of our industry and Sonova's leadership position.

* Human Capital ROI = (Sales – non-HR-related costs) / HR-related costs

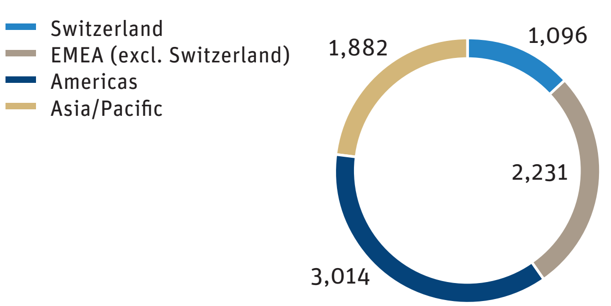
EMPLOYEES BY ACTIVITY 2011/12

As of March 31, 2012, the Sonova Group employed a total of 8,223 people (previous year: 7,840); this represents 4.9 % more than on the same date in 2011. The increase is mostly attributable to the acquisition of new distribution companies to further strengthen our market coverage.

EMPLOYEES BY ACTIVITY – MARCH 31, 2012



EMPLOYEES BY REGION – MARCH 31, 2012



PRODUCT, ENVIRONMENTAL AND SUPPLIER COMPLIANCE

MEETING GLOBAL STANDARDS

– Sonova's products – hearing instruments and cochlear implants – are regulated Medical Devices, which means that the company must meet patient safety standards and functional performance claims. To consistently reach these targets, Sonova maintains a strong commitment to product safety throughout its product portfolio, and to product compliance with all relevant international sustainability and quality principles.

All our hearing instruments comply with the European Medical Device Directive MDD 93/42/EEC. We have further committed not to use any raw materials or substances classified as hazardous in our production processes. All our Operation Centers and major Group Companies meet the ISO 13485:2003 standard, which specifies the requirements for quality management systems in the design and manufacture of medical devices. We apply this standard throughout the life-cycle of all our hearing solutions. These certifications have been in place for more than 5 years.

Supplementary technical certifications required by the EU Radio & Telecommunications Terminal Equipment Directive R&TTE 99/5/EU ensure that end-users are protected when using analog or digital wireless technology. Part of this directive also limits intended and unintended RF signals to avoid interference with other equipment. All our wireless products are compliant with the directive. We also ensure that the biocompatibility of the medical products we manufacture is evaluated according to the EN ISO 10993-1:2003 standard.

In the U.S., hearing instruments are regulated by the United States Food and Drug Administration (FDA)'s Quality Systems Regulations 21 § CFR 820. Hearing Instruments are classified as Class I medical products that can be launched without PMA (Pre-Market Approval), under an exemption in accordance with the 510 (k) approval process. In 2011, the FDA decided to classify hearing instruments with wireless functionalities as class II devices, although still exempted from PMA and 510 (k).

The Lyric hearing system was approved for market introduction by the FDA under the 510 (k) approval process. The new generation of Lyric was released to the market in March 2012, and did not require separate FDA approval.

Cochlear implants and their 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 U.S., the HiRes 90K cochlear implant and its 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.

In April 2011, Advanced Bionics received CE clearance from TÜV, the European Notified Body, to resume distribution of the HiRes 90K cochlear implant in European markets. In September 2011, the FDA gave its formal approval for the implant's re-entry into the U.S. market.

The international headquarters of Advanced Bionics in Valencia, California, USA, passed the ISO 13485:2003 certification in October 2011.

The international headquarters of Phonak in Stäfa, Switzerland were certified as meeting the ISO 14001 standard in June 2010. A first follow-up audit in June 2011 showed positive results, confirming that the site had achieved the targets established for financial year 2010/11. The proper handling of chemicals and potentially hazardous materials was noted as a strong point.

Our Advanced Bionics division aims to obtain ISO 14001 certification during financial year 2012/13.

Sonova is committed to product compliance and performance in line with applicable health and safety regulations throughout the entire lifecycle of its products. We believe that excellent environmental and health & safety performance contributes to our competitive industry position and provides value for our customers, employees, and all other stakeholders as well as for our environment. We continually endeavor to reduce further our environmental impact and to ensure that we comply with all environmental standards – indeed, we often apply standards before they become required by regulations.

We have not used ozone-depleting chlorofluorocarbons (CFCs) in our production processes since 1992. Starting in 2006, we have complied voluntarily with the EU directive on Restriction of Hazardous Substances, restricting the use of heavy metals and halogenated compounds – despite the directive's exemption for medical devices. We also comply with the EU directive on Waste Electrical and Electronic Equipment, which requires such equipment to be returned to the manufacturer for recycling or environmentally friendly disposal.

ENSURING SUPPLIERS' COMMITMENT

Sonova has a Group-wide set of supplier guidelines; we monitor compliance with these guidelines on a regular basis. They clearly define the management principles and working and environmental standards that are binding for all Sonova suppliers. Through these guidelines, we make an active contribution to combating illegal activities such as child labor, corruption, and labor law violations as well as environmentally harmful business activities. We expect our suppliers to conduct themselves in a manner compatible with generally recognized ethical principles.

Since financial year 2009/10, we have required that our suppliers prove their compliance with the EU's Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulation for the safe manufacture and use of chemical substances. We completed inspections of our suppliers during the year under review, when and where appropriate.

ENVIRONMENTAL PERFORMANCE

MONITORING GROUP-WIDE ENVIRONMENTAL PERFORMANCE

– Sonova has an explicit commitment to monitor and optimize environmental performance continuously across the Group. Our goals are: efficient use of energy and natural resources; reduced environmental impact from our products and processes; minimizing waste; safe and responsible disposal of residual waste; and maintaining a safe, clean working environment for all our employees.

The financial year 2011/12 saw Sonova extend its audit of key environmental data throughout its facilities around the world, applying the same metrics that we have been using to record performance in our Swiss operations. The results appear in the table on next page. This Group-wide monitoring will provide a basis for the separate Sustainability Report that will appear for the next financial year, following the format recommended by the Global Reporting Initiative (GRI). As was mentioned on page 4 in the Letter to Shareholders, Sonova will be establishing a corporate sustainability program under a senior-level manager in the coming year.

GROUP WIDE KEY ENVIRONMENTAL DATA

The table on the next page shows key environmental data from, respectively, all Sonova production sites in Switzerland, and, under "Group Companies," our Operation Centers in China and Vietnam combined with the majority of our subsidiaries worldwide. Overall, the entities covered in the table, that is, those with consistent reporting for both 2010 and 2011, account for 73% of the total number of Sonova employees. We measured our carbon footprint using country-specific emission factors from the ecoinvent Centre and data from the Swiss Federal Office for the Environment. The measurement methodology and reporting format for the carbon footprint are based on the standards and guidance of the Greenhouse Gas Protocol.

On a direct comparison basis (that is, a year-to-year comparison of the same selection of Group Companies), total energy consumption at Sonova Group decreased by 1.4% to 27,823 megawatt-hours (MWh) in calendar year 2011. This is a result of a decrease in energy consumption at our Swiss sites, offset by the increase in energy consumption at other Operation Centers and Group Companies.

Group Companies (excluding Switzerland) showed an 8.7% increase in energy consumption to 19,753 MWh. The main source was the addition of a new 6,000 square meter production and logistics building at the Sonova Operation Center in Vietnam. The Operation Center in Suzhou, China, also showed a rise in electricity consumption, due to increased production volume and headcount.

Our Swiss sites achieved their energy-use reduction targets: total energy consumption decreased by 19.4% to 8,098 MWh. This was mainly due to significantly lower power consumption, thanks to new energy efficiency measures, with optimization of infrastructure, production flow, and logistics. In the prior year (2010), construction activities, temporarily rented office space, and the addition of the new production building at the Stäfa site accounted for the higher energy consumption.

Despite the reduction of total energy consumption at Group level, the carbon footprint of Sonova Group increased by 7.6% to 14,742 tonnes of CO_2 equivalents (CO_2eq). The main drivers were the additional power consumption at the new Operation Center in Vietnam and the higher capacity load in China – recorded at the corresponding country-specific emission factors for electricity of 0.708 kg CO_2eq per kilowatt-hour (kWh) for Vietnam and 1.465 kg CO_2eq per kWh, for China (the Swiss country-specific emission factor is 0.133 kg CO_2eq per kWh).

For our Swiss sites, on the other hand, the emission values for 2011 decreased from the previous year by 17% to a total of 1,362 tonnes of CO_2eq.

At Group level, Sonova therefore recorded a slightly increased emission value for 2011 of 2.53 tonnes of CO_2eq per employee. The corresponding value for Switzerland, however, fell to 1.20 tonnes of CO_2eq per employee.

Water consumption increased at Group level by 13.3% to 75,930 cubic meters (m^3), primarily due to the site enlargements in Vietnam and China. Our Swiss operations also showed a slight increase in water consumption to 16,662 m^3, in line with their increased capacity.

As for waste, although Group-wide production volume increased substantially in 2011, we reduced the amount of waste by 14% to 976 tonnes.

We continue to make diligent efforts to further improve our environmental performance. We plan to extend the scope of Group monitoring in financial year 2012/13 and have targeted a further reduction in our carbon footprint in Switzerland.

KEY ENVIRONMENTAL DATA

(All data in the tables refer to calendar years)

		Unit	Switzerland 2011	Switzerland 2010	Group Companies (excl. Switzerland) 2011	Group Companies (excl. Switzerland) 2010	Sonova Group 2011	Sonova Group 2010
Energy								
Total energy consumption		**MWh**	**8,098**	**10,046**	**19,753**	**18,173**	**27,823**	**28,219**
Mineral oil		MWh	1,890	2,067	11	15	1,902	2,082
Natural gas		MWh	643	517	2,664	2,682	3,279	3,199
Electricity		MWh	5,565	7,463	17,078	15,476	22,642	22,939
Greenhouse gases (CO_2-equivalents)								
Carbon footprint	**(absolute)**	**t CO_2eq**	**1,362**	**1,642**	**13,379**	**12,054**	**14,742**	**13,696**
Carbon footprint	(per employee)	t CO_2eq/per employee	1.20	1.41	2.84	2.56	2.53	2.33
Direct emissions	(fossil energy)	t CO_2eq	622	650	531	536	1'154	1,185
Indirect emissions	(electricity)	t CO_2eq	740	993	12,848	11,518	13,588	12,511
Air emissions								
Volatile organic compounds (VOC)		l	120	170	4,468	4,243	4,588	4,413
Water								
Water consumption		m^3	16,662	15,858	59,269	51,132	75,930	66,990
Waste								
Normal waste		t	144	130	831	1,005	976	1,135
Hazardous waste	Disposal	t	14	11	10	5	24	17

A SPECTRUM OF GREEN INITIATIVES

Environmental protection planning informs every process, activity and business of Sonova. Here are a few of the measures we initiated in financial year 2011/12 at Sonova headquarters in Stäfa, Switzerland.

Implementing a building control system

We installed a modern energy data measurement system in the new production building in Stäfa, which will further increase the transparency of our consumption analysis. We plan to extend this measurement system to the other buildings on the Stäfa site, monitoring specific values for overall consumption of energy, oil, natural gas, electricity, water, and paper, while helping to reduce their use. The system will also help us to evaluate our use of renewable energies.

Recycling organic food waste / biogas production

In October 2011, we started up a solution for collecting and recycling organic waste from the employees' canteen at our Stäfa site. All our organic waste is collected, homogenized, and stored on site for removal by a qualified local subcontractor, who takes it to a nearby anaerobic digester where it is used to produce environmentally friendly, renewable biogas energy. We also separate oil and fatty substances from the canteen wastewater; they, too, are turned into energy.

Increasing infrastructure and building efficiency

The building program at Stäfa included a number of measures to boost infrastructure efficiency in existing buildings, including optimization of the heating and cooling system, heat-recycling measures, and reduced use of air pressure equipment over weekends. We reduced the power consumed by the existing lighting system by 20 % through the use of low-energy LED lighting where possible, optimizing light dimming, and introducing automatic switch-off. We also installed automatic air hand dryers that achieve excellent results in comparative ecological impact assessments.

In financial year 2012/13, we plan to continue our transition from oil to natural gas for heating at Stäfa, thus reducing our CO_2 emissions. We also plan to upgrade our cooling equipment and to achieve further energy efficiency by introducing a new electronic control system for air conditioning.

Committing to sustainable procurement and ecological suppliers

Sonova insists on environmentally friendly business practices throughout its supply chain. Environmental and sustainability criteria play a vital role in supplier selection, and we issue binding supplier guidelines for all of our contract partners. We also actively communicate our environmental policy to suppliers.

Corporate Procurement lists Sonova's suppliers in terms of their potential environmental impacts, with the aim to qualify them as in line with the company's Environmental Policy. This list is a working document that defines priorities for these suppliers.

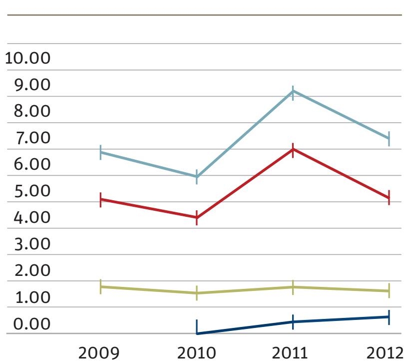
We use energy efficiency as an additional criterion when purchasing electronic equipment and have used only Forest Stewardship Council (FSC)-certified paper internally since January 2011. All cardboard boxes in procurement are now FSC-certified, and we aim to reduce the use of bleaching chemicals in our cardboard.

SELECTED KEY INDICATORS

OPTIMIZING ENVIRONMENTAL IMPACT AT SONOVA HEADQUARTERS, SWITZERLAND

The data below refer only to Sonova's headquarters in Stäfa, not to the overall footprint of the Group in Switzerland which also includes our Murten facility. They are for calendar years.

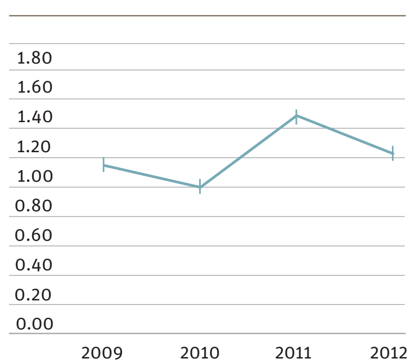
SPECIFIC ENERGY CONSUMPTION
(MWh/employee)



- Total energy consumption/employee (MWh)
- Electricity/employee (MWh)
- Oil/employee (MWh)
- Gas/employee (MWh)

Following the expansion of capacity at the Stäfa site in 2010, total energy consumption decreased last year by 19.1 % to 7,477 megawatt-hours (MWh), mainly due to energy efficiency measures and infrastructure optimization. This produced a 19.7 % reduction in specific energy consumption to 7.40 MWh per employee.

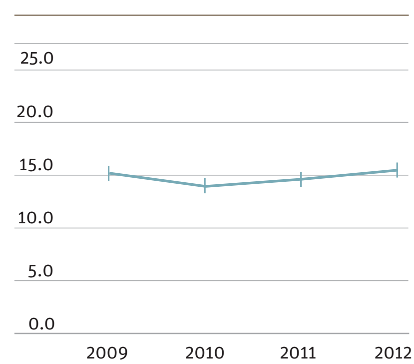
SPECIFIC CARBON FOOTPRINT
(t CO_2eq/employee)



- CFP/employee [t]

Along with the decrease in energy consumption, the absolute carbon footprint decreased last year by 16.5 % to 1,246 tonnes of CO_2 equivalents (CO_2eq). Specific greenhouse gas emissions also decreased by 17.2 % to 1.23 tonnes of CO_2eq per employee. Efforts are underway to continue the positive trend of the last few years.

SPECIFIC WATER CONSUMPTION
(m^3/employee)



- H_2O/employee [m^3]

Water consumption increased by 6.7 % in 2011. In absolute terms, the amount of water consumed at Stäfa site was 15,689 cubic meters (m^3). The specific water consumption per employee increased by 5.9 % to 15.5 m^3 due to capacity increases.

Optimizing business travel

We aim to reduce as much as possible the number of business trips we take by promoting alternative communications solutions. During the last two financial years we have monitored the business air travel of all Sonova facilities situated in Switzerland. As a result of these measures, air travel dropped: a comparative assessment of flight distances and of corresponding indirect greenhouse gas emissions resulted in a reduction of 18 %. We have also introduced a new car use policy that limits the CO_2 emissions from company vehicles to 140 g CO_2eq per kilometer.

Enhancing our environmentally friendly mobility program

We encourage all our employees to act conscientiously towards the environment. The proportion of employees who commute to the Stäfa headquarters by public transportation is 38 %. The mobility program launched in financial year 2008/09 will continue to provide incentives to use public transport, accompanied by targeted awareness campaigns.

The annual bike to work program continues to show promising results: 65 employees joined the bike to work contest with the commitment to travel from home to the Stäfa site by bicycle throughout one month.

Managing our environmental program

The headquarters in Stäfa operates an ISO 14001-certified environmental management system that requires our employees to make sound environmental decisions when designing, manufacturing, and servicing our products.

CORPORATE SOCIAL RESPONSIBILITY

CAN YOU HEAR THE WORLD?

– Sonova has a social as well as a business mission: to foster a world where every hearing loss has a solution and all people equally enjoy the delight of hearing. We pursue this mission through our innovative technology and dedicated service – and through a unique initiative: HEAR THE WORLD.

GOALS

Launched by Phonak in 2006, HEAR THE WORLD is a global initiative whose goal is to promote a world where hearing is valued and protected, where people with hearing loss have equal opportunities, and where wearing a hearing aid is no longer a stigma. Towards that end, the initiative tries to ensure that the topic of hearing is included in public agendas and dialog, that people have access to information about how to prevent hearing loss, and that people with hearing loss get the support they need.

The HEAR THE WORLD Foundation, the most significant element of Corporate Social Responsibility at Sonova, contributes to turn the aspirations of the HEAR THE WORLD Initiative into reality for those people who are left aside. Its stated mission is to assist in specific ways where people with hearing loss can be helped. The Foundation's aid takes the form of financial support, the provision of hearing instruments, or the deployment of a team of professionals to provide hearing healthcare services.

HOW WE WORK

The HEAR THE WORLD Foundation occasionally gives support to individuals, but more often works through organizations such as schools, associations, and charities. Over the past five years, more than forty projects on all five continents have received aid from the Foundation, changing the lives of thousands of people with hearing loss.

The guiding principle for selecting and implementing projects is sustainability. The Foundation aims to support projects in which long-term positive effects can be guaranteed. What does this mean in practice? It means, for example, that where hearing aids are provided, recipients should also be able to get regular attention from hearing care professionals or doctors. This cannot be taken for granted, especially in developing countries, so in many places people have to be specially trained for this purpose. There must also be a reliable constant supply of batteries. In the specific case of children, associated measures such as speech therapy are also essential. These are just a few examples of follow-up measures that have to be considered along with the initial aid.

AMBASSADORS

Raising awareness is an integral part of the Foundation's work – and it benefits greatly from the generous participation of our celebrity ambassadors. Plácido Domingo, Sting, Take That, Bobby McFerrin, Lenny Kravitz, Annie Lennox, Ben Kingsley, Jude Law, KT Tunstall, Joey McIntyre, Freida Pinto and Patrick Nuo are just a few of the more than fifty public figures who have volunteered to support HEAR THE WORLD as ambassadors. All appear in pictures taken by the rock legend and photographer Bryan Adams, in the pose most associated with conscious hearing: with a hand behind the ear. The striking image and the well-known faces help draw attention to the issue of hearing.

RECENT DEVELOPMENTS

In May 2011, Swiss celebrity ambassador and singer/songwriter Patrick Nuo took his commitment yet further when he visited Kenya to find out for himself about Cargo Human Care, a German-led project supported by the HEAR THE WORLD Foundation, for which he is a patron. While in Nairobi in the Cargo Human Care's medical center, he helped conduct free hearing tests for children from nearby impoverished districts. 2,000 children are born with hearing loss every day in the developing world. Early help, such as is offered at the Cargo Human Care clinic and Jabali and Joymereen schools supported by the HEAR THE WORLD Foundation, can make all the difference for a child's future health, education, and full integration into society. "I admire how strong these children are," remarked Patrick Nuo; "They radiate so much energy and zest for life. It really is a big lesson in humility."

2011 REFERENCE PROJECT

THE HEAR THE WORLD FOUNDATION SUPPORTS SPECIAL OLYMPICS

Special Olympics is an international organization whose goal is to encourage and empower people with disabilities – promoting acceptance for all and fostering communities of understanding and respect worldwide. Founded in 1968 by Eunice Kennedy Shriver, the Special Olympics movement has grown from a few hundred athletes to nearly 3.5 million athletes in over 170 countries in all regions of the world, providing year-round sports training, athletic competition and other related programs. Special Olympics provides people with disabilities the opportunity to realize their potential, develop physical fitness, demonstrate courage and experience joy and friendship.

In 2011, the HEAR THE WORLD Foundation chose to support athletes at the Special Olympics international games in Athens. "Our athletes represent a section of the population that is not like any other," said Dr. Timothy Shriver, chairman and director of the Special Olympics. "They have a much higher risk of additional health limitations, such as hearing damage." This risk is compounded by the fact that many of the athletes come from poorer countries. Some may not be able to afford a hearing instrument, or they may not have access to the necessary medical and audiological care in their home countries.

As part of the Special Olympics Healthy Hearing program, the HEAR THE WORLD Foundation tackled this problem head on, offering a comprehensive hearing screening to all the athletes at the Athens games – 2,658 people. The results revealed that nearly a quarter of all the athletes tested were affected by hearing loss. The Foundation therefore decided to donate a total

of 344 high-quality Phonak hearing instruments to 196 athletes representing 72 nations, and organized free fitting and follow-up care in the athletes' respective home countries, once they were back home.

AT SONOVA HEADQUARTERS IN STÄFA, SWITZERLAND

“We wanted to give our son the best access to speech, and Advanced Bionics was the way to go. It might be the single best decision I have ever made in my life.”

FATHER OF A CHILD HAVING AN
ADVANCED BIONICS COCHLEAR IMPLANT

CUSTOMER
DRIVEN
INNOVATION

ADVANCING CORPORATE GOVERNANCE

Sonova made significant efforts and progress in further strengthening Corporate Governance during the year under review. This will remain a key focus in the future.

Sonova sees Corporate Governance as the means to improve transparency and maintain the essential balance between entrepreneurship, control, and reporting. Effective corporate governance reinforces stakeholder confidence and confirms the company's good reputation. Governance is a journey rather than a destination: it is never so complete that it cannot be taken further. The Sonova Board of Directors and the Management Board continue to monitor governance matters and implement new proposals where they can be beneficial to the company's stakeholders. In the year under review, Sonova made significant efforts in this area, including: revising the company's Organizational Regulations and Committee Charters; releasing and implementing a new set of policies and guidelines governing insider trading and public disclosure obligations; and revising the Board of Directors' and the Management Board's compensation system. At Sonova, corporate governance is based upon and fully in line with international standards and practices. The company fulfills its legal duties under 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. The present report describes the principles of Corporate Governance for the Sonova Group and provides background information on the Group's executive officers and bodies as of March 31, 2012. All the relevant documents can be accessed at the Corporate Governance section of the Sonova website: www.sonova.com/en/commitments/corporategovernance. For reasons of clarity and transparency, the Compensation Report is presented as a separate chapter of this Annual Report.

The financial year 2011/12 was affected by the aftermath of the alleged late profit warning issued by the company on March 16, 2011 and by certain trades in Sonova securities prior to the profit warning. The alleged late profit warning led to an investigation of Sonova by the SIX Swiss Exchange, the purpose of which is to clarify whether the profit warning was indeed too late. The investigation by the SIX Swiss Exchange is not yet completed. A separate investigation by the public prosecutor against certain individuals is still ongoing. The investigation is focused on whether, in the context of the profit warning, certain trades in Sonova securities were made with insider knowledge. In March 2012, investors represented by Deminor SCRL/CVBA, a Belgian company purportedly active in the field of damage recovery for shareholders, filed requests for summons to pay to be issued against Sonova. These requests for summons to pay were filed as a precautionary measure to prevent potential claims from the investors from becoming time-barred. Sonova formally objected to the summons to pay and will vigorously oppose any potential lawsuit from investors represented by Deminor. Sonova will continue to cooperate with the relevant authorities and will inform its stakeholders of any relevant developments.

GROUP STRUCTURE

OPERATIONAL GROUP STRUCTURE

The Sonova Group is headquartered in Stäfa, Switzerland, and is active in over 90 countries. Sonova has subsidiaries in over 30 countries and a network of independent distributors serving the remaining markets. Sonova Holding AG is listed on the SIX Swiss Exchange. Details of the business segments can be found in Note 4 of the Consolidated Financial Statements.

LISTED COMPANIES

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

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

	2012	2011	2010
Market capitalization in CHF m	6,677	5,444	8,658
in % of equity	452 %	405 %	615 %
Share price in CHF	100.30	81.85	131.00
P/E ratio	27.0 x	23.4 x	24.2 x

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

A list of the significant companies of the Sonova Group as of March 31, 2012 can be found in the Consolidated Financial Statements in Note 35.

SHAREHOLDERS

REGISTERED SHAREHOLDERS

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

Number of shares	Registered shareholders 31.3.2012	Registered shareholders 31.3.2011
1 – 100	6,479	6,666
101 – 1,000	9,835	10,250
1,001 – 10,000	1,330	1,456
10,001 – 100,000	162	177
100,001 – 1,000,000	21	19
> 1,000,000	6	7
Total registered shareholders	**17,833**	**18,575**

SIGNIFICANT SHAREHOLDERS

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

	2012	2012	2011	2011
	No. of shares	in %	No. of shares	in %
Chase Nominees Ltd. [2]	9,816,290	14.74	5,447,068	8.19
Beda Diethelm [1]	6,647,259	9.98	6,647,259	9.99
Andy Rihs [1]	5,574,598	8.37	6,009,598	9.04
Hans-Ueli Rihs [1]	4,222,713	6.34	3,792,713	5.70
Mellon Bank Nominee [2]	2,619,938	3.94	n/a	<3 %
Nortrust Nominees Ltd [2]	2,110,134	3.17	2,058,912	3.10
Registered shareholders with less than 3 % of shares	18,985,354	28.52	21,329,990	32.07
Not registered	16,598,047	24.94	21,228,853	31.91
Total shares	**66,574,333**	**100,00**	**66,514,393**	**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 % or a reduction of the shareholding below 3 % in the financial year 2011/12:

The Capital Group Companies, Inc. and its affiliates, 333 South Hope Street, 55th Floor, Los Angeles, California 90071-1406, USA, holds 5.046 % of the capital following a stock purchase on November 9, 2011.

Lone Pine Capital LLC and its affiliates, 2 Greenwich Plaza, Greenwich, Connecticut 06830, USA, has informed the company that it holds less than 3 % of the capital and voting rights as of September 27, 2011.

MFS Investment Management and its affiliates, 500 Boylston Street, Boston, Massachusetts 02110, USA, holds 5.26 % of the capital following a stock purchase on March 23, 2011. No changes have been reported by MFS Investment Management in the financial year under review.

SHAREHOLDER STRUCTURE

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

Type	31.3.2012	31.3.2011
Individuals	25 %	25 %
Legal entities	22 %	24 %
Nominees, fiduciaries	28 %	19 %
Not registered	25 %	32 %
Total	100 %	100 %

The following table shows the shareholder structure by shareholder origin:

Origin	31.3.2012	31.3.2011
Switzerland	34 %	35 %
Europe (excl. Switzerland)	34 %	28 %
Americas	6 %	4 %
Rest of world	1 %	1 %
Not registered	25 %	32 %
Total	100 %	100 %

CROSS-SHAREHOLDINGS

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

CAPITAL STRUCTURE

CAPITAL

As of March 31, 2012, the capital of Sonova Holding AG comprised the following:

Ordinary capital (in CHF)	3,328,717
Total shares	66,574,333
Authorized capital (in CHF)	n.a.
Authorized shares	n.a.
Conditional capital (in CHF)	296,054
Conditional shares	5,921,087

AUTHORIZED AND CONDITIONAL CAPITAL

Authorized capital

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

Conditional capital

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

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

CHANGES IN CAPITAL

As of March 31 2012, the capital of Sonova Holding AG comprised the following:

	2012	2011	2010
Ordinary capital (in CHF)	3,328,717	3,325,720	3,304,537
Total shares	66,574,333	66,514,393	66,090,745
Authorized capital (in CHF)	n.a.	165,576	165,576
Authorized shares	n.a.	3,311,520	3,311,520
Conditional capital (in CHF)	296,054	299,051	320,234
Conditional shares	5,921,087	5,981,027	6,404,675

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

A total of 5,380,033 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, 2012, to 2,619,967 (previous year:2,679,907) shares. In the financial year 2011/2012, a total of 338,474 options were granted as part of the Sonova Executive Equity Award Plan (EEAP). In 2010/11 and 2009/10, the number of options granted totaled 612,065 and 517,532 respectively. As of March 31, 2012, there were still 2,013,679 options outstanding (compared with 1,929,751 in the previous year). Each of these options entitles the holder to purchase one registered share in Sonova Holding AG with a par value of CHF 0.05.

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

SHARES AND PARTICIPATION CERTIFICATES

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

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

	2012	2011
First trading line	39,782	47,060
Total treasury share	**39,782**	**47,060**

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 the founding shareholders. The Board of Directors may approve other exceptions if it has good reason to do so, in which case no special quorum is required.

Exceptions granted in the year under review

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

Admissibility of nominee registrations

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

Procedure and conditions for cancelling statutory privileges and limitations on transferability

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

CONVERTIBLE BONDS AND OPTIONS

Sonova Holding AG has not issued any convertible bonds.

The executive and employee share ownership programs of Sonova Holding AG (Executive Equity Award Plan) are described in greater detail in Note 29 to the Consolidated Financial Statements.

BOARD OF DIRECTORS

INTRODUCTION

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

At the 2012 General Shareholders' Meeting, William D. Dearstyne, Vice Chairman, will be retiring from the Board of Directors, having served one year beyond the usual retirement age of 70. During his 9 years of service, William D. Dearstyne played an active and important role in the success of the company. The Board of Directors nominated Beat Hess for election at the 2012 General Shareholders' Meeting as William D. Dearstyne's successor on the Board. The mandates of Robert F. Spoerry, Andy Rihs, Michael Jacobi, Anssi Vanjoki and Ronald van der Vis will come up for re-election at the General Shareholders' Meeting of this year.

EXECUTIVE MANAGEMENT POSITIONS

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

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

Except for the transactions disclosed in Note 27 to the Consolidated Financial Statements of Sonova Holding AG, there are no business connections between individual Board members, including companies or organizations represented by them, and the Sonova Holding AG.

OTHER ACTIVITIES AND VESTED INTERESTS

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

ELECTIONS AND TERMS OF OFFICE

Election procedure and limits on the terms of office

The Articles of Association of Sonova Holding AG state that the Board of Directors must consist of a minimum of three and a maximum of nine members. The members of the Board of Directors of Sonova Holding AG are elected individually by the General Shareholders' Meeting. 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 remained a Member of the Board of Directors after the age of 70 for one additional year until the upcoming General Shareholders' Meeting.

First election and remaining term of office

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

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

ROBERT F. SPOERRY

(born 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 from the University of Chicago.

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

ANDY RIHS

(born 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.

WILLIAM D. DEARSTYNE

(born 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. Both companies were 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.

HELIANE CANEPA

(born 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 medical technology company based in Switzerland and the United States that manufactures balloon catheters.

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

MICHAEL JACOBI

(born 1953, Swiss and German citizen) 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

RONALD VAN DER VIS

(born 1967, Dutch citizen) has been Executive Director of the Board of Esprit Holdings Limited since June 22, 2009 and Group Chief Executive Officer since November 1, 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

ANSSI VANJOKI

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

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

Other activities:

Chairman of the Board of Amer Sports Corporation
Member of the Board of Koskisen Oy
Member of the Board of Basware Corporation Oy
Angel Investor and Chairman and Member of the Board of several technology start-up companies

JOHN J. ZEI

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

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.

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.

In accordance with the Organizational Regulations, the Board has appointed an Audit Committee and a Nomination and Compensation Committee.

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

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

AUDIT COMMITTEE

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

The duties of the Audit Committee include reviewing the performance and effectiveness of external and internal audit on behalf of the entire Board of Directors; evaluating the company's financial control systems, financial structure and risk management control mechanisms; and reviewing the interim and annual accounts and financial statements of the Sonova Group. The Audit Committee also supervises Internal Audit and its performance of internal audits as well as reviewing the results (see Audit Committee Charter: http://www.sonova.com/en/Commitments/regulationsprinciples/Pages/CommitteeCharters.aspx).

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

Nomination and Compensation Committee

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

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

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

Work methods of the Board of Directors and its committees

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

	A	B	C
No. of meetings in 2011/12	8[1]	4	5[1]
Robert F. Spoerry	8	4	5
William D. Dearstyne	8	1	5
Heliane Canepa	7	4	–
Michael Jacobi	6	4	–
Andy Rihs	8	–	–
Anssi Vanjoki	8	4	–
Ronald van der Vis	6	–	–
John J. Zei	8	–	5
Average meeting length (hours)	8 – 10h[2]	3	3[2]

A Board of Directors.
B Audit Committee.
C Nomination and Compensation Committee.
[1] Including telephone conferences
[2] Excluding telephone conferences

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

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

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

DEFINITION OF AREAS OF RESPONSIBILITY

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

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

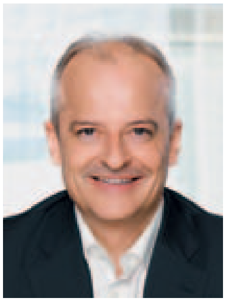
The Management Board reports regularly to the Board of Directors during meetings of the Board and its committees. At each Board meeting, the Management Board informs the Board of Directors of the status of current business matters and financial results as well as major business transactions; it also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

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

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

MANAGEMENT BOARD

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



LUKAS BRAUNSCHWEILER

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

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

Other activities:

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

ALEXANDER ZSCHOKKE

(born in 1965, Swiss citizen) joined Sonova in 2006. 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. He was also interim CEO of the Sonova Group from March to October 2011.

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.

Alexander Zschokke studied mechanical engineering and business studies at the Swiss Federal Institute of Technology (ETH) in Zurich, Switzerland, earning a Master of Science degree.

PAUL THOMPSON

(born 1967, Canadian citizen) has been with Sonova since 2002 and was appointed interim CFO in March 2011. He was previously Chief Financial Officer of the Sonova Group from 2002 to 2004. After 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

(born 1968, Swiss citizen) joined the Sonova Group as Group Vice President, Medical in March 2011. Before joining Sonova, he was President of the Global Spine division of Synthes, the implant manufacturer. During his time at Synthes he held various positions and gained broad specialist and management skills.

Hansjürg Emch acquired experience in general management, sales, product and business development as well as clinical and regulatory affairs in the US and Europe. He has a Master of Science and Engineering from the Swiss Federal Institute of Technology (ETH) in Zurich and completed the Program for Management Development at Harvard Business School.

SARAH KREIENBÜHL

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

Sarah Kreienbühl was previously Head of Global Human Resources and member of the Executive Board of the Tecan Group in Männedorf, Switzerland. Prior to that she was a consultant with Amrop International, Zurich, Switzerland, where she did executive search projects and also introduced new assessment and management audit services. She started her career as a psychologist with Swissair, where she was involved in the selection of pilots and air traffic controllers.

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

MAARTEN BARMENTLO

(born 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.

IGNACIO MARTINEZ

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

Prior to this 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 worked for Widex in Spain, holding positions as Hearing Aid Technician, Assistant Technical Director, and as Director of Sales and Marketing.

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

HANS MEHL

(born 1959, German citizen) was appointed Group Vice President, Operations 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 Siemens Building Technologies in Zug, Switzerland. Between 2000 and 2003, he was CFO of Global Health Services at Siemens Medical Group in Philadelphia, USA. Before that he was a member of the executive management of Siemens Audiology Group.

Hans Mehl completed his education in business administration in Germany.

During the financial year 2011/12 the vacant positions on the Management Board were filled and the organizational structure was further strengthened. Thanks to Alexander Zschokke who stepped in as interim CEO, and to Paul Thompson, who took over as interim CFO after the resignation of the previous CEO and CFO on March 30, 2011, the company was able to master the challenges in the aftermath of the alleged late profit warning. Lukas Braunschweiler was appointed CEO of the company as of November 1, 2011. Hartwig Grevener was announced as CFO on February 28, 2012 and will be taking up his position on August 1, 2012. Until then, Paul Thompson, Group Vice President, Corporate Development, will continue to act as interim CFO. As a result of the reorganization of International Sales into three regions, Europe and Latin America, North and Central America and Asia/Pacific, effective May 1, 2012, Paul Thompson will also assume the responsibility the region North and Central America, in addition to his original role of Group Vice President, Strategy and Corporate Development. Claude Diversi will take on the responsibility as Vice President for the region Europe and Latin America as of May 1, 2012. Ignacio Martinez, Group Vice President, International Sales, will leave the company on June 19, 2012. Andreas Vonlanthen was promoted to the Management Board as Group Vice President, Research & Development as of April 1, 2012.

Other activities and vested interests

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

Management contracts

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

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 21, 2011, 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 2011/12 and 2010/11:

1,000 CHF	2011/12	2010/11
Audit services	1,077	1,244
Audit-related services	243	234
Tax services	181	339
Non-audit services	284	261
Total	**1,785**	**2,078**

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 2011/12 mainly consisted of consulting fees in connection with transfer pricing, the employee shareholding program, acquisitions and the support for internal audit.

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 2011/12, the external auditors attended 2 out of 4 Audit Committee meetings. The Audit Committee of the Board of Directors reviews the performance, compensation, and independence of the external auditors on a regular basis. The Audit Committee reports its findings to the Board of Directors quarterly.

INFORMATION POLICY

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.

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

The website of the Sonova Group www.sonova.com contains information on the company results, the financial calendar as well as current investor presentations. The Investor Relations function includes presentations of annual and interim results, presentations on the latest product launches, meetings with investors and analysts in major financial centers, hosting tours to the Production site at Stäfa (Switzerland), and presentations at broker-sponsored industry conferences.

INSIDER TRADING POLICY

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

PRODUCTION EMPLOYEES AT OUR OPERATION CENTER IN STÄFA, SWITZERLAND

“Naída allows me to talk to my four year old friend next door, I am 62 and he thinks I am cool.”

NAÍDA USER

PROVIDING CLARITY THROUGH COMPENSATION DISCLOSURE

The value and success of Sonova strongly depend on its people. Sonova therefore aims to attract the best talent in a highly competitive worldwide employment market. At the same time, we are fully aware of our responsibility, as custodians of shareholders' equity, to maintain a transparent and appropriate compensation structure.

We significantly revised our compensation system in 2011. For members of the Board of Directors, we reduced the cash retainer, the meeting attendance fee, and the value allocated under the long-term incentive plan (Executive Equity Award Plan – EEAP) from the previous year's level. For members of the Management Board, we adjusted the compensation mix by reducing the long-term incentive element (EEAP) while correspondingly increasing the fixed base salary element. The effect of this change will become apparent in next year's Annual Report. As of 2012, we no longer grant warrants under the EEAP and the equity value is now allocated 50 % in options and 50 % in Restricted Stock Units (RSUs) for members of the Board of Directors and the Management Board. The CEO receives 63 % of the grant value in options and 37 % in RSUs, while the equity grant to the Chairman of the Board of Directors is entirely in restricted shares. To further align the interests of shareholders with those of members of the Management Board and Board of Directors, we have implemented the Sonova Share Ownership Guidelines, requiring specified minimum shareholdings.

All these changes are detailed below.

We are convinced that we have put in place a sustainable compensation system that provides a solid basis for motivating and retaining talent at all levels of the company, and that properly balances short-term results with long-term value creation.

SUMMARY OF REPORT

The compensation report describes the compensation system in place at Sonova, including the key elements and general principles, the bodies responsible for its design, the implementation, and the approval framework. The report also provides detailed information on the compensation paid to the Board of Directors and the Management Board in financial year 2011/12. This report reflects the requirements under item 5 of the Annex to the Directive on Information relating to Corporate Governance (Directive Corporate Governance, DCG) published by the SIX Swiss Exchange on October 29, 2008. It also includes all information required by Articles 663bbis and 663c paragraph 3 of the Swiss Code of Obligations. This information is also provided in Note 3.6 of the Financial Statements of Sonova Holding AG, beginning on page 123.

INVOLVEMENT OF SHAREHOLDERS

Sonova is committed to a compensation system that is transparent and acceptable to its shareholders. At last year's General Shareholders' Meeting, the Board of Directors submitted for the first time a proposal that shareholders hold a consultative vote on the compensation report, which included the compensation system as a whole and the various remuneration elements. Shareholders will have the same opportunity to express their views through a vote at the General Shareholders' Meeting on June 19, 2012. Although the consultative vote is non-binding, the Board of Directors will take the results into consideration when making any future adjustments to the structure of the compensation system.

STANDARDS AND PRINCIPLES

Sonova's goal is to adhere to compensation principles that everyone trusts. We aim to sustain a simple, balanced, transparent, and performance-driven compensation system for all employees including executive management. The compensation system is designed to attract and retain highly qualified and successful employees so that we can reach our strategic goals. It also aims to encourage and reward individual performance in line with the company's values.

COMPENSATION GOVERNANCE AND APPROVAL FRAMEWORK

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

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

All employees, including Management Board members, are subject to 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 salary compensation. The fixed base salary is determined by the individual's function and performance as well as industry benchmarks.

BENCHMARK STUDIES AND EXTERNAL ADVISORS

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

We also periodically review remuneration for members of the Management Board, measuring it against data from executive surveys and benchmarks from companies similar in size and structure or operating in equivalent healthcare industries. In 2011, we invited Towers Watson, an independent external advisor, to consult on our detailed review of compensation for all members of the Management Board. The survey identified two relevant competitor groups: nine companies in the international Medical Technology sector and eleven Swiss companies in the General Industry sector. The review's results established that the total compensation of members of the Sonova Management Board is in line with both competitor groups – with, however, a generally lower base salary, offset by a higher long-term incentive portion. We took these results into account when defining the new Management Board compensation package for the upcoming financial year, which will show a higher base salary as of April 2012 and a lower long-term incentive value than in 2011. As mentioned above, we decided to discontinue granting warrants and now allocate 50 % of the long-term incentive value in options and 50 % in RSUs. Towers Watson does not provide any other services to the Sonova Group.

A similar benchmark process, comparing Sonova with companies of a similar size and structure in the international Medical Technology sector, and Swiss companies in the General Industry sector, was used to determine compensation for the Board of Directors.

COMPENSATION ELEMENTS

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

TOTAL REMUNERATION MODEL

Compensation elements			
Fixed Base salary	Variable salary	Long-term Incentive (EEAP)	Benefits
Base pay that depends upon the job level and the job market and is paid out regularly	Variable compensation depending upon the personal, team and company performance	Variable components in equity	Mandatory and voluntary benefits granted by the employer

Target cash compensation

Total compensation

Total remuneration

FIXED BASE SALARY COMPONENT

The fixed base salary gives each employee a regular and predictable salary. The salary level is based on the scope and complexity of the position, market norms, and the employee's experience and skills. Salary progression depends primarily on the employee's individual performance as well as market norms and the economic climate.

VARIABLE SALARY COMPONENT

Variable salary is an integral element of an employee's target cash compensation. The performance goals that must be met to achieve the variable salary component are mutually defined and agreed with employees at the beginning of the financial year. The split between the fixed base and variable salary components varies by job profile and management level. The variable salary component is typically around 10 % of target cash compensation for employees, and ranges from 10 % to 30 % for managers. In the year under review, members of the Management Board had a target variable salary component between 30 % and 35 % of target cash compensation; for the new CEO it was 39 %. Individual targets and quantitative targets based on financial metrics such as sales, EBITA or operating expenses have been used in the year under review, depending on the employee's function at a Group and/or business unit level. If less than 80 % of a performance objective is achieved, no variable salary component is paid out on that objective. If the objectives are exceeded, the variable salary component may be increased to a maximum of 200 % of the target amount.

LONG TERM INCENTIVE (EXECUTIVE EQUITY AWARD PLAN – EEAP)

The EEAP is a long-term equity-based incentive offered annually to members of the Board of Directors and the Management Board, as well as to other management levels of the Sonova Group. We reviewed the EEAP design in 2011 and made several amendments. As of 2012, we have discontinued granting warrants as an equity instrument: EEAP participants now receive either 50 % of the grant value in options and 50 % in RSUs (higher levels of management and Board of Directors) or 100 % of the grant value in RSUs (middle management), with the exception of the CEO and Chairman of the Board, whose equity split is as described in the introduction to this Compensation Report. As part of our emphasis on building long-term shareholder value, we increased the term of the options from five years to seven years. Further we have deferred the vesting dates until after the release of full-year financial results.

In 2012, a total of approximately 425 individuals are participating in the EEAP. The options and RSUs granted under the plan are split into four equal tranches, which vest annually starting on June 1st of the year following the grant year. The exercise price of the options is the closing price for the shares on the Swiss stock exchange (SIX Swiss Exchange) on the grant date. The fair value of the options is calculated on the grant date using an option pricing model. Additional information is available in Note 29 to the Consolidated Financial Statements.

EEAP 2012	Options	RSUs
Grant Date	February 1, 2012	February 1, 2012
Purchase Price	Free of charge	Free of charge
Exercise / Strike Price	CHF 95.85 Sonova Share closing price at SIX on February 1, 2012	n. a.
Vesting Date	25 % vest on June 1, 2013 25 % vest on June 1, 2014 25 % vest on June 1, 2015 25 % vest on June 1, 2016	25 % vest on June 1, 2013 25 % vest on June 1, 2014 25 % vest on June 1, 2015 25 % vest on June 1, 2016
Exercise Period	After vesting until expiry of the Options	n. a.
Maturity	Total 7 years	Not limited
Expiry	January 31, 2019	n. a.

EEAP FOR US PARTICIPANTS

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

IMPLEMENTATION OF SONOVA SHARE OWNERSHIP GUIDELINES

To further align the interests of the Board of Directors and Management Board with those of the shareholders, the Sonova Share Ownership Guidelines require members of both boards to hold a specified number of Sonova shares in order to be eligible to participate in the EEAP. Members of the Board of Directors must hold at least 2,000 Sonova shares; the CEO must hold 8,000, while the other members of the Management Board must hold 3,000 each. These holdings must be achieved over the next 3 years; the NCC will monitor progress toward the totals on an annual basis.

DESCRIPTION OF COMPENSATION TO MEMBERS OF THE MANAGEMENT BOARD

As mentioned above, the compensation elements that apply to Sonova employees also apply to members of the Management Board, including the CEO, although with a heavier relative weighting for the variable salary component and EEAP.

In the year under review, the targeted variable salary component ranged between 30 % and 35 % of target cash compensation for members of the Management Board and 39 % of target cash compensation for the new CEO. As with other employees, if a member of the Management Board achieves less than 80 % of a stipulated performance objective, no variable salary component is paid out on that specific objective. If the performance objective is exceeded, the variable salary compensation may be increased to a maximum of 200 % of the target amount. The variable salary compensation for the Management Board is based on three performance categories: Group, business unit, and individual. In the year under review, Group performance objectives were based on metrics such as sales, EBITA, and inventory turnover. Business unit metrics included sales, operating profit, and operating expenses. In addition to these group and business unit performance objectives, Management Board members had three to five individual performance objectives. Each member's various objectives are weighted for a total allocation of 100 %. In the year under review, the Group and business unit objectives represented between 70 % and 80 % of the total, with applicable individual objectives between 20 % and 30 %.

The Board of Directors can also make further cash awards for exceptional achievements that do not fall under the annual objectives.

As described earlier, the value of the long-term incentive element (EEAP) granted in February 2012 to the Management Board represented a decrease from the previous year: each member received a fair value of CHF 391,585, half in options and half in RSUs. In May 2012, an additional option grant of a fair value of CHF 359,100 each was made to Alexander Zschokke and Paul Thompson (interim CEO and CFO respectively) in recognition of their interim functions. These options are subject to vesting periods, the same as ordinary option grants under the EEAP. The EEAP 2012 fair value for the CEO was CHF 787,374, of which CHF 499,991 was in options and CHF 287,383 in RSUs. As of 2012, the Management Board is subject to the Sonova Share Ownership Guidelines described above.

The highest total remuneration for a Management Board member in the year under review was paid to Alexander Zschokke, who was the interim CEO of Sonova Group until the end of October 2011. His fixed base salary was CHF 472,774 and the target variable salary component was CHF 179,716. His variable salary paid for performance in the year under review was CHF 174,013, whereas the maximum variable salary potential would have been CHF 359,432 (200 % of the target variable salary amount). A long-term incentive (EEAP) fair value for 2012 of CHF 391,585, an additional long-term incentive (EEAP) grant of CHF 359,100, fringe benefits of CHF 16,000, and social benefits of CHF 179,981 are all reflected in Alexander Zschokke's total remuneration of CHF 1,593,453.

Lukas Braunschweiler joined Sonova Group in November 2011 as the new CEO. His pro-rated fixed base salary was CHF 333,333 (equivalent to an annual base salary of CHF 800,000) and his pro-rated target variable salary component was CHF 207,650 (equivalent to CHF 500,000 annually). The pro-rated variable salary paid out for performance in the year under review was CHF 257,650. The maximum variable salary potential, capped at 200 % of the target variable salary, would have been CHF 415,300 (equivalent to CHF 1,000,000 annually). A long-term incentive (EEAP) fair value for 2012 of CHF 787,374, fringe benefits of CHF 6,667, and social benefits of CHF 75,064 are all reflected in Lukas Braunschweiler's total remuneration of CHF 1,460,088.

In the next financial year, the three categories of performance objectives that determine variable salary compensation for members of the Management Board – Group, business unit, and individual performance – will remain the same. Some of the metrics within those categories, however, will change. Group performance will be measured by sales, EBITA, free cash flow, and earnings per share. Business unit performance will be measured by sales, EBITA, and operating expenses of the respective business unit. Group and business unit performance together will be weighted at between 60 % and 80 % of the total objectives. The three to five individual objectives for each member of the Management Board will be weighted at between 20 % and 40 % of the total objectives, for a total of 100 % for each Management Board member.

DESCRIPTION OF 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 cash retainer, a committee fee (if applicable), and a meeting attendance fee. There is no variable salary component. Members of the Board of Directors also receive a long-term incentive through their participation in the EEAP. In 2012, the cash retainer, meeting attendance fee, and long-term incentive (EEAP) value for the Board of Directors have been reduced from the levels of the previous year. Warrants are no longer granted under the EEAP; as of February 2012, the proportions of the long-term incentive (EEAP) grants have been changed to 50 % in options (or SARs for US participants) and 50 % in RSUs. The grant to the Chairman of the Board of Directors is entirely in restricted shares, subject to a restriction period from February 1, 2012 to June 1, 2017. As of 2012, members of the Board of Directors are also subject to the Sonova Share Ownership Guidelines described above.

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 a long-term incentive, through their participation in the EEAP.

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

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

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

The compensation shown in the table above is gross and based on accrual principle.
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) Fair value per warrant at grant date CHF 0.96. Exercise ratio between warrants and options: 25:1.
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.
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 base salary and a variable salary component, additional benefits, social benefits (employer's contributions), and a long-term incentive through their participation in the EEAP.

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

in CHF								2011/12
	Fixed salary	Variable salary[1]	Fringe benefits	Social benefits (employer's contribution)[2]	Total cash compensation[1)/2)]	Value of RSUs[3]	Value of options[4]	Total compensation[2]
Alexander Zschokke, interim CEO[5]	472,774	174,013	16,000	179,981	842,768	191,588	559,097	1,593,453
Other members of the Management Board[6]	2,293,486	1,512,489	412,113	792,444	5,010,532	1,245,323	1,859,076	8,114,931
Total	**2,766,260**	**1,686,502**	**428,113**	**972,425**	**5,853,300**	**1,436,911**	**2,418,173**	**9,708,384**

The compensation shown in the table above is gross and based on accrual principle.
1) The variable salary will be paid out after the end of the reporting year.
2) Including social security contributions on the tax value of options/warrants exercised during the reporting period.
3) Fair value per RSU at grant date CHF 91.84.
4) Fair value per option at grant date CHF 19.55, respectively CHF 17.96 for the additional grant to the interim CEO and CFO.
5) Alexander Zschokke was interim CEO until October 31, 2011.
6) Lukas Braunschweiler, CEO, joined Sonova as of November 1, 2011, Hans Leysieffer was member of the Management Board until April 2011.

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]	Total compensation[2]
Valentin Chapero Rueda, CEO[4]	1,500,000	521,976	16,000	404,789	2,442,765	672,960	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	7,871,224
Total	**3,896,409**	**1,530,906**	**178,315**	**1,091,844**	**6,697,474**	**4,289,475**	**10,986,949**

The compensation shown in the table above is gross and based on accrual principle.
1) The variable salary will be paid out after the end of the reporting year.
2) Including social security contributions on the tax value of options/warrants exercised during the reporting period.
3) Fair value per warrant at grant date CHF 0.96. Exercise ratio between warrants and options: 25:1.
4) 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.

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

One member of the Board of Directors had a consulting contract with the Sonova Group, which was terminated as at June 30, 2011. In the year under review, this member of the Board of Directors received CHF 36,425 for providing consulting services. These services were related to specific assignments, beyond regular Board tasks, that he was given by the Sonova Group.

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

PAYMENTS TO FORMER MEMBERS OF THE MANAGEMENT BOARD

In accordance with the notice periods in the relevant employment contracts, there were payments totaling CHF 2.4 million (including social benefits on exercised options/warrants) made to two individuals, the former CEO and CFO, who left the Management Board in March 2011.

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

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

Shareholdings of the Board of Directors

As of March 31, 2012, the members of the Board of Directors and persons closely linked to them held directly and indirectly 5,680,181 Sonova shares (8.5 % of total share capital), 6,000,000 warrants, 1,237,500 Warrant Appreciation Rights, 25,575 options, 5,115 Share Appreciation Rights and 6,258 RSUs.

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

				31.3.2012			31.3.2011
	Shares	RSUs[1]	Warrants[1] [2]	Options[1]	Shares	Warrants[1] [2]	Options[1]
Robert F. Spoerry	14,173[3]		1,250,000		10,000	1,250,000	12,000
William D. Dearstyne	32,310		987,500[4]		32,300	987,500[4]	3,000[5]
Heliane Canepa	24,100	1,043	1,250,000	5,115	18,010	1,250,000	12,000
Michael Jacobi	2,000	1,043	1,250,000	5,115	2,000	1,250,000	12,000
Andy Rihs	5,604,598	1,043	1,250,000	5,115	6,309,598	1,250,000	3,000
Anssi Vanjoki		1,043	500,000	5,115		500,000	
Ronald van der Vis	2,000	1,043	500,000	5,115		500,000	
John J. Zei	1,000	1,043	250,000[4]	5,115[5]		250,000[4]	
Total	**5,680,181**	**6,258**	**7,237,500**	**30,690**	**6,371,908**	**7,237,500**	**42,000**

1) For further details see also Note 29 in the consolidated financial statements.
2) Exercise ratio between warrants and options: 25:1.
3) 4,173 shares blocked until May 31, 2017.
4) WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
5) SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

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

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

1) Exercise ratio between warrants and options: 25:1 (see also Note 29 in the consolidated financial statements).
2) Excercise price CHF 95.85, vesting period 01.02.2012-01.06.2016 whereas one tranche being vested each year, exercise period 01.06.2013-31.01.2019.
3) Exercise price CHF 118.40, vesting period 01.03.2011-28.02.2015 whereas one tranche being vested each year, exercise period 01.03.2012-29.02.2016.
4) Exercise price CHF 131.00, vesting period 01.03.2010-28.02.2014 whereas one tranche being vested each year, exercise period 01.03.2011-28.02.2015.
5) Exercise price CHF 56.00, vesting period 01.03.2009-28.02.2013 whereas one tranche being vested each year, exercise period 01.03.2010-28.02.2014.
6) Exercise price CHF 96.00, vesting period 01.03.2008-29.02.2012 whereas one tranche being vested each year, exercise period 01.03.2009-28.02.2013.
7) WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
8) SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

	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
							31.3.2011
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
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 29 in the consolidated financial statements).
2) Exercise price CHF 118.40, vesting period 01.03.2011-28.02.2015 whereas one tranche being vested each year, exercise period 01.03.2012-29.02.2016.
3) Exercise price CHF 131.00, vesting period 01.03.2010-28.02.2014 whereas one tranche being vested each year, exercise period 01.03.2011-28.02.2015.
4) Exercise price CHF 56.00, vesting period 01.03.2009-28.02.2013 whereas one tranche being vested each year, exercise period 01.03.2010-28.02.2014.
5) Exercise price CHF 96.00, vesting period 01.03.2008-29.02.2012 whereas one tranche being vested each year, exercise period 01.03.2009-28.02.2013.
6) Exercise price CHF 95.05, vesting period 01.02.2007-31.01./28.02.2011 whereas one tranche being vested each year, exercise period 01.02.2008-31.01./29.02.2012.
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).

Shareholdings of the Management Board

As of March 31, 2012, the members of the Management Board and persons closely linked to them held directly or indirectly 13,515 Sonova shares, 15,645 RSUs, 9,655,500 warrants, and 126,955 options.

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

	31.03.2012				31.03.2011		
	Shares	RSUs[1]	Warrants[1] [2]	Options[1]	Shares	Warrants[1] [2]	Options[1]
Lukas Braunschweiler	5,000	3,129		25,575			
Alexander Zschokke	800	2,086	1,537,500	30,230		1,537,500	
Paul Thompson	2,100	2,086	1,537,500	30,230		1,537,500	
Hansjürg Emch	4,285	2,086	661,000	10,230	1,700	661,000	
Sarah Kreienbühl		2,086	1,738,000	10,230		1,738,000	790
Ignacio Martinez			1,550,000			1,550,000	4,000
Maarten Barmentlo		2,086	869,000	10,230		869,000	
Hans Mehl	1,330	2,086	1,762,500	10,230	1,330	2,012,500	8,545
Total	**13,515**	**15,645**	**9,655,500**	**126,955**	**3,030**	**9,905,500**	**13,335**

1) For further details see also Note 29 in the consolidated financial statements.
2) Exercise ratio between warrants and options: 25:1 (see also Note 29 in the consolidated financial statements).

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

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

1) Exercise ratio between warrants and options: 25:1 (see also Note 29 in the consolidated financial statements).
2) Exercise price CHF 95.85, vesting period 01.02.2012-01.06.2016 whereas one tranche being vested each year, exercise period 01.06.2013-31.01.2019.
3) Exercise price CHF 88.30, vesting period 28.05.2011-27.05.2015 whereas one tranche being vested each year, exercise period 28.05.2012-27.05.2016.
4) Exercise price CHF 118.40, vesting period 01.03.2011-28.02.2015 whereas one tranche being vested each year, exercise period 01.03.2012-29.02.2016.
5) Exercise price CHF 131.00, vesting period 01.03.2010-28.02.2014 whereas one tranche being vested each year, exercise period 01.03.2011-28.02.2015.
6) Exercise price CHF 56.00, vesting period 01.03.2009-28.02.2013 whereas one tranche being vested each year, exercise period 01.03.2010-28.02.2014.
7) Exercise price CHF 96.00, vesting period 01.03.2008-29.02.2012 whereas one tranche being vested each year, exercise period 01.03.2009-28.02.2013.

							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	**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 29 in the consolidated financial statements).
2) Exercise price CHF 118.40, vesting period 01.03.2011-28.02.2015 whereas one tranche being vested each year, exercise period 01.03.2012-29.02.2016.
3) Exercise price CHF 131.00, vesting period 01.03.2010-28.02.2014 whereas one tranche being vested each year, exercise period 01.03.2011-28.02.2015.
4) Exercise price CHF 56.00, vesting period 01.03.2009-28.02.2013 whereas one tranche being vested each year, exercise period 01.03.2010-28.02.2014.
5) Exercise price CHF 96.00, vesting period 01.03.2008-29.02.2012 whereas one tranche being vested each year, exercise period 01.03.2009-28.02.2013.
6) Exercise price CHF 95.05, vesting period 01.02.2007-30.09.2011 whereas one tranche being vested each year, exercise period 01.02.2008-31.05.2012.
7) These options were granted to Hans Mehl at commencement of employment on April 1, 2007.

FINANCIAL REPORTING

RESULTS 2011/12

SUSTAINABLE GROWTH ACROSS ALL SEGMENTS

– In the financial year 2011/12 Sonova generated record revenues of CHF 1,619.8 million and growth of 11.6 % in local currencies, or 0.2 % in Swiss francs.

The EBITA decreased to CHF 315.2 million and the EBITA margin to 19.5 %, mainly due to the negative impact of the strong Swiss franc.

The equity financing ratio of 64.5 % has been further strengthened and the net debt has been reduced to CHF 64.4 million, providing the Group with a very solid financial position.

Sonova's core hearing instruments segment achieved a good performance with sales up by 9.7 % in local currency. Excluding the negative currency impact, the segment posted a solid improvement of the EBITA margin.

The hearing implants segment showed better than expected year-over-year growth of 53.5 % in local currencies with the return of Advanced Bionics to the market following the voluntary recall in November 2010.

During the financial year, the Phonak Acoustic Implants facility in Lonay, Switzerland was closed in order to focus the hearing implants segment on the cochlear implant market, which is expected to provide significantly better mid-term opportunities for growth and profitability than the market for middle ear implant products. The financial results reflect one-time restructuring charges of CHF 2.7 million and a one-time, non-cash impairment charge of CHF 4.9 million for the remaining capitalized development costs.

This financial review contains a summary of financial information and describes the reported financial results for 2011/12 as compared with the financial results for 2010/11 for the Sonova Group and its two business segments – hearing instruments and hearing implants.

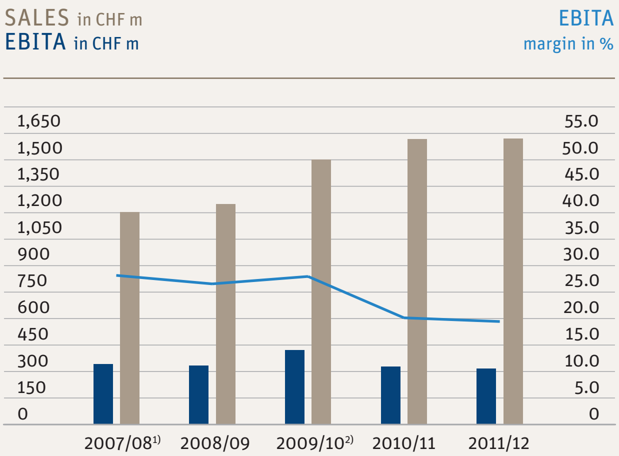
ANOTHER YEAR OF STRONG LOCAL CURRENCY SALES GROWTH

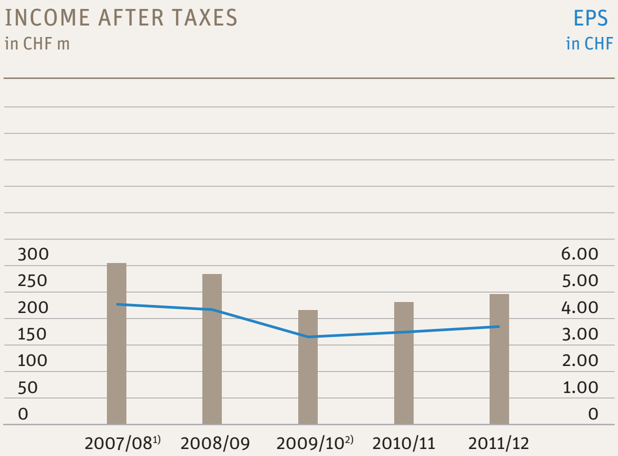
Once again, due to an innovative and comprehensive product portfolio, Sonova remains the market leader in the hearing industry. Sonova posted sales in financial year 2011/12 of CHF 1,619.8 million (2010/11: CHF 1,616.7 million), representing an overall growth rate of 11.6 % in local currencies, or 0.2 % in Swiss francs. The launch of Phonak's Spice- and Unitron's Era-based hearing instruments contributed to this growth rate. The sales of the hearing implant segment also increased significantly over last year's level as a result of Advanced Bionics returning to the market following the voluntary recall in November 2010. Advanced Bionics has resumed selling in markets outside the U.S. since April 2011 and in the U.S. since September 2011, following approval from the United States Food and Drug Administration. Sales in this segment were also fuelled by the launch of Neptune, the world's first waterproof, swimmable sound processor for cochlear implants.

SONOVA GROUP KEY FIGURES

in CHF m unless otherwise specified	2011/12	2010/11	Change in %
Sales	1,619.8	1,616.7	0.2 %
EBITA	315.2	326.6	(3.5 %)
EBITA margin	19.5 %	20.2 %	
EPS (CHF)	3.71	3.50	6.0 %
Operating free cash flow[1]	239.5	221.5	8.1 %
ROCE[1]	19.2 %	19.0 %	
ROE[1]	17.5 %	17.7 %	

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





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.

In the financial year 2011/12, as in the previous year, Sonova made a series of small acquisitions of sales and distribution companies in selected countries in the hearing instrument segment. On a group level the external growth based on these acquisitions and the full-year effect of previous-year acquisitions during the past financial year was 4.9 %.

The strengthening of the Swiss franc, primarily against the euro and the US dollar, continued throughout the financial year 2011/12, especially in the first half of the financial year. Although these currency fluctuations have stabilized in recent months, the impact on the reported financial results is significant: the negative currency effect on reported sales was 11.4 % or approximately CHF 184 million.

SUSTAINED GROWTH ACROSS KEY REGIONS

All geographic regions contributed, in local currencies, to the record sales figures in the financial year 2011/12. The hearing instruments segment achieved solid performance in all regions and the return of Advanced Bionics to all markets during the financial year also resulted in strong sales growth for the hearing implants segment in all regions. The EMEA region (Europe, Middle East, and Africa), excluding Switzerland, which accounted for 39 % of Group sales, performed very well as a result of rising demand and market share gains. In particular, key markets such as France, Italy, and the United Kingdom performed strongly. Due to changes in the reimbursement program in Switzerland in 2011, this market performed poorly with year over year decline of 7.4 %. Group-wide, the U.S., which remains the strongest single sales market for Sonova, achieved above-average growth and accounted for 36 % of total Group sales in 2011/12.

The Group also achieved good growth in the rest of Americas region where sales increased, driven by higher increased demand for Sonova's products in Brazil and further market penetration in the region. Rest of Americas accounted for 13 % of Group sales in financial year 2011/12.

The Asia/Pacific region also grew this year at above-average growth rates, in both hearing instruments and hearing implants segments, and accounted for 10 % of total sales.

SLIGHT DECREASE IN OPERATING PROFIT BEFORE AMORTIZATION AND IMPAIRMENT

While Sonova maintained its level of gross profit at CHF 1,105.9 million (2010/11: CHF 1,118.7 million), the gross profit margin reduced slightly to 68.3 % (2010/11: 69.2 %) mainly due to the negative currency impact of 100 basis points compared to the previous financial year.

Research and development spending, as a percentage of sales, has increased to 7.2 % (prior year 6.7 %), and has increased in value by 7.8 % over the prior year mainly due to projects in the hearing implants segment. Meanwhile, spending on sales and marketing has remained at a similar level of 31.1 % of sales. Increases in sales and marketing costs related to acquisitions of smaller distribution companies

SALES BY REGIONS

in CHF m	2011/12			2010/11	
	Sales	Share	Growth in local currencies	Sales	Share
EMEA (excl. Switzerland)	626	39%	15.4%	597	37%
Switzerland	38	2%	(7.4%)	41	3%
USA	590	36%	9.0%	622	37%
Americas (excl. USA)	206	13%	4.4%	221	15%
Asia/Pacific	160	10%	24.0%	136	8%
Total sales	**1,620**	**100%**	**11.6%**	**1,617**	**100%**

during the current and prior financial years were offset by leveraging investments made in recent years in the wholesale sales and marketing organizations. General and administration expenses at CHF 168.7 million have decreased from the prior year, and at 10.4 % of sales reflect proactive cost management during the financial year. Other expenses include one-time restructuring costs of CHF 2.7 million related to the closure of the Phonak Acoustic Implants site in Lonay, Switzerland, following a decision to focus on cochlear implants.

In the financial year 2011/12, Sonova posted an operating profit before acquisition-related amortization and impairment (EBITA) of CHF 315.2 million, down slightly from CHF 326.6 million reported a year earlier. The negative currency effects reduced EBITA by approximately CHF 82 million; hence, if we exclude the currency effect, EBITA would have increased by around CHF 71 million over the prior year as a result of the strong local currency sales growth.

The operating profit (EBIT) 2011/12 of CHF 287.7 million is 6.2 % higher than the previous year, in part due to a lower impairment charge for previously capitalized development costs by Phonak Acoustic Implants, which amounted to CHF 4.9 million compared to CHF 35.5 million in 2010/11.

INCREASE IN WORKFORCE TO 8,200 PEOPLE

At the end of the financial year 2011/12, the Group's total number of employees stood at 8,223 – an increase of 383 over the previous year. The increase in headcount originates from acquisitions of distribution companies.

INCREASE IN PROFIT COMPARED TO 2010/11 RESULTS

Income after taxes totaled CHF 246.4 million, up 6.6 % from the previous year of CHF 231.1 million. Financial income decreased because of gains booked in 2010/11 related to re-valuing of equity investments under IFRS 3. Financial expenses also decreased, primarily due to the lower level of net debt in the current financial year, and the 2010/11 costs related to the unwinding of discounted earn-out provisions and value adjustments for loans for the completed acquisitions. Income taxes for the financial year totaled CHF 35.4 million, an increase over 2010/11. As expected, the overall tax rate increased to 12.6 %, up slightly from the prior year's rate of 11.2 %. In the reporting period, basic earnings per share were CHF 3.71 (2010/11: CHF 3.50). Excluding acquisition-related non-cash items, the cash-based basic earnings per share amounted to CHF 4.01 (2010/11: CHF 4.27).

GROWTH THROUGH INNOVATION

Product innovation has long been a strategic driver of growth for Sonova. Introducing regular and substantive improvements in technology has allowed Sonova to generate 71 % of its total sales with hearing instruments that have been on the market for less than two years, emphasizing once again the technological lead Sonova holds over its competitors. This can be attributed primarily to the solid success of the new Spice platform, followed by the launch of Spice+ mid-way through the financial year. In addition, during the financial year, Phonak introduced three water-resistant hearing devices (Phonak MH2O, Naìda S CRT and Nios S H2O) as well as its smallest ever custom-made device, Phonak nano. In addition, Phonak launched the ComPilot, the first accessory to offer the benefit of verbal alerts. Combined with the launch of the latest version of the Phonak fitting software, Target 2.0 in October 2011, and then Target 2.1 in March 2012, these innovations further strengthen Phonak's competitive position. The other Sonova wholesale hearing instrument brand, Unitron, introduced a number of new products on the Era platform, including Quantum and Moxi, as well as a new 312 micro BTE and a new remote control. Finally, Advanced Bionics introduced an innovative new product, Neptune, the world's first sound processor suitable for swimming.

A HEARING CARE COMPANY WITH TWO SEGMENTS

Since the financial year 2009/10, Sonova began reporting on two business segments: hearing instruments and hearing implants. Prior to this financial year, the financial results of the group reflect hearing instruments alone. The hearing instruments segment includes the financial results of the wholesale product and service businesses. The hearing implants segment primarily reports the results of the Advanced Bionics business that was acquired in late 2009. The costs related to the Phonak Acoustic Implants business, which was closed during the financial year, are included in the hearing implants segment.

ABOVE MARKET GROWTH IN HEARING INSTRUMENTS SEGMENT

Sonova's core business, the hearing instruments segment, has performed well with a local currency growth of 9.7 % (organic growth: 4.5 %). Overall, the hearing instrument segment achieved an increase in sales of 3.5 % in the Premium category, 10.4 % in the Advanced category and 11.0 % in the Standard (including Essential and Basic) category. Premium hearing instruments accounted for 22 % of Sonova's total sales in financial year 2011/12, while Advanced and Standard accounted for 23 % and 30 % respectively.

Sales of wireless communication systems in local currencies in 2011/12 were consistent with the prior year, and accounted for 4 % of Sonova's sales in financial year 2011/12.

Furthermore, sales of miscellaneous products and services grew by 19.2 % in local currencies in 2011/12. This component accounted for 15 % of Group sales.

The hearing instruments segment achieved an EBITA of CHF 339.3 million, corresponding to an EBITA margin of 22.3 %. Excluding the negative currency impact, EBITA would have been approximately CHF 424 million, or 25.0 %.

ADVANCED BIONICS RETURNS TO THE MARKET; SALES ABOVE EXPECTATIONS FOR HEARING IMPLANTS SEGMENT

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. In April 2011, Advanced Bionics received CE certification from TÜV, the European Notified Body, for changes to the manufacturing process of the HiRes 90K and approval to resume distribution of the implant in European markets and other selected countries. The company received similar approval from the United States Food and Drug Administration in September 2011 and resumed selling worldwide. The reintroduction of the product has been well received in all markets, and the company's sales for 2011/12 were ahead of original expectations at CHF 96.3 million. Sales also include initial launch results for Neptune, the world's first waterproof processor suitable for swimming, which was approved in the last quarter of the financial year.

SALES BY PRODUCT GROUPS

in CHF m			2011/12		2010/11
Product groups	Sales	Share	Growth in local currencies	Sales	Share
Premium hearing instruments	360	22 %	3.5 %	398	25 %
Advanced hearing instruments	376	23 %	10.4 %	379	23 %
Standard hearing instruments	490	30 %	11.0 %	481	30 %
Wireless communication systems	65	4 %	(3.3 %)	75	5 %
Miscellaneous	233	15 %	19.2 %	213	13 %
Total hearing instruments	1,524	94 %	9.7 %	1,546	96 %
Cochlear implants and accessories	96	6 %	53.5 %	71	4 %
Total sales	**1,620**	**100 %**	**11.6 %**	**1,617**	**100 %**

The hearing implants segment achieved an EBITA loss of CHF 24.1 million, which reflects its mid-year return to the market as well as the costs related to Phonak Acoustic Implants, including the one-time restructuring costs of CHF 2.7 million. The 2011/12 EBITA loss in this segment represents an improvement from the prior year of CHF 21.0 million. We expect that the hearing implants segment will achieve the projected break-even EBITA result in 2012/13.

SUSTAINABLE INVESTMENT FOR THE FUTURE

Operating free cash flow increased during the year under review, from CHF 221.5 million to CHF 239.5 million. During the reporting period, Sonova continued to invest heavily in the future of the business, including the development of new technologies and products and the global expansion of its sales and distribution channels. Cash consideration for acquisitions amounted to CHF 83.1 million, clearly below the previous year's level due to the earn-out payment in 2010/11 of CHF 87.2 million related to InSound Medical. Overall, the cash outflow from investing activities decreased to CHF 148.4 million in financial year 2011/12 compared to previous year's CHF 273.0 million, and included the completion of several acquisitions and renovations to the headquarters in Stäfa. Free cash flow increased significantly to CHF 156.4 million compared to CHF 71.6 million in the previous year.

The cash outflow from financing activities fell to CHF 127.5 million compared to the prior year's level of CHF 236.1 million, mainly due to the 2010/11 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. In the financial year 2011/12 the remaining CHF 40 million of the first loan has been paid back. The net debt of Sonova has decreased by another CHF 46.8 million. Dividend payments to shareholders totaled CHF 79.9 million (2010/11: CHF 79.4 million).

Cash and cash equivalents increased by CHF 26.8 million to the level of CHF 191.9 million.

LOW NET DEBT AND SOLID BALANCE SHEET

The capital invested by the Sonova Group increased from CHF 1,456.0 million in 2010/11 to CHF 1,540.3 million in financial year 2011/12, mainly due to increased intangible assets from acquisitions. Net working capital relative to sales rose due to an increase in accounts receivable, partly as a result of the successful market return of Advanced Bionics. Despite this, average days sales outstanding for accounts receivable decreased compared to the previous year.

As of March 31, 2012, the Group reported net debt of CHF 64.4 million compared to net debt of CHF 111.3 million in the previous year. The Group's equity increased to CHF 1,475.9 million. At 64.5 %, the equity financing ratio (equity as a percentage of total assets) remained at a high level. The return on capital employed (ROCE) was 19.2 %, compared with 19.0 % in 2010/11. The return on equity (ROE), therefore, went from 17.7 % in the previous year to 17.5 % in 2011/12.

Recognizing the solid performance and cash flow generation of the core business during the 2011/12 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 19, 2012 a distribution of CHF 1.20 per share, equal to the previous year's distribution level, again without withholding taxes.

OUTLOOK 2012/13

We expect to achieve solid growth in sales and profitability in the coming year, both in the hearing instruments and hearing implants segment, reflecting the success of our current product and solution portfolio as well as our continued commitment to innovation. We expect overall sales to grow in the range of 7 % – 9 % in local currencies, and EBITA to increase in the range of 15 % – 20 % assuming exchange rates of CHF 1.21 to the euro and CHF 0.88 to the US dollar. While actual results may vary based on currency fluctuations, we continue to work to mitigate the impact of the strong Swiss franc on earnings growth through our long-term resource allocation strategy.

SONOVA SHARE PRICE
SWISS PERFORMANCE INDEX (Rebased)

SHARE PRICE PERFORMANCE[1)]

	10 years	5 years	3 years	2 years	1 year
Sonova shares	255.0 %	7.8 %	45.8 %	(23.4 %)	22.5 %
Swiss Performance Index (SPI)[2)]	25.3 %	(20.4 %)	38.2 %	(4.9 %)	(1.3 %)
Sonova shares relative to the SPI	229.7 %	28.2 %	7.6 %	(18.5 %)	23.8 %

1) Performance of the Sonova shares and SPI refers to the respective period prior to the last trading day of financial year 2011/12

2) The Swiss Performance Index (SPI) is considered Switzerland's overall stock market index. It comprises practically all of the SIX Swiss Exchange-traded equity securities of companies that are domiciled in Switzerland or the Principality of Liechtenstein.

5 YEAR KEY FIGURES

in 1,000 CHF unless otherwise specified	2011/12	2010/11
Sales	**1,619,848**	**1,616,700**
change compared to previous year (%)	0.2	7.8
Gross profit	**1,105,924**	**1,118,681**
change compared to previous year (%)	(1.1)	5.7
in % of sales	68.3	69.2
Research & development costs	**116,178**	**107,760**
in % of sales	7.2	6.7
Sales & marketing costs	**503,354**	**498,589**
in % of sales	31.1	30.8
Operating profit before acquisition-related amortization and impairment (EBITA)	**315,199**	**326,622**
change compared to previous year (%)	(3.5)	(22.3)
in % of sales	19.5	20.2
Operating profit (EBIT)	**287,699**	**270,810**
change compared to previous year (%)	6.2	7.7
in % of sales	17.8	16.8
Income after taxes	**246,410**	**231,080**
change compared to previous year (%)	6.6	6.7
in % of sales	15.2	14.3
Number of employees (average)	**7,970**	**7,291**
change compared to previous year (%)	9.3	22.9
Number of employees (end of period)	**8,223**	**7,840**
change compared to previous year (%)	4.9	14.6
Net cash[5]	**(64,448)**	**(111,287)**
Net working capital[6]	**163,434**	**158,190**
in % of sales	10.1	9.8
Capital expenditure (tangible and intangible assets)[7]	**80,073**	**111,457**
Capital employed[8]	**1,540,326**	**1,455,999**
in % of sales	95.1	90.1
Total assets	**2,287,202**	**2,171,644**
Equity	**1,475,878**	**1,344,712**
Equity financing ratio (%)[9]	**64.5**	**61.9**
Free cash flow[10]	**156,406**	**71,593**
Operating free cash flow[11]	**239,535**	**221,541**
in % of sales	14.8	13.7
Return on capital employed (%)[12]	**19.2**	**19.0**
Return on equity (%)[13]	**17.5**	**17.7**
Basic earnings per share (CHF)	**3.71**	**3.50**
Diluted earnings per share (CHF)	3.71	3.47
Cash-based basic earnings per share (CHF)[14]	4.01	4.27
Dividend/distribution per share (CHF)	**1.20**[15]	**1.20**

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

Restated 2009/10[1]	Reported 2009/10	2008/09[2]	Reported performance 2007/08[3]	Underlying performance 2007/08[3]/[4]
1,500,306	**1,500,306**	**1,249,197**	**1,204,779**	**1,204,779**
20.1	20.1	3.7	12.3	12.3
1,058,597	**1,058,427**	**867,218**	**841,584**	**841,584**
22.1	22.0	3.0	15.0	15.0
70.6	70.5	69.4	69.9	69.9
87,034	**87,034**	**77,377**	**76,454**	**76,454**
5.8	5.8	6.2	6.3	6.3
402,626	**402,626**	**340,312**	**309,200**	**309,200**
26.8	26.8	27.2	25.7	25.7
420,276	**420,106**	**331,778**	**331,737**	**339,752**
26.7	26.6	(2.3)	17.0	19.8
28.0	28.0	26.6	27.5	28.2
251,419	**406,753**	**325,014**	**326,743**	**334,758**
(22.6)	25.1	(2.9)	16.8	19.7
16.8	27.1	26.0	27.1	27.8
216,632	**354,813**	**284,110**	**274,140**	**305,196**
(23.8)	24.9	(6.9)	12.9	25.7
14.4	23.6	22.7	22.8	25.3
5,933	**5,933**	**5,108**	**4,351**	**4,351**
16.1	16.1	17.4	14.1	14.1
6,843	**6,843**	**5,339**	**4,746**	**4,746**
28.2	28.2	12.5	18.0	18.0
(126,029)	**(126,029)**	**227,689**	**311,647**	**311,647**
144,363	**177,011**	**152,355**	**107,890**	**107,890**
9.6	11.8	12.2	9.0	9.0
89,272	**89,272**	**75,985**	**55,892**	**55,892**
1,388,537	**1,534,387**	**798,934**	**608,207**	**608,207**
92.6	102.3	64.0	50.5	50.5
2,324,026	**2,409,257**	**1,426,560**	**1,273,928**	**1,273,928**
1,262,508	**1,408,358**	**1,026,623**	**919,854**	**919,854**
54.3	**58.5**	**72.0**	**72.2**	**72.2**
(301,388)	**(301,388)**	**79,003**	**219,392**	**219,392**
324,754	**324,754**	**176,285**	**255,835**	**255,835**
21.6	21.6	14.1	21.2	21.2
23.0	**34.9**	**46.2**	**56.6**	**57.9**
18.9	**29.1**	**29.2**	**30.2**	**33.6**
3.32	**5.41**	**4.35**	**4.09**	**4.55**
3.28	5.36	4.33	4.04	4.50
5.61	5.60	4.43	4.09	4.55
1.20	**1.20**	**1.00**	**1.00**	**1.00**

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 19, 2012.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS

1,000 CHF	Notes	2011/12	2010/11
Sales	4	**1,619,848**	**1,616,700**
Cost of sales		(513,924)	(498,019)
Gross profit		**1,105,924**	**1,118,681**
Research and development		(116,178)	(107,760)
Sales and marketing		(503,354)	(498,589)
General and administration		(168,668)	(185,188)
Other expenses, net	5	(2,525)	(522)
Operating profit before acquisition-related amortization and impairment (EBITA)[1]		**315,199**	**326,622**
Acquisition-related amortization	18	(22,622)	(20,312)
Impairment	18	(4,878)	(35,500)
Operating profit (EBIT)[2]		**287,699**	**270,810**
Financial income	6	6,682	17,787
Financial expenses	6	(13,593)	(31,451)
Share of profit in associates/joint ventures	16	993	2,960
Income before taxes		**281,781**	**260,106**
Income taxes	7	(35,371)	(29,026)
Income after taxes		**246,410**	**231,080**
Attributable to:			
Equity holders of the parent		246,761	231,010
Non-controlling interests		(351)	70
Basic earnings per share (CHF)	8	3.71	3.50
Diluted earnings per share (CHF)	8	3.71	3.47

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

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

1,000 CHF	2011/12	2010/11
Income after taxes	**246,410**	**231,080**
Actuarial loss from defined benefit plans, net	(7,456)	(7,014)
Tax effect on actuarial loss from defined benefit plans	1,109	846
Fair value adjustment on cash flow hedges	(6,605)	196
Currency translation differences	(42,723)	(140,310)
Tax effect on currency translation items	2,654	1,878
Other comprehensive income	**(53,021)**	**(144,404)**
Total comprehensive income	**193,389**	**86,676**
Attributable to:		
Equity holders of the parent	193,435	87,378
Non-controlling interests	(46)	(702)

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

CONSOLIDATED BALANCE SHEETS

Assets 1,000 CHF	Notes	31.3.2012	31.3.2011
Cash and cash equivalents	10	191,938	165,133
Other current financial assets	11	6,801	28,589
Trade receivables	12	339,419	320,581
Current income tax receivables		13,658	3,926
Other receivables and prepaid expenses	13	52,003	51,669
Inventories	14	164,303	167,594
Total current assets		**768,122**	**737,492**
Property, plant & equipment	15	242,490	232,112
Intangible assets	18	1,120,590	1,059,062
Investments in associates/joint ventures	16	15,668	10,827
Other non-current financial assets	17	42,312	51,084
Deferred tax assets	7	98,020	81,067
Total non-current assets		**1,519,080**	**1,434,152**
Total assets		**2,287,202**	**2,171,644**

Liabilities and equity 1,000 CHF	Notes	31.3.2012	31.3.2011
Short-term debts	20, 23	176	40,135
Trade payables		69,533	61,926
Current income tax liabilities		72,934	52,413
Other current financial liabilities	23	16,070	16,905
Other short-term liabilities	21	177,303	172,130
Short-term provisions	19	91,561	116,009
Total current liabilities		**427,577**	**459,518**
Non-current financial liabilities	22	241,559	231,071
Long-term provisions	19	79,051	85,202
Other long-term liabilities	24	33,694	20,854
Deferred tax liabilities	7	29,443	30,287
Total non-current liabilities		**383,747**	**367,414**
Total liabilities		**811,324**	**826,932**
Share capital	25	3,329	3,326
Treasury shares		2,733	1,653
Retained earnings and other reserves		1,468,063	1,334,519
Equity attributable to equity holders of the parent		**1,474,125**	**1,339,498**
Non-controlling interests		1,753	5,214
Equity		**1,475,878**	**1,344,712**
Total liabilities and equity		**2,287,202**	**2,171,644**

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

CONSOLIDATED CASH FLOW STATEMENTS

1,000 CHF	Notes	2011/12		2010/11	
Income before taxes			**281,781**		**260,106**
Depreciation, amortization and impairment of tangible and intangible assets	15, 18	78,310		102,847	
Loss/(gain) on sale of tangible and intangible assets, net		250		(364)	
Share of gain in associates/joint ventures	16	(993)		(2,960)	
Increase in long-term provisions		1,038		1,996	
Financial expenses, net	6	6,911		13,664	
Unrealized exchange differences		(939)		4,282	
Share based payments	29	20,496		19,552	
Other non-cash items		615	105,688	(1,034)	137,983
Cash flow before changes in net working capital			**387,469**		**398,089**
Increase in trade receivables		(29,604)		(18,420)	
Decrease in other receivables and prepaid expenses		1,226		6,756	
Decrease/(increase) in inventories		2,500		(32,414)	
Increase/(decrease) in trade payables		4,956		(15,419)	
(Decrease)/increase in other payables, accruals and short-term provisions		(15,103)		30,962	
Income taxes paid		(46,638)	(82,663)	(24,912)	(53,447)
Cash flow from operating activities			**304,806**		**344,642**
Purchase of tangible and intangible assets		(80,552)		(111,625)	
Proceeds from sale of tangible and intangible assets		1,522		3,155	
Cash consideration for acquisitions, net of cash acquired	26	(83,129)		(149,948)	
Decrease/(increase) in other financial assets		10,821		(18,353)	
Interest received and realized gain from financial assets		2,938		3,722	
Cash flow from investing activities			**(148,400)**		**(273,049)**
Free cash flow			**156,406**		**71,593**
Decrease in borrowings		(40,991)		(207,737)	
Proceeds from capital increases		5,335		36,503	
(Purchase)/sale of treasury shares, net		(573)		21,529	
Dividends paid		(79,891)		(79,404)	
Changes in non-controlling interests		(4,750)			
Interest paid and other financial expenses		(6,677)		(7,030)	
Cash flow from financing activities			**(127,547)**		**(236,139)**
Exchange losses on cash and cash equivalents			(2,054)		(6,252)
Increase/(decrease) in cash and cash equivalents			**26,805**		**(170,798)**
Cash and cash equivalents at the beginning of the financial year			165,133		335,931
Cash and cash equivalents at the end of the financial year			**191,938**		**165,133**

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

CONSOLIDATED CHANGES IN EQUITY

1,000 CHF

	Attributable to equity holders of Sonova Holding AG						
	Share capital	Retained earnings and other reserves[1)]	Translation adjustment	Treasury shares	Hedge reserve	Non-controlling interests	Total equity
Balance April 1, 2010	**3,305**	**1,332,509**	**(55,475)**	**(20,812)**	**(2,057)**	**5,038**	**1,262,508**
Income for the period		231,010				70	231,080
Actuarial loss from defined benefit plans, net		(6,966)				(48)	(7,014)
Tax effect on actuarial loss		840				6	846
Fair value adjustment on cash flow hedges					196		196
Currency translation differences			(139,567)			(743)	(140,310)
Tax effect on currency translation			1,865			13	1,878
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**	**1,529,557**	**(193,177)**	**1,653**[2)]	**(1,861)**	**5,214**	**1,344,712**
Balance April 1, 2011	**3,326**	**1,529,557**	**(193,177)**	**1,653**[2)]	**(1,861)**	**5,214**	**1,344,712**
Income for the period		246,761				(351)	246,410
Actuarial loss from defined benefit plans, net		(7,456)					(7,456)
Tax effect on actuarial loss		1,109					1,109
Fair value adjustment on cash flow hedges					(6,605)		(6,605)
Currency translation differences			(43,028)			305	(42,723)
Tax effect on currency translation			2,654				2,654
Total comprehensive income		**240,414**	**(40,374)**		**(6,605)**	**(46)**	**193,389**
Changes in non-controlling interests		(4,257)				(3,294)	(7,551)
Capital increase from conditional capital	3	5,332					5,335
Share-based payments		19,340				15	19,355
Sale of treasury shares		(551)		1,653			1,102
Purchase of treasury shares				(573)			(573)
Dividend paid		(79,755)				(136)	(79,891)
Balance March 31, 2012	**3,329**	**1,710,080**	**(233,551)**	**2,733**[2)]	**(8,466)**	**1,753**	**1,475,878**

[1)] In connection with the new capital contribution principle effective as of January 1, 2011 and the possibility to distribute dividends from a separate capital contribution reserve, the disclosure within the equity has been modified and subsequently the formerly individually disclosed “share premium” and “retained earnings” are now shown together as “retained earnings and other reserves”.

[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, 2012

1. CORPORATE INFORMATION

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

2. BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Group are based on the financial statements of the individual Group companies at March 31 prepared in accordance with uniform accounting policies. The consolidated financial statements have been prepared under the historical cost convention except for the revaluation of certain financial assets at market value, in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards 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, 2012 and are subject to approval by the Annual General Shareholders' Meeting on June 19, 2012.

The consolidated financial statements include Sonova Holding AG as well as the domestic and foreign subsidiaries over which Sonova Holding AG exercises control. A list of the significant companies which are consolidated is given in Note 35.

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

2.1 CHANGES IN ACCOUNTING POLICIES

For the financial year 2011/12 the Group has implemented the following amendments to existing standards and interpretations that have become effective for the Group:

– IAS 24 "Related Party Disclosures"
– IAS 32 "Classification of Rights Issues"
– IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters"
– IFRIC 14 "Prepayments of a Minimum Funding Requirement"
– IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
– Annual improvements of IFRSs and interpretations

The changes in accounting policies as listed above did not have any material impact on the Group's overall results and financial position.

The following new or amended standards that have been published will affect the Group after March 31, 2012:

– IAS 19 (Revised) "Employee benefits" (effective for the Group as of April 1, 2013)
  Among other items the revised standard requires that the previously separately calculated interest costs and the expected return on plan assets will be replaced by a single net interest component calculated by applying the discount rate to the net defined benefit asset or liability. It is expected that this change of policy will lead to higher employee benefit costs of the Group (if this concept had been adopted by the Group in the financial year 2011/12 it is estimated that the employee benefit costs would have been CHF 1.7 million higher).
– IFRS 9 "Financial instruments" (effective for the Group as of April 1, 2015)
  The adoption of this new standard will change the classification and measurement of financial instruments. The Group is currently evaluating the potential impact that the new standard will have on the Group's result and financial position. The mandatory effective date for the Group will be on April 1, 2015, however early application will be permitted.

Although the Group is still assessing the potential impacts of all of the new and revised standards that will affect the Group after March 31, 2012, the Group does not expect a significant impact from the following new and amended standards:

– IFRS 10 "Consolidated financial statements" (effective for the Group as of April 1, 2013)
– IFRS 11 "Joint arrangements" (effective for the Group as of April 1, 2013)
– IFRS 12 "Disclosures of interest in other entities" (effective for the Group as of April 1, 2013)
– IFRS 13 "Fair value measurement" (effective for the Group as of April 1, 2013)
– IAS 1 (Amendments) "Presentation of items of other comprehensive income" (effective for the Group as of April 1, 2013)
– IAS 12 (Amendments) "Deferred Tax: Recovery of Underlying Assets" (effective for the Group as of April 1, 2012)
– IFRS 1 (Amendments) "Severe hyperinflation and removal of fixed dates for first-time adopters" (effective for the Group as of April 1, 2012)
– IFRS 7 (Amendments) "Disclosures – Transfers of Financial Assets" (effective for the Group as of April 1, 2012)

2.2 PRINCIPLES OF CONSOLIDATION

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are fully consolidated. These are entities over which Sonova Holding AG directly or indirectly exercises control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. For the consolidated entities, 100 % of assets, liabilities, income, and expenses are included. Non-controlling interests in equity and net income or loss are shown separately in the balance sheet and income statement. Changes in the ownership interest of a subsidiary that does not result in a loss of control will be accounted for as an equity transaction. Neither goodwill nor any gains or losses will result.

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

INVESTMENTS IN ASSOCIATES

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." When the Group's share of losses in an associate equals or exceeds its interest in the associate, no further losses are recognized, unless there is a legal or constructive obligation.

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.

2.3 CURRENCY TRANSLATION

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

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

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

When translating foreign currency financial statements into Swiss francs, year-end exchange rates are applied to assets and liabilities, while average annual rates are applied to income statement accounts (see Note 33). Translation differences arising from this process are recorded in other comprehensive income in equity. On disposal of a Group company, the related cumulative translation adjustment is transferred from equity and included in the profit or loss from the disposal in the income statements.

2.4 ACCOUNTING AND VALUATION PRINCIPLES

CASH AND CASH EQUIVALENTS

This item includes cash on hand and cash at banks, bank overdrafts, term deposits and other short-term highly liquid investments with original maturities of three months or less. The cash flow statement summarizes the movements in cash and cash equivalents. 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 2.5). Derivatives are classified as held for trading unless they are designated as hedges (see Note 2.6).

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. Expenditure for repair and maintenance which do not increase the estimated useful lives of the related assets are recognized as an expense in the period in which they are incurred.

LEASING

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.

All other leases are classified as operating leases, and payments are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group’s benefit.

INTANGIBLE ASSETS

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

RESEARCH AND DEVELOPMENT

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

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. For each business combination, the Group recognizes the non-controlling interests in the acquiree at fair value or at the non-controlling interest’s proportionate share in the recognized amounts of the acquiree’s identifiable net assets.

OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets consist of investments in third parties and long-term receivables from associates and third parties. Investments in third parties are classified as financial assets at fair value through profit or loss and long-term receivables from associates and third parties are classified as loans and receivables (see Note 2.5).

SHORT-TERM DEBTS

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

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 12 months or less. In the case of earn-outs they are classified as financial liabilities at fair value through profit or loss.

PROVISIONS

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

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

NON-CURRENT FINANCIAL LIABILITIES

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

SHARE CAPITAL

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

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

INCOME TAXES

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

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

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

REVENUE RECOGNITION

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

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

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

SEGMENT REPORTING

Operating segments are defined on the same basis as information is provided to the chief operating decision maker. For the Sonova Group, the Chief Executive Officer (CEO) is the chief operating decision maker, who is responsible for allocating resources and assessing the performance of operating segments. Additional general information regarding the factors used to identify the entity's reportable segments are disclosed in Note 4.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of an asset or, where it is not possible to estimate the recoverable amount of an individual asset, a cash-generating unit is the higher of its fair value less selling costs and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. If the recoverable amount is lower than the carrying amount, an impairment loss is recognized. Impairment of financial assets is described in Note 2.5, Financial assets. For the purpose of impairment testing, goodwill as well as corporate assets are allocated to cash generating units. 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 other 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.

2.5 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 12 months.

LOANS AND RECEIVABLES

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

HELD-TO-MATURITY INVESTMENTS

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months. Available-for-sale financial assets are initially measured at their fair value. After initial recognition available-for-sale financial assets are measured at fair value with gains and losses being recognized 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.

2.6 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 22).

2.7 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

KEY MANAGEMENT JUDGEMENTS MADE IN APPLYING ACCOUNTING POLICIES

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

In March 2012, investors represented by Deminor SCRL/CVBA, a Belgian company purportedly active in the field of damage recovery for shareholders, filed summons to pay against Sonova totalling approximately CHF 26 million. The summons to pay were filed as a precautionary measure to prevent the alleged claims from becoming time-barred. As of the date of the approval of these financial statements, no lawsuits have been filed against Sonova. Sonova will vigorously oppose any potential lawsuit from investors represented by Deminor. Moreover, it is unclear whether any claimants will actually take the matter to court and therefore it is not possible to make a reliable estimate of the amount of a possible obligation. Furthermore, Sonova believes it is more likely than not that it would be successful defending any claims. For that reasons, no provision has been set up in regard to this legal matter.

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 2011/12 such costs contingent on future events amount to CHF 37.1 million (previous year CHF 28.0 million) and are disclosed under provisions for earn-out (for business combinations entered into before April 1, 2010) or other financial liabilities (for business combinations entered into after April 1, 2010).

INTANGIBLE ASSETS, INCLUDING GOODWILL

The Group has intangible assets with a carrying value of CHF 1,120.6 million (previous year CHF 1,059.1 million) as disclosed in Note 18.

Included in the intangible assets is goodwill in the amount of CHF 896.1 million (previous year CHF 854.9 million).

The Group determines annually, in accordance with the accounting policy stated in Note 2.4, whether any of the assets are impaired. For the impairment tests, estimates are made of the expected future cash flows from the use of the asset or cash-generating unit. The actual cash flows could vary significantly from these estimates.

DEFERRED TAX ASSETS

The consolidated balance sheet includes deferred tax assets of CHF 98.0 million (previous year CHF 81.1 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 2011/12 amounts to CHF 211.4 million (previous year CHF 198.7 million) as disclosed in Note 28. 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 28.

PROVISION FOR WARRANTY AND RETURNS

As of March 31, 2012 the Group recorded provisions for warranty, product-related claims and returns of CHF 114.7 million (previous year CHF 133.0 million) as disclosed in Note 19.

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. CHANGES IN GROUP STRUCTURE

In the financial years 2011/12 and 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 in the financial year 2011/12 into three business combinations (previous year three) 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).

The effect of the acquisitions for the financial year 2011/12 and 2010/11 is disclosed in Note 26.

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

4. 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 (i.e. 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. As part of the further consolidation of the Hearing implants division of Sonova, the Group announced on September 30, 2011 the closure of the Phonak Acoustic Implants (PAI) site in Lonay, Switzerland (for further details refer to Note 3). The segment consists of Advanced Bionics which was acquired as of December 30, 2009 and which provides cochlear implant systems. Research and development, production as well as marketing activities of Advanced Bionics are predominantly centralized in the United States. The distribution of products is effected through sales organizations in the individual markets.

With the approval of the Food and Drug Administration (FDA) as of September 13, 2011 the Group announced the immediate market re-entry of the Advanced Bionics HiRes 90K cochlear implant in the United States after a voluntary recall of the product in November 2010. In preceding months, Advanced Bionics received approval from several other regulatory bodies, including Health Canada and the European Notified Body (TÜV), to resume distribution of the HiRes 90K cochlear implant to Canada and countries accepting the CE Mark.

1,000 CHF	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
	Hearing instruments		Hearing implants		Eliminations		Total	
Segment sales	1,523,597	1,545,890	96,427	70,915			1,620,024	1,616,805
Intersegment sales	(69)	(15)	(107)	(90)			(176)	(105)
Sales	**1,523,528**	**1,545,875**	**96,320**	**70,825**			**1,619,848**	**1,616,700**
Operating profit before acquisition-related amortization and impairment (EBITA)	**339,265**	**371,661**	**(24,066)**	**(45,039)**			**315,199**	**326,622**
Segment assets	**1,996,577**	**1,873,647**	**453,742**	**433,573**	**(470,162)**	**(404,274)**	**1,980,157**	**1,902,946**
Unallocated assets[1]							307,045	268,698
Total assets							**2,287,202**	**2,171,644**

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

Reconciliation of reportable segment profit 1,000 CHF	2011/12	2010/11
EBITA (as per segment reporting)	315,199	326,622
Acquisition-related amortization	(22,622)	(20,312)
Impairment[1]	(4,878)	(35,500)
Financial costs, net	(6,911)	(13,664)
Share of gain in associates/joint ventures	993	2,960
Income before taxes	**281,781**	**260,106**

1) Impairment in the financial year 2011/12 and 2010/11 relates to the segment 'Hearing implants'.

ENTITY-WIDE DISCLOSURES

Sales by product groups 1,000 CHF	2011/12	2010/11
Premium hearing instruments	359,831	398,015
Advanced hearing instruments	375,908	378,420
Standard hearing instruments	490,206	481,274
Wireless communication systems	65,271	75,056
Miscellaneous	232,312	213,110
Total hearing instruments	**1,523,528**	**1,545,875**
Cochlear implants and accessories	96,320	70,825
Total sales	**1,619,848**	**1,616,700**

Sales and selected non-current assets by regions 1,000 CHF	2011/12	2010/11	2011/12	2010/11
Country	Sales [1]		Selected non-current assets[2]	
Switzerland	38,209	41,279	213,705	176,931
EMEA (excl. Switzerland)	626,307	596,777	325,604	270,750
USA	590,228	622,065	605,751	647,052
Americas (excl. USA)	205,586	220,464	148,790	151,834
Asia/Pacific	159,518	136,115	84,898	55,434
Total Group	**1,619,848**	**1,616,700**	**1,378,748**	**1,302,001**

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

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

5. OTHER EXPENSES, NET

1,000 CHF	2011/12	2010/11
Other operating expenses, net	(2,427)	(565)
Exchange differences	(98)	43
Total	**(2,525)**	**(522)**

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

6. FINANCIAL EXPENSES, NET

1,000 CHF	2011/12	2010/11
Interest income	4,418	3,984
Other financial income	2,264	13,803
Total financial income	**6,682**	**17,787**
Interest expenses	(5,977)	(7,877)
Other financial expenses	(7,616)	(23,574)
Total financial expenses	**(13,593)**	**(31,451)**
Total	**(6,911)**	**(13,664)**

Other financial income in the financial year 2011/12 consists primarily of fair value adjustments of financial instruments.
In the previous year other financial income consisted primarily of a gain of CHF 12.8 million from remeasuring previously held equity investments to fair value at date of acquisition of these companies (refer Note 26).

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

7. TAXES

1,000 CHF	2011/12	2010/11
Income taxes	58,411	16,343
Change in deferred taxes	(23,040)	12,683
Total tax expense	**35,371**	**29,026**
Reconciliation of tax expense		
Income before taxes	281,781	260,106
Weighted average expected tax rate	10.8 %	3.0 %
Tax at weighted average rate	**30,478**	**7,915**
+/- Effects of		
Expenses not subject to tax, net	(2,448)	886
Changes of unrecognized loss carryforwards	5,095	25,221
Local tax rate different to Group average tax rate	(3,673)	(3,675)
Change in tax rates on deferred tax balances	(191)	658
Prior year adjustments and other items, net	6,110	(1,979)
Total tax expense	**35,371**	**29,026**
Weighted average effective tax rate	12.6 %	11.2 %

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

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

[1)] Other comprehensive income.

Deferred tax assets and (liabilities) 1,000 CHF					**31.3.2011**
	Property, plant & equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax loss carryforwards	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 OCI[1]			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**

[1] Other comprehensive income.

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	**31.3.2012**	**31.3.2011**
Within 1-3 years	20,674	14,116
Within 4 years	10,852	5,716
Within 5 years	13,963	5,998
More than 5 years	150,655[1]	188,403[1]
Total	**196,144**	**214,233**

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

8. 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	**2011/12**	**2010/11**
Income after taxes (1,000 CHF)	246,761	231,010
Weighted average number of outstanding shares	66,482,691	66,058,632
Basic earnings per share (CHF)	**3.71**	**3.50**

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 2007 through to 2012 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	2011/12	2010/11
Income after taxes (1,000 CHF)	246,761	231,010
Weighted average number of outstanding shares	66,482,691	66,058,632
Adjustment for dilutive share options	112,174	552,125
Adjusted weighted average number of outstanding shares	66,594,865	66,610,757
Diluted earnings per share (CHF)	**3.71**	**3.47**

9. DIVIDEND PER SHARE

The Board of Directors of Sonova Holding AG proposes to the Annual General Shareholders' Meeting, to be held on June 19, 2012, that instead of a dividend, a distribution from reserve from capital contributions of CHF 1.20 (2010/11 CHF 1.20) per share (free of Swiss witholding tax) shall be distributed (for further details refer to "2.3 Summary of changes in shareholders' equity" in the financial statements 2011/12 of Sonova Holding AG).

10. CASH AND CASH EQUIVALENTS

1,000 CHF	31.3.2012	31.3.2011
Cash on hand	645	609
Current bank accounts	178,304	156,320
Term deposits	12,989	8,204
Total	**191,938**	**165,133**

Bank accounts and term deposits are mainly denominated in CHF, EUR and USD.

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

11. OTHER CURRENT FINANCIAL ASSETS

1,000 CHF	31.3.2012	31.3.2011
Marketable securities	1,419	11,691
Loans to third parties	5,382	16,898
Total	**6,801**	**28,589**

Marketable securities mainly consist of quoted bonds and equity funds. The carrying values of these financial assets equal market prices. In the financial year 2011/12 a loan has been converted into an equity investment (for details on equity investments please refer to Note 16).

12. TRADE RECEIVABLES

1,000 CHF	31.3.2012	31.3.2011
Trade receivables	357,144	334,923
Provision for doubtful receivables	(17,725)	(14,342)
Total	**339,419**	**320,581**

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

1,000 CHF	31.3.2012	31.3.2011
Total trade receivables, net	**339,419**	**320,581**
of which:		
Not overdue	227,507	213,692
Overdue 1-30 days	45,951	43,530
Overdue more than 30 days	65,961	63,359
Total	**339,419**	**320,581**

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

1,000 CHF	2011/12	2010/11
Provision for doubtful receivables, April 1	**(14,342)**	**(17,870)**
Utilization or reversal	7,319	7,575
Set up of provision	(10,357)	(3,062)
Changes through business combinations	(1,109)	(2,649)
Exchange differences	764	1,664
Provision for doubtful receivables, March 31	**(17,725)**	**(14,342)**

During 2011/12 the Group has utilized CHF 4.7 million (previous year CHF 4.1 million) of this provision to write-off receivables.

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

1,000 CHF	31.3.2012	31.3.2011
CAD	29,705	25,070
CHF	15,895	20,889
EUR	92,726	99,243
BRL	29,116	28,332
USD	119,435	103,535
Other	52,542	43,512
Total trade receivables, net	**339,419**	**320,581**

13. OTHER RECEIVABLES AND PREPAID EXPENSES

1,000 CHF	31.3.2012	31.3.2011
Other receivables	35,939	37,513
Prepaid expenses	16,064	14,156
Total	**52,003**	**51,669**

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

14. INVENTORIES

1,000 CHF	31.3.2012	31.3.2011
Raw materials and components	33,935	28,395
Work-in-process	58,832	72,918
Finished products	108,946	107,199
Allowances	(37,410)	(40,918)
Total	**164,303**	**167,594**

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

In 2011/12, CHF 439.8 million (previous year CHF 412.1 million) were recognized as an expense and included in “cost of sales.”

15. PROPERTY, PLANT AND EQUIPMENT

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

1,000 CHF					31.3.2011
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	132,954	150,596	90,581	8,313	382,444
Changes through business combinations	102	566	3,087	1	3,756
Additions	22,930	27,021	24,674	5,024	79,649
Disposals	(528)	(10,914)	(5,645)	(7)	(17,094)
Transfers	(3,292)	6,540	3,503	(6,751)	
Exchange differences	(3,191)	(7,004)	(10,230)	(13)	(20,438)
Balance March 31	**148,975**	**166,805**	**105,970**	**6,567**	**428,317**
Accumulated depreciation					
Balance April 1	(35,833)	(100,514)	(45,450)		(181,797)
Additions	(3,986)	(19,839)	(14,905)		(38,730)
Disposals	156	9,953	5,053		15,162
Exchange differences	1,172	3,824	4,164		9,160
Balance March 31	**(38,491)**	**(106,576)**	**(51,138)**		**(196,205)**
Net book value					
Balance April 1	97,121	50,082	45,131	8,313	200,647
Balance March 31	**110,484**	**60,229**	**54,832**	**6,567**	**232,112**

The disclosure of the fixed assets has been amended to enhance the information on advance payments and assets under construction. Prior year figures have been restated accordingly.

Tangible assets (buildings, plant and equipment) as of March 31, 2012 were insured against fire for a value of CHF 453.6 million (previous year CHF 404.6 million).

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

There are no assets held under finance leases.

16. 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	2011/12	2010/11
Current assets	4,228	4,135
Non-current assets	2,395	1,546
Total assets	**6,623**	**5,681**
Current liabilities	(2,376)	(1,893)
Non-current liabilities	(2,426)	(1,082)
Total liabilities	**(4,802)**	**(2,975)**
Net assets	**1,821**	**2,706**
Income for the year	10,168	31,280
Expenses for the year	(9,127)	(32,179)
Profit/(Loss) for the year	**1,041**	**(899)**
Net book value at year-end	15,668	10,827
Share of gain recognized by the Group	993	2,960

In the financial year 2011/12 one associate has been acquired due to a conversion of a third party loan. Additionally, the Group acquired an additional share in three previously held equity investments, resulting in a change of control (step up acquisitions). These companies are now fully consolidated. The total net book value at the time of gaining control over these three entities amounted to CHF 2.3 million. In the financial year 2010/11, no associates/joint ventures were acquired.

Sales to associates/joint ventures in the financial year 2011/12 amounted to CHF 9.7 million (previous year CHF 12.7 million). At March 31, 2012 accounts receivable towards associates/joint ventures amounted to CHF 0.6 million (previous year CHF 1.2 million).

At the end of the financial years 2011/12 and 2010/11, no unrecognized losses existed.

Investments with a net book value of CHF 15.7 million (previous year CHF 10.8 million) have a business year different than the Sonova Group. The latest available information for the respective companies is from December 2011.

17. OTHER NON-CURRENT FINANCIAL ASSETS

1,000 CHF	31.3.2012	31.3.2011
Financial assets at fair value through profit or loss	8,700	7,886
Loans to associates	8,713	10,525
Loans to third parties	24,899	32,673
Total	**42,312**	**51,084**

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 warrants to hedge the financial exposure in connection with the employee share option program (refer to Note 29).

Long-term loans mainly include loans to customers and strategic business partners. The loans are primarily denominated in CAD, EUR and USD. As of March 31, 2012, the respective repayment periods vary between one and seven years and the interest rates vary between 1 % and 4 %. Generally, the valuation of the loans approximates to fair value.

18. INTANGIBLE ASSETS

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

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

1,000 CHF					31.3.2011
	Goodwill	Intangibles relating to acquisitions	Capitalized development costs	Software and other intangibles	Total
Cost					
Balance April 1	962,072	184,939	33,355	52,100	1,232,466
Changes through business combinations	131,216	41,842		417	173,475
Additions[1)]	34,803	168	24,934	6,874	66,779
Disposals[2)]	(9,308)	(1,369)		(2,373)	(13,050)
Exchange differences	(121,942)	(21,183)	(1,741)	(516)	(145,382)
Balance March 31	**996,841**	**204,397**	**56,548**	**56,502**	**1,314,288**
Accumulated amortization and impairments					
Balance April 1	(156,986)	(28,381)		(27,179)	(212,546)
Additions		(20,312)[3)]		(8,305)	(28,617)
Disposals		280		1,803	2,083
Impairment			(35,500)		(35,500)
Exchange differences	15,029	3,980		345	19,354
Balance March 31	**(141,957)**	**(44,433)**	**(35,500)**	**(33,336)**	**(255,226)**
Net book value					
Balance April 1	805,086	156,558	33,355	24,921	1,019,920
Balance March 31	**854,884**	**159,964**	**21,048**	**23,166**	**1,059,062**

1) Additions of goodwill primarily result from the changed earn-out agreement with InSound Medical (refer to Note 19).
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).

The disclosure of intangible assets has been amended to enhance the information on "Capitalized development costs".

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 projected inflation rate. Gross margin is generally assumed to remain constant 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	Discount rate 2011/12	Discount rate 2010/11	Projection period	Long-term growth rate 2011/12[1]	Long-term growth rate 2010/11
Advanced Bionics	291,591	Multiple	9.7 %	8.5 %	9 years	2.1 %	3.7 %
InSound Medical	131,968	USD	10.4 %	7.6 %	5 years	2.0 %	3.2 %
Development Finance	84,697	USD	11.4 %	8.8 %	5 years	2.0 %	3.7 %
Audition Santé	65,567	EUR	10.5 %	7.0 %	5 years	1.8 %	2.9 %
Unitron Group	54,959	Multiple	12.1 %	9.0 %	5 years	2.0 %	3.2 %
National Hearing Services	45,860	CAD	11.1 %	8.9 %	5 years	2.0 %	3.2 %
David Ormerod Hearing Centres	43,088	GBP	10.8 %	8.0 %	5 years	2.0 %	3.0 %
Hansaton	25,446	EUR	10.5 %	8.2 %	5 years	2.0 %	2.9 %
Hearing Retail Group	32,638	AUD	11.6 %	8.6 %	5 years	2.5 %	3.2 %
Lapperre	13,298	EUR	11.9 %	8.9 %	5 years	1.7 %	2.9 %

[1] Long-term growth rate equals to projected inflation rate.

The discount rates presented above are pre-tax rates.

The basis for the recoverable amount for all CGU's is "value in use".

Based on the impairment tests performed, there was no need for the recognition of any impairment of goodwill for the financial years 2011/12 and 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 InSound Medical, where an increase in the discount rate of 1% would lead to an impairment of CHF 21.5 million. For Advanced Bionics, a compound average sales growth rate of 12% has been implied for the projection period of nine years which reflects management's best estimate and takes into consideration the reduced sales level due to the temporary recall. The nine year projection period reflects the long term development cycle of the implant business.

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

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

Impairment on capitalized intangibles of Phonak Acoustic Implants in the financial year 2010/11

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 indicated 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 was included in the income statement in the line "Impairment". The capitalized intangibles were included in the reportable segment "Hearing implants", disclosed in Note 4.

19. PROVISIONS

1,000 CHF				31.3.2012				31.3.2011
	Warranty and returns	Earn-out provisions	Other provisions	Total	Warranty and returns	Earn-out provisions	Other provisions	Total
Balance April 1	132,968	23,645	44,598	201,211	126,549	84,289	36,912	247,750
Changes through business combinations	1,522		311	1,833	1,816		4,739	6,555
Amounts used	(52,312)	(772)	(14,486)	(67,570)	(35,397)	(90,732)	(14,475)	(140,604)
Reversals	(998)	(3,787)	(2,563)	(7,348)	(878)	(6,517)	(1,138)	(8,533)
Increases	36,955		11,382	48,337	56,005	33,875	23,599	113,479
Present value adjustments	477	70		547	529	5,991		6,520
Exchange differences	(3,866)	(1,026)	(1,506)	(6,398)	(15,656)	(3,261)	(5,039)	(23,956)
Balance March 31	**114,746**	**18,130**	**37,736**	**170,612**	**132,968**	**23,645**	**44,598**	**201,211**
thereof short-term	52,480	16,392	22,689	91,561	66,461	21,188	28,360	116,009
thereof long-term	62,266	1,738	15,047	79,051	66,507	2,457	16,238	85,202

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 five 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 ‘Amounts used’ in the financial year 2010/11 was primarily driven by a change in the earn-out agreement with 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 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.

20. SHORT-TERM DEBTS

1,000 CHF	31.3.2012	31.3.2011
Current maturities of long-term debts	52	40,018
Other short-term debts	124	117
Total	**176**	**40,135**
Unused borrowing facilities	59,305	42,215

In the financial year 2011/12 the remaining CHF 40 million of the CHF 240 million loan granted in connection with the acquisition of Advanced Bionics has been paid back. There is a second loan in connection with the acquisition of Advanced Bionics, which is included in non-current financial liabilities (for details refer to Note 22). The book value of short-term debts approximates fair value.

21. OTHER SHORT-TERM LIABILITIES

1,000 CHF	31.3.2012	31.3.2011
Other payables	29,685	28,734
Accrued expenses	130,153	128,989
Deferred income	17,465	14,407
Total	**177,303**	**172,130**

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.

22. NON-CURRENT FINANCIAL LIABILITIES

1,000 CHF	31.3.2012	31.3.2011
Bank debts	228,140	227,964
Interest swap – negative replacement value	8,466	1,861
Other non-current financial liabilities	4,953	1,246
Total	**241,559**	**231,071**

Bank debts include the remaining bank loan of CHF 230 million granted in connection with the acquisition of Advanced Bionics (refer to Note 23). The fair value of the bank debts as of March 31, 2012 amounts to CHF 236.6 million (previous year CHF 229.8 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 29).

Analysis by currency 1,000 CHF				**31.3.2012**				**31.3.2011**
	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	227,943	8,466	1,421	237,830	227,195	1,861	317	229,373
EUR			1,477	1,477	535		92	627
DKK	197			197	234			234
USD			1,770	1,770			484	484
CAD			243	243			265	265
Other			42	42			88	88
Total	**228,140**	**8,466**	**4,953**	**241,559**	**227,964**	**1,861**	**1,246**	**231,071**

23. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

GROUP RISK MANAGEMENT

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

The overall responsibility for risk assessment and controlling is allocated to departments with specialized corporate functions. The Management Board, in addition to Group companies and functional managers, support the annual risk assessment and are responsible for the management of the risk mitigating initiatives. The Board of Directors discusses and analyzes the Group's risks at least once a year in the context of a strategy meeting.

FINANCIAL RISK MANAGEMENT

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

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

MARKET RISK

Exchange rate risk

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

To minimize foreign currency exchange risks, 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, 2012 and 2011, 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, 2012 and 2011 (for foreign currency rates refer to Note 33) 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	2011/12	2010/11	2011/12	2010/11
	Impact on income after taxes		Impact on equity	
Change in USD/CHF + 5 %	2,105	2,548	20,521	19,214
Change in USD/CHF – 5 %	(2,105)	(2,548)	(20,521)	(19,214)
Change in EUR/CHF + 5 %	4,479	3,608	10,808	9,309
Change in EUR/CHF – 5 %	(4,479)	(3,608)	(10,808)	(9,309)

Interest rate risk

The Group has only limited exposure to interest rate changes. The CHF 240 million short-term portion of the CHF 470 million loan, entered into in connection with the acquisition of Advanced Bionics, has already been repaid. For the long-term bank loan of CHF 230 million, the Group entered into a swap agreement that protects the Group against 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, 2012, the negative fair value of the interest rate swap amounts to CHF 8.5 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 3.8 million and the equity would have been CHF 3.8 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 possibilities 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 2011/12 of CHF 114 million (previous year CHF 237 million). If interest rates during the financial year 2011/12 had been 1 % higher/lower on these accounts, income after taxes would have been CHF 1.0 million higher/lower (previous year CHF 2.1 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 (0.1 % of total assets as of March 31, 2012) 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, 2012, 31 % 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, to ensure that the financial covenants are met and to ensure the contractual repayment of the bank debt. As of March 31, 2012, the covenants are met.

The following table summarizes the contractual maturities of financial liabilities as of March 31, 2012 and 2011:

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

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		5,077	243,956		249,033
Other non-current financial liabilities			1,188	58	1,246
Total non-current financial liabilities		**5,077**	**245,144**	**58**	**250,279**
Total financial liabilities	**186,332**	**57,669**	**245,144**	**58**	**489,203**

FAIR VALUE HIERARCHY

The following table summarizes the financial instruments carried at fair value, by valuation method as of March 31, 2012 and 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				31.3.2012
	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through profit or loss	4,697		5,422	10,119
Total	**4,697**		**5,422**	**10,119**
Financial liabilities				
Financial liabilities at fair value through profit or loss		(11,903)	(9,120)	(21,023)
Derivatives used for hedging		(8,466)		(8,466)
Total		**(20,369)**	**(9,120)**	**(29,489)**
				31.3.2011
Financial assets				
At fair value through profit or loss	14,117		5,460	19,577
Total	**14,117**		**5,460**	**19,577**
Financial liabilities				
Financial liabilities at fair value through profit or loss		(12,032)	(6,118)	(18,150)
Derivatives used for hedging		(1,861)		(1,861)
Total		**(13,893)**	**(6,118)**	**(20,011)**

The following table presents the changes in level 3 financial instruments for the year ended March 31, 2012 and 2011:

Financial assets at fair value through profit or loss 1,000 CHF	2011/12	2010/11
Balance April 1	5,460	7,188
Losses recognized in profit or loss	(38)	(1,728)
Balance March 31	**5,422**	**5,460**

Financial liabilities at fair value through profit or loss 1,000 CHF	2011/12	2010/11
Balance April 1	(6,118)	(3,919)
Additions	(5,970)	(4,325)
Gains recognized in profit or loss	2,968	2,126
Balance March 31	**(9,120)**	**(6,118)**

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 around 30 %.

24. OTHER LONG-TERM LIABILITIES

1,000 CHF	31.3.2012	31.3.2011
Long-term deferred income	20,426	15,587
Retirement benefit obligations	13,268	5,267
Total	**33,694**	**20,854**

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 28.

25. MOVEMENTS IN SHARE CAPITAL

Issued registered shares	Issued registered shares	Treasury shares[1]	Outstanding shares
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**
Issue of new shares from conditional capital[2]	59,940		59,940
Purchase of treasury shares		(7,115)	(7,115)
Sale of treasury shares		14,393	14,393
Balance March 31, 2012	**66,574,333**	**(39,782)**	**66,534,551**

Nominal value of share capital 1,000 CHF	Share capital	Treasury shares[1]	Outstanding share capital
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**
Issue of new shares from conditional capital[2]	3		3
Purchase of treasury shares			
Sale of treasury shares			
Balance March 31, 2012	**3,329**	**(2)**	**3,327**

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, 2012, 5,921,087 shares (previous year 5,981,027 shares) thereof have not yet been issued. These shares are reserved for long-term incentive plans.

26. ACQUISITIONS OF SUBSIDIARIES

Assets and liabilities arising from acquisitions:

1,000 CHF	2011/12	2010/11
Trade receivables	3,684	9,452
Other current assets	7,993	24,898
Property, plant & equipment	3,493	3,756
Intangible assets	36,489	42,259
Other non-current assets	555	14,900
Current liabilities	(18,361)	(31,501)
Non-current liabilities	(13,234)	(39,781)
Net assets	**20,619**	**23,983**
Non-controlling interests		(1,433)
Goodwill	73,291	131,216
Purchase consideration	**93,910**	**153,766**
Fair value of previously held stake before the business combination[1)]	(2,313)	(52,857)
Liabilities for earn-outs or holdbacks[2)]	(5,946)	(23,765)
Cash consideration	**85,651**	**77,144**
Cash and cash equivalents acquired	(3,294)	(18,902)
Cash consideration, net of cash acquired	**82,357**	**58,242**
Cash outflow for investments in associates, non-controlling interests and earn-out payments	772	91,706
Total cash outflow from acquisitions	**83,129**	**149,948**

1) The loss of CHF 2.2 million (prior year gain of CHF 12.8 million) from remeasuring the previously held stake to fair value is included in the financial result.

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

Several small companies were acquired during the financial year 2011/12 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 acquisition method of a ccounting. For business combinations entered into in the financial year 2011/12, acquisition-related costs in the amount of CHF 1.1 million (2010/11 CHF 1.0 million) have been expensed and are included in the line “General and administration” in the income statements.

The initial accounting for the acquisitions in the current financial year is provisional. 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 favorable sales growth potential.

Contribution of acquired companies from acquisition to 1,000 CHF	31.3.2012	31.3.2011
Sales	23,929	47,969
Net income	709	(1,907)

Contribution, if the acquisitions occurred on April 1 1,000 CHF	2011/12	2010/11
Sales	43,295	103,703
Net income	2,664	(1,839)

27. RELATED PARTY TRANSACTIONS

1,000 CHF	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
	Management Board		Board of Directors		Total	
Short-term employee benefits	5,352	8,320	1,590	1,971	6,942	10,291
Post-employment benefits	501	497			501	497
Share based payments	3,855	4,289	1,485	1,922	5,340	6,211
Total	**9,708**	**13,106**	**3,075**	**3,893**	**12,783**	**16,999**

The total compensation to the Management Board for the reporting period 2011/12, as shown above, relates to eight current members. During the period one member left the Management Board while the new CEO joined the Management Board. The total compensation to the Management Board for 2010/11 related to eight then current members. During the previous period three members had left the Management Board while two members had joined.

The total compensation to the Board of Directors for the reporting period 2011/12, as shown above, relates to eight current members (previous year eight members).

In addition to the ordinary compensation of the Management Board 2010/11, the short-term employee benefits include the contractual compensation in connection with the resignation of Valentin Chapero Rueda and Oliver Walker in the amount of CHF 2.1 million paid in the financial year 2011/12.

Until June 2011, a consultancy agreement existed between John J. Zei, a member of the Board of Directors and the Group, for specific assignments on behalf of the Group which are beyond his role as a member of the Board of Directors. In the reporting period 2011/12, a total amount of CHF 36,425 (previous year CHF 72,644) was paid by the Group for the consultancy services provided under this contract.

During the financial year 2011/12 three lease agreements existed between the Group and ARim AG, a company fully owned by Andy Rihs, member of the Board of Directors of Sonova Holding AG. The lease agreements relate to office, parking and child care space. The annual lease payment amounted to CHF 0.6 million (previous year CHF 0.5 million). The office space lease agreement expired by March 2012.

For additional information regarding transactions with associates refer to Note 16 and Note 17.

Transactions between the Group and the various post-employment benefit plans for the employees of the Group are described in Note 28.

Further information in accordance with Swiss law relating to remuneration and ownership of shares and options of the Board of Directors and the Management Board can be found in Note 3.6 of the financial statements of Sonova Holding AG.

28. 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	31.3.2012	31.3.2011
Present value of funded obligations	(210,410)	(197,709)
Fair value of plan assets	198,091	193,460
Net present value of funded plans	**(12,319)**	**(4,249)**
Present value of unfunded obligations	(949)	(1,018)
Total liabilities, net	**(13,268)**	**(5,267)**
Amounts in the balance sheet:		
Retirement benefit obligation	(13,268)	(5,267)

Actuarial loss/(gain) recognized in other comprehensive income (OCI) CHF 1,000	2011/12	2010/11
Actuarial (gain)/loss on obligations	(4,027)	5,799
Actuarial loss on plan assets	11,483	1,215
Actuarial loss recognized in other comprehensive income	**7,456**	**7,014**

Cumulative actuarial loss recognized in equity CHF 1,000	2011/12	2010/11
Recognized actuarial loss at beginning of period	13,170	6,156
Actuarial loss charged for the year	7,456	7,014
Cumulative actuarial loss recognized in equity	**20,626**	**13,170**

Amounts recognized in the income statement CHF 1,000	2011/12	2010/11
Current service cost	22,291	19,338
Participants' contributions	(8,610)	(8,103)
Interest cost	6,172	5,454
Expected return on plan assets	(7,755)	(6,716)
Total employee benefit expenses	**12,098**	**9,973**

The amount recognized in the consolidated income statement 2011/12 has been charged to cost of sales (CHF 3.2 million, previous year CHF 3.6 million), research and development (CHF 3.4 million, previous year CHF 2.6 million), sales and marketing (CHF 2.6 million, previous year CHF 1.4 million) as well as general and administration (CHF 2.9 million, previous year CHF 2.3 million) in the income statement.

Movement in the present value of the defined benefit obligations CHF 1,000	2011/12	2010/11
Beginning of the year	198,727	167,311
Interest cost	6,172	5,454
Current service cost	22,291	19,338
Benefits (paid)/received, net	(11,691)	963
Actuarial (gain)/loss on obligations	(4,027)	5,799
Exchange differences	(113)	(138)
Present value of obligations at end of period	**211,359**	**198,727**

Movement in the fair value of the plan assets CHF 1,000	2011/12	2010/11
Beginning of the year	193,460	167,890
Expected return on plan assets	7,755	6,716
Employer's contributions paid	11,521	10,972
Participants' contributions	8,610	8,103
Benefits (paid)/received, net	(11,713)	1,110
Actuarial loss on plan assets	(11,483)	(1,215)
Exchange differences	(59)	(116)
Fair value of plan assets at end of period	**198,091**	**193,460**

Principal actuarial assumptions (weighted average)	2011/12	2010/11
Discount rate	2.75 %	3.10 %
Future salary increases	1.75 %	1.75 %
Future pension increases	0 %	0 %
Expected return on plan assets	4 %	4 %
Fluctuation rate	10 %	10 %
Demography	BVG 2010	BVG 2010

The plan assets consist of:	31.3.2012	31.3.2011
Cash	5.6 %	7.8 %
Domestic bonds	23.6 %	20.9 %
Foreign bonds	8.9 %	7.8 %
Domestic equities	15.5 %	18.3 %
Foreign equities	21.0 %	20.0 %
Real estates	12.5 %	11.9 %
Alternative investments	12.9 %	13.3 %

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 –3.7 million (previous year CHF 5.6 million). The expected employer's contributions to be paid in the financial year 2012/13 amount to CHF 12.0 million.

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

CHF 1,000	31.3.2012	31.3.2011	31.3.2010	31.3.2009	31.3.2008
Present value of defined benefit obligations	(211,359)	(198,727)	(167,311)	(144,956)	(133,316)
Fair value of plan assets	198,091	193,460	167,890	122,205	132,815
(Deficit)/surplus	**(13,268)**	**(5,267)**	**579**	**(22,751)**	**(501)**
Experience adjustments on plan liabilities	15,898	(720)	(532)	7,526	3,620
Experience adjustments on plan assets	(11,483)	(1,215)	23,870	(30,334)	(7,286)

DEFINED CONTRIBUTION PLANS

Several of the Group's entities have a defined contribution plan. The employer's contributions amounting to CHF 8.5 million in the year ended March 31, 2012 (previous year CHF 7.0 million) are recognized directly in the income statement.

29. 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 other management and senior employees of the Group, entitling them to receive options, warrants, share appreciation rights (SARs), warrant appreciation rights (WARs), and/or shares/restricted 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	2011/12	2010/11
Equity-settled share-based payment costs	19,178	18,238
Cash-settled share-based payment costs	1,318	1,314
Total share-based payment costs	**20,496**	**19,552**

The following table shows an overview of the outstanding options/warrants/WARs/SARs, granted as part of the EEAP programs 2007 to 2012.

Summary of outstanding options/warrants/WARs/SARs granted until March 31, 2012:

Financial year	Plan participants	Grant date / Expiry date	Granted	Exercise price (CHF)	Vesting conditions	Outstanding	Average remaining life (years)	Exercisable
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	0.5	292,600
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	174,171	0.9	174,171

Financial year	Plan participants	Grant date / Expiry date	Granted	Exercise price	Vesting conditions	Outstanding	Average remaining life (years)	Exercisable
2007/08 Cash-settled	WARs granted to key employees in the USA[1]	01.02.2008 28.02.2013	29,400	96.00	4 equal tranches, vest annually over 4 years	14,450	0.9	14,450
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	1.2	15,000
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	256,917	1.9	175,012
2008/09 Equity-settled	Options granted to former CEO	01.02.2009 28.02.2017	160,000	56.00	4 equal tranches, vest annually over 4 years, 1. vesting date 01.03.2012	40,000	4.9	40,000
2008/09 Cash-settled	WARs granted to key employees in the USA[1]	01.02.2009 28.02.2014	38,180	56.00	4 equal tranches, vest annually over 4 years	22,540	1.9	13,520
2009/10 Equity-settled	Warrants granted to BoD, MB and key employees[1]	01.02.2010 28.02.2015	417,640	131.00	4 equal tranches, vest annually over 4 years	341,010	2.9	254,735
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	33,000	2.9	16,750
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	41,987	1.8	21,164
2010/11 Equity-settled	Warrants granted to BoD, MB and key employees[1]	01.02.2011 29.02.2016	556,530	118.40	4 equal tranches, vest annually over 4 years	390,620	3.9	122,877
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	52,910	3.9	15,459
2011/12 Equity-settled	Options granted to interim CEO, CFO	27.05.2011 27.05.2016	40,000	88.30	4 equal tranches, vest annually over 4 years	40,000	4.2	
2011/12 Equity-settled	Options granted to BoD, MB and key employees	01.02.2012 31.01.2019	265,230	95.85	4 equal tranches, vest annually over 4 years	265,230	6.8	
2011/12 Cash-settled	SARs granted to key employees in the USA	01.02.2012 31.01.2019	33,244	95.85	4 equal tranches, vest annually over 4 years	33,244	6.8	
Total			**3,032,335**	**97.17**		**2,013,679** [2]	**3.1**	**1,155,738** [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 101.40.

3) Weighted average exercise price for exercisable options/warrants/WARs/SARs amounts to CHF 99.30.

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 2012 and 2011 are as follows:

Assumptions for valuation at grant date	Executive Equity Award Plan 2012	Interim Executive Equity Award Plan 2011	Executive Equity Award Plan 2011
Valuation date	01.02.2012	27.05.2011	01.02.2011
Expiration date	29.02.2017	27.05.2016	29.02.2016
Share price on grant date	CHF 95.85	CHF 88.30	CHF 118.40
Exercise price	CHF 95.85	CHF 88.30	CHF 118.40
Volatility	33.8 %	32.7 %	32.3 %
Expected dividend yield	1.28 %	1.36 %	1.01 %
Weighted risk free interest rate	0.3 %	1.1 %	1.1 %
Weighted average fair value of options/warrants issued	**CHF 19.55**	**CHF 17.96**	**CHF 24.03**

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:	2011/12		2010/11	
	Number of options/ warrants[2]	Weighted average exercise price (CHF)	Number of options/ warrants[2]	Weighted average exercise price (CHF)
Outstanding options/warrants at April 1	1,725,184	101.03	2,142,314	89.88
Granted	305,230	94.86	556,530	118.40
Exercised/sold[1]	(91,885)	83.24	(559,508)	83.26
Forfeited	(137,981)	105.50	(414,152)	90.74
Outstanding options/warrants at March 31	**1,800,548**	**100.54**	**1,725,184**	**101.03**
Exercisable at March 31	**1,059,395**	**98.63**	**638,267**	**94.58**

[1] Out of the movement for the financial year 2011/12, 59,940 (previous year 423,648) relates to options exercised and 31,945 (previous year 135,860) to warrants sold. Total consideration from exercise of options amounted to CHF 5.7 million (previous year CHF 36.5 million). The weighted average share price of the options exercised during the year 2011/12 was CHF 99.32 (previous year CHF 103.71).

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

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

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

Changes in outstanding WARs/SARs:	2011/12				2010/11			
	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	**190,967**	**111.37**	**13,600**	**95.05**	**172,214**	**106.33**	**23,200**	**95.05**
Granted			33,244	95.85	55,535	118.40		
Exercised/sold					(19,282)	73.53	(9,600)	95.05
Forfeited	(11,080)	118.14	(13,600)	95.05	(17,500)	125.80		
Outstanding WARs/SARs at March 31[1]	**179,887**	**110.95**	**33,244**	**95.85**	**190,967**	**111.37**	**13,600**	**95.05**
Exercisable at March 31[2]	**96,343**	**106.61**			**20,625**	**101.91**	**13,600**	**95.05**

[1] The carrying amount of the liability relating to the WARs at March 31, 2012 is CHF 1.9 million (previous year CHF 0.9 million) and the one for the SARs amounts to CHF 0.07 million (previous year CHF 0.03 million).
[2] The intrinsic value of the WARs exercisable at March 31, 2012 amounts to CHF 0 (previous year CHF 0).

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 EEAPs 2010 to 2012, restricted share units (RSUs) have been granted to legitimated persons. The value of an RSU is equal to the market price on the SIX Swiss Exchange on the grant date, adjusted for the fair value of expected dividends, as RSUs are not entitled to dividends. RSUs entitle the holder to receive one share per RSU after the vesting period. In addition to the RSUs granted in respect to the EEAP 2012, shares have been granted to the Chairman of the Board of Directors. These shares are entitled to dividends and are blocked for a period of 64 months.

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

The cost of the shares/RSUs granted as part of the EEAP program is expensed over the expected vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period to ensure that in the end only a charge for vested amounts occurred. The costs for the shares granted to the Chairman of the Board of Directors have been expensed in the financial year 2011/12 as there is no vesting period related to these shares.

Changes in outstanding shares/RSUs:	2011/12	2010/11
	Number of shares/RSUs	Number of shares/RSUs
Shares/RSUs at April 1	**241,299**	**214,833**
Granted	155,692	111,576
Released	(84,401)	(77,412)
Forfeited	(18,285)	(7,698)
Shares/RSUs at March 31	**294,305**	**241,299**

30. CONTINGENT LIABILITIES

At March 31, 2012 and 2011, 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 0.2 million). The net book value of these properties amounts to CHF 1.2 million at March 31, 2012 (previous year CHF 1.3 million). There were no recourse liabilities in respect of discounted bills of exchange at March 31, 2012 and 2011. Open purchase orders as of March 31, 2012 and 2011, were related to recurring business activities.

For information regarding summons to pay filed against Sonova in March 2012, refer to "Key management judgements made in applying accounting principles" (Note 2.7).

31. LEASING LIABILITIES

At March 31, 2012 the following non-cancellable minimum operating lease obligations existed:

Financial year 1,000 CHF	31.3.2012	31.3.2011
2011/12		29,231
2012/13	31,323	23,622
2013/14	23,958	18,074
2014/15	19,453	14,567
2015/16	16,557	13,447
2016/17	14,318	13,258
thereafter	25,110	15,692
Total	**130,719**	**127,891**

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

In financial year 2011/12, CHF 39.5 million have been recognized as expenses for leases in the consolidated income statement (previous year CHF 38.5 million).

As of March 31, 2012 and 2011, the Group had no financial lease obligations.

32. NUMBER OF EMPLOYEES

At March 31, 2012, the Sonova Group employed 8,223 people (previous year 7,840). They were engaged in the following regions and activities:

By region	31.3.2012	31.3.2011
Switzerland	1,096	1,141
EMEA (excl. Switzerland)	2,231	1,925
Americas	3,014	2,962
Asia/Pacific	1,882	1,812
Total	**8,223**	**7,840**
By activity		
Research and development	543	525
Operations	3,073	3,054
Sales and marketing, general and administration	4,607	4,261
Total	**8,223**	**7,840**

The average number of employees of the Sonova Group for the year was 7,970 (previous year 7,291). Total personnel expenses for the financial year 2011/12 amounted to CHF 576.8 million (previous year CHF 564.5 million).

33. EXCHANGE RATES

The following main exchange rates were used for currency translation:

	31.3.2012	31.3.2011	2011/12	2010/11
	Year-end rates		Average rates for the year	
AUD 1	0.94	0.95	0.92	0.95
BRL 1	0.50	0.56	0.52	0.59
CAD 1	0.91	0.95	0.89	1.00
CNY 1	0.14	0.14	0.14	0.15
EUR 1	1.21	1.30	1.21	1.34
GBP 1	1.44	1.48	1.41	1.58
JPY 100	1.10	1.11	1.12	1.18
USD 1	0.90	0.92	0.88	1.01

34. EVENTS AFTER BALANCE SHEET DATE

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

35. LIST OF SIGNIFICANT COMPANIES

Company name	Activity	Domicile	Share capital Local currency 1,000			Shares held
Switzerland						
Sonova Holding AG	A	Stäfa	CHF	3,329		
Phonak AG	A, B, C, D	Stäfa	CHF	2,500		100 %
Phonak Hearing Systems AG	B	Stäfa	CHF	100		100 %
Advanced Bionics AG	A, B	Stäfa	CHF	4,350		100 %
Indomed AG	A	Zug	CHF	1,000		100 %
EMEA (excluding Switzerland)						
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450		100 %
Ets. Lapperre BHAC NV	B	Groot-Bijgaarden (BE)	EUR	124		100 %
Advanced Bionics Sarl	B	Rixheim (FR)	EUR	12,000		100 %
Audition Santé SAS	B	Cahors (FR)	EUR	3,000		100 %
Phonak France SA	B	Bron-Lyon (FR)	EUR	305		100 %
Phonak GmbH	B	Fellbach-Oeffingen (DE)	EUR	25		100 %
Phonak Italia Srl	B	Milan (IT)	EUR	1,040		100 %
Phonak B.V.	B	Vianen (NL)	EUR	227		100 %
Phonak Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000		100 %
Phonak AB	B	Stockholm (SE)	SEK	200		100 %
David Ormerod Hearing Centres Ltd.	B	Conwy (UK)	GBP	0	1)	84 %
Phonak Group Ltd.	B	Warrington (UK)	GBP	2,500		100 %
Americas						
Phonak do Brasil – Sistemas Audiológicos Ltda.	B	Sao Paulo (BR)	BRL	809		100 %
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	7,500		100 %
Phonak Canada Ltd.	B	Mississauga (CA)	CAD	88,694		100 %
Advanced Bionics LLC	B, C, D	Valencia (US)	USD	143,937		100 %
Development Finance Inc.	A	Wilmington (US)	USD	0	2)	100 %
Ear Professionals International Corporation	B	Pomona (US)	USD	5		62 %
Hearing Planet, Inc.	B	Nashville, (US)	USD	23		100 %
Jack Jones Hearing Centers, Inc.	B	Fort Worth (US)	USD	42		100 %
Newport Health Network, Inc.	B	Naperville (US)	USD	610		100 %
Phonak LLC	B	Warrenville (US)	USD	1,250		100 %
Unitron Hearing, Inc.	B	Plymouth (US)	USD	46,608		100 %
Asia/Pacific						
Hearing Retail Group Pty. Ltd.	B	Sydney (AU)	AUD	0	3)	100 %
Phonak Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750		100 %
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249		100 %
Phonak Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000		100 %
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000		100 %

Activities:
A Holding/Finance: The entity is a holding or finance company.
B Sales: The entity performs sales and marketing activities.
C Production: This entity performs manufacturing for the Group.
D Research: This entity performs research and development activities for the Group.
1) GBP 133
2) USD 100
3) AUD 100

CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENT

– Report of the Statutory Auditor on the Consolidated Financial Statements 2011/12 to the Annual General Shareholders' Meeting of Sonova Holding AG Stäfa.

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REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

As statutory auditor, we have audited the consolidated financial statements of Sonova Holding AG, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated changes in equity and notes (pages 70 to 115) for the year ended 31 March, 2012.

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, 2012, give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

PricewaterhouseCoopers AG

Patrick Balkanyi
Audit expert
Auditor in charge

Urs Honegger
Audit expert

Zurich, May 10, 2012

FINANCIAL STATEMENTS OF SONOVA HOLDING AG

INCOME STATEMENTS

1,000 CHF	2011/12	2010/11
Income		
Investment income	293,009	259,846
Financial income	14,860	15,653
Other income	18,074	20,498
Total income	**325,943**	**295,997**
Expenses		
Financial expenses	(28,463)	(51,849)
Administration expenses	(6,471)	(6,256)
Other expenses	(658)	(6,761)
Total expenses	**(35,592)**	**(64,866)**
Net profit for the year	**290,351**	**231,131**

BALANCE SHEETS

Assets 1,000 CHF	Notes	31.3.2012	31.3.2011
Cash and cash equivalents		753	756
Marketable securities	2.1	5,306	15,437
Amounts due from third parties		1,546	420
Amounts due from Group Companies		267,228	27,745
Prepayments			104
Total current assets		**274,833**	**44,462**
Loans to third parties		724	976
Loans to Group Companies		847,373	883,174
Investments		296,714	287,416
Total non-current assets		**1,144,811**	**1,171,566**
Total assets		**1,419,644**	**1,216,028**

Liabilities and shareholders' equity 1,000 CHF	Notes	31.3.2012	31.3.2011
Liabilities to third parties		13,924	18,008
Liabilities to Group Companies		5,342	14,760
Accruals		5,213	5,094
Total short-term liabilities		**24,479**	**37,862**
Bank loans	2.2	230,000	270,000
Loans from Group Companies		41,068	
Total long-term liabilities		**271,068**	**270,000**
Total liabilities		**295,547**	**307,862**
Share capital		3,329	3,326
General reserve		1,800	32,443
Reserve from capital contributions		149,865	116,055
Reserve for treasury shares	2.1	4,227	5,306
Retained earnings		964,876	751,036
Total shareholders' equity	2.3	**1,124,097**	**908,166**
Total liabilities and shareholders' equity		**1,419,644**	**1,216,028**

NOTES TO THE FINANCIAL STATEMENTS AS OF MARCH 31, 2012

1. GENERAL

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

The presentation of the balance sheet and income statement has been adjusted without any changes in previous year equity or net income.

2. NOTES TO THE BALANCE SHEET

2.1 MARKETABLE SECURITIES AND RESERVE FOR TREASURY SHARES

Marketable securities include, among other items, 39,782 treasury shares (previous year 47,060) purchased for a total consideration of CHF 4,226,952 (previous year CHF 5,305,993). At March 31, 2012, these shares had a market value of CHF 3,990,135 (previous year CHF 3,851,861).

A reserve for treasury shares in the amount of CHF 4,226,952 (previous year CHF 5,305,993) was established which is equal to the cost price. No treasury shares are held by other Group companies.

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

Number/1,000 CHF

	Number	Reserve for treasury shares	Treasury shares at market value
Balance March 31, 2011	**47,060**	**5,306**	**3,852**
Purchase of treasury shares	7,115	574	574
Sale of treasury shares	(14,393)	(1,653)	(1,102)
Profit from sale of own shares and revaluation			666
Balance March 31, 2012	**39,782**	**4,227**	**3,990**

2.2 BANK LOANS

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

2.3 SUMMARY OF CHANGES IN SHAREHOLDERS' EQUITY

1,000 CHF

	Share capital	General reserve	Reserve from capital contributions	Reserve for treasury shares	Retained earnings	Total shareholders' equity
Balance April 1, 2011	**3,326**	**32,443**	**116,055**	**5,306**	**751,036**	**908,166**
Distribution			(79,755)			(79,755)
Capital increases (incl. share premium) from conditional capital	3		5,332			5,335
Reclass of reserve from capital contributions			108,233		(108,233)	
Reclass of general reserve		(30,643)			30,643	
Decrease in reserve for treasury shares				(1,079)	1,079	
Net profit for the year					290,351	290,351
Balance March 31, 2012	**3,329**	**1,800**	**149,865**	**4,227**	**964,876**	**1,124,097**

During the financial year 2011/12, an additional 59,940 registered shares with a par value of CHF 0.05 each, or a total par value of CHF 2,997 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 5,697,297. In the financial year 2011/12, the conditional share capital with a par value of CHF 299,051 (5,981,027 shares) decreased by CHF 2,997 or 59,940 shares (previous year CHF 21,182 or 423,648 shares), thereby leaving CHF 296,054 (5,921,087 shares) for distribution. Out of the remaining conditional capital, a total of 1,800,548 (previous year 1,725,184) employee stock options were outstanding as of March 31, 2012, which can be exercised until June 2019.

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).

3. DISCLOSURES REQUIRED BY SWISS CORPORATE LAW

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

1,000 CHF	**31.3.2012**	**31.3.2011**
Guarantees given in respect of rental obligations of Group Companies	6,629	8,167

3.2 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	100 %
Phonak Hearing Systems AG	B	Stäfa	CHF	100	100 %
Indomed AG	A	Zug	CHF	1,000	100 %
EMEA (excluding Switzerland)					
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450	100 %
Phonak Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100 %
Phonak France SA	B	Bron-Lyon (FR)	EUR	305	100 %
Phonak Italia Srl	B	Milan (IT)	EUR	1,040	100 %
Phonak B.V.	B	Vianen (NL)	EUR	227	100 %
Phonak AB	B	Stockholm (SE)	SEK	200	100 %
Phonak Group Ltd.	B	Warrington (UK)	GBP	2,500	100 %
David Ormerod Hearing Centres Ltd.	B	Conwy (UK)	GBP	0 [1)]	84 %
Americas					
National Hearing Services Inc.	B	Victoria (CA)	CAD	7,500	100 %
Phonak Canada Ltd.	B	Mississauga (CA)	CAD	88,694	100 %
Unitron Hearing, Inc.	B	Plymouth (US)	USD	46,608	100 %
Asia/Pacific					
Phonak Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750	100 %
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249	100 %
Phonak Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100 %
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000	100 %

Description:
A Holding/Finance: The entity is a holding or finance company.
B Sales: The entity performs sales and marketing activities for the group.
C Production: This entity performs manufacturing for the group.
D Research: This entity performs research and development activities for the group.
1) GBP 133

3.3 CONDITIONAL AND AUTHORIZED CAPITAL

1,000 CHF	31.3.2012	31.3.2011
Conditional capital at year-end	296	299
Authorized capital at year-end		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, 2012, 5,921,087 shares (previous year 5,981,027 shares) thereof have not yet been issued. These shares are reserved for long-term incentive plans.

The authorized share capital of CHF 165,576 (3,311,520 registered shares) created on June 10, 2009, has not been used and the authorization expired on June 10, 2011.

3.4 SIGNIFICANT SHAREHOLDERS

At year-end, the following significant shareholders were listed in the share register (with shareholdings in excess of 3 % of the issued share capital). Significant shareholders may also hold non-registered shares which are reported under "Not registered".

	31.3.2012	31.3.2011
Chase Nominees Ltd.[1]	14.74 %	8.19 %
Beda Diethelm	9.98 %	9.99 %
Andy Rihs	8.37 %	9.04 %
Hans-Ueli Rihs	6.34 %	5.70 %
Mellon Bank Nominee[1]	3.94 %	<3 %
Nortrust Nominees Ltd.[1]	3.17 %	3.10 %
Registered shareholders with less than 3 %	28.52 %	32.07 %
Not registered	24.94 %	31.91 %

[1] Registered without voting rights.

3.5 RISK ASSESSMENT

Sonova Holding AG, as the ultimate parent company of the Sonova Group, faces the same risks as the ones identified at Group level. Therefore, please refer to the disclosure of the Group-wide risk management procedures as described in Note 23 of the Group's consolidated financial statements.

3.6 COMPENSATION AND SHAREHOLDINGS

Standards and principles

Sonova's goal is to adhere to compensation principles that everyone trusts. We aim to sustain a simple, balanced, transparent, and performance-driven compensation system for all employees including executive management. The compensation system is designed to attract and retain highly qualified and successful employees so that we can reach our strategic goals. It also aims to encourage and reward individual performance in line with the company's values.

Compensation elements

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

Fixed base salary component

The fixed base salary gives each employee a regular and predictable salary. The salary level is based on the scope and complexity of the position, market norms, and the employee's experience and skills. Salary progression depends primarily on the employee's individual performance as well as market norms and the economic climate.

Variable salary component

Variable salary is an integral element of an employee's target cash compensation. The performance goals that must be met to achieve the variable salary component are mutually defined and agreed with employees at the beginning of the financial year. The split between the fixed base and variable salary components varies by job profile and management level. The variable salary component is typically around 10 % of target cash compensation for employees, and ranges from 10 % to 30 % for managers. In the year under review, members of the Management Board had a target variable salary component between 30 % and 35 % of target cash compensation; for the new CEO it was 39 %. Individual targets and quantitative targets based on financial metrics such as sales, EBITA or operating expenses have been used in the year under review, depending on the employee's function at a Group and/or business unit level. If less than 80 % of a performance objective is achieved, no variable salary component is paid out on that objective. If the objectives are exceeded, the variable salary component may be increased to a maximum of 200 % of the target amount.

Long term incentive (Executive Equity Award Plan – EEAP)

The EEAP is a long-term equity-based incentive offered annually to members of the Board of Directors and the Management Board, as well as to other management levels of the Sonova Group. The Group reviewed the EEAP design in 2011 and made several amendments. As of 2012, the Group has discontinued granting warrants as an equity instrument: EEAP participants now receive either 50 % of the grant value in options and 50 % in RSUs (higher levels of management and Board of Directors) or 100 % of the grant value in RSUs (middle management), with the exception of the CEO and Chairman of the Board. As part of the emphasis on building long-term shareholder value, the term of the options was increased from five years to seven years. Furthermore, the vesting dates were deferred until after the release of full-year financial results.

In 2012, a total of approximately 425 individuals are participating in the EEAP. The options and RSUs granted under the plan are split into four equal tranches, which vest annually starting on June 1st of the year following the grant year. The exercise price of the options is the closing price for the shares on the Swiss stock exchange (SIX Swiss Exchange) on the grant date. The fair value of the options is calculated on the grant date using an option pricing model. Additional information is available in Note 29 to the Consolidated Financial Statements.

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

Description of 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 cash retainer, a committee fee (if applicable), and a meeting attendance fee. There is no variable salary component. Members of the Board of Directors also receive a long-term incentive through their participation in the EEAP. In 2012, the cash retainer, meeting attendance fee, and long-term incentive (EEAP) value for the Board of Directors have been reduced from the levels of the previous year. Warrants are no longer granted under the EEAP; as of February 2012, the proportions of the long-term incentive (EEAP) grants have been changed to 50 % in options (or SARs for US participants) and 50 % in RSUs. The grant to the Chairman of the Board of Directors is entirely in restricted shares, subject to a restriction period from February 1st, 2012 to June 1st, 2017.

Description of compensation to members of the Management Board

As mentioned above, the compensation elements that apply to Sonova employees also apply to members of the Management Board, including the CEO, although with a heavier relative weighting for the variable salary component and EEAP.

In the year under review, the targeted variable salary component ranged between 30 % and 35 % of target cash compensation for members of the Management Board and 39 % of target cash compensation for the new CEO. As with other employees, if a member of the Management Board achieves less than 80 % of a stipulated performance objective, no variable salary component is paid out on that specific objective. If the performance objective is exceeded, the variable salary compensation may be increased to a maximum of 200 % of the target amount. The variable salary compensation for the Management Board is based on three performance categories: Group, business unit, and individual. In the year under review, Group performance objectives were based on metrics such as sales, EBITA, and inventory turnover. Business unit metrics included sales, operating profit, and operating expenses. In addition to these Group and business unit performance objectives, Management Board members had three to five individual performance objectives. Each member's various objectives are weighted for a total allocation of 100 %. In the year under review, the Group and business unit objectives represented between 70 % and 80 % of the total, with applicable individual objectives between 20 % and 30 %. The Board of Directors can also make further cash awards for exceptional achievements that do not fall under the annual objectives.

As described earlier, the value of the long-term incentive element (EEAP) granted in February 2012 to the Management Board represented a decrease from the previous year: each member received a fair value of CHF 391,585, half in options and half in RSUs. In May 2012, an additional option grant of CHF 359,100 each was made to Alexander Zschokke and Paul Thompson (interim CEO and CFO respectively) in recognition of their interim functions. These options are subject to vesting periods, the same as ordinary option grants under the EEAP. The EEAP 2012 grant value for the CEO was CHF 787,374, of which CHF 499,991 was in options and CHF 287,383 in RSUs.

The highest total remuneration for a Management Board member in the year under review was paid to Alexander Zschokke, who was the interim CEO of Sonova Group until the end of October 2011. His fixed base salary was CHF 472,774 and the target variable salary component was CHF 179,716. His variable salary paid for performance in the year under review was CHF 174,013, whereas the maximum variable salary potential would have been CHF 359,432 (200 % of the target variable salary amount). A long-term incentive (EEAP) value for 2012 of CHF 391,585, an additional long-term incentive (EEAP) grant of CHF 359,100, fringe benefits of CHF 16,000, and social benefits of CHF 179,981 are all reflected in Alexander Zschokke's total remuneration of CHF 1,593,453.

Lukas Braunschweiler joined the Sonova Group in November 2011 as the new CEO. His pro-rated fixed base salary was CHF 333,333 (equivalent to an annual base salary of CHF 800,000) and his pro-rated target variable salary component was CHF 207,650 (equivalent to CHF 500,000 annually). The pro-rated variable salary paid out for performance in the year under review was CHF 257,650. The maximum variable salary potential, capped at 200 % of the target variable salary, would have been CHF 415,300 (equivalent to CHF 1,000,000 annually). A long-term incentive (EEAP) value for 2012 of CHF 787,374, fringe benefits of CHF 6,667, and social benefits of CHF 75,064 are all reflected in Lukas Braunschweiler's total remuneration of CHF 1,460,088.

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 a long-term incentive, through their participation in the EEAP.

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 — 2011/12

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

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

1) Attendance fees and expenses are based on the number of attended meetings of each member of the Board of Directors (no attendance fees for the chairman).

2) Including social security contributions on the tax value of options/WARs/SARs exercised and shares granted during the reporting period.

3) Tax value per share at grant date CHF 74.35.

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

5) Fair value per option at grant date CHF 19.55.

6) William D. Dearstyne will resign from the Board of Directors at the annual shareholders meeting from June 19, 2012 and therefore did not participate in the EEAP 2012. He received an additional cash compensation of CHF 75'000.

7) SARs (SARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).

in CHF — 2010/11

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

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

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) Fair value per warrant at grant date CHF 0.96. Exercise ratio between warrants and options: 25:1.

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.

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 base salary and a variable salary component, additional benefits, social benefits (employer's contributions), and a long-term incentive through their participation in the EEAP.

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

in CHF								2011/12
	Fixed salary	Variable salary[1]	Fringe benefits	Social benefits (employer's contribution)[2]	Total cash compensation[1)/2)]	Value of RSUs[3]	Value of options[4]	Total compensation[2]
Alexander Zschokke, interim CEO[5]	472,774	174,013	16,000	179,981	842,768	191,588	559,097	1,593,453
Other members of the Management Board[6]	2,293,486	1,512,489	412,113	792,444	5,010,532	1,245,323	1,859,076	8,114,931
Total	**2,766,260**	**1,686,502**	**428,113**	**972,425**	**5,853,300**	**1,436,911**	**2,418,173**	**9,708,384**

The compensation shown in the table above is gross and based on accrual principle.
1) The variable salary will be paid out after the end of the reporting year.
2) Including social security contributions on the tax value of options/warrants exercised during the reporting period.
3) Fair value per RSU at grant date CHF 91.84.
4) Fair value per option at grant date CHF 19.55, respectively CHF 17.96 for the additional grant to the interim CEO and CFO.
5) Alexander Zschokke was interim CEO until October 31, 2011.
6) Lukas Braunschweiler, CEO, joined Sonova as of November 1, 2011, Hans Leysieffer was member of the Management Board until April 2011.

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]	Total compensation[2]
Valentin Chapero Rueda, CEO[4]	1,500,000	521,976	16,000	404,789	2,442,765	672,960	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	7,871,224
Total	**3,896,409**	**1,530,906**	**178,315**	**1,091,844**	**6,697,474**	**4,289,475**	**10,986,949**

The compensation shown in the table above is gross and based on accrual principle.
1) The variable salary will be paid out after the end of the reporting year.
2) Including social security contributions on the tax value of options/warrants exercised during the reporting period.
3) Fair value per warrant at grant date CHF 0.96. Exercise ratio between warrants and options: 25:1.
4) 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.

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

One member of the Board of Directors had a consulting contract with the Sonova Group, which was terminated as at June 30, 2011. In the year under review, this member of the Board of Directors received CHF 36,425 for providing consulting services. These services were related to specific assignments, beyond regular Board tasks, that he was given by the Sonova Group.

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

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

In accordance with the notice periods in the relevant employment contracts, there were payments totaling CHF 2.4 million (including social benefits on exercised options/warrants) made to two individuals, the former CEO and CFO, who left the Management Board in March 2011.

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

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

Shareholdings of the Board of Directors

As of March 31, 2012, the members of the Board of Directors and persons closely linked to them held directly and indirectly 5,680,181 shares (8.5 % of total share capital), 6,000,000 warrants, 1,237,500 Warrant Appreciation Rights, 25,575 options, 5,115 Share Appreciation Rights and 6,258 RSUs.

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

	31.3.2012				31.3.2011		
	Shares	RSUs[1]	Warrants[1] [2]	Options[1]	Shares	Warrants[1] [2]	Options[1]
Robert F. Spoerry	14,173[3]		1,250,000		10,000	1,250,000	12,000
William D. Dearstyne	32,310		987,500[4]		32,300	987,500[4]	3,000[5]
Heliane Canepa	24,100	1,043	1,250,000	5,115	18,010	1,250,000	12,000
Michael Jacobi	2,000	1,043	1,250,000	5,115	2,000	1,250,000	12,000
Andy Rihs	5,604,598	1,043	1,250,000	5,115	6,309,598	1,250,000	3,000
Anssi Vanjoki		1,043	500,000	5,115		500,000	
Ronald van der Vis	2,000	1,043	500,000	5,115		500,000	
John J. Zei	1,000	1,043	250,000[4]	5,115[5]		250,000[4]	
Total	**5,680,181**	**6,258**	**7,237,500**	**30,690**	**6,371,908**	**7,237,500**	**42,000**

1) For further details see also Note 29 in the consolidated financial statements.
2) Exercise ratio between warrants and options: 25:1.
3) 4,173 shares blocked until May 31, 2017.
4) WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
5) SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

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

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

1) Exercise ratio between warrants and options: 25:1 (see also Note 29 in the consolidated financial statements).
2) Excercise price CHF 95.85, vesting period 01.02.2012-01.06.2016 whereas one tranche being vested each year, exercise period 01.06.2013-31.01.2019.
3) Exercise price CHF 118.40, vesting period 01.03.2011-28.02.2015 whereas one tranche being vested each year, exercise period 01.03.2012-29.02.2016.
4) Exercise price CHF 131.00, vesting period 01.03.2010-28.02.2014 whereas one tranche being vested each year, exercise period 01.03.2011-28.02.2015.
5) Exercise price CHF 56.00, vesting period 01.03.2009-28.02.2013 whereas one tranche being vested each year, exercise period 01.03.2010-28.02.2014.
6) Exercise price CHF 96.00, vesting period 01.03.2008-29.02.2012 whereas one tranche being vested each year, exercise period 01.03.2009-28.02.2013.
7) WARs (WARs grant the right to participate in the appreciation of the Sonova shares without issuance of shares).
8) SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

							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
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 29 in the consolidated financial statements).
2) Exercise price CHF 118.40, vesting period 01.03.2011-28.02.2015 whereas one tranche being vested each year, exercise period 01.03.2012-29.02.2016.
3) Exercise price CHF 131.00, vesting period 01.03.2010-28.02.2014 whereas one tranche being vested each year, exercise period 01.03.2011-28.02.2015.
4) Exercise price CHF 56.00, vesting period 01.03.2009-28.02.2013 whereas one tranche being vested each year, exercise period 01.03.2010-28.02.2014.
5) Exercise price CHF 96.00, vesting period 01.03.2008-29.02.2012 whereas one tranche being vested each year, exercise period 01.03.2009-28.02.2013.
6) Exercise price CHF 95.05, vesting period 01.02.2007-31.01./28.02.2011 whereas one tranche being vested each year, exercise period 01.02.2008-31.01./29.02.2012.
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).

Shareholdings of the Management Board

As of March 31, 2012, the members of the Management Board and persons closely linked to them held directly or indirectly 13,515 shares, 15,645 RSUs, 9,655,500 warrants, and 126,955 options.

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

	31.03.2012				31.03.2011		
	Shares	RSUs[1]	Warrants[1] [2]	Options[1]	Shares	Warrants[1] [2]	Options[1]
Lukas Braunschweiler	5,000	3,129		25,575			
Alexander Zschokke	800	2,086	1,537,500	30,230		1,537,500	
Paul Thompson	2,100	2,086	1,537,500	30,230		1,537,500	
Hansjürg Emch	4,285	2,086	661,000	10,230	1,700	661,000	
Sarah Kreienbühl		2,086	1,738,000	10,230		1,738,000	790
Ignacio Martinez			1,550,000			1,550,000	4,000
Maarten Barmentlo		2,086	869,000	10,230		869,000	
Hans Mehl	1,330	2,086	1,762,500	10,230	1,330	2,012,500	8,545
Total	**13,515**	**15,645**	**9,655,500**	**126,955**	**3,030**	**9,905,500**	**13,335**

[1] For further details see also Note 29 in the consolidated financial statements.
[2] Exercise ratio between warrants and options: 25:1 (see also Note 29 in the consolidated financial statements).

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

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

[1] Exercise ratio between warrants and options: 25:1 (see also Note 29 in the consolidated financial statements).
[2] Exercise price CHF 95.85, vesting period 01.02.2012-01.06.2016 whereas one tranche being vested each year, exercise period 01.06.2013-31.01.2019.
[3] Exercise price CHF 88.30, vesting period 28.05.2011-27.05.2015 whereas one tranche being vested each year, exercise period 28.05.2012-27.05.2016.
[4] Exercise price CHF 118.40, vesting period 01.03.2011-28.02.2015 whereas one tranche being vested each year, exercise period 01.03.2012-29.02.2016.
[5] Exercise price CHF 131.00, vesting period 01.03.2010-28.02.2014 whereas one tranche being vested each year, exercise period 01.03.2011-28.02.2015.
[6] Exercise price CHF 56.00, vesting period 01.03.2009-28.02.2013 whereas one tranche being vested each year, exercise period 01.03.2010-28.02.2014.
[7] Exercise price CHF 96.00, vesting period 01.03.2008-29.02.2012 whereas one tranche being vested each year, exercise period 01.03.2009-28.02.2013.

	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
							31.3.2011
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	**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 29 in the consolidated financial statements).
[2] Exercise price CHF 118.40, vesting period 01.03.2011-28.02.2015 whereas one tranche being vested each year, exercise period 01.03.2012-29.02.2016.
[3] Exercise price CHF 131.00, vesting period 01.03.2010-28.02.2014 whereas one tranche being vested each year, exercise period 01.03.2011-28.02.2015.
[4] Exercise price CHF 56.00, vesting period 01.03.2009-28.02.2013 whereas one tranche being vested each year, exercise period 01.03.2010-28.02.2014.
[5] Exercise price CHF 96.00, vesting period 01.03.2008-29.02.2012 whereas one tranche being vested each year, exercise period 01.03.2009-28.02.2013.
[6] Exercise price CHF 95.05, vesting period 01.02.2007-30.09.2011 whereas one tranche being vested each year, exercise period 01.02.2008-31.05.2012.
[7] These options were granted to Hans Mehl at commencement of employment on April 1, 2007.

APPROPRIATION OF AVAILABLE EARNINGS

As proposed by the Board of Directors to the Annual General Shareholders' Meeting of June 19, 2012:

1,000 CHF	31.3.2012	31.3.2011[1]
Carried forward from previous year	**673,446**	**498,858**
Allocation from reserve for treasury shares	1,079	21,047
Net profit for the year	290,351	231,131
Available earnings	**964,876**	**751,036**
Allocation from general reserve		30,643
Allocation to reserve from capital contributions		(108,233)
Balance to be carried forward	**964,876**	**673,446**

[1] Approved by the Annual General Shareholders' Meeting of June 21, 2011.

CAPITAL CONTRIBUTION PRINCIPLE – IMPACT ON THE EQUITY

1,000 CHF	31.3.2012	31.3.2011[1]
Carried forward from previous year	**36,300**	
Transfer from available earnings	108,233	
Transfer from general reserve		79,573
Capital increase from conditional capital	5,332	36,482
Capital contribution reserve	**149,865**	**116,055**
Distribution[2]	(79,841)	(79,755)
Balance to be carried forward	**70,024**	**36,300**

[1] Approved by the Annual General Shareholders' Meeting of June 21, 2011.
[2] If the Annual General Shareholders' Meeting approves the proposed appropriation of available earnings, a gross dividend of CHF 1.20 per registered share of CHF 0.05 will be paid out (previous year 1.20).

FINANCIAL STATEMENTS OF SONOVA HOLDING AG

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

– Report of the Statutory Auditor on the Financial Statements 2011/12 to the Annual General Shareholders' Meeting of Sonova Holding AG Stäfa

pwc

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of Sonova Holding AG, which comprise the income statement, balance sheet and notes (pages 118 to 131) for the year ended March 31, 2012.

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, 2012, comply with Swiss law and the company's articles of incorporation.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

PricewaterhouseCoopers AG

Patrick Balkanyi
Audit expert
Auditor in charge

Urs Honegger
Audit expert

Zurich, May 10, 2012

INVESTOR INFORMATION

CAPITAL STRUCTURE AND SHAREHOLDER RIGHTS

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

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

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

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

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

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

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

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

FINANCIAL CALENDAR

June 19, 2012
General Shareholders' Meeting of Sonova Holding AG
at Zurich Hallenstadion, Zurich-Oerlikon

November 13, 2012
Publication of Semi-Annual Report
as of September 30, 2012
Media and Analysts Conference

May 21, 2013
Publication of Annual Report
as of March 31, 2013
Media and Analysts Conference

June 18, 2013
General Shareholders' Meeting of Sonova Holding AG

CONTACTS

Sonova Holding AG
Investor 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 Relations
Thomas Bernhardsgrütter

Investor Relations Associate
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

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: hilda design matters, Zurich
Publishing System: Multimedia Solutions AG, Zurich
Printing: Neidhart + Schön AG, Zurich

printed carbon neutral
Energy efficient and CO_2 compensated print
www.nsgroup.ch/climate

MIX
Paper from responsible sources
FSC
www.fsc.org
FSC® C016003

OUR VISION

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

OUR MISSION

"We are the only company offering most comprehensive solutions, in terms of both hearing instruments and hearing implants, to treat hearing impairments rooted in the outer and inner ear; and serving partners, consumers and patients on a global basis."

sonova

BRAND PORTFOLIO

Unitron	Phonak	Advanced Bionics
unitron	PHONAK	AB
HEARING INSTRUMENTS	HEARING INSTRUMENTS	COCHLEAR IMPLANTS
Unitron is a global organization built on strong, personal relationships with hearing care professionals to improve the lives of people with hearing loss. Distributing a full line of hearing instruments to customers in over 60 countries, Unitron has a proven track record of developing technological innovations that provide natural sound with exceptional speech understanding, and a relentless drive to deliver the best customer experience.	Built with the highest technological standards, providing optimum speech comprehensibility in a wide range of sound conditions. Phonak also provides wireless communication systems for audiological and other applications, as well as hearing protection systems. The product range now includes the Lyric brand: the world's first and only extended-wear hearing instrument, which is placed deep in the ear canal and is totally invisible.	Putting the patient first, Advanced Bionics brings continuous innovation to the remarkable cochlear implant technology, delivering the promise of clear, high-resolution sound and optimal speech understanding to children and adults with significant hearing loss.

CUSTOMER DRIVEN INNOVATION

OVERVIEW OF SELECTED PRODUCTS

not actual sizes

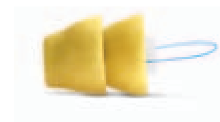
HEARING INSTRUMENTS

PHONAK

– The core of the Sonova brand portfolio is the Phonak brand of hearing instruments: built to the highest technological standards, providing optimum speech comprehensibility in a wide range of sound conditions. Phonak also provides wireless communication systems for audiological and other applications, as well as hearing protection systems. The product range now includes Lyric: the world's first and only extended-wear hearing instrument, which is placed deep in the ear canal and is totally invisible.

The full range of Phonak products can be discovered on http://www.phonak.com/com/b2c/en/products.html

Phonak nano
Smallest custom



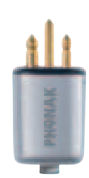
Lyric
Invisible extended wear

Phonak M H_2O
Water resistant

Naída S
Power

Audéo S SMART
External receiver

inspiro Dynamic FM
Transmitter



MLxi Dynamic FM
Receiver

Phonak ComPilot
Wireless streaming and control

not actual sizes

HEARING INSTRUMENTS

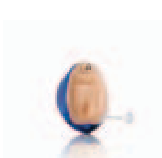
UNITRON

– Sonova's other core hearing instrument brand is Unitron. Based in Canada, Unitron is a global organization built on strong, personal relationships with hearing care professionals to improve the lives of people with hearing loss. Distributing a full line of hearing instruments to customers in over 60 countries, Unitron has a proven track record of developing technological innovations that provide natural sound with exceptional speech understanding, and a relentless drive to deliver the best customer experience.

The full range of Unitron products can be discovered on http://unitron.com/unitron/global/en/consumer/hearing_aids-c/products.html

Moxi
Fully automatic external receiver

Quantum
Fully automatic Behind-The-Ear



Quantum microCIC
Smallest custom

not actual sizes

HEARING IMPLANTS

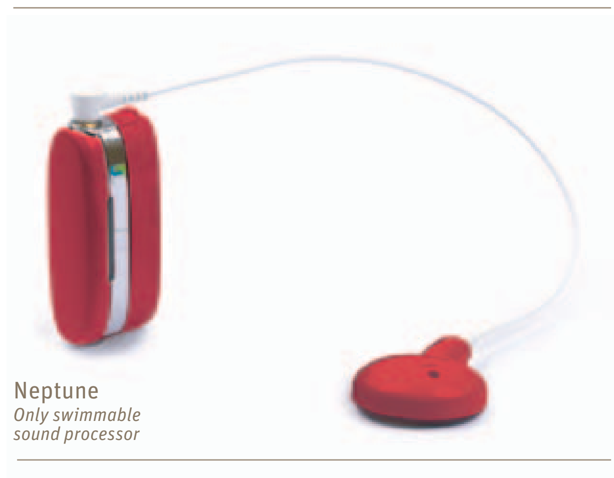
ADVANCED BIONICS

– Sonova serves the cochlear implant market through the Advanced Bionics brand. Putting the patient first, Advanced Bionics brings continuous innovation to this remarkable technology, delivering the promise of clear, high-resolution sound and optimal speech understanding to children and adults with significant hearing loss.

The full range of AB products can be discovered on http://www.advancedbionics.com/com/en/products.html

Harmony
Behind-The-Ear sound processor

HiRes 90K
Best implant technology



Neptune
Only swimmable sound processor

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.

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