FINANCIAL REPORT

# Semi-Annual Report 2016/17

# Highlights & key figures First half 2016 / 17

In the first half of fiscal year 2016 / 17, the Sonova Group achieved a solid performance with sales lifted by both the hearing instruments and cochlear implants segment.

### + 5.5 % sales growth for the Sonova Group in local currencies

For the first half of fiscal year 2016 / 17, consolidated sales for the Sonova Group were CHF 1,070 million, an increase of 5.5 % in local currencies and of 6.7 % in Swiss francs.

### + 5.4 % sales growth for hearing instruments in local currencies

Sales in the hearing instruments segment were CHF 977.5 million, an increase of 5.4 % in local currencies and 6.5 % in Swiss francs. Excluding one-time costs [2], the EBITA increased by 2.3 % in local currencies.

### + 7.0 % sales growth for cochlear implants in local currencies

Sales in the cochlear implants segment reached CHF 92.4 million, up 7.0 % in local currencies. This resulted in an EBITA loss of CHF 1.0 million, a marked improvement compared to prior year.

### Normalized Group EBITA of CHF 205.9 million

Excluding one-time costs [2], Group EBITA increased by 2.7 % in local currencies and 5.2 % in Swiss francs to CHF 205.9 million. This corresponds to an EBITA margin of 19.2 %. As reported, Group EBITA reached CHF 195.8 million, unchanged versus prior year.

### Sound cash flow, healthy balance sheet

Thanks to continued strong cash generation, operating free cash flow was largely unchanged at CHF 146.8 million, resulting in a healthy balance sheet.

### AudioNova acquisition successfully completed

In September 2016, the acquisition of AudioNova was successfully completed and a comprehensive integration program launched. The transaction creates one of the broadest hearing aid retail service networks in Europe.

**Sonova Group key figures – First half 2016 / 17**

| in CHF m unless otherwise specified | 1H 2016 / 17 | 1H 2015 / 16 | Change in Swiss francs | Change in local currencies |
|---|---|---|---|---|
| Sales | 1,069.9 | 1,003.2 | 6.7 % | 5.5 % |
| EBITA | 195.8 | 195.8 | 0.0 % | (2.5 %) |
| EPS (CHF) | 2.29 | 2.32 | (1.0 %) | |
| Operating free cash flow [1] | 146.8 | 147.2 | (0.2 %) | |
| | | | | |
| EBITA (normalized) [2] | 205.9 | 195.8 | 5.2 % | 2.7 % |
| EBITA margin (normalized) [2] | 19.2 % | 19.5 % | | |
| EPS (CHF) (normalized) [2] | 2.43 | 2.32 | 5.1 % | |

[1] For detailed definitions, please refer to “Key figures”.
[2] 1H 2016 / 17 excluding one-time costs of CHF 10.1 million, consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova.

# Letter to shareholders

## During the first half of fiscal year 2016 / 17, we achieved solid sales and earnings growth.

### Dear shareholders

In the first half of the fiscal year 2016 / 17 Sonova generated sales of CHF 1'069.9 million, an increase of 5.5 % in local currencies or 6.7 % in reported Swiss francs driven by growth in both segments, hearing instruments and cochlear implants. Excluding one-time costs related to the acquisition of AudioNova, the EBITA increased by 2.7 % in local currencies and 5.2 % in Swiss francs to CHF 205.9 million. This corresponds to a normalized EBITA margin of 19.2 %. The cash conversion was again strong with an operating free cash flow of CHF 146.8 million, resulting in a healthy balance sheet. A highlight for the period was the successful completion of the previously announced acquisition of AudioNova after obtaining all the necessary regulatory approvals. The combination of AudioNova and Sonova creates one of the broadest hearing aid retail professional service networks with over 3,300 stores worldwide. The combined strengths of our complementary retail networks are well aligned with our strategy of getting closer to our customers and of providing best-in-class professional audiological services. The acquisition marks a further significant step in our transformation towards an integrated business model.

### Hearing instruments segment

Sonova's hearing instruments business achieved solid growth, with sales up 5.4 % in local currencies, driven by organic growth and the contribution of recent acquisitions. Organic growth picked up towards the end of the reporting period, driven by the successful launch of a whole series of new products. Less than two years after the launch of the successful Venture technology platform, Phonak introduced the next product platform called Belong™, built on the flexible Palio 3 technology. The next-generation Receiver-in-Canal (RIC) hearing aid Phonak Audéo™ B is the first product family based on the new platform, which features a host of innovative technologies that have been created specifically to simplify the life of people with hearing loss. Phonak Audéo B-R is the first of its kind rechargeable hearing aid featuring a built-in lithium-ion battery technology. It is the quickest charging, longest lasting rechargeable hearing aid ever produced. Unitron launched Moxi™ Now, the world's smallest* wireless Receiver-in-Canal (RIC) hearing aid. Building on more than twenty years of experience in rechargeable technology, Hansaton will launch AQ HD S, using lithium-ion rechargeable technology later this year. Sonova's audiological service business further expanded during the period, both through organic growth and acquisitions as outlined above.

### Cochlear implants segment

Sales in the cochlear implants segment were up by 7.0 % in local currencies, driven by strong system sales. The highlight of the last six months was the introduction of the new HiRes™ Ultra implant with the thinnest implant profile from Advanced Bionics. It includes the HiFocus™ Mid-Scala electrode, designed to protect the delicate structures of the cochlea. With the launch of Phonak Naída™ Link, the first hearing aid specifically designed to work seamlessly with a cochlear implant system, bimodal recipients – those who have a cochlear implant in one ear and a hearing aid in the other – can now benefit of many advanced features where the two devices function as an integrated system, making hearing easy and natural for bimodal recipients.

### Outlook

Helped by the positive market response to our recently introduced products, we expect sales growth to pick up in the second half. Maintaining the outlook provided at the start of fiscal year 2016 / 17 but now including the positive impact from the acquisition of AudioNova, this should result in a solid earnings development.

| | |
|---|---|
| Robert Spoerry<br>Chairman of the Board<br>of Directors | Lukas Braunschweiler<br>CEO |

* Based on exterior dimensions compared to other products in its class.

# Financial Review

In the first half of the fiscal year 2016 / 17 Sonova generated sales of CHF 1,069.9 million, an increase of 5.5 % in local currencies or 6.7 % in reported Swiss francs. Normalized for one-time charges Group EBITA was at CHF 205.9 million, up 2.7 % in local currencies or 5.2 % in Swiss francs.

### Sales growth supported by first time inclusion of AudioNova

Year-on-year, Group sales increased by 5.5 % in local currencies during the first six months of fiscal year 2016 / 17. Organic growth was 2.0 % whereas growth from acquisitions made in the reporting period and the annualization of prior year acquisitions accounted for 4.5 %. AudioNova was included for one month as the acquisition was completed in the first half of September 2016. Prior year business disposals reduced growth by 1.0 %. A favorable currency environment had a positive effect on reported sales of CHF 11.4 million or 1.2 %, resulting in Group sales of CHF 1,069.9 million, which represents an increase of 6.7 % in reported Swiss francs.

### Europe driving growth

EMEA (Europe, Middle East and Africa), the Group's largest region, showed a strong sales increase of 12.2 % in local currencies. The share of Group sales increased slightly from 42 % in the first six months of fiscal year 2015 / 16 to 44 % in the period under review. In the hearing instruments segment, growth was driven by the AudioNova acquisition and by solid organic increases. Major European markets including the UK, the Nordics, France and Italy showed good progress while the development in Germany was affected by the expected negative impact from wholesale customer reactions following the announcement of the AudioNova acquisition.

Sales in the United States were unchanged in local currency versus the prior year period. The Phonak brand showed a solid progression and the cochlear implants business achieved very satisfactory growth, in both cases backed by the launch of industry first solutions. This was compensated by a decline at Unitron and a streamlining of the retail network. The market share with the Department of Veterans Affairs (VA) showed a consistent positive trend in recent months. The region accounted for 36 % of Group sales in the first six months of fiscal year 2016 / 17, down from 37 % in the prior year period. The rest of the Americas (excluding the US) posted a sales increase of 3.1 % in local currencies, reflecting a good progression of the Phonak brand and the cochlear implants business, partly offset by a targeted reduction of low margin government business in Brazil.

The Asia / Pacific region posted a sales increase of 1.6 % in local currencies. While Australia showed significant growth, China had lower sales ahead of new product introductions in October. Furthermore, India went through a temporary decline caused by a re-alignment program to focus on higher margin business.

### Sales by regions

| in CHF m | 1H 2016 / 17 | | | 1H 2015 / 16 | |
|---|---|---|---|---|---|
| | Sales | Share | Growth in local currencies | Sales | Share |
| EMEA | 470.0 | 44 % | 12.2 % | 418.4 | 42 % |
| USA | 383.0 | 36 % | (0.1 %) | 375.5 | 37 % |
| Americas (excl. USA) | 102.7 | 10 % | 3.1 % | 100.0 | 10 % |
| Asia / Pacific | 114.2 | 10 % | 1.6 % | 109.3 | 11 % |
| **Total sales** | **1,069.9** | **100 %** | **5.5 %** | **1,003.2** | **100 %** |

### Increased sales and marketing costs – Stable margin

Gross profit reached CHF 723.8 million, an increase of 8.2 % in local currencies and of 9.5 % in Swiss francs. The gross profit margin was at 67.6 %, which is at prior year level if adjusted for non-hedged currency losses on working capital of CHF 7.4 million and a CHF 8.6 million provision for higher processor returns in the cochlear implants business in the first half of fiscal year 2015 / 16.

The operating expenses in the first half of fiscal year 2016 / 17 were impacted by one-time costs of CHF 10.1 million in connection with the acquisition of AudioNova. The majority of such costs were transaction cost for advisors and stamp duties and also included integration related restructuring cost. In the period under review, all the one-time costs were booked under G & A expenses. Where relevant, we subsequently refer to figures normalized for such one-time costs.

Normalized total operating expenses rose by 10.5 % in local currencies or 11.2 % in Swiss francs. Underpinning its commitment to innovation, the Group maintained its high level of investment in research and development (R & D). Net R & D expenses reached CHF 68.0 million or 6.4 % of sales, up 3.6 % in local currencies or 4.0 % in Swiss francs compared to the first half of fiscal year 2015 / 16. Gross R & D spending (including the net increase in capitalized development costs) amounted to CHF 77.6 million, corresponding to 7.3 % of sales and representing an increase of 5.5 % in local currencies.

Reaching CHF 352.2 million, sales and marketing costs increased by 11.4 % in local currencies or 12.4 % in Swiss francs. Close to two thirds of the increase in local currencies was related to acquisitions net of disposals. In addition, the faster growth of the retail business, which has a higher than average sales and marketing cost ratio, contributed to the rise. Further drivers include lower store efficiency in certain retail markets and higher product launch costs, largely related to the introduction of the new Phonak Belong™ platform in August. Thus, as a percentage of sales, the reported sales and marketing costs rose to 32.9 % compared to 31.2 % in the prior year period.

Reflecting strict cost-control, normalized general and administrative cost increased by 1.8 % in local currencies or 2.5 % in Swiss francs to CHF 97.9 million. As a percentage of sales, normalized G & A costs dropped to 9.2 % from 9.5 % in the first half of fiscal year 2015 / 16. The other operating expenses in the prior year considered a gain of CHF 8.8 million from the release of a product liability provision in the cochlear implants segment.

The normalized operating profit before acquisition-related amortization (EBITA) reached CHF 205.9 million, an increase of 2.7 % in local currencies compared to the same period last year. In reported Swiss francs, the increase was 5.2 %, corresponding to a margin of 19.2 % (prior year: 19.5 %). The reported EBITA including the one-time costs related to the AudiNova acquisition was at CHF 195.8 million, down 2.5% in local currencies but unchanged versus the prior year value in Swiss francs.

The operating profit (EBIT) was CHF 180.5 million, down 0.9 % compared to prior year, reflecting increased acquisition related amortization. Net financial expenses increased from CHF 1.0 million to CHF 4.8 million, mainly as a result of a prior year one-time financial income and cost paid for the bridge financing of AudioNova. Combined with a stable tax rate of 13.5 % (prior year 13.2 %), this resulted in an income after taxes of CHF 152.1 million. For the first six months of 2016 / 17, normalized basic earnings per share were CHF 2.43 (reported: CHF 2.29) compared to CHF 2.32 last year.

### Sales by product groups

| in CHF m | 1H 2016 / 17 | | | 1H 2015 / 16 | |
|---|---|---|---|---|---|
| Product groups | Sales | Share | Growth in local currencies | Sales | Share |
| Premium hearing instruments | 263.9 | 25 % | 6.4 % | 246.8 | 25 % |
| Advanced hearing instruments | 203.1 | 19 % | 1.5 % | 199.0 | 20 % |
| Standard hearing instruments | 313.0 | 29 % | 5.1 % | 293.1 | 29 % |
| Wireless communication systems | 49.4 | 4 % | 11.2 % | 43.9 | 4 % |
| Miscellaneous | 148.1 | 14 % | 7.9 % | 135.0 | 13 % |
| **Total hearing instruments** | **977.5** | **91 %** | **5.4 %** | **917.8** | **91 %** |
| Cochlear implants and accessories | 92.4 | 9 % | 7.0 % | 85.4 | 9 % |
| **Total sales** | **1,069.9** | **100 %** | **5.5 %** | **1,003.2** | **100 %** |

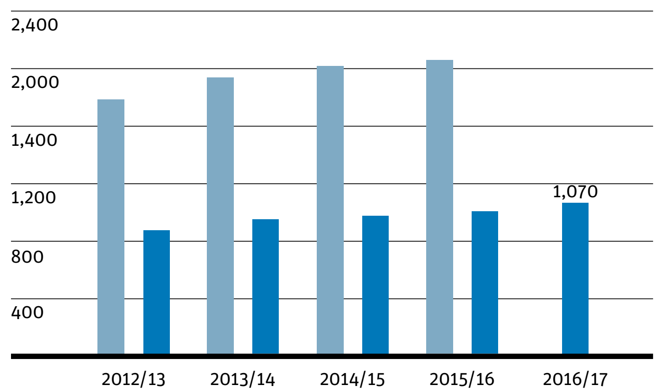
## Hearing instruments segment – Solid growth and favorable mix development

Including acquisitions the hearing instruments segment grew 5.4 % in local currencies to reported sales of CHF 977.5 million. This growth was lowered by 1.1 % as a result of the disposal of the Italian retail business and other minor portfolio adjustments in the previous financial year. Organic growth was 1.6 % in local currencies caused by slow trading in the US and the Asia / Pacific region. The contribution from acquisitions in the reporting period and the annualization of prior year acquisition was 4.8 % or CHF 44.4 million. A large portion of the acquisition growth relates to AudioNova, which contributed incremental sales of CHF 29.2 million. A slightly weaker Swiss Franc had a positive effect of CHF 10.4 million or 1.1 %, resulting in a reported sales growth of 6.5 %.

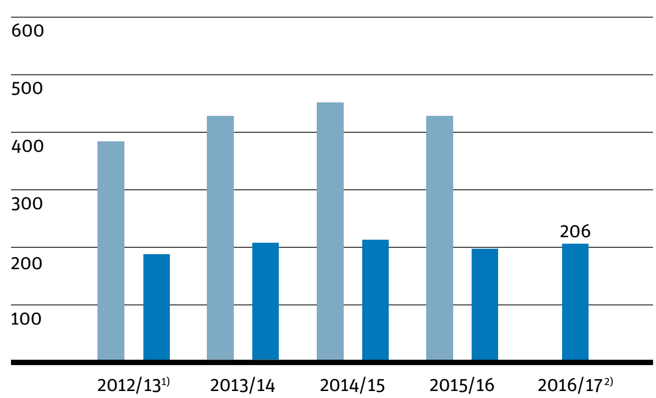
Both the Group's hearing instrument wholesale and retail businesses contributed to the growth. The launch of the Phonak Belong™ platform in August, in particular the first rechargeable solution based on lithium-ion technology, was well received by the market and contributed to a strong end of the half year period. In months leading up to the launch, buyer restraint led to a slowdown in organic sales growth. In North America sales were negatively affected by the streamlining of the retail business in the US and lower sales of the Unitron brand. As expected, the announcement of the AudioNova acquisition also led to an adverse market reaction in Germany that weighed on sales in the reporting period. Additionally, in line with its strategy, the Group focused on higher quality business and, therefore, reduced its exposure to a number of high volume but low margin businesses, particularly in India and the government sector in Brazil. Overall, the Group experienced a positive ASP development on the back of a disciplined strategy execution.

Over two thirds of hearing aid sales in the reporting period were from products launched less than two years ago. By product category, Premium hearing instruments achieved a 6.4 % sales increase in local currencies, driven by Sonova's innovative product portfolio. This was closely matched by the Standard category, which was up 5.1 % in local currencies. Sales in the Advanced category increased by 1.5 % in local currencies. Premium and Advanced hearing instruments accounted for 25 % and 19 % of Group sales respectively, while Standard accounted for 29 %.

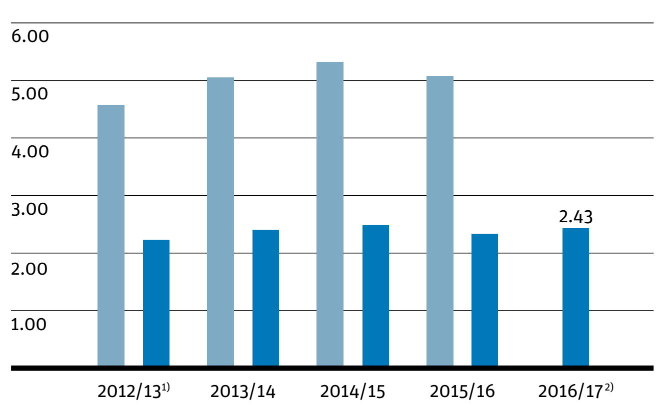
**Sales in CHF m**




**EBITA in CHF m**




**EPS in CHF**




Financial year figures
Half-year figures

1) Restated following the implementation of IAS 19 (revised), full-year numbers exclude one-time costs.
2) Excluding one-time costs of CHF 10.1 million, consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova.

Sales of wireless communication systems showed strong growth of 11.2 % in local currencies driven by good adoption of Phonak Roger products in the education sector. Sales in the "miscellaneous" product category, which includes accessories, batteries and services, grew by 7.9 % in local currencies, accounting for 14 % of Group sales.

The segment EBITA grew by 2.3 % in local currencies to CHF 206.9 million, normalized for CHF 10.1 million in one-time costs related to the acquisition of AudioNova. Acquisitions net of disposals contributed to the higher operating expense. Higher sales and marketing cost including continued investments in new product launches and eSolutions combined with the modest organic sales growth led to a slight decline of the EBITA margin. Reported EBITA for the hearing instruments segment declined by 0.8 % in Swiss francs to CHF 196.8 million, representing an EBITA margin of 20.1 %.

### Cochlear implants segment – Strong growth in new system sales carried by new products

During the period under review, the cochlear implants segment achieved sales of CHF 92.4 million up 7.0 % in local currencies and 8.3 % in Swiss francs against the first half of fiscal year 2015 / 16. Double digit growth was achieved in new system sales, carried by several new product introductions. The range of Naída Q-series sound processors introduced in late 2015 continued to attract strong interest. This was also supported by the launch of the new bimodal hearing solution in the summer of 2016, which includes Naída™ Link, the world's first hearing aid offering full-bandwidth, bidirectional audio streaming with the Naída CI sound processor. Late in the period, the offering was further expanded with the launch of the HiRes™ Ultra cochlear implant, which features the thinnest implant profile from Advanced Bionics, catering in particular to the requirements of pediatric patients. Both innovations received a favorable response from the market. The positive development was partly offset by a decline in upgrade sales, which is largely related to a smaller qualifying customer base eligible for insurance funded replacement of their sound processor. This represents largely a temporary effect and should start to ease off in the second half of 2016 / 17.

Operating costs were tightly managed despite significant investments in new product launches, offsetting adverse mix effects from lower sales in the high margin upgrade business. The cochlear implants segment reported a small EBITA loss of CHF 1.0 million compared to a loss of CHF 2.6 million in the first half of fiscal year 2015 / 16.

### Sound cash flow – Strong balance sheet

Cash flow from operating activities reached CHF 191.2 million, an increase of 2.8 % versus prior year. Operating free cash flow was virtually unchanged at CHF 146.8 million. The cash consideration for acquisitions amounted to CHF 657.5 million, reflecting mainly the AudioNova acquisition with a gross purchase price of CHF 921.2 million including acquired debt of CHF 290.8 million. The cash inflow from financing activities of CHF 366.9 million reflects increased borrowings of CHF 539.8 million mainly consisting of the bridge financing related to the AudioNova acquisition, the repayment of acquired debt as well as CHF 137.2 million in dividends paid.

The net working capital stood at CHF 230.1 million versus CHF 185.5 million in March 2016; the increase is mainly related to acquisitions. Capital employed increased to CHF 2,565.5 million after CHF 1,608.0 million in March 2016, largely driven by the acquisition of AudioNova. The Group's equity amounted to CHF 1,892.6 million, resulting in a solid equity ratio of 50.7 %. The net debt position stood at CHF 672.9 million compared to a net cash position of CHF 298.3 million in March 2016 reflecting cash spent on the AudioNova acquisition and dividend payments.

### Outlook 2016 / 17

We expect sales growth to pick up in the second half, supported by the positive market response to our recently introduced products. Maintaining the outlook provided at the start of fiscal year 2016 / 17 but now including the positive impact from the acquisition of AudioNova, we expect Group sales to grow by 14 % – 16 % in local currencies in 2016 / 17. Before one-time costs related to the acquisition of AudioNova, we expect a corresponding increase in the EBITA of 8 % – 12 % in local currencies.

# Interim consolidated financial statements as of September 30, 2016

## Key figures

| April 1 to September 30, in 1,000 CHF unless otherwise specified | Normalized[1] 2016 | 2016 | 2015 |
|---|---|---|---|
| **Sales** | **1,069,936** | **1,069,936** | **1,003,196** |
| change compared to previous year (%) | 6.7 | 6.7 | 1.3 |
| **Gross profit** | **723,797** | **723,797** | **661,303** |
| change compared to previous year (%) | 9.5 | 9.5 | (2.9) |
| in % of sales | 67.6 | 67.6 | 65.9 |
| **Research & development costs** | **67,950** | **67,950** | **65,358** |
| in % of sales | 6.4 | 6.4 | 6.5 |
| **Sales & marketing costs** | **352,159** | **352,159** | **313,397** |
| in % of sales | 32.9 | 32.9 | 31.2 |
| **Operating profit before acquisition-related amortization (EBITA)** | **205,941** | **195,841** | **195,775** |
| change compared to previous year (%) | 5.2 | 0.0 | (9.3) |
| in % of sales | 19.2 | 18.3 | 19.5 |
| **Operating profit (EBIT)** | **190,633** | **180,533** | **182,259** |
| change compared to previous year (%) | 4.6 | (0.9) | (10.3) |
| in % of sales | 17.8 | 16.9 | 18.2 |
| **Income after taxes** | **161,300** | **152,058** | **157,329** |
| change compared to previous year (%) | 2.5 | (3.4) | (9.4) |
| in % of sales | 15.1 | 14.2 | 15.7 |
| Basic earnings per share (CHF) | 2.43 | 2.29 | 2.32 |
| | | | |
| **Net cash[2]** | **(672,906)** | **(672,906)** | **184,450** |
| **Net working capital[3]** | **230,142** | **230,142** | **194,054** |
| **Capital expenditure (tangible and intangible assets)[4]** | **47,446** | **47,446** | **38,470** |
| **Capital employed[5]** | **2,565,458** | **2,565,458** | **1,585,140** |
| **Total assets** | **3,731,768** | **3,731,768** | **2,614,361** |
| **Equity** | **1,892,552** | **1,892,552** | **1,769,590** |
| **Equity financing ratio (%)[6]** | **50.7** | **50.7** | **67.7** |
| **Free cash flow[7]** | **(510,692)** | **(510,692)** | **75,550** |
| **Operating free cash flow[8]** | **146,790** | **146,790** | **147,207** |
| in % of sales | 13.7 | 13.7 | 14.7 |
| | | | |
| **Number of employees (average)** | **11,463** | **11,463** | **10,645** |
| change compared to previous year (%) | 7.7 | 7.7 | 9.0 |
| **Number of employees (end of period)** | **13,728** | **13,728** | **10,769** |
| change compared to previous year (%) | 27.5 | 27.5 | 8.4 |

1) Excluding one-time costs of CHF 10.1 million, consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova. Balance sheet related key figures (including respective ratios) as reported.
2) Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.
3) Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.
4) Excluding goodwill and intangibles relating to acquisitions.
5) Equity – net cash.
6) Equity in % of total assets.
7) Cash flow from operating activities + cash flow from investing activities.
8) Free cash flow – cash consideration for acquisitions, net of cash acquired.

# Consolidated income statements

| April 1 to September 30, 1,000 CHF | 2016 | 2015 |
|---|---|---|
| **Sales** | **1,069,936** | **1,003,196** |
| Cost of sales | (346,139) | (341,893) |
| **Gross profit** | **723,797** | **661,303** |
| Research and development | (67,950) | (65,358) |
| Sales and marketing | (352,159) | (313,397) |
| General and administration | (108,029) | (95,516) |
| Other income / (expenses), net | 182 | 8,743 |
| **Operating profit before acquisition-related amortization (EBITA)[1)]** | **195,841** | **195,775** |
| Acquisition-related amortization | (15,308) | (13,516) |
| **Operating profit (EBIT)[2)]** | **180,533** | **182,259** |
| Financial income | 4,009 | 3,630 |
| Financial expenses | (7,844) | (5,322) |
| Share of (loss) / profit in associates / joint ventures | (917) | 688 |
| **Income before taxes** | **175,781** | **181,255** |
| Income taxes | (23,723) | (23,926) |
| **Income after taxes** | **152,058** | **157,329** |
| | | |
| Attributable to: | | |
| Equity holders of the parent | 149,720 | 153,469 |
| Non-controlling interests | 2,338 | 3,860 |
| | | |
| Basic earnings per share (CHF) | 2.29 | 2.32 |
| Diluted earnings per share (CHF) | 2.29 | 2.31 |

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

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

# Consolidated statements of comprehensive income

| 1,000 CHF | 2016 | 2015 |
|---|---|---|
| **Income after taxes** | **152,058** | **157,329** |
| | | |
| **Other comprehensive income** | | |
| Actuarial gain / (loss) from defined benefit plans, net | 12,460 | (6,240) |
| Tax effect on actuarial gain / (loss) from defined benefit plans | (1,542) | 874 |
| **Total items not to be reclassified to income statement in subsequent periods** | **10,918** | **(5,366)** |
| Currency translation differences | (13,661) | (6,455) |
| Tax effect on currency translation items | (408) | 687 |
| **Total items to be reclassified to income statement in subsequent periods** | **(14,069)** | **(5,768)** |
| | | |
| **Other comprehensive income, net of tax** | **(3,151)** | **(11,134)** |
| **Total comprehensive income** | **148,907** | **146,195** |
| | | |
| Attributable to: | | |
| Equity holders of the parent | 148,643 | 141,577 |
| Non-controlling interests | 264 | 4,618 |

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

# Consolidated balance sheets

| Assets 1,000 CHF | 30.9.2016 | 31.3.2016 | 30.9.2015 |
|---|---|---|---|
| Cash and cash equivalents | 172,882 | 317,266 | 204,734 |
| Other current financial assets | 6,540 | 6,748 | 3,578 |
| Trade receivables | 384,848 | 354,672 | 343,989 |
| Current income tax receivables | 8,545 | 7,755 | 8,209 |
| Other receivables and prepaid expenses | 93,322 | 69,610 | 81,953 |
| Inventories | 259,608 | 240,451 | 256,651 |
| **Total current assets** | **925,745** | **996,502** | **899,114** |
| Property, plant and equipment | 314,333 | 267,870 | 272,418 |
| Intangible assets | 2,339,084 | 1,349,628 | 1,303,249 |
| Investments in associates / joint ventures | 9,611 | 9,275 | 9,572 |
| Other non-current financial assets | 18,237 | 19,970 | 22,939 |
| Deferred tax assets | 124,758 | 108,366 | 107,069 |
| **Total non-current assets** | **2,806,023** | **1,755,109** | **1,715,247** |
| **Total assets** | **3,731,768** | **2,751,611** | **2,614,361** |

| Liabilities and equity 1,000 CHF | 30.9.2016 | 31.3.2016 | 30.9.2015 |
|---|---|---|---|
| Current financial liabilities | 839,597 | 6,546 | 4,645 |
| Trade payables | 80,294 | 77,828 | 73,688 |
| Current income tax liabilities | 96,677 | 93,812 | 88,549 |
| Other short-term liabilities | 235,015 | 214,189 | 217,236 |
| Short-term provisions | 108,789 | 105,220 | 120,853 |
| **Total current liabilities** | **1,360,372** | **497,595** | **504,971** |
| Non-current financial liabilities | 8,137 | 15,174 | 15,639 |
| Long-term provisions | 208,354 | 191,880 | 191,201 |
| Other long-term liabilities | 135,739 | 94,764 | 96,954 |
| Deferred tax liabilities | 126,614 | 45,932 | 36,006 |
| **Total non-current liabilities** | **478,844** | **347,750** | **339,800** |
| **Total liabilities** | **1,839,216** | **845,345** | **844,771** |
| Share capital | 3,271 | 3,331 | 3,331 |
| Treasury shares | (12,565) | (155,676) | (97,663) |
| Retained earnings and reserves | 1,881,241 | 2,034,677 | 1,838,194 |
| **Equity attributable to equity holders of the parent** | **1,871,947** | **1,882,332** | **1,743,862** |
| Non-controlling interests | 20,605 | 23,934 | 25,728 |
| **Equity** | **1,892,552** | **1,906,266** | **1,769,590** |
| **Total liabilities and equity** | **3,731,768** | **2,751,611** | **2,614,361** |

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

# Consolidated cash flow statements

| April 1 to September 30, 1,000 CHF | | 2016 | | 2015 |
|---|---|---|---|---|
| **Income before taxes** | | **175,781** | | **181,255** |
| Depreciation and amortization of tangible and intangible assets | 48,325 | | 43,383 | |
| Loss on sale of tangible and intangible assets, net | 186 | | 160 | |
| Share of loss / (gain) in associates / joint ventures | 917 | | (688) | |
| Decrease in long-term provisions | (3,243) | | (11,076) | |
| Financial expenses, net | 3,835 | | 1,692 | |
| Share based payments and other non-cash items | 8,768 | | 10,686 | |
| Income taxes paid | (26,532) | 32,256 | (28,029) | 16,128 |
| **Cash flow before changes in net working capital** | | **208,037** | | **197,383** |
| Decrease in trade receivables | 2,207 | | 12,577 | |
| Increase in other receivables and prepaid expenses | (15,075) | | (6,447) | |
| Decrease / (Increase) in inventories | 1,088 | | (13,382) | |
| Decrease in trade payables | (11,033) | | (14,913) | |
| Increase in other payables, accruals and short-term provisions | 5,944 | (16,869) | 10,833 | (11,332) |
| **Cash flow from operating activities** | | **191,168** | | **186,051** |
| Purchase of tangible and intangible assets | (46,626) | | (38,470) | |
| Proceeds from sale of tangible and intangible assets | 988 | | 213 | |
| Cash consideration for acquisitions, net of cash acquired | (657,482) | | (71,657) | |
| Changes in other financial assets | 284 | | (1,326) | |
| Interest received and realized gain from financial assets | 976 | | 739 | |
| **Cash flow from investing activities** | | **(701,860)** | | **(110,501)** |
| Proceeds from borrowings | 880,493 | | | |
| Repayment of borrowings | (340,740) | | (3,974) | |
| (Purchase) / sale of treasury shares, net | (30,235) | | (114,404) | |
| Dividends paid by Sonova Holding AG | (137,178) | | (136,039) | |
| Transactions with non-controlling interests | (3,593) | | (6,193) | |
| Interest paid and other financial expenses | (1,857) | | (321) | |
| **Cash flow from financing activities** | | **366,890** | | **(260,931)** |
| Exchange (losses) / gains on cash and cash equivalents, net | | (582) | | (371) |
| **Decrease in cash and cash equivalents** | | **(144,384)** | | **(185,752)** |
| Cash and cash equivalents at April 1 | | 317,266 | | 390,486 |
| **Cash and cash equivalents at September 30** | | **172,882** | | **204,734** |

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

# Consolidated changes in equity

1,000 CHF

| | Attributable to equity holders of Sonova Holding AG | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Retained earnings and other reserves | Translation adjustment | Treasury shares | Non-controlling interests | Total equity |
| **Balance April 1, 2015** | **3,359** | **2,207,642** | **(295,027)** | **(71,473)[1]** | **27,303** | **1,871,804** |
| Income for the period | | 153,469 | | | 3,860 | 157,329 |
| Actuarial loss from defined benefit plans, net | | (6,240) | | | | (6,240) |
| Tax effect on actuarial loss | | 874 | | | | 874 |
| Currency translation differences | | 42 | (7,255) | | 758 | (6,455) |
| Tax effect on currency translation | | | 687 | | | 687 |
| **Total comprehensive income** | | **148,145** | **(6,568)** | | **4,618** | **146,195** |
| Capital decrease – share buyback program | (28) | (73,551) | | 73,579 | | |
| Share-based payments | | (1,423) | | | | (1,423) |
| Sale of treasury shares | | (4,985) | | 21,737 | | 16,752 |
| Purchase of treasury shares | | | | (121,506) | | (121,506) |
| Dividend paid | | (136,039) | | | (6,193) | (142,232) |
| **Balance September 30, 2015** | **3,331** | **2,139,789** | **(301,595)** | **(97,663)[1]** | **25,728** | **1,769,590** |
| | | | | | | |
| **Balance April 1, 2016** | **3,331** | **2,330,723** | **(296,046)** | **(155,676)[1]** | **23,934** | **1,906,266** |
| Income for the period | | 149,720 | | | 2,338 | 152,058 |
| Actuarial gain from defined benefit plans, net | | 12,460 | | | | 12,460 |
| Tax effect on actuarial gain | | (1,542) | | | | (1,542) |
| Currency translation differences | | (30) | (11,557) | | (2,074) | (13,661) |
| Tax effect on currency translation | | | (408) | | | (408) |
| **Total comprehensive income** | | **160,608** | **(11,965)** | | **264** | **148,907** |
| Capital decrease – share buyback program | (60) | (155,579) | | 155,639 | | |
| Share-based payments | | (3,961) | | | | (3,961) |
| Sale of treasury shares | | (5,361) | | 31,555 | | 26,194 |
| Purchase of treasury shares | | | | (44,083) | | (44,083) |
| Dividend paid | | (137,178) | | | (3,593) | (140,771) |
| **Balance September 30, 2016** | **3,271** | **2,189,252** | **(308,011)** | **(12,565)[1]** | **20,605** | **1,892,552** |

[1] Includes derivative financial instruments on treasury shares.

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

# Notes to the interim consolidated financial statements as of September 30, 2016

## 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 Group operates in industries where no material seasonal or cyclical variations in sales are experienced. The ultimate parent company is Sonova Holding AG, a public limited liability company incorporated in Switzerland. Sonova Holding AG's registered office is located at Laubisrütistrasse 28, 8712 Stäfa, Switzerland.

## 2. Basis of preparation of the consolidated financial statements

These unaudited financial statements are the interim consolidated financial statements of Sonova Holding AG and its subsidiaries for the six month period ended September 30, 2016. These financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the consolidated financial statements for the year ended March 31, 2016. The interim consolidated financial statements were approved by the Board of Directors on November 10, 2016.

Except as described below, the Group consistently applied the same accounting policies as in the Annual Financial Statements for the financial year ended March 31, 2016.

The following new standards and amendments have been adopted as of April 1, 2016, without having significant impact on the Group's result and financial position:

- Accounting for acquisitions of interest in joint operations (Amendment to IFRS 11)
- Clarification of acceptable methods of depreciation and amortization (Amendments to IAS 16 and IAS 38)
- Annual improvements to IFRSs 2012 – 2014
- Equity method in separate financial statements (Amendment to IAS 27)
- Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)
- Investment entities: applying the consolidation exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendment to IAS 1)

Although the Group is still assessing the potential impacts of the various new and revised standards and interpretations that will be effective for the financial year starting April 1, 2017, based on the analysis to date the Group does not expect a significant impact on the Group's result and financial position.

The Group is also assessing other new and revised standards which are not mandatory until after 2017, notably:

- IFRS 9 "Financial instrument": The standard completes the guidance on recognition / derecognition of financial instruments. It includes revised principles on classification and measurement of financial instruments.

- IFRS 15 "Revenues from Contracts with Customers": The standard combines, enhances and replaces specific guidance on recognizing revenue with a single standard based on a five step approach.

- IFRS 16 "Leasing": The standard will replace IAS 17 and sets out new principles for recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The preparation of financial statements requires management to make assumptions and estimates 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. Actual results could differ from these estimates.

As of September 30, 2016 the actuarial valuations for the main pension plans were updated. For the Swiss pension plans the discount rate was decreased from 0.6 % to 0.45 % and the new generation tables BVG 2015 with higher life expectance and lower invalidity incidence rates were adopted.

From the total of CHF 15.3 million acquisition-related amortization costs (prior year CHF 13.5 million), CHF 2.2 million (prior year CHF 2.5 million) relate to research and development and CHF 13.1 million (prior year CHF 11.0 million) relate to sales and marketing.

Following the announcement of the acquisition of AudioNova on May 4, 2016 the Group suspended the share buyback program.

Income tax expense is recognized based upon the best estimate of the average annual income tax rate expected for the full year.

## 3. Significant events and transactions

On September 14, 2016 Sonova Holding AG completed the acquisition of AudioNova International B.V., a Rotterdam (Netherlands) based hearing aid retailer, following regulatory approvals. The company is one of Europe's leading hearing aid retailers and service providers. AudioNova employs around 2,750 staff (including 1,600 acousticians) across eight countries. In the calendar year 2015 sales were approx. EUR 360 million (CHF 395 million). For further details please refer to Note 4 of the interim consolidated financial statements.

On April 16, 2015 Sonova Holding AG announced that it completed the acquisition of Hansaton Akustik GmbH, a Hamburg (Germany) based wholesale hearing aid company, following regulatory approvals. The company develops and manufactures hearing aids and employed around 200 staff in Germany, France and the US. In calendar year 2014 sales were EUR 42 million (CHF 44 million).

# 4. Changes in Group structure

Apart from the acquisition of AudioNova International B.V. as of September 14, 2016 (for further information refer to "3. Significant events and transactions") several small companies were acquired in Europe, North America and Asia / Pacific during the first six months of the financial year 2016 / 17. During first half of 2015 / 16, apart from the acquisition of Hansaton Akustik GmbH several small companies were acquired in Europe, North America and Asia / Pacific.

All of the acquired companies are engaged in the business of selling hearing instruments and have been accounted for applying the purchase method of accounting. Incremental assets and liabilities resulting from the acquisitions are as follows:

| 1,000 CHF | | | 2016 | 2015 |
|---|---|---|---|---|
| | AudioNova | Others | Total | Total |
| Trade receivables | 32,549 | 122 | 32,671 | 13,643 |
| Other current assets | 84,029 | 118 | 84,147 | 17,628 |
| Property, plant & equipment | 45,455 | 643 | 46,098 | 2,974 |
| Intangible assets | 271,116 | 8,482 | 279,598 | 21,302 |
| Other non-current assets | 25,588 | 34 | 25,622 | 3,401 |
| Current liabilities | (34,948) | (1,906) | (36,854) | (27,004) |
| Non-current liabilities | (450,293) | (1,226) | (451,519) | (11,128) |
| **Net assets** | **(26,504)** | **6,267** | **(20,237)** | **20,816** |
| Goodwill | 709,951 | 19,489 | 729,440 | 66,121 |
| **Purchase consideration** | **683,447** | **25,756** | **709,203** | **86,937** |
| Liabilities for deferred payments or holdbacks[1] | | (212) | (212) | (14,521) |
| Cash and cash equivalents acquired | (53,022) | | (53,022) | (2,976) |
| Cash outflow for investments in associates, non-controlling interests and deferred payments[1] | | 1,513 | 1,513 | 2,217 |
| **Cash consideration for acquisitions, net of cash acquired** | **630,425** | **27,057** | **657,482** | **71,657** |
| Settlement of pre-existing HAL intragroup financing | 290,794 | | 290,794 | |
| **Total consideration paid, net of cash acquired** | **921,219** | **27,057** | **948,276** | **71,657** |

[1] Earn-out payments (deferred payments) are dependent on the future performance of the acquired companies as well as contractual conditions. The liability for earn-outs is based on the latest estimate of the future performance.

The initial accounting for the acquisitions completed in the current financial year is provisional and the fair values assigned to the identifiable assets acquired and liabilities assumed are still subject to change.

The goodwill is attributed mainly to economies of scale and expected synergies such as favorable sales growth potential, increase in share of wallet and cost reduction in administrative and corporate functions as well as to the labor force. Recognized goodwill is not expected to be deductible for income tax purposes.

Recognized acquisition-related intangible assets for AudioNova, largely contain trademarks (CHF 143.4 million) and customer relationships (CHF 124.4 million). For acquisition-related intangibles the lifetimes assigned range between 10 and 20 years. On these intangibles deferred taxes have been considered.

Acquisition-related transaction costs in the amount of CHF 8.4 million (prior year period CHF 1.4 million), thereof CHF 8.0 million relating to the acquisition of AudioNova, have been expensed and are included in the line "General and administration". There are no variable purchase price components.

| April 1 to September 30, 1,000 CHF | | | 2016 | 2015 |
|---|---|---|---|---|
| | AudioNova | Others | Total | Total |
| **Contribution of acquired companies from date of acquisition** | | | | |
| Sales | 30,105 | 3,562 | 33,667 | 25,928 |
| Net income | 886 | 252 | 1,138 | (1,382) |
| **Contribution, if the acquisitions occurred on April 1** | | | | |
| Sales | 175,134 | 5,763 | 180,897 | 29,348 |
| Net income[1] | 4,765 | 108 | 4,873 | (913) |

[1] The calculation of the contribution from AudioNova is provisional. The contribution has been normalized for interest costs on the pre-existing intragroup financing arrangements with the former owners (HAL Investments B.V.), but has not been adjusted for amortization on additional acquisition-related intangibles or other non-operating items and is still subject to change.

# 5. Segment information

The Group is active in two business segments, hearing instruments and cochlear implants. The segment information for the first six months of the financial years 2016 / 17 and 2015 / 16 is as follows:

| 1,000 CHF | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
|---|---|---|---|---|---|---|---|---|
| | Hearing instruments | | Cochlear implants | | Corporate / Eliminations | | Total | |
| Segment sales | 978,299 | 918,931 | 93,079 | 85,602 | | | 1,071,378 | 1,004,533 |
| Intersegment sales | (760) | (1,090) | (682) | (247) | | | (1,442) | (1,337) |
| **Sales** | **977,539** | **917,841** | **92,397** | **85,355** | | | **1,069,936** | **1,003,196** |
| **Operating profit before acquisition-related amortization (EBITA)** | **196,843** | **198,373** | **(1,002)** | **(2,598)** | | | **195,841** | **195,775** |
| **Segment assets** | **3,541,127** | **2,376,462** | **598,657** | **590,665** | **(715,267)** | **(674,141)** | **3,424,517** | **2,292,986** |
| Unallocated assets[1] | | | | | | | 307,251 | 321,375 |
| **Total assets** | | | | | | | **3,731,768** | **2,614,361** |

[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 | 2016 | 2015 |
|---|---|---|
| EBITA | 195,841 | 195,775 |
| Acquisition-related amortization | (15,308) | (13,516) |
| Financial costs, net | (3,835) | (1,692) |
| Share of (loss) / gain in associates / joint ventures | (917) | 688 |
| **Income before taxes** | **175,781** | **181,255** |

# 6. 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 | 2016 | 2015 |
|---|---|---|
| Income after taxes (1,000 CHF) | 149,720 | 153,469 |
| Weighted average number of outstanding shares | 65,327,039 | 66,260,758 |
| **Basic earnings per share (CHF)** | **2.29** | **2.32** |

In the case of diluted earnings per share, the weighted average number of shares outstanding is adjusted for all outstanding dilutive options. The weighted average number of shares is adjusted for all dilutive options issued under the stock option plans which have been granted in 2012 through 2016 and which have not yet been exercised. The calculation of diluted earnings per share is based on the same income after taxes for the period as used in calculating basic earnings per share.

| Diluted earnings per share | 2016 | 2015 |
|---|---|---|
| Income after taxes (1,000 CHF) | 149,720 | 153,469 |
| Weighted average number of outstanding shares | 65,327,039 | 66,260,758 |
| Adjustment for dilutive share options | 102,533 | 122,076 |
| Adjusted weighted average number of outstanding shares | 65,429,572 | 66,382,834 |
| **Diluted earnings per share (CHF)** | **2.29** | **2.31** |

# 7. Contingencies

There have been no material changes in contingent liabilities since March 31, 2016.

# 8. Debts and credit lines

As of the balance sheet date, September 30, 2016, the consideration for the acquisition of AudioNova International B.V. and its subsidiaries was mainly financed by a short-term bridge facility agreement. The interest rate was fixed at 0.7 % and has a term for a maximum of 9 months.

The bridge facility amounted to CHF 880 million. The full amount was drawn in Swiss francs and was used to pay to the sellers of AudioNova on September 14, 2016 the purchase price as well as the pre-existing HAL intragroup financing. The loan contained customary covenants. The remaining CHF 41.2 million (total consideration paid, net of cash acquired: CHF 921.2 million) were settled with own funds.

As of the balance sheet date CHF 50 million of the bridge facility has been repaid using existing funds.

In the first six months of the financial year 2015 / 16, the Group entered into an agreement for a credit line in the amount of CHF 150 million with an option to increase to CHF 250 million. The agreement ends on July 31, 2018 with an option to extend for two years. The credit line was not drawn as of balance sheet date.

# 9. Movements in share capital

The Annual General Shareholders' Meeting of June 14, 2016 resolved a gross dividend of CHF 2.10 per registered share for the financial year 2015 / 16. The dividend was paid in June 2016 to all shares outstanding, excluding treasury shares.

| Issued registered shares | Issued registered shares | Treasury shares[1] | Outstanding shares |
|---|---|---|---|
| **Balance April 1, 2015** | **67,173,287** | **(547,313)** | **66,625,974** |
| Purchase of treasury shares | | (162,116) | (162,116) |
| Sale / transfer of treasury shares | | 156,800 | 156,800 |
| Cancelation of treasury shares[2] | (546,900) | 546,900 | |
| Purchase of shares intended to be cancelled[3] | | (747,500) | (747,500) |
| **Balance September 30, 2015** | **66,626,387** | **(753,229)** | **65,873,158** |
| | | | |
| **Balance April 1, 2016** | **66,626,387** | **(1,209,989)** | **65,416,398** |
| Purchase of treasury shares | | (244,208) | (244,208) |
| Sale / transfer of treasury shares | | 240,004 | 240,004 |
| Cancelation of treasury shares[2] | (1,203,500) | 1,203,500 | |
| Purchase of shares intended to be cancelled[3] | | (92,000) | (92,000) |
| **Balance September 30, 2016** | **65,422,887** | **(102,693)** | **65,320,194** |

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] The Annual General Shareholder's Meeting of June 14, 2016, approved the proposed cancelation of 1,203,500 treasury shares (previous year 546,900 treasury shares), resulting in a reduction of share capital of CHF 0.06 million (previous year CHF 0.03 million), retained earnings and other reserves of CHF 155.6 million (previous year CHF 73.6 million) offset by changes in treasury shares of CHF 155.6 million (previous year CHF 73.6 million). This cancelation has been executed on September 29, 2016.

[3] Shares purchased by the Group as part of the share buyback program.

# 10. Events after balance sheet date

In connection with the financing of the acquisition of AudioNova, on October 11, 2016 the Group issued bonds in three tranches with different coupons and terms:

- Two year variable rate bond (floating rate note) with a nominal value of CHF 150 million (ISIN CH0340912135) issued at 100.40 % with interest at 3-month CHF Libor plus 50 bp p.a. paid quarterly. The loan pays an interest between 0.00 % p.a. (floor) and 0.05 % p.a. (cap). The maturity will be on October 11, 2018.

- Three year fixed-rate bond with a nominal value of CHF 250 million (ISIN CH0340912143) issued at 100.15 % with no interest payment and maturity on October 11, 2019.

- Five year fixed-rate bond with a nominal value of CHF 360 million (ISIN CH0340912150) issued at 100 % with interest of 0.01 % p.a. and maturity on October 11, 2021. Interests will be paid on an annual basis.

With the proceeds from the bond issuance amounting to CHF 760 million and a draw down on the syndicated credit facility amounting to CHF 70.1 million the outstanding bridge facility has been completely repaid. The syndicated credit facility contains customary covenants.

Sonova Holding AG
Laubisrütistrasse 28
8712 Stäfa
Switzerland
Phone +41 58 928 33 33
Fax +41 58 928 33 99
ir@sonova.com
www.sonova.com

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